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Foreword by **Josh Hardie, CBI**

People and skills are the heart of our economic prosperity. Equipping everyone with the right knowledge, skills and behaviours sets them up for career success, and means businesses can seize new opportunities that drive growth and the productivity.

Yet our potential is not currently being fulfilled. Either that of the economy or individuals. This is due to the gap between education and the preparation people need for their future, as well as the gap between the skills needed and those people have.

Skills have always been a vital currency and this is particularly pertinent as the UK carves out a new economic role in the world and begins the process of leaving the European Union.

Business accepts the challenge this presents and will rise to it. The urgency of the education and skills challenge is matched by business’ commitment to addressing these issues, so that the UK can prosper. Our survey identifies the key areas where firms are focused – education, progression in a changing world of work, training and apprenticeships. It also demonstrates how much of a shared endeavour business considers this to be.

Across the business community there is a genuine commitment to providing schools, teachers and students with practical help, expertise and ideas. The survey gives insight into what could really make a difference: from core skills at primary schools, through to how secondary schools, training or higher education can best be a springboard into a career. This year’s survey has a positive story to tell about how UK higher education is doing – with high levels of satisfaction among companies with their graduate recruits.

The rapid technological transformations affecting our jobs and workplaces make skills ever-more critical – when someone enters the workforce and throughout their career. Shortages are set to grow and their impact is already biting. This is particularly acute in some sectors and at higher levels where they are acting as a brake on growth. Within companies there is widespread recognition of how important it is to invest in development and progression. Doing so helps to address specific skills gaps, supports business productivity and employee engagement as well as the performance of the economy.

The apprenticeship levy is high on the business agenda – due to its scale and the potential risks it poses for apprentices, business and the economy if it’s not implemented correctly. Businesses that are deeply committed to investing in skills and their apprentices have expressed grave concerns about the current design and timetable for the levy. The risk is real but as our survey indicates, business wants to work with government to give reforms to the apprenticeship system the best chance of working effectively.

A prosperous future for all of us in the UK rests on the foundations which we lay through our education and skills system. Our survey demonstrates some of the challenges that we face. Addressing these requires collaboration across the business and education community as well as with government. For each of us – for business and the economy – this can mean long-lasting success. What could be more important than that?
Forever by **Rod Bristow, Pearson**

The 2016 CBI/Pearson skills survey is published at an uncertain moment for our country – with its economy, its place in the world and its political system all under scrutiny following the vote of the British people to leave the European Union.

Like many of our colleagues in the worlds of education and business, this was not the result we at Pearson, or I personally, wanted. But the challenge now is to shape the future to ensure we remain outward looking, inclusive and optimistic.

This year’s survey offers glimpses of what that might involve.

Some said that the motivation to leave or to remain in the EU was a question of choice between concerns about the economy and immigration. While neither of those ‘lenses’ describes the more positive vision of an international and inclusive world, the skills agenda is central to all of the arguments.

This year’s results are striking in two key respects...

**Employers don’t just value what people know: they value what they can do**

By far the most important ‘skills’ factor centres on attitudes and aptitudes such as ability to present well. The majority of employers have concerns in these areas, whereas less than a quarter worry about formal qualifications. These soft skills have hard outcomes. Some say it is not the role of schools to provide these skills. So whose role is it? And to what extent should we shape our qualifications to reflect these skills? That’s a debate we need to have.

**Graduate recruitment is on the rise**

This is an important reminder, at a time when some say too many people go to university, employers are ‘voting’ for greater access to higher education with their job offers. We need a more informed debate about the skills higher education offers, and how we help more people benefit from higher education. Another important finding from this year’s survey, is that employers see academic and vocational qualifications as having equal stature. No coincidence then, that BTEC combined with A level is now the fastest growing route to university.

For too long the skills agenda has provided one of the driest debates in education. This year’s Pearson/CBI survey portrays a growing skills crisis. Let’s not allow this crisis to go to waste. Let’s use it to agitate for the sort of learning that helps our children make the progress in their lives that they want and deserve.
Executive summary

The ninth education & skills survey

- The survey was conducted in April and May 2016, with responses received from nearly 500 organisations, collectively employing more than 3.2 million people.
- Participants ranged in size from firms with fewer than 50 employees to those with more than 5,000; SMEs accounted for nearly a third of respondents (31%).
- Respondents were drawn from all sectors of the economy, ranging from manufacturing (15%) and construction (10%) to the creative industries (6%) and professional services (10%).
- There were responses from all parts of the UK, with over half of participants (53%) having at least some employees in Northern Ireland, Scotland and/or Wales.

Demand for skills is rising fast

- More than three quarters of businesses (77%) expect to have more job openings for people with higher-level skills over the coming years while just 3% expect to have fewer.
- This gives a positive balance of +74% of businesses expecting to grow their number of higher-skilled employees.
- They also expect to need more people with intermediate-level and leadership and management skills (with balances of +42% and +67% respectively).
- Only demand for those with low skills is expected to stand still or decline (with a negative balance of -6%).
- The proportion of businesses not confident there will be enough people available in the future with the skills to fill their high-skilled jobs has reached a new high (69%).
- These worries about the prospects of filling future high-skilled roles are shared by businesses across the UK (with the net balance of firms reporting they are confident minus those reporting not confident ranging from -42% in England to -51% in Northern Ireland).

Business is building paths to progression and higher productivity

- Firms are committed to developing talent in-house through a blend of practice and policies, including encouraging employees to discuss development with their line managers (84%). Operating a dedicated training and development budget (76%), mentoring and coaching opportunities are also widespread (68%).
- Businesses are also active in supporting employees to gain new skills and qualifications by studying part-time (73%).
- More than four in five businesses (84%) will be maintaining or increasing their investment in training in the year ahead.
- The balances of those planning to increase investment over those planning reductions stand at +18% or more in Scotland, Northern Ireland and Wales and at +14% in England.
- More than three quarters of respondents (78%) make at least some use of external training and development providers, most commonly private providers followed by further education colleges (88% and 46% respectively of those using an outside provider).
- The bulk of business training takes place in-house and on-the-job: among firms using external training partners, under half the training on average for employees is delivered by external providers (42% in 2016).
- The biggest source of concern for businesses using external partners is the cost of training, with a balance of only +24% of respondents satisfied with the cost of university programmes rising to +51% satisfied with the cost of private providers.
The apprenticeship levy must work for business, apprentices and the economy

- Businesses see apprenticeships as a valuable route to developing and upskilling their workforces. Involvement in apprenticeship programmes is already widespread (71%), with further respondents (16%) indicating plans to create a programme in the next three years.
- There is deep concern about the impact of the apprenticeship levy on both existing training and business operations, most commonly in the form of causing increased prices or reduced margins (45%), cuts to investment in non-apprenticeship training (39%), and downward pressure on wages (22%).
- A third of respondents (34%) will continue their current approach to training and apprenticeships, and plan to absorb the cost as a tax.
- Many businesses struggle to recruit apprentices, with close to half (45%) experiencing or anticipating recruitment difficulties in the next three years.
- This is a UK-wide problem, with half of all businesses operating in Scotland (53%), Wales (52%) and Northern Ireland (50%) experiencing and/or anticipating difficulty in hiring over the next three years.
- Business confidence in the new system will depend on the levy being responsive to business need (71%) and businesses having increased flexibility in how they spend levy funds (65%).
- A coherent, UK-wide operation of the levy is vital, with over half of all businesses (57%) demanding better clarity between the UK and the devolved nations as to how the system will work.

Shaping a successful schools system is a shared challenge

- By far the most important factor employers weigh up when recruiting school and college leavers is their attitude to work (89%) followed by their aptitude for work (66%); these rank well ahead of formal qualifications (23%).
- The school system is starting to put more emphasis on personal development, and this trend needs to be taken further.
- School and college is not equipping all young people with what they need to succeed: around half of businesses are not satisfied with school leavers’ work experience (56%) and their skills in communication (50%), analysis (50%) and self-management (48%).
- Many also report room for improvement in essential capabilities such as business and customer awareness (69%), literacy and use of English (32%), basic numeracy (29%), and teamworking (26%).
- In the time up to age 14 businesses want to see schools helping young people develop general awareness of work through engagement with business (42%) and better careers advice (38%).
- There should be a focus in this phase on developing pupils’ core skills such as communication skills (38%), self-management (37%) and literacy and numeracy (35%).
- For the 14-19 age group, employers believe a top priority for schools and colleges should be developing awareness of working life with support from businesses (42%) as well as improving the quality of careers advice (42%).
- There should also be emphasis on helping young people develop their self-management and personal behaviour (36%) and giving them more opportunities for work experience (24%).
- The foreign languages most commonly mentioned as in demand among businesses are the major EU languages of French (50%), German (47%) and Spanish (30%).
- When recruiting school and college leavers, the great majority of businesses either value academic and vocational qualifications without a particular preference between them (45%) or prefer recruits to hold a mix of both academic and vocational qualifications (27%).
Partnering to smooth the path into the world of work

• Four out of five (81%) respondents have at least some links with schools and/or colleges, with connections most widespread between businesses and secondary schools (70%) and FE colleges (66%)

• Over half of employers (55%) already linked to education report they have increased their engagement over the past year, while just 6% have cut back, giving a positive balance of +49% increasing their commitment

• At least eight in ten firms report school and/or college connections in all four nations of the UK

• The biggest obstacles to extending and deepening business involvement are uncertainty over how to make work experience worthwhile (42%), lack of interest among schools or pupils (38%) and problems in fitting involvement with the school timetable (30%)

• Among employers with links to schools and colleges, the two most common forms of support by far are offering work experience placements (80%) and careers advice and talks (80%)

• The overwhelming majority of employers across the UK believe the quality of careers advice for young people is not good enough (by a balance of -79%)

• Three quarters of businesses (75%) report that they are willing to play a greater role in supporting careers provision in schools and colleges, most commonly by working with individual schools or colleges (71%)

• The most common forms of work experience offered by businesses are work placements of a week or two (90%) and internships (54%).

Ensuring graduates have the skills for successful careers

• Less than one in ten businesses (9%) has cut back on graduate recruitment in the past year while more than three times as many (29%) increased their graduate intakes, giving a positive balance of +20% increasing graduate recruitment

• This represents a further expansion in graduate jobs, following positive balances of increased graduate intakes of +13% in 2015 and +18% in 2014

• Across firms of all sizes a positive balance increased hiring of graduates over the past year, but with particularly strong growth among firms employing 250 people or more (+23%)

• Businesses look first and foremost for graduates with the right attitudes and aptitudes to enable them to be effective in the workplace – nearly nine in ten employers (87%) rank these in their top considerations, far above factors such as the university attended (13%)

• For nearly two thirds of businesses the degree subject studied is also among the top three considerations (cited by 65%), particularly in sectors such as manufacturing and among engineering, science & hi-tech firms (86% and 83% respectively)

• Many businesses are satisfied with graduates’ basic skills and general readiness for employment, with more than four in five firms reporting satisfaction or better with graduates numeracy (91%) and literacy skills (86%), and nearly the same proportion satisfied or better with graduates’ problem solving (79%) and communication skills (77%).
The right combination: CBI/Pearson education and skills survey 2016
The ninth education and skills survey

The ninth CBI education and skills survey, run in partnership with Pearson, provides an authoritative guide to trends in business opinion, practice and future plans across a wide range of education and skills issues. It was conducted against the backdrop of somewhat slower economic growth in the face of uncertainty over global economic prospects and the referendum on UK membership of the EU. Publishing the survey results after the vote to leave, our economic and political landscape has changed markedly. With this turbulent backdrop it is more important than ever for the UK to develop the talents of its people to see productivity and prosperity grow, and this survey sets out the business priorities to achieve this.

KEY POINTS

- The survey was conducted during April and May 2016, with responses received from nearly 500 organisations, collectively employing more than 3.2 million people
- Participants ranged in size from firms with fewer than 50 employees to those with more than 5,000; SMEs accounted for nearly a third of respondents (31%)
- Respondents were drawn from all sectors of the economy, ranging from manufacturing (15%) and construction (10%), to the creative industries (6%) and professional services (10%)
- There were responses from all parts of the UK, with over half of participants (53%) having at least some employees in Northern Ireland, Scotland and/or Wales.

Conduct of the survey

The survey was conducted online during April and May 2016. Useable responses were received from 494 employers, collectively employing more than 3.2 million people, equivalent to 10% of all employees in the UK.1 Participant organisations are drawn from all sectors of the economy and range from very small firms to organisations with workforces in excess of 5,000 people.

The survey was completed by a senior executive in each organisation. In small and medium-sized companies, this was typically the managing director, chief executive or chairman. In larger firms, it was usually the human resources director or equivalent.

Respondents by sector

Responses were received from organisations in all sectors of the economy (Exhibit 1). Private sector respondents make up the overwhelming majority of participants (99%). Manufacturing firms form the single largest grouping of respondents (15%), while construction and engineering firms are also well represented (10% and 8% respectively). Professional services businesses make up one in ten of the sample (10%). Banking, finance and insurance is also well represented (7%), together with the creative industries (6%).

A further one in ten firms (10%) self-classified into the ‘Other’ category. Their core business activities range from social care and housing to quarrying and consultancy.
Companies of all sizes participated in the survey. Around one in six (16%) employ under 50 staff while at the other end of the scale close to one in four (23%) employ more than 5,000 people (Exhibit 2).

Using the official definition of small and medium enterprises (SMEs) as organisations employing fewer than 250 people, SMEs make up nearly a third (31%) of respondents to the survey.

### Respondents by location

The majority of respondents have employees based in several or most regions and nations of the UK (Exhibit 3). In line with previous years, respondents most commonly have at least some employees in London (53%) and the south east (45%). Across other localities, the range is from more than two in five respondents with at least part of their workforces based in the West Midlands (42%) to over a quarter with employees in Northern Ireland (26%).

More half of respondents (53%) have employees based in Scotland, Northern Ireland or Wales, where the schools and colleges are the responsibility of the devolved administrations.

### Exhibit 1 Respondents by economic sector (%)

- **Other**: 10%
- **Science/hi-tech/IT**: 5%
- **Education provider**: 10%
- **Public sector**: 1%
- **Other services**: 4%
- **Professional services**: 10%
- **Construction**: 10%
- **Transport & distribution**: 4%
- **Retail and hospitality**: 4%
- **Energy & water**: 4%
- **Engineering**: 6%
- **Banking, finance & insurance**: 7%
- **Manufacturing**: 15%
- **Creative industries**: 6%

### Exhibit 2 Respondents by company size (%)

- **5,000+ employees**: 23%
- **250-4,999 employees**: 46%
- **50-249 employees**: 15%
- **1-49 employees**: 16%
- **250,499 employees**: 4%

### Exhibit 3 Respondents by region (%)

- **Northern Ireland**: 26%
- **Wales**: 29%
- **Scotland**: 31%
- **East Midlands**: 32%
- **South west**: 33%
- **North west**: 34%
- **Yorkshire and Humberside**: 35%
- **East of England**: 38%
- **West Midlands**: 40%
- **London**: 53%
- **South east**: 51%

Respondents with employees in Scotland, Northern Ireland and/or Wales: 53%

Respondents with fewer than 250 employees: 51%
Demand for skills is rising fast

Businesses need increasing levels of skills among their employees – and the skill-sets in demand tomorrow will be different from those required today. This opens up new opportunities for people to progress at work. But the results from our survey show firms expect to find it increasingly hard to secure people with the right levels and mix of skills to fill their growing number of skilled jobs in the future. At such an early stage it is not clear how access to migrant skills might change as the UK leaves the European Union. But the priority for business is to tackle these issues and mismatches fully, so that the UK can push on to be a more productive, high-value economy and so people can move up in their careers.

KEY FINDINGS

- More than three quarters of businesses (77%) expect to have more job openings for people with higher-level skills over the coming years while just 3% expect to have fewer
- This gives a positive balance of +74% of businesses expecting to grow their number of higher-skilled employees
- They also expect to need more people with intermediate-level and leadership and management skills (with balances of +42% and +67% respectively)
- Only demand for those with low skills is expected to stand still or decline (with a negative balance of -6%)
- The proportion of businesses not confident there will be enough people available in the future with the skills to fill their high-skilled jobs has reached a new high (69%)
- These worries about the prospects of filling future high-skilled roles are shared by businesses across the UK (with the net balance of firms reporting they are confident minus those reporting not confident ranging from -42% in England to -51% in Northern Ireland).

Changing technologies and labour markets demand rising levels of skills...

Businesses across the UK continue to need increasingly skilled employees (Exhibit 4). As technologies, products, services and markets evolve, levels of skills needed will also change, and are set to increase. It is vitally important to find ways to add to people’s skills both to meet business needs and to enable individuals to progress into higher-skilled, better-paid work. The UK labour market has continually evolved and adapted through decades of economic change. Most recently we have seen a ‘new middle’ emerge; where middle-skilled, middle-paying jobs require higher skills than they have previously.2

The UK’s future relationship with the European Union will clearly impact access to global talent and skills. However, businesses have been clear about their domestic priorities and concerns prior to the referendum – and these continue to hold true. Over the next three to five years, more than three quarters of businesses (77%) expect to increase the number of employees using higher-level skills in their jobs while just 3% expect to reduce their number of higher-skilled employees. This gives a positive net balance of +74% of businesses expecting to grow their number of higher-skilled employees – an even larger positive balance than in earlier years.
Similarly, far more employers expect to need more people with leadership and management skills than expect to need fewer (69% expect to need more, just 2% to need fewer and 28% expect no change, producing a positive balance of +67%). The balance of businesses expecting to require more people with leadership and management skills has been above +60% every year since 2010 as the economic recovery has continued. These skills are integral to business growth driving innovation and productivity. There will also be more opportunities for those with intermediate-level skills, with a balance of +42% of firms expecting to need to fill more jobs at this level. The results of our survey show the strength of the drive towards a higher-skill, higher-value economy and the anticipated impact in terms of changing future skill mixes. However, that drive will not be possible if the right number of people with the right skills are not available. And individuals will be missing out on the opportunities for career and earnings progression that come with a move into more highly skilled work.

...while those with the lowest skill levels will be increasingly at risk

For those with only the lowest levels of skills, opportunities are likely to remain limited or even shrink. Over the next three to five years, more businesses (25%) expect to cut back on the number of low-skill jobs than expect to grow the number (19%). This gives a net balance of 6% of respondents expecting to decrease the number of low-skilled people they employ. As these results show, the best avenue to employment and income security lies through gaining and applying skills.

More opportunities for those with skills seem set to open up across all sectors...

Employer demand for more people with increased levels of skills in the next three to five years is expected to be strong across virtually all sectors of the economy (Exhibit 5). In sectors as diverse as manufacturing, construction, and services such as retail & hospitality and transport & distribution, positive balances of +50% and above of businesses anticipate needing more people with skills at intermediate levels in the years ahead. Demand for people with higher skills is expected to rise even more strongly. In construction the balance of firms believing they will be looking to recruit more people with higher skills is expected to be 89%.
skills stands at +80%, and across businesses in engineering, science & hi-tech the balance climbs to +90%.

Demand for people with leadership and management skills is also expected to grow rapidly. A balance of nearly two thirds of manufacturing firms (+63%) foresee needing more people with leadership and management skills in the next three to five years, rising to nearly nine in ten (+89%) among construction businesses.

Achieving economic growth depends on the capacity to meet these skill needs in a new and changing trade climate. And if we are to achieve faster growth than in recent years, that capacity will need to be even greater. This makes it essential both to keep developing the skills of those already in the workforce and to encourage young people to understand the opportunities open to them – so they can focus on developing the skills needed for a successful working life.

…but businesses fear growing shortages of skilled people

Many firms are concerned that there will not be sufficient people available to fill their growing numbers of skilled roles in the future.

The majority of firms remain confident in their ability to recruit to their low-skilled roles, with a positive balance of +59% (Exhibit 6). But this year the number of businesses confident about filling their intermediate-skilled jobs in the future has fallen and the number not confident has risen (Exhibit 7). This reduces to just 9% the net balance of businesses confident about the future supply of those with the intermediate skills they will need.

When it comes to filling high-skilled jobs in future, there are widespread concerns – and these have intensified (Exhibit 8). As we establish ourselves outside the European Union, we are likely to face an increase in labour market tightness. Not only will we have our existing UK skills shortages to address, but potentially reduced access to migrant skills will also impact businesses.

Last year more than half of employers were not confident they would be able to recruit enough high-skill employees (55%), while just over a third were confident (39%), giving a negative confidence balance of -16%. This year has seen further decline in confidence. The proportion of businesses not confident they will be able to meet their need for high-skilled people in the years ahead has climbed to more than two thirds (69%), with only a quarter (25%) confident. As a result, the negative balance of firms not confident they will be able to recruit to all their high-skill roles has reached a new low of -44%.
Worries over filling high-skilled posts apply across the UK...

Levels of confidence about being able to access sufficient high-skilled employees in the future are increasingly negative across all parts of the UK (Exhibit 9). The biggest shortfall in confidence is among those businesses with employees in Northern Ireland (a particularly negative -51%), but negative balances of confidence about being able to fill high-skilled roles in the future stand at more than 40% in every nation of the UK.

...and affect firms of all sizes and in key sectors

Like larger firms, SMEs expect to need more people with higher skills over the next three to five years (with a positive balance of +75% of SMEs anticipating their demand will increase). Just under a third of SMEs (31%) are confident there will be enough of the right people available. But nearly two thirds of SMEs (63%) fear that in the coming years there will not be enough people to fill their high-skilled jobs (giving a negative confidence balance of -32%). Among the largest businesses with 5,000 or more employees, the negative balance of confidence about the future availability of high-skilled people climbs to -52%.

In manufacturing (Exhibit 10), there has been a further fall in confidence about being able to recruit sufficient highly skilled staff in future (from a balance of -47% last year to -58% in 2016). The decline in confidence is even greater in construction, reaching a negative balance of -74% this year. Even among professional services firms, where confidence about the future availability of high-skilled people was less of an issue up to 2015, there is now a clear negative balance of business confidence about the future availability of sufficient people to fill their high-skilled jobs (-11%).

These findings highlight the urgent need for more action to boost skills. They also show the growing opportunities open to those who develop the right skill sets. In the face of such low levels of employer confidence about the future availability of people with the right skills, there is a real risk that investment plans may be put on hold. Some operations could be transferred overseas to locations with a more reliable skills supply. In particular, shortages of people skilled in science, technology, engineering and maths (STEM) have been a long-standing concern for businesses across the UK (Exhibit 11). This must be tackled effectively if the pace of future economic growth is not be held back.

The number of school leavers equipped with relevant STEM skills is lagging behind current and future business needs. The CBI has long advocated improving STEM participation in school, but there is often a struggle to prove to students the validity of STEM subjects in the working world.

Earlier this year the CBI supported the release of *Tough choices*. This was a report by the organisation Your Life, which looks into the reasons for students dropping STEM subjects at various stages of education. The STEM funnel they use demonstrates that girls in particular drop STEM subjects at an alarmingly fast rate from primary school all the way through secondary school.

In comparison, boys tend to fall off at a much slower rate and from their second or third year of secondary school.

One of the top methods of engaging students is through business involvement to give practical understanding of how STEM can be used in the wider world. Many CBI members already work hard at engaging with schools, but more must be done if we want tackle the widening skills gap, particularly for those with an interest in STEM subjects.

The CBI also worked closely with the Royal Society on *Making education your business*. This toolkit was designed specifically to help those businesses that are currently under-engaged with schools to increase their involvement.
Business is building paths to progression and higher productivity

Technology has already transformed our lives in ways we could not have dreamed of only a few years ago, and the same technologies are reshaping the jobs we do, how we work and the workplaces we operate in. This has major implications for all of us. In particular as skills needs and career paths change, development is an active, ongoing process in every business, with workplace culture and line managers playing a crucial role. Companies recognise that investment in development and progression is a vital offer for employees, as well as in nurturing the future workforce and addressing skills shortages. The introduction of the apprenticeship levy will impact how businesses train, with risks in the current design, that present challenges for businesses and those providing training.

KEY FINDINGS

- Firms are committed to developing talent in-house through a blend of practice and policies, including encouraging employees to discuss development with their line managers (84%). Operating a dedicated training and development budget (76%), and offering mentoring and coaching opportunities are also widespread (68%)
- Businesses are also active in supporting employees to gain new skills and qualifications by studying part-time (73%)
- More than four in five businesses (84%) will be maintaining or increasing their investment in training in the year ahead
- The balances of those planning to increase investment in training over those planning reductions stand at +18% or more in Scotland, Northern Ireland and Wales and at +14% in England
- More than three quarters of respondents (78%) make at least some use of external training and development providers: most commonly private providers, followed by further education colleges (88% and 46% respectively of those using an outside provider)
- The bulk of business training takes place in-house and on-the-job: among firms using external training partners, on average under half the training for employees is delivered by external providers (42% in 2016)
- The biggest source of concern for businesses using external partners is the cost of training, with a balance of only +24% of respondents satisfied with the cost of university programmes rising to +51% satisfied with the cost of private providers.
Paths to progression and higher productivity

The changing world of work – new technologies, new goods and services, and rapidly changing markets – means that career paths differ widely for individuals now compared with the past. Jobs have changed too, which presents new opportunities and challenges for businesses.

Development and progression are a priority for companies because they matter to their people and their business’s productivity. Businesses have a crucial role to play in nurturing a supportive environment with visible and senior commitment to progression, backed by actions and policies to deliver.

Each company approaches talent and people management differently. Business knows best when it comes to learning, development and training. As the economy, jobs and career paths have changed so have business approaches to talent and skills development. Much has been made of a reduction in the number of hours away from the workplace for training courses over the past two decades, with government suggesting that business is not doing enough. In reality, this shows that learning and development in the modern workplace take different forms than in the past. It is now believed that only 10% of learning in companies is through training courses, with 70% happening ‘on the job’ and 20% through mentoring and coaching.

An environment that nurtures and develops talent in-house...

Ambition, a supportive environment and the right opportunities are the key ingredients for progression. That was the finding of focus group research with employees from CBI member companies who had significantly progressed in their firms. While all of us have to take charge of our own careers, this needs to be supported within business by the right people, management and business practices.

Having the right framework of policies and practices in place within a firm is essential (Exhibit 12).

Exhibit 12 Approaches taken to talent development (%)

<table>
<thead>
<tr>
<th>Approach</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees encouraged to discuss development</td>
<td>77%</td>
</tr>
<tr>
<td>with line managers</td>
<td></td>
</tr>
<tr>
<td>Support for employees studying part-time</td>
<td>73%</td>
</tr>
<tr>
<td>Training and tools to help line managers</td>
<td>78%</td>
</tr>
<tr>
<td>discuss development</td>
<td></td>
</tr>
<tr>
<td>Dedicated training and development budget</td>
<td>76%</td>
</tr>
<tr>
<td>Mentoring and coaching opportunities offered</td>
<td>77%</td>
</tr>
<tr>
<td>Learning and development strategy</td>
<td>78%</td>
</tr>
<tr>
<td>Talent development a board priority</td>
<td>84%</td>
</tr>
<tr>
<td>Managers’ rewards reflect development of teams</td>
<td>68%</td>
</tr>
<tr>
<td>Other</td>
<td>63%</td>
</tr>
</tbody>
</table>

Line managers are the ones who bring policies to life and spot and nurture potential. Reflecting this, the most widespread approach to talent building among our respondents is to encourage employees to discuss development with their line managers (84%). This is underpinned by learning and development strategies in over three quarters of respondents (77%) while a dedicated training and development budget is similarly common (76%) to ring-fence investment in skills.

Businesses are actively supporting their employees to develop and progress. More than seven in ten respondents (73%), for example, offer support for employees studying part-time. This can take forms such as assistance with fees for relevant courses and time off for study or exams. To support on-the-job learning more than two thirds of respondents (72%) provide training and tools to help line managers in discussing development. Mentoring and coaching opportunities are also widespread to help employees fulfil their potential (68%).

Commitment from the top is important in sending positive messages about the value of skills training and shaping a culture in which talent development thrives. The CBI has previously called for development to be a board-level commitment, ensuring that career and talent development does not become a process or HR issue, but one which is led from the top. Encouragingly, in nearly two thirds of organisations (63%) talent development is a priority which is championed by the board.
…and businesses are stepping up their skills investment

It is clear that businesses recognise the ongoing need to develop and upskill their workforces. We asked respondents what impact the current economic climate will have on their plans to invest in the training and development of staff over the coming year. Encouragingly, more than four in five businesses (84%) will be maintaining or increasing their investment in the year ahead (Exhibit 13). This has been the pattern every year since 2011.

The results show nearly a third of firms (30%) plan to increase their level of investment, while only one in six (16%) plans to cut back, giving a positive balance of +14% intending to increase their training and development investment (Exhibit 14).

These findings reflect the widespread commitment to investment in skills and talent, and the view that training is vital to the health of a business. However, these findings were gathered before the full details and therefore the full impact of the new apprenticeship levy was known. So many businesses will not have been in a position to fully assess the levy’s impact. Amongst those companies that have modelled what the levy will mean for them, the wider survey results (Chapter 4) demonstrate that the introduction of the levy will have an impact on companies’ training profile, with some anticipating a cut back in non-apprenticeship training. This is deeply concerning, given the importance of skills and workforce development for people’s progression and for UK productivity.

Increasing skills investment is UK-wide

Plans to maintain or increase investment in training and development apply among employers right across the UK (Exhibit 15). The balances of those planning to increase investment over those planning reductions stand at +18% or more in Scotland, Northern Ireland and Wales compared with +14% in England.

Sector skills needs require different approaches

The skills needs of every business and sector are different. Overall demand for skills is growing (Chapter 2) but how each sector and company address that will differ. In some cases this requires bespoke on-the-job training to develop technical expertise. In other businesses it might relate to new products or customer-facing activity, while other companies address gaps in core and basic skills knowledge.
Repeating the pattern of previous years, construction heads the list of sectors (Exhibit 16) where a positive balance of firms plans to increase investment over those planning reductions (with a balance of +42%).

Major areas of services also anticipate greater investment in training and development, with a balance of +28% among firms in retail & hospitality and transport & distribution. These sectors play a vital role in the economy through offering a significant number of entry level, low-skilled roles that give people a first step into the labour market. Progression needs to be a focus so that people can take opportunities in their job to develop or upskill and move into higher-skill, higher-paying roles. This is particularly important given the move to a more highly skilled UK economy, which has created a ‘new middle’ of the labour market, making progression a longer route for those with low skill levels. Therefore it is encouraging to see over a quarter (+28%) of firms in these sectors planning to increase their training investment.

A positive balance of firms in engineering, science & hi-tech (+19%) also plan further increases in training and development investment over the coming 12 months.

Larger firms in particular are looking to increase their investment in training and development of workforce skills (with a positive balance of +17% planning increases as compared with +8% among SMEs). It is these large firms which the government is looking to in paying the apprenticeship levy, even though many are already heavily invested in training and have plans to do more.

Businesses are delivering the bulk of training in-house complemented by external partners

More than three quarters of respondents to our survey (78%) make at least some use of external training and development providers. These can often bring fresh approaches, as well as help spread new techniques and best practice between organisations.

However, among those firms using external training partners it is still the case that more than half of the training delivered in respondent businesses is delivered in-house (58% compared with 42% by external providers in 2016) (Exhibit 17). This demonstrates the value placed on learning from those within the business, with real on-the-job experience and expertise.

With more limited in-house resources, SMEs tend to rely more on external training partners (Exhibit 18). Among the smallest firms, with under 50 employees, just over half the training and development of employees is typically delivered by outside providers (57% on average).

For the largest businesses, the bulk of training is being delivered through in-house expertise with just a third of training on average delivered by external specialists (37% on average among those with 5,000 or more employees). Again, it is these companies that will bear the brunt of the apprenticeship levy cost but for whom the current model – of recouping money for externally provided training – does not match existing business practice.

---

**Exhibit 16** Balance of employers planning to increase training spend by sector (%)*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>42</td>
</tr>
<tr>
<td>Retail &amp; hospitality &amp; transport</td>
<td>28</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19</td>
</tr>
<tr>
<td>Professional services</td>
<td>14</td>
</tr>
<tr>
<td>Larger firms</td>
<td>17</td>
</tr>
<tr>
<td>SMEs</td>
<td>8</td>
</tr>
<tr>
<td>All respondents</td>
<td>16</td>
</tr>
</tbody>
</table>

* Net balance of employers planning to increase training spend minus those planning to decrease spend

**Exhibit 17** Training delivered by external providers (mean %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>20</td>
</tr>
<tr>
<td>2015</td>
<td>25</td>
</tr>
<tr>
<td>2016</td>
<td>30</td>
</tr>
</tbody>
</table>

**Exhibit 18** Training delivered by external providers by organisation size (mean %)

<table>
<thead>
<tr>
<th>Size</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-49</td>
<td>26</td>
</tr>
<tr>
<td>50-249</td>
<td>25</td>
</tr>
<tr>
<td>250-499</td>
<td>20</td>
</tr>
<tr>
<td>5,000+</td>
<td>17</td>
</tr>
<tr>
<td>All respondents</td>
<td>35</td>
</tr>
</tbody>
</table>
Private training providers are most widely used

The most commonly used external training partners are private providers of various kinds (Exhibit 19). More than four in five (88%) of those businesses drawing on external training expertise look to private trainers. They are often used to deliver short, unaccredited courses to address particular needs or changes.

Further education (FE) colleges are also widely used (by 46% of those respondents using any training provider). They tend to be particularly active in supporting delivery of apprenticeship programmes and similar skills training. Although less commonly used, many universities have expanded their services to businesses in recent years. Among those firms using outside providers, a third (34%) draw on universities for at least some development programmes. This often includes innovative collaboration on course design, drawing on specialisms and academic expertise, geared to the needs of managers or for employees engaged with advanced technology.

Businesses are looking for tailored provision for their organisation and people

Asked for their evaluation of training provision, businesses give private providers the highest satisfaction ratings on almost every measure (Exhibit 20). On overall responsiveness to training requirements, for example, a balance of +83% are satisfied with private providers as compared with +49% for universities and +42% for FE colleges.

Delivery of training and development programmes with the right content, and at times and locations that fit with business and employee needs is increasingly important. Private providers are now scoring highly on their willingness to tailor training to the business client, in terms of content, location and timing, with a positive balance of over +80% satisfaction ratings on those counts. Satisfaction ratings for universities and FE colleges are below +60% on most measures.

Exhibit 19 Type of external providers used (%)

Exhibit 20 Balance of employer satisfaction with training providers (%)*

Cost is always a concern for any business – and it is this aspect of training with which our respondents express the lowest levels of satisfaction. The positive balance of those businesses satisfied with the cost of university programmes over those dissatisfied stands at only +24%. Satisfaction with the cost of FE college provision is only a little better (at +36%) while for private providers the balance reaches +51%.

Our findings point to the need for external training and development providers, particularly FE colleges but also universities, to up their game in terms of both responsiveness and delivery of programmes that are fully relevant to business requirements. There is already widespread recognition of the need to strengthen the UK’s technical and vocational education system, highlighted by Lord Sainsbury’s review of these routes in summer 2016.10

This will become particularly pressing given the introduction of the apprenticeship levy, which will change the employer training landscape considerably. If the levy is to improve the volume and quality of training, the provision is crucial. Providers, working with employers will need to understand and act on what is needed for a truly world-class system of skills development, enabling UK businesses and employees to prosper in the years ahead.
The right combination: CBI/Pearson education and skills survey 2016
Skills matter to everyone and to our economy. Closing the skills gap in the long term is a shared challenge for businesses, government and the education system. Apprenticeships are a great route for training, development and to act as a springboard to a good career. Firms, large ones in particular, are committed to apprenticeships and many are looking to do more. But there is widespread concern that the new levy will damage, not improve, training opportunities. Those worries need to be addressed before its introduction. Otherwise the policy risks being a shake-up of the skill system that will not deliver what apprentices, business or the economy need.

**KEY FINDINGS**

- Businesses see apprenticeships as a valuable route to developing and upskilling their workforces. Involvement in apprenticeship programmes is already widespread (71%), with further respondents (16%) indicating plans to create a programme in the next three years.
- There is deep concern about the impact of the apprenticeship levy on both existing training and business operations, most commonly in the form of causing increased prices or reduced margins (45%), cuts to investment in non-apprenticeship training (39%), and downward pressure on wages (22%).
- A third of respondents (34%) will continue their current approach to training and apprenticeships, and plan to absorb the cost as a tax.
- Many businesses struggle to recruit apprentices, with close to half (45%) experiencing or anticipating recruitment difficulties in the next three years.
- This is a UK-wide problem, with half of all businesses operating in Scotland (53%), Wales (52%) and Northern Ireland (50%) experiencing and/or anticipating difficulty in hiring over the next three years.
- Business confidence in the new system will depend on the levy being responsive to business need (71%) and businesses having increased flexibility in how they spend levy funds (65%).
- A coherent, UK-wide operation of the levy is vital, with over half of all businesses (57%) demanding better clarity between the UK and the devolved nations as to how the system will work.

**Apprenticeship numbers have grown healthily**

Apprenticeships are a real business success story. Recent years have seen significant growth in the number of businesses developing and delivering apprenticeship schemes. In 2014/15 there was a 13% growth in businesses embarking on apprenticeship programmes compared to the previous 12 months, with total starts reaching 499,900. Encouragingly, in that year there was an increase in the number of higher level starts. To make progress on the overall skills gaps this proportion must grow, with lower level programmes acting as a stepping stone to further skills development and training.

Blending on-the-job experience with tailored learning which can be brought to life immediately in the workplace, apprenticeships are an effective and valuable route to for an individual to develop their skills and make a strong start to their career. Apprenticeship programmes reap significant benefits for businesses, by addressing skills gaps within their business as a whole and fostering loyalty within apprentice cohorts that leads to very good employee retention.

Our results demonstrate steady growth in business engagement with apprenticeships. More than seven out of ten (71%) of organisations responding to our survey confirmed that they are involved in an apprenticeship programme (Exhibit 21). This is an increase of 23% from 2008, and 5% from this time last year.
Three million careers, not three million apprenticeship starts

Current apprenticeship policy is being driven by the government target of three million new apprenticeships starts by 2020, based on the Conservative 2015 election manifesto. The ambition of growing numbers is positive, but prioritising numbers alone carries risks.

To deliver the skills needed in our economy the overriding priority for skills reform should be the quality of training and the opportunities it opens up. For businesses, three million apprentice starts would only be meaningful if the outcome was three million careers in skilled work, not just three million starts on a course.

The apprenticeship levy – a positive ambition but a risky mechanism

Driven by the need to meet this three million apprenticeship target and cuts in the adult skills budget, the government announced the introduction of an apprenticeship levy in July 2015.

Applicable to all employers across all sectors and payable by employers in the UK at 0.5% of paybill in excess of £3m a year, this will generate revenue of £3bn a year to fund apprenticeship training.

This survey was conducted as business waited for further detail on the apprenticeship levy. Design of the system is ongoing – with announcements on the policy due in summer 2016 – in order to meet the implementation deadline of April 2017.

From the available detail businesses see very limited scope for cost recovery, despite a government promise that businesses would be able to get back more than they put in. This is because the levy design prioritises off-the-job, externally delivered training, which only represents a small proportion of the cost of an apprenticeship. A quality apprenticeship scheme is much more than classroom learning but is the staff time, capital investment and on-the-job training that brings formal learning to life. This design limits the scope of cost recovery for levy-paying businesses and allows the system to cross-subsidise provision by non-levy payers.

Business commitment to apprenticeships

Business is already heavily invested in apprenticeships and committed to doing more, for reasons of business need. This survey was conducted as business waited for further detail on the apprenticeship levy and demonstrates that, while the prospects for apprenticeship growth are fairly positive, this will largely depend on the impact that the levy has.

Across all of our respondents this year, 71% are either already running an apprenticeship programme or are planning to expand one. In addition, 16% are planning to create a programme in the next three years. This means the number of businesses that do not have a programme or have no intention of getting involved, has fallen 6% from last year (Exhibit 22).  

This widespread business engagement in apprenticeships and positive plans for the future has driven business concern about the levy. Committed apprenticeship employers, those with existing schemes and ones seeking to expand, struggle to...
see how the levy will benefit their current training approach. To give the levy the best chance of success it needs to build on what works and how business training operates currently – with skills outcomes, not fiscal needs, as the primary goal.

All sectors recognise the value of apprenticeships – including less traditional sectors

Sectors such as manufacturing or engineering have a strong tradition of apprenticeship provision, but these findings show that companies across the economy are engaging with apprenticeships and using them to develop the skills that they need (Exhibit 23).

Retail, hospitality, transport and distribution businesses are making the most use of apprenticeships, with more than four out of five respondents (85%) being involved in an apprenticeship programme. Manufacturing, as well as engineering and science, hi-tech and IT, have more than three-quarters of businesses delivering programmes (82% and 78% respectively).

Encouragingly, 50% of respondents in the creative industries who do not currently have schemes plan to introduce them in the next three years.

Each sector has very different skills needs, structures and routes to progression. Therefore provision within each sector, and individual business, varies considerably. To maintain and increase apprenticeship provision across all sectors it is vital the new levy system takes account of different sector approaches and gives them the flexibility to train according to their specific needs.

Larger companies lead on apprenticeship provision

Engagement with apprenticeships varies significantly by size. Larger businesses are heavily investing in apprenticeships, but the majority of the smallest firms do not have any engagement at all (Exhibit 24). Leading the way, larger businesses have an engagement rate of close to nine out of ten (89%) for businesses with 5,000 employees or more.

These companies are committed to apprenticeship provision not just within their own firm but in the wider business community. Many large employers were closely involved with the Trailblazer reforms and often support apprenticeship provision in their supply chains. It is these employers who will be most heavily hit by the apprenticeship levy – which the government intends to drive up numbers and provision – even though they are already heavily invested in delivering quality apprenticeships.
For apprenticeship growth the greatest scope is amongst small or medium-sized businesses. Our survey shows that more than half (58%) of medium-sized business respondents currently participate in apprenticeship training schemes, while only a little over a quarter (27%) of small businesses currently participate in apprenticeship schemes. These results demonstrate that effective action to grow apprenticeship provision must reflect the needs of these firms.

The design of the levy puts future apprenticeship provision at risk

As these findings show, business is already active and invested on apprenticeships. Companies could do more and many want to do more – but it is important that reforms build on what works, and are undertaken in collaboration with business. At this stage, based on what businesses know about the levy, they are deeply concerned about the potential outcomes, which do not align with either the overarching government aim or what the economy, business or apprentices need (Exhibit 25).

We asked respondents about the potential impact of the levy. Close to half of all our respondents expect that the increase in business costs would lead to increasing prices and smaller margins (45%).

With the limited ability to cost recover, companies will be forced to meet the levy costs from elsewhere in the business. Over a third (39%) will decrease the level of investment in non-apprenticeship training and nearly a quarter (22%) expect the impact to be downward pressure on wages to meet costs. The risk to pay – through the levy increasing the wider cumulative burden of policy costs on companies – was identified by the Office of Budget Responsibility, which forecast last November that the levy would restrict cumulative wage growth by 0.7% over the next five years.15

Some businesses will use the introduction of the levy to adapt their approach to apprenticeship provision, but it may not result in an overall increase in training. While close to half (45%) of respondents plan to create new apprenticeship programmes and over a third (38%) expect to increase apprenticeship places. Much of this will be substitution of existing training or rebadging schemes as apprenticeships and is demonstrated in the findings. As well as the third (39%) who will cut back on non-apprenticeship training, over a quarter (26%) will reduce the number of graduates they recruit.

The findings call into question whether the policy will lead to increased business engagement with apprenticeships overall. Over a third of respondents (34%) do not anticipate any change to their training as a result of the levy, and close to a fifth of respondents (17%) anticipate that the impact of the levy will be a reduction in the number of apprenticeship places.

As the levy is a major skills reform for employers – impacting on their people and financial management – businesses anticipate managing the levy system and navigating the processes will be complex. Nearly two fifths (38%) of survey respondents expect they will have to create new business processes to develop, deliver and monitor apprenticeship schemes.

Exhibit 25 Expected impact of introduction of the apprenticeship levy (%)

<table>
<thead>
<tr>
<th>Expected Impact</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in business costs leading to increased prices/smaller margins</td>
<td>45%</td>
</tr>
<tr>
<td>Creation of new apprenticeship programmes</td>
<td>38%</td>
</tr>
<tr>
<td>Decrease in number of apprenticeship places</td>
<td>24%</td>
</tr>
<tr>
<td>Business absorbing cost as tax with no change to training profile</td>
<td>20%</td>
</tr>
<tr>
<td>Decrease in number of graduates recruited</td>
<td>20%</td>
</tr>
<tr>
<td>Increase in business costs leading to business efficiencies</td>
<td>17%</td>
</tr>
<tr>
<td>Downward pressure on wages to meet levy costs</td>
<td>14%</td>
</tr>
<tr>
<td>Decrease in the number of apprenticeship places</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

Those who believe the levy will result in increased prices which lead to smaller margins
Firms of all sizes will be impacted by the levy

Our findings show that the impact of the apprenticeship levy varies according to the size of company ([Exhibit 26]). Many small and medium-sized firms will be caught by the £3m payroll threshold for paying the apprenticeship levy, despite the government saying that only 2% of UK firms would pay the tax.

The biggest concern small businesses paying the levy have is increased prices and smaller margins – nearly half of small businesses (46%) list this as the primary impact. While a third (32%) will create new programmes and just over a fifth (22%) will increase the number of apprenticeship places, over a third will decrease the number of apprenticeship places (35%).

It’s clear that new schemes and places will be to the detriment of other training and career routes, with a third (32%) of small business respondents expecting to decrease investment in non-apprenticeship training activities and close to four in ten (38%) expecting a decrease in the number of graduates they recruit.

A ‘scale-up tax’

Amongst medium-sized businesses the most common response, from close to half (43%), is that respondents will absorb the levy as an additional tax with no change to their training profile. Given the scope for apprenticeship growth within these companies, as well as their position with the UK economy as job creators, it is deeply concerning that the levy could act as a ‘scale-up tax’. Over a third (35%) of these firms expect that the levy will mean that they will have to increase their prices and reduce their margins.

Three in ten (30%) medium-sized companies expect to increase the number of apprenticeship places while under a quarter (24%) expect to create new apprenticeship programmes. This provision may be rebadging of existing training or graduate provision, as a fifth (20%) of medium-sized firms expect to decrease levels of investment in non-apprentice training and over one in ten (13%) to decrease the number of graduates recruited.

---

Exhibit 26: Expected impact of introduction of the apprenticeship levy by company size (%)
Larger business face the greatest levy obligation. Two thirds of the largest firms (68%) will create new apprenticeship programmes, but our findings demonstrate that this will be at the expense of other training or absorbed as a cost within the business. More than half (53%) will decrease the level of investment in non-apprenticeship training programmes. Nearly half (46%) of these respondents expect the levy will lead to increased prices/smaller margins, and over a third (35%) expect the increase in business costs to lead to business efficiencies.

This range of views from large businesses reflects the size of the levy obligation, which will make cost recovery particularly difficult. Some will consider becoming training providers which will add a large additional process cost too, and over half (56%) expect to create new business processes to develop, deliver and monitor apprenticeship schemes.

Apprenticeship recruitment is a perpetual challenge for businesses

Business are heavily engaged in apprenticeship programmes and committed to investing in schemes. When it comes to recruiting apprentices, our survey shows that many businesses struggle to fill places (Exhibit 27) and that the advice and signposting is failing young people. Close to half (46%) of respondents have experienced difficulty in recruiting apprentices or expect to do so in the next three years.

Work-based, relevant training apprenticeships open up a huge range of opportunities for those who complete them. Unfortunately, many young people and their parents are not aware of this when they make their choices, and teachers or career advisers may not encourage students to explore work-based learning routes. It is vital for young people to be signposted towards apprenticeships at appropriate stages of their education (see Chapter 6), through good quality careers advice and by those around them.

This is a UK-wide issue: half of businesses operating in Scotland (53%), Wales (52%) and Northern Ireland (50%) experience difficulty already, or anticipate it in the next three years (Exhibit 27). Devolved governments need to ensure that education and careers systems raise awareness of the opportunities and pathways available to young adults to help them make the right choices (see Chapter 6).

Business knows best on apprenticeships...

A successful skills system relies on collaboration between business, government and education and skills bodies. Employers have long called for greater control and ownership of the skill system. Successive governments have promised to place control in the hands of employers – through reforms such as the Employer Ownership Pilots – but the reality has rarely matched the rhetoric, with bureaucracy deterring businesses and forcing them to walk away.

With business now funding and delivering all apprenticeship training, the new levy system must have an employer voice built into the process. In response to the CBI’s calls for an independent business body, the creation of the Institute for Apprenticeships (IfA) is a positive step to ensure companies have a role in shaping the system. With the imminent introduction of the levy, the business priority is that the policy can be shaped to work in the best possible way for their apprentices, companies and the wider economy.

Exhibit 27 Organisations that experience, or anticipate experiencing, difficulty recruiting for apprenticeships (%)

<table>
<thead>
<tr>
<th>UK</th>
<th>England</th>
<th>Scotland</th>
<th>Wales</th>
<th>Northern Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Yes – and expect to experience difficulty recruiting in the next three years</td>
<td>26</td>
<td>27</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>No – but have in the past</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>No – but anticipate difficulty recruiting in the next three years</td>
<td>12</td>
<td>11</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>No – have never experienced any</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>Don’t know</td>
<td>10</td>
<td>11</td>
<td>4</td>
<td>8</td>
</tr>
</tbody>
</table>
...and how to make the levy work

Our findings show what is needed to give businesses more confidence in the new system (Exhibit 28). The most important issue for business is to ensure that the levy system is flexible and responsive enough to address employer skills needs. As the top priority across almost all sizes of business, nearly three quarters of firms (71%) want to see the promises of a genuinely employer-led system delivered. There is widespread support for businesses being able to use their levy funds in the way that best suits their business model and apprentices. Quality schemes are much more than classroom learning. This is demonstrated by the priority given to the ability to use funds on costs incurred while delivering training (65% of all respondents, 53% of small firms rising to 74% of large). Over half of businesses (61%) believe that flexibility in the use of levy funds, such as the ability to pool funds or transfer money within their supply chain would help the system succeed.

Given the limited scope for cost recovery under the levy, the level at which the funding rates are set is identified as an issue by over a third of companies (37%). A quarter (25%) want to see the business-led IPA given a more prominent role in the system – including having a role in setting the levy.

Government must take the time to work with businesses and the devolved nations

Having a coherent, simple system across the UK is essential (Exhibit 29). The levy is a UK-wide tax but the decisions on implementation will be taken at national level.

Over half of respondents (57%, Exhibit 28) want clear communication on how the system will operate in each nation and UK-wide. Some two-fifths of businesses in Scotland (41%), Wales (40%) and Northern Ireland (37%) want to understand how the new system will work, as the tight timescales and different skills system with competing priorities are causing widespread concern amongst companies.
As each of the devolved nations determines how the levy will interact with their skill system, it is vital that levy funds are seen as business’s money – not just part of the fiscal settlement with Westminster – and there is the flexibility to use them as each business needs.

A radical rethink is needed if the government wants to achieve its aims through the levy

Firms across the UK are emphatic that tackling skills shortages is the only way to succeed and create prosperity. Business wants to see an increase in quality apprenticeships – based on the evidence from these results as to what will give business confidence – and stands ready to work with the government to achieve this.

In creating this new system, the government has the opportunity to deliver a once-in-a-generation revolution in skills policy, but the current design and timetable of the levy risk it simply being a once-in-a-parliament shake-up of skills provision.

The CBI called for a radical rethink of the levy in April 2016, highlighting the strength and depth of business concern about the current levy policy and putting forward business solutions for how to address this. Government must take the time to listen to business to ensure that the levy works for everyone, rather than rushing out a poorly thought-through plan.

Business wants an apprenticeship plan that can tackle long-term skills shortages and help careers develop and prosper – and business believes that is what government wants too.
Shaping a successful schools system is a shared challenge

What happens in schools is critically important for the future of every young person and the prosperity of our society. The personal qualities and knowledge young people develop during their time at school lay the foundations for the rest of their lives. As we enter a new era outside the European Union, it is more important than ever that our education system is able to prepare young adults for work in the twenty-first century – because success for our young people and school leavers is success for the UK economy. Our future prosperity, as a nation and as individuals, is best improved through high quality education. Competitor nations across the world are continually driving up standards of educational and personal development for their young citizens. So if British young people, our businesses and our economy are to compete successfully, we need to ensure we are building truly world-class school systems in every part of the UK.

KEY FINDINGS

- By far the most important factor employers weigh up when recruiting school and college leavers is their attitude to work (89%) followed by their aptitude for work (66%); these rank well ahead of formal qualifications (23%)
- The school system is starting to put more emphasis on personal development, and this trend needs to be taken further
- School and college is not equipping all young people with what they need to succeed: around half of businesses are not satisfied with school leavers’ work experience (56%) or their skills in communication (50%), analysis (50%) and self-management (48%)
- Many also report room for improvement in essential capabilities such as business and customer awareness (69%), literacy and use of English (32%), basic numeracy (29%), and teamworking (26%)
- In the time up to age 14 businesses want to see schools helping young people develop general awareness of work through engagement with business (42%) and better careers advice (38%)
- There should be a focus in this phase on developing pupils’ core skills such as communication skills (38%), self-management (37%) and literacy and numeracy (35%)
- For the 14-19 age group, employers believe a top priority for schools and colleges should be developing awareness of working life with support from businesses (42%) as well as improving the quality of careers advice (42%)
- There should also be emphasis on helping young people develop their self-management and personal behaviour (36%) and giving them more opportunities for work experience (24%)
- The foreign languages most commonly mentioned as in demand among businesses are the major EU languages of French (50%), German (47%) and Spanish (30%)
- When recruiting school and college leavers, the great majority of businesses either value academic and vocational qualifications without a particular preference between them (45%) or prefer recruits to hold a mix of both academic and vocational qualifications (27%).
Setting young people up for success...
The quality of our education system in the UK is the single biggest long-term factor in determining the success of our economy and society. Our international competitors are constantly pushing up levels of attainment in their schools. First the UK must close the gap with other leading nations and then maintain a position as one of the global leaders in school systems. As the political and economic landscape of the UK alters, it is more important than ever that the UK education system supports us all to compete effectively.

It is essential that all young people get the support they need in our schools and colleges to fulfil their potential – and businesses rely on schools to help young people develop the attributes and knowledge that will enable them to succeed in their working lives. This means developing key skills and knowledge in combination with the attitudes and behaviours needed for success in life and work. Stretching academic standards alone are not sufficient.

...and that means helping them develop skills that go beyond academic ability alone

Businesses are clear that first and foremost they want to recruit young people with attitudes and attributes such as resilience, enthusiasm and creativity. They are not selecting simply on the basis of academic ability.

Our survey results show the overwhelming importance of young people’s attitudes to work in determining their job prospects and future success (Exhibit 30). More than four out of five employers (89%) rate this as one of their three most important considerations. It consistently ranks far ahead of every other factor by a wide margin. The CBI has long pointed to the central importance of a positive attitude and resilience, demonstrated for example by a readiness to take part, openness to new ideas and activities, and a desire to achieve. This attitude also involves understanding that hard work and effort yield results.

Also ranking ahead of formal results and qualifications are young people’s aptitudes for work (cited as important by 66%). Core skills such as basic literacy and numeracy (37%) are also more important than academic results or formal qualifications obtained (cited by 36% and 23% respectively as among the three most important factors). One in five businesses also view business awareness and relevant work experience as among the three top considerations when recruiting young people (21% and 20% respectively).

Ensuring young people develop the attitudes and behaviours they need

In 2012, the CBI published First steps, a comprehensive look at the education system in England and the changes needed to deliver the successful outcomes that we all want to see. This was followed by reports on these issues in the devolved nations. The key attitudes and behaviours that employers want to see young people developing have in the past too rarely been a focus within the education system. But this is starting to change.

The Department for Education in England has begun to make progress on this agenda. We have seen the addition of a new priority for the department to support schools to prepare well-rounded young people for success in adult life. An award scheme has been launched to recognise individual schools for their achievements in terms of the personal development of their pupils. These are positive steps that should be warmly welcomed.
But there is more to do to ensure this activity becomes mainstream and is not seen as an optional add-on that only the best schools choose to do.

In England, the accountability system that has been in place has for years incentivised a focus on solely academic outcomes at the expense of wider personal development. In schools – as in business – what gets measured is what gets done. And in a system where performance is judged by narrow academic results and progress, the broader development aspect of education gets pushed to the sidelines.

Changing the way we measure and judge schools across the UK will help embed the importance of wider development of attitudes and aptitudes in the overall culture of schools. In England, this means reforms to the way Ofsted judges schools. We have started to see some progress, with a reformed framework introducing a new judgement on ‘personal development, behaviour and welfare’ that will now impact on the overall grading for a school. But this does not yet go far enough – it is still something that is seen as a secondary priority, and indeed has a broader focus than on the personal development areas outlined above.

The next step towards making this wider development of young people a real focus for schools is to embed it in all aspects of school life – not just something that happens in extra-curricular activities such as debating societies or sports clubs, but something that is present in the learning and teaching of core academic subjects.

Giving young people the chance to hone essential skills...

The results from our survey show there are challenges. There are still too many young people leaving school and college not fully equipped with the skills and attributes essential for their working lives (Exhibit 31).

More than a third of businesses (37%) report they are not satisfied with school and college leavers’ attitudes to work. This is a troubling finding, given that this is the single most important consideration when young people are seeking that critical first job opening. Almost as concerning is the finding that nearly half (48%) of businesses are not satisfied with the resilience and self-management of young people, while more than a quarter (26%) report poor teamworking skills. These are capacities needed for virtually every job in every sector.

Respondents also voice concerns on a range of other skills. Close to a third of firms, for example, are not satisfied with the literacy/use of English (32%) and basic numeracy (29%) of young people entering the world of work. More than two in five (44%) report concerns about young people’s ability to solve problems, while half see their communication skills (50%) and skills of analysis (50%) as not good enough. All these are essential skills for the workplace and the rest of life. An emphasis on GCSE grades (or equivalent) and school league tables at the expense of wider personal development has too often distracted from the need to support each and every young person as they develop these core capabilities. Our results highlight the need to incentivise schools to focus on more holistic development by changing accountability mechanisms.
...so they are ready for future opportunities

Year after year, more than half of businesses report concerns about young people's lack of work experience. This year’s results maintain that pattern, with 56% of businesses not satisfied with school and college leavers’ work experience. Work experience forms a key bridge between education and the world of work by giving insight into the opportunities ahead and helping connect classroom learning with future career possibilities.

The coalition government made the mistake of ending the statutory duty on schools in England to provide every pupil at Key Stage 4 with work-related learning. While not every placement was of uniformly high quality, the emphasis should have been on improving schemes, not abandoning them. A work experience placement gives young people a critically important taste of workplace life – and the chance to reflect on the lessons of it.

With more than two thirds of employers (69%) not satisfied with levels of business and customer awareness among school and college leavers, work experience placements can help young people gain practical insights and enhance their future employment prospects. It is time for an urgent rethink on how we can best reinvigorate work experience and ensure it adds real value for all young people.22

Core skills need to remain a focus

Viewing employer experience over a five-year perspective (Exhibit 32), we are not seeing consistent progress in improving school leavers’ core skills – highlighting the need to ensure that these become and remain a focus throughout the school system. Levels of satisfaction among businesses are greatest in relation to the IT skills of young people (with 92% of businesses reporting school and college leavers’ skills as satisfactory or better in 2016).

In other essential areas such as numeracy, literacy/use of English and attitudes to work, there has been no sustained improvement in recent years. In all these areas, at least three in ten employers every year report that they are not satisfied with the capabilities of school and college leavers. The results show the need for a step change to lay the essential foundations for young people’s working lives during their time at school.

Businesses want more awareness of work and a focus on core skills up to age 14

Up to the age of 14, businesses want to see schools helping young people develop general awareness of work and careers while focusing on developing their core skills (Exhibit 33).
Asked to identify the three most important priority areas they believe schools should focus on up to age 14, the top response is more engagement with business to give young people a better understanding of the world of work (42%). This ranks just ahead of improving the quality of careers advice (38%). Better advice is certainly essential to help young people make the right decisions about subjects and future avenues of study and work from 14 onwards. We return to these themes in the next Chapter.

In terms of skills and capabilities, businesses want to see schools ensuring that young people master the essentials. Businesses see it as a priority for schools to help pupils develop the effective communication skills that are so essential in personal and working life (a top-three priority for 38% of respondents). Enabling young people to develop self-management and appropriate personal behaviour (37%) is another important aim. Qualities such as resilience and the capacity to focus are important both for future learning and success in any work environment. Unless these become firmly embedded during their time at school, it will be hard for young people to thrive later in life.

Attaining clear goals on literacy and numeracy also ranks highly as a priority (a top priority for 35%). Without sustained progress in these areas during their time at school, particularly the primary phase, evidence shows that young people will find it almost impossible catch up. There is no room for complacency. Standards have been rising, but one child in five (20%) in England still leaves primary school without reaching expected standards in reading, writing and maths combined. In over 670 schools in England, fewer than 65% of pupils attain the expected standard (equivalent to 5% of all state-funded mainstream schools).

Employers urging more school engagement as one of their top three education priorities

Priorities for the 14-19 group should be preparation for future success

For young people in the 14-19 age bracket, employers want to see a much greater focus on work awareness and helping these young people develop a clear sense of future direction (Exhibit 34).

Asked to identify their three top priority areas for action by schools and colleges for this age group, more than two in five respondents (42%) highlight the need for more engagement with businesses. More extensive engagement should improve young people’s understanding of the skills and attitudes required at work and inspire them about their options. Young people themselves want more help in this area: all too often they find it difficult to connect the relevance of school and learning to their future work aims and ambitions. The same proportion of respondents (42%) also want to see an improvement in the quality of careers advice running alongside higher levels of business engagement. Young people need better advice and guidance on the varied routes open to them and the qualifications they will require to pursue them.
They also need the chance to gain a taste of working life. Nearly a quarter of businesses (24%) see giving young people more opportunities for relevant work experience as a priority area for action.

Together with developing greater work awareness among the 14-19 age group, businesses also want schools and colleges to help young people build the core competencies of self-management and personal behaviour (36%) and communication skills (23%).

Looking to the future careers of 14-19 year-olds, more than one in five businesses (22%) see it as a priority for schools to improve provision of, and signposting to, a range of vocational options. This is particularly important as the EBacc is introduced – we need to ensure that young people are not discouraged from vocational options in terms of subjects or institutions.

The same proportion (22%) want to see better signposting to a range of options in higher education, which could include raising awareness of part-time and vocational programmes of study.

The major EU languages are most in demand

English is of course now the international language of business. That has been a real benefit for the UK, and it will continue to be the case as we seek to shape a new role and status in the global economy outside the European Union. But there can be great advantages for British businesses if employees can communicate with at least reasonable proficiency in the language of clients, customers and suppliers.

The major European languages are those most commonly mentioned as being in demand (Exhibit 35), led by French (50%) and German (47%). The major European economies still represent – along with the US – the largest export markets for British goods. Spanish too is cited as useful by nearly a third of respondents (30%), reflecting its use both in Europe and in the Spanish-speaking New World.

The emphasis on European languages is reflected in schools, with teaching of French far-outstripping every other language in primary schools in England.\(^\text{19}\) While the drive to increase language learning at primary level is welcome, only a little over half of all primary schools in England have yet to access specialist expertise in the teaching of languages.

Exhibit 35 Foreign languages rated as useful to the business (%)

<table>
<thead>
<tr>
<th>Language</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>French</td>
<td>50</td>
<td>49</td>
<td>47</td>
</tr>
<tr>
<td>German</td>
<td>47</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>Spanish</td>
<td>36</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td>Mandarin</td>
<td>27</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>Russian</td>
<td>18</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Arabic</td>
<td>14</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Portuguese</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Dutch</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Korean</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Cantonese</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Hebrew</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Japanese</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Italian</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

* not included in 2014
Employers value academic and vocational qualifications

As seen earlier (Exhibit 30, page 31), businesses look beyond academic results and formal qualifications to wider attitudes and aptitudes when recruiting school and college leavers. But that doesn’t mean qualifications are unimportant. They are part of signalling effort, overall ability and a readiness to learn that businesses want to see in their employees.

And qualifications certainly matter for people’s life chances. Fewer than half (49%) of those with no qualifications were in employment in 2011 compared with eight in ten (81%) of those with at least one qualification.26

Over the years the UK has experienced a shifting, often confusing, qualifications landscape. This has been – and remains – a problem. But the general principle stands that young people gain skills and knowledge through the programmes leading to qualifications. The results of our survey (Exhibit 36) show the great majority of businesses either value academic and vocational qualifications without a particular preference between them (45%) or prefer recruits to hold a mix of both academic and vocational qualifications (27%). Less than one business in five (19%) prefers just academic qualifications such as GCSEs and A-levels when recruiting school and college leavers.

Exhibit 36 Qualifications preferred by businesses when recruiting school/college leavers (%)

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic qualifications such as GCSEs and A-levels</td>
<td>19%</td>
</tr>
<tr>
<td>A mix of academic and vocational qualifications</td>
<td>27%</td>
</tr>
<tr>
<td>Doesn’t matter – all qualifications valued</td>
<td>45%</td>
</tr>
<tr>
<td>Other/uncertain</td>
<td>5%</td>
</tr>
<tr>
<td>Vocational qualifications</td>
<td>4%</td>
</tr>
</tbody>
</table>

<1 in 5 Businesses prefer just academic qualifications
The right combination: CBI/Pearson education and skills survey 2016
Partnering to smooth the path into the world of work

Preparing young people for successful working lives depends on schools, colleges and businesses working together as partners to raise levels of attainment for all and ease the transition into work. Businesses can bring a variety of expertise into schools and colleges, for example by providing governors or supporting teachers by inspiring young people’s interests and ambitions. In particular, they can help deliver the careers guidance for young people which has been so inadequate for so long. The problem is finally starting to be tackled. But across the UK there needs to be a step change in the system of support for young people in navigating their route into a career area that is right for them.

KEY FINDINGS

• Four out of five (81%) respondents have at least some links with schools and/or colleges, with connections most widespread between businesses and secondary schools (70%) and FE colleges (66%)
• Over half of employers (55%) already linked to education report an increase to their engagement over the past year, while just 6% have cut back, giving a positive balance of +49% increasing their commitment
• At least eight in ten firms report school and/or college connections in all four nations of the UK
• The biggest obstacles to extending and deepening business involvement are uncertainty over how to make work experience worthwhile (42%), lack of interest among schools or pupils (38%) and problems in fitting involvement around the school timetable (30%)
• Among employers with links to schools and colleges, the two most common forms of support by far are offering work experience placements (80%) and careers advice and talks (80%)
• The overwhelming majority of employers across the UK believe the quality of careers advice for young people is not good enough (by a balance of -79%)
• Three quarters of businesses (75%) report that they are willing to play a greater role in supporting careers provision in schools and colleges, most commonly by working with individual schools or colleges (71%)
• The most common forms of work experience offered by businesses are work placements of a week or two (90%) and internships (54%).
Business/school partnerships are now widespread...

The CBI has long believed in the importance of business partnerships with schools and colleges. Businesses can contribute in a range of ways to help schools both raise levels of ambition and achievement among young people and support their learning. By their direct involvement, businesses can spread the message about the value of personal development for every young person alongside academic attainment.

It is therefore highly encouraging that more than four out of five (81%) of our respondents in 2016 have at least some links with schools and/or colleges. This is a further advance on last year, when 77% reported links of some kind.

Connections are most widespread between businesses and secondary schools (70%) and FE colleges (66%) (Exhibit 37). This reflects the priority employers attach to achieving a greater focus on work awareness and careers advice among young people in the 14-19 age group (see Chapter 5). Links at the level of primary schooling are less common, although over a third (35%) of businesses report links of some type at this level. This is encouraging.

The CBI believes there is a strong case for strengthening and expanding links between business and primary schools. It is at primary school that young people’s attitudes, aptitudes and basic competencies are being developed, so helping to open pupils’ eyes to the world of work and the opportunities that could await them can be an important motivator. Particularly at this early stage, pupils can be sparked with inspiration and ambition around particular career pathways and sectors (Exhibit 38).

81%

Employers linked with schools/colleges

Since the launch of First steps in 2012, the CBI has emphasised the importance of educational outcomes. It’s all too easy to focus on secondary education when establishing business needs. But as shown by our 2014 report, A better off Britain, engaging children earlier in quality education will help set them up for a lifetime of learning.

For young adults to leave school with the relevant education and skills, they must be set on the right path from the outset. And that’s why businesses recognise the importance of their engagement with primary schools.

Our 2014 report Tomorrow’s world looked at how to inspire more primary scientists. Businesses already recognise the future skill challenges they face, but by tackling them at primary school age we can hope to see long-term change.

It’s not just about businesses’ awareness though. Over one in 20 primary school teachers surveyed provide less than one hour of science education a week. When offered the opportunity to have business support and engagement, nearly three quarters of teachers said they wanted more business support!

Collaboration between the interested groups is critical if we are to see change. The CBI produced a leaflet – Primary thinking – at the end of 2015 to demonstrate to businesses, communities and schools how they could better interact with and support each other.
...and the existing links are becoming stronger

Year by year, the schools and businesses that already have active links are making them wider and deeper (Exhibit 39). Over half of employers (55%) with some education links report they have increased their engagement over the past year, while just 6% have cut back. This means the balance of firms increasing their links with schools and colleges over those reducing them stands at +49%.

This further extends the expansion seen in the past. In both 2014 and 2015 positive balances of +51% and +42% of businesses with links to schools and/or colleges said they had increased the scale of those links over the previous year.

Businesses of all sizes have high levels of links to education across the nations

Links between businesses and schools/colleges are extensive in all parts of the UK (Exhibit 40). At least eight in ten firms report connections in all four nations, reaching nearly nine in ten (87%) among respondents with employees in Wales.

The extent of business engagement with schools increases with company size (Exhibit 41). Among the largest businesses with 5,000 employees and above, more than nine out of ten firms (91%) have links with schools and colleges. Among these very large firms, over half (58%) report links to primary schools, more than four out of five to secondary schools (83%), and nearly three quarters to FE colleges (74%).

But even among SMEs, close to half (48%) of those with under 50 employees have links of some type with at least one school or college – nearly one in five to primary schools (19%), and over a third to secondary schools (34%) and FE colleges (39%). These are encouraging levels of engagement, although it still leaves over half (52%) of the smallest firms without regular involvement with any school or college.

Exhibit 39 Change in scale of links with schools/colleges over past year (%)
There are barriers to greater business involvement that need to be tackled

Although most firms have at least some links with schools and colleges, there is scope to extend and deepen business involvement still further. And it is important to increase engagement as part of the drive to achieve the step change in levels of awareness of the world of work among young people which is recognised as a priority.

More progress could be achieved if current barriers were tackled effectively (Exhibit 42). But our survey findings show there are still widespread problems that need to be resolved. Nearly four in five respondents (79%) report there are at least some barriers to their involvement with schools and/or colleges.

Among these businesses, more than two in five (42%) report there is too little guidance and support on how to make work experience placements worthwhile for young people. This has long been a concern for many businesses – and ending compulsory work experience in England reinforced doubts over the perceived value of placements. Employers recognise that not all placements in the past were of high quality. An important part of the solution is provision of more practical advice and guidance on how best to reinvigorate work experience, ensuring it adds real value for young people.

Lack of interest is seen as a further worrying barrier. This year, more than a third of respondent businesses perceiving barriers (38%) report that local schools or colleges, or their pupils, do not appear to be interested in building relationships with business. Recent reform of the statutory guidance for schools to include a focus on how well they are engaging with businesses is a positive development. But what is needed is a drive to ensure that greater engagement becomes a reality, with clear measurement and reporting of progress.

Fitting work experience or other involvement into the school timetable is also identified as a common problem (by 30% of those perceiving barriers to greater engagement). While this seems a practical

Exhibit 43 The Careers and Enterprise Company: a new spur to business engagement
issue that should be fairly easy to resolve, it may also reflect what is sometimes seen – wrongly – as a tension between academic study and personal development.

Other problems include the perception that involvement will be unduly onerous (27%) and uncertainty among schools and colleges about how best businesses can help their young people (22%). Better information, advice and practical guidance could help in both these areas. The new Careers and Enterprise Company (CEC) for schools (Exhibit 43, page 41) and its enterprise advisers can play a valuable part here, as well as in helping to build links around the provision of careers education, opportunities and advice for young people.30

The CEC is largely focused on the school journey of engagement, but the CBI is also working closely with it to engage on the business side. We'll be producing some further best practice work to help businesses engage with schools.

The biggest areas of activity are work experience and careers advice...

Business support for schools and colleges is primarily focused on providing work experience placements and careers advice for young people (Exhibit 44).

These are rightly priorities, as work experience and quality careers guidance are vital in supporting the development of the attitudes and behaviours of young people – helping them to see what is important and relevant for their working lives.

Across our survey respondents, four out of five (80%) of those with links to schools and colleges offer placements. The same proportion of businesses (80%) with links to schools and colleges are involved in delivering careers advice and talks. Given the longstanding shortcomings in careers provision, business involvement is essential if young people are to have a sound grasp of options and opportunities available, and of the skills and qualities that employers value.

Careers advice and talks make up the single most widespread form of school engagement among SMEs (with 75% of those with links engaged in this way). This is particularly valuable since all too often young people have little awareness of the range of activities performed by smaller businesses and the varied opportunities they can offer.

Exhibit 44 Nature of employers’ work with schools/colleges (%)

...but businesses also give practical support in many forms

Promoting study of particular subjects is an area of activity that has seen substantial growth in terms of business involvement with schools in recent years. Links of this kind are now widespread, with more than two in five businesses (42%) working with schools taking this approach. There has been a big expansion in initiatives to enthuse and inspire young people, especially girls, about studying STEM subjects as part of the drive to tackle future growth in demand for these skills. There is still much to do in this area: in Scotland, for example, in 2015 only 19% of those taking Highers in computing were girls and only 27% of those entering for physics.33

School governance is another area where business involvement can have a real impact. Building a world-class school system depends on excellence in its leaders, backed and challenged by confident, supportive and capable governing bodies that act as a bridge to businesses and the wider community.34 Close to half of businesses (44%) report having members of staff acting as governors, who can draw on their business expertise to help schools and colleges raise standards. This is an important level of contribution. Recruiting good governors is often still difficult for special schools and schools in disadvantaged areas or under pressure from Ofsted for rapid improvement.35 Their governing bodies need exactly the qualities those from business can inject, such as asking challenging questions, accepting collective responsibility for the conduct of the school and the ability to work as a team on complex issues.
Another form of business support is enabling employees to act as student mentors (32%). This can be valuable both in raising aspirations among young people from deprived backgrounds and in the personal development of those employees acting as mentors. Other forms of practical involvement by those businesses engaging with schools and colleges include helping with curriculum development (24%). The expansion of the academies programme in England also means many businesses (18% of respondents) are engaged as co-sponsors of these schools. Among the largest firms with over 5,000 employees, a third (33%) report some sponsorship involvement with academies, university technology colleges and/or studio schools.

Young people need the right guidance to help them prepare for working life...

The shortcomings of careers provision for young people over recent years are widely recognised. The systems and informal arrangements that may have been enough in the past are entirely inadequate today. Millions of people in the UK now work in jobs that did not exist when their parents left school. Changes in technology, products, services and markets mean career opportunities are constantly evolving. The guidance and support young people receive must match up to this – and reflect the changing realities of the labour market.

...and business sees an urgent case for change

Businesses are clear that current careers guidance and inspiration arrangements are simply not up to the mark (Exhibit 45). If we are to make the most of people’s talents and ambitions, we need fresh approaches.

More than four out of five businesses (82%) across the UK feel the quality of careers advice young people receive is not good enough to help them make informed decisions about future career options. Only 3% consider the quality of current careers advice to be adequate, producing a negative balance of -79%. These are worrying results.

They continue the pattern of previous years, with the vast majority of respondents to our successive surveys rating the quality of advice about careers to young people as not good enough.

Ensuring that young people have access to the right advice about their options and guiding them towards those that will best enable them to fulfill their potential can make a huge difference. The UK holds a unique position within Europe but is soon to be outside the EU, and as one of the top five economies in the world. The responsibility of this mantle means that we must ensure young adults fully understand the wealth of opportunities open to them. Handing the entire responsibility to schools in England without extra resource or backing has not produced a system that effectively supports every young person to progress through education and into employment. Research suggests the low quality of career guidance is reducing social mobility. And the National Careers Council has also highlighted the need for a radical rethink around careers guidance in schools.
Improvement is needed across all parts of the UK

It is essential that across the UK the careers provision available to young people – and indeed to adults as well – keeps pace with changes in the world of work, particularly as our labour market landscape shifts in the coming years. Despite the opportunities this changing world will provide us, our findings show that careers provision is currently failing to keep pace (Exhibit 46).

In every part of the UK, more than seven in ten firms do not believe the quality of careers advice young people receive is good enough to help them make informed decisions about future career options. Negative balances range from -73% among those firms with employees in Northern Ireland to -79% in Wales and England. The systems for careers guidance and advice require urgent attention from politicians and policy-makers across the UK.

There are some encouraging signs of change...

2015 saw the launch of the new Careers and Enterprise Company (CEC) in England (Exhibit 43, page 41). The initiative is still in its early stages – but it has the potential to impact greatly on outcomes for young people. The test will be how well it can engage the number of businesses needed to make this a success.

The moves to strengthen the statutory guidance for schools on careers are also positive. The references in the guidance to strong employer engagement are particularly welcome. From September 2015, Ofsted is looking at the quality of careers education in its evaluation of schools. But one of the most transformative developments is likely to be the introduction of destination measures in the performance metrics of schools.

Exhibit 46 Business views on the quality of careers advice by nation (%)

The government has also announced it is planning to publish a strategy on careers education later this year. This will set out a vision to 2020, focusing on careers education throughout the school and college system. It will in addition be adopting a common national framework for careers education in the form of the ‘Gatsby’ benchmarks.

There are also some encouraging initiatives under way in particular localities. In London, for example, the London Ambitions careers offer has been launched. This is intended to transform the landscape of careers and employment support for young people, tackling the challenges of diversity and fragmented provision across London’s huge variety of schools, colleges and other education providers.

…and businesses are ready to expand their input

There is now widespread consensus that young people need inspiration as much as advice – and they are most likely to gain this from real-life contact with the world of work. Business involvement is essential in providing the real-life component, ensuring advice and information are inspiring and grounded in the realities of the evolving labour market. This is particularly important as young people themselves report that the most important influences on their career choice by a large margin are talking to people in an industry and work experience/internships.

Our results show that businesses of all sizes are ready to step up their commitment and help to achieve further improvement (Exhibit 47). Three quarters of businesses (75%) are willing to play a greater role in the delivery of careers advice in schools and colleges, boosting existing initiatives.

Exhibit 47 Employers willing to play a greater role in delivering careers advice (%)
If this readiness to help among employers can be combined with a step change on the calibre of other aspects of careers advice, there would be major benefits for young people and for the economy. The new CEC should play a major role in England in supporting schools and businesses to develop these relationships, and in ensuring that all young people benefit from this kind of engagement. But achieving this important outcome will depend on the CEC having sufficient resource.

Among those businesses willing to play a greater role, more than two thirds (71%) would aim to work with individual schools and colleges (Exhibit 48). This would reinforce the existing pattern of involvement. But close to half (46%) say they would be ready to become more involved through national programmes such as Inspiring the Future. Around a third would be prepared to increase their involvement by disseminating information through existing careers resources such as Prospects and b-live (35%) and stepping up engagement with the national careers service (34%) and/or the CEC (32%).

Young people are being offered a taste of work in many forms

Businesses find widespread weaknesses in practical work experience among many young school and college leavers, as we noted earlier (Chapter 5). So it is important for businesses to offer opportunities to gain a taste of work suited to different age groups and at different stages of education (Exhibit 49). More of these opportunities are also needed across the country – young people currently face a postcode lottery in terms of access to work inspiration activities.

Traditional work placements for a week or two remain by far the most widespread form of work experience offered by businesses (by 90% of those providing some type of work experience). These provide many school pupils with their first taste of the workplace. While they are a valuable introduction, their limited nature means they can achieve only so much.

Over half of respondents (54%) also offer internships, normally geared to a somewhat older age group and running for longer periods. These can help students develop the attitudes and work-relevant skills that are so important to employers. They also give young people the chance to gain a taste of a particular career or field of work so they can better judge whether it is right for them. The benefits of internships are well established, but it is important for businesses to ensure they are properly managed to maximise the range and value of experience interns gain.

Other approaches designed to give those on work experience placements a better understanding of work include job shadowing (31%), work on a specific project (31%) and simulated exercises or working environments (20%). Among the ‘other’ types of work experience offered (reported by 8%) are a variety of placements and traineeships.

The increasing range of approaches to work experience should be encouraged, as varied interaction with employers and experience of the workplace can provide inspiration for young people and help them build realistic understanding of what working life involves.

Exhibit 48 Types of careers advice involvement employers want to offer (%)

Exhibit 49 Types of work experience offered (%)*
Ensuring graduates have the skills for successful careers

As our results in Chapter 2 show, British businesses expect to need increasing numbers of people with higher-level skills in the years ahead. So there are excellent career prospects for graduates – provided they are equipped with the right attitudes, skills and knowledge to take advantage of those opportunities. Our survey results show rising numbers of openings for graduates in the past year across firms of all sizes and sectors. For the great majority of businesses, the attitudes and aptitudes graduates show for work are the most important consideration. While graduate applicants are generally highly rated in terms of their skills, there is still scope for further progress, particularly in terms of work experience.

KEY FINDINGS

- Less than one in ten businesses (9%) has cut back on graduate recruitment in the past year while more than three times as many (29%) increased their graduate intakes, giving a positive balance of +20% increasing graduate recruitment.
- This represents a further expansion in graduate jobs, following positive balances of increased graduate intakes of +13% in 2015 and +18% in 2014.
- Across firms of all sizes a positive balance increased hiring of graduates over the past year, but with particularly strong growth among firms employing 250 people or more (+23%).
- Businesses look first and foremost for graduates with the right attitudes and aptitudes to enable them to be effective in the workplace – nearly nine in ten employers (87%) rank these in their top considerations, far above factors such as the university attended (13%).
- For nearly two thirds of businesses the degree subject studied is also among the top three considerations (cited by 65%), particularly in sectors such as manufacturing and among engineering, science & hi-tech firms (86% and 83% respectively).
- Many businesses are satisfied with graduates’ basic skills and general readiness for employment, with more than four in five firms reporting satisfaction or better with graduates numeracy (91%) and literacy skills (86%), and nearly the same proportion satisfied or better with graduates’ problem solving (79%) and communication skills (77%).
Business demand for graduate-level skills is rising...

Across the economy, businesses will be increasing their demand in the years ahead for people with higher-level skills and with leadership and management skills (Chapter 2). These are the type of skills and capabilities that firms particularly look to higher education to develop among students.

The demand for graduates and the value they bring to firms is reflected in their high employment levels: over 87% of working-age graduates and postgraduates are in employment, compared to just under 70% of non-graduates.\(^47\) Their unemployment and inactivity rates are less than half those for non-graduates. Graduates and postgraduates also enjoy large earnings premiums compared to non-graduates: in 2015 graduates typically earned £9,500 a year more than non-graduates.

...opening up increasing numbers of job opportunities

Reflecting the rising demand for graduate skills, nine in ten businesses (91%) have maintained or increased their levels of graduate recruitment over the past year (Exhibit 50). Less than one in ten businesses (9%) cut back on graduate recruitment while more than three times as many (29%) increased their graduate intakes, giving a positive balance of +20% increasing graduate recruitment.

This represents a further expansion in graduate jobs, following positive balances of increased graduate intakes of +13% in 2015 and +18% in 2014 (Exhibit 51). Our results across firms of all sizes show a positive balance increased hiring of graduates over the past year, but with particularly strong growth among firms employing 250 people or more (+23%) (Exhibit 52). In every part of the UK, the positive balance of firms increasing their graduate intakes over the past year stood at +20% or above.

Professional services have led the expansion in job openings

Graduate recruitment has grown strongly in virtually all sectors of the economy over the past year (Exhibit 53). Knowledge industries such as professional services (+31%) have led the expansion. There has also been growth in graduate intakes among engineering, science & hi-tech firms (+15%) and manufacturing businesses (+14%). This extends the pattern of positive growth in graduate recruitment in these sectors shown by our surveys in previous years.\(^48\)
The wider services sector has also recorded some growth in graduate openings over the past year, with a positive balance of +11% of businesses in retail & hospitality and transport & distribution raising their graduate recruitment.

Graduates’ attitudes matter most of all to recruiters...

When selecting graduate recruits, businesses look first and foremost for the attitudes and aptitudes that will enable them to be effective in the workplace (Exhibit 54). Year after year, this is by far the most widely cited consideration among graduate recruiters. Nearly nine in ten employers (87%) this year identify it as among their three most important factors and it far outranks all others.

The reality for graduates is that simply gaining a degree is not enough to win entry to a successful career. Despite the growing demand for graduate-level skills, there will always be tough competition among candidates for prime graduate appointments. Developing the right skills and attitudes is critically important for a successful transition from higher education to the world of work.

There are plenty of opportunities to develop the necessary attitudes and aptitudes during their time in education, but students need to be alerted to their importance and encouraged to seize them.59

Two in three employers are also on the lookout for graduates with some relevant work experience (67%) and degrees in particular subject disciplines (65%). Work experience gained through business placements and/or internships can play a valuable part in strengthening students’ preparedness for employment. Those opportunities also enable students to learn about a particular sector or type of work and see whether it is the right field for them.

Among the least important considerations is the particular university a graduate attended (a top-three consideration for only 13%). Businesses are primarily focused on what individual graduates can bring to the workplace.

...but choice of degree subject also matters

While attitudes are the single most widely cited factor in graduate recruitment, for nearly two in three businesses the degree subject studied is also among the top three considerations (cited by 65%). This is particularly the case in sectors such as manufacturing and among engineering, science & hi-tech firms (with 86% and 83% respectively viewing the degree subject as one of the most important factors when recruiting graduates, Exhibit 55). Over the years, our surveys have repeatedly shown that studying STEM subjects can give students an edge in competing for graduate career openings – and it is essential for many jobs in the high-growth sectors.

If young people are to be able to study the right subjects in higher education for their favoured careers area, they need the right guidance at school or college. The weaknesses of the current guidance arrangements (highlighted in Chapter 5) must be addressed urgently to avoid young people finding they are closing off future career avenues unintentionally.

| Exhibit 54 Most important factors considered when recruiting graduates (%) |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Attitudes & aptitudes for work | 89  | 90  | 91  | 89  | 90  | 91  | 89  | 90  |
| Relevant work experience/industrial placement | 67  | 66  | 65  | 66  | 65  | 64  | 64  | 63  |
| Degree subject | 64  | 63  | 63  | 63  | 62  | 61  | 60  | 64  |
| Degree result (1st, 2:1 etc) | 55  | 55  | 55  | 55  | 55  | 55  | 55  | 55  |
| University they attended | 13  | 13  | 13  | 13  | 13  | 13  | 13  | 13  |
| Foreign language capability | 68  | 68  | 68  | 68  | 68  | 68  | 68  | 68  |

| Exhibit 55 Importance of degree subject by sector (%) |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Professional services | 86  | 86  | 86  | 86  | 86  | 86  | 86  | 86  |
| Engineering, science & hi-tech | 81  | 81  | 81  | 81  | 81  | 81  | 81  | 81  |
| Retail & hospitality, transport & distribution | 77  | 77  | 77  | 77  | 77  | 77  | 77  | 77  |
| Manufacturing | 24  | 24  | 24  | 24  | 24  | 24  | 24  | 24  |
Most graduates achieve the work-readiness required for businesses

Many businesses are reporting a positive evaluation of graduates’ basic skills and general readiness for employment (Exhibit 56).

University is an exciting place for students: for many a first step into a career and for others a chance to change the career path they’re on. With the world of work, the labour market and the future of the UK economy changing fast, universities have a critical role in ensuring their leavers are work-ready and suitable for whatever job they step into after graduating. Universities have made impressive ground with employers, with most university leavers not only meeting business expectations, but often exceeding them. Across all skills areas that we ask about, more than half of all businesses are satisfied or very satisfied with the capabilities of the graduates they employ.

Drilling down into the data, there are some very positive stories in businesses’ thoughts on graduates, from the basic requirements of business to the more complex attitudinal requirements for a growing economy and labour market.

As already mentioned, English is the language of the international business world, and basic numeracy is key for many business roles. More than four in five (86%) are satisfied with graduates’ basic literacy and use of English, while more than nine in ten firms (91%) are satisfied with their basic numerical skills.

But we also know that workplace attitudes are critical for business and are essential attributes for graduates aspiring to future leadership and management roles. Graduates are providing strong indicators to business that they recognise this, with more than four out of five firms (81%) satisfied with graduates’ analysis skills and with their teamwork skills. Nearly the same proportion show satisfaction with problem solving (79%) and with graduates’ communication skills (77%).

Relevant workplace experience is widely valued in graduate candidates – it helps build understanding of a chosen field of work and develops general business awareness. Three quarters of businesses (75%) report graduates have a satisfactory or above level of knowledge about their chosen job or career, while two thirds (66%) voice satisfaction in the level of relevant work experience that they have undertaken.

Universities clearly provide a fertile ground for graduates to see the links between their learning and future career opportunities. Those candidates who can show a good grasp are plainly at an advantage in the jobs market. As hubs of learning and innovation, universities must continue to emphasise the importance of gaining relevant experience as well as understanding and absorbing the lessons students learn in the process. Gaining those insights needs to start at an early stage in schools and to build up steadily as young people move through the educational system.

The new emphasis on quality of teaching at universities together with transparency and openness to competition should also help in driving up standards among the graduates coming out of higher education (Exhibit 57, page 50).
The right combination: CBI/Pearson education and skills survey 2016

It is argued that intense competition between universities for research funding has led some institutions to prioritise research over teaching, thus harming the interests of students and of their future employers. The Higher Education and Research Bill currently before parliament is intended to tackle this problem. It represents the biggest reform package for the sector in a quarter of a century. Although primarily focused on England, some of the measures will have a significant impact across the whole of the UK.

Three broad themes underpin the majority of the changes the bill aims to effect: teaching quality, transparency, and openness to competition.

Universities will have to publish statistics on candidates, including covering the opportunity across the whole lifecycle for disadvantaged students: access, retention, attainment and progression after graduating.

Businesses should find the increased transparency helpful. A better understanding by students and employers of teaching quality should also help to address the mismatch in the graduate labour market which can leave some students unable to find suitable employment despite graduating in subjects valued by business.

The new ‘Teaching Excellence Framework’ (TEF) being created should act as an incentive for universities to develop more engagement with employers over course design, with greater flexibility to match business or learner needs, and also to improve the quality of careers advice. Businesses may also appreciate the improved opportunities for new HE providers to enter the sector.

But care will have to be taken to ensure the TEF works for all institutions and does not damage the diversity of the HE sector, which is a valuable asset. There must also be rigorous quality safeguards for any new providers.

Exhibit 57 Major reforms under way in higher education
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