

Business investment in skills

The road back to growth



Foreword



The road back to long term growth will be rocky, yet having a workforce with the right skills will help the UK forge ahead and overcome the obstacles in its path.

With government spending falling back, and consumers continuing to feel the squeeze, the focus is on winning business investment and new export contracts to drive private sector recovery. With the UK competing on high value added products, having the right mix of skills is essential to staying ahead of global competitors.

Real challenges lie ahead. The attractiveness of the UK's skills base to potential investors has declined over the last decade, while the OECD PISA test scores show our young people falling down the international rankings on maths, reading and science. We need to get the UK working and to harness the potential of all our people – and this requires employers being able to recruit the right people, with the right skills at the right time.

Building a workforce with the best skills and talents requires government to ensure young people leave the schools system equipped for the modern labour market, and for individuals to commit to training once they arrive in the workplace.

But it is also right and proper to shine a spotlight on the business community, and its commitment to the learning and development of its people. Raising skills is in employers' own interests, and it can never be acceptable for businesses to simply criticise from the sidelines if they don't get the skills they need.

This report finds grounds for optimism. It shows employers are investing significant amounts of time and resources in growing the skills of their staff – although a lot of this learning activity falls below the radar of official measurement, with published figures only giving a partial picture of current business investment.

Our findings show a real business commitment to learning, and provides the right starting point for future debate. Of course there is no room for complacency – employers know they can always do more. The best way to achieve this is through voluntary routes that work in step with employers – there is no support for regulatory measures on training through the extension of training levies or licences to practice schemes.

Employers are ready to meet the call for better skills and a more competitive workforce. Our report sets out how we believe business can make a difference.

A handwritten signature in black ink that reads "Katja Hall".

Katja Hall
Chief policy director

Overview

Skills are critical to economic growth

Only the private sector will deliver growth and create jobs, and the next 12 – 24 months will be vital. The conditions are challenging. The economy grew by 0.2% in the second quarter of this year. At the same time the Government's Office for Budget Responsibility has forecast a reduction of 310,000 public sector jobs by 2015-16,¹ and suggests the private sector could create 1.3 million new employment opportunities.

With government and domestic consumer spending both under pressure, the focus is on business investment and strong export growth to drive the recovery. In a global market, the UK must push ahead in high skill, high value sectors and employers know they must take responsibility for continuing to invest in the training and development of their staff. Increasing skills levels will be crucial to achieving growth in the short and medium term, by boosting business competitiveness and developing an attractive skills base for investors.

The development of this report has been led by CBI members, setting out a vision for how government and business can best work together to achieve the outcome of better skills. In doing so, it builds on existing CBI priorities for delivering private sector growth.

In March this year, the CBI's *Making the UK the best place to invest* report set out a framework for supporting domestic business investment and attracting capital from overseas. The UK ranks highly in the World Economic Forum competitiveness rankings – 12th out of 139 countries, but is still outranked by a number of G7 competitors including Germany, Japan and the US.

Leading economies are positioning themselves for future growth by courting inward investment from the best businesses and the UK needs to remain competitive. The UK has a number of strengths, but the attractiveness of the UK on a number of key investment factors has declined in the last decade (data based on a CBI survey of business leaders) – including the availability of a skilled workforce (**Exhibit 1**). To address this, the CBI called for measures to close the skills gap with our competitors and to support investment by SMEs – and this report provides more details on how that can be achieved.

Employers and government share the ambition of higher skills, higher growth and higher employment. Raising skills levels will require action by government to improve educational outcomes, but also a framework that supports employers to build on their investment in training and development.

Businesses are developing the skills of their staff. European data shows 90% of UK employers provide training – compared to an EU average of just 60%.² This report shows the good practice examples of what employers are already doing on learning and development, and recommendations for how to enable more employers to go further and achieve the best outcomes from their skills investment.

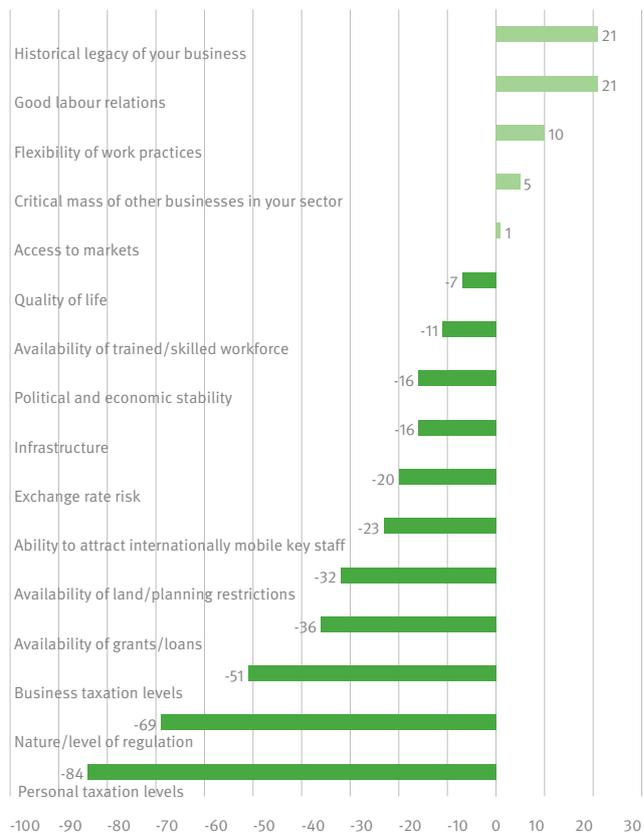
The business investment in learning and development

Employers recognise their role in developing the skills of their staff and in collaborating with schools to achieve better educational outcomes (see chapter 1). CBI data shows that two fifths (41%) of firms are increasing their investment in training over the next year, while two thirds (67%) have built links with secondary schools.

It is in employers’ interests to help their employees learn new skills. Investing in people improves staff morale and retention, attracts the best people to the organisation, and boosts productivity and performance.

For example, BT has found that apprentices who go through their training programme are 7.5% more productive than non-apprentices. This leads to greater profitability, with BT apprentices showing a net profit of £1,300 a year compared to non-apprentice colleagues (**Exhibit 2**).

Exhibit 1 Attractiveness of UK over other countries, 2000-2010 (%)



Source: *Making the UK the best place to invest*, CBI, 2011

Exhibit 2 BT – world class apprenticeships

BT invests more than £120m in training each year with every member of staff given the opportunity to develop their skills. Every BT employee has a development plan reflecting their business needs and career ambitions, which is reviewed quarterly with their line manager. BT knows that training makes its people more productive and gives staff valued mobility in the internal and external recruitment market.

BT has employed apprentices for more than 100 years and runs an award winning apprenticeship programme. Over the last five years it has trained more than 10,000 apprentices, with over 2,000 apprentices currently completing their training with the company. Competition for places is strong – last year 24,000 people applied for 500 places.

BT runs 11 apprenticeship frameworks covering traditional areas of engineering and customer services, but also newer IT related programmes. Apprentices on higher level programmes will undertake BT designed foundation degrees and have the chance to top this up to an honours degree. Standards are high, with BT consistently delivering apprenticeship completion rates in excess of 90%.

Apprentices are put on the front line delivering services to the firm's 23 million customers. They are the engineers in the field, the mechanics maintaining the vehicle fleet, and the customer service agents talking to people in their homes. And the prospects of BT apprentices are bright, with many former trainees now filling senior management roles within the organisation.

The investment BT makes in apprenticeships delivers excellent returns. Apprentices are 7.5% more productive than non-apprentices, and this productivity leads to profitability. BT apprentices show a net profit of £1,300 a year compared to their colleagues.

Apprentices value the training they receive and are staying with the company. The retail part of the business has seen retention rates for its apprentices rise to over 95% – in a sector where average staff turnover is 24-40%.

The apprenticeship training is very much the first step many will take in the organisation, and can allow progress to bigger things. Last year, a successful apprentice was given the opportunity to become part of the team preparing for London 2012, while another young employee project managed BT's programme of 3,000 work experience placements while still undertaking their apprenticeship training.

Business invests £39bn a year on formal training – with bigger firms and SMEs devoting significant time and resources to developing their staff. And employer activity on learning does not stop at the office or factory gate. It extends to partnering with schools to nurture young people so they have the skills and knowledge they will need to flourish in the workplace – building the talent pipeline on which future growth will depend.

The construction company Wates spends over £1m a year on learning and development for its' 2,400 employees – covering on the job learning, professional qualifications, leadership and management programmes and apprenticeships. The company also supports local schools. Since 2006, Wates has seen profit per person grow from £15,700 to over £22,000 alongside a strong record on developing and promoting internal talent. Sixty percent of senior management appointments are inhouse promotions.

How to maximise the business commitment to skills

The question is therefore how best to support and grow the existing business commitment to learning and skills?

The CBI believes a voluntary approach by government to working with employers would be the most effective way ahead. Voluntary solutions work in partnership with employers – understanding how businesses operate and further embedding skills in business processes. For example, a voluntary approach could enable greater collaboration between SMEs to pool resources and utilise external providers (see chapter 2).

The government is also looking at how businesses can take greater responsibility for skills development and has already taken welcome measures to support employers on training – for example by increasing funding for apprenticeships. But ministers are also looking at extending regulatory measures on training – through the extension of training levies or licences to practice schemes.

It is clear to the CBI members who have written this report that a regulatory approach to training would be costly and counter productive. There is no evidence to show that levies or licences to practice lead to an increase in productive skills, while the bureaucracy involved in implementing these measures would add to the regulatory burden on business and be a drag on economic growth. Smaller firms, who are crucial to growth prospects, would be hit hardest by the increase in regulations (see chapter 3).

This approach runs contrary to the government's wider deregulatory agenda. As business minister Mark Prisk said in a speech to the Federation of Small Business, "*We want smaller enterprises to be thinking about how to grow their business, not how to deal with the latest request from government. Unless it is about public safety or national security, you should be minding your business, not ours ...*".³

Key CBI recommendations

Business is a willing partner for the government on skills, and wants to work with ministers to develop the economically valuable skills on which job creation and growth will depend. Employers are committed to workforce development and supporting schools to improve educational outcomes. The focus must be on creating a framework to support employers to build on this commitment and achieve the best return on their investment in learning and development.

A voluntary approach to working with employers will achieve the best results and help raise skills levels. The CBI recommends:

Employers supporting each other on skills development

Greater numbers of larger employers could make their resources and expertise available to support smaller firms in the sector.

Part of the government's budget for supporting SMEs on training should focus on promoting collaboration between SMEs in close geographical proximity – eg business parks.

Government and employers must promote best practice on business school collaboration – eg by further supporting the work of the Education and Employers Taskforce.

Improving levels of leadership and management capability

Universities, FE colleges and private providers should focus on delivering customised leadership and management programmes for employers and their employees.

Universities, FE colleges and private providers must prioritise the development of tailored provision to meet the specific needs of junior and middle managers – through greater use of unitised learning or short course CPD programmes.

Greater use of Investors in People as a people development tool

The UK Commission for Employment and Skills (UKCES) must communicate the business benefits of Investors in People (IiP) more clearly, making greater use of sectoral or business to business networks to get the message out.

Campaigns that make clear the benefits to the employer and employee of skills development

UKCES to co-ordinate a business led campaign on the value of skills at national and local level.

Further simplification of the skills system

The Department for Business, Innovation and Skills must implement plans for creating a flexible and responsive skills system – with providers free to meet demands of local employers.

A regulatory approach to training would be ineffective. Therefore the CBI recommends to the Department for Business, Innovation and Skills that:

There should be no blanket extension of levy or licence to practice (LTP) schemes – this would not increase productive levels of training.

There should be no extension of training levies or LTP schemes unless there is clearly identified employer consent.

LTPs should only apply to sectors where there are health and safety concerns or danger of consumer detriment.

1 The business commitment to learning and development

Businesses are committed to growing the skills of their staff, and to working with schools to support young people by developing their talents and aspirations.

Firms invest in learning and development because they know it delivers productive outcomes for the business and their staff. They recognise that skills are a longer term investment – with employers meeting the costs of training and mentoring upfront, even though it may take time before an employee is fully productive. For example, the engineering firm e2v invests in the costs of training its apprentices and sees returns over the longer term, with 70% of engineering apprentices staying with the firm for at least ten years. The majority of apprentices go on to further their education, for example via HNCs, as part of their career development with e2v.

There is a wealth of good practice to build on, and numerous examples of employers working to develop the talents and aspirations of their staff. This chapter assesses the nature and extent of this positive business activity – while throughout the report we also draw together case studies from employers in different sectors, and of different sizes, to build a picture of the types of training employers are delivering and the positive returns that result.

Employers welcome the current debate over how best to achieve the goal of higher skills and the responsibility of businesses in working to achieve this. The starting point must be a clear understanding of how and why employers train, and the different routes through which businesses upskill their staff – with policy then focusing on finding the best way to harness and build on this strong business commitment.

This chapter highlights four key areas:

The business decision on skills development

Employers use a variety of learning methods and choose the route that best suits them. Only a third of the training employers provide staff leads to government recognised qualifications.⁴

Measuring employer investment in skills

Official data underestimates the extent of business activity, but still shows employers invest at least £39bn a year on training.

Quantifying the outcomes of staff development

Many employers will assess the returns of their investment in training, and this begins to demonstrate the productive value of the business commitment to skills.

Employers supporting the workforce of tomorrow

Business is working with schools to provide careers advice and achieve better educational outcomes.



The business decision on skills development

Business decisions on where and how to target their investment in skills will be linked to wider business strategy and aligned to the strategic direction of the organisation. Employers see skills as integral to business success – CBI data shows 99% of firms see skills as important or very important to achieving their strategic objectives.

Firms will assess the skills they need across the organisation – and will regularly discuss skills and training needs with staff through annual performance reviews or daily conversations with managers. At the restaurant chain McDonald's, each member of staff from managerial level upwards has their own personal learning plan, setting out the skills they should focus on developing, and the formal and informal learning routes they can follow to achieve their aims (**Exhibit 3**).

When deciding which learning solution is right for their organisation firms will assess the costs and benefits of different options.

The priority for employers is competence not qualifications, and employers will choose whichever learning route best meets their needs.

In practice employers use a variety of methods for learning and development, with formal training interventions and accredited programmes only part of what is delivered. A large part of learning in organisations will be informal with staff acquiring skills through work experience or observing colleagues, or delivered through on the job coaching or mentoring. This type of learning fits with day to day business operations and achieves real value – with the employee being better equipped to carry out their role. Many firms will therefore use a 70:20:10 approach for their learning and development (**Exhibit 4**):

- Seventy percent of learning is informal – and takes place through real life and on the job experiences
- Twenty percent is delivered through coaching and on the job mentoring
- Ten percent comes through formal training interventions (eg qualifications or training courses), which could be delivered either on or off the job.

Measuring employer investment in skills

By looking at official data on training inputs, we can start to paint a picture of employer activity on staff development – how much employers invest and how the UK figures compare against international competitors.

It should be recognised at the outset that the data has limitations – and that by only measuring formal training interventions – it only captures part of the learning that takes place in organisations. In a firm following a 70:20:10 approach it would only measure a tenth of what goes on.

Employers compare well domestically...

The National Employer Skills Survey for England (NESS) shows that employers invest £39bn a year on training, far outweighing the contribution of the public purse. The further education resource budget is currently £4.3bn and will be reduced by 25% over the spending review period.

The NESS figures include employer spend on training courses and the labour costs of staff being involved in training. Labour costs should not be discounted and are part of the full cost of provision. They are a real cost to employers – who will have to absorb lost output when staff are undertaking training, and who may also have to provide staff cover.

According to the NESS data, employers provided training for 12.8 million workers in 2009, with a total of 109 million days of training arranged. The majority of employers (68%) gave training to staff through off or on the job provision. It has been argued that the NESS figures therefore show that a third of employers do not provide training, but the situation is not so clear cut and the limitations of the data must be taken into account.

A large proportion of staff training in all firms will be informal, and while this method of learning development can be very effective, it falls below the radar of the NESS and most other official surveys. Data from the Skills for Business Network Survey (SFBN) of Employers (2007) attempted to measure the extent of this more informal activity.

Exhibit 3 McDonald's Restaurants Ltd – the people profit chain

The McDonald's training programme

In 2005 McDonald's took a fresh look at how best to engage employees. It recognised that while the average length of service for hourly paid employees was two years and the average restaurant manager served more than ten years, there remained an opportunity to raise engagement across the board. Personal learning, development and qualifications would prove to be pivotal to their strategy.

In 2006 McDonald's used its employee website to offer literacy and numeracy qualifications. It has since awarded nearly 7,000 level 1 and 2 qualifications with the awarding body OCR, and over 12,000 qualifications are now being studied for through this online system.

McDonald's launched its apprenticeship programme in 2009. The programme has delivered nearly 5,000 level 2 apprenticeships in hospitality, working with City & Guilds, and was graded 2 (good) by Ofsted following inspection in 2010. In addition to these programmes, McDonald's has achieved awarding body status through which it awards a Level 3 Diploma in shift management, and 50 business managers each year study for a foundation degree with Manchester Metropolitan University.

Formal qualifications are a key component of the employee value proposition, but this is just one aspect. To support business growth the training programme for all employees has been further enhanced.

Employees undergo an 8-12 month on the job development programme, with the company providing additional on site

support through the training and education field teams. Management training facilities are located across the UK, with the London 'McDonald's University' centre of excellence for Europe at the core.

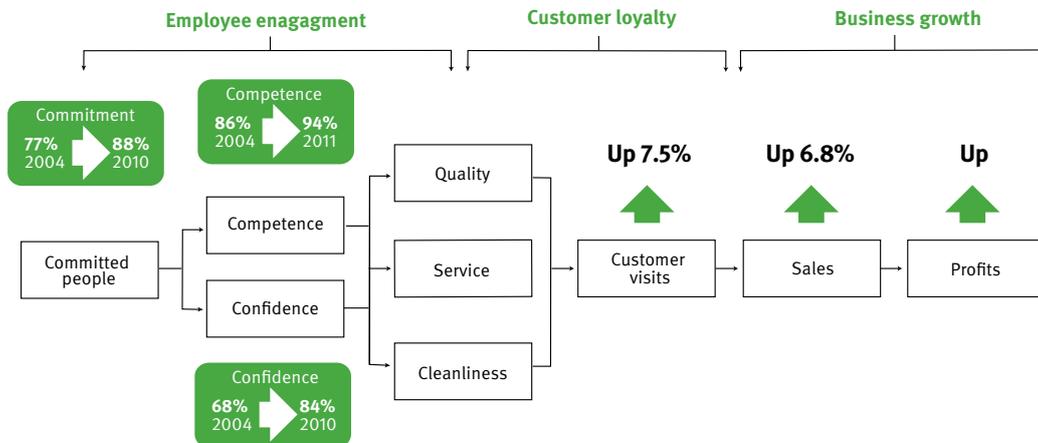
Outcomes and impact

The McDonald's people profit chain is an interpretation of the service profit chain model developed by the Harvard Business School and has been in use for several years. The model seeks to demonstrate the link between investing time, energy and money in the development of people and the business outcomes that will result.

In short, engaging employees through training, education, reward, recognition and respect, leads to improved competence and confidence, which drives the key business activities. This resonates with customers and drives customer visits, and with this sales and ultimately profits.

Since 2003 McDonald's has completed an employee satisfaction survey across the business. The data from this survey is used in developing the strategic approach to employee engagement and individual growth.

As the diagram below shows, the surveys have found that training has contributed to staff feeling more competent and confident in their roles and more committed to the organisation. This improved employee engagement has fed through to improved performance and business growth. Customer visits, sales and profits have all improved.



In 2008 Adrian Furnham, professor of psychology at University College London, was given unprecedented access to the business in order to research the impact of working for McDonald's on its employees. He concluded in his final report Brighter futures that "Overall, McDonald's staff felt good about themselves, experienced strong job satisfaction, and had exceptionally high engagement levels. Indeed, nearly every staff member interviewed could be counted as engaged."

Exhibit 4 National Grid – the 70:20:10 model

National Grid employs 28,000 employees across its UK & US business (11,000 in the UK) and invests an average of £1,100 on staff development per employee each year (excludes running costs of three large learning centres). The business utilises the 70:20:10 learning and development model across its global organisation. This model is underpinned by the development of the organisations leaders to recognise on the job learning experiences and the associated benefits of encouraging and managing effective mentoring, coaching and networking skills, supported where appropriate by a formal training intervention.

During development discussions between the manager and employee, on the job opportunities to develop new competencies, in addition to practising newly attained skills, are always considered as a first option. Alongside this, National Grid offers access to a range of academic qualifications and formalised industry specific training delivered via day release, distance learning, and online training solutions, including 3D immersed simulation.

Government based frameworks equate to 4.5% of the annual UK learning and development spend. But National Grid continues to deliver advanced and higher apprenticeship programmes to develop key power systems and gas engineers. This fits with its 'grow our own approach' to staff development, which is based on recruiting, developing and retaining valued talent – graduate development, engineering training and apprenticeships.

National Grid knows the importance to the organisation of delivering high quality apprenticeship training, and the programme has been rated as outstanding (Grade 1) by Ofsted in every category. Learner feedback has also been excellent, with talent retention in excess of 95% after five years.

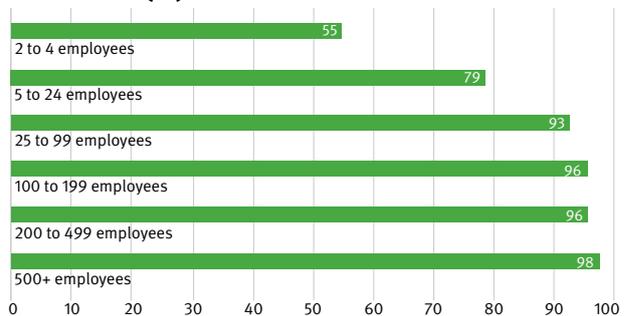
"I feel that my apprenticeship as a whole has been very beneficial to me. I have gained the skills I believe I need to do the job. Through the theory and practical sessions I feel comfortable that I could handle most situations I will face when I pass my apprenticeship." **National Grid Apprentice**

Findings

- Three quarters (78%) of employers used supervision structures to ensure employees are guided through their job role over time
- Four fifths (83%) of firms provided opportunities for employees to spend time learning through watching other members of staff perform their role.

Informal training will be more common in smaller firms and this is apparent in the NESS data which is heavily skewed by the size of organisation (**Exhibit 5**). This shows that while virtually all firms with over 25 employees developed staff through formal training interventions, only around half of firms with 2-4 employees do so.

Exhibit 5 Firms providing training in last 12 months (%)



Source: National Employer Skills Survey 2009

Smaller firms are the least able to afford the disruption caused by staff being absent on formal training courses. Much skills acquisition occurs naturally as part of everyday operations and is not reliant upon formal or structured training (See **Exhibit 6**). Research undertaken by the Skills for Business Network concluded that, “Existing survey based measures of training activity do not take sufficient account of the informal, flexible nature of much workforce development that takes place in small organisations”.⁵

...and compared to our international competitors

Put alongside our international competitors, the level of training activity by UK employers compares well. EU data provided by the Eurostat CVTS survey⁶ shows that:

- Ninety percent of UK employers provide training – this is the highest in the EU and compares to an EU average of 60% (**Exhibit 7**)
- 81% of UK employers establish the training needs of their staff – the 4th highest in the EU
- 76% of UK employers assess the future skills needs of their organisation, compared to an EU average of 55%.

The criticism is that while UK employers are high providers of training compared to EU competitors, the duration of training is shorter. The average time spent on continuing vocational training (CVT) courses is 7 hours in the UK, below the EU average and almost half the level in France.

Exhibit 6 British Loose Leaf – developing staff at an SME

British Loose Leaf employs 50 people in south east England manufacturing bespoke stationery products for their clients. Each product is produced to the customer’s exact requirements, with many possible materials and design variations, meaning staff require a high degree of product knowledge.

The company depends on training and developing its own people on the specific skills and knowledge they need in their roles, and meeting the career aspirations of staff to ensure they stay with the company. As a small business, high levels of staff turnover would be costly and the company understands that investing in strong staff development will lead to longer term retention and benefits for the business.

For example, Emily Carpenter joined the company in 1993, working as a machine operator. She joined straight from school with no formal qualifications. By learning through the experience she gained on the job, and the mentoring and advice of colleagues, Emily was able to progress and mastered techniques on a range of different processes and became responsible for the production of samples and proofs. She also acted as a trainer for new employees.

In 1998 that production knowledge and experience was taken into the company’s sales area, with a promotion to the role of sales co-ordinator – an internal role supporting the external sales team. Recognising her potential, the company moved Emily into a new role handling business development and the marketing of the company’s end of life recycling programme for its products. She worked closely with and was mentored by the managing director.

Emily is now a key member of the company’s small external sales team, dealing confidently and successfully with trade customers such as Staples Advantage and Banner Business Supplies, and with end users including magic circle law firms.

Throughout her career Emily has developed through a blended learning approach, with the majority of learning she has undertaken being informal and on the job. She has also gained NVQ qualifications in business, finance & administration.

Reflecting on her experiences, Emily has said “*I could easily have wasted my life but the training at British Loose Leaf gave me the opportunity to realise my potential*”.

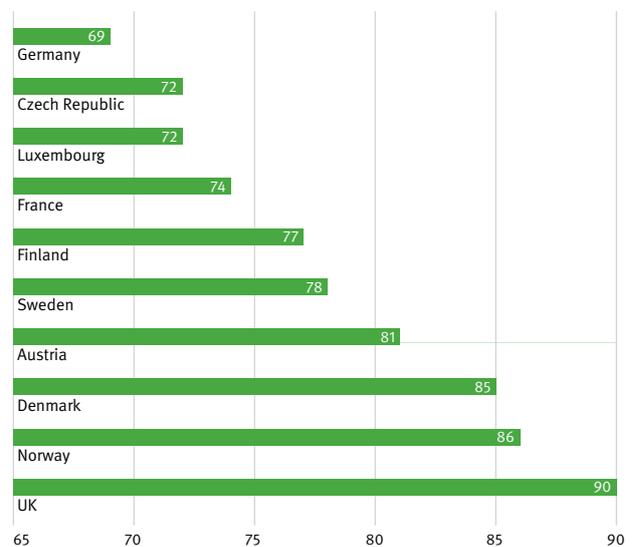
However CVT training courses are formally recognised training interventions, and the data again does not take into account the high proportion of time spent on informal learning. The EU data shows that while 67% of UK employers provided CVT courses (internally or externally) to staff, a larger proportion (75%) provide non course related training on the job. The proportion of UK firms providing this type of on the job training is the highest in the EU, and over twice the EU average of 33%.

Qualifications based outputs are an incomplete proxy for skills

Traditional output measures of skills based on the number of people achieving qualifications on government based frameworks (eg qualifications and credit framework) again only represents a partial picture of skills acquisition. For example, it does not recognise a number of widely used and respected industry or professional qualifications – which will be highly regarded by employers and employees – but not always accredited to government frameworks.

In the IT industry, vendor qualifications from companies such as Microsoft, Cisco and Oracle are recognised by most IT employers as the measure of professional competence, with Microsoft alone having accredited 100,000 Microsoft certified professionals in the UK. Yet these qualifications are not directly recognised and eligible for government funding despite their positive employment outcomes. They are mapped to the qualifications and credit framework, which means they can be integrated into other qualifications but a great number of the highly skilled IT professionals holding these qualifications would be classed as unskilled as IT vendor qualifications are not recognised in official figures.

Exhibit 7 Proportion of employers providing training in EU countries (%)



Source: Eurostat

Quantifying the outcomes of staff development

Looking at training through the prism of inputs and outputs only tells half a story. It does not provide information on whether that learning was successful and achieved its intended objective. The debate on training needs to consider outcomes – and the impact of a programme on employee wages, business indicators and the competitiveness of the UK economy.

Academic evidence on the benefits of business investment in training is relatively limited. But what is available does show the positive impact on productivity and performance, a point re-enforced by surveys asking employers for their perceptions of the effect of training on business bottom line.

On a micro level, many firms will adopt processes for attempting to measure their return on training investment (ROI) in their own organisations (**Exhibit 8**).

Exhibit 8 Mitchells & Butlers – growing the skills of business managers

Mitchells & Butlers recently introduced a company designed masters programme to develop the skills of its retail business managers (RBMs). As a large pub and restaurant operator, the RBMs play a crucial role in managing local operations – with each responsible for 15-20 pubs/pub restaurants and a turnover of £15-20m a year.

Mitchells & Butlers covers 22 distinctive brands including Harvester, O’Neills, Ember Inns, Toby Carvery and All Bar One, and the quality of management and customer satisfaction is crucial to the success of the business.

A masters in multi unit hospitality leadership was designed by the company in partnership with Birmingham City University. A 16 month programme was designed with clear learning outcomes, all linked directly to the Mitchells & Butlers business strategy. The learning programme consisted of four modules – strategy and finance, finance and business models, service and quality leadership, and operational excellence.

Twenty-four business managers took part in the first wave of the programme launched in 2009. The total direct costs to the company of delivering the programme were £36,000, although this does not include the backfill costs of covering delegates on training.

Evaluations show the programme has delivered clear returns for the business, and benefits to each manager. Delegate surveys showed more than 60% of managers who participated in the programme would recommend it to colleagues, with the majority reporting improvements in their skills, knowledge base and attitudes.

For the group as a whole there was a 21% increase in managers feeling confident in their roles, and 18% reporting better management techniques. And Mitchells & Butlers saw a positive impact on its business performance as a result.

Comparing business performance before and after the training, the managers involved collectively saw their sales growth increase by 1.9%, guest satisfaction increase by 4.4%, and staff turnover in their teams fall by 2.1%.

Using the abdi ROI methodology, Mitchells & Butlers calculated the direct financial benefits from improved business performance levels to be £230,000. When this is compared to the initial investment of £36,000 it is clear that the training has reaped multiple dividends – with a return on investment of 539%. Even if full costs (direct and indirect) were to be used, the investment clearly delivered great value to the business.

Alongside these tangible measures, the company report improvements to teamwork, communication, and leadership.

“The success of the programme from the delegate and colleague perspective has been outstanding. The evaluation has enabled us to demonstrate the clear returns delivered by improved guest satisfaction and financial performance to key stakeholders throughout the business. The training intervention will continue as a priority next financial year.”

Lindsay Rich, HR process & evaluation manager

Note: Case study produced with agreement of Mitchells & Butlers and abdi ltd. Mitchells & Butlers has worked with abdi on implementing an ROI methodology for capturing the returns on its training.

Positive evidence on an economy wide level...

Academic studies at a national level show business investment in training delivering positive returns. The main academic study in the UK – undertaken by Dearden, Reed and Van Reenan (2006) – estimates the impact of training on performance in a number of British industries over the period 1983-96. The results concluded that a 1% increase in the proportion of individuals receiving training in an industry increased value added per hour (productivity) by 0.6%, and wages by 0.3%.

Similarly, a Bank of England working paper⁷ estimated that improvements in workforce skills accounted for a fifth of economic growth between 1996 and 2002.

In support of the academic evidence, surveys of employer opinion show that businesses believe training has delivered productive outcomes for their organisation. CBI data, for example, found two fifths (43%) of employers saying investing in training had improved profitability/productivity, with a fifth (21%) seeing improvements to staff morale.⁸

Perhaps the most compelling data is provided by the Workforce Training in England Survey (2006). Based on over 4,000 telephone interviews with employers, it found employers seeing a high level of benefit from the training they were delivering:

- 46% of employers felt training had increased sales/turnover
- 38% saw improvements to staff retention
- 49% saw improvements in labour productivity
- 47% were experiencing better profit margins.

...and at firm level

Employers often assess the impact of training in their business. This information can be useful – for example, when trying to demonstrate the value of investment in training to senior colleagues, or when deciding whether to continue using a particular training method.

Employers will try to quantify the effect of training on a range of business indicators including quality of output, effect on individual performance, efficiency and cost revenue generation, retention and engagement of employees, and the impact on the attractiveness of the firm to new recruits (**Exhibit 9**).

Employers supporting the workforce of tomorrow

Over four fifths (83%) of business leaders in Pricewaterhouse Cooper's recent global CEO survey⁹ said they were prioritising talent management over the next year. At the same time, two thirds of CEOs believe they are facing a limited supply of candidates with the right skills. The UK is no exception to this rule.

Employers do not expect everyone to arrive at their door job ready – they will provide training for job specific competencies – but they are looking for young people to have the core literacy, numeracy, and employability skills required for any role.

Businesses continue to report concerns over these basic competencies and these worries have deepened over recent years (**Exhibit 10**). Last year almost 100,000 young people only achieved a grade F or below in GCSE maths, and 50,000 in GCSE English. At the same time, improving the employability skills (teamworking, problem solving etc) of young people entering the labour market is businesses' top priority for schools and universities.¹⁰ CBI data shows seven in ten firms want action to improve school leavers' employability skills.

Exhibit 9 Volkswagen UK – growing sales of the new Polo

Volkswagen introduced a specific company training programme to boost sales of the new Polo model. Sales specialists in showrooms needed to have excellent knowledge of the features of the new car, combined with high levels of presentational and customer service skills.

A total of 860 sales specialists took part in the new product launch training – comprising a blend of knowledge based e-training and face-to-face training sessions. Feedback from those undertaking the training was excellent, with virtually all (97%) of participants seeing it as relevant and useful to their roles. Two thirds achieved the stretching pass mark for the course.

Volkswagen UK then conducted a mystery shopping programme to assess how well those who went on the training were performing and applying the new skills they had learnt. The company found the sales specialists who had been on the training achieved a higher score – 94%, compared to those who had not been on the training (79%). The mystery shoppers measured each element in the customer journey from the initial welcome, through to customer qualification, vehicle presentation and demonstration, the presentation of funding options and the construction of an offer. Every element returned higher scores for those who had been through the training.

The training achieved its key objectives – particularly through an improvement in sales performance. The Volkswagen network has a robust mechanism for capturing and reporting enquiry, test drive and order take levels. Measuring performance levels on the new Polo after the training found that in the first three months post launch, all measures increased – in particular, the sales specialists who were fully trained sold 1.5 Polos more on average than those who were untrained.

Volkswagen calculated the direct financial benefit to the company using the abdi methodology. Taking into account the full costs of delivering the training, the company measured a return on investment from the programme of 116%.

Alongside this, the business saw wider benefits in terms of improved customer satisfaction and levels of staff retention.

“The all new Polo is a fantastic car but to give customers the experience they expect from Volkswagen, we needed to ensure that our retail network had staff who were highly knowledgeable and enthusiastic about the product. This was a key aim of our training. Feedback from delegates was fantastic and the detailed measurement proved the value of the training beyond any shadow of doubt,” said **Mark Cox** from **Volkswagen UK**

Note: Case study produced with agreement of Volkswagen and abdi ltd. Volkswagen has worked with abdi on implementing an ROI methodology for capturing the returns on their training.

Firms find they have to divert valuable resources into providing remedial training to make up for these failings. A fifth (22%) of firms are providing remedial literacy training to school leavers and a similar proportion (21%) training on numeracy.¹¹

Employers know they cannot simply criticise from the sidelines, and are increasingly building partnerships with schools to support local delivery. Business is a willing partner and wants to work with the education system to find ways of building on current business school engagement.

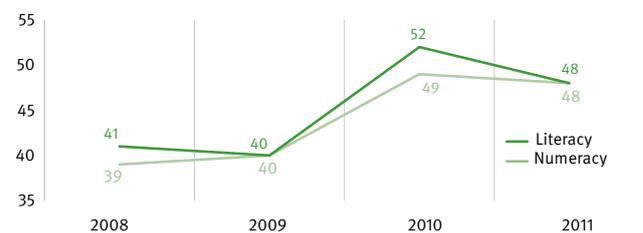
The latest CBI/EDI education and skills survey shows that two thirds (67%) of firms had built links with secondary schools and a fifth (21%) with primary schools. In addition, a third (36%) of firms had increased their activities with schools over the last year.

For example, Panasonic has created strong links with a local secondary, Edgbarrow School, Crowthorne. The nature of the support provided is agreed at an annual planning meeting with the school's leadership team, ensuring resources for activities are identified and planned for in advance. In the last year Panasonic has supported careers fairs, competency based interviewing development, and the trial of products such as electronic white boards. This support programme will be extended for 2011-12 to include mentoring offered to school staff and careers advice and guidance for pupils. The key to the success of the programme is getting a clear single point of contact with the school and developing an indepth relationship.

The range of business school activities is varied (**Exhibit 11**), with the majority of employers (63%) providing work experience opportunities. These provide an excellent opportunity to develop employability skills, alongside extra curricular schemes such as Young Enterprise or Duke of Edinburgh which often have employer involvement.

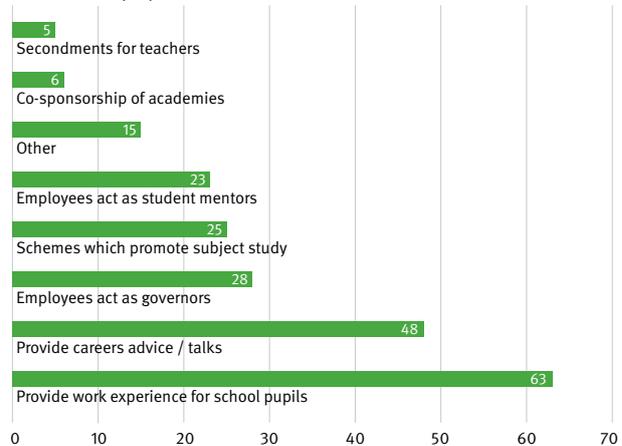
Almost half of firms (48%) provide careers advice/talks to young people to help them make informed decisions about their future. While they are not at fault, there is increasing recognition that teachers are not able to provide up to date careers advice based on labour market information and an appreciation of business needs. Employers are a valuable resource in supporting delivery of careers advice and for supporting government programmes in this area.

Exhibit 10 Employers reporting problems with core skills of current workforce (%)



Source: CBI/EDI education and skills survey 2011

Exhibit 11 Nature of business links with schools (%)



Source: CBI/EDI education and skills survey 2011

For example, the government's social mobility strategy – *Opening doors, breaking barriers* – launched a business compact for employers to work with schools and local communities by allowing staff to participate in student mentoring schemes and provide careers talks. It also announced the creation of the 'Inspiring the future' scheme to be led by the Education and Employers Taskforce, which aims to get 100,000 people to go into schools to talk about their careers.

Finally, a quarter of firms are involved in schemes to promote subject study. This kind of engagement is particularly common in the science, engineering and IT sector, with employers taking action themselves to address the shortage of young people studying vital STEM subjects. The STEM ambassadors scheme run by STEMNET is a good example of this kind of activity – there are now 27,000 STEM employees going into schools to enthuse and inspire students about STEM study.¹²

In addition, employers are taking their own steps to promote subject study. National Grid works with partners to deliver its ‘Engineering our futures’ programme which aims to encourage more young people to follow an engineering career. A range of activities are undertaken with schools including running after school clubs, and providing CPD sessions for teachers to help them contextualise STEM subjects and give careers staff a better understanding of opportunities in the industry.

Exhibit 12 Innovia Films – the importance of relationships with local schools

Innovia Films is a global business employing 1,350 people worldwide, of which 850 work on the Wigton site in Cumbria. The site has operated for almost 75 years, manufacturing cellophane, polypropylene film and other products. The Wigton site is not just about manufacturing: as the HQ of Innovia’s global business it employs staff in a wide variety of careers including R&D, engineering, sales, marketing, and accounts.

To find the right people for its business, Innovia has built links with local schools. The relationship with the Nelson Thomlinson School (NTS) – one of the top 100 state schools in the country – is particularly close. Innovia has supported Young Enterprise in the school for the last 21 years, provided science research projects for the Gold CREST Award for the sixth form students for the last 16 years, and has been involved in work experience for as long as anyone can remember.

Innovia works closely with NTS so that both parties benefit from the relationship. The school has access to an organisation that puts into practice what is taught in the classroom, and the company has the chance to influence the choices of the school’s best and most enthusiastic students. Innovia wants to attract the finest students at every academic level – to fill the wide range of roles the company has to offer.

The company supports students with careers advice and subject choices, with staff also acting as governors. It talks to year 9 students about their GCSE options, and year 10 students about the value of taking work experience opportunities to gain an insight into the workplace.

The support continues through advising on which A-level subjects employers would most value, and providing support for sixth formers about choosing university or employment options.

Innovia offers NTS staff a tour of the site every year, helping ensure they are kept up to date with what the company has to offer, and plant tours are available for sixth form pupils interested in careers with Innovia.

The company believe the effort has paid off. It recruits ten apprentices every year from local schools (in areas of engineering and production processes), and this year is interviewing NTS students with a view to sponsoring them through university on chemistry or engineering degrees.

The work has helped demonstrate to pupils, parents, employees and the community the importance Innovia attaches to recruiting local people to maintain its success.

2 Promoting a voluntary approach to training

How can we build on the existing good practice of employers in developing the knowledge and talents of their staff? How can employers and government work together to ensure those in work, but also those leaving school, have the abilities which will help business and UK plc move ahead?

CBI members are focused on creating the conditions for private sector growth. Employers need higher skills to improve the quality of their products and services, to innovate, and to attract new customers. The strength of the recovery will depend on the UK growing in export markets and being a beacon for domestic and overseas investment – and skills are crucial to achieving this ambition.

This chapter sets out a route map for raising skills and maximising the contribution of employers. The CBI believes a voluntary approach to training would be the most effective approach. Raising skills levels requires employers to see the business value of training and employees to be personally motivated to develop their skills. It is not about mandating training, but creating a positive culture to learning and development within firms.

This chapter sets out proposals in five areas:

- **Employers supporting each other on skills development** – with larger firms taking greater responsibility for supporting SMEs in their sector; and support for smaller firms to collaborate and access the benefits of externally delivered training.
- **Improving levels of leadership and management capability** – to support skills utilisation, and to promote the benefits of training within firms.
- **Greater use of Investors in People** – to help employers build strategies for people development where appropriate.
- **Campaigns that make clear the benefits to the employer and employee of skills development** – to spread the positive message on training.
- **Further simplification of the skills system** – with providers freed to be responsive to employer demand.



Employers supporting each other on skills development

Larger firms need to demonstrate that they are stepping forward and taking the lead in developing skills within their own organisations, and by acting as champions within their sector by supporting SMEs. At the same time, better collaboration between SMEs will help more firms access external training.

Large firms championing skills in their sector

Large firms can support training throughout their sector by opening up their resources to SMEs and their supply chains. There are already a number of cases of good practice, and the CBI would like to see more large firms coming forward and offering these services. Current examples include:

- Employers with a proven track record in providing high quality apprenticeship training who are willing to train more apprentices than they need for the benefit of SMEs in their sector. The construction firm Carillion is one such example and recruits and trains around 1,000 apprentices every year. The sector is dominated by small firms often working on short term contracts that do not have the capacity to invest in the long term training of an apprentice. But these larger firms will need support if this good practice is to continue.

CBI recommendation

Greater numbers of larger employers could make their resources and expertise available to support smaller firms in the sector.

Supporting better collaboration between SMEs

Small and medium sized enterprises employ 13.6 million people and account for the majority (65%) of new jobs created in the economy.¹³ SMEs are widely dispersed across all major sectors, and by creating more jobs than larger employers have a greater potential to take up the employment slack from losses in the public sector.

While the majority of skills development in SMEs will be informal, more could be done to support SMEs to overcome the barriers they may face in engaging with the external skills system – namely time, costs and dealing with bureaucracy.

For example, a small firm wishing to send one or two members of staff on a training course may struggle with the cost involved, or the provider may not be able to justify providing training for such a small group. If SMEs came together they would be able to pool resources to cover the costs of training, and send a larger group of staff onto the course.

Strengthening collaborative models will support SMEs access to externally delivered training. Group Training Associations (GTAs) are an example of this approach, with firms coming together to share an industry training facility. The GTA model offers a number of broad benefits for SMEs – with the GTA taking on some of the administrative burdens of formal training programmes, and delivering training focused on specific industry needs.

CBI recommendations

- **A focus on promoting collaboration between SMEs in close geographical proximity – eg business parks.**

From the government's budget for supporting SMEs on training, funding should be allocated to promote collaboration, with a particular focus on targeting business parks

- **Seed corn funding to help develop GTAs/ATAs or other collaborative models**

From the government's budget for supporting SMEs on training or through the government's Growth and Innovation Fund – resources should be allocated to help with the initial start-up costs of developing and establishing innovative GTA/ATA or other collaborative models

- **Better support for SMEs wanting to become involved in GTAs/ATAs or other collaborative models**

Many SMEs will be unaware of collaborative opportunities or will not know how to become involved. The government should provide better guidance, and develop a database of firms interested in collaboration to help bring organisations together. Other skills related bodies – such as Sector Skills Councils or the National Apprenticeship Service could also be a source of information on skills collaboration.

At the same time, there could be better co-ordination between employers in the work they undertake supporting schools. In particular sectors, there may be multiple employers working in parallel with local schools to deliver similar messages. This potentially leads to duplication of business effort and schools receiving overlapping information from different employers.

At school level employers will have common aims – for example encouraging more young people to study STEM subjects, or supporting schools to deliver better literacy, numeracy or employability skills. There could therefore be a role for Sector Skills Councils or National Skills Academies to co-ordinate businesses efforts with schools, and to support employers to join resources to maximise the impact of their work.

CBI recommendations

- Government and employers must promote best practice on business school collaboration – eg by further supporting the work of Education and Employers Taskforce
- Further consideration of the role of Sector Skills Councils and National Skills Academies in co-ordinating efforts of different employers in supporting schools.

Business working together on education

Many employers are already actively working with schools to help deliver better educational outcomes. Others are willing to do so – but need advice on how best to get involved.

There is a need to better harness and maximise this business commitment. While there are strong examples of business school partnerships, building these links can sometimes be difficult as the employer may not know who to contact at a local school or whether the school is interested in collaboration, while the school may not be fully aware of the contribution business can make. The Education and Employers Taskforce already provides excellent online information, and practical guides for building partnerships. This information needs to be spread more widely throughout employers and local schools.

Exhibit 13 Wates Group – involvement in Business Class

Construction company Wates is involved in Business Class – a Business in the Community (BITC) programme that aims to build meaningful and longstanding partnerships between businesses and schools. BITC currently engages with 108 businesses through various partnerships in 18 clusters across the country. Wates is the lead in the Coventry cluster and will be involved with a further seven clusters in the near future.

Through a local framework a school is partnered with businesses and a needs analysis matrix is produced focusing on the schools most significant requirements. Activities are aligned to four key areas identified where businesses can contribute most to raising the aspirations and achievements of young people: leadership and governance, employability and enterprise, curriculum and wider issues.

Each school is supported by a cluster of businesses with different skill sets. The cluster draws on the expertise of the businesses to help their particular school achieve the needs set out in the matrix. The method of working collaboratively encourages creativity in the group, supports knowledge sharing, and overall offers a wider support network.

As well as making a financial commitment, each business is required to devote substantial time to their designated school on an ongoing basis for the next three years. This ensures the impact made is long lasting and sustainable.

Key benefits and features of Business Class:

- It increases the quality of engagement between businesses and secondary schools by identifying areas where they can work together
- It builds long term relationships
- Supports teachers in the classroom and their own personal development
- Improves the achievement and employability skills of students in challenging schools
- By communicating and sharing experiences it will inspire others businesses to join a cluster.

In Coventry, Wates Construction led the partnership with Ernesford Grange Community School, and has been involved with them now for over a year. The company recently supported a careers fair at the school, where they were able to advise all year 11 students about the differing and varied careers within the construction industry. Alongside Wates other organisations that attended were the police, army, NHS and several training providers.

“The support we have received from Wates so far has been overwhelming and it has already made a huge difference. It has been wonderful to see the impression the Wates team has made on the pupils; their presence in the school is already breeding a new generation of builders and engineers!”

Helen Noble, Deputy Head, Ernesford Grange Community School

Improving levels of leadership and management capability

Strong leadership and management is a driver of high performance working, and is particularly effective for skills utilisation in an organisation. It is not just about the development of skills, but also policies to ensure that the contribution people make in the workplace is maximised, by deploying and harnessing an individual's capabilities to optimise organisational performance.

At the same time better training for leaders and managers can have a cascade effect through an organisation, as the managers will become advocates for the value of training and development. This is particularly the case among SMEs where harnessing the enthusiasm of owners/managers for the value of training can have a transformative effect on an organisation. The CBI has been a strong supporter of the leadership and management development programme for SMEs, and the continued support being provided by the government – with £20m of funding being allocated – is very welcome. The programme provides support for senior leaders in small firms to develop a personal development programme and funds initial training.

There is a need to improve the UK's leadership and management capability. CBI data has found ongoing concern over the leadership and management skills at lower and middle management levels. While over two fifths of employers (43%) rated the skills of senior managers as good, this fell to 24% for middle managers and 18% for supervisors.¹⁴

Many employers will already have programmes in place for developing future managers (**Exhibit 14**), but further steps are required to support the development of junior/middle managers. In particular, providers have a central role in working with employers to develop bespoke programmes or courses tailored to the needs of the junior middle management tier.

CBI recommendations

- Universities, FE colleges and private providers should focus on delivering customised leadership and management programmes for employers
- Universities, FE colleges and private providers must prioritise the development of tailored provision to meet the specific needs of junior/middle managers – through greater use of unitised learning or short course CPD programmes
- Employers to work with providers to inject more practical skills into courses through the provision of real life projects
- Integrating professional qualifications or inhouse training units into external training courses.

Exhibit 14 Adnams – developing leadership and management

Adnams is a small Suffolk based brewery employing around 350 people. The company's overall vision and strategy reflects a belief in developing the talents and abilities of all its staff. This reflects the Adnams values and culture based on the core values of a concerned, considerate and caring business.

The company strongly believes its employees are its main asset, and therefore in the value of investing in growing their potential. While training and development opportunities are based on the requirements of the business, individual members of staff are also encouraged to take some ownership and responsibility for their own training and development.

Managers play a key role in the development of employees, and in assessing the impact (return on investment) of training programmes on staff performance. This ensures adequate and appropriate resources are provided to meet the needs of the business now and in future.

The company provides a range of training and development opportunities, with decisions on staff participation in programmes determined through the annual appraisal process, during which training and development needs are identified. Progress on the acquisition of new skills and knowledge will be monitored through this process and daily conversations between managers and staff.

Recognising the importance of its leaders and managers, during 2010 Adnams embarked on a partnership with the University Campus Suffolk (UCS) to develop the Adnams Management and Leadership programme, which is accredited by the Institute of Leadership and Management (ILM).

Twelve potential 'rising stars' across all areas of the Adnams business were identified to form the first cohort to attend in November last year. The three day leadership programme was designed to reflect the company's core values – and in particular to extol the virtues of a coaching leadership style and building healthy interpersonal relationships. The focus was to build on an approach where managers encourage staff to take ownership of their performance and contribute fully to the organisation's success.

The company has seen delegates take away what they have learnt, and believe that the willingness of the managers to reflect on, explore and challenge different perspectives presented in the programme in the context of their own situations will be of lasting value.

One participant described his experience of the training as, *"Very valuable, I will take most of what I have learnt and use it. It has made me want to investigate, read and learn more, and I believe this will be the start of my learning journey"*.

Greater use of Investors in People as a people development tool

There are currently 28,800 IIP registered companies covering almost 30% of the workforce. While take-up and retention of IIP has declined in recent years, work is underway to re-energise the standard.

For some firms IIP is simply recognition of their existing people practices, but for others it can provide a useful and challenging framework for people development. There are time and cost elements involved in working with the standard, and this can be a problem for some SMEs, but it is also recognised that IIP has made efforts to try and address these concerns – for example by eliminating paper based assessments.

At its best, IIP operates as a business improvement tool, with the framework supporting employers to link business objectives to people development. For example, one of the key aspects of the reformed and more flexible IIP framework is the ‘new choices’ approach, whereby employers can develop specific criteria tailored to the needs of their business.

And the evidence on IIP is positive:

- Research by Cranfield University found IIP led to a chain of events delivering improved financial performance, particularly through its influence on the skills and behaviours of staff¹⁵
- IIP-accredited firms generate higher profits per employee. Research has found that a typical organisation that does not have IIP accreditation could generate an additional £94 per employee (an increase of almost 300%) by working with the standard¹⁶
- The National Employer Skills Survey found that IIP employers spend more on training (an average of £75,000 per establishment) than non IIP recognised employers (£27,200).

CBI recommendation

UKCES must communicate the business benefits of IIP more clearly, making greater use of sectoral or business to business networks to get the message out.

Exhibit 15 Pall-Ex – valuing individuals

Haulage firm Pall-Ex employ 180 staff to support the successful running of the business. Pall-Ex has enjoyed strong growth since it was established in 1996 and is now a leader in palletised distribution. The company occupies a purpose built hub in Leicestershire.

The company is dedicated to training its employees and provides on the job training to all staff to ensure they can fulfil their roles successfully.

In March 2008, Pall-Ex approached South Leicester College to upskill employees to an NVQ level 2 in a range of subjects, initially offering a number of places to employees. All places were filled in NVQ Level 2 in customer service and distribution and warehousing. The programme was successful and has helped maintain a safe workplace for operating specialised plant and machinery.

Employees have also been given the opportunity to undertake professional qualifications ranging from marketing qualifications from the Chartered Institute of Marketing, to project management qualifications from the Association for Project Management.

Recognising and valuing the individual’s contribution to the company has had a positive effect on business performance and staff motivation. Employees have grasped their opportunities for development – with one using the experiences and qualifications she gained to progress from a marketing assistant to a managerial role.

Pall-Ex sees the benefits of investing in its staff over the longer term, and strongly believes this gives the company an advantage over the competition, retaining and improving its respected place in the market.

Campaigns that make clear the benefits of skills development

The positive message on the benefits of training should be spread throughout the economy. Employers can act as strong advocates within their own sector and supply chain, and, where possible, on a national level. This is partly about spreading best practice and showing the benefits that training has delivered to individual firms and the case studies within this report should support that process.

It will often be the leaders of large high profile firms who can undertake national advocacy and this can deliver a powerful message. But even SMEs can get involved by spreading the message amongst local networks and media.

CBI recommendation

UKCES to co-ordinate a business-led campaign on the value of skills at national and local level.

Exhibit 16 e2v – business improvement techniques

e2v technologies is a medium sized engineering production company based in Essex. It develops and manufactures engineering products for medical, aerospace and defence, and commercial and industrial markets.

Over a period of 15 months, ending in early 2011, e2v technologies provided a business improvement techniques training programme for over 150 employees in the UK. Learners came from different teams, with the programme open to staff with a variety of educational backgrounds.

The training was aimed at establishing a solid understanding of lean manufacturing and continuous improvement techniques, and enables the learners to immediately apply the learning in their own workplaces as part of the programme's projects. To complete the programme, and gain the associated NVQ Level 2 qualification, took learners approximately one day a week over 12 weeks.

Outcomes from the training are measured in terms of improvements in safety, quality, cost and delivery. And e2v has seen improvements to process efficiency and workplace organisation resulting from the training. The company has not placed an overall figure on the financial benefits derived from the training – but there are a number of clear examples of business improvement and incremental business returns.

In the Chelmsford based glass shop, one BIT project identified that excessive time was being taken to transfer valves used in making products onto the next stage of the process. It was determined that a 50% reduction in time taken to transfer the valves could reduce overall cost via improved visual management and part identification. As a result of improvements to workplace organisation and visual management on a particular valve transfer trolley, the time taken to transfer valves was reduced from 1.5 hrs to 0.5 hrs leading to an annual cost reduction of £2,000.

Another BIT project group focused on the raw materials service area used to control and store incoming materials and to despatch materials to suppliers. The problem identified was the risk of inefficient workplace organisation, potentially risking the shipping of incorrect materials or products to suppliers or customers, and costs due to obsolete or slow moving stock. As a result of a focus on improving workplace organisation and materials flow, the distance travelled by employees in the area reduced from 292m to 72m via improvements to the floor plan layout, thereby saving time in the area. In addition, there was a specific focus on reducing inventory cost via the elimination of slow moving and obsolete stock, leading to a cost saving of £17,000.

The company are now looking to expand the training programme throughout the organisation.

Further simplification of the skills system

Each employer will decide the training that best suits them, and whether they want to engage with qualifications or the publicly funded skills system. But over recent years there has been an increasing divergence between what employers are doing on training and the wider skills system – with concerns over the relevance of qualifications or levels of bureaucracy. Taking practical steps to simplify the system will make it easier for firms – particularly SMEs – to reap the rewards of programmes such as apprenticeships, and it is encouraging that government has already started moving in this direction.

Employers want a skills system that is flexible and responsive to their needs. The vision set out in the government’s skills strategy, of a market based skills system where providers compete to deliver the training employers and employees demand, is the right one. Business had become frustrated with the planned approach of the past – with centrally set targets leading to a mismatch between what employers wanted and the funded training providers were able to offer. The focus must now be on freeing up providers so they are able to respond to local demand.

Building effective local partnerships will be essential, and there are already numerous examples of employers and providers working closely together to deliver excellent training. This best practice must become more widespread. With levels of public funding receding, employers will need to pay upfront for a larger proportion of their externally delivered training. Firms will only pay for quality and providers will need to ensure the content of training and the time/location of delivery meets business needs.

The CBI supports the government’s ambition to expand employer led apprenticeship programmes. Business is a willing partner for government but if we are to realise the goal of a successfully expanded apprenticeship programme there is a need to support more employers to become involved. There is a need to strip back levels of bureaucracy and complexity within the system, and the commitment ministers have shown to tackling this issue is welcome. The CBI is ready to work with government to ensure proposals on apprenticeship simplification are implemented effectively.

CBI recommendations

- The Department for Business, Innovation and Skills must implement plans for creating a flexible and responsive skills system – with providers free to meet demands of local employers
- To support employer choice, training providers should also make outcomes based information on individual courses available online – including employer/learner satisfaction rates and the impact training has on company performance and learner outcomes.

Exhibit 17 Sellafield – apprenticeships in a safety critical industry

Sellafield Ltd has a proud tradition of apprentice recruitment and training going back 50 years. The skills required to operate the most complex nuclear site in Europe are a continued focus for Sellafield, and apprentices are the cornerstone of that skills strategy. Sellafield currently employs 316 apprentices and aims to continue this upward trend in the years ahead.

There is a constant challenge to recruit the numbers of technically qualified personnel to conduct operations. Apprentice schemes provide a continued supply of highly qualified and competent personnel. Sellafield Ltd invests heavily in the training of apprentices and goes beyond the minimum requirements of government recognised frameworks. The organisation specifies additional NVQ units and safety qualifications, and supports progression with opportunities to study for HNC, HND, foundation degrees and degrees.

As the largest employer in Cumbria, Sellafield recognises its responsibilities in terms of socio-economic issues. As part of this approach, Sellafield Ltd has sponsored 175 community apprentices since 2004. This scheme aims to progress learners to advanced apprenticeships by placing these apprentices in employment within the Sellafield and local supply chain.

Sellafield Ltd invests significantly in apprenticeships considering them to be a practical and cost effective solution in delivering personnel with exactly the right skills, knowledge and behaviours that the business requires. The company is committed to providing high quality apprenticeship programmes. This is evidenced by success rates of 98% (2009/10). Of these completions, 100% progressed to full time employment with the company, with many of these individuals progressing to higher education and managerial positions.

The apprenticeships programme has benefited the company in terms of increasing its skills base, and having a positive impact on recruitment and staff retention. High quality schemes reduce internal skills gaps, but also enhance the performance of supply chain employers, thus sustaining employment for young people throughout the local area.

The company has invested in new facilities on and off its sites to ensure the latest technologies are available for training. In addition, Sellafield also actively supports the STEM agenda and maintains close links with schools via the schools liaison department. Its staff ambassadors scheme has successfully encouraged more learners to study STEM subjects.

3 Compelling employers to train would be ineffective

Building on the existing business commitment to staff development will benefit economic recovery and job creation.

The previous chapter set out a vision for a voluntary approach to skills – one that ‘goes with the grain’ of what the best employers are doing and which creates the conditions for more businesses to follow suit.

But as part of the menu of options which are available, the government is continuing to look at the potential extension of more regulatory measures on training, through increased use of training levies or licence to practice (LTP) schemes.

Business wants to work with government to achieve the ambition of a more competitive skills base, but strongly believes that extending levies or LTPs would be ineffective, with a particularly harsh impact on SMEs. The CBI would not question the continuation of existing training levy or LTP schemes, particularly where these retain strong employer support – but caution must be applied before these schemes are extended more widely.

The government has made £25m of public funding available in each of next two years to co-fund schemes with employers aimed at supporting firms “...to be more ambitious about raising skills in their sector”. The new support under the Growth and Innovation Fund is welcome, particularly backing for schemes which promote apprenticeships. But employers are also invited to submit bids which promote greater use of “professional standards, including occupational licensing and training levies”. While it is recognised that ministers are not seeking to impose measures on employers, there is no evidence to show that levy or licensing schemes are effective in raising levels of productive skills within the workforce.

This chapter makes clear that:

- There is no evidence showing effectiveness of levies or licences to practice – there is no evidence to show levies or LTP schemes would improve productive skills levels, while they would add to the regulatory burden
- Training levies would be a ‘tax on training’ – raising costs on firms with a particularly adverse effect on SMEs
- Licence to practice schemes would be a barrier to employment – working against the principle of labour market flexibility and restricting access to jobs for young people
- Proper safeguards are essential – if levies or LTPs go ahead there must be strong employer consent.



There is no evidence showing effectiveness of levies or licences to practice

The CBI welcomes the bottom up approach ministers are taking to any extension of levy or licensing schemes, with the focus on employers coming forward with proposals themselves. New schemes will not necessarily have a statutory footing with firms therefore able to opt-in or out of schemes. But despite these assurances, the debate must focus on whether levies or LTPs are the best route for increasing skills levels. There remain a number of clear arguments against the widespread extension of these measures – which are valid whether the programmes have been introduced through statute or more voluntary means:

- **There is no evidence to show levies or licences to practice will improve productive skills levels:** a wide ranging review of the available literature by the UK Commission for Employment and Skills concluded that training levies were “*a highly problematic policy lever, with potentially dysfunctional consequences*”.¹⁷ Similarly, the Commission found LTPs led to anti-competitive behaviour, with higher prices for consumers but no improvement in quality
- **They will increase bureaucratic burdens:** at a time when government is committed to creating a deregulatory environment to support business growth levies and LTP schemes will wrap further bureaucracy around training, with firms having to divert resources to cope with administration
- **The costs are also significant:** It is estimated that the costs of extending licence to practice arrangements across the economy – in terms of setting up and maintaining registration schemes, and other requirements – would be £1.5bn.¹⁸ Smaller firms will be the most adversely affected by any new requirements – with 60% of smaller firms in a recent CBI survey saying that excessive red tape around hiring people was inhibiting their growth as a company.¹⁹ While SMEs could opt-out of programmes at first, there will be a build up of pressure on employers to comply.

CBI recommendation

- There should be no blanket extension of levy or LTP schemes – this would not increase productive levels of training.

Training levies would be a ‘tax on training’

By requiring employers to make contributions to a centralised training fund, levies are effectively a ‘tax on training’ and an additional employment cost. SMEs will face the biggest increase in costs and red tape – they will have to contribute to levy schemes, but will find it hardest to navigate complex levy processes in order to draw down the benefits of training grants.

Any extension of levy schemes must be based on clear evidence of their effectiveness. A World Bank study of training levies in 30 countries (Dar et al, 2003) found “*rigorous evaluations of the effectiveness of levy programmes are extremely uncommon*”.²⁰

And the evidence that does exist is highly sceptical

- **There is no clear evidence to show levies increase employee productivity:** Research by Smith and Billet (2005) found “*a levy on its own cannot guarantee improvements in the quality of skill development*”. Looking at the French levy scheme they conclude that it had neither secured strong employer commitment nor led to the creation of high skilled jobs. They quote evidence showing that only 58% of workers in France received training despite the existence of a national levy, compared to 84% of workers in Germany where no scheme exists.

By only focusing on the volume of training, levies do not address whether that training is productive. And like most bureaucratic systems, levies create perverse incentives. They will often only be complied with superficially with firms simply arranging training to draw down funds or levelling down training to meet minimum requirements.

- **Levies adversely impact on smaller firms:** SMEs may find they qualify to pay the levy but struggle to receive funding in return. The World Bank study of training levies found that “*Small and mid-sized employers have rarely benefited from payroll levies in any country for which we have available evidence*”.

The study adds that levy schemes “*end up being...akin to subsidies to large firms and taxes on small ones*”. Research of the construction levy in the UK (Abdel-Wahab et al, 2008) found larger firms were more likely to claim training grants – primarily because these firms had more resources and were more adept at dealing with application processes.

- **Levies are heavily bureaucratic, with large deadweight costs:** For large firms, with well established training programmes, the evidence suggests that levies simply fund training that would have occurred anyway. A (2008) review by Elk and Gelderblom, of EIM Research and Erasmus University, Rotterdam, concluded that “*a high deadweight is more or less logical for such a measure [levies]*”.²¹

Licence to practice schemes would be a barrier to employment

The CBI accepts that licence to practice schemes work in some sectors where high risk work environments and concerns for health and safety, or the danger of clear consumer detriment, make a recognisable set of transferable standards crucial to avoid exposing colleagues or the general public to unacceptable risks (eg gas engineers or adult social care). But there is no case for extending LTPs beyond these sectors. It is not appropriate to take a regulatory approach to training in sectors (eg hairdressing or retailing) where there is no clear requirement for minimum standards, while LTPs are not effective in achieving the goal of higher skills.

LTPs create unnecessary barriers to employment and work against the principle of labour market flexibility. By restricting access to certain jobs, and creating new ‘professions’, they would particularly harm the prospects of young people at a time when nearly one million 16-24 year olds are unemployed.

LTPs are not an effective lever for raising productive skills levels. An indepth review by the UK Commission for Employment and Skills found there was minimal literature available on the effectiveness of LTP schemes in the UK and their impact on training levels. Evidence from the US and Canada found that by restricting entry to employment, LTPs led to anticompetitive behaviour. Reduced labour supply led to higher prices without any increase in quality for consumers. The UKCES report found, “*US assessments do show that, where licensing has been applied, the overall result has been little change in the levels of quality of the services or products supplied. This suggests that, in these cases, the effects of reduced competition outweigh any increases in productivity brought about by increased training*”.²²

Similarly, research by academics at the LSE and the University of Minnesota, which looked at the operation of occupational licensing in the US and its possible application in the UK concluded: *“the lack of any positive effects of licensing on the quality of services received by consumers, combined with the higher price paid for such services means that the case for occupational licensing is yet to be made”*.²³ The researchers add, *“our results lend support to the interpretation that occupational licensing serves as a means to enforce entry barriers”* to occupations.

Proper safeguards are essential

The CBI does not believe an extension of levies or LTP schemes is appropriate, but if plans do go ahead ministers must ensure proper safeguards. In particular:

- There should be no statutory measures – any schemes must be voluntary and based on bottom up demand from an industry
- There must be clear employer consent – with a minimum threshold of 80% employer support
- Licences to practice should only be applied to sectors where appropriate – in sectors where there are health and safety concerns or danger of consumer detriment.

Conclusions

As this report shows, employers are committed to the training and development of their staff and recognise the benefits of higher skills to business competitiveness and staff progression. Developing the skills of the workforce will support the goals of private sector growth and supporting people to find sustainable employment.

Moving forward, a dialogue is needed between business and government on how to build on employers’ work in developing not just their own staff, but also the workforce of tomorrow through business links with schools.

The employers in this report strongly believe a voluntary approach to training is the most effective way ahead. The solution must be bottom up and have strong employer support. Caution must be applied before steps are taken to extend training levies or licences to practice. These will increase bureaucratic burdens and there is no evidence to show they increase productive skills levels.

The government is looking to employers to take greater responsibility for raising skills within their sector. This is a debate business welcomes, but the starting point must be a clear acknowledgement of what employers are already doing and a partnership on how to best grow our competitive skills base. This report starts to provide a route map for progress.

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CBI

The CBI's mission is to help create and sustain the conditions in which businesses in the UK can compete and prosper for the benefit of all. We are the UK's leading business organisation and campaign for a competitive policy landscape for companies in the UK, the EU and on the wider international stage.

The CBI's strength lies in its breadth of membership, representing over 240,000 companies of every size and from every sector. With offices across the UK as well as in Brussels, Washington, Delhi and Beijing, the CBI provides members with representation around the world.



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