Leveraging Training Skills Development in SMEs

AN ANALYSIS OF THE WEST MIDLANDS, ENGLAND, UK

Anne E. Green and Laura E. Martinez-Solano





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Note on the authors

Professor Anne Green

Anne Green is a Professorial Fellow at the Institute for Employment Research at the University of Warwick, UK. Her research interests span local and regional labour markets; spatial aspects of economic, social and demographic change; trends in employment and unemployment; policies to address worklessness; demand for and supply of skills; labour market information and other local indicators; migration and commuting; urban, rural and regional development; and evaluation studies – including welfare-to-work and area regeneration initiatives. She currently leads the national evaluation of the City Strategy initiative in the UK and is undertaking research projects on labour market trends and policies.

Dr Laura E. Martinez-Solano

Laura is a RCUK senior research fellow at the WMG, University of Warwick. She is interested in analysing innovation and product/service development processes. As part of WIMRC and PARD, Laura developed a framework to work with and supported companies to effectively manage their innovation processes. The companies reported a value-add of around GBP 7 million from this project. Before, she participated as an Irish research team leader in a 3-year OECD project on Knowledge-Intensive Service Activities in Innovation (Software, ICT, Tourism, HC). Outcomes from this study have provided material for several publications. Her PhD focused on Technology transfer through FDI. In addition, she was an Economic Advisor at the National Assembly for Wales. She was also a research assistant at the Engineering Research Institute (II-UNAM) (1991-95), using 3-D simulation programmes in thermodynamics for Petroleum and Electricity firms.

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PREFACE

Workforce training and development is critical to improving business performance and local economic development. And this issue is especially critical in respect of small and medium size enterprises (SMEs) which not only make up much of most local economies but are often seen as less likely to participate in workforce development, thus compromising their own and their local economy's futures.

This study of the West Midlands is therefore both valuable and timely. It aims to identify ways of overcoming some of the barriers to workforce development in SMEs and, in particular, examines the less formal, non-certified, "knowledge intensive" activities more commonly undertaken in SMEs. It helps us to understand the dynamics of such activities, their impact and how participation in them, particularly amongst less well represented groups, especially lower skilled workers, can be increased, for the benefit of the businesses and the local economy. In this context, the "networking" behaviour of SMEs is particularly critical.

Through survey work, case studies and workshops, this study, together with the parallel work in New Zealand, Flanders, Canada and Poland, will help us to develop appropriate policies and actions to stimulate greater workforce development in the SME community. The "7Cs" framework proposed in the study will be helpful to this end.

While this study was being undertaken, the policy and economic contexts in the UK (and more widely) have changed considerably. The recession, the relatively modest recovery (especially in terms of jobs) and fiscal austerity are crucial drivers of policy development. In particular, public funding for workforce development is under severe pressure and it is unlikely that the desire for greater public investment in training for SMEs articulated by SMEs in this study, will come to fruition any time soon. Whilst Government remains keen and committed to greater training and skills development in the workforce, it is likely that much of this will need to be the responsibility of employers themselves.

Skills are a "devolved" matter in the UK. The new administrations in Scotland (now a Scottish National Party [SNP] majority government) and in Wales (now a Labour administration) have recently been formed. In England, the new Government has been in power for just over a year and has produced both a "Plan for Growth" in the 2011 Budget and a Skills White Paper, "Skills for Sustainable Growth". The former includes a commitment to more apprenticeship places and a review of several sectors of the economy to identify how barriers to growth can be tackled. The latter sets out radical reforms putting individuals and employers at the heart of the system and introduces major changes in funding, with a move to greater "co-funding" and loans especially at higher skills levels.

The UK Commission for Employment and Skills itself, has shifted its remit to focus more on improving information; making the business case for skills; and driving greater employer investment, including through a New Growth and Innovation Fund and Investors in People.

At the local level, the Regional Development Agencies (including the West Midlands' "own" Advantage West Midlands) have been abolished, to be replaced by a series of Local Enterprise Partnerships (LEPs) announced in the Local Growth White Paper, and a Regional Growth Fund (RGF). There are to be two LEPs in the metropolitan West Midlands, Birmingham and Solihull and the Black Country, plus another covering Coventry and Warwickshire. Projects in both Birmingham and Wolverhampton were "winners" in the first round of bids for the Regional Growth Fund (RGF) in 2011.

Interestingly, as I write this preface, the Government has just announced the "second stage" of the growth review, which will focus, *inter alia*, on both skills and "mid-sized businesses".

The OECD, too, will gain from this study as it develops its own extensive Skills Strategy, where a focus on the demand for skills and employer investment is a key component of its work.

The UK Commission for Employment and Skills has been pleased to be associated with this project in the UK's West Midlands region, and with the international study more widely, whose report we also look forward to in late 2011. We hope that the findings of the UK country report will increase our know-how about SME training behaviour, the barriers they face and what they need to do to overcome such barriers and thus help inform future developments in policy and practice.

Professor Mike Campbell
Director of Research and Policy
UK Commission for Employment and Skills
2008-2011

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EXECUTIVE SUMMARY

This report presents the results of the UK element of an international project on *Leveraging Training and Skills Development in SMEs*. The UK element was undertaken in 2010. The project has been implemented by the Local Employment and Economic Development (LEED) Programme at the Organisation for Economic Co-operation and Development (OECD) in collaboration with the UK Commission for Employment and Skills. The UK research focused on the West Midlands region of England. As context for the research a review of trends and challenges in training and skills development in the UK was undertaken, along with analyses of data relating to small and medium sized enterprises (SMEs) from a major employer survey conducted in England. The results of these contextual analyses are presented, along with the findings from a bespoke OECD survey of SMEs in the West Midlands, case studies of five SMEs and a workshop on the local training ecosystem.

Traditionally skills policy in the UK has emphasised improving the supply of skills, but more recently the focus has shifted to raising the demand for skills. As a result increased emphasis has been placed on enhancing the utilisation of skills, upskilling and encouraging movement up the value chain. Previous research indicates that within the population of SMEs there is considerable variety of experience of investment in training and skills development. This suggests that context is important in understanding behaviour. Although survey evidence indicates that the formality of training and business planning is not as developed in SMEs as in larger establishments, this does not necessarily mean that training does not take place, but rather that informal training takes on particular importance for SMEs.

The West Midlands region in central England was harder hit in the 2008/9 recession than most other parts of the UK. Large employers were most likely to report reductions in staffing levels during recession, with the manufacturing and construction sectors being particularly hard hit. The regional development agency for the West Midlands identified the region's relatively poor record on skills, alongside low rates of innovation as one of the factors underlying the region's weak performance.

Evidence from a large scale employer survey in England and the more focused OECD survey highlight a need amongst SMEs for technical, practical and job-specific skills, but also management and more generic skills. Data from the representative large scale employer survey indicates that around one in three SMEs in the West Midlands provide no training, three in five provide both on- and off-the-job training, nearly one in five provide off-the-job training only and one in ten provide on-the-job training only. The belief that staff did not need training and the cost of training were reasons for not undertaking training. In the recession spend on training per employee in SMEs reduced, and a clear tendency for greater emphasis to be placed on informal training was evident. The OECD survey revealed that employers consider that those with higher skills benefit most from training and a clear employer preference is evident to focus training on this group of employees rather than to upskill the disadvantaged. In-house incentives (including product

development and service requirements) emerged as the key motivating factor for SMEs to invest in staff training.

Case studies are presented of five SMEs drawn from the environmental technology and automotive sectors, of which four had their main markets at international level. The case studies reveal that requirements for new skills are driven by the market. Those interviewed had a limited overview of external training provision available, but in any case thought that internal experts were the most suitable trainers. They indicated that their companies would benefit from highly specialised managerial and professional training. Government skills and training initiatives were considered to be too general and basic to be of benefit. Rather trade associations, with knowledge of the sector, were considered to be well placed to provide training. Financial barriers to training were highlighted, and the lack of publicly funded support was bemoaned.

Themes from the survey and the case studies were discussed at the workshop. In discussions the need for informal coaching and mentoring, rather than long formal courses, was emphasised again, although it considered that there was a need for recognition of internal skills development. It was considered that "blended learning" formats (encompassing a mix of learning environments) would be helpful going forward. The key point was that training and skills development needs to be "fit for purpose". In this respect, enhanced responsiveness and flexibility of public agencies and training providers was required to more closely meet SMEs' needs. The complexity of the training, skills and business support infrastructure, and the lack of a single obvious point of contact made engagement with providers difficult. Given ongoing economic and labour market restructuring it was recognised that SMEs could no longer rely on the "old model" of large businesses supplying a trained workforce for SMEs in the region to draw upon. However, there were concerns that many SMEs did not know that they had skills gaps. There were considered to be particular challenges at managerial and intermediate skills levels. It was also emphasised that there is a need to look beyond narrowly defined skills and training per se to adopt a more holistic perspective encompassing capability and business development needed for growth. This latter perspective chimes with "Skills" and "Growth" initiatives of the UK Coalition Government.

Synthesising across the different elements of the research, a "7Cs framework" is presented to capture the key challenges to training and skills development facing SMEs in the West Midlands. The 7Cs are complexity, capability, continuity, comprehension, contact, collaboration and culture. Public policy has a key role in addressing these challenges, in particular in relation to improving and streamlining the functioning of the support infrastructure.

One of the most important findings from the research is the growth in, and desire for more, informal learning. Amongst SMEs there is a particular appetite for coaching and mentoring. For this to be effective, it is important that providers of such services are responsive to SMEs' requirements and understand the context and markets in which they operate. There is a role for networks (especially sector-based ones) to help in provision of training and skills development to SMEs; there is a role for trade and professional associations here also. However, the desire amongst SMEs for much greater public financial support is at odds with the emphasis on voluntarism by the UK Coalition Government, which stresses the importance of companies and individuals taking responsibility for their own development.

INTRODUCTION

Background to the research project

This report presents the findings from the United Kingdom (UK) element of an international research project conducted by the Organisation for Economic Co-Operation and Development (OECD), Local Employment and Economic Development (LEED) Programme, on *Leveraging Training and Skills Development in SMEs (TSME).* The research project seeks to identify ways to overcome the barriers to workforce development in small and medium-sized enterprises (SMEs).

The context for the research project is that the pool of workers requiring further education and training to enhance their skills is considered to be significant. However, SMEs often find it difficult to support formal training activities due to their low critical mass. Yet SMEs may participate in knowledge intensive activities as a way of learning new operational techniques and procedures that will help them to be more innovative. Such competence-building activities are largely performed in-house, are interactive and can involve external resources from other companies or organisations.

The TSME research project is designed to explore the participation of SMEs in training and skills at regional level, with particular emphasis on the role of "skills and training ecosystems" and their interactions with SMEs. The West Midlands region of England was selected as the focus for the UK study because it was one of the regions of the UK that was hardest hit in the 2008/9 recession. The main *objectives* of the project are to:

- identify policies that support training and skills development in order to promote growth, job creation and innovation;
- provide a picture of SMEs in the West Midlands and how they approach training and learning;
- provide some examples of current and best practices;
- highlight challenges facing SMEs and their workers with regard to training and skills development;
- provide insights into the way firms learn through knowledge intensive activities.

The UK element of the research project shares three common *methodological* tools with the other countries participating in the TSME project:

- gathering and analysing new data on SMEs' participation in formal and informal training through a dedicated (online) survey designed by the OECD secretariat in cooperation with participant counties;[1]
- analysis of the impact of training and skills development in firms through selected SME case studies; and

- hosting a workshop with local stakeholders including local training organisations and educational institutions, local and regional government and agencies, sectoral bodies and SMEs to examine local skills and training ecosystems and to learn how skills development activities can be supported and accelerated.

Structure of the report

This research report is organised in three parts.

Part 1 sets the scene at *national level* by focusing on trends and challenges in training and skills development in the UK. As such, it sets the context for a regional focus on the West Midlands in part 2. Part 1 begins by introducing key contextual issues which have helped frame policy debates in the UK. It commences by setting out the thrust of government policy on training and skills development. It then discusses the concepts of the low skills equilibrium and skills utilisation – including high performance working. In particular, the importance of a focus on employers' demand for skills in order to promote upskilling and movement up the value chain is highlighted.

Evidence on employer investment in skills and training at national level is presented, with reference to levels of training, kinds of training, barriers to training and the role of employer networks. Particular aspects of the behaviour of SMEs in relation to training and skills development are set out also.

Part 2 is the main part of the report. Chapter 2 presents background information and survey data on the situation in the West Midlands. It begins by setting out where the West Midlands fits in the broader UK context and the challenges the region faces, with particular reference to its historical development, medium-term economic and employment trends, the impact of the recession and an overview of skills levels vis-à-vis the England average. Background information on skills and training in SMEs in the West Midlands is presented, drawing on evidence from the National Employer Skills Survey conducted in England in 2009, together with some supplementary insights from the OECD online survey.

The approach of SMEs in the West Midlands to training and skills development is presented in Chapter 3. The introduction to this section sets out the objectives, methodology and the structure used for the presentation of the results. The outcomes of the *OECD online survey* are discussed first. The results are organised with reference to innovation/invention and knowledge intensive services (KIS) and different types of skills and policies and programmes. *Case studies* provide rich and detailed insights into the circumstances and behaviour of five SMEs. The key issues and themes raised at the *workshop* are discussed next. This section is organised in accordance with the thematic discussions at the workshop, encompassing skill needs, training and skills development in SMEs, the role of training networks, outcomes of training and skills development and other topics. The major themes apparent from the review and analysis presented in the different sections of the report are captured in a "7 Cs framework" encompassing complexity, capability, continuity, comprehension, contact, collaboration and culture.

Part 3 of the report focuses on implications for policy. The 7Cs framework highlights the wide range of issues pertaining to training and skills development identified and the need for multi-faceted policy approaches to address them. A synthesis of findings from the different elements of the research highlights a mismatch between SME training requirements which are often very specific, and the rather general training packages on offer. It also finds that the cost and complexities of applying for assistance with training can be

off-putting, as are the challenges of releasing staff for training, particularly in smaller SMEs. Pleas by some SMEs and by other workshop attendees for greater public funding of training on an "entitlement" basis are counter to the voluntaristic and market-based thrust of UK Coalition Government policy in this area. It is clear that context matters in influencing the nature and amount of training that is desired and undertaken. The research reveals that there is an appetite for a broader approach for new frameworks and systems to promote business development through building and enhancing capacity and capability, encompassing training and skills development. The product/service market position, the niche which a company occupies and the markets within which it competes (or is looking to enter) are central in determining skills requirements. This underlines the importance of raising "employer ambition"[2] and so the demand for training, alongside improving skills supply.

NOTES

1. The New Zealand Steering Committee for this project and the statistical unit of the New Zealand Department of Labour provided significant inputs for the survey questions. Inputs were also received from the UK Commission and the European Commission.

2. The term "employer ambition" is used in the UK Commission for Employment and Skills' Five Year Strategic Plan. It is a term that is used and widely understood in the UK context by policy makers and analysts concerned with skills policy. Employer ambition is about employers seeking to be world-leading in their industries; seeking growth via high value-added industries based on high skill, innovation and quality. Key to this is leadership and management, high performance working practices, and enhanced skills utilisation. Hence, at its core employer ambition is a means of achieving increased employer *demand* for skills.

1. TRAINING AND SKILLS DEVELOPMENT IN THE UK: TRENDS AND CHALLENGES

This section of the report sets out the context for debate and policy on training and skills development in the UK in order to inform the issues discussed in the remainder of the report. Following a long period of economic growth and a deep recession, the UK needs "to build a system to match the high skill, people-driven economy of the future – a system that responds well to business need while opening opportunity for all people" (UK Commission for Employment and Skills, 2010: 6). Employment and productivity are seen as being key to the UK's future prosperity, and skills are crucial to both. Hence the underpinning rationale of skills policies in the UK has been to raise skills levels as a means to achieve higher levels of employment, productivity and prosperity. While enhancing skills in order to transform the UK into a high skill economy has had a central place in government policy, despite significant improvements in the UK's skills profile, the challenge remains great. While the UK has an ambition to achieve a "top 8" position in international rankings on skills (as measured by qualifications) by 2020, in 2010 it was ranked 17th on low level skills, 18th on intermediate level skills and 12th on high level skills. Training is unevenly distributed, with those with low skills, managers and employees in small firms receiving less training than average (UK Commission for Employment and Skills, 2010).

Skills policy in the UK is devolved and there are variations in aspects of the focus, priorities and delivery mechanisms across the UK.[1] However, the overarching aims of skills policy are broadly similar across the four nations of the UK. These are to build a more internationally competitive skills base with a workforce equipped to compete in the labour market and drive sustainable economic growth. Moreover, the acquisition of skills is seen as a key way of improving social inclusion and social mobility. Until recently a primary focus of skills policy has been on initial skills acquisition, rather than on the demand for, and utilisation of, those skills. As noted in section 1.1.1, this emphasis is now changing. This has involved placing greater emphasis on understanding the means to encourage more businesses to secure and utilise higher skills as part of their business improvement, as well as encouraging ongoing skills development and upgrading in the workplace. A new Skills Strategy published in November 2010 has placed particular emphasis on management and leadership, growth and innovation, with a particular focus on SMEs (Department for Business, Innovation and Skills, 2010).

1.1. The context

1.1.1. Thrust of government policy on training and skills development

As indicated above, traditionally, skills policy in the UK was focused on improving supply. In part this reflected the "long tail of low skills" in the UK (see the related discussion in section 1.1.2) vis-à-vis major competitors. However, the general thrust of more recent developments in skills policy in the UK has been towards raising the profile of employers' *demand* for skills and ensuring that skills are used to maximum productive effect, so that issues of supply, demand and usage of skills are looked at together. This

emphasis on raising employers' demand for skills is a central element in the Coalition Government's Skills Strategy.

Before outlining the direction of the Coalition Government's Skills Strategy, it is salient to note that the Leitch Review of Skills (2006) has been particularly influential in shaping skills policy in the UK in recent years. Tasked in 2004 with addressing the UK's long-term skill needs, at the end of 2006 Leitch set out a vision and ambitions for the UK to become a "world leader in skills" by 2020, benchmarked in the upper quartile of the OECD. This involved targets for enhancing skills attainment at various levels – including improving functional literacy and numeracy, improving the proportion of the adult workforce qualified to Level 2 (with those below Level 2 being regarded as being in "skills poverty"), shifting the balance of intermediate skills from Level 2 to Level 3, and accelerating the increase in the share of the adult population with high level skills at Level 4 and above. Underpinning these were recommendations designed to:

- give low skilled workers more chances to gain a Level 2 qualification and basic skills in the workplace through Train to Gain (a national programme aiming to help employers [of all sizes and from all sectors] to improve the skills of their employees as a route to improving their business performance);[2]
- give skilled workers more opportunity to develop in the workplace through apprenticeships, degrees and management and leadership programmes;
- give small firms better access to increased levels of training – with increased relevance – for employees and managers; and
- give employers more strategic influence over the skills strategy and system, greater incentives to invest in skills at all levels, and access to brokerage.

Underlying principles for delivery were:

- shared responsibility for delivery – with employers and individuals contributing most where they derived the greatest private returns, and Government investment focusing on ensuring a platform of basic skills for all and tackling market failures;
- a focus on economically valuable skills – to provide real returns for the individual, employer and society; and
- demand-led skills – ensuring that the skills system meets the needs of employers and individuals.

The Coalition Government's 2010 Skills Strategy, *Skills for Sustainable Growth*, abolished the Leitch targets and moved beyond "the machinery of central control" as a means to achieve the ambition for world class skills (Department for Business, Innovation and Skills, 2010a: 13). The underlying approach of the Coalition Government is voluntaristic and market-based, with an emphasis on learners selecting training and qualifications that are valued by business and which are delivered by a broad range of autonomous training providers who will attract learners depending on the quality of their offer. Key features of the Skills Strategy entitled *Skills for Sustainable Growth* (Department for Business, Innovation and Skills, 2010a) are:

- expansion and improvements in the numbers of Apprenticeships – with an emphasis on widening access and higher skills levels;
- a wider and more flexible system of vocational qualifications – taking account of national occupational standards – designed to meet the needs of the economy;

- a Qualifications and Credit Framework, developed with business to meet the needs of business, allowing individuals and employers to access units of training that meet their specific needs;
- brokering the introduction of measures such as professional standards (where there is support from employers) – including occupational licensing and training levies where appropriate;
- provision of at least GBP 100 million Government investment per year to support training delivered to SMEs – with more training expected to be delivered in SME workplaces;
- the introduction, with the agreement of industry, of professional standards to increase skills in a sector or occupation; and
- the establishment of a new Growth and Innovation Fund to pump-prime and pilot new initiatives developed by businesses to increase the contribution skills make to growth – so supporting employers to be more ambitious about raising skills in their sectors and to promote workplace practices that will lead to better development and deployment of workplace knowledge and skills.

In terms of paying for the costs of training (other than at basic/low skills levels), the main emphasis is on employers and individuals sharing the costs of training, since they are the beneficiaries of such training.

1Crucially, however, government policy on training and skills development has been ***complex and so difficult to understand and navigate***. This is of critical importance in understanding skills and training in the UK given the emphasis on *voluntary* engagement of employers (Stanfield *et al*., 2009). With the UK Coalition Government in office from May 2010 there has been further change, so adding to complexity – at least in the short-term. For instance, Regional Development Agencies in England are being abolished, to be replaced by Local Enterprise Partnerships; Business Link (see the discussion below) is being abolished; Train to Gain is being discontinued; and a rationalisation of information, advice and support services is ongoing. This complexity and change means that it is difficult for employers to know where to engage and/or to choose what is most appropriate. The sheer number and range of organisations active in the employment, skills and training system exacerbates the situation and can lead to confusion. The rapidity of change in programmes, initiatives, procedures and organisation arguably serves to reduce awareness, understanding and interest in skills, training and business development initiatives.

In terms of ***support for SMEs***, there have been several changes in delivery mechanisms for business and skills development; (these changes are important in understanding the responses made by survey respondents, SME interviewees and workshop attendees reported in Part 3 of the report). Prior to the 1990s the emphasis was on centralised initiatives, with the Small Firms Service and the Enterprise Initiative. More localised systems of support were set up after the establishment of Training and Enterprise Councils in England in 1991 (subsequently abolished ten years later) and the establishment of Business Link in 1993. Although having undergone restructuring during its lifetime (Bennett, 2008),[3] at the time that this research was conducted the *Business Link* network was the main source of publicly funded information, advice and support to SMEs in England on skills, training and business development issues. Business Link operates through an online portal and advisors working at a local level. Types of services/advice provided via Business Link included general business information, diagnostic assessment, personal business advisor/consultant, sales and marketing advice, export advice, financial advice, training/Investors in People,[4]

product/service design advice, innovation and technology advice, educational and university links, grants, etc. However, the Coalition Government intends to close Business Link by 2012, citing the need for more targeted support. The Coalition Government intends to continue to support leadership and management skills amongst SMEs, on the grounds that these are key to helping companies to grow and make full use of their workforce. The Government will also co-fund some Level 2 qualifications delivered in SMEs. Co-funding is also to be made available for training programmes in new or rapidly expanding parts of the economy, including skills needed in the transition to a low-carbon economy (Department for Business, Innovation and Skills, 2010a).

Of course there are a range of other sources of advice on general business matters and training available to SMEs. These include accountants, solicitors, banks, customers, suppliers, consultants, business friends, relatives and other individuals, chambers of commerce, trade/professional associations, training providers and enterprise agencies.

It is clear that stimulating enterprise and helping SMEs to thrive are high on the Coalition Government agenda. Amongst the key actions identified in the Department for Business Innovation and Skills (BIS) Business Plan published in November 2010 (Department for Business, Innovation and Skills, 2010b) are the rationalisation of the range of information and advice products for businesses and promotion of the benefits of business advice and mentoring support for SMEs, working with the private and voluntary sectors.

1.1.2. Low skills equilibrium

During the long period of growth from the early 1990s to 2008 the UK was relatively successful in gaining new jobs. It was characterised by relatively high employment rates by OECD standards and a lower incidence of unemployment. However, despite a favourable performance on these headline indicators, there were concerns about the quality of some jobs and their sustainability, and in academic and policy circles there was increasing focus on the *low skills equilibrium (LSEq).*

This term was first used in 1988 when Finegold and Soskice described the UK economy as being "trapped in a low skills equilibrium". They characterised the situation as one in which many enterprises were staffed by poorly trained managers and where workers produced low quality goods and services. In essence, an LSEq describes a situation where "an economy becomes trapped in a vicious circle of low value added, low skills and low wages" (Wilson *et al*., 2003, vii).

This is illustrated in Table 1.1 in terms of the *balance* between demand and supply of skills. In a situation of LSEq there is little incentive for either employers or the workforce to raise skills levels, since there is little demand for higher level skills and so little encouragement for the workforce to supply such skills. In such circumstances an LSEq is the outcome of rational behaviour. Finegold and Soskice (1988) suggested that a self-reinforcing network of structural, environmental and incentive system interactions acted to stifle changes in behaviour and maintain the status quo. This contrasts with high skills equilibrium, characterised by a strong demand for enhanced skills levels, which in turn had positive effects for motivations and aspirations of individuals to participate in training, so creating a virtuous circle.

The term LSEq has been used to describe a macro scale phenomenon (as across a national or regional economy or a sector) or a micro scale situation (in terms of the position facing a particular company or organisation). Both macro and micro interpretations are of relevance here, given the focus on a particular region – the West Midlands, and the situation and challenges faced by individual SMEs and how they respond to them. At the

Table 1.1. **Low skills equilibrium and alternative scenarios in the context of the balance between skills demand and supply**

high skills demand *low*	SKILLS SHORTAGE IMBALANCE – organisations demanding higher skills than are available in the workforce	HIGH SKILL EQUILIBRIUM – strong demand for high level skills, with a positive effect throughout the supply chain on enhancing aspirations and workforce development
	LOW SKILL EQUILIBRIUM – few skill shortages and predominantly low skilled workforce – no incentive to participate in training	SKILLS SURPLUS IMBALANCE – mismatch caused by a workforce which cannot find employment to match their skills and aspirations
	low skills supply *high*	

Source: adapted from Green *et al.* (2003).

micro level the product/service specification/quality, the market strategy adopted and the skills trajectory of the organisation are crucial. Wilson *et al.* (2003, 7) describe how links between product/service specification/quality and workforce skills, at micro and macro scales, can interact in a vicious circle as follows:

> *"Products are poor because the workforce skills to produce better ones are often lacking, and skills are poor because existing product market strategies do not demand high levels of skill and because work has been organised, and jobs are designed to require low levels of skill and discretion. Low wages can also result in a further reinforcing factor, limiting consumer demand for more highly specified products and services."*

While individual organisations may remain in business and return profits, the overall outcome is sub-optimal. The fact that a range of factors – including the structure of domestic product markets, short-term financial pressures, a strong tradition of voluntarism, a highly deregulated market, weak employer groupings and social partnership arrangements, and institutional factors – underlie the situation means that it is difficult to break out of. Rather there is a tendency towards "path dependency", with organisations becoming "locked into" relatively low paid goods/services, often sold on the basis of low price and supporting low skilled workers (UK Commission for Employment and Skills, 2010). When on such a trajectory, simply improving the supply of skills is unlikely to be a solution. For an organisation to successfully adopt innovative products/services and organisational practices that could help break out of such a situation, an increase in the demand for skills would be required.

1.1.3. Skills utilisation

While the supply of skills matters, *how skills are utilised* is even more crucial for organisational, sectoral, local, regional and national performance. Skills utilisation has been defined as being "about ensuring the most effective application of skills in the workplace to maximise performance, through the use of a number of key agents (*e.g.* employers, employees, learning providers and the state) and the use of a range of HR, management and working practices. Effective utilisation of skills seeks to match the use of skills to business demands/needs" (UK Commission for Employment and Skills, 2010, 125). This notion of "matching" is important. As outlined in Table 1.1, when workers are not fully utilising their skills a situation of "skills surplus imbalance" ensues. Conversely, when organisations are unable to find workers with the skills that they need a "skills shortage imbalance" arises. Neither situation is optimal.

Evidence from "Skills at Work" research (Felstead *et al*., 2007), which is based on perceptions of individuals of qualifications required to do their job, indicates that the supply of skills exceeds the demand for skills at all qualification levels, except at the lower end of the skills spectrum where the number of jobs requiring no qualifications exceeds the number of individuals with no qualifications. Analyses of trends over time suggest that the extent of "over qualification" (or under-utilisation of skills) has risen since 1997, especially amongst individuals with degree level qualifications. At face value, this suggests that there is a situation of "skills surplus imbalance". However, it is also clear from analyses of Skills Survey data that within jobs "generic skills" – especially influencing skills, computing skills, literacy skills and planning and communication skills – are becoming more important over time (UK Commission for Employment and Skills, 2010).

The effective and efficient utilisation of skills requires the deployment of working and management practices to develop and utilise workforce skills. There is considerable interest in working and management practices to enhance "smart working". One way to improve skills utilisation is through *High Performance Working practices (HPW).* In the UK context, HPW is characterised by effective employee involvement and commitment to achieve high levels of performance. As such it is holistic in nature, involving activities relating to human resources management (including workforce development, pay and rewards, incentives, etc), the organisation of work (including job design and team working), employment relations, management and leadership (importantly including strategic management and business development) and organisational development (including organisational values and employee engagement) (Belt and Giles, 2009; Giles *et al*., 2010; UK Commission for Employment and Skills, 2010). There has been increasing recognition that quite what "bundle" of practices (and it is the "bundle" rather than the specific components that are important) works best will be context-specific – varying by workplace in accordance with organisational, sectoral and local circumstances. Rather what is important is the general "ethos of management and leadership, business improvement and people management" (Belt and Giles, 2009, ii). Nevertheless, Tamkin *et al.* (2004) have sought to capture the key components of HPW systems – Access (the effective resourcing of roles in the organisation), Ability (the skills of the workforce), Attitude (the engagement, motivation and morale of the workforce) and Application (the opportunities available to ensure that skills and motivation are effectively applied) – in the so-called *4As model* (see Table 1.2).

Evidence suggests that organisations adopting HPW practices are associated with higher productivity and profitability, and lower rates of staff turnover (Patterson *et al*., 1998; Tamkin, 2008; Guest, 2006; Becker *et al*., 2001). There are also benefits for employees in terms of higher job satisfaction and motivation.

Table 1.2. **The "4As" model of capability**

<table>
<tr><td rowspan="4">Development</td><td colspan="2">Individual capability</td><td rowspan="4">Deployment</td></tr>
<tr><td>ABILITY
(e.g. skills, training, education)</td><td>ATTITUDE
(e.g. engagement, involvement)</td></tr>
<tr><td>ACCESS
(e.g. resourcing, recruitment)</td><td>APPLICATION
(e.g. strategy, structure)</td></tr>
<tr><td colspan="2">Organisational action</td></tr>
</table>

Source: adapted from Figure 8.1, UK Commission for Employment and Skills (2010).

1.1.4. Upskilling and moving up the value chain

In order to break out of the LSEq and to enhance skills utilisation, it is necessary to raise *employers' demand for skills*. The demand for skills is a "derived demand", depending on the overall level of economic activity and the profile (in sectoral and occupational terms) of that activity. By being creative and innovative and moving up the value chain through enhancing the specification of goods and services produced, organisations can raise their demand for skills. As increasing numbers of businesses adopt high value added skill intensive patterns of behaviour, so the demand for skills is raised. Economic development policies, including those focusing on supporting development of clusters and promoting innovation, can help organisations adopt business strategies that involve moving up the value chain. However, as outlined above, strong management and leadership and a focus on better use of skills in the workplace are important also. Here there are ongoing concerns about the relatively low levels, by international standards, of SME managers in the UK with formal management qualifications (Johnson, 1999; Bosworth *et al*., 2002).

Analyses of trends over time from "Skills at Work" research (Felstead *et al*., 2007) suggests that the need for qualifications has increased over time, as has the time required to become proficient in a new job. However, "becoming proficient" is insufficient; it is also important to maintain proficiency. This is likely to entail an ongoing need for *upskilling* (*i.e*. increasing an individual's skills and knowledge).

1.2. Employer investment in skills and training

1.2.1. Levels of training

At face value the levels of training provided by employers in the UK seem quite positive by international standards, with around two-thirds of employers providing training to their staff (Stanfield *et al*., 2009). However, on a number of other indicators the picture is somewhat less positive:

- nearly a quarter of establishments have never funded or arranged training for their staff;
- less of the training that is undertaken is certified than in many other EU nations; and
- training accounts for a lower proportion of labour costs than the EU average.

Insights into skills problems faced by employers and the extent of training and development activity undertaken in England are available from the 2009 National Employer Skills Survey (NESS09) (Shury *et al*., 2010a, 2010b).[5] In 2009 68% of employers provided training. The main reason for not providing training was that their staff were "fully proficient". However, this does not mean that there is no possibility of raising employers' ambition and hence their demand for skills. Indeed, a relatively high proportion of employers citing that their staff are "fully proficient" may be indicative of a lack of ambition to seek growth via high value-added industries based on high skill, innovation and quality, and lack of attention to monitoring skills needs (as noted below and discussed with respect to the West Midlands in Part 2). The majority of employers reported that the recession had no impact on their training and development activity; however, amongst those where training had an effect, a greater proportion of employers reported a decrease in training than reported an increase.

In NESS09 almost three-fifths of all employers in England reported they had a business plan specifying the establishment's objectives over the coming year, while just over two-fifths indicated had a formal training plan specifying in advance the level and types of training needed by employees over the forthcoming year and just over a third had a budget for training expenditure. Such formal planning is associated with employers' expectations about the need to upskill. Moreover, there is evidence that the trend for greater formality in employment practices has increased year on year since 2005. There is also a positive relationship between formal planning and providing training for staff.

NESS09 also reveals a relationship between product market strategy (defined using a "composite quality measure" derived from respondents' views on where there establishment was positioned vis-à-vis other establishments in the same sector) and the level of formal business planning and training undertaken. This highlights the importance of considering skills in a broader context (as highlighted in the discussion of the low skills equilibrium in section 1.1.2). It is also clear from NESS09 that employers reporting skill gaps amongst their workforce were more likely to conduct annual performance reviews – thus demonstrating their concerns with skills utilisation issues (see section 1.1.3). This suggests that closer monitoring of performance is related to greater focus on internal skills deficiencies and higher levels of reporting of skills gaps (as highlighted above). Detailed modelling of NESS09 data on product market strategy and skills has revealed clear evidence of interdependence between product market strategies and skills (Mason, 2011). The results obtained are consistent with arguments that operating a high value added product/service strategy generates higher levels of skill requirements for the establishments concerned. They also suggest that high current levels of skills contribute positively to the development of high-end product/service strategies. Shifting to more complex and demanding product/service strategies is likely to increase the skills required by firms, so helping explain why firms with relatively high-end product/service strategies are more likely to report skill updating needs. A shift to more demanding product/service strategies would also benefit broader ambitions for the UK economy of enhancing competitiveness by moving up the value chain and achieving sustainable growth.

1.2.2. Kinds of training

In analyses of training activity one of the foremost distinctions made is that between:

- *off-the-job training* – which takes place away from the employee's immediate work position, whether on the employer's premises or elsewhere (*e.g.* at a college, etc);
- *on-the-job training* – any other training activities which would be recognised as training by staff, but do not encompass the sort of learning by experience which would take place all the time.

The former is sometimes referred to as "formal" training and the latter as "informal" training.

NESS09 reveals that in the 12 months prior to interview 38% of employers in England delivered both on-the-job and off-the-job training, 17% delivered on-the-job training only and 13% delivered off-the-job training only. This marked the continuation of the previous trend for an increase in the number of employers combining off-the-job and on-the-job training. Employers that train typically provide training for the majority of their workforce, although there is some evidence from a comparison of NESS09 data with NESS07 data (*i.e.* the comparable survey conducted in 2007) of a decrease in the proportion of establishments that train typically providing training for the majority of their workforce. This might

suggest that in more difficult economic circumstances[6] employers tended not to cease training altogether, but perhaps were more selective about to whom training was delivered.

Of employees that received training during the previous 12 months, NESS09 data shows that 24% in England had been trained towards a nationally recognised qualification. These were most likely to be qualifications at Level 2 or Level 3.

72% of employers that had provided training over the last 12 months had used an external training provider to deliver training. Of these, 28% (equivalent to 19% of all employers) had used Further Education (FE) Colleges, 11% (equivalent to 7% of all employers had used universities) and 61% (equivalent to 41% of all employers) had used other external providers, such as consultants. Comparison of NESS09 and NESS07 shows that there was an increase in usage of all types of provider, but that this increase was most marked for other training providers/consultants. Satisfaction levels are high for all types of provider. In NESS09 employers that had trained off-the-job but had not used FE colleges were asked why they had not used an FE college to provide training. The most common reasons cited were that "their courses are not relevant" and that they "preferred to train in-house", cited by 42% and 24% of respondents, respectively.

1.2.3. Barriers to training

There are a number of different barriers to optimal investment in skills and training. The main reason identified in NESS09 for not providing training – cited by 66% of employers who had not provided any training in the previous 12 months – was that there was no need, predominantly because their staff were "fully proficient"; (however, as discussed in section 1.2.1 this may reflect a paucity of ambition on the part of the employer and a failure to recognise the links between the product/service strategy and training needs). Other issues cited related to the expense of training, time issues, training supply issues (*e.g.* relating to the availability and quality of courses available locally). A range of other, often more fundamental, barriers to training have been highlighted in other research. For example, Hogarth *et al.* (2009) cite issues indicative of a lack of ambition, including:

- *management skills* – it is highly skilled managers who are more likely to develop higher value-added product/service strategies which in turn have implications for skills and training;
- *management capacity* – a lack of management time to devote to strategic issues; and a related issue of:
- *short-termism* – a focus on immediate requirements and/or only on that training that is immediately available;
- *influence of staff on training* – claims that staff may be unwilling to undertake training; and
- *imperfect information* – on the nature and quality of training available and the value of that training to the employer.

NESS09 reveals that approximately half of employers would have liked to have provided more training over the previous 12 months than they in fact undertook. Amongst those who would have liked to have undertaken more training than they did, the main reasons for not doing so were related to expense (*i.e.* the cost of training/lack of funds) and that they could not spare staff time, cited by 60% and 28% of respondents, respectively. In general, these may be considered as barriers internal to the firm.

The majority of employers reported that the recession had no impact on their training and development activity; however, amongst those where recession had an effect, a greater proportion of employers reported a decrease in training than reported an increase.

1.2.4. The role of employer networks

Given the levels of training undertaken in the UK, the thrust of policy towards raising demand for skills and the fact the positive association between training and business survival, productivity and employees' job satisfaction, the UK Commission for Employment and Skills (Stanfield *et al.*, 2009) has undertaken a review of policy measures designed to encourage employers to train on a collective basis. From this work on "collective measures" particular interest has emerged on the role of inter *employer networks* – organised on a sectoral or local basis. By organising on a network rather than an individual employer basis it could be possible to:

- organise training that employers would find it too difficult to provide otherwise; and
- help identify and meet previously unrecognised training needs that will help solve broader business problems (Stanfield *et al.*, 2009).

1.3. SMEs, skills and training

Section 1.2 provided an introduction at an aggregate level to levels of training, kinds of training, barriers to training and the increasing interest in the role of employer networks in enhancing interest and activity in training and skills development in the UK. It highlighted that the majority of employers engaged in training, but that the minority who did not indicated a lack of a need to do so because employees were already proficient. A distinction was made between off-the-job and on-the-job training and it was noted that there is an increasing trend towards combining both types of training. This distinction between types of training, and whether there is formal certification of training, is of particular relevance to SMEs – as discussed in this section. Likewise, the potential for employer networks (whether organised on a sectoral and/or spatial basis) is especially pertinent to issues of training and skills development in SMEs. This section provides a particular focus on skills and training in SMEs.

1.3.1. Investment in training: issues for SMEs

In a summary of issues relating to skills and training and small firms (with less than 50 employees), Edwards (2010) has characterised contemporary debate as being dominated by two opposing views. The first is that small firms do not train – either because of ignorance or some kind of market failure, and that this state of affairs needs to be tackled through exhorting and incentivising firms to undertake training. The second is that small firms develop skills in informal ways that are not fully recognised (see also Johnson and Devins, 2008), and that in practice, these are equivalent to formal training undertaken by large firms, and so there is no market failure.

Drawing on a range of evidence, Edwards (2010) shows that formal training is limited in small firms (see also section 1.3.2 for evidence from NESS09 at national level), but also that links between formal practices and outcomes in terms of workers skills are much weaker in small than in large firms, with informality acting to some extent as a substitute. Hence he argues that: "it is too simple to argue that 'small firms do not train'". Rather he

suggests that there is a great deal of variability between small firms, and that the sectoral and other *contexts* within which they operate matters. This, he contends, implies the need for a contextualised approach: "policy needs to work at the level of the firm, through appropriate advice, and at the level of a local area or sector, so that firms can learn from their peers" (Edwards, 2010, 4).

1.3.2. Training behaviour of SMEs: survey evidence

There is clear evidence from NESS09 for the formality of business and training planning to increase with establishment size, with micro establishments being the least likely to have business plans, training plans and training budgets. The smaller the employer, the less likely it is to have delivered any training in the last 12 months. Where smaller employers have provided training during the last 12 months it is much less likely to have involved both on-the-job and off-the-job training than was the case for larger establishments. It is also evident from NESS09 that smaller employers who trained tend to train a smaller proportion of their workforce than is the case for larger establishments. There is a negative association between training expenditure per trainee and employer size, with smallest establishments spending most per trainee and larger establishments the least per trainee. The economies of scale that larger employers can command and the fact that they are more likely to have access to internal training facilities and dedicated training staff are probably part of the explanation for these differences by size.

There is a positive association between use of external training providers (of all types) and establishment size. This is particularly marked in the case of universities, with smaller employers being much less likely to use universities than larger employers. In the case of FE colleges, smaller employers are more likely than large employers to cite that "their courses are not relevant". This reinforces the points highlighted by Edwards (2010) that the context within which small firms operate is crucial. Smaller employers are also less likely to formally assess the impact of training than are larger employers

Smaller employers were more likely than larger employers to believe that there was no need for training because their staff members were fully proficient. All other issues cited are much less significant. Time issues are somewhat more pressing amongst the smallest than the largest employers – but are cited by only around 7% of micro employers. The proportion of employers citing issues relating to the expense of training and to training supply are similar across different size bands.

1.4. Summary

There has been an ongoing concern in the UK with the "long tail of low skills". Traditionally skills policy has emphasised improving the supply of skills, but more recently the focus has shifted to raising the demand for skills in order to counteract a situation of LSEq. As a result increased emphasis has been placed on enhancing the utilisation of skills, upskilling and encouraging movement up the value chain. In the UK factors acting as barrier to achieving the necessary investment in training to achieve this include shortcomings in management skills and capacity, short-termism and imperfect information on the nature and quality of training available.

Within the population of SMEs there is considerable variety of experience of investment in training and skills development. This suggests that context is important in understanding behaviour. Those SMEs who do not train indicate the lack of a need to do so

because they believe that their staff are fully proficient. Although survey evidence indicates that the formality of training and business planning is not as developed in SMEs as in larger establishments, this does not necessarily mean that training does not take place, but rather that informal training takes on particular importance for SMEs.

NOTES

1. The UK is made up of four nations: England, Wales, Scotland and Northern Ireland. England is easily the largest of the four nations and since the case study area – the West Midlands – is in England the material presented relating to the West Midlands refers to the English context.
2. Essentially Train to Gain provided a training subsidy routed through employers for training up to a first Level 2 qualification, and increasingly for Level 3 qualifications. In 2010 the Coalition Government announced the abolition of Train to Gain to be replaced with an SME-focused programme to help employers train low-skilled staff.
3. From 1993 to 2001 the Business Link structure was locally variable, with existing suppliers and networks of local partners (including local government, enterprise agencies, Training and Enterprise Councils and development agencies) putting forward bids to central government to run local agencies. From 2001 to 2006 Business Link operated as a national brand with local "franchises" within the new Small Business Service. Then from 2006 Regional Development Agencies took over responsibility for Business Link, with Business Link operating as a "brokered service provider" (see Bennett, 2008).
4. Investors in People offers a business improvement tool and standard designed to help all kinds of organisations develop performance through their people. It provides tailored assessments designed to support organisations in planning, implementing and evaluating effective strategies and is relevant for organisations of all sizes and sectors.
5. The aim of NESS09 is to provide the UK Commission for Employment and Skills and partners with robust and reliable information from employers in England (there are separate surveys covering other nations of the UK) on skills deficiencies (in the external and internal labour market) and workforce development in order to inform policy. NESS09 covers 79 000 employers in England.
6. NESS09 was in the field during recession, while NESS07 took place before the 2008/9 recession.

2. THE SITUATION IN THE WEST MIDLANDS

2.1. The context: challenges facing the West Midlands

2.1.1. Introduction to the place of the West Midlands in a UK context

The West Midlands lies in the heartland of England (see Figure 2.1). It is a NUTS 1 region and is one of nine such regions in England, which together with Wales, Scotland and Northern Ireland makes up the UK. It is the only English region that is landlocked. Geographically it extends from the Cotswolds and Malvern Hills in the south to the Peak District in the north. It is bounded by the Welsh border to the west and the East Midlands to the east. In the centre of the region is the UK's second largest conurbation: the city-region of Birmingham, Coventry and the Black Country. A second conurbation, the Potteries, lies in the north of the region. However, 80% of the region's land is rural.

Figure 2.1. **Location of the West Midlands**

2.1.2. Historical development of the West Midlands

During the Industrial Revolution the Black Country, with a richness of mineral deposits, and Birmingham and Coventry, became the centre of the metal industry. The industrial identity of the region was founded in the growth, character and distinctive products of the region's main industrial areas. Birmingham became famous for guns, jewellery and the motor industry; the Black Country for coal mining (all the pits are now closed), heavy industry, bicycles, cars and machine tools; the industrial heritage of Coventry developed from watches to encompass sewing machines, bicycles, motor-cycles, aero engines, tractors, machine tools and cars; and the Potteries was famous for china, earthenware, bricks, tiles and pipes.

Throughout the long post-war boom from 1945 to the early/mid 1970s the West Midlands emerged as one of the more prosperous regions in England, seeing rapid population and employment growth. It was second in prosperity only to the South East (including London). There was in-migration from the rest of England and from overseas. Indeed, during this period there was diversion of growth from the West Midlands (along with the South East [including London]) to the assisted regions of northern England, South Wales and central Scotland). However, the region's reliance on manufacturing industry, and particularly car production (the sector most closely associated with the region), metal goods, metal manufacturing and mechanical and electrical engineering left it exposed to foreign competition and the shift to service employment. 1975 was the last year when regional GDP exceeded the UK average. Job losses in the latter part of the 1970s and in the 1980s were on a scale such that on the basis of economic statistics and in the geographical imagination the region moved from the "affluent South" to the "declining North": the West Midlands had fallen from being near the top of the England rankings in the 1960s to near the bottom by the mid 1980s.

The region had a population of 5.4 million in 2009, of whom slightly more than half lived in the city-region (*i.e*. the most urbanised area of Birmingham, the Black Country and Coventry). The population of the West Midlands continues to grow, but at a slower rate (0.4 per cent per annum) than the national average. In 2008/9 approximately 16% of the region's working age population was from ethnic minorities (the second highest percentage outside London), and in Birmingham the share was nearly 40%. There is a significant positive correlation between areas of highest ethnic minority population and high levels of deprivation and unemployment. On the 2007 English Indices of Deprivation 27% of neighbourhoods lie within the 20% most deprived in England.

2.1.3. Economic and employment change in the West Midlands: a medium-term perspective

Insights into changes in the economic and employment structure of the West Midlands over the medium-term, together with projections of future change, are available from *Working Futures 2007-2017* (Wilson *et al*., 2008).[1] Over the decade from 1997 to 2007 GVA in the West Midlands grew at an average rate of 2.6% per annum. This was lower than any other UK region and compares with a growth rate of 3.3% per annum for the UK over the same period. Productivity (defined as GVA per hour worked) was 90% of the UK average in 2007, although there are important variations across the region, with generally higher productivity in the south-eastern part of the region (closest to the "Greater South East") and lowest in the northern part of the region (notably in Stoke-on-Trent and also the Black Country).

Just as medium-term growth in output has been below the UK average, so too has been growth in employment. Between 1997 and 2007 employment in the West Midlands grew at 0.5% per annum, compared with a growth rate of 1.0% per annum across the UK. Table 2.1 shows changes in employment by broad sector over the period from 1987 to 2007. The key feature of change is the contraction of employment in manufacturing, with 284 thousand jobs lost between 1987 and 2007, with the majority of job losses occurring in the last decade; the rate of loss was higher than in any other region, despite a continuing growth in population (as outlined above). Services have seen job gains over the same period.

Table 2.2. provides a more detailed sectoral picture of employment change over the same period. This highlights the scale of the job losses in metal & metal goods, engineering and transport equipment – *i.e.* the industries that have been central to the identity of the West Midlands. In 1989 manufacturing accounted for one-third of regional GVA, but by 2006 only 17% (compared with 13% across the UK). At the same time as manufacturing employment has contracted, there has been a marked expansion of jobs in other business services, health & social work and education, as well as in other services. The contraction of employment in manufacturing and the expansion of service jobs are projected to continue over the medium-term.

Table 2.1. **Employment change in the West Midlands by broad sector, 1987-2007**

	1987 (000s)	1987 *(share %)*	1997 (000s)	1997 *(share %)*	2007 (000s)	2007 *(share %)*
Primary sector & utilities	88	*3.7*	76	*3.0*	55	*2.1*
Manufacturing	646	*27.3*	585	*23.0*	362	*13.5*
Construction	174	*7.3*	137	*5.4*	185	*6.9*
Distribution & transport	593	*25.1*	720	*28.2*	771	*28.8*
Business & other services	397	*16.8*	511	*20.1*	639	*23.9*
Non-marketed services	468	*19.8*	519	*20.4*	662	*24.7*
Total	2 365	*100.0*	2 548	*100.0*	2 675	*100.0*

Source: Working Futures, Wilson *et al.* (2008).

These changes in the sectoral structure of employment have had implications for the occupational structure of employment, as have technological changes and changes in work organisation within sectors. The key features of occupational change in the West Midlands over the period 1987 to 2007 and projected to 2017 are expansion in higher level non-manual occupations (*i.e.* managers & senior officials, professional occupations and associate professional & technical occupations) and also in personal service occupations and sales & customer service occupations, alongside job losses in skilled trades occupations, for machine & transport operatives and in elementary occupations (see Table 2.3). From 1997 to 2007 59 thousand jobs were lost in skilled trades occupations, and employment of machine and transport operatives contracted by 69 thousand jobs. However, replacement demand is such over the period from 2007 to 2017 that a net requirement is projected in all occupational groups within the West Midlands.

Table 2.2. **Employment change in the West Midlands by 25 sectors, 1987-2007**

	Levels (000s)			Changes (000s)		
	1987	1997	2007	1987-97	1997-2007	1987-2007
Agriculture etc	50	59	43	9	-17	-7
Mining, quarrying & utilities	38	16	12	-22	-4	-26
Food, drink & tobacco	40	38	36	-2	-2	-4
Textiles & clothing	54	32	10	-21	-22	-44
Wood, paper & publishing	42	44	34	2	-10	-8
Chemicals & non-metal minerals	105	99	51	-6	-48	-54
Metal & metal goods	160	136	88	-24	-48	-72
Engineering	130	118	72	-12	-46	-58
Transport equipment	90	89	52	0	-37	-38
Manufacturing nes & recycling	26	28	20	3	-9	-6
Construction	174	137	185	-37	49	12
Distribution relating to motors	61	68	65	7	-3	4
Wholesale distribution nes	110	152	130	42	-23	19
Retailing distribution nes	189	241	262	52	21	73
Hotels and catering	123	129	167	7	37	44
Transport and storage	73	91	107	18	16	34
Post & telecommunications	37	38	41	1	3	4
Banking & insurance	72	74	69	1	-5	-4
Professional services	40	52	64	12	11	23
Computing & related services	16	26	42	10	16	26
Other business services	164	242	306	78	64	142
Public admin and defence	119	100	118	-19	18	-1
Education	149	185	234	36	49	85
Health & social work	200	235	310	35	75	110
Miscellaneous services	105	117	159	12	41	54
Total	2 365	2 548	2 675	183	127	310

Source: Working Futures, Wilson *et al.* (2008).

Table 2.3. **Employment change in the West Midlands by occupation, 1987-2007**

	1987 (000s)	1987 *(share %)*	1997 (000s)	1997 *(share %)*	2007 (000s)	2007 *(share %)*
1. Managers and Senior Officials	273	*11.5*	319	*12.5*	379	*14.2*
2. Professional occupations	200	*8.5*	240	*9.4*	310	*11.6*
3. Associate Professional and Technical	226	*9.6*	286	*11.2*	356	*13.3*
4. Administrative and Secretarial	322	*13.6*	334	*13.1*	323	*12.1*
5. Skilled Trades Occupations	426	*18.0*	391	*15.4*	332	*12.4*
6. Personal Service Occupations	100	*4.2*	158	*6.2*	227	*8.5*
7. Sales and Customer Service Occupations	135	*5.7*	182	*7.2*	205	*7.7*
8. Machine and Transport Operatives	323	*13.7*	314	*12.3*	245	*9.1*
9. Elementary Occupations	361	*15.2*	324	*12.7*	297	*11.1*
Total	2 365	*100.0*	2 548	*100.0*	2 675	*100.0*

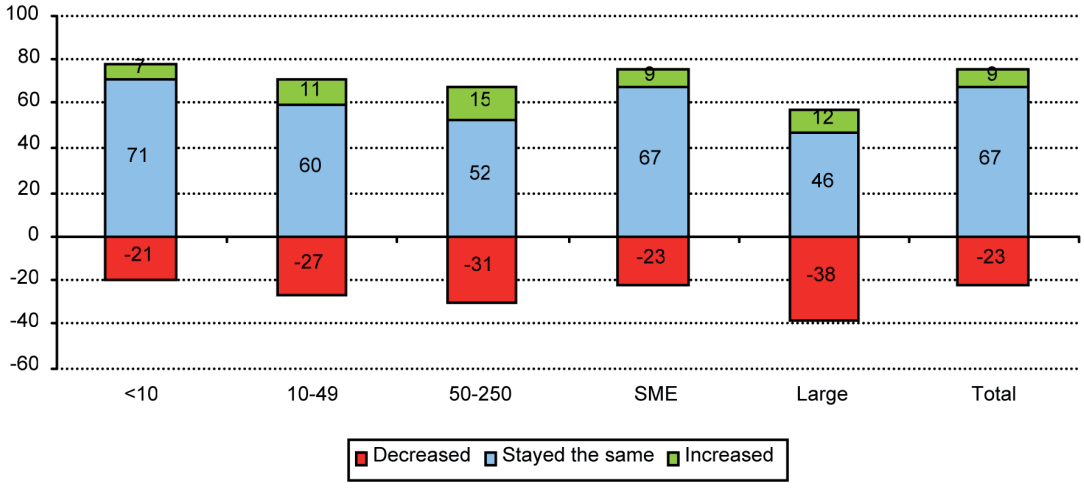
Source: Working Futures, Wilson *et al.* (2008).

2.1.4. The West Midlands in recession: impact on employment and skills

The statistics on medium-term employment trends in the section above predate the recession of 2008-09. At least initially, *the recession impacted more severely on the West Midlands than on any other region in England and the UK*. This has been clear from the increase in unemployment: by July-September 2009 the unemployment rate in the West Midlands exceeded 10% – the highest rate in of any region in England. Only a year previously the unemployment rate in the West Midlands was lower than in the three northernmost regions of England and London. Young people have been particularly hard hit by recession: in October 2009, 11% of young people aged 18-24 years in the West Midlands were claiming Job Seekers Allowance, compared with an England average of around 8%.[2] With the onset of recession there was a reduction in the employment rate. The initial employment rate "gap" between the West Midlands and England widened from 1.6 percentage points at the start of 2008 to 2.8 percentage points by July-September 2009. This is indicative of the greater impact of recession regionally than nationally.

Evidence from NESS2009 shows how the recession impacted on staffing levels in the West Midlands (see Figure 2.2). In each employer size category the majority of employers reported that the number of staff had remained the same.[3] In all size categories the number of employers reporting a decrease in staff levels was greater than the number reporting an increase.[4] *Large employers were most likely to report reductions in staffing levels* (38% of such employers in the West Midlands, compared with 36% in the rest of England), while the smallest employers were least likely to report reductions in staffing; (of course, employers that had gone out of business as a result of the recession will not be included in the survey). Medium-sized employers in the West Midlands were more likely to report reductions in staffing (31% of employers with 50-249 employees) than all employers (23% reported staffing reductions), but were also most likely to report increases in staffing (15% of medium-sized employers reported staffing increases, compared with 9% of all employers in the West Midlands). Despite the severity of the recession on the region, the picture for the West Midlands is very similar to that for the rest of England. Micro employers (with less than 10 staff) were slightly less likely to report decreases in staff levels in the West Midlands than in the rest of England, while small employers (10-49 staff) were slightly more likely to report decreases and slightly less likely to report increases in staff levels than in the rest of England.

Figure 2.2. **Effect of the recession on the number of staff employed at establishments in the West Midlands**



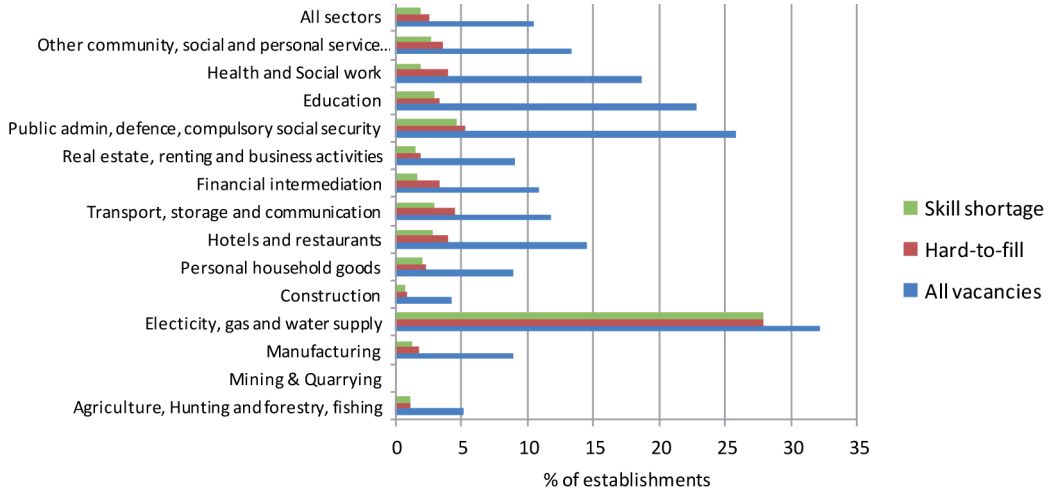
Base: All employers in the West Midlands, NESS09.

Disaggregation by sector[5] of the effect of recession on staffing levels of SMEs in the West Midlands reveals that decreases in staffing were most common in Construction, Electricity, gas and water and Manufacturing, with around a third of such employers reporting a decrease in staffing levels. In Personal household goods, Hotels & restaurants and Transport, storage and communication and Real estate, renting and business activity sectors, the profile of changing staffing levels was similar to the average for SMEs across the West Midlands. Health and social work, Education, Public administration and Other community, social and personal service activities, private households, organisations and bodies were less likely than average to report decreases in staffing levels.

The greater than average impact of recession in the West Midlands might have been expected to have been reflected in lower levels of vacancies on the external labour market. Evidence from NESS09 suggests that the prevalence of vacancies amongst SMEs in the West Midlands in 2009 was slightly lower than nationally (10% of SMEs in the West Midlands had a vacancy in 2009, compared with 12% across the rest of England). The proportion of hard-to-fill vacancies was similar to the national picture, but skill-shortage vacancies (SSVs) accounted for a slightly higher share of hard-to-fill vacancies amongst small employers and medium-sized employers in the West Midlands than in the rest of England (see Table A.1., Annex A).

The proportion of employers with a vacancy increases with the size of employer (see Table A.2., Annex A). 3% of SME employers in the West Midlands reported a hard-to-fill vacancy – a similar proportion to the rest of England. Hard-to-fill vacancies in SMEs in the West Midlands account for 23% of all vacancies (this is the same share as nationally). Hard-to-fill vacancies account for 20% of all vacancies in the West Midlands. 2% of SME employers in the West Midlands reported a skill-shortage vacancy – a slightly smaller proportion than the rest of England. Skill-shortage vacancies account for 17% of all vacancies in the West Midlands. Skill-shortage vacancies comprise 72% of hard-to-fill vacancies in the West Midlands. Skill-shortage vacancies account for a slightly higher proportion of hard-to-fill vacancies for small employers and medium-sized employers in the West Midlands than in the rest of England.

Figure 2.3. **Incidence of vacancies, hard-to-fill vacancies and skill-shortage vacancies by SIC sector – SMEs in the West Midlands**



Base: All SME employers, NESS09.

Figure 2.3. shows the incidence of vacancies, hard-to-fill vacancies and skill-shortage vacancies by Standard Industrial Classification (SIC) sector in the West Midlands. Establishments operating in the Electricity, gas and water,[6] Public administration, Education and Health and Social Work sectors were particularly likely to report vacancies (in excess of 20% of such establishments reported vacancies). Together with establishments in the Other community, social and personal service activities, private households, organisations and bodies; Transport, storage and communication and Hotels and restaurants, there were also above average levels of hard-to-fill vacancies and skill-shortage vacancies in these sectors. This sectoral profile of vacancies in SMEs the West Midlands is similar to that in the rest of England.

2.1.5. Skills in the West Midlands: overview

One factor underlying the relatively poor performance of the West Midlands in an England and UK context is the region's relatively poor record on skills, alongside low rates of innovation (Advantage West Midlands and West Midlands Regional Assembly, 2007). This position is exemplified by the qualification profile of the working age population in the West Midlands vis-à-vis other English regions and the England average (see Table 2.4). The West Midlands has the lowest proportion of the working age population of any English region qualified to NVQ Level 2 or above.

Table 2.4. **Qualification profile of the working age profile in the West Midlands, 2008**

Working age population – qualification level	West Midlands	Lowest ranking region	England average	Highest ranking region
% with no qualifications	*14.1*	*14.1*	10.9	8.0
% with NVQ Level 2+	*67.3*	*67.3*	70.4	73.8
% with NVQ Level 3+	*46.5*	46.3	50.2	55.2
% with NVQ Level 4+	*27.1*	25.5	31.0	41.0

Source: West Midlands Regional Observatory, Regional Skills Performance Indicators.

The West Midlands Regional Skills Partnership developed a *Skills Performance Index* as a headline measure of the skills performance of the region. The Skills Performance Index is part of a Regional Skills Performance Indicator Framework incorporating three tiers of indicators. Tier 1 includes "economic context measures" such as GVA, worklessness, the business survival rate, earnings and the employment rate. Tier 2 incorporates "skills outcome measures": on the demand side these include investment in training, adoption of workforce development tools, skill gaps, skill shortages and private sector employment, while on the supply side they include qualification attainment amongst young people and amongst adults, participation in education and learning, graduate retention and participation in job-related training. Tier 3 is concerned with "operational/performance measures": on the demand side these relate to a number of Train to Gain measures,[7] satisfaction with Learning and Skills Council (LSC) funded learning, Apprenticeship success rates, take up of foundation degrees, days training per employee, training spend per employee and management proficiency, while on the supply side they include NEET (Not in Education, Employment or Training) young people, adult FE (further education) learners and success rates, participation in HE (higher education), the graduate employment rate and qualification attainment by people from deprived backgrounds.

On the overall Skills Performance Index (based on ten Tier 2 indicators[8]) the region's position has improved vis-à-vis England, such that the deficit in skills performance narrowed (see Table 2.5).

Table 2.5. **Overall Skills Performance Index, 2004-08**

	2004	2005	2006	2007	2008
West Midlands	46.23	48.32	50.56	52.8	53.12
England	49.50	52.12	53.07	53.42	53.89

Source: West Midlands Regional Observatory, Regional Skills Performance Indicators.

The improved performance has been underpinned by an increase in the proportion of staff being trained by their employer (the level is above the national average) and a strong uptake of Train to Gain (since abolished) and Apprenticeships. The West Midlands continues to perform less well on recruitment, development and deployment of highly skilled workers (West Midlands Regional Observatory, 2009). There are important sub-regional variations in economic performance and skills profiles. The south-eastern part of the region (Coventry and Warwickshire) has higher than average skills levels, while the Black Country and Stoke-on-Trent (the Potteries) has lower than average skills levels.

2.2. Background information on skills and training in SMEs in the West Midlands: evidence from NESS09 – and the OECD survey of SMEs

This section presents evidence from the West Midlands from NESS09 (the 2009 National Employer Skills Survey described in section 1.2.1. which is a large employer survey providing key data on skill deficiencies and workforce development). Selected supporting evidence from the OECD survey of SMEs in the West Midlands is provided alongside (for further details seePart 3), as appropriate to the issue that is the focus of discussion. Key findings from the OECD survey are presented in their entirety in section 3.2.

Historically, the West Midlands has been characterised by a higher than average prevalence of *skills gaps* (*i.e.* where staff are felt not to be fully proficient at their job). This was

Table 2.6. **Skills gaps in the West Midlands, 2009**

	Micro <10	Small 10-49	Medium 50-250	*SMEs <250*	Large 250+	Total
WEST MIDLANDS						
% of employers with a skills gap	14	33	47	*20*	63	20
% of staff described as having a skills gap	6	7	8	*7*	11	8
No. of staff described as having a skills gap	22 607	46 702	57 455	*126 764*	69 659	196 423
REST OF ENGLAND						
% of employers with a skills gap	13	32	44	*19*	57	19
% of staff described as having a skills gap	5	7	7	*7*	9	7
ENGLAND						
% of employers with a skills gap	13	33	45	*19*	57	19
% of staff described as having a skills gap	5	7	8	*7*	9	7

Base: All employers/all employment, NESS09.

the case in 2009: 80% of SME employers in the West Midlands regard their staff as fully proficient, compared with 81% of SME employers in the rest of England (Table 2.6). The proportion of staff in SMEs in the West Midlands lacking proficiency was 7%: a similar proportion to the rest of England. The incidence of skills gaps and the proportion of staff not fully proficient increases with size of employer – and tends to be slightly higher in the West Midlands than in the rest of England across size categories. (The fact that 20% of SME employers report a skills gap compared with 63% of large employers is a function of the fact that the smaller the employer the fewer the total number of staff, and so the smaller the likelihood that there would be a skills gap.)

Disaggregation of SMEs in the West Midlands by sector (see Table A.3 in Annex A) shows that the share of employers reporting skills gaps is similar to, or above, the all industry average of 20% in Electricity, gas and water supply (albeit there are only a small number of employers in this sector) (56%), Public administration (28%), Hotels and restaurants (27%), Education (26%), Health and social work (26%), Financial intermediation (23%), Manufacturing (20%) and Personal household goods (20%). The share of staff reported as having skills gaps amongst SMEs in the West Midlands was at least as high or higher than the all industry average of just over 7 per cent in Electricity, gas and water supply (14%), Hotels and restaurants (12%), Personal household goods (8%), Manufacturing (7%), Construction (7%) and Real estate, renting and business activities (7%). In absolute volume terms the number of skills gaps is greatest in Personal household goods, Real estate, renting and business activities, Manufacturing and Hotels and restaurants sectors. In all of these sectors the share of staff reported as having a skills gap is greater amongst West Midlands SMEs than across the rest of England. Additionally, the share of staff reported as having a skills gap is greater in West Midlands SMEs than in SMEs in the rest of England for Electricity, gas and water supply, Public administration, Education and Other community, social and personal service activities, private households, organisations and bodies.

According to NESS09 easily the single most important reason given by SME establishments in the West Midlands for skills deficiencies amongst existing staff was that staff lacked experience or were recently recruited. The next most important reasons cited were: (i) that staff lacked motivation; (ii) a failure to train and develop staff; and (iii) the inability of workforce to keep up with change.

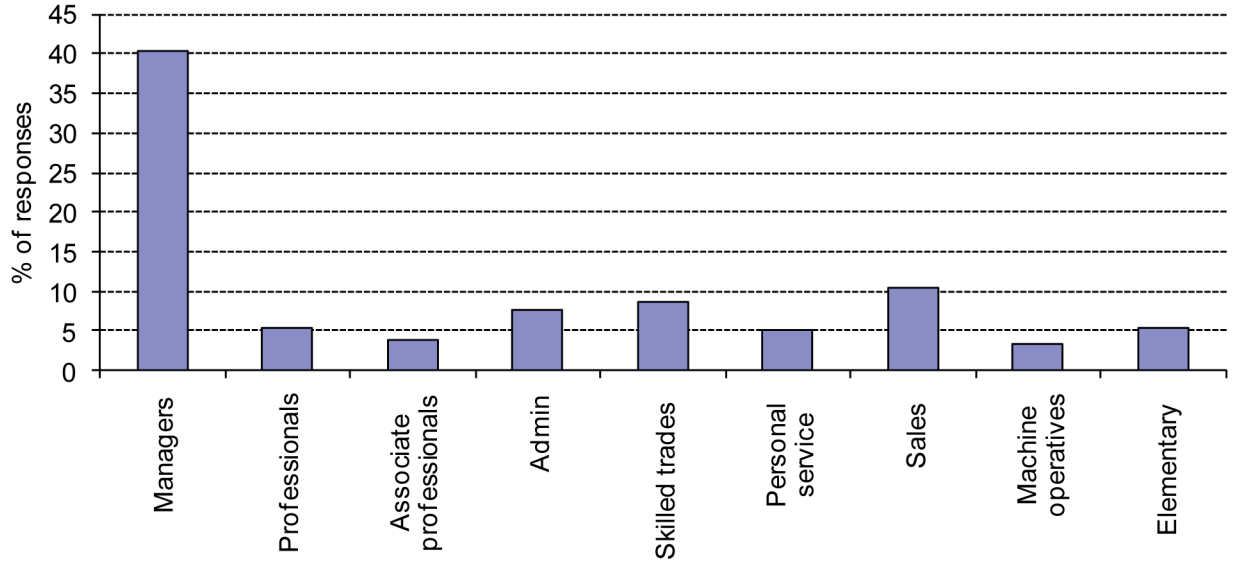
The most pressing skills need identified by SMEs in the West Midlands was for technical, practical or job-specific skills. Easily the single most important set of skills found difficult to obtain from applicants was technical, practical or job-specific skills. The next most difficult to obtain were written communication skills; customer handling skills; oral communication skills and team working skills.

Turning to *future skills needs*, the most commonly cited reasons given by SMEs in the West Midlands in NESS09 for expecting staff to need new skills or knowledge were (in descending order of importance: (i) new legislative or regulatory requirements; (ii) the development of new products or services; (iii) the introduction of new technologies or equipment; (iv) the introduction of new working practices; and (v) increased competitive pressure. This highlights the important role of legislative change in driving skills requirements, but also the role of enhanced product/service specification in increasing demand for skills (as outlined in section 1).

NESS09 included questions on *upskilling* (as highlighted in section 1). Employers anticipating the need for staff to acquire new skills or knowledge in the next 12 months were asked which single occupation would be most affected. Figure 2.4 shows that easily the most common occupation cited was *managerial staff*, with 40% of SME employers in

the West Midlands seeing a need for upskilling of at least one individual from their managerial staff. It should be noted here that nearly all SMEs will have a manager, whereas some SMEs will not employ staff in some of the occupational groups identified. On this basis alone, the need for upskilling of managers might be expected to be high in small establishments. Nevertheless, the NESS09 responses (from the most senior person at the site with responsibility for human resource and personnel issues) point to a recognised need for managerial skills. The next most likely occupations needing to upskill were Sales and customer services staff and Skilled trades occupations (identified by 11% and 9% of SMEs in the West Midlands, respectively). This picture of upskilling needs by occupation for SMEs in the West Midlands is similar to that for SMEs in the rest of England.

Figure 2.4. **Single occupation most affected by the need to upskill over the next 12 months – SMEs in the West Midlands**



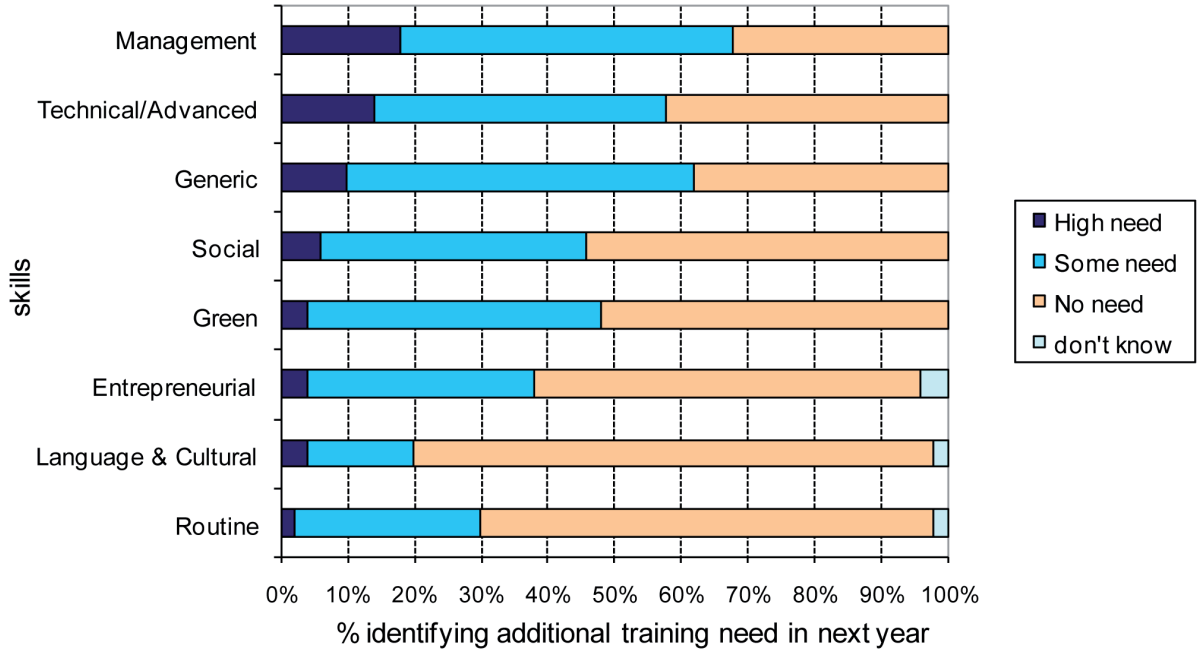
Base: All employers needing to upskill over the next 12 months, NESS09.

In terms of s*kills that need improving* easily the single most important set of skills identified by SME establishments in the West Midlands in NESS09 was technical, practical or job-specific skills*:* The next most commonly cited skills that need improving were (in descending order): (i) customer handling skills; (ii) problem solving skills; (iii) team working skills; (iv) oral communication skills; (v) management skills; and (vi) general IT skills. Results from a question in the OECD survey[9] on additional training needed in the business over the next 12 months reinforce the importance of technical, management and generic skill needs (see Figure 2.5.):

- 18% of respondents identified a high need and 50% identified some need for *management skills*
- 14% of respondents identified a high need and 44% identified some need for *technical/advanced skills*;
- 10% identified a high need and 52% identified some need for *generic skills.*

However, a substantial number of respondents also identified "no need" for such skills. The lowest levels of skills needs identified were in language and cultural skills (78% of respondents identified "no need") and *routine skills* (68% of respondents identified no need).

Figure 2.5. **Whether businesses feel additional training is needed in next 12 months**



Source: OECD TSME Survey, n = 50.

In terms of formal measures of *employer engagement with training*, NESS09 data reveals that SMEs in the West Midlands were slightly more likely than those in the rest of England to have a business plan, a training plan, a training budget and formal assessment of skills gaps and of training and development received. In summary:

- 58% of establishments had a business plan
- 45% of establishments had a training plan
- 35% of establishments had a training budget
- 60% of establishments formally assessed whether individual employees had gaps in their skills
- 46% of establishments formally assessed the performance of employees who had received training and development

Of respondents to the OECD survey, around half (*i.e.* a slightly higher proportion than of NESS09 respondents) indicated that they had a formal training and career plan for employees and an annual budget for training expenditure. However, according to NESS09 at 4.4 days per employee (and 8.5 days per employee trained), average days of training per employee in SMEs in the West Midlands were slightly lower than the SME average in the rest of England.

According to NESS09 training provision amongst SMEs in the West Midlands is similar to the national picture. In aggregate just over three-tenths provide no training although the proportion rises to four-tenths amongst micro establishments (see Figure 2.6).[10] The balance between on-the-job and off-the-job training is slightly more in favour of the former than the latter amongst SME employer in the West Midlands compared with nationally. In summary:

- 31% of SME employers in the West Midlands provide no training, compared with 32% in the rest of England.

- 17% of SME employers in the West Midlands provide on-the-job training only; this is the same proportion as in the rest of England.
- 39% of SME employers in the West Midlands train both on- and off-the-job; this is a slightly higher proportion than in the rest of England.
- 11% of SME employers in the West Midlands train off-the-job only; this is a slightly lower proportion than in the rest of England.
- The proportion of employers providing no training decreases with establishment size.
- The proportion of employers training both on-the-job and off-the-job increases with establishment size.

Figure 2.6. **Proportion of employers providing training on- and/or off-the-job in the last 12 months by employment size – West Midlands**

Base: All employers, NESS09.

Table 2.7. provides information on training in Manufacturing – a sector that is more important in the West Midlands than it is nationally. The proportion of SME employers in the Manufacturing sector in the West Midlands not providing training is higher (at 39%) than across all sectors (31%). However, this proportion is somewhat lower than that for the rest of England. Likewise, at 32% the proportion of SMEs in the West Midlands providing both on- and off-the-job training is slightly higher than in the rest of England. Across all employer size categories in Manufacturing in the West Midlands the proportion of employers providing on-the-job training only is higher than in the rest of England, while the share providing off-the-job training only is lower than in the rest of England.

Turning to the *impact of recession on training and development activity*, NESS09 data show that the majority of SME employers in the West Midlands (between three-quarters

and four-fifths) reported that the recession had not impacted on the amount or type of training and development they provided in terms of:

- the spend on training per member of staff;
- the proportion of staff provided with training;
- the amount of training delivered by external providers;
- the emphasis placed on informal learning; and
- the amount of training provided that leads to nationally recognised qualifications.

Table 2.7. **Proportion of SME employers in Manufacturing providing training on- and/or off-the-job in the last 12 months by employment size – the West Midlands in context**

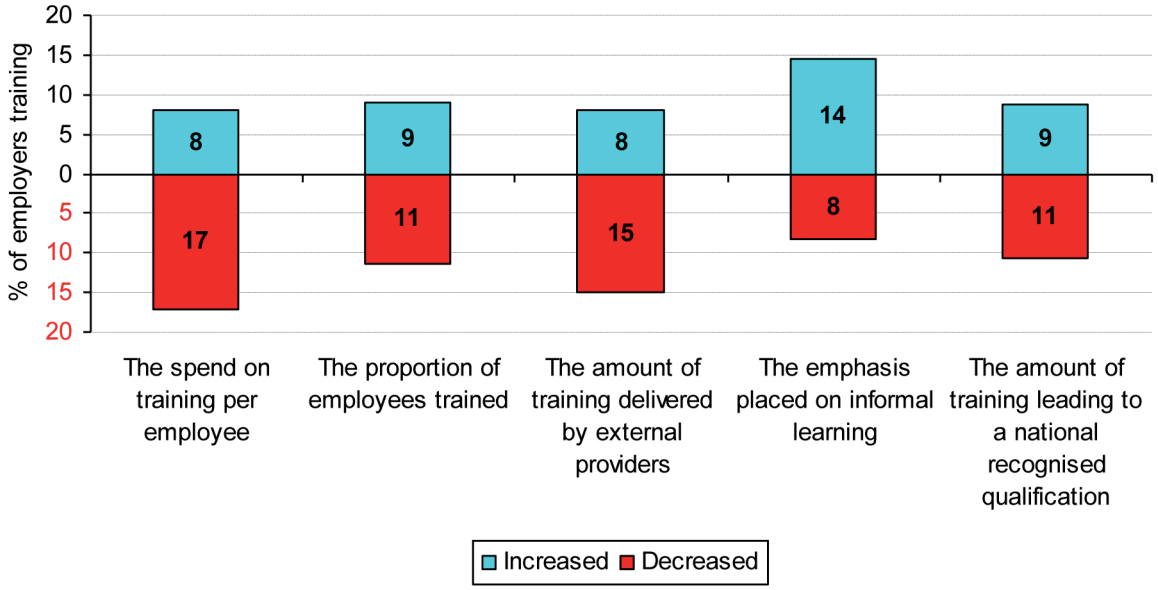
Percentage of SME employers in Manufacturing providing:	Micro <10	Small 10-49	Medium 50-250	SMEs <250	Large 250+
WEST MIDLANDS					
No training	50	21	7	39	0
Training on-the-job only	22	19	13	20	6
Training both on- and off-the-job	19	50	74	32	94
Training off-the-job only	9	10	6	9	0
REST OF ENGLAND					
No training	52	22	7	41	2
Training on-the-job only	18	17	8	17	3
Training both on- and off-the-job	19	47	76	30	92
Training off-the-job only	12	14	8	12	2
ENGLAND					
No training	52	22	7	41	2
Training on-the-job only	18	17	9	17	4
Training both on- and off-the-job	19	47	76	30	93
Training off-the-job only	11	14	8	12	2

Base: Employers in the West Midlands, NESS09.

However, amongst SMEs in the West Midlands that had trained staff in the last 12 months, a larger proportion spent less on training or train less as a result of recession, than reported that they spent or trained more. The exception is that more SMEs (14%) reported a greater emphasis placed on *informal learning* than reported less emphasis (8%) – see Figure 2.7 (in keeping with the greater emphasis on informal training outlined in section 1). Reductions were most pronounced for spend on training per employee (17%) and the amount of training delivered by external providers (8%). This profile of responses is similar to that for SMEs in the rest of England, albeit that the increase in emphasis placed on informal learning was slightly less pronounced for SMEs in the West Midlands than in the rest of England, while the reductions in the spend on training per employee and the amount of training delivered by external providers were somewhat less marked for SMEs in the West Midlands than for those elsewhere.

Disaggregation of the NESS09 for SMEs in the West Midlands by sector shows that the general pattern of variation in patterns of training and development activity shown in Figure 2.7. was apparent across different sectors. It also reveals that the negative impact of recession on training was most pronounced for the Construction and Manufacturing sectors: 24% of SMEs in these sectors reported a reduction in spend on training per employee and 22% reported a reduction in the amount of training delivered by external providers. For all other categories of training and development, reductions in activity exceeded the all-sector West Midlands average. In Manufacturing the increase in emphasis placed on informal learning exceeded the all-sector average at nearly 18%. This was one of the biggest increases across all sectors. Health and social care presented the most positive picture of training and development activities being maintained despite the impact of recession; it displayed smaller reductions and more marked increases in all categories.

Figure 2.7. **Impact of recession on training and development activity – SMEs in the West Midlands**



Base: All SMEs in the West Midlands providing training in the last 12 months, NESS09.

The OECD survey also collected information on the impact of recession on training over the 12 months prior to the survey.[11] The key features are as follows:

- 52% of respondents reported that the proportion of employees provided with training had remained the same, and 28% reported an increase, 2% reported a decrease (the remained are coded as not applicable);
- 54% of respondents indicated that the expenditure on training per employee had remained the same, 30% reported an increase (the remainder did not know or were coded as not applicable);
- 56% reported that the emphasis placed on informal learning instead of formal learning had stayed the same, 28% reported an increase; (the remainder are coded as don't know or not applicable).

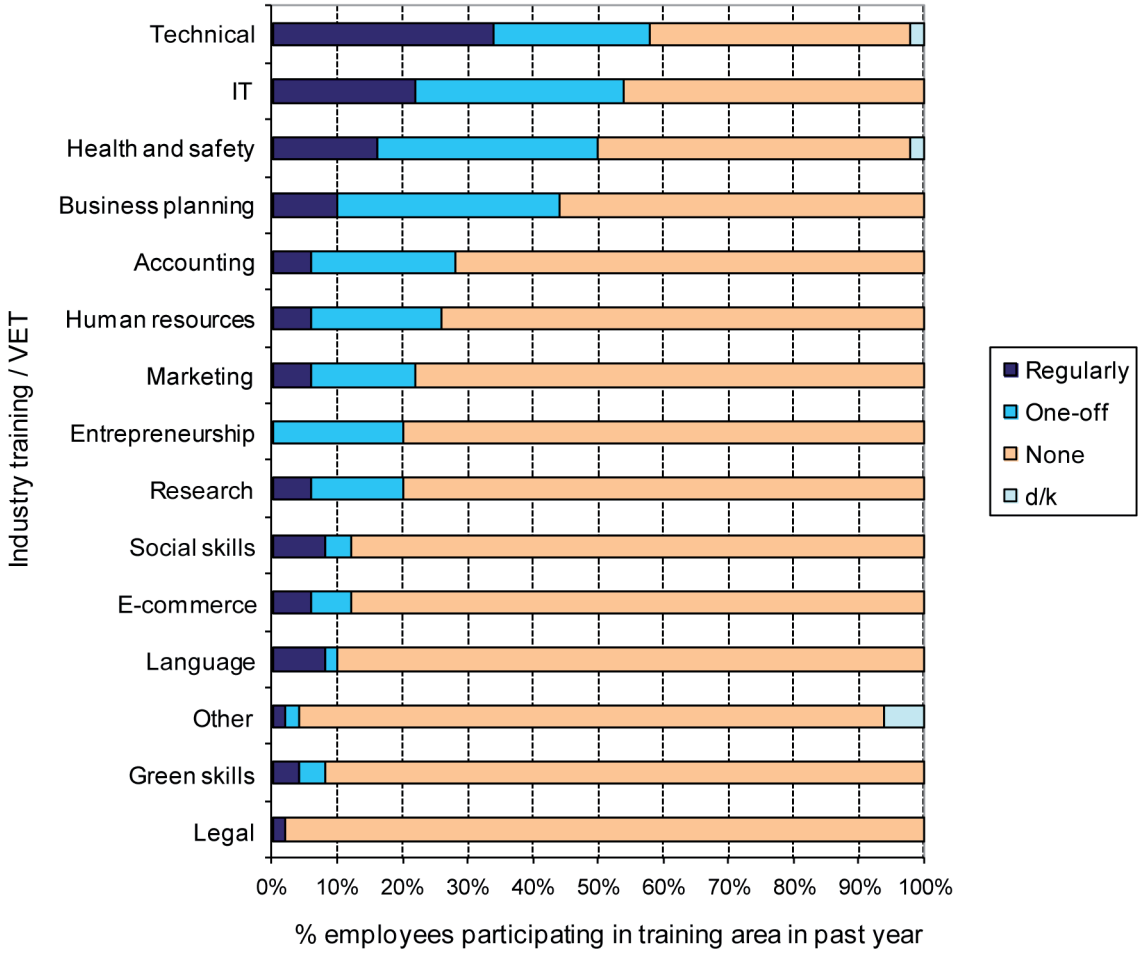
So, as for NESS09, the general picture emerging is that the amount and nature of training are staying the same. The greater share of respondents reporting an increase rather than

a decrease in training (*i.e.* the opposite of the picture from NESS09) could be a function of the timing of the surveys, the sectoral composition of respondents, or, perhaps more likely, it could be surmised that the respondents to the OECD self-completion survey are likely to be drawn from those with an interest in/commitment to training.) The greater emphasis placed on informal learning is common to both surveys. The OECD survey also points to the amount of emphasis being placed upon formal qualifications being maintained or increasing slightly:

- 60% reported that the proportion of formal training delivered by external providers had stayed the same, 14% reported an increase, 6% reported a decrease (the remainder did not know or are coded as not applicable);
- 54% reported that the amount of formal training leading to recognised qualifications that the business supports had stayed the same, 18% reported an increase and 4% reported a decrease; (the remainder did not know or are coded as not applicable).

According to the OECD survey, the types of industry/VET activities training employees were most likely to participate in over the last 12 months were *technical skills, IT* and *health and safety* – with either regular or one-off participation in such training reported by at least 50% of respondents (see Figure 2.8). The next greatest incidence of training activity

Figure 2.8. **Whether any employees participated in industry training VET activities in last 12 months**



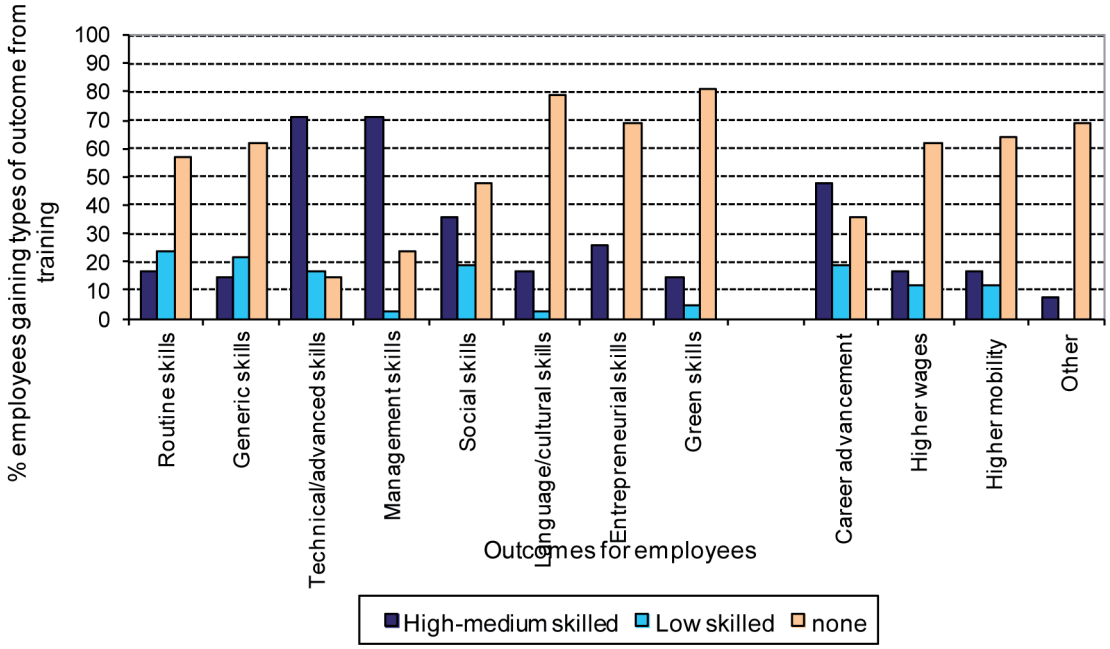
Source: OECD TSME Survey, n = 50.

was in *business planning* (a category including management training). Only a small proportion of the health and safety training was reported to be legally required. A mix of types of provision was reported – including on-the-job, off-the-job, in-house, external, accredited, formal, etc.

In the OECD survey respondents were asked about *outcomes from training accruing to employees*, whether these be various "improved skills" or "other outcomes" from training. They were asked to differentiate between high-medium skilled employees on the one hand and low skilled employees on the other. The main outcomes identified were:

- technical/advanced (problem-solving) skills for high-medium skilled employees; and
- management skills for high-medium skilled employees (see Figure 2.9).

Figure 2.9. **Employee outcomes from training**

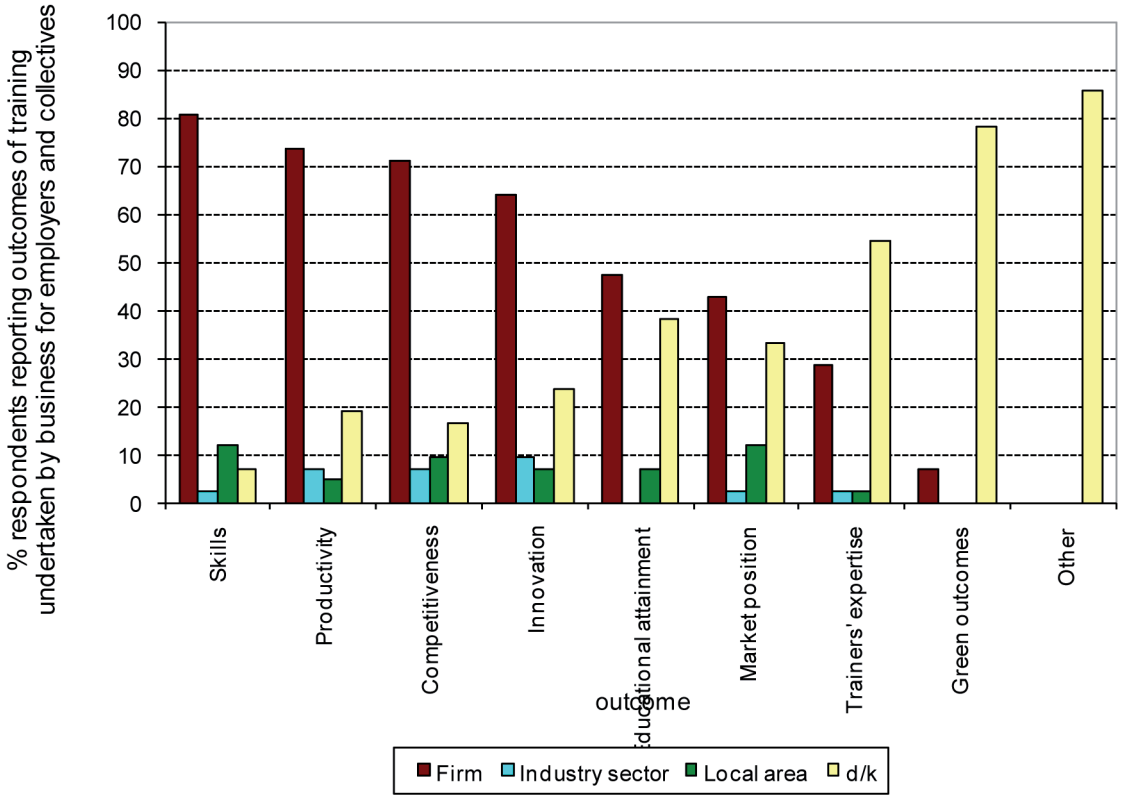


Source: OECD TSME Survey, n = 42.

In general, outcomes from training accruing to employees were identified as greater for high-medium skilled employees than for low skilled employees. However, low-skilled employees were perceived as being more likely to accrue greater outcomes from *routine skills* and *generic skills* training than high-medium skilled employees. Aside from improved skills, high-medium skilled employees were perceived as gaining career advancement outcomes from training. Non skills related outcomes from training were perceived to be less marked for low-skilled employees than for their high-medium-skilled counterparts.

Additionally, OECD survey respondents were asked whether they thought that the *training* undertaken by their business had accrued to various *outcomes for the firm, the industry sector and/or the local area*. Overwhelmingly, any benefits of training were seen as accruing to the firm (identified by at least two-thirds of respondents) – through enhanced skills, productivity, competitiveness and/or innovation, rather than to the

Figure 2.10. **Perceived outcomes of training undertaken by the business for (a) the firm, (b) the industry sector, and (c) the local area**



Source: OECD TSME Survey, n = 42.

industry sector or the local area. Of the types of outcomes of training, those most likely to benefit the industry sector were innovation, followed by productivity and competitiveness. Outcomes seen as most likely to benefit the local area were education and market position, followed by skills and competitiveness. (It was clear that some respondents found difficulty in indicating whether outcomes accrued to the industry sector or the local area – as indicated by the proportion of "don't knows"). At least in part, the high proportion of "don't knows" could be a function of a lack of embeddedness in sectoral and local networks.

As indicated in section 1, the training activities that employers have undertaken need not represent all that they would have wished to carry out. Approximately half of respondents to the OECD survey would have liked to carry out training activity in the last 12 months but did not do so. The key reasons for not doing so were: (i) *costs* – identified by more than four out of five respondents; (ii) *lack of public funding; and* (iii) the *impossibility of interrupting production/lack of time.* After these cost and logistical reasons, the next most important reason identified was that it was *too difficult to access training* (*by location, or availability at a suitable time).* These reasons impacted on training for both high-medium skilled and low-skilled employees, but particularly on the former group.

While some employers do undertake training activities and would like to undertake more, as noted in section 1, other employers choose not to undertake training (as outlined in section 1). NESS09 data shows that the main reason cited by SMEs in the West Midlands for not having provided training in the past 12 months was that there was *no need* (identified by 64% of respondents) – mainly because the workforce was fully proficient (59% of

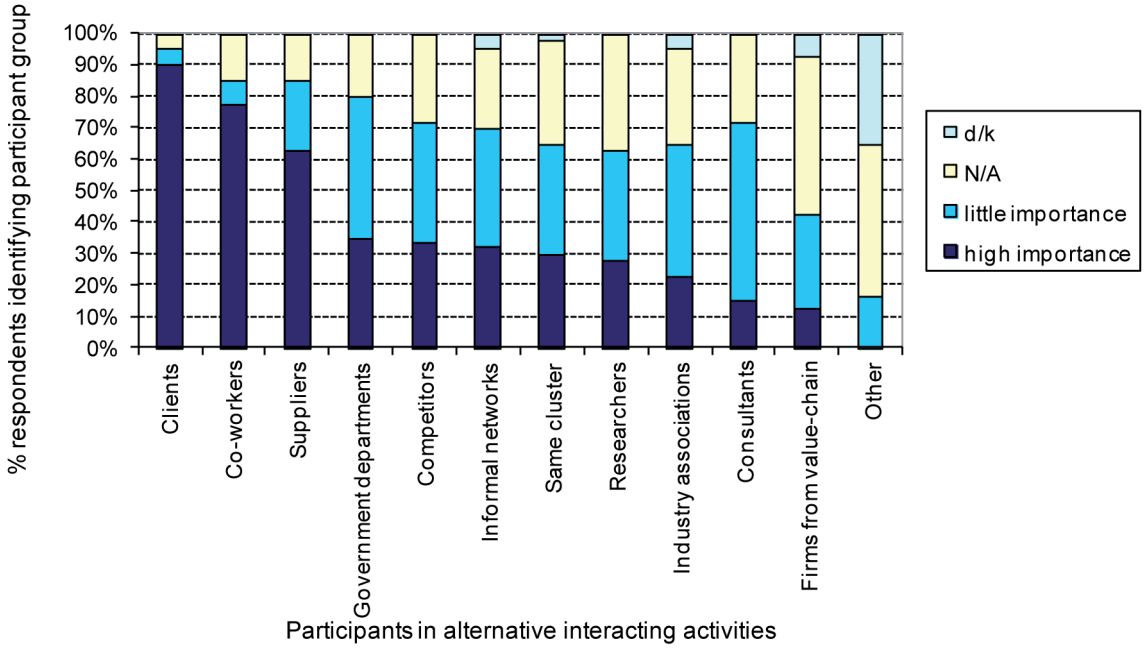
respondents identified this reason and by sector this ranged from 69% in Construction to 41% in Health and social work). A range of other reasons were also cited – concerning: – time issues (9% of respondents), expense (8% of respondents), labour supply issues (8% of respondents), economic climate (1% of respondents), and – other issues (10% of respondents); (for full details see Table A.4 in Annex A).

Table A.4 in Annex A also provides information for West Midlands SMEs in two contrasting sectors: Manufacturing and Hotels and restaurants. Easily the single most important reason for not funding or arranging training is that all staff is fully proficient (see also the discussion in 1.2.3): 62% of respondents from SMEs in Manufacturing cited this reason, compared with 53% from Hotels and restaurants. Issues relating to expense were more commonly cited by respondents from Manufacturing (13%) compared with those from Hotels and restaurants (6%), while those in the Hotels and restaurants sector were most likely to identify supply (14%) or other (19% reasons). However, it is worth re-emphasising that the majority of SMEs saw no need to engage in training.

As well as training activities, respondents to the OECD survey were asked to identify *the importance of various groups in contributing to "alternative interacting activities"*[12] contributing to increased skills, knowledge and competencies of their business during the last 12 months. Three groups were identified as being of particular importance (see Figure 2.11):

- *clients* – identified by 90% of respondents as being of "high importance";
- *co-workers* – identified by 78% of respondents as being of "high importance"; and
- *suppliers* – identified by 63% of respondents as being of "high importance".

Figure 2.11. **The importance of various groups in alternative interacting activities leading to increased skills, knowledge and competencies in the past 12 months**



Source: OECD TSME Survey, n = 40.

This confirms the importance of the immediate "supply chain" as being of importance in such activities; so indicating the potential of sectoral approaches to enhancing training and skills development amongst SMEs. Other participants playing a role in such activities included (in decreasing order of "high importance"): government departments, competitors, informal networks, firms from the same industry cluster, university researchers, industry associations and business consultants.

For employees, the main perceived *outcomes* from participating in such activities were seen to be: (i) management skills (for high-medium skilled employees); and (ii) technical/advanced (problem-solving) skills for high-medium skilled employees. This pattern of outcomes is very similar to that set out in Figure 2.9 for employee outcomes from training. The next most frequently perceived outcomes identified for employees were social skills (team working), entrepreneurial skills, and career progression. For businesses, the sector and the local area, the main perceived outcomes from participating in such activities *accrued to the firm* – in the fields of *skills*, *productivity* and *innovation*. (This pattern is similar to that in Figure 2.10.)

Respondents to the OECD survey were asked about the motivation for their business undertaking skills development activities – distinguishing between industry training/VET courses and other activities that develop skills and competencies. Three categories of motivation were identified: (i) public incentives/government programmes; (ii) private incentives (including facilitation/promotion/information on training); and (iii) in-house incentives. Of these, *in-house incentives* emerged as the most important, notably new product development, service requirements, the need to increase employee skills levels, and production needs. This suggests that policies linked to raising demand for skills through a focus on enhancing product/service specification are likely to align with employer motivations. Public incentives/Government programmes (whether at supranational, national, regional or local level) and private incentives (including facilitation/promotion/information on training) were not considered applicable by the majority of respondents. However, business networks and local networks were identified by a substantial minority as playing a role in motivating other activities, while industry associations were identified as playing a role in VET and other activities. This suggests that there is a role for "collective measures" (as outlined in section 1) and also that sectoral approaches are likely to find some favour.

NOTES

1. Note that these projections do not take full account of the recession. However, they do provide an indication of the medium-term direction of change.
2. Note that the claimant rate (*i.e.* the number of people claiming Job Seekers Allowance as a percentage of the relevant age group) is lower that the unemployment rate across all regions.
3. It should be noted that the number of staff can remain the same while they are engaged in short-time working ([but no information is collected in NESS09 on this).
4. This contrasts with the findings from the OECD survey of SMEs in the West Midlands the number of employers reporting an increase in the numbers employed (24%) exceeded the numbers reporting a decrease (16%); (58% reported that the number of people employed had remained the same).

5. Discounting the smallest sector (Mining & Quarrying).

6. Note that these figures are on a small base and so should be treated with caution.

7. The Train to Gain measures included in the Skills Performance Indicator Framework include employers engaged, learners engaged, the ratio of leads to engagements, the percentage of leads that are hard to reach, learner achievements and satisfaction with brokerage.

8. The ten indicators relate to: (1) employer investment in training and upskilling, (2) adoption of workforce development tools, (3) incidence of skill gaps, (4) incidence of skill shortages, (5) employees in the private sector with higher level skills, (6) qualification attainment amongst young people, (7) qualification attainment amongst adults, (8) graduate retention, (9) participation in job related training, (10) youth participation in education or work based learning.

9. The OECD survey was carried out online and was live from late 2009 to early 2010. SeePart 3 for details on methodology.

10. This is in accordance with the general trend outlined in section 1 for the proportion of employers providing no training to decrease with establishment size.

11. Note that the OECD survey was in the field approximately 12 months later than NESS09. Respondents to the OECD survey were drawn from NESS09 respondents.

12. The survey utilised the concept of Knowledge Intensive Service Activities (KISA), which can be business planning, research and development (R&D), management, marketing, finance, human resources, engineering and other professional and technical services. For a more detailed description and discussion of KISA see Chapter 3.

3. THE APPROACH OF SMES TO TRAINING AND SKILLS DEVELOPMENT

3.1. Introduction

This chapter presents the results of the analysis of SMEs participation in training and skills development in the West Midlands. The study uses a triangular methodology with an online survey,[1] case study interviews,[2] and the analysis of the skills and training ecosystem through a workshop held at the University of Warwick on 11th May 2010.[3] A 29-question survey* (TSME survey) was designed and sent by the OECD/UK Commission to SMEs in the West Midlands. A novel feature of the project is the exploration of the usage and impact of formal learning (VET) versus informal learning (KISA). Both the survey and the interview schedules explored these issues and this is reflected in the discussion of the results in this chapter.

In 2007, there were a total of 2 100 370 companies registered in the UK, including 171 405 firms in the West Midlands region (Wetherill, 2010). It is estimated that 99.6% of the UK organisations are SMEs. The majority (87.9%) are micro firms (OECD, 2010). The questionnaire was sent to 1 524 SMEs in the West Midlands, obtaining a 3% (52 SMEs) response rate.

The results are presented in three substantive parts: *Outcomes of the TSME survey*, *Case studies* and the *Workshop*. A final part identifies key points emerging from the OECD survey, the case studies and the workshop and integrates them into a set of challenges for training and skills development.

3.1.1. Structure of the results

The presentation of the findings from the TSME survey and case studies is divided into four main sections: "Background", "Innovation/Invention and Knowledge Intensive Services", "Policies and programmes" and "Recession".

"Background": This section defines the nationality, age, size and location of the company. Also, it indicates the age and working experience of interviewees. Then, it shows what sectors companies operate in at national, regional or international levels. The interviewees also indicate the main product/services of their firms.

"Innovation/Invention and Knowledge-Intensive Services (KIS)": This section presents basic aspects of the workforce, such as age, educational level and type of job (full-time, part-time). For this study, innovation is described as the introduction of products, services or processes for first time in a new market (Porter, 1990). Meanwhile, invention is merely

* The OECD survey and sampling was decided at the outset of the international OECD project, before the UK research team got underway. The survey was the same across all participant countries with only slight adaptation to country context. An invitation with an e-link to the survey at the OECD website was sent three times within the period between 4 February and 24 May 2010. IFF (a survey organisation contracted by the UK Commission) identified the OECD survey sample from NESS09. Additionally, seven interviews were conducted by the researcher at the Warwick Manufacturing Group with top managers of five SMEs to develop the case studies between February and May 2010. The interviews were on topics covered by the OECD survey.

the creation of new products, services or processes without specific market (Adair, 2007). Companies are expected to be innovative, as this is typically one of the most difficult attributes to acquire and imitate by competitors. The reason is that innovation can be an expensive and risky process (Dicken, 1998, 2001). In the Case Studies, the Product Life Cycle (PLC) phase(s) ("new product", "maturing product" and "standardised product") of the products or services of the SMEs are considered, in order to roughly explore whether the development stage of the product affects the required skills of employees (Vernon, 1966, 1999). PLC is a simple but valid approach, as this report does not intend to present an exhaustive study on innovation. The participants in the TSME survey were asked whether their products, services or processes recently presented (radical or incremental) changes. These respondents did not specify whether these changes led to innovation (Adair, 2007). Still, the answers from the TSME survey can expose the dynamism of the surveyed SMEs to remain competitive.

In addition to this, recent literature has identified Knowledge Intensive Service Activities (KISA) as a vital element for innovation, and thus, economic growth (see also Knowledge Intensive Business Services – KIBS) (Martinez-Fernandez et al 2011; OECD, 2006; Martinez-Fernandez and Martinez-Solano, 2006; Miles, 2002). KISA are those activities that are developed by professionals and/or highly experienced experts. KISA can be business planning, research and development (R&D), management, marketing, finance, human resources, engineering and other professional and technical services. Thus, the interviewed and surveyed companies were asked whether their providers of KIS (among other services) were located internally or externally (Cooper, 2009, Chesbrough *et al*., 2006). Also, SMEs' networks that contribute to the training of labour force are explored (Trott, 2008; Tzabbar *et al*., 2008; Cooper, 2009).

Additionally, *formal and informal learning and skills development* is explored by asking participants whether their firms develop the necessary KIS and other services from formal, informal, on-the-job, off-the-job, internal or external training. Furthermore, all the analysed companies mentioned the skills and training required to make more efficient their innovative products or services. For that, they indicated whether they have in place formal and periodical skills assessments with their workers. Besides, the interviewed SMEs commented about training programmes that they provide to other organisations.

"*Policies and programmes*": In this section, companies gave their opinions about the policies and programmes that have had an effect on their training and skills development, including environmental skills enhancement.

"*Recession*": In this last part, interviewees briefly explained the impact of (2009) recession on their firms' growth.

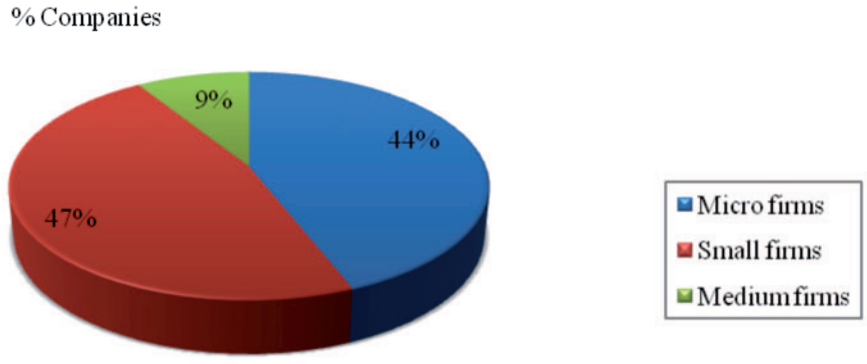
3.2. Outcomes of the TSME survey

3.2.1. Background

Company

50 respondents answered most of the questions in the TSME survey. If the number of responders changes for some questions, it is indicated throughout the following sections. All of the participating small and medium enterprises (SMEs) consider themselves British owned. Most of the SMEs have less than 50 employees (92%); of which 44% are micro enterprises with less than 10 workers and 47% are small firms with 10 to 49 employees (see Figure 3.1). Interestingly, the majority of these companies (66%) have existed for more than nine years in their market. All the firms with more than 50 members (8%) have been in the market for more than nine years. Still, 20% were recently created (they are less than five years old).

Figure 3.1. **Participating companies classified by size**



Source: OECD TSME Survey.

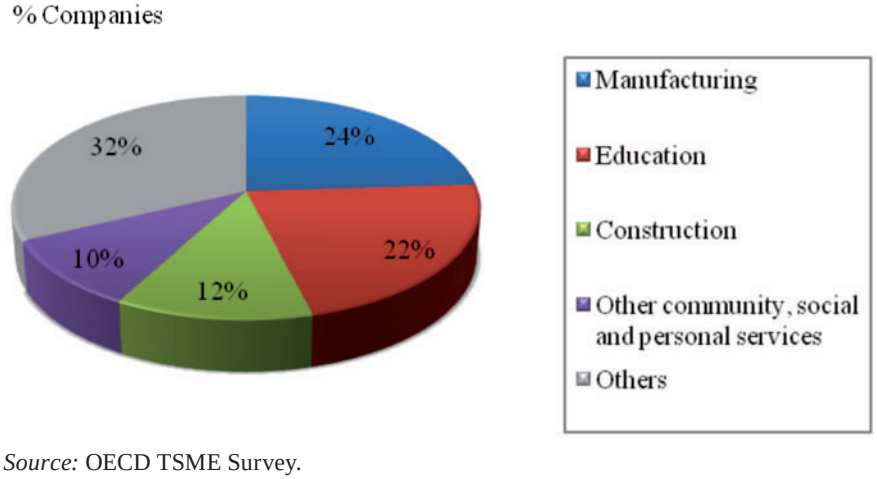
Respondents

Half of the respondents indicated that HR is all (12%) or at least a major part (38%) of their role in their firms. Therefore, they are expected to have a good knowledge of the training and skills development situation in their firms.

Market

The participating companies come principally from two sectors, manufacturing (24%), education (22%), and to a lesser extent construction (12%). A wide range of other sectors (12 out of the 17 identified in the survey) featured in responses, including "other community, social and personal service activities" (10%), "financial intermediation" (6%), "health and social work" (6%) "wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods" (6%), "electricity, gas and water supply" (4%), "public administration and defence"; "compulsory social security" (4%), "agriculture hunting and forestry" (2%), "extraterritorial organisations and bodies" (2%) and "transport, storage and communications" (2%) (see Figure 3.2).

Figure 3.2. **Participating companies classified by industrial sector**



Source: OECD TSME Survey.

The main markets of analysed SMEs were at local and national levels (both at 40%). Only 10% of them (mostly "manufacturing" firms) compete at international level. In fact, most of the responders from the manufacturing sector (64%) operated in the international market.

3.2.2. Innovation/Invention and Knowledge Intensive Services (KIS)

The surveyed SMEs reported that their businesses had been highly active in their markets during the previous 12 months. A significant number of the organisations surveyed had made changes principally to their products (58%), but also to "production processes" (44%), "management processes" (40%) and "equipment" (42%). However, only 18% indicated that some of their alterations have been related to "climate change adaptation and regulation". One third of the SMEs (33%) had performed radical changes to their products. A smaller number reported that they had made radical adjustments to their "production processes" (15%); "management processes" (20%); and "equipment" (23%). It has already been observed that SMEs are good at inventions (changes to products, services and processes), but lack adequate resource for commercialisation to turn these inventions into innovations. Therefore collaboration with other organisations is important in their commercialisation stage (Lee *et al.*, 2010).

Looking at the two industrial sectors with the largest numbers of SMEs in this survey, it appears that more than half of them in the education sector (58% of 12) consider that their products or services had suffered some radical modifications during the previous 12 months. Meanwhile, only one fifth of the companies in the manufacturing sector (18% of 11) believed that they had radically modified their products. According to the literature (Dicken, 1998, Porter, 1990), organisations participating in international markets tend to be more competitive, and thus, more innovative than those operating only at national level. As mentioned before, most of the manufacturing firms in the sample operate in the international market; meanwhile the firms in the "educational" sector are generally directed at the national market.

Some main reasons for this significant difference in responses could be that firms in different sectors have different definition of "radical changes" (as stipulated in the survey) related to innovation or mere invention. Another possible explanation is that the amount of resource needed to make radical or important modifications to a product or service may differ greatly across sectors.

Skills of the SMEs' existing workforce

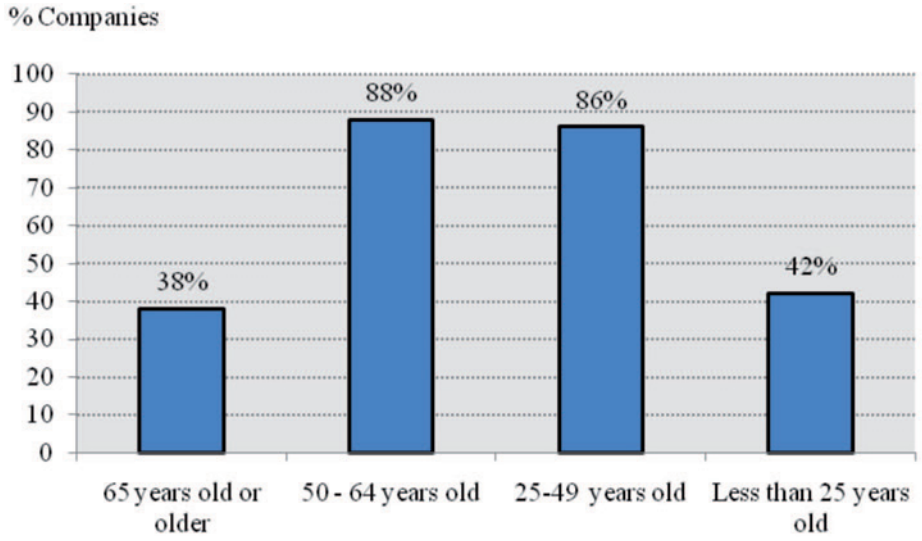
Type of employment

In total, these SMEs employ 1 261 workers, of which 1 042 (83%) are registered in full time jobs and 196 (15%) in part time employment. Only 5% of their employees are in casual jobs. Around a quarter of the SMEs (24%) reported that they have apprentices. The total number of apprentices represents less than 7% of the total number (1 261) employees working for the surveyed SMEs (one company in the "education" sector represents 3% of this figure).

Age

A significant number of the organisations surveyed reported having employees 50 to 64 years old (88%) and/or 25 to 49 years old (86%). More than two fifths (42%) of these SMEs hire new talent less than 25 years old. A similar proportion (38%) employ people who are experienced at 65 years old or older (see Figure 3.3).

Figure 3.3. **Participating companies classified by their employees' age**



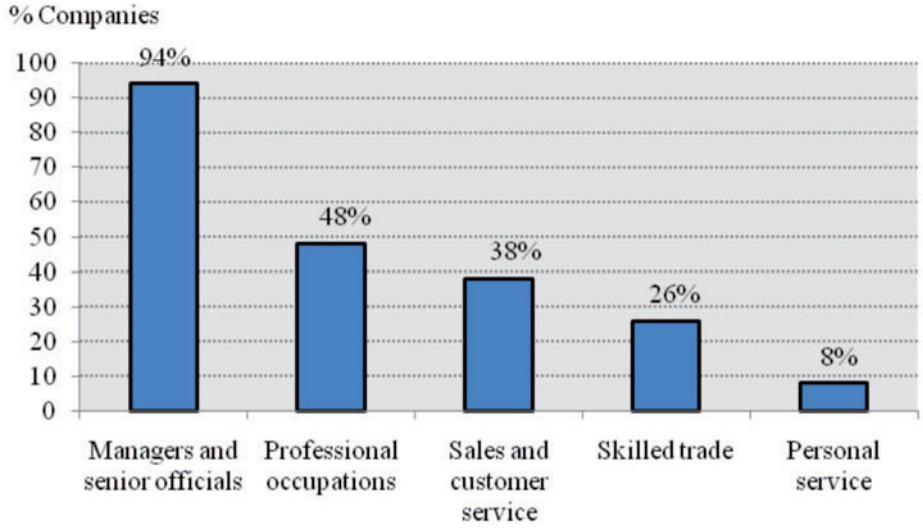
Source: OECD TSME Survey.

KIS and other services

Occupations

Most of the SMEs indicated that they employ "managers and senior officials" (94%). Also, almost half of them (48%) have employees in other "professional occupations"; slightly more than one third (38%) in "sales and customer service occupations"; and 26% in "skilled trade occupations". The rest of the eight presented occupational options were chosen by fewer organisations. The "personal service occupations" category has the least responses, with 8% of SMEs indicating that they have employed staff in this group (see Figure 3.4).

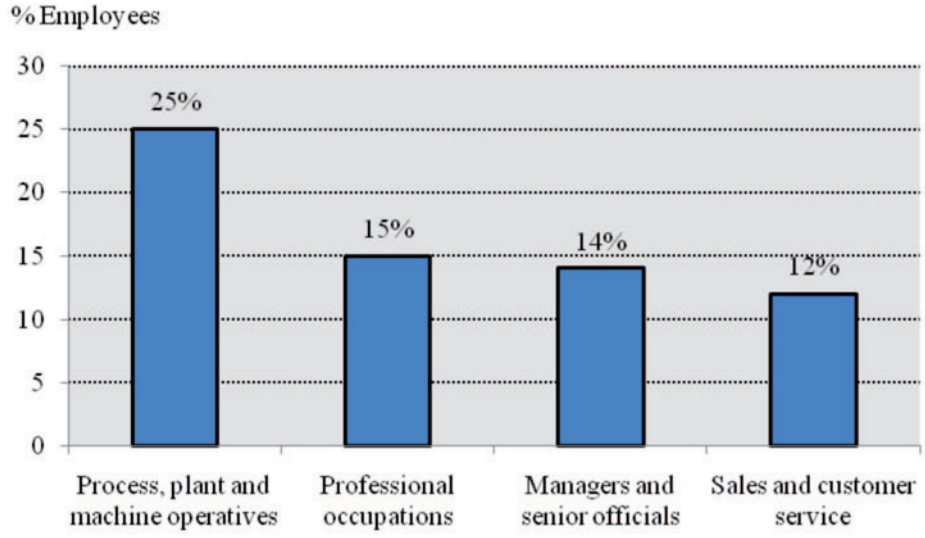
Figure 3.4. **Participating companies classified by their main employees' occupations**



Source: OECD TSME Survey.

On average, the largest numbers of total employees (1 261) per occupation were registered in the "process, plant and machine operatives" category (one quarter of them – 25%), 15% in other "professional occupations"; 14% working as "managers and senior officials"; and 12% in "sales and customer service occupations" (Figure 3.5). The largest SMEs tend to have the greatest number of staff and the widest range of occupations. Still, the largest organisations in the survey do not have expertise in "personal service occupations".

Figure 3.5. **Total number of employees (1 261) of the participating companies classified by their main occupations**



Source: OECD TSME Survey.

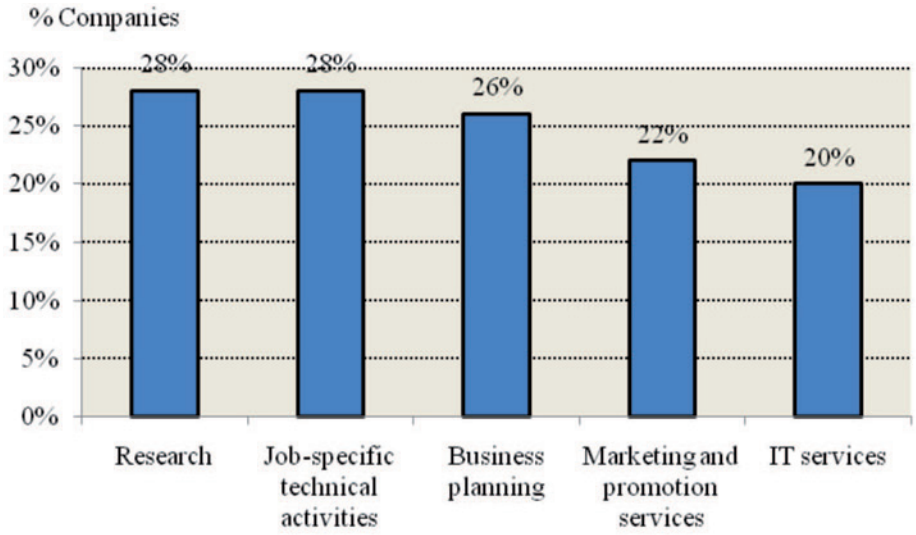
Activities: Informal learning and Skills development

Only a small number of respondents considered that some of the 15 listed activities in the questionnaire were conducted regularly by their organisations and have "significantly increased" the skills, competencies or knowledge of their employees in the previous 12 months (early 2009-early 2010). For instance activities such as "research" (28% out of 50 SMEs), "job-specific technical activities" (28%), "business planning" (26%), "marketing and promotion services" (22%) and "information and technology services" (20%) (Figure 3.6.) The rest of the options were chosen by a lower number of participants.

A larger number (but still no more than one third) of companies said that they had "significantly increased" their skills, competencies or knowledge conducting "one-off" activities related to areas such as "organisational health and safety advice" (33%), "information and technology services" (32%), "business planning" (28%), "research" (26%) and "job-specific technical activities" (24%).

However, the majority indicated that they did not conduct some of the 15 presented activities: such as "language or communication coaching" (80%), "legal advice and services" (72%), "social skills development" (72%), "green skills development" (70%), "entrepreneurship related activities" (62%),'e-commerce" (62%), "accounting and finance service (60%), "human resources services" (60%) and "marketing and promotion services" (52%). The remaining 15 proposed activities were also chosen in this respect by more than two fifths but less than half of the firms.

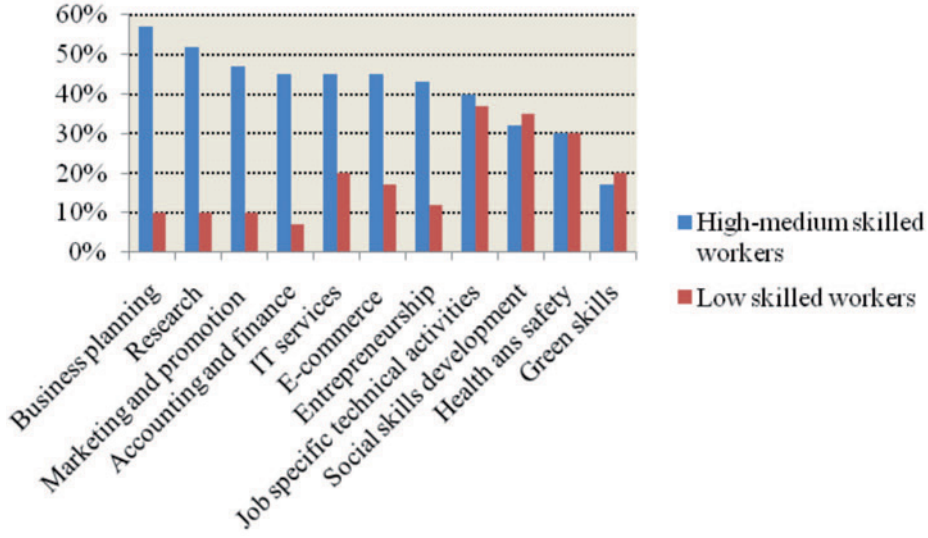
Figure 3.6. **Participating companies classified by activities conducted regularly that have significantly increased the skills of their employees (early 2009 and early 2010)**



Source: OECD TSME Survey.

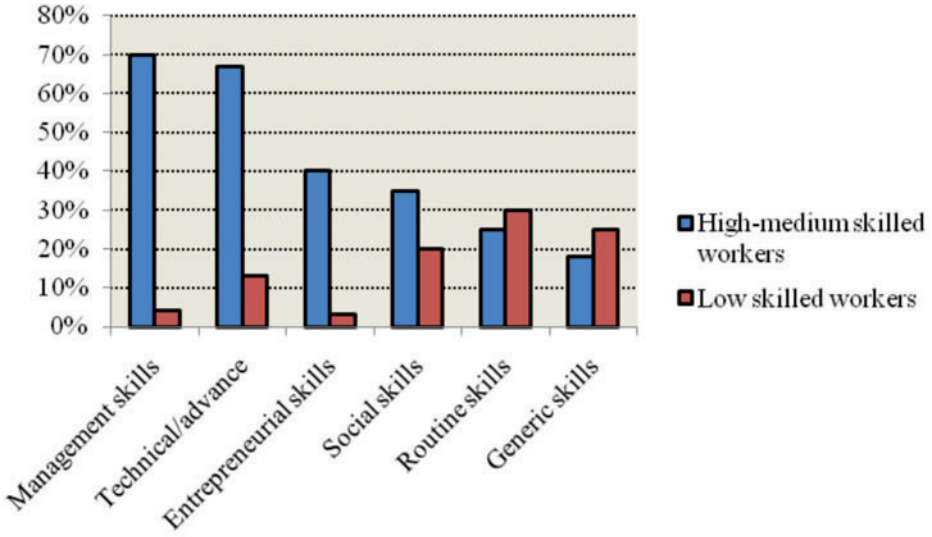
For high-medium skilled employees, more than two fifths of 40 SME respondents indicated that the following activities are better sources of learning than formal training: "business planning" (57%), "research" (52%), "marketing and promotion services" (47%), "accounting and finance services" (45%), "information and technology services" (45%), "e-commerce" (45%) and "entrepreneurship related activities" (43%). For low skilled workers, a much lower number of the firms thought that the following activities are better sources of learning than training: "job specific technical activities" (37%), "social skills development" (35%), "organisational health and safety advice" (30%), "green skills development" (20%), "information and technology" (20%), and the list continues in decreasing order (Figure 3.7).

Figure 3.7. **Participating companies classified by activities that are better sources of learning than formal training for their high-medium and low skilled workers**



Most of 40 respondents considered that the high-medium skilled employees of their companies achieved the following outcomes from participating in the above activities: "management skills" (70%) and "technical/advance" (67%) during the previous 12 months (early 2009-early 2010). A smaller but significant number considered the principal outcomes for this type of employees as gaining "entrepreneurial skills" (40%), "social skills" (35%) and even "routine skills" (25%). Fewer respondents thought that low-skilled employees got outcomes from activities mentioned above. For instance, 30% of these 40 companies consider that their low-skilled employees acquire "routine skills", 25% "generic skills" and 20% "social skills" (Figure 3.8). That could be reflected in their career advancement, according to two fifths (40%) of the firms in terms of high to medium-skilled staff and just a quarter (25%) for low-skilled staff.

Figure 3.8. **Participating companies classified by outcomes achieved from participating in the above activities (early 2009-early 2010)**



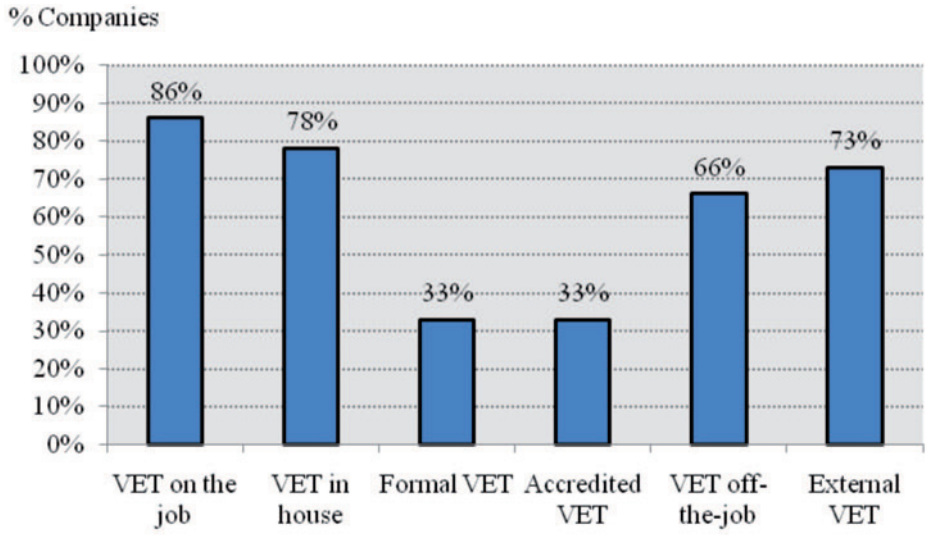
Source: OECD TSME Survey.

Training: Formal learning and skills development

Most of 42 companies indicated that the vocational training and education (VET) had been usually provided "on the job" (86%) or at least "in-house" (78%) during the previous 12 months (early 2009-early 2010). One third (33%) of these SMEs had always provided formal VET and other third (33%) claimed to have always accredited VET. Also a large number (out of 42 SMEs) of companies had usually conducted VET "off-the-job" (66%) or through "external training" (73%) during the previous 12 months (see Figure 3.9).

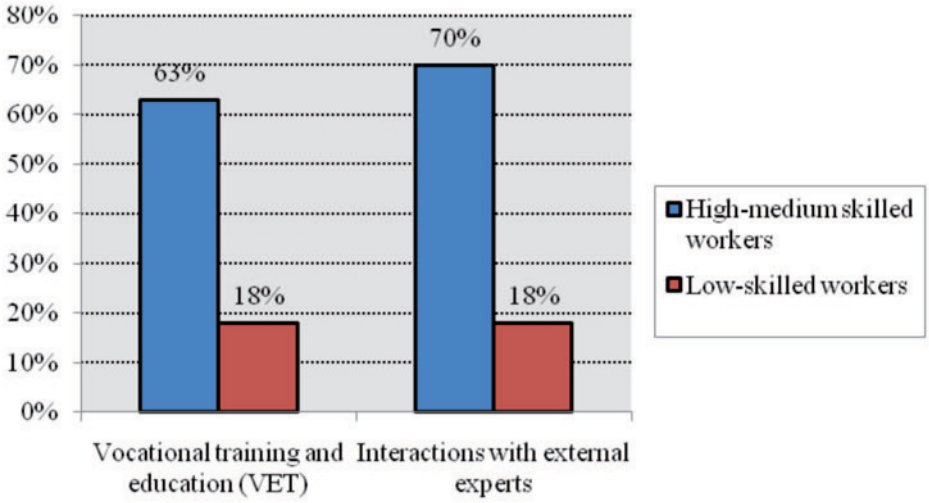
Respondents indicated that on average 66% of the staff of 42 SMEs had participated in VET between early 2009 and early 2010. Particularly, 63% of their high-medium skilled workers had obtained training, compared to just 18% of the low-skilled employees (see Figure 3.10). 42 participants also reported that more than half (56%) of the employees who had been benefited from training are 25 to 49 years old, whereas 30% were 50 to 64 years old, 12% were less than 25 years old and just 2% over 64 years old.

Figure 3.9. **Participating companies classified by their employees' vocational education and training (VET) (42 respondents)**



Source: OECD TSME Survey.

Figure 3.10. **Percentage of high-medium and low skilled employees of the participating companies that have had VET and interactions with external experts (42 and 40 respondents respectively)**

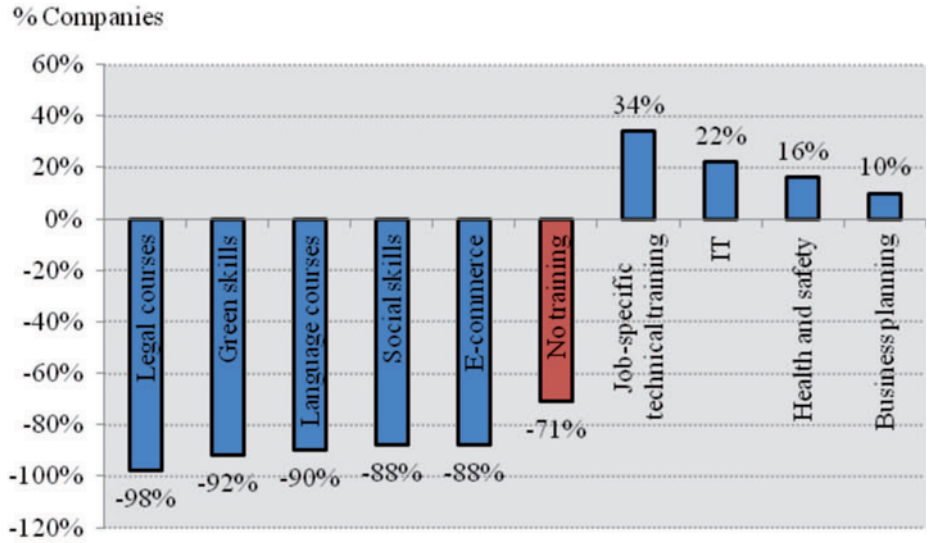


Source: OECD TSME Survey.

Most of the 42 responders chose "management skills" (71%) and "technical/advanced skills" (71%) as some of the main outcomes from training obtained by their high and medium skilled employees in the previous 12 months. Less than half (48%) of these firms indicated that training would be reflected in the career advancement of the high-medium skilled workers. However, only 24% of companies pointed out that "routine skills" and 21% of them selected "generic skills" as the main outcomes from training for the low skilled workers in their firms. Then only 19% considered that training would be reflected in the career advancement of the low skilled workers.

A significant percentage (71% average) of companies indicated that their employees did not participate in any training (on the 15 presented areas) during the past 12 months, especially not on "legal courses" (98%), "green skills development" (92%), "language courses" (90%), "social skills development" (88%) and "e-commerce" (88%). Around one third (34%) of the firms said that they had taken "job-specific technical training". Employees in 22% of the firms surveyed had taken regular training on "information and technology", 16% in "organisational health and safety" and 10% in "business planning" during the previous 12 months. The rest of the training options in the survey attracted a lower percentage of responders (see Figure 3.11).

Figure 3.11. **Participating companies classified by their employees' training (42 respondents)**



Source: OECD TSME Survey.

The majority of the responders did not make any connection between training and outcomes for industry or local area. Among the largest figures reported about this matter, just 12% of 42 enterprises considered that "increasing levels of education attainment" and "marketing positioning" had been possible outcomes from training for their local areas in the previous 12 months. Also, only 9% indicated that "increased innovation" had been an outcome from training for the industrial sector. Contrastingly, most of them considered that training had led to the following outcomes for their firms, principally: "upgraded skills levels" (81%), "increasing productivity" (74%), "increasing competitiveness" (71%), "increased innovation" (64%), "market positioning" (43%), but also"increased levels of trainers" expertise in designated areas" (29%).

External skills sourced by the SMEs

Of those surveyed, 40 SME representatives indicated that on average, 69% of their employees have interaction with other groups (including external organisations). Significantly, most (70%) of their high-medium skilled employees, but just 18% of the low skilled workers participate in these interactions.

Less than 10% of the (40) participants for this question made a connection between their interactive activities with groups (including external organisations) and outcomes

for their local area. A lower percentage (5%) thought that there was a link between those activities and outcomes for their industrial sector. In contrast, most of those 40 indicated that interactive activities with other groups have several positive outcomes for their business such as "social skills" (85%), "increased productivity" (75%), "increased innovation" (70%), "increased competitiveness" (62%) and "marketing positioning" (57%).

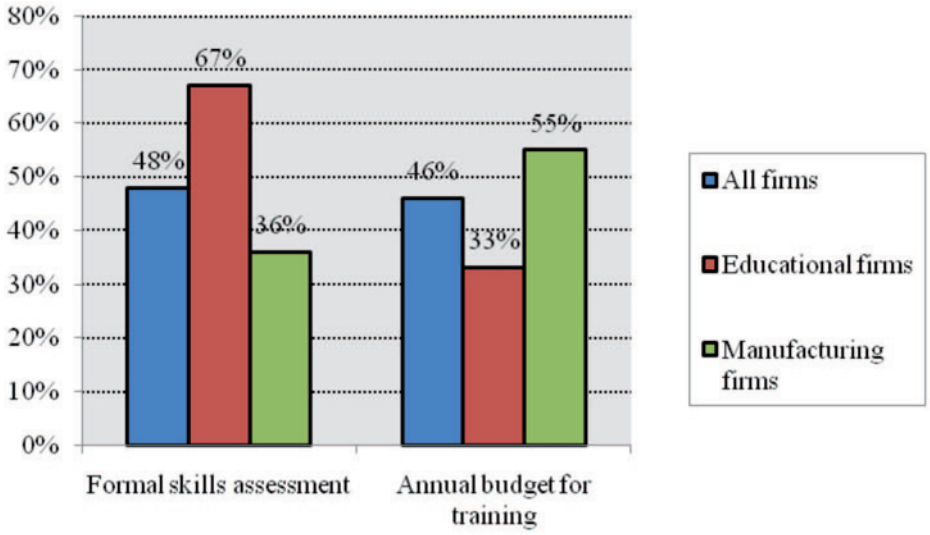
Required skills

Skills assessment

Almost half (48%) of the firms had formal training and career development plans for their employees (similar to Cedefop 2010 in OECD 2010), and nearly half (46%) claimed to have an annual budget for training expenditure (see Figure 3.12). There seems to be a relation between the size of company and the chance of it having a formal assessment of, and an annual budget for training. More than one third (36%) of the micro firms claimed to have formal training and career development plans, whereas around half (54%) of the small enterprises and over two thirds (75%) of the medium sized organisations did this.

Significantly, two thirds (67%) of the firms in the "educational" sector reported to have formal training and career development assessments for their employees, compared to just over one third (36%) of the manufacturing firms questioned. However, only one third (33%) of the "education" providers, but more than half (54.5%) of the manufacturing organisations, reported having an annual budget for training expenditure (see Figure 3.12). From 19 responders, 17 indicated than an average of 3% of the total salary budget was allocated to training expenditure, meanwhile one micro manufacturing firm said that this was 20% and one small-sized education organisation revealed a 30% allocation.

Figure 3.12. **Percentage of participating firms (explicitly educational and manufacturing firms) that have formal skills assessments and/or an annual budget for training**



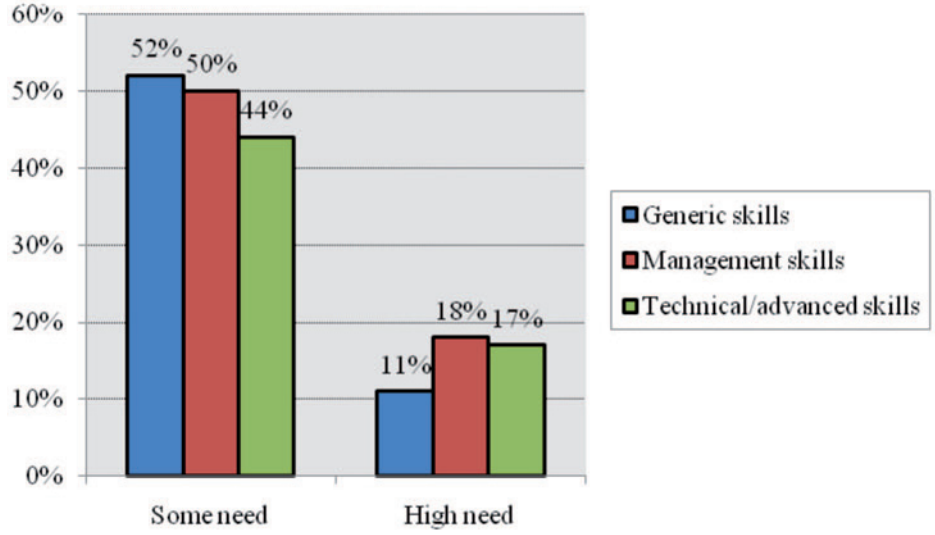
Source: OECD TSME Survey.

Training needs

When the surveyed firms were asked whether there were any training activities that they would have liked to have carried out but did not in the last 12 months, the responses were divided in two similarly strong groups, those (42%) who asserted that was the case and those who (48%) indicated that no.

A fairly high number (52% average) of companies indicated that they would not need additional training to develop skills such as "generic", "routine", "technical/advanced", "management", "social", "language and cultural", "entrepreneurial" and "green". For instance, a large percentage of the (50) companies estimated that they would not need training to develop "language and cultural" (78%), "routine" (68%) or "entrepreneurial" (58%) skills in the near future. This compared to a lower number of firms reporting a "high need" or "some need" for this training during the next 12 months. The only areas in which a greater number of companies indicated that they would have "some need" of future training rather than no training in were those "generic" (52%), "management" (50%) and "technical/advanced" (44%). An area of skills development chosen as particularly "high need" was "management" skills, with 18% of respondents selecting this option (Figure 3.13).

Figure 3.13. **Largest percentages of participating firms that indicate some need or high need for some training**



Source: OECD TSME Survey.

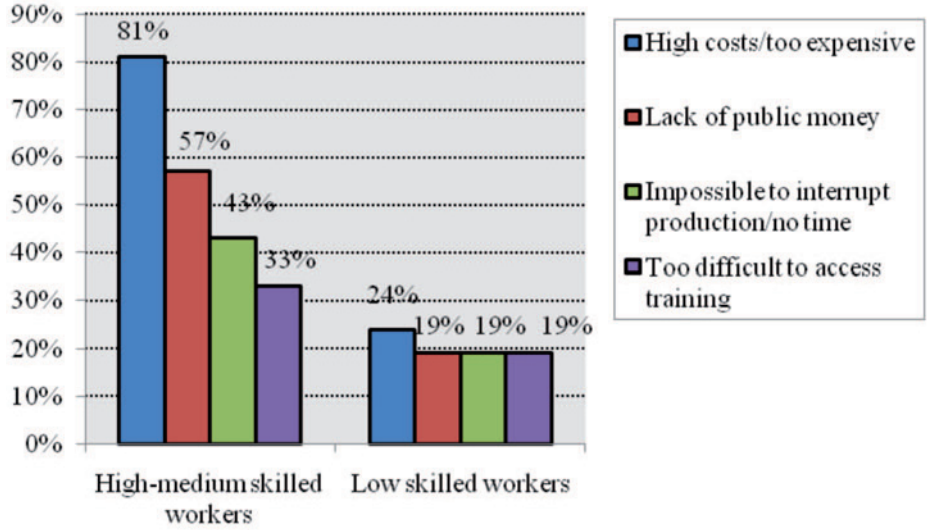
3.2.3. Policies and programmes

Training and skills development

The main barriers to training the high-medium skilled employees that the majority of the 21 responders indicated were finance related such as "high costs/too expensive" (81%), and "lack of public money" (57%). A smaller percentage also chose "impossible to interrupt production/no time (43%) that is strongly linked to the first two related to lack of resources, and in a lesser extent "too difficult to access training" (33%), "too difficult to identify suitable provider" (24%) and "people recruited with skills needed" (19%). None of the responders considered that their firms' staff unwilling to participate in training. There were fewer firms which

indicated the barriers to training low skilled workers. The largest numbers of firms for that, indicated "high cost/too expensive" (24%), "lack of public money" (19%), "impossible to interrupt production/no time" (19%) and "too difficult to access training" (19%) (see Figure 3.14).

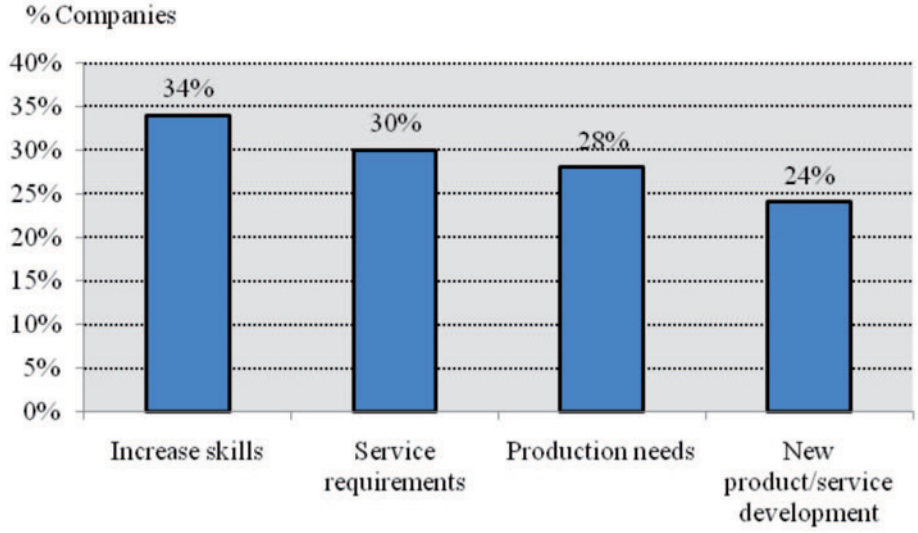
Figure 3.14. **Participating companies classified by the main barriers to training their high-medium skilled and low skilled workers**



Source: OECD TSME Survey.

A larger number of firms (40) indicated than in-house incentives rather than other private or public incentives are the main reasons for their business to undertake training and skills development activities (including vocational training and education (VET) or other activities). The largest numbers of companies were found in "need to increase employees skills level" (34%), "service requirements" (30%), "production needs" (28%) and "new product/service development" (24%) for VET (see Figure 3.15). Only one public incentive, "country

Figure 3.15. **Participating companies classified by their in-house incentives to undertake training and skills development activities**



Source: OECD TSME Survey.

regulations" is considered significant for some (28%) firms. The other options were chosen by less than 19% of the firms.

In-house incentives such as "new product/service development" (58%), "need to increase employee skills level" (54%), "service requirements" (50%) and "production needs" (48%) were the main reasons to undertake any other activities to develop skills and competencies.

Environment (green skills)

The surveyed SMEs had not undertaken significant training or skills development programmes to develop their green skills, during the 12 months previous to the survey. However, almost half of them expressed their need for green skills. Less than one-fifth (18%) of the (39) surveyed SMEs had performed incremental changes to their products, services and/or operations due to climate change, adaptation and/or regulation, in the previous 12 months. In addition, only 8% indicated that these changes were radical.

Most (92%) of the respondents specified that their SMEs' employees did not participate in any training on green skills development in the past 12 months. Only 14% and 5% of the (42) respondents pointed out green skills development as one of the outcomes from past training for high-medium skilled workers and low skilled workers respectively. A small number of the analysed (42) SMEs made a connection between training on green skills and outcomes for their firms, industry or local area (7%, 2% and 2% respectively).

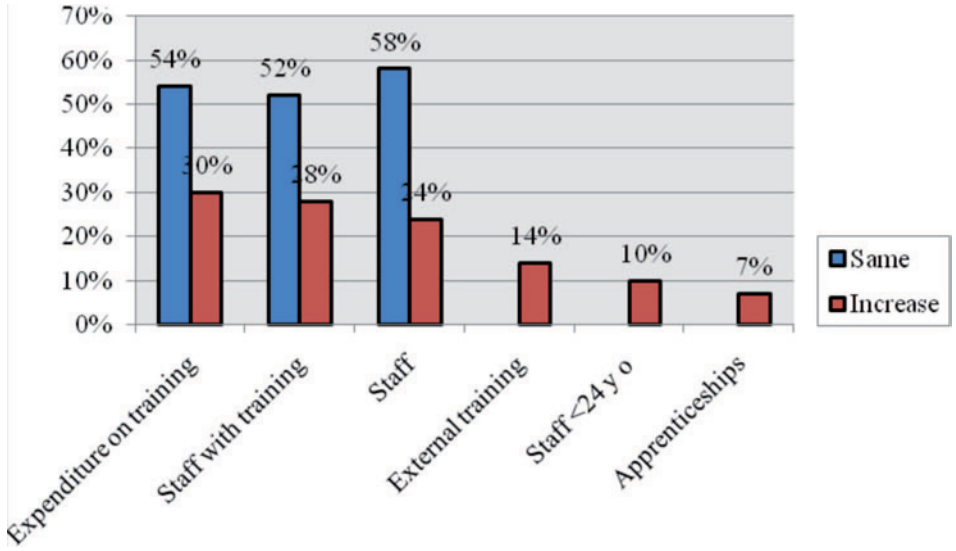
More than two-thirds (70%) of the firms pointed out that their firms' employees did not conduct any activity (apart from training) related to green skills development. Only 10% of these firms regularly conducted activities related to green skills development. Slightly less than half (44%) of the surveyed SMEs indicated that they need additional training to develop green skills, meanwhile over half (52%) claimed they do not need it. Only 4% of them emphasised a "high need" for training on green skills.

Recession (between early 2009 and early 2010)

When companies were questioned about how their workforce development had changed in the previous 12 months, they heavily tended to report that their activities had "stayed the same". The number of staff had remained the same for more than half of them (58%). A healthy quarter (24%) of them had seen an increase in personnel. Also, half (54%) of them stated that this expenditure had remained the same while almost one third (30%) had increased their expenditure on training per employee (see Figure 3.16).

It may be interpreted that the resources of these SMEs had been employed more on informal training for enhancing and maturing the skills of their current staff, rather than on gaining (completely) new skills from young people under 24 years old, apprenticeships or external training during previous 12 months. Around half (52%) of the companies had had the same proportion of employees with training, meanwhile, a good 28% had increased this proportion. Another 28% had increased the "emphasis placed on informal learning instead of formal learning" (for more than half (56%), it remained the same). However, the companies that had experienced an increase in employees under 24 years old (10%), apprenticeships (7%) or external training (14%) were much less common (see Figure 3.16).

Figure 3.16. **Participating companies classified by their changes in their workforce (early 2009-early 2010)**



Source: OECD TSME Survey.

3.2.4. Summary of the outcomes of the TSME survey

Background

- 50 British owned SMEs located in West Midlands answered most of the survey questions.
- Most of the SMEs have less than 50 employees (92%); of which 44% are micro enterprises and 47% are small firms.
- The (66%) majority of these companies have existed for more than nine years in their market.
- The participating companies come principally from two sectors, manufacturing (24%), education (22%), and to a lesser extent construction (12%).
- The main market of the analysed SMEs was at local and national levels (both at 40%). Only 10% of them (mostly "manufacturing" firms) compete at international level.

Innovation/Invention and Knowledge Intensive Services (KIS)

- The sample of SMEs had been highly active in their markets during the previous 12 months. 58% of the 50 had made changes principally to their products, (44%) to "production processes", (42%) to "equipment" and (40%) to "management processes".
- 1 042 (83%) employees of the surveyed SMES are recorded as being in full time jobs and 196 (15%) in part time employment.
- A significant number of the organisations surveyed reported having employees classed as 50 to 64 years old (88%) and/or 25 to 49 years old (86%).

- Most (94%) of the respondents indicated that they employ staff as "managers and senior officials". Almost half of them (48%) have employees in other "professional occupations"; slightly more than one third (38%) in "sales and customer service occupations"; and 26% in "skilled trade occupations".
- Only a small number of respondents conducted regularly "research" (28%), "job-specific technical activities" (28%), "business planning" (26%), "marketing and promotion services" (22%) and "information and technology services" (20%) that had "significantly increased" the skills in the previous 12 months.
- Most of the 42 companies responding indicated that VET had been usually provided "on the job" (86%) or at least "in-house" (78%) during the previous 12 months (early 2009-early 2010). One third (33%) of these SMEs had always provided formal VET, other third (33%) claimed to have always accredited VET, 66% had usually conducted VET "off-the-job" and 73% through "external training".
- Respondents indicated that on average, 66% of the staff of 42 SMEs had participated in training between early 2009 and early 2010. Particularly, 63% of their high-medium skilled workers had obtained training, compared to just 18% of the low-skilled employees.
- Most of the 42 responders chose "management skills" (71%) and "technical/advanced skills" (71%) as some of the main outcomes from training undertaken by their high and medium skilled employees in the previous 12 months. However, only 24% of companies pointed out that "routine skills" and 21% of them selected "generic skills" as the main outcomes from training for the low skilled workers.
- Of those surveyed, 40 SME representatives indicated that on average, 69% of their employees have interaction with other groups (including external organisations). Significantly, most (70%) of their high-medium skilled employees, but just 18% of the low skilled workers participate in these interactions.

Required skills

- Almost half (48%) of the firms had formal training and career development plans for their employees, and nearly half (46%) claimed to have an annual budget for training expenditure.
- 42% of the surveyed firms affirmed that they would have liked to have carried out particular training but did not in the last 12 months.
- The only areas in which good number of companies indicated that they would have "some need" future training rather than no training in were those "generic" (52%), "management" (50%) and "technical/advanced" (44%). An area of skills development chosen as particularly "high need" was "management" skills, with 18% of respondents selecting this option (similar to Rapkins, 2010).
- The main barriers to training the high-medium skilled employees that the majority of the 21 responders indicated were finance related such as "high costs/too expensive" (81%), and "lack of public money" (57%). The largest numbers of firms for that indicated the barriers to training low skilled workers were for "high cost/too expensive" (24%), "lack of public money" (19%), "impossible to interrupt production/no time" (19%) and "too difficult to access training" (19%).

- A larger number of (40) firms indicated than in-house incentives rather than other private or public incentives are the main reasons for their business to undertake training.
- Companies heavily tended to report that their activities had "stayed the same" in the previous 12 months.
- It seems that SMEs had invested in informal training for enhancing and maturing the skills of their current staff, rather than in gaining (completely) new skills from young people under 24 years old, apprenticeships or external training during previous 12 months.

3.3. Case studies

This section discusses the outcomes from the case studies analysis. First is presented a summary table of the cases characteristics and then each of the five cases are discussed.

Table 3.1. **Details of the five Case Studies**

Case	Product/Service	Employee Number	Type Company	Market	Years in market
Company_A	Gauging systems	15	Small firm – services	Reg	50
Company_B	Organic gardening	80	Medium firm – services	Reg/Nat/Int	53
Company_C	Low carbon energy services	13	Small firm – services	Reg/Nat/Int	8
Company_D	Liquid bio-methane-LBM	8	Small firm – one product	Reg/Nat/Int	9
Company_E	Remanufacture transmissions	158	Medium firm – services	Int	30

3.3.1. Company_A

Background

Company_ It is a privately owned and 100% British company, located in the West Midlands. It was established in the 1960s. The latest available figures from the company website indicate a turnover of GBP 1.1 million. It has 15 employees.

Interviewees_ Interviews were conducted with the managing director and the project sales manager. The first had worked for 30 years in the firm and the second had been there for six months, but has 40 years of experience in the tool-making industry.

Product_ Company_A mainly offers (according to its website) bespoke design (computer aided design (CAD)), manufacture, calibration and repair services for gauging systems, fixturing, tooling, work-holding equipment, form cutters and small batch components.

Market_ The principal market of Company_A is solely at regional level (the West Midlands), as the type of service needs to be provided working closely to their customers. Their main customers are from high technology sectors such as automotive, aerospace and pharmaceuticals.

Interviewees explained that as the UK's manufacturing sector has been declining for the last 20 years, the number of potential customers, and thus, competitors, has decreased. Moreover, there are not many competitors that can both offer their (high precision) standards and work under their quite low hourly rates. Therefore, the company has created itself a small market niche, which is limited but profitable.

The long term strategy of Company_A is to expand and diversify its services, covering higher technological and more lucrative areas. That may mean forming links with some of their large partners (for instance, a current German supplier was mentioned). It aims to be able to develop five year or longer-term plans in the future, rather than just short term plans.

Innovation/Invention and Knowledge Intensive Service (KIS)

Product life cycle (PLC)_ Employees have mastered their required core skills on gauging and fixturing. Their services seem to be in their mature PLC phase. However, the firm still conducts some activities that are associated with incremental research and development (R&D), such as exploration, development and adaptation, because customer requirements are hardly ever the same, and their market has been expanding and diversifying.

Internal skills_ The firm has approximately 15 employees (three managers and 12 technicians), and most of them have been recruited and internally trained. Current employees have worked in Company_A for several years. Their current average age is late 40s and their education level is up to General Certificate of Education (GCE). The managers have learnt skills on management, marketing, finance and sales in-house. The core skills of Company_A are held by its technicians. These core skills are considered unique and require high precision (with minimum tolerance) on gauging and fixturing. Interviewees estimate that these skills take up to five years to be acquired and five more years to be mastered. All employees need to be multi-skilled in all technical areas to complete each job. Interviewees mentioned that internal experts are the most suitable people to provide training on their core skills.

External skills_ Company_A has developed a few links with external private and public organisations such as customers, R&D sources, suppliers and skill development organisations.

The first step for Company_A to develop an idea into a marketable service is their customers specifying the required services. Then, the managing director decides whether Company_A has the capacity to deliver them. After that, Company_A works on a regular basis with their customers, exchanging technical and managerial knowledge to develop and complete these requested services. Sometimes, they have to contract a couple of self-employed designers.

Training and skills development programmes from public bodies have helped Company_A to build up its pool of skills too. For instance, 10 years ago, Company_A acquired two firms to absorb their complementary technical skills. For that, they obtained significant assistance from Business Link Birmingham to qualify for bank funding. Also a couple of their current employees came from the Youth Training Scheme (YTS)which operated in the 1980s and 1990s.

Required skills

Requirement for new skills in the company is mostly driven by market opportunities. At the moment, the interviewees agreed that Company_A needs some highly specialised and personalised training in accounting and management. They believe that new skills will be needed if they keep expanding and diversifying their market. For that, they would like ideally to receive training from experienced people on the newly identified markets. The interviewees found that some support that they had received on business management from Business Link was too general and basic for the company (see below).

Policies and programmes

Training and skills development_ The company has not benefited from any training programmes offered by public or private institutions for several years. They have observed that valuable manufacturing skills have been disappearing during the last 20 years. Young people are reluctant to learn necessary skills (for example, from retiring employees), which take a long time to master and are poorly remunerated. The managing director believes that the manufacturing sector should receive as strong government support as the service sector, in order to attain realistic economic growth in the UK.

The company has not found any highly specialised managerial training that could benefit them at a reasonable price. They believe that training and skills development programmes that they have obtained from public institutions have been too broad and basic for them. For instance, they have received advice on business management from Business Link. However, this advice was quite general without presenting any substantial benefit for the company. Another example is that some employees have decided to stop attending college, because their teachers did not have the expected industrial experience. Their employees have reported that they learn more in the workplace than they do at the college.

The interviewees mentioned that colleges no longer provide industrial workshops; instead they offer lectures, of which some would be on technology (such as computer systems) that SMEs like Company_A may never use. Also, SMEs cannot afford to send their employees for external training. Government support in terms of paying companies the working days that employees would spend on external training used to be very positive for them, but this no longer exists.

Interviewees emphasised that trade associations are well placed to provide advice on the training and skills development programmes required by SMEs. They commented that the Gauge and Toolmaker's Association has known Company_A very well for 25 years.

Environment_ The company complies with the required environmental regulations. For Company_A, these are mainly concerning waste disposal. However, they have found the process to get a certification for their environment friendly activities is quite complicated. For that reason, they have not conducted that process, and thus, these activities are not formally recognised.

Recession

The company has noticed that the recession just aggravated the general decline of manufacturing industry over the last 20 years. At the time of the recession (2008-09), their customers asked them for less work. That situation has encouraged the company to diversify its market. However, at the time of these interviews, they reported that the Company_A was definitely on its way to recovery.

3.3.2. Company_B

Background

Company_ It is an organisation founded by L H in 1958. It is located in the West Midlands. It has 80 employees.

Interviewee_ The horticulture research manager is responsible for the R&D department, formed of five employees. He has been working in the organisation since 1991. One of his main duties is obtaining R&D funding.

Product_ The main services provided by Company_B are research and promotion of organic gardening, farming and food.

Market_ The main market of Company_B is the UK, though it has carried out some (charity) projects in other countries such as Afghanistan and Uganda. It has 40 000 members and reaches more than three million beneficiaries (according to Company_B's website). Also, its main funders (such as the Department for the Environment, Food and Rural Affairs (DEFRA), the EU, Waste Recycling Action Programme (WRAP) and the Horticulture Development Company (HDC)) can be considered among their main customers. The interviewee explained that the reputation of the company is one of its competitive advantages. Their main market strategy is to encourage people to grow their food organically.

Innovation/Invention and Knowledge Intensive Service (KIS)

Product life cycle (PLC)_ Normally the life of the R&D and other services of Company_B depends on the length of the R&D grants that it receives. Some of its services are in quite a mature PLC phase, as Company_B has been offering them since its foundation.

Internal skills_ According to the interviewee, Company_B has 80 employees, of whom three quarters have a university degree. It tends to recruit experts in its different functional areas such as R&D, marketing, environmental economics, education, administration and gardening. Sometimes, they have had to recruit highly specialised people from abroad (for example, the newly recruited environmental economist is from Portugal). Each of these functional areas has the autonomy to define, develop and provide their services. They work closely with the director of commercial programmes to decide which ideas should be further developed into services, according to their limited budget.

External skills_ The organisation acquires highly specialised knowledge from external organisations, such as foundations, other customers, universities, training and skills development providers. Idea conception to generate new R&D projects often comes from interaction between members of the R&D department and the organisation's founders. To conduct its R&D or other services, the company often works with universities (such as the University of Warwick) to exchange highly specialised R&D skills. Company_B also surveys its members from time to time to receive feedback about its services and to better understand their members' requirements.

When Company_B obtains a grant, it employs someone or contracts knowledge-intensive service providers to cover any required skills that are not available internally. It has contracted consultants for reorganisational management and human resources jobs. One of its projects was also launched by celebrities, at the Chelsea Flower Show.

According to the interviewee, the organisation normally cannot afford to send staff to external training.

Skills needed_ The skills needed by Company_B are market driven. Some of them are identified based on the requirements of grants. The organisation used to have a department dealing with skills assessments, but it was disbanded because of a lack of funding.

Training provided_ The organisation disseminates its research outcomes and provides advice on organic growing through several channels, including conferences, lessons, pamphlets, books and visits to its library and gardens. It also has a programme to educate children and food providers about organic growing at several schools, which has been running for 20 years. This has been funded by the Food for Life programme for the last five years.

Policies and programmes

Learning and skills development_ the interviewee explained that government policies and programmes can strongly favour or hamper the organisation's service lifecycle. The interviewee did not know very much about learning and skills development programmes available in the market.

Environment_ The interviewee explained briefly how policies and programmes have affected Company_B for several years. During the 1970s and 80s, industrial agriculture was supported by policies and programmes. Organic agriculture was considered too alternative a technique at that time. Few companies wanted to work and be associated with Company_B. Many years later, global warming became a major concern in the world. Policies and programmes encouraged people to understand the importance of conducting good practises for sustainable environment. Several organisations were willing to invest in organic agriculture, which was developed into a profitable market niche. It became relatively easy for Company_B to obtain considerable funding to conduct its R&D and other services.

However, the market conditions have now changed again. Over the last five years, government bodies have been much less keen to fund organic agriculture. In fact, the interviewee mentioned that the Department for Environment Food and Rural Affairs (DEFRA) has significantly cut its funding. One of the major problems for Company_B is that it has been building up skills in a particular market niche. It would be very difficult for this firm to change the direction of its core skills development to obtain stronger public funding. The interviewee believes that many specialised organic agriculture skills will be lost in the future. Currently, Company_B depends partially on commercial funders that may have different interests from the charity organisation, formed to facilitate society to benefit from organic agriculture.

Recession

It has negatively impacted charities such as Company_B. Last year (2009), the organisation was restructured, making some employees redundant. The organisation had less money to spend on developing its services. However, the interviewee expects that the recessions may encourage people to grow their own food organically. People would have less money, but more time to spend it sensibly.

3.3.3. Company_C

Background

Company_ It is a 100% British and privately owned company located in the centre of the West Midlands. It was established in 2003. It has 13 employees.

Interviewee_ The managing director founded the company. He obtained a degree in engineering, economics and management in 1988, and a master's degree in environmental policy at the University of Cambridge in 1991. He worked on an oil refinery for BP. He was also a volunteer at the Institution of Engineering Technology.

Products_ The firm mainly provides services related to low carbon energy technology (involving solar panel systems, wind turbines, bio-energy and hydroelectric systems). The services are tailored to individual needs for low carbon wealth creation, including technical and economic evaluations (Computational Fluid Dynamics [CFD]) modelling and simulation, carbon foot printing and analysis, software development, project management and delivery.

Market_ Its market is the UK and to a lesser extent countries such as the US, Germany, Australia and India. The company provides services to (wealthy) home owners, schools, public bodies and high technology firms. The managing director commented that most customers are driven by financial rather than pure environmental reasons, as is expected in any competitive market. He thinks that the low carbon energy market is very small and uncertain in the UK. Company_C has to be a very dynamic SME to survive.

Innovation/Invention and Knowledge Intensive Service (KIS)

Product life cycle (PLC)_ The company provides several types of services. Some of them need significant research and development, meanwhile others are quite standardised (in terms of the PLC). The projects tend to be short-term, lasting weeks, months or (seldom) years.

Internal skills_ The firm has 13 employees who are mostly software engineers and physicists. It has a mix of older and young talent, multi-skilled in areas such as administration, management, environmental consultancy, software development and marketing. Last year, the company also recruited a marketing expert. The core knowledge of the company is based around integrating new types of low carbon technology systems. All employees have at least a master's degree and their average age is early 40s. These employees come from different countries, because their skills are highly specialised and fairly rare.

External skills_ The company seems to have a vast knowledge of external organisations that are (potentially) beneficial knowledge sources. Company_C appears quite open, constantly looking for new talent, fresh ideas, innovative technologies and opportunities.

New ideas for services principally come from the interaction of these specialised employees and different external organisations such as their customers, but also suppliers, universities and R&D centres. The managing director decides whether the ideas will be developed further according to the company's objectives and finances. Staff members work closely with their customers and other external bodies during the development phase of their services. This interaction makes it possible to create highly knowledge-intensive services.

The managing director has often worked with several universities in a diverse ways and projects (including research and internships for graduates) such as the University of Warwick, Birmingham City University, University of Stanford, University of Nottingham and Loughborough University. For instance, the company is currently working in partnership with Loughborough University, complementing each other's expertise to develop a large project for a company located in the US.

Skills needed_ The managing director reported that the company needs highly specialised, open-minded and multi-skilled employees in areas such as management, marketing, engineering and environment, as the company grows.

The managing director has a formal skills assessment with each one of their employees every year. Employees are encouraged on a regular basis to undertake training and skills development programmes based on their individual needs, although these programmes tend to be expensive.

He has identified that the company has a skills gap in accounting, finance and commerce (dealing with pricing). However, he considers that an internal HR team would be a luxury for the firm. Thus, this and other required knowledge-intensive services are currently developed and covered by the managing director himself.

Skills provided_ The company provides several training programmes to different organisations. For instance, it gives six to 10 half-day seminars at the Royal Institute of

Chartered Surveyors every year. It works with Birmingham City Council on a project to train people in the use of low-carbon technologies in the city. It also provides some technical training at Harper Adams University College (which specialises in environmental issues) in Shropshire (West Midlands).

Policies and programmes

Training and skills development _ The managing director seems to have good knowledge about training and skills development programmes offered by private and public bodies. He believes that the wide range of government training and skills development initiatives are too general and basic to be of any benefit to his firm. These public programmes seem to be policy driven and do not necessarily add value to SMEs like Company_C. They appear to be designed for quite low skilled people who need to get back into jobs.

A highly experienced "wise owl", who came from the local Chamber of Commerce, ran the Business Link and had run his own business gave the interviewee excellent advice on business management during the first six months of Company_C. However, that knowledge-intensive service is no longer available. The managing director mentioned that Business Link currently offers management consultancy based on a standard form diagnosis, to end up recommending existing standardised services. He thinks that this kind of information is too basic and general to be relevant for his highly specialised company, formed by and in need of vastly experienced professionals. He commented that businesses like Company_C need more personalised skills development services, not a "one size fits all model". He thinks that the "modern" model may suit large companies in London, but is not appropriate or realistic for small businesses like his firm.

He thinks that 20-30 years ago, researchers at universities had more freedom to work in partnership with local SMEs on projects that were mutually productive. Today, universities offer relatively long-term (two–10 years) and expensive R&D projects. He said these projects are mostly suitable for large companies, which can invest, for instance, an upstanding 2% of their turnover into them. Instead, SMEs like Company_C cannot afford this extent of time and investment in R&D. These SMEs need to speedily develop products, because they are totally revenue funded organisations.

However, he indicated that young people studying for UK degrees could benefit from summer internships in SMEs to acquire more global market and industrial awareness, which would have a positive impact on the nation's overall economic growth. His experience is that British graduates tend not to compete very successfully against other Europeans or foreign graduates in these important areas.

Environment_ The managing director considers that the environmental market in the UK is too regulated. Policies on environmental compliance do not necessarily increase demand for highly-skilled environmental technologists. Fees are kept artificially low, without any incentive for excellence.

He has observed that information about the dangers of carbon emissions does not drive companies to invest in finding the best and most cost effective solutions. He considers that the price of not reducing carbon emission should be calculated. That value would drive the interest of entrepreneurs to invest in the best and most cost effective technological solutions for their CO^2 problems.

For example, the interviewee explained that buildings in Britain currently have to comply with codes on sustainable environment. These are codes developed by a private

organisation – the Building Research Establishment (BRE). BRE controls the market of these codes. However, some people are trained merely to cover these requirements. Unfortunately, this means that some trainees do not have proper a understanding of the broad range of environmental technology solutions. Employees of Company_C have fundamental grounding in most effective environmental technologies which provide solutions to real problems, not just to comply with the imposed BRE requirements.

Also, the interviewee commented that green electricity tariffs (payments for low carbon electricity) were established in April 2010. They could fundamentally change the whole market, and bring the UK into line with the rest of Europe and large parts of America. However, it is too early to know the real impact of these tariffs on the firm.

Recession

Last year was a very difficult period for the company. They had to lay people off. During that period, he was reluctant to recruit people without experience and to invest in training them. At that difficult time, he needed experienced employees. Company_C did not have the resources to train young talent. However, at the time of the interview, the company was recovering rapidly. It had plenty of work for the next six months at least. The firm was considering recruiting and developing young people again.

3.3.4. Company_D

Background

Company_ It is a 100% British and privately owned SME, established in 2002. Its sales office is located in the West Midlands. It has 8 employees.

Interviewee_ The business development manager has been working in the company for four years. His background is mainly in commercial surveying.

Product_ Its product is liquid bio-methane (LBM), which is unique in the market (according to the interviewee). He explained that Company_D "cleans" unused raw or waste gas and develops it into a very high quality and low carbon fuel. Company_D uses gas generated by the decomposition of controlled biomass, obtained from landfill sites, food manufacturers and other related industries. Company_D compacts methane gas into liquid to be easily transported and used.

Market_ Liquid bio-methane can be used to power vehicles, generate energy and combined heat and power. According to the interviewee, LBM can be only used in a limited market niche (for example, supermarket goods delivery trucks), because it requires large quantities of energy to be created. Its current markets are in the UK and Norway. However, they have plans to build more plants in countries in the rest of Europe, India and China. India and China have shown particular interest in improving their waste management and building their green agenda. The rest of Europe has had positive growth in the use of natural gas as vehicle fuel. The product is unique as it is very difficult to imitate by competitors, because of the R&D involved in developing its technology. Only one other company in the US does something similar. Normally, their sale contracts are limited by the lifetime (for instance, five years) of the vehicles fuelled by this energy.

Innovation/Invention and Knowledge Intensive Service (KIS)

Product life cycle_ During Company_D's first four years of life (2002-06), its chief executive conducted extensive research with other organisations to bring his product idea into reality. In 2006, the company constructed its production plant, located in Surrey. In the last three years, it has intensively created new markets. Similar to any innovative product, the company still undertakes R&D, but the product is now entering a more mature PLC phase.

Internal skills_ According to its website, Company_D is formed principally by eight people working at managerial level covering areas such as business advice, management, marketing, finance, accounting and engineering. The interviewee reported that the average age of employees is middle 40s. He did not know the education level of the managerial team. However, he explained that it should be quite high, because these employees are expected to be experienced experts in the different knowledge-intensive services mentioned. He only specified that the production manager holds a PhD in engineering. There are also around six technicians working in the production plant, but most of them are contractors. He believes that Company_D is the only one which can train its technicians to operate its production plant. There is also a staff member in charge of administration issues.

External skills_ The idea for product (LBM) of Company_D came from its chief executive who worked with specialised organisations and employed individual experts. The company got some assistance from a Canadian professional engineering company to build its production facilities. After that, it has been developing relations with some customers and external partners such as SITA UK (a waste management organisation), Iveco, East Midlands Airport and a private company, Camden. The interviewee considered that the people in the management team have not taken any training and skills development courses recently. The interviewee was not aware of any available public or private learning or skills development programmes for this firm.

Skills needed_ The interviewee mentioned that the technicians are in a continuous learning process, as they have to increase the efficiency level of the production plant. He estimated that they may need some training once they build their next production plants.

The interviewee believes that the company has the required skills in-house at present. He admitted that his firm, as any other, could benefit by some training provided externally. However, it should be highly specialised. Training will be driven by market opportunities. He commented that the firm is very busy both creating new markets and conducting product and process development.

Training provided_ The company provides some training to their customers on how to use its product.

Policies and programmes

Training and skills development_ The interviewee was not aware of any training opportunities available in the market. He estimated that Company D would start looking for some (external) training once it enters the more mature or standardised phases of its product life cycle. However, he considers that external training would have to be highly specialised.

Environment_ There is a large range of different opportunities available to reduce CO^2 emissions. Nevertheless, the interviewee did not know why the central government has chosen to support just some limited solutions (such as electrical vehicles), which will not be enough to achieve CO^2 reduction targets.

He mentioned that the rest of Europe has more experience than the UK does in using gas to power vehicles. He feels that as a SME, Company D may not have enough presence to create awareness of the environmental benefits of its technology (LBM). Company D would benefit, if methane became classified as a renewable gas to be profitably processed. The UK has some of the biggest coalmines in Europe. The methane gas inside these coalmines is contained in vast quantities ready to be used. Across Europe, coalmine methane can be extracted and treated as a renewable gas. He also mentioned that firms pump natural gas out of the North Sea at a rate which is not sustainable.

Recession

He observed that recession slowed customer decisions to invest in the new and more expensive vehicles required to use their product (Liquid Bio-methane), even though their product would reduce their life cost in the long term.

3.3.5. Company_E

Background

Company_ It is a private 100% British company formed in 1980, located in the West Midlands. It has 158 employees.

Interviewee_ The production director supervises the 85 employees working on the shop floor.

Product_ It remanufactures automatic or manual transmissions for the auto industry. This includes the provision of spares, repairs and servicing transmissions.

Market_ Some large customers are Ford and Chrysler in Europe.

Innovation/Invention and Knowledge Intensive Service (KIS)

Product life cycle (PLC)_ Its service has matured and some parts of the production process have been standardised. However, constant introduction of vehicle models by customer demand means that Company E conducts internally some limited research and development activities such as design and adaptation.

Internal skills_ According to the FAME database, Company E has 158 employees, including the chairman, managing director, financial director, engineering director, production director, sales director, purchasing manager, marketing manager and personnel manager. There are 85 employees in the production plant. The production director is responsible for the production manager (with some knowledge on environmental techniques). He is in charge of four supervisors who also control the activities of a variable number of cell leaders and the rest of the technicians in the shop floor. The average education level in the production plant is CSE/GCE and GCSE; meanwhile the average age is middle 40s. The engineering department employs four people with some of the most sophisticated skills in the firm for programming, designing and testing products.

He explains that Company E prefers to train its employees internally. He considers that in-house experts are the most qualified to train other employees in order to develop their very specialised core skills. Thus, there are no external organisations that can provide the required training. Employees also complete some formal training internally, on basic concerns such as health and safety for which they receive certification.

The company uses regular audits and quality and appraisal systems to identify whether its employees need further training. The employees can also request these, through their supervisors.

External skills_ The interviewee explained that the company has numerous links with external organisations (such as customers, contractors, training providers and universities) to develop or acquire very specific (and mostly non-core) skills. Large customers give Company E's employees some training on how to use customers' web-based systems (such as access orders, quality scores and delivery). Some HR, legal and safety knowledge is provided by some external contactors, when it is needed.

The company has also contracted some private firms for short (two or four-day) training courses on basic ICT (for example, Excel and PowerPoint). Training organisations constantly ask them to put employees through National Vocational Qualifications – NVQs (to certify skills developed in the work place). Supervisors can attend local further education colleges to be formally qualified as supervisors in one or two years. The interviewee believes that this education is beneficial for the supervisors to acquire other managerial skills. The company has very limited links with universities. In fact, the interviewee could only remember two specifically. One is when he was studying at the former Wolverhampton Polytechnic while he was working. The second one is that the current Engineering Director started working at Company_E as a PhD researcher from the University of Stafford.

Policies and programmes

Training and skills development_ He considered that training offered by public bodies does not seem to have been very valuable for the company.

The interviewee thinks that NVQs do not benefit his firm, but these qualifications may be very useful for employees to build up their confidence and prove their skills elsewhere.

The company got a grant for job creation from the government body, Manufacturing Advisory Service (MAS) to pay part of the cost of constructing a new building. However, the grant arrived a long time after the building had been constructed. Also, MAS has helped with the re-certification of the company's forklift drivers. Advantage West Midlands (AWM) has financed some of the company's external software courses too. It was a lengthy process to obtain this AWM grant.

He remembered that the old craft schools with apprenticeship systems were quite beneficial for manufacturing firms. They permitted young people to obtain some useful mechanical skills at an early age and their courses reflected the real requirements of the manufacturing industry at that time. He mentioned a couple of these schools/colleges such as Wulfrun College in Wolverhampton and even the former Wolverhampton Polytechnic. However, he explained that that training does not exist anymore.

Environment_ The company's main customers (such as Ford and Chrysler) expect them to be accredited with ISO 1401 (an Environmental Management Systems (EMS) international standard) and the TS16 949 (international standards on quality management systems for automotive-related products). The company needs to comply with EEC regulations. They were ISO 1401 accredited in 2003. It took them around three years to obtain this. The company believes that it should control its waste deposal (*e.g.* steel), as the waste can be hazardous to the environment. However, disposing of its waste in a proper way is quite expensive. The interviewee estimated that it costs them approximately GBP 12 000 a month.

Recession

The company was not affected much by the recession. In fact, the firm generated some profits last year (2009). One of the reasons for this is that during recession, people tend to keep their cars for a longer period. Thus, general demand for parts and repairs is greater during that time.

3.3.6. Summary – case studies

Background

Company

- Five 100% British owned SMEs are presented. Four of them are privately owned and only one is a charity.
- Three of them are mature firms that have survived for more than 30 years.
- One firm is micro, two are small and two more are medium sized organisations.
- Interviews were conducted with top managers.
- Three of these companies operate in the environmental technology sector and two in the automotive sector. Other markets for these organisations were aerospace, construction, agriculture, energy and public services.
- The main market for most of the organisations (four out of five) was at international level. Only one solely traded in the regional market (West Midlands).

Innovation/Invention and Knowledge Intensive Service (KIS)

- Although the firms studied have been consolidating their market niches for many years, they are still actively identifying more potential markets. These companies appear to have matured their core skills, but they continue developing new skills. They all are involved in R&D.
- All these SMEs had vastly experienced and/or very educated personnel.
- The average age of the employees of these SMEs is middle 40s.
- All companies have internalised their core skills, which are held by engineering and/or technical experts. Only one interviewee explained that the core knowledge of his SME is more related to R&D, agriculture and education.
- Interviewees agreed that internal experts are the most suitable trainers for their core skills.
- All these SMEs have built links, especially with their customers, but also with R&D sources (*e.g.* universities), suppliers, contractors, training and skill development providers (Cooper, 2009).
- Most of them (four out of five) reported that managerial as well as technical staff is involved in these inter-organisational linkages. The largest SME said that its technical staff is significantly less involved in external interactions that the managerial team is.

- In general, these companies have just a limited overview of the available training in the market.
- Only two of these SMEs have formal and periodical skills assessments for their workers.
- All five SMEs agreed that requirements for new skills and training are driven by their market.
- Companies concurred that they would benefit from highly specialised training at both managerial and technical levels.
  - Ideally, these SMEs would like trainers for management, accounting and finance with experience in their SMEs' sectors (*e.g.* engineering, manufacturing or environment).
  - The companies formed by highly specialised technicians commented that ideally, training in technical fields should come from people with experience in their newly identified markets/sectors.
- HR and IT were also mentioned as required skills.
- Only two enterprises provide training and skills development courses to other organisations.

Policies and programmes

Training and skills development

- Interviewees explained that government policies and programmes can strongly favour or hamper the service/product life cycle of their organisations.
- It has been observed that valuable manufacturing skills have "disappeared" at national level during the past 20 years. (see also Fletcher, 2010).
- It was mentioned that trade associations are well placed to provide advice on the training and skills development programmes required by SMEs.
- These organisations believe that a wide range of government training and skills development initiatives are too general and basic to be of significant benefit to their firms. They appear designed for quite low skilled people who need to get back into jobs.
  - Most interviewees emphasised that they would like more personalised skills development services, not a "one size fits all" model.
  - One company mentioned that they had not found any highly specialised managerial training that could benefit them at a reasonable price.
- It was declared that NVQs do not directly benefit firms, but these qualifications are very useful for employees to build up their confidence and prove their skills everywhere.
- It is reflected there should be a balance between (advanced) academic and technical knowledge provided at the colleges. They should allow young people to obtain useful mechanical skills (through industrial workshops) at an early age. That training does not exist anymore.

- It was said that SMEs cannot afford to send their employees for external training. Government financial support on external training used to be very positive, but this aid no longer exists.
- Interviewees commented that applying for a government grant is a lengthy process.
- One firm mentioned that 20–30 years ago, researchers at universities had more freedom to work in partnership with local SMEs on projects that were mutually productive. However, SMEs cannot longer afford the extent of time and investment needed to conduct R&D with universities.
- It was recommended that young people studying for UK degrees should benefit from spending summer internships in SMEs to acquire more global market and industrial awareness. The experience of one SME is that British graduates tend not to compete very successfully against some European or foreign graduates in these important aspects.

***Environmental issues** – prevent CO_2 emissions and other pollutants*

- One of the interviewees believed that the environmental market in the UK is too regulated. Policies on environmental compliance do not necessarily increase demand for highly-skilled environmental technologists. Fees are kept artificially low, without any incentive for excellence.
- Unfortunately, some trainees do not have a proper understanding of the broad range of environmental technology solutions available.
- It is thought that the price of not reducing carbon emission should be calculated. That value would drive the interest of entrepreneurs to look for the most cost effective CO_2 solutions.
- An interviewee commented that green electricity tariffs established in April 2010, could fundamentally change the whole market, and bring the UK into line with the rest of Europe.
- According to one interviewee, the central government has chosen to support just some limited solutions (such as electrical vehicles), which will not be enough to achieve CO_2 reduction targets. SMEs may not have enough presence to create awareness of the environmental benefits of their technologies.
- Moreover, one of the SMEs has to comply with minimum environmental regulations. However, it was too expensive to certify their other environment friendly activities.
- Another company has been accredited with ISO 1401. This company commented that disposing of its waste (*e.g.* steel), though necessary, is quite expensive (approximately GBP 12 000 a month).

Recession (2008-09)

- It was reported that recession just aggravated the general decline of manufacturing industry over the last 20 years.
- At the time of the recession, customers asked for less work from most of the interviewed SMEs (four out of five).

- The previous year, some case study firms had to make some employees redundant.
- During recession, these SMEs were reluctant to recruit people without experience and to invest in training them. At those difficult times, they need experienced employees.
- Also, the recession encouraged three of the case study companies to diversify their markets.
- At the time of the interviews, the participants reported that their organisations were definitely on their way to recovery. They were considering recruiting and developing young people again.

3.4 .The Skills and Training Ecosystem Workshop

A *Skills and Training Ecosystem Workshop* was held at the University of Warwick (hosted by the Warwick Manufacturing Group) on 11 May 2010. The University of Warwick is located on the outskirts of Coventry, one of the major cities in the West Midlands. The Workshop was attended by 30 delegates from local authorities, the Regional Development Agency (RDA) – Advantage West Midlands (AWM), Sector Skills Councils, local learning providers, higher education, SMEs and a large firm, plus the UK country experts and representatives from the UK Commission for Employment and Skills, the OECD and the European Commission.

The timing of the Workshop was significant in a UK context. A General Election had been held on 6th May 2010, resulting in a "hung Parliament" (an unusual occurrence in the UK). At the time of the Workshop it was not clear what shape the future UK Government would take. In practice, at a time of potential change this meant that delegates were open-minded in terms of their thinking about the issues and in exploring options and possibilities. Subsequently a Conservative-Liberal Democrat Coalition Government was formed (a Coalition Government being unprecedented in the UK in peace time) replacing the Labour Government – which had been in power since 1997. This change of Government has been significant in terms of policy (as indicated in Part 1), especially at the regional level where the Coalition Government has announced the abolition of Regional Development Agencies in England by April 2012 and of Government Offices in the Regions. The discussion at the Workshop reflected the policy structures in place before the Coalition Government took office.

The workshop focused on 4 themes: skills needs, training and development in SMEs, the role of training networks, and outcomes of training and skills development. Importantly, the workshop began with presentations from some key regional actors, which set the context for subsequent discussions (see AnnexB).

3.4.1. Skill needs

The first thematic discussion focused on skill needs. Background information was presented on the West Midlands' relatively poor record on skills vis-à-vis other regions in England, as exemplified by the qualification profile of the working age population, with statistics showing that the West Midlands has the lowest proportion qualified to Level 2 or above (those without a qualification at Level 2 or higher may be conceptualised as being in "skills poverty") or above of any English region. The questions posed were:

- What are the most pressing skills needs in the West Midlands?

- Are employees in SMEs and local talent able to provide these skills?
- How can these skills be developed and be ready for local firms to utilize them?
- Are available skills being utilized?
- What can be done by public agencies intermediaries and by business organisations and training organisations so that the level of skills needs is reached?

In practice discussions focused on the first and fifth questions.

Four main themes emerged in discussions about ***the most pressing skills needs*** in the West Midlands. The first was *management and leadership*; (this is a priority theme identified by the Regional Skills Partnership [and one that has been recognised in the Coalition Government's Skills Strategy published in November 2010]). Here is was noted that there was limited scope for managers and leaders – especially those from SMEs (and specifically family businesses) – to keep "up to speed" with what is happening in the market place to find out about new markets and new working practices, in order that they might be better placed to identify and exploit new business opportunities. The preference expressed here was more for informal coaching and mentoring – what one delegate referred to as "softer upskilling", rather than for "long" formal courses.

The second theme was *entrepreneurship skills*. There was considered to be a need for greater know-how about how to start up a business, develop it and run it. It was noted that in the recession the only job growth had been in the public sector; moreover in the previous decade the West Midlands was the only region in England that witnessed a fall in private sector employment. Given the emphasis of the Coalition Government on rebalancing[4] employment from the public sector to the private sector, development of entrepreneurship skills is even more important.

The third theme was *STEM skills* (*i.e.* science, technology, engineering and maths). Again, this is a theme that has been an important policy priority of successive governments in the UK and one which is reflected in educational funding priorities. Environmental (green) skills were included under this heading, with near universal appreciation of their increasing significance and of their importance in meeting the low carbon challenge.

Fourthly, *communication skills* were identified as a pressing skills need, reflecting the greater demands placed on businesses by customers. The importance of such generic skills is borne out by evidence from Skills Surveys and also the NESS09.

Alongside these four themes there was considered to be an ongoing requirement for *job-specific skills* (which obviously vary according to the sector and occupation in question). A plea was also made to ensure that debates on skills needs were not focused entirely (or unduly) on young people (the vulnerability of young people to the negative impacts of recession had, arguably, enhanced the focus on this group), especially given the context of an ageing population and a rise in the age of retirement.[5]

More fundamentally, in discussion the question was posed: *Who needs skills and for what?* Should the emphasis be on skills needed for businesses to "stand still"? Or rather, should the emphasis be on "skills for growth"? Furthermore, should the focus be exclusively or mainly on emerging technologies? To what extent should emphasis be placed on traditional industries too? The consensus emerging was that the focus should be on all of these aspects identified (so recognising the importance that, say, traditional manufacturing techniques play even in emerging technology businesses), but with an eye to the future.

From the discussion on the fifth question focusing on ***what can be done by public agencies, intermediaries and by business organisations and training organisations so that the level of skills needed is reached,*** five key issues emerged.

First, a need was identified for *speeding up of outputs and outcomes*. There was a general view that *enhanced responsiveness* of public agencies and training organisations to create a *shortening of the time to impact* was necessary. This related both to training courses and to research applications. This point was illustrated by one delegate as follows: "businesses cannot wait for universities to complete their courses, training programmes or research; they need to experience the impact of research outcomes now".

A second related point to enhanced responsiveness was the need for a *shift of emphasis* – from what the "provider wants to deliver" to "what the business wants delivered"; currently it was felt that employers (and individuals) have to tailor their needs and requirements to "what the system is delivering", rather than having a say in what is being delivered. Moreover, there was a view that training decisions were often made by training providers on the basis of what is easier to provide/cheaper to deliver, while more expensive provision may be put aside. The call for a greater role for employers in this relates to a more responsive system focused on employer demand; (this is the direction of travel in Coalition Government policy). However it does raise the issue of whether the demands of individual employers reflect the needs of the region vis-à-vis the perceived needs of individual employers.

The third point was a need for *streamlining*: for "the system to be made simpler". There was a general feeling that there were too many funding streams and too many people (*i.e.* a proliferation of public agencies, training providers, etc) trying to deliver too many initiatives, meaning that employers are confused about "what is out there" and how to access it; (a point re-iterated in the case studies in section 3.3). Often the language used (including the "alphabet soup of acronyms") was "alien". The consequence was that employers "get lost in a sea of public sector support" – hence the need for simplification, or at the very least aids to "navigate" the system. Ideally, there would be a "one page summary" "bringing everything together".

Fourthly, militating against such simplification was seemingly *constant change*. Machinery of Government changes in April 2010 (with the demise of the Learning and Skills Council), followed by the emergence of the Coalition Government had exacerbated the situation. Rather than a period of stability which might have facilitated improved comprehension of how the different element of the system fitted together, and who did what, the onset of recession had meant greater emphasis on "short-termism" amongst many public agencies in response to changing economic conditions. It was considered that what was needed from public agencies was a transition into a longer-term approach. However, austerity measures of the Coalition Government and public sector cutbacks and organisational changes have led to increased uncertainty – at least in the short-term.

Fifthly, and also a long-term objective, was the need to *address cultural issues* which had negative impacts on the regional economy. There was general agreement that there was a lack of aspiration for skills development amongst individuals and companies in many parts of the region.[6] This fits with the concept of an LSEq (as described in section 1). It was felt that underlying cultural issues needed to be addressed for many SMEs, larger companies and the regional economy to move up the value chain. This was not solely a skills issue ("qualifications are not everything"); it was also felt to be an issue of "application". This underscores the need for an emphasis on "skills utilisation" (as outlined in section 1).

Turning more specifically to how training and development could better address skills needs, a clear view emerged that public agencies, intermediaries and by business and training organisations needed to reorientate the *type of training* undertaken. In particular, there was considered to be an appetite for coaching and mentoring rather than (long) courses, for informal rather than formal approaches (*i.e.* the direction of change outlined in NESS09 and the OECD survey) and for delivery in "bite-sized chunks". It was considered that this would have the advantage of *employers and training providers* "getting closer together", and that this would facilitate the transfer of "best practice" (in each direction). Relating to the emphasis on informal approaches, there was felt to be a *need for recognition of internal development*. From the discussions it was clear that some organisations have comprehensive internal development systems (indicative of High Performance Working (HPW) practices), but that it was difficult to get any accreditation: "in order to get a piece of paper to recognise this leads to a huge amount of work with little return." The implication is that there may be a greater amount of training and skills development going on that is recognised and recorded (as suggested by Edwards, 2010).

3.4.2 Training and skills development in SMEs

The second thematic discussion concentrated on training and development in SMEs. The questions posed were:

- What are the challenges to training and skills development in SMEs in the West Midlands?
- Who is receiving training and skills development?
- Is training reaching the low skilled, older workers and disadvantaged groups?

Much of the discussion focused on the first question in particular.

In general, delegates were unsure whether there were specific challenges to training and skills development in SMEs in the West Midlands vis-à-vis those in other parts of England. However, there was some discussion of the *collapse of the "old model"* in the West Midlands in which large businesses (such as British Leyland and Rolls Royce) used to provide training for their employees and these skills then "trickled down" to SMEs. With considerable restructuring in the engineering sector and the fact that "large firms no longer see it as their responsibility to provide this skills base" it was felt that this "model" of reliance on larger businesses to develop skills no longer applied. Therefore, new models had to be found.

Various generic issues regarding the challenges facing SMEs relating to finding the *time* for training (for management[7] and for trainees) and the *costs* of training were raised and there was general agreement that these impacted more on smaller than larger organisations. Linked to this, there was an expectation that SMEs should not have to provide basic or generic skills; rather they wanted their staff to be able to "hit the ground running". Time and cost considerations might lead some SMEs to "poach" staff from elsewhere, rather than to invest in development of their existing workforce. It was felt that the issue of cost had come more to the forefront during recession and for some organisations this had meant a concentration on mandatory training with a shift of focus away from perceived "nice to have" training and development.

One breakout group discussed whether networking and sharing of costs and of staff (*e.g.* apprentices) between SMEs could help overcome some of these issues. While attractive in principle, there were concerns expressed about whether micro businesses could support "movement of people" between organisations and also about working with potential competitors.

Another potential solution raised to enhance cost-effectiveness of training in the face of financial constraints was growing interest in *blending learning* formats (*i.e.* the mixing of different learning environments). Such an approach could combine face-to-face with computer-mediated instruction. As well as enhanced cost-effectiveness, blended learning offered the potential for increased access and flexibility and improved pedagogy.

It was recognised that SMEs in the West Midlands (and elsewhere) were very *diverse*: for some learning and development was on the agenda at strategic level, but for others this was not the case. Hence behaviour was variable – with the background and skills of the owner/manager being a key factor in this variability. Concerns were raised that many SMEs "don't understand where they have a skills gap" and were unable to identify their skills development needs. In some instances SMEs may be put off training in anything other than that required to meet firm-specific needs because of concerns that trained staff would leave and so that investment in training would be lost to the organisation. Some delegates considered that if the *impact* of training could be measured and explained this would help in making the case to SMEs.

Other challenges identified related to a lack of understanding of training that was on offer. A recurring theme throughout most workshop discussions was that the landscape of training provision was "noisy" and "cluttered", such that SMEs looking for training and development faced a confusing and complex picture with "too many choices". This raises the question of *fitness for purpose*. It was felt that there needed to be a shift towards SMEs telling providers what they need – rather than providers telling SMEs what they (*i.e.* the providers) have to offer. The existing state of affairs, it was contended, reflected the fact that the training infrastructure tends to be built on the premise of education/training institutions having their own priorities (in turn reflecting government funding streams and related targets), leading to pre-conceived ideas about what is "best practice" and inflexibility to business needs. Delegates considered that there was a need to recognise that there is no single model of what "best practice" looks like – for some it is on-the-job training, for others it is formal off-the-job training. A particular challenge facing SMEs is often the *breadth of training required*, such that a single provider may not be able to provide the full breadth required. It was considered that it was this issue that led some SMEs to question whether training on offer was "fit for *my* purpose".

On the question of "who is receiving training and skills development?', the general consensus was that training and skills development tended to focus on the higher skilled, yet there was under-utilisation of graduate skills. Reference was made to attempts had been made to enhance utilisation of graduate skills by SMEs through the West Midlands Graduate Internship Scheme which sought to offer work placements in SMEs to graduates to undertake project-based work – so providing them with valuable work experience, with potential benefits to the business of specialist knowledge, new ideas and a strengthened resource base. This scheme was considered potentially valuable from both a graduate and a business perspective (see Table AB.1 in Annex B for two case study examples).

With regard to the question "is training reaching the low skilled, older workers and disadvantaged?' it was felt that "the disadvantaged remained disadvantaged" – albeit that the emphasis of Train to Gain had been on those with lower level skills. Reference was also made to a preference amongst some employers for migrant workers (particularly from Eastern Europe)[8] (see also the discussion in 3.4.4), mainly because of their work ethic. However, from the perspective of the regional economy there were some concerns that such a preference for migrant workers left the low skilled and disadvantaged in a weaker position in the labour market and with employers having little incentive to provide training for them.

3.4.3. The role of training networks

The third thematic discussion concentrated on the role of training networks. In setting the context for the discussion it was noted that labour market intermediaries have an important role to play in bringing together the demand and supply side of the labour market through improving labour market information, job broking and the promotion of effective recruitment and enhancing the way that agencies work together with employers and individuals to stimulate demand. It was highlighted that, at the time of the Workshop, in each of the English regions the RDA had responsibility for sustainable economic development. The West Midlands Economic Strategy and Action Plan for 2004-10 devised by AWM had four pillars: (1) delivering a diverse and dynamic business base, (2) promoting a learning and skilful region, (3) creating the conditions for growth, and (4) regenerating communities. On skills issues AWM worked in partnership with other organisations through the Regional Skills Partnership *(*RSP*)*. The RSP offered a forum for employers, learning & skills providers and other public bodies to collectively influence how the delivery of skills, workforce development, business support and labour market services can provide the best support for regional businesses and deliver the Regional Economic Strategy.[9]

As a result of the *Skills for Growth* National Skills Strategy and the National Skills Investment Strategy 2010-11 published in November 2009 the strategic skills function of RDAs was strengthened, with RDAs being charged with responsibility for producing a Regional Skills Strategy as a core element of a new integrated Regional Strategy (incorporating both the previous Regional Economic Strategy and Regional Spatial Strategy). To produce the Regional Skills Strategies the RDAs were working in partnership with the Sector Skills Councils, local authority leaders and sub-regional bodies to produce strategies that articulate employer demand and more closely align skills priorities with economic development.

A key issue that has faced SMEs in the West Midlands (and elsewhere) has been the complexity of skills governance and changes in the national context. A range of regional and local (*i.e.* spatial) and sectoral bodies (including Sector Skills Councils) have been concerned with employer engagement. Business Link has provided information, advice and support to businesses on skills issues through an online portal and advisors working at a local level (as outlined in section 1).

The institutional landscape of skills in England had been reshaped in the two months prior to the workshop, with the rhetoric emphasising "streamlining" and "simplification" at the forefront. Machinery of Government changes created two new agencies to replace the Learning and Skills Council (LSC): the Young People's Learning Agency (YPLA) and the Skills Funding Agency (SFA) – the latter with responsibility for adult skills funding. Both agencies became fully operational in April 2010. A National Apprenticeship Service was also been established. Together, the Machinery of Government changes and developments in skills governance, coupled with post General Election 2010 policy changes, meant that the period was one of transition.

The questions posed for discussion were:

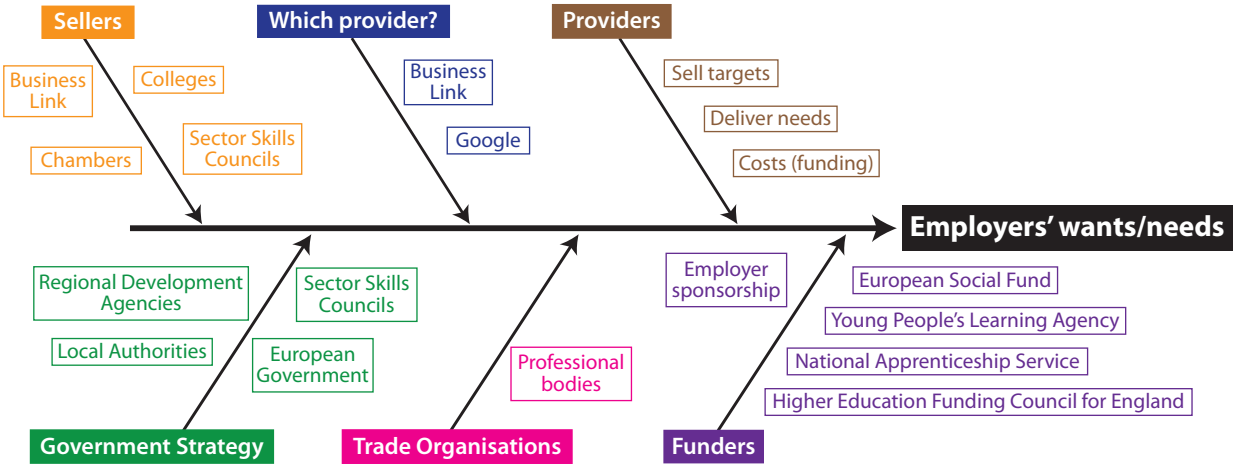
- What is the role of public agencies, business organisations, trade unions and other organisations on the functioning of the skills and training system in the West Midlands?
- What interactions are already happening? Around what projects?
- What strategies can be put in place for increasing linkages between firms and training organisations in the region?

- How can training levels be improved?
- What is the effectiveness of policies and programmes?
- Who should pay for training?

In practice discussions focused on the first and fourth questions.

The complexity of public agencies and business organisations was reiterated in discussion time and again, with one breakout group drawing up a diagram of sellers, providers of information/advice, funders, trade organisations and governmental strategy in diagrammatic form (see Figure 3.17). The emphasis was not so much on the "functioning" of the system, but rather on how the "mish mash of agencies from the strategic to the local" created complexity, which in turn contributed to dysfunctionality. Nevertheless, different organisations and agencies were identified as playing (or having the potential to play) an important role in training and skills development for SMEs.

Figure 3.17. **The complexity of the skills and business advice infrastructure for SMEs in the West Midlands**



Trade associations were identified as an actual (or potential) key player. From a SME viewpoint it was felt that they play (or could play) a significant role because they are directly relevant and answerable to members, although the consensus was that their role was perhaps not as appreciated as it could be. It was also felt that they had a clear understanding of sectoral issues – both in general terms and of specific needs and challenges. Moreover, they were considered responsive and could react quickly to needs. It was felt that they could also play a role in helping SMEs "look into the wider world" (*i.e.* to look beyond their immediate business concerns specific to their own organisation).

By contrast, statutory organisations from the *public sector* were considered "slower to move/react" to market demands/SME needs. Moreover, they could also be open to changing political demands. Some delegates expressed fears that changes in public sector structures – most notably the recent loss of the Learning and Skills Council (LSC) at the time of the Workshop, would mean that some valuable knowledge would be lost. Any change also complicated the picture in the short-term. Overall there was a clear appetite for a "simpler structure" with a "single point of contact" for SMEs – as illustrated by the comment: "*if the public sector was linked up it might be easier*".

In terms of other agencies and organisations, it was noted that *charitable organisations* had a key role to play in some sectors (*e.g.* in the cultural sector) because of the potential "greater flexibility" they could offer than statutory agencies. (Looking ahead, it is likely that charitable organisations will come under increasing pressure given cutbacks in public spending.) The consensus was that *trade unions* could play a more important role in skills and training systems, but relatively low levels of unionisation in SMEs militated against this. Where it was used, academic input from *universities* into developing business strategies and new products/services was appreciated.[10]

What was clear from the discussions was that the *flexibility* and *responsiveness* of trade associations and charitable organisations were attractive to SMEs seeking to address their skills and training needs. It was not so much that public sector agencies had nothing valuable to offer to SMEs, but rather that complexity and perceived slowness of response could be off-putting.

In keeping with the attractiveness of flexibility and responsiveness noted above, there was considered to be a greater role than currently for *informal networks* – especially those that were sector-aligned. Such informal networks could play a role in "sharing problems and solutions" and could have a role in "pooling training needs". This reflected that that often "employers at SME level cannot operate ongoing training programmes – the level of staff does not make this viable".

3.4.4 Outcomes of training and skills development

In the fourth thematic discussion, the questions posed were:

- Are there clear skills shortages?
- (How) have these changed in the context of recession/economic crisis?
- Do training and skills development foster innovation activity and business growth?
- Is the level of training and skills of local talent a factor in firm establishment/start-up?

Discussion tended to focus on the second and fourth questions.

In the context of *recession* and subsequent austerity measures there was general agreement that there was increasing pressure on organisational training budgets and on public spending. At least in theory, it was felt that this should and would lead to a smaller and more strategic focus for skills and training interventions. This would necessitate greater targeting, informed by a need to evaluate the economic impact of training and skills development – and focus more on initiatives where economic returns are greatest.

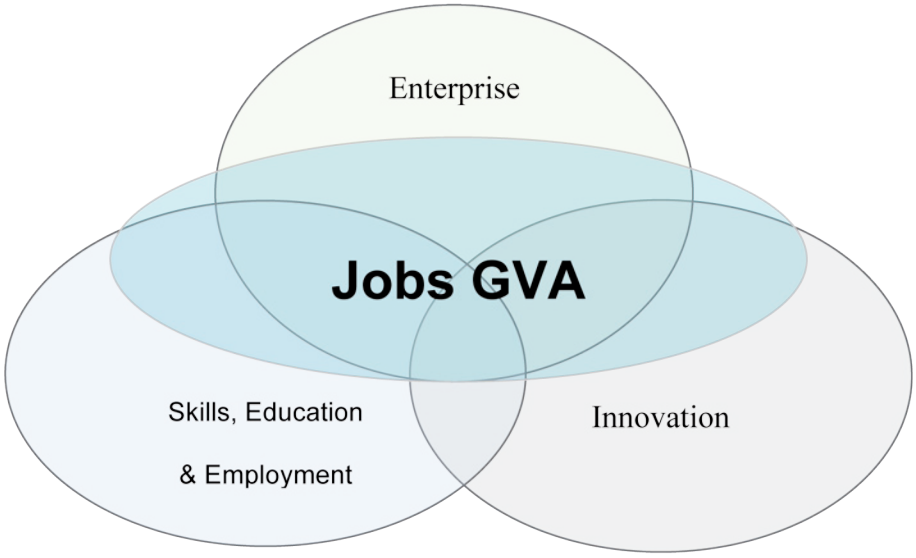
Such an approach is in line with the RDA's statement of priorities (as highlighted at the Workshop in a presentation from AWM). These pointed in the direction of:

- less public subsidy for training where the value returned for this investment is low for both private and public sector organisations;
- a reduction in low value added training that does not lead to employment or progression (*i.e.* further learning, training or education);
- movement towards the funding of more *new learning* and away from accreditation of prior learning that does not link to progression *i.e.* further learning, training or education;

- measurement of impact in terms of individuals' progression, and business performance, *not just the qualification*; and
- an increase in funding of high growth and potential high growth businesses and those in low carbon, advanced manufacturing, engineering construction, financial and professional services, digital economy and life sciences and pharmaceuticals.

In turn this informed AWM strategic investment to SMEs which was increasingly designed to assist SMEs move up the value chain and invest in skills. Crucially skills were viewed as a means to an end not and end in themselves, with "layering" (see Figure 3.18) bringing the "big wins" through linking with innovation and enterprise.

Figure 3.18. **Layering of skills with innovation and enterprise to achieve growth**



Source: AWM, presentation by Geoff Fletcher, 11 May 2010. UK Skills and training ecosystem workshop.

One of the impacts of recession had been that some SMEs had realised that they needed to think more critically about the future and "re-invest for tomorrow" (*i.e.* a SME might say to a Business Link advisor: "I need to talk to you about tomorrow's problems"). Hence, there was some repositioning of SMEs' skills and training needs as they sought to diversify. At the time of the workshop, however, it was considered that there was still much progress to be made,[11] with training provision tending to relate to "yesterday's problems". As one delegate noted: "We work in the past: provision is geared to old problems. Try to innovate and you lie outside the system." Hence, there was consensus that a more holistic system was needed.

In relation to *local talent*, despite the relatively high levels of basic skills needs in the West Midlands vis-à-vis many other regions of England, it was felt that there was an over-emphasis on directing skills funding to tackling worklessness and up to Level 2. The more pressing skills shortages and training needs were felt to be at Level 3, and more particularly Level 4, since it is the *application* of skills at these levels where the greatest contributions to GVA could be made; (it is salient to note here that the emphasis in discussion was not so much on the development of such intermediate and higher level skills, but their *utilisation* by management). It was considered that there were some excellent higher education institutions in the region but that, historically, there had been a relative lack of high quality

jobs for them to move into in which they could utilise their skills. One delegate suggested that regional higher education faced a "double whammy": "locals go away vowing 'never to come back' and individuals move in with the intention of 'never staying'"; with the key issue being relatively low demand for higher level skills in the region.

Some delegates felt that there were dangers in overly focusing on "local talent" in skills and training initiatives, noting that skills "can be brought in" if required (from other regions in the UK and beyond) and that looking inwards might lead to a rather "parochial" focus. Reference was made to migrant workers (from Eastern Europe and other parts of the world) who were generally considered to have made a positive contribution to the regional economy through their skills and work ethic (as noted above). It was noted that "local talent migrates" and that "migrants re-migrate". While a policy concentrating on encouraging graduates to come to the West Midlands "to meet specific skills needs in specific areas" would be welcomed – delivered by government or through networking of private sector organisations to see what could be done to attract highly skilled workers, there was also support for a complementary "place making" focus of making the local environment attractive to highly skilled workers.

3.4.5. Other topics

A fifth thematic discussion by one small group of delegates adopted a free format, picking up and developing some of the fundamental concerns of the workshop on skills development and training amongst SMEs. This group highlighted four key topics.

The first question addressed was: *"Is the problem "training?'*. Reflecting on experience, it was contended that a focus on "skills and training" is too narrow; rather a more helpful focus would be a broader one on "capability and development", with a primary emphasis on business need (*i.e.* growth). Adopting such a focus ensures that the scope of attention is drawn wider than formal courses. Rather, the real context for SMEs is work based learning – in all its possible formats. Much of what goes on may be "invisible" (*e.g.* coaching/mentoring) but is nevertheless important for the business/organisation. Such development may be better recognised when taking a "people asset" perspective. A focus on "capability and development" as opposed to "skills and training" also highlights the point that "you don't have to be big to be a learning organisation".[12]

The second topic discussed was the greater need for *recognition of companies' internal development programmes***.** It was noted that these programmes can be of high quality and could offer benchmarks/opportunities for other companies. Recognition of such programmes could offer support and encouragement to businesses already doing good work (*i.e.* accelerating growth potential). It was felt that professional institutions and training providers should have less focus on maximising their own product offerings, and be prepared to recognise company programmes.

The third question discussed was *"whether developing measures of 'Return on Learning' (RoL) is a real possibility?'* The answer was that it could be if employers and providers *believe* in it. It was considered that short-term paybacks (*e.g.* in a period as short as three months) can be achieved, and that much returns over a longer period (say 18 months) are genuinely possible. Such returns would be a great incentive to increase training activity, given that there is huge business impact leverage and sustainability in people development. It was considered that measures *must* be predetermined (preferably with a business case) and that they should include non-financial as well as financial measures.

The fourth topic discussed was *useful models* for enhancing "capability and development". Here it was emphasised that it is worth looking beyond the local area/region for ideas

– to other regions and to other countries, and to other SMEs – including those within larger corporations. It was noted that "best practice visits" do not have to be just for technology and manufacturing systems, etc; they can be for people and business development too.

3.5. Summary and synthesis of challenges to training and skills development

Key points from the TSME survey and case studies are presented in Boxes 3.1 and 3.2 respectively.

Box 3.1. **Key elements from the TSME survey**

A. Most of the 50 surveyed companies reported that their workforce development had "stayed the same" in the previous 12 months (early 2009-early 2010). 42% of surveyed firms affirmed in the OECD questionnaire that they would have liked to have carried out a particular type of training, but did not in the previous 12 months.

B. The main barriers to training high-medium skilled employees that the majority of respondents indicated were finance related such as "high costs/too expensive" (81%), and "lack of public money" (57%). A smaller percentage also chose "impossible to interrupt production/no time (43%) (which is strongly linked to the first two related to lack of resources) and to a lesser extent "too difficult to access training" (33%), "too difficult to identify suitable provider" (24%).

C. The main barriers to training low skilled workers for almost a quarter of these firms (24%) were "high cost/too expensive" and for (19%) "lack of public money", "impossible to interrupt production/no time" and/or "too difficult to access training".

D. A larger number of firms indicated than in-house incentives rather than other private or public incentives are the main reasons for their business to undertake training on "need to increase employees skills level" (34%), "service requirements" (30%), "production needs" (28%) and "new product/service development" (24%). Of the public incentives identified in the survey only one, "country regulations" is considered significant for some (28%) firms.

E. 52% companies indicated that they need some training in "generic skills: general IT user skills, oral communication, written communication, numerical and literacy, office administration skills", meanwhile 50% also pointed out some need of "management skills" and 44% of "technical/advanced skills: required for problem solving; design, operation, rethinking and maintenance of machinery or technological structures; IT professional skills". An area of skills development identified as particularly "high need" was "management skills", with 18% of respondents selecting this option. The other options were chosen by a smaller number of companies.

Box 3.2. **Key elements from the case studies**

A. The highly specialised training required at managerial and technical levels by SMEs is normally too expensive for them.

B. Training at managerial and technical levels provided by public bodies is too general and basic to be of substantial benefit for most of these interviewed SMEs (especially micro and small enterprises).

C. Interviewed companies concurred that they would benefit from highly specialised training at both managerial and technical levels.

D. Training on management, accounting and finance was mentioned as potentially beneficial, especially for the smallest SMEs, where managers have to develop multiple skills. Ideally, trainers for management, accounting or finance should also have experience in the sector (*e.g.* engineering, manufacturing or environmental technologies) or markets of the SMEs.

Box 3.2. **Key elements from the case studies** *(continued)*

E. The companies formed by highly specialised technicians commented that ideally, training in technical fields should come from people with experience in their newly identified markets/sectors.

F. Government policies and programmes are not supportive enough to successfully develop the manufacturing sector, and thus, valuable skills are disappearing.

G. It was mentioned that the manufacturing sector should receive as strong government support as the service

H. Young people should be able to acquire more industrial and global market awareness at an early age.

I. The interviewees agreed that the improvements should be introduced into the school curriculum to enhance awareness of industrial and commercial issues. Young people should ideally acquire more (service and manufacturing) industrial and global market awareness.

J. The school system should provide young people the option of developing some manufacturing and/or service sector skills from an early age. Graduates could benefit from internships in SMEs.

K. Some public funding that used to be positive in this respect is no longer available.

L. It was contended that many SMEs cannot afford to send their employees for external training. Government support in terms of paying companies for the working days that employees would spend on external training used to be very positive for SMEs, but this aid not longer exists.

M. The processes to apply or acquire a skills development grant are commonly too long and so off-putting.

Synthesising the findings from both the survey and the case studies summarised above, together with the workshop, a number of major themes and issues emerge. A *"7 Cs framework"* has been developed to capture these issues (see Table 3.2). Some of these themes and issues are picked up again in the Policy section that follows.

Table 3.2. **7Cs Framework – summary**

	Theme	Description
C1	Complexity	There is a need to streamline and simplify the training and skills development system.
C2	Capability	Training and skills development is only one element of a more holistic approach to people management and development.
C3	Continuity	There is a need for greater continuity, given the context of constant change of products and services.
C4	Comprehension	There is a need for better Information, Advice & Guidance.
C5	Contact	There is a need for a "one-stop-shop" where SMEs can access the support they need – including tailored support.
C6	Collaboration	There is potential for learning through networks.
C7	Culture	The lack of aspiration by some employees and some companies indicates a need to raise ambitions.

NOTES

1. The survey does not aim to be statistically significant. See annex for survey questionnaire.
2. The contact details of interviewed companies were obtained from Advantage West Midlands (AWM, 2010) and FAME databases.
3. The Workshop was attended by representatives from local and regional agencies, education and training providers, employers, the UK country experts, representatives from the UK Commission for Employment and Skills, the OECD and the European Commission.
4. The Coalition Government seeks to "rebalance the economy" – sectorally (from services to manufacturing), spatially (in favour of parts of the UK away from London and the Greater South East) and from the public to the private sector.
5. The rise in the age of retirement has been brought forward subsequently by the Coalition Government.
6. One delegate expressed the prevailing mindset of many businesses and workers as one of being contented with being "good enough" rather than "the best".
7. Here lack of time for foresight activities – including scenario planning and horizon scanning – was one of the issues highlighted.
9. Many of these migrant workers are working in low skilled jobs, despite having higher level qualifications.
9. As noted above, the Coalition Government has announced that RDAs are to be wound up by the end of March 2012 and at the time of writing there have been redundancies amongst RDA staff.
10. This is in accordance with evidence from NESS09 that amongst the 8% of SMEs in the West Midlands that had engaged with universities for training and skills development in the last 12 months 62% were "very satisfied" and 30% were "quite satisfied" with the service.
11. One delegate retorted: "(Things) have not changed! We couldn't get help before and we still can't!"
12. This is analogous to the point in section 1 that HPW practices can be found in organisations of all sizes.

4. IMPLICATIONS FOR POLICY

It is clear from the analysis of NESS09 data on skills and training that the West Midlands shares many features with the rest of England, but there are two important differences: first, skill levels are lower than the England average; and secondly, the prevalence of skills gaps is slightly higher than in the rest of England. The sectoral structure of employment in the West Midlands is more biased towards manufacturing (a sector that was badly hit by recession, along with construction) and there is a greater share of employment in the public sector (and this is where recent employment growth has been concentrated) compared with the national average.

The analyses of NESS09 data indicate that SMEs (particularly the smallest ones) are less likely to train, both on- and off-the-job, than larger employers. Yet it is also clear that "informal" training is growing in importance – across all size categories. This type of training may be more difficult to capture in surveys than formal training. Hence, it may be the case that the amount of training that SMEs actually undertake is under-counted in conventional surveys. The OECD survey has attempted to capture some of this informal training, but it is through case studies that insights into how and why informal training takes place are most clearly understood.

The findings of the research project support the view that *context* matters in influencing the amount and nature of training and skills development that is undertaken and desired. Overwhelmingly, a recurring theme from SMEs was that training needed to be tailored to their context and responsive to their company requirements. The product/service market position, the niche which a company occupies and the markets within which it competes (or is looking to enter) are central in determining skills requirements. This underlines the importance of *raising employer ambition* to seek growth via a route involving high skill, innovation and quality. Professional and quality standards provide one means of "kite marking" quality.[1] Procurement is another route that has been used to foster skills development – through introducing clauses on training (for local people), provision of apprenticeships, etc. Although some workshop attendees referred to the historical role of levies, statutory training levies have not been – and are unlikely to be – a prevalent feature in the UK (outside the construction sector).

This research project has demonstrated that there is an appetite for new frameworks and systems to promote business development through *building and enhancing capacity and capability*[2] – encompassing training and skills development. But the key issue of how this will be achieved is somewhat less clear. Some SMEs could benefit through participation in employer networks, where they might be able to achieve economies of scale by coming together to develop and fund training that they might otherwise be unable to afford. Such networks might also play a role in sharing good practice. The findings of the research project suggest that sector-based networks might be particularly attractive, although some SMEs would need to overcome fears of "poaching". Professional associations and charitable organisations may have a particularly valuable role to play in providing information, advice and guidance, in brokering training and skills development that is responsive to the

needs of SMEs and in helping foster a culture of high performance working. Likewise, Sector Skills Councils and the new Local Enterprise Partnerships (being established at the time of writing) may have a contribution to make here also.

The thrust of UK policy is *market-based*. There is a clear emphasis on *voluntarism*. Although enterprise, and SMEs in particular, are high on the Coalition Government's agenda, publicly funded support for training is limited – particularly at a time of austerity. As noted previously, Train to Gain is being replaced by a SME-focused training programme concentrating on low-skilled staff. However, for the most part, the emphasis of the Coalition Government's policy is not on "entitlements" to government support, but rather rests on the principle that since employers and workers benefit from training and skills development they should bear the cost – albeit with some up-front support through loans for some. This is counter to the views expressed by some interviewees and workshop attendees of the need for much more support through public funding. Rebalancing national, regional and local economies – sectorally and spatially – is emerging as a dominant economic theme in the UK, but this is to be achieved largely through creating an environment conducive to enterprise – and particularly to SMEs – in which employers and workers invest in their own skills development.

Turning specifically to the "7Cs framework" outlined in section 3.5., it is salient to note the policy implications arising from the key themes identified (see Table 4.1), especially given the emerging policies of the Coalition Government and the changes in the institutional framework in England since May 2010.

Table 4.1. **7Cs Framework: themes and policy implications**

Theme	Description	Policy implications
C1 Complexity	There is a need to streamline and simplify the training and skills development system.	With the advent of the Coalition Government and public spending cuts there is even greater uncertainty in the short-term about the training and skills support infrastructure. However, the longer-term objective is a simplified system of support – which is one of the recurring pleas that was evident in the case studies and the workshop elements of the research.
C2 Capability	Training and skills development is only one element of a more holistic approach to people management and development.	A broader focus on capability and development for growth is important for business support. The Coalition Government is seeking to help SMEs drive rebalancing of the economy through better business support.
C3 Continuity	There is a need for greater continuity, given the context of constant change of products and services.	Changing institutions (e.g. abolition of the Learning and Skills Council and RDAs), the announcement of new programmes and the abolition of some existing programmes (e.g. Train to Gain) mean a lack of continuity – at least in the short-term. The abolition of the "regional tier" in England means a loss of expertise in the short-term. The Sector Skills Councils remain in existence and it is important that they, and the new Local Enterprise Councils and their partners, play a role in signposting SMEs to the support that is available to them.
C4 Comprehension	There is a need for better Information, Advice & Guidance.	There is a role for professional organisations and sectors to help fill the gap in Information, Advice and Guidance. There is also an important role for Information, Advice and Guidance in advising both SMEs and individuals about opportunities for training and skills development – both formal and informal – in the light of economic and labour market change.
C5 Contact	There is a need for a "one-stop-shop" where SMEs can access the support they need – including tailored support.	Given the reshaping of the training and skills development and business support infrastructure, it is not clear, whether a one-stop-shop will emerge, or what other form it will take. There is a new emphasis on mentors to provide tailored support. This tailoring of support is important given the importance of context for SMEs and the relatively greater role of informal learning in SMEs than in their larger counterparts.

Table 4.1. **7Cs Framework: themes and policy implications** *(continued)*

Theme	Description	Policy implications
C6 Collaboration	There is potential for learning through networks.	A focus on sectoral rebalancing of the economy suggests scope for networks based on sectors. It remains to be seen what role new Local Enterprise Partnerships (taking on some of the roles of the RDAs) will play here. What is clear is that sectoral and/or local networks can play an important role in promoting the development and utilisation of skills for the benefit of individual SMEs, sectors and local areas.
C7 Culture	The lack of aspiration by some employees and some companies indicates a need to raise ambitions.	The Coalition Government policies emphasise empowering of learners and employers. For those aged 24 years and over the new emphasis is on "loans" rather than "entitlements" to training. The evidence suggests that some employees and employers are unlikely to adopt a positive approach. The Coalition Government has outlined its commitment to promote more responsible behaviour by harnessing insights from behavioural economics and social psychology (Department for Business, Innovation and Skills, 2010b).

Given ongoing institutional change in the UK and constraints on public expenditure, it is important that what public support there is for business, training and skills development is better signposted and utilised, so as to extract the best value from what is available. Yet the evidence from it is clear that in-house incentives provide the biggest motivation to engage in training. This underscores the need to raise the demand for skills and to enhance utilisation of skills, rather than to focus exclusively on skills supply.

The Skills White Paper published in November 2010 sets out plans to initiate a demand-led growth and innovation fund of up to GBP 50 million of government investment per year to support employment initiatives within sectors, such as new professional standards, and to promote leadership and management in SMEs. The *Plan for Growth* published by HM Treasury and the Department for Business Innovation and Skills in March 2011 (HM Treasury and DBIS, 2011) also set out a range of actions designed to support SMEs, including measures to:

- minimise regulatory burdens on SMEs;
- help SMEs access finance to grow and invest;
- reduce fixed costs for SMEs;
- make it easier for SMEs to access public sector procurement;
- encourage SMEs to export;
- make it easier for SMEs to start up and grow;
- encourage innovation by SMEs – through improving the range of products and services available to support SMEs on issues relating to intellectual property; and to increase the rate of SME R&D tax relief; and
- address specific barriers faced by SMEs in accessing apprenticeships – through supporting business consortia by setting up and maintaining advanced and higher apprenticeship schemes, supported by grants.

It remains to be seen what the impact of these measures will be, but it is clear that encouraging enterprise and supporting the development and growth of SMEs is a key element in the plan for growth.

NOTES

1. The Skills White Paper published in November 2010 sets out plans to initiate a demand-led growth and innovation fund of up to GBP 50 million of government investment per year to support employment initiatives within sectors, such as new professional standards, and to promote leadership and management in SMEs.

2. The terms “capacity” and “capability” are used here to highlight the fact that while training and skills are important, business development is about more than increasing training and skills; applying and utilising those skills to move up the value chain is important.

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ANNEX A.

SUPPORTING INFORMATION ON THE WEST MIDLANDS (FOR SECTION 2.1)

Table A.1. **The number of vacancies and recruitment difficulties, 2009 – West Midlands in context**

	Area	Micro <10	Small 10-49	Medium 50-250	*SMEs <250*	Large 250+	Total
% employers with a vacancy	WM	7	16	29	*10*	40	11
	Rest	8	19	36	*12*	47	12
	England	8	19	35	*12*	46	12
% of employers with a HtFV	WM	2	4	5	*3*	5	3
	Rest	3	5	8	*3*	10	3
	England	3	5	7	*3*	9	3
% of employers with a SSV	WM	2	3	4	*2*	5	2
	Rest	2	4	6	*3*	9	3
	England	2	4	6	*3*	8	3
Vacancies as % of all employment	WM	3.0	1.7	1.0	*1.7*	0.6	1.4
	Rest	3.2	1.9	1.4	*2.0*	1.0	1.7
	England	3.2	1.9	1.3	*1.9*	0.9	1.7
HtFVs as % of all employment	WM	0.9	0.3	0.1	*0.4*	0.0	0.3
	Rest	1.0	0.4	0.2	*0.5*	0.2	0.4
	England	0.9	0.4	0.2	*0.4*	0.1	0.4
HtFVs as % of all vacancies	WM	30	20	15	*23*	4	20
	Rest	30	23	14	*23*	17	22
	England	30	23	14	*23*	16	22
SSVs as % of all employment	WM	0.6	0.3	0.1	*0.3*	0.0	0.2
	Rest	0.7	0.3	0.1	*0.3*	0.1	0.3
	England	0.7	0.3	0.1	*0.3*	0.1	0.3
SSVs as % of all vacancies	WM	20	15	11	*16*	2	15
	Rest	22	17	10	*17*	15	17
	England	22	17	10	*17*	14	16
SSVs as % of HtFVs	WM	67	79	72	*72*	62	71
	Rest	73	72	70	*72*	89	74
	England	73	73	70	*72*	89	74

Source: Base: All employers/all employment, NESS09.

Note: "WM" refers to the West Midlands; "Rest" refers to the rest of England. HtFV refers to a hard-to-fill vacancy. SSV refers to a skills shortage vacancy.

Table A.2. **The number of vacancies and recruitment difficulties, 2009 – WEST MIDLANDS, 2009**

	Micro <10	Small 10-49	Medium 50-250	*SMEs <250*	Large 250+	Total
Unweighted base (employers)	4 190	2 807	1 003	*8 000*	186	8 186
Weighted base (employers)	107 239	34 677	7 014	*148 930*	941	149 871
% of employers with a vacancy	7	16	29	*10*	40	11
% of employers with a HfFV	2	4	5	*3*	5	3
% of employers with a SSV	2	3	4	*2*	5	2
Vacancies as % of all employment	3.0	1.7	1.0	*1.7*	0.6	1.4
HtFVs as % of all employment	0.9	0.3	0.1	*0.4*	0.0	0.3
HtFVs as % of all vacancies	30	20	15	*23*	4	20
SSVs as % of all employment	0.6	0.3	0.1	*0.3*	0.0	0.2
SSVs as % of all vacancies	20	15	11	*16*	2	15
SSVs as % of HtFVs	67	79	72	*72*	62	71
Total employment	378 127	669 248	707 620	*1 754 995*	612 580	2 367 575
Number of vacancies	11 229	11 368	6 812	*29 409*	3 768	33 178
Number of HtFVs	3 385	2 222	1 021	*6 628*	132	6 760
Number of SSVs	2 266	1 748	735	*4 749*	82	4 831

Source: Base: All employers/all employment, NESS09.

Table A.3. **Incidence, number, density and distribution of skills gaps by SIC sector – SMEs in the West Midlands, 2009**

	Unweighted base	% of employers with any skills gaps	Number of staff not fully proficient (*i.e.* no. of skills gaps)	% of staff reported as having skills gaps	Share of employment (%)	Share of skills gaps (%)
Agriculture, Hunting and forestry, fishing	*250*	13	2 075	6	2	2
Mining & Quarrying	*4*	0	0	0	0	0
Manufacturing	*1 109*	20	16 681	7	13	13
Electricity, gas and water supply	*31*	56	1 924	14	1	2
Construction	*571*	17	8 127	7	6	6
Personal household goods	*1 571*	20	26 118	8	19	21
Hotels and restaurants	*545*	27	14 768	12	7	12
Transport, storage and communication	*441*	18	4 073	5	5	3
Financial intermediation	*213*	23	2 616	6	3	2
Real estate, renting and business activities	*1 169*	16	19 299	7	16	15
Public admin, defence, compulsory social security	*88*	28	3 051	6	3	2
Education	*530*	26	8 423	5	10	7
Health and Social work	*745*	26	11 212	6	10	9
Other community, social and personal service activities, private households, organisations and bodies	*733*	18	8 359	8	6	7
All sectors	*8 000*	20	126 727	7.2	100	100

Source: Base: All employers/all employment, NESS09.

Table A.4. **Most common issues for not funding or arranging training in the last 12 months: SMEs in the West Midlands**

		Manufacturing	Hotels & restaurants	Total
Reason for not providing training	Category	% of respondents	% of respondents	% of respondents
All our staff are fully proficient	No need	62	53	59
No particular reason	No reason	7	14	13
External courses are too expensive	Expense	8	4	6
The courses you are interested in are not available locally	Supply	6	9	5
Other	Other issues	4	5	4
Employees are too busy to undertake training and development	Time	3	4	3
Small firm/training not needed due to size of establishment	No need	3	2	3
Lack of budget/Funding for training	Expense	5	2	3
Employees are too busy to give training	Time	3	2	3
Learn by experience/Learn as you go	No need	3	3	2
Training is arranged by Head Office	Other issues	1	4	2
Managers have lacked the time to organise training	Time	2	2	2
The quality of the courses or providers locally is not satisfactory	Supply	1	3	2
I don't know what provision is available locally	Other issues	1	6	2
Business not operating long enough/New business	Other issues	1	4	2
Economic climate/recession (inc. lack of/downturn in business)	Economic	2	1	1
The start dates or times of the courses are inconvenient	Supply	1	2	1
Difficult to get information about the courses that are available locally	Supply	1	0	1
Lack of time	Time	0	0	1
Haven't got round to it/Planning for future	Time	0	0	1

Source: Base: All SME employers in the West Midlands that had not provided training in the previous 12 months.

Note that a respondent may provide more than one reason.

Source: NESS09.

ANNEX B.

CONTEXTUAL INFORMATION ON THE WORKSHOP (FOR SECTION 3.4)

Introductory presentations

The Workshop opened with plenary presentations designed to set the context for subsequent discussion on skills and training ecosystems. These presentations were from the UK Commission for Employment and Skills about the work and interests of the UK Commission. There was also an introduction to the National Employer Skills Survey in England (NESS09), providing an insight into employers' perspectives on skills and training issues in the UK. The following presentation from the OECD provided an introduction to, and outline of, the TSME project and of the participating countries. Another presentation outlined the work of the Warwick Manufacturing Group in supporting business development in key sectors.

There were two presentations by representatives from regional organisations. First, a colleague from the West Midlands Regional Observatory gave an insight into the labour market and sectoral research conducted by the Observatory by outlining the findings from a sectoral study on Environmental Technologies, involving a review of secondary sources, a quantitative survey of businesses, and qualitative research – face-to-face interviews and case studies. Secondly, a colleague from the Regional Skills Team at Advantage West Midlands (the Regional Development Agency for the West Midlands) gave a presentation outlining key statistics on the region, the challenges ahead, regional priorities and associated investments and case studies. In terms of regional challenges, it highlighted three key features: (i) the productivity gap; (ii) the weak skills base; and (iii) the shrinking private sector economy, concluding that *supply-side initiatives will not solve problems.* Future scenarios for growth over the period from 2010 to 2015 highlighted the following options and their implications:

- "do nothing" – 11 000 net new jobs
- "up skilling" – 21 000 net new jobs
- "restructuring to higher Gross Value Added (GVA) sectors and occupations" – 200 000 net new jobs

This served to emphasise the scale of the challenge and focus delegates' minds for the subsequent discussions.

Conduct of the workshop

The Workshop focused on four themes. There was a brief introduction to each of the four themes and some supporting information (on one A4 sheet per theme) was made available for five breakout discussion groups for the first two themes and for two breakout discussion groups on the third and fourth themes. A separate breakout group focused on "other themes" of relevance to the topics discussed at the workshop. After the discussion on each theme there was a plenary report back session. The Workshop ended with a plenary roundtable discussion highlighting key messages.

Supporting material from the workshop

Table B.1. **West Midlands Graduate Internship Scheme with SMEs – exemplar case studies**

Case study 1	Case study 2
Details of SME and Graduate placed	*Details of SME and Graduates placed*
Orbis Partners LLP • corporate finance boutique • International student from Aston University	Cornerstone Media Services Ltd • SME (5 Employees) • Wolverhampton Graduate and Birmingham City University Graduate • Six month placements (Oct 09 – March 10)
Graduate activities and SME business benefits	*Graduate activities and SME business benefits*
• research and gather background information on companies • assist with preparation of, and gather information for memorandum/ business plans and presentations • gather background information on companies for preparation of buyer/investor list • perform basic financial analysis on companies • gather research and perform basic analysis for industry sectors • constantly monitor company news to be aware of potential target markets • allows employer flexibility based upon requirement in office and saved money on recruitment fees	• graduates getting real journalism experience as part of The Vine's editorial team. • idea generation, research and production of relevant articles • 5 articles published between them • working on a social media project supporting the publications development • online magazine work • supporting the employer to concentrate on growth and development

Source: AWM, presentation by Geoff Fletcher, 11th May 2010, UK skills and training ecosystem workshop.

Leveraging Training Skills Development in SMEs

The leveraging training and skills development in SMEs project is an international effort to look at policy issues related to the:

- Low access to training in SMEs
- Barriers encountered by SMEs to training
- Formal and informal ways SMEs access knowledge that is relevant for their
- business operations.

The project examines how formal and alternative ways of training and skills development relate to specific outputs for the firm and employees, for the industry and for the local area where they are located. In particular the role of skills and training ecosystems at the local level is analysed.

Participant countries: New Zealand, United Kingdom, Poland, Belgium (Flanders) & Turkey.
The project is supported by: the European Commission, DG Employment, Social Affairs and Equal Opportunities.