

# Informality works

## A new approach to training for SMEs

A skilled and adaptable workforce is an essential ingredient in the competitiveness of UK business and is equally important to firms of all sizes. Training has a key role to play in meeting employers' skills needs and in raising the productivity of employees and individual firms. Small and medium-sized enterprises (SMEs) form the backbone of the UK economy, but are all too often portrayed as uninterested in training and unappreciative of the value of employee development. This brief seeks to dispel many myths about SMEs and training, highlighting the support they need to raise their performance.

### **General perceptions of SMEs are misleading**

They are a diverse group that includes some of the most highly skilled and productive companies in the UK. The majority of SMEs do train, although often in an informal ad hoc manner.

*“SMEs are dynamic fast-moving businesses. They are turned off by public sector bureaucracy, but do need flexible support to further develop their business and employees”*

Simon Bartley, Chair CBI SME Council

### **SMEs face distinctive constraints on training formally**

Managers need to be convinced that training will add value, as the costs of formal training – and particularly tailored training – are disproportionately higher for SMEs. SMEs have difficulty getting information they can trust on training and learning opportunities and need help in identifying what training is needed.

### **Government should support SMEs in four key areas:**

- Help SMEs to identify means of improving business performance, including skills development
- Support informal learning for managers
- Provide qualitative information and support employers in finding suitable training
- Ensure SMEs can access flexible and relevant training.

## General perceptions of SMEs are misleading

There are 3.7 million enterprises in the UK of which over 2.5 million are sole traders or employ no staff. Almost one million employ between one and ten staff. In total, SMEs (firms with less than 250 employees) account for over 99% of all enterprises, over 55% of employment and just over half of all financial turnover. The growth of smaller firms is a key factor in the UK's output growth. But the SME community is sometimes portrayed as backward, poorly managed and not interested in developing its staff. These perceptions are wrong.

### SMEs are a very diverse group

Firms of different size within the SME sector have very different characteristics. A micro firm (up to ten employees) will generally have a very different internal structure from a medium-sized firm with 240 employees. As well as size, the sector and region that a firm operates in can strongly influence the culture and training needs of a firm. A small e-commerce firm will have very different needs to a small catering firm, for example.

Training needs and training capacity differ markedly across the spectrum of SMEs. Smaller firms are generally less likely than larger firms to offer off-the-job training. But many SMEs train strategically in line with their business plan, others train in response to organisational or technological change and some see no need for training at all. Some of the most highly skilled companies in the UK are SMEs. The nature of employment in SMEs often requires multi-skilling, so out of necessity someone working in an SME may develop a broader range of skills than someone working in a specific role in a larger company.

*“I know all my staff personally and encourage them to do further training regardless of its relevance to the business. I pay for it too, as I believe training stimulates people to learn and improve.”*

Rudi Plaut, Chairman, Northmace Ltd

### The majority of SMEs do train, often informally

It is widely assumed that small firms do not train. In fact over three quarters of firms employing 5-24 employees provide on-the-job training and more than half provide off-the-job training. While SMEs do undertake less training than larger firms this is more pronounced for off-the-job (formal) training and training leading to a qualification (Exhibit 1).

It is the lack of formal accredited training that has led government and its agencies to focus many studies and frequent new initiatives on encouraging SMEs to train.

The view that SMEs do not value their staff is countered by the CBI's Employment Trends Survey. This shows that SMEs are more likely than larger firms to rate workforce skills as a major factor in their competitiveness: over 75% of SMEs cited their workforce's skills as one of the three factors contributing most to their competitive advantage, compared to 60% of the largest firms.<sup>1</sup>

EXHIBIT 1 PERCENTAGE OF EMPLOYERS PROVIDING TRAINING BY SIZE OF EMPLOYER, 2002

Size of firm (no. of employees)	On-the-job training	Off-the-job training	Off-the-job training offering formal qualifications	Training plan
5-24	79	57	48	55
25-99	89	79	60	76
100-199	94	89	74	86
200-499	95	92	80	88
500+	94	93	88	91
All	82	62	52	60

SOURCE: IFF RESEARCH (2002)

Training should enable an employee to do their job more effectively and can improve motivation and staff retention. Many employers can cite direct benefits to their business from training their staff. But other factors also impact on productivity and despite large amounts of research, the benefits of training for firm performance or productivity has not been proved. Indeed formal training – particularly at lower skills levels – can benefit employees more than the employer.

It is important to recognise that not all SMEs can or in fact need to provide formal training, and that it is unhelpful to expect all SMEs to do so. But there are also SMEs who do not train but would benefit from it.

### **SMEs face distinctive constraints on training formally**

As a firm gets larger it is more likely to have the resources and the need to introduce specialised managers, to formalise training processes and to record what training takes place. In the majority of small and micro firms, training is mainly undertaken in response to specific needs as they arise. The drive and commitment of an owner-manager or managers to improve skills and performance is central to any efforts within SMEs to train and develop staff. But even a committed owner-manager faces constraints, such as the high costs of formal training and difficulty assessing the relevance and quality of training available.

#### **Managers need to be convinced that training will add value**

The vast majority of SMEs are owned and managed by one person or by two people working in partnership, and ultimately it is these owner-managers who are central to ensuring that a business develops a strategic approach to training. Convincing owner-managers that business performance can be improved by raising the skills of employees is crucial to raising demand for skills among SMEs.

*“Any money a small business owner spends comes out of their own pocket so they need to see that it is worthwhile”*

Nick Cotter, Managing Director, Trans4mation Training Ltd

Many owner-managers are focused on the day-to-day concerns of running their business. The greater uncertainties SMEs face over their survival can lead to managers taking a short-term view, while training is perceived as benefiting companies in the longer term. Where training is linked to business strategy the benefits of training are clearer, but micro and small firms in particular are less likely than larger firms to have a formal business plan, training plan, specific human resources manager or a budget for training. For example, one SME owner-manager only realised that employees were spending 12% of their work time training on-the-job once they appointed a human resources director. Typically, formal off-the-job training is just the tip of an iceberg – a lot of training is being carried out but it is rarely recorded.

Many SMEs still see training as a cost rather than an investment because the potential benefits of training and developing staff are not always direct and visible. This is particularly important as owner-managers are inherently cautious in spending money on training as the money to be invested is often their own.

One of the main reasons often cited for a lack of formal training in small firms is the fear of poaching. But training has been shown by many studies to increase retention. A recent survey found that only 1% of small employers reported the fear of poaching as the main reason for not undertaking training.<sup>2</sup>

*“Most employers will only train their staff where they see a benefit in doing so – even if training is free”*

Sam Gemmell, Managing Director, Creative Media Matrix Ltd

#### **SMEs face higher costs of training, particularly tailored training**

Tailored off-the-job training is more costly for smaller firms as they cannot benefit from economies of scale. Moreover, a small or medium-sized firm can less afford to have key employees absent from work. On-the-job training causes much less disruption and can be fitted into the day-to-day activities of the business. Many SMEs prefer informal training in the workplace because it can focus more closely on the work roles and specific skills of individual workers. Informal training is often more cost-efficient and effective.

A large firm will be able to work with a training provider to ensure that a course is relevant and have it delivered at a

convenient time and place. But some SMEs have found the quality of training provided by further education colleges to be low and the delivery too inflexible. This is partly due to the inflexibility of government funding which tends to follow training that results in qualifications or certification of some sort. This type of training is often less relevant to SMEs, as whole qualifications often include parts not relevant to the business need. In food manufacturing for example, employees need a mixture of manufacturing and food processing skills, but government funding is only available to support a full NVQ in either food processing or manufacturing. Larger firms are able to develop their own in-house qualifications building on the relevant parts of NVQs, but for small firms this is too costly and time consuming.

Employers concerned about the quality of training tend to cite three main factors:

- ‘Trainers don’t understand the reality of business’
- ‘The content of training courses is not focused on meeting the needs of my business’
- ‘Training provision is rarely provided at a time and place that suits the business and employee.’

The quality of further education is improving steadily and this is recognised by business: in 2001/2 two thirds of lessons jointly inspected by Ofsted and the Adult Learning Inspectorate (ALI) were good or better. But inspection reports show there is still room for improvement: over half the 67 general FE colleges inspected were unsatisfactory in one or more areas of learning and required partial or complete re-inspection.

*“There is no shortage of training offered to SMEs, but the problem for the employer is to find his way through this plethora of initiatives and programmes”*

Terry Libby, Managing Director, Morrisflex Ltd

### **SMEs need information from a source they trust**

Managers report that time taken chasing information and advice on all aspects of training is one of the key barriers to the uptake of training. If a business is to give employees

time off to undertake training, the manager wants to be absolutely confident that the training is fit for purpose and of high quality. They must have an accurate knowledge of the details and benefits of the course and an idea of how this training will raise an employee’s productivity and performance.

Information on training is plentiful, but too frequently it fails to meet business needs. There are many different sources for information on training provision, on funding and on government initiatives, but this information is provided piecemeal: employers want it from one source. On top of this piecemeal information is the confusing plethora of initiatives: there are at least 60 different initiatives related to lifelong learning in England alone,<sup>3</sup> and employers have a very limited knowledge of them.

In particular, employers find it hard to evaluate the quality of training provided and whether it will meet their particular needs. SME employers tend to gauge the value of training by asking each other because there is no easy way to access a source of information that they trust. Furthermore, the availability of funding for training or support towards the costs of training varies greatly even from college to college. Information on the costs of training is only available from individual training providers, so employers have to approach a range of providers to evaluate which is best value.

## **Government should support SMEs in four key areas**

Supporting learning and development in SMEs requires the government, local Learning and Skills Councils and Business Links to respond to SMEs’ needs. Training is not something that can be forced on small businesses – motivation must come from individual employers and their employees. But there are four specific areas where SMEs need support.

### **Help SMEs to identify means of improving business performance, including skills development**

Before investing in training, SME owner-managers have to be convinced that raising employees’ skills will benefit business performance and productivity.

The Business Improvement Tool for Entrepreneurs (BITE) produced by the Council for Excellence in Management and Leadership, encourages owner-managers to think about the broader problems their business faces and new ways these could be tackled. It asks questions such as ‘Do your staff enjoy their day at work or are they watching the clock?’ to encourage owner-managers to think about how they could improve the running of their business.

Business advisers, mentors, banks and accountants could play a useful role in prompting SMEs to use the BITE to question their business performance and think about tackling problems that may arise – including skills – and to signpost where to get further advice, information and support. It is encouraging that some of the UFI/learnirect Premier Business Centres are introducing BITE as part of their overall support service to small firms. The Departments for Education and Skills and Trade and Industry, Learning & Skills Councils and Business Links should further support and promote the use of the BITE diagnostic tool by a range of business intermediaries. Wider use of this tool could add significant value, but it must be coupled with an effective mechanism for signposting employers to training and support.

Once an employer has recognised the need to tackle problems highlighted by the BITE questionnaire, they need support to identify solutions. Signposting to further support is crucial. Where skills are identified as a problem or as a potential source of business improvement, this support should take the form of a training needs analysis. An SME manager knows whether their employees can do their current job, but is less able to spend time analysing how far further training could benefit the business. While the introduction of new working practices or technology often leads to a demand for training, a training needs analysis sets out a clearer and more strategic picture of where and how training could add value. Such an analysis should be provided free of charge for all SMEs either via an easy to follow web-based self-analysis programme or via local Business-Link brokered advisers.

*“Training ensured the company established a reputation for high quality products and provided us with a loyal and well-qualified management team”*

Rufus Harding, Commercial Director, George & Harding Ltd

This analysis should form the first stage of a support package enabling the business to gain Investors in People (IiP). Following CBI lobbying, the government has launched a new initiative with £30m backing that does just this. The Small Firms Initiative provides financial support for small firms to identify training needs and then develop a training plan in line with business strategy through IiP. Working with

IiP ensures that training is used as a strategic tool to meet the employer’s objectives, and is a natural progression from the initial training needs analysis integral to the process. Research has shown that smaller firms with ‘furthest to travel’ gained most from involvement with IiP and within a shorter period than larger organisations.<sup>4</sup>

This £30m is a welcome boost to an effective business improvement tool that helps firms to see the business benefits of training. It must be backed up by a consistently high quality service from business advisers. Further support should be given in the future.

The Small Firm Learning Account currently being piloted by the Centre for Enterprise provides owner-managers with support for their personal development and that of their business and employees. If the pilots are effective and there is high quality capacity in the delivery network, a national Small Firm Learning Account should be introduced. These accounts could provide owner-managers with support for analysing training needs, business or management development, advice and guidance and for working towards quality standards such as IiP. This would provide owner-managers with a clear knowledge of the development opportunities available to them at the same time as providing funding for development.

#### **Support informal learning for owner-managers**

One of the results of the BITE questionnaire or a training needs analysis may be a need for the owner-managers themselves to gain some wider knowledge or expertise. The development needs of managers and owner-managers vary dramatically, but management learning may help owner-managers to improve their business performance. It could also encourage them to consider the wider benefits of training.

The Council for Excellence in Management and Leadership concluded that there is a general lack of recognition of the benefits of management training and that smaller firms need particular help to see these benefits. But while formal measures of management skills suggest that the UK lacks skilled managers,<sup>5</sup> owner-managers rarely wish to use formal courses and prefer to learn from experience and real life examples, often learning from their peers. This type of learning – including mentoring and coaching – is very effective, as it is trusted, relevant and flexible.

A scheme attached to Lancaster University is a good example of such learning. It has brought owner-managers, SME managers and CEOs of large companies together in ‘action learning sets’ with a facilitator to discuss business issues. These action learning sets have helped to provide innovative solutions to business problems.

<sup>4</sup> Institute for Employment Studies, *The Return on Investors*, 1996

<sup>5</sup> National Skills Task Force Research Paper no. 13, (1999) + CEML, *Raising Our Game*, (2002)

Beacon company schemes (where owner-managers visit exemplar businesses) and business-to-business mentoring schemes allow businesses to learn from good practice and the knowledge and experience of others. These schemes provide benefits to both sides and are highly valued by participants. The CBI believes examples of good practice could be usefully extended across the UK: at present there is too little focus on encouraging what works.

## *“Having a skilled workforce that I trust, makes my life easier”*

Tony Burrows, Managing Director,  
Broadgate Promotional & Financial Print

The CBI promotes the spread of best practice through its competitiveness forum, the Fit for the Future campaign and benchmarking tools for businesses, including the human resources tool HEADSTART. The government should also take action in this area and support and promote informal forums, mentoring networks and Beacon schemes for owner-managers through Business Links, local colleges and universities.

### **Provide qualitative information and support employers in finding suitable training**

Employers receive lots of information on skills training and on current initiatives, but cannot easily evaluate the quality of the training and support available. Without this qualitative information, action to stimulate business demand will not be effective.

A one-stop-shop for all relevant information on training, including funding, was the most commonly cited factor (81% of firms) in a recent CBI survey, which asked SMEs to identify which factors might encourage them to train.<sup>6</sup> If marketed effectively to small businesses, a one-stop-shop could have a great impact on small business growth and development. But this depends on trustworthy information, advice and support being available in one place.

Employers need information about the quality of training provision, not just what is available – a *Michelin* type guide rather than a *Yellow Pages*. Such a guide could also draw together information on national and local initiatives and funding support along with mentoring, best practice forums and management learning opportunities. To develop and maintain such a guide could be an extremely difficult but worthwhile task.

Local Learning and Skills Councils (LSCs) could make a start by regularly updating information from all local

training providers with inspection results and employer feedback in order to provide a comprehensive service with a rating system of quality and flexibility.

Independent brokers – accredited to a high standard – are also needed to provide SMEs with support and guidance in matching business needs with appropriate training of the right quality in a local area. The role of these advisers or brokers will be key. They should be funded by local LSCs.

The government should draw up a ‘road map’ showing all relevant initiatives and the conditions attached to funding or support. This should be distributed to all SMEs, Business Links and business advisers. The CBI has also recommended that each local LSC should send out a one-page fact sheet outlining how it can help local businesses raise their performance through skills.

## *“Business Links are only as good as their advisers. They don’t understand the dynamics of your business and so are only useful as a reference point.”*

Eric Lloyd, Managing Director, Business Furniture Centre Ltd

### **Ensure SMEs can access flexible and relevant training provision**

Motivating employers and individuals to improve skills will be counter-productive if they cannot access relevant, high quality training. Early findings from the Basic Skills Pathfinder Projects and Employer Training Pilots indicate that the most important factor that encouraged firms to participate was the availability of appropriate training delivered in a way that meets the business and individual’s needs in terms of timing, location and course content. There are excellent examples of training providers and colleges working with large employers to tailor training to particular needs: these must be built on and extended to smaller firms. Again, brokers could play a key role here.

The government’s *Success For All* reforms seek to improve the quality of further education provision by spreading good practice and through a commitment to stop funding poorly performing providers. These reforms are welcome, but more effort should be made to ensure that further education colleges are committed and able to provide high quality and flexible training. Ofsted and the Adult Learning Inspectorate have an important role in advising institutions of good practice in the sector. A refocusing of government

funding will enable colleges to be more responsive to business needs. Each provider and local LSC should set targets for quality which are stretching and deliver real improvements. The key criteria as far as the CBI is concerned are not just qualification outcomes, but engagement with SMEs, employer take-up of training provision and employer satisfaction.

The new Premier Business Centres that Ufi/learnirect has established and is developing could have considerable potential to help SMEs. They aim to provide tailored training for small firms both at the local Centre or in the workplace.

The Heanor Gate case study shows how business networks are a further means of enabling SMEs to access tailored training and ease the costs of training (Exhibit 2).

#### EXHIBIT 2: HEANOR GATE INDUSTRIAL ESTATE

Access to training and support is the key factor in the success of an innovative project at an industrial estate in South Derbyshire. Firms set up an independent voluntary association on an industrial estate which now employs a ‘regeneration manager’ who organises training, site development and security for the whole estate. By working collectively with the whole estate – 42 firms and a potential 2000 employees/learners – South Derbyshire College is able to provide relevant courses on-site at suitable times. The regeneration manager informs the firms of opportunities and the site has obtained European funding for a number of short-term projects. For example, an online learning centre has been set up that is shared by all the firms. The Local Learning & Skills Council is now taking this collective approach further by working with groups of businesses to develop specific courses that meet local business needs.

A network of SMEs benefits from improved access to training and other development opportunities. These networks also provide valuable sources of business advice, mentoring and development. They can be based locally or

through the supply chain of a larger firm. Local LSCs should facilitate the development of such networks in order to encourage the sharing of costs and provide access to training that meets their needs.

The CBI supports the joint work already underway between the Qualifications and Curriculum Authority (QCA), the Learning and Skills Council (LSC) and the Sector Skills Development Agency (SSDA) to review vocational qualifications. This work recognises the need to make vocational qualifications more responsive to the needs of individuals and businesses. All qualifications should be unitised with clear outcomes, so that learners are stimulated by having smaller steps of achievement recognised than currently occurs and so that training provision can be more flexible and relevant for employers. Units should not be standardised or require a set learning time. Individuals should be able to take units from a large range of options so that their final qualification is fit for purpose. The original vision for NVQs was based on this structure.

This approach would enable an employer to fund those parts of a qualification relevant to an employee’s job and would enable the employee to progress towards a final qualification in their own time. The QCA, LSC and SSDA should ensure that this happens. Both funding and LSC measures of success for training providers need to recognise and support such a unitised system.

*“The only courses currently offered by the college are full NVQs, but they are simply not relevant for my business. However, the local LSC is now brokering new courses to meet my needs.”*

David Colebrook, Managing Director, Isolated Systems Ltd

## Key recommendations

- The Departments for Education and Skills and Trade and Industry, Learning & Skills Councils and Business Links should support and promote the use of the BITE diagnostic tool by a range of business intermediaries, coupled with an effective signposting mechanism.
- An informal training needs analysis for all SMEs should be provided free of charge either via an easy to follow web-based self-analysis programme or local Business Link-brokered advisers. This analysis should form the first stage of a support package that enables the business to gain IIP.
- A training needs analysis and further IIP or management support should be integrated into a new national Small Firm Development Account – if the current pilot is successful and a *Michelin* type guide is available.
- The Departments for Education and Skills and Trade and Industry should support and encourage informal forums, mentoring networks and Beacon schemes for owner-managers through Business Links, local colleges and universities.
- The Departments for Education and Skills and Trade and Industry should work towards producing a *Michelin* type guide to provide information on all training and development opportunities with a rating system of quality and flexibility. Local LSCs should start this process by collating and updating information from all local training providers with inspection results and employer feedback. Local LSCs should also fund independent brokers to provide support and guidance for SMEs in matching business needs with appropriate training.
- The Departments for Education and Skills and Trade and Industry should lead on drawing up an preliminary ‘road map’ of initiatives and distribute this to all SMEs, Business Links and business advisers. Each local LSC should produce a one-page fact sheet highlighting how they can support local firms to raise their performance.
- Local LSCs should facilitate the development of networks of SMEs in order to encourage the sharing of costs and provide access to training that meets their needs.
- The QCA, LSC and Sector Skills Development Agency should ensure that vocational qualifications are unitised so that employers and individuals are able to take only those elements that they need. The LSC’s funding system should support this.