



*Research report by the Forum of Private Business (FPB)*

## *Small-business Skills Survey*

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## Contents

	Page
<b>Summary</b>	<b>3</b>
<b>Note on external sources</b>	<b>4</b>
<b>SME recruitment</b>	<b>5</b>
Level at which SMEs recruit	5
Reasons why SMEs do not recruit	6
Locations where businesses recruit	7
<b>SME skills needs</b>	<b>8</b>
Importance of skills when recruiting staff	8
Importance of basic skills (literacy, numeracy, communication and basic ICT)	9
Rating the ability of the current labour force to provide basic skills	9
Employment attributes	10
Rating the ability of the current labour force to provide employment attributes	11
Job-specific skills	12
Rating the ability of the current labour force to provide job-specific skills	13
Graduate-level skills	13
Rating the ability of the current labour force to provide graduate-level skills	14
Impact of poor skills	15
<b>Workplace training</b>	<b>16</b>
Overview	16
Type of training provided to staff	17
Type of training provided to owner-managers	18
Reasons why no training was undertaken	18
Training as part of the recruitment process	20
<b>Needs from training courses</b>	<b>21</b>
<b>Gaps in the provision of training</b>	<b>23</b>
Awareness of training policy	23
Awareness of local training provision	24
Closer links with universities	26
<b>Methodology</b>	<b>27</b>
<b>Comments on higher-level skills by Dr Steve Johnson, Director of Research at WM Enterprise</b>	<b>28</b>

## Summary

The FPB undertook a survey of 1,500 members in July 2008 to respond to the higher-level skills consultation by the Department for Innovation, Universities and Skills (DIUS) and to support the FPB's campaign 'Promoting Business Growth'. The survey was conducted online, and was promoted through stand-alone emails and reminders in the FPB's weekly eNewsletter.

The figures generated by the survey were weighted by size to match the most recent figures (2007) from the Department for Business, Enterprise and Regulatory Reform (BERR). The weighted figures show the magnitude of various issues more effectively and also highlight the fact that almost 75% of UK firms do not have any employees. For this reason their skills and training needs are likely to be different from companies that employ and this needs to be incorporated into the results.

Small businesses are important recruiters of school- and college-leavers, as well as graduates, with more than one million potential employers in this sector. The others do not employ people due to size issues, (that is, they specifically wish to remain small) rather than because of employment issues. They are important employers locally and over three-quarters recruit from local schools and colleges, although new technology allows around 18% to recruit nationally for high-level or specialist skills.

Employment attributes including interpersonal skills and the willingness to learn are amongst the most important skills that employees can offer to SMEs, alongside basic skills. This emphasises the commitment of SMEs to improving the skills levels of their employees and the importance of training as part of the employment package that they offer to potential staff.

Basic skills improved marginally as part of a big emphasis by government in this issue. However, based on the results of our survey, and the subsequent weighting exercise, around 200,000 businesses in the UK still do not feel that basic skills are good enough.

In total, one in five SME employers felt that the skills base was 'poor' or 'very poor' in some way and around half of these indicated that this had a direct impact on their financial bottom lines. Only 7% indicated that there was no real impact to their businesses.

Over 50% of SMEs surveyed offer training to their staff, with the majority of this being done through informal, on-the-job training, compared to around 5% which use apprentice training, 18% which use work-based learning and 27% which use other external courses. Training on regulatory issues such as health and safety (77%) and other regulations (42%) has shown the impact of the current legislative environment on SMEs. Other important training includes basic skills needed to do the job (79%), customer service (49%) and team-working (46%). Owner-managers also have received training on management issues as well as health and safety/regulatory issues.

Reasons for not training staff were predominantly due to lack of staff (40%), the current staff already being fully trained (13%) or the business being too specialised for generic training (13%), whilst for owner-managers, the lack of training was due to the businesses being too specialised to use generic training (37%) and simply the time taken to organise such training (24%).

87% of respondents stated that they have had to recruit someone with a lower level of skills than they would have liked. This equates to 64% of employers or potential recruiters, or 750,000 businesses.

SMEs are more interested in competency in specific skills rather than qualifications, the exception being in businesses closely aligned with the public sector (such as health or education), where qualifications are required to perform a task. However, qualifications were important, as were the flexibility of training times and the proximity to the business. There is evidence that more strategic concerns, such as improving the financial health of the business, have been relegated in importance due to operational needs from the changing regulatory environment.

Gaps in training provision were diverse, although cost-effective training was a key issue, especially for management and specialist courses.

Links with universities could be more fully developed, especially if it helped businesses add value to their products and services. In addition, 31% of businesses surveyed stated that they would be prepared to take on graduate staff, provided that there was a financial incentive or that they received equivalent work in kind for their efforts. This approach partly reflects the increased cost of employment on small businesses in employing temporary or seasonal staff.

## **Note on external sources**

The National Employers Skills Survey (NESS) referenced was undertaken in 2007 and published in March 2008. It is the largest skills survey in the UK, interviewing 79,000 businesses, yet it excludes sole traders. The report from the British Chambers of Commerce (BCC) report (BCC) is entitled “UK Skills: Making the Grade”. The number of interviews undertaken is not known.

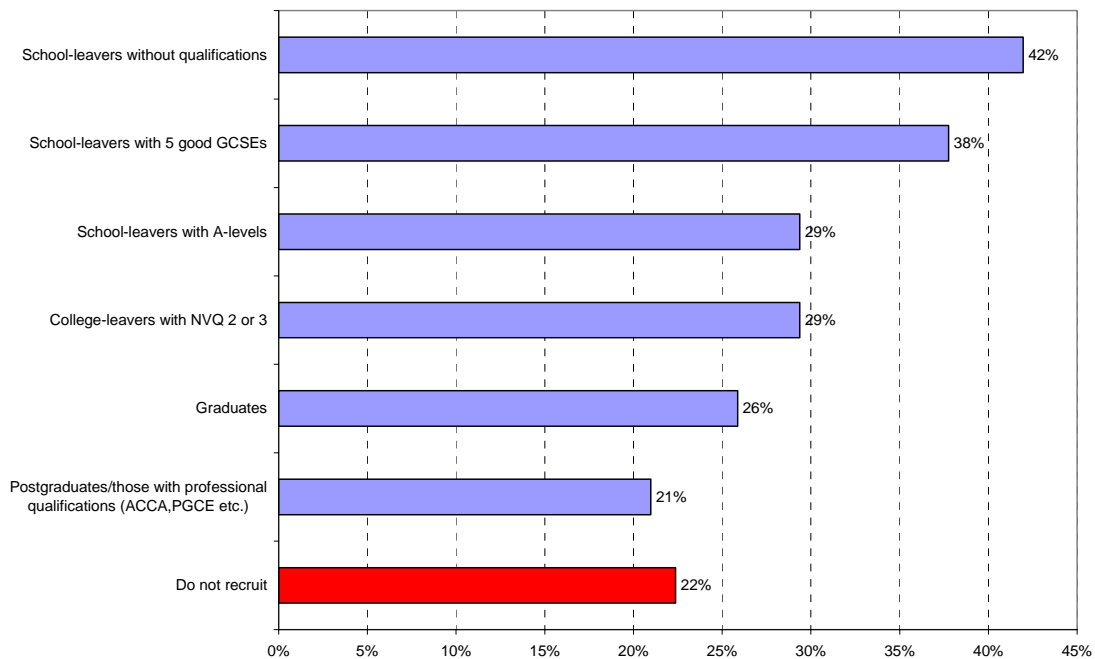
The NESS excludes businesses that do not employ anyone even if they may be looking to recruit, or have recruited in the past. As the majority of UK businesses fall into this category, they have been included in the FPB’s survey and its weighting system.

## SME recruitment

### Level at which SMEs recruit

As can be seen from the table below, only one in five companies do not recruit; however, this is closely linked to the structure of the FPB's membership, which comprises comparatively few members that do not employ staff. The graph below illustrates how important school-leavers are to SMEs and, by extension, to the UK economy. The graph indicates that there was a higher employment of school-leavers without qualifications than those with five good GCSEs. This illustrates that SMEs are more interested in competency rather than qualifications and that they anticipate putting considerable time into training new recruits.

### Level at which SMEs recruit (unweighted sample)



Size of firm is not necessarily a key indicator of the level of skills or recruitment required. Organisations with five or fewer staff were as likely to recruit graduates or postgraduates as businesses with more than 20. In terms of SIC codes, manufacturing, business services and construction had the highest demand for graduate and postgraduate staff. The high level of graduate and postgraduate employment is slightly surprising and is due to the small sample of current non-employers wanting highly-skilled staff to become their first recruits.

Modelling the data by size so that the survey results are representative of the UK economy indicates that around 500,000 businesses are interested in applicants with higher skills, 740,000 businesses in low-skilled staff and 520,000 in college or A-level standard applicants. The low numbers of industries

requiring school-leavers, with or without GCSEs, may be due to fear that these individuals will not have the basic skills required for their jobs.

In contrast, 3.5 million businesses would not be interested in recruiting at all, which is unsurprising as the latest BERR figures for 2007 indicate a similar figure of 3.45 million. A small proportion of these businesses (around 8%, or 280,000) will, however, consider recruiting and this is shown in the figures as a number of companies with one to nine employees stated that they did not recruit.

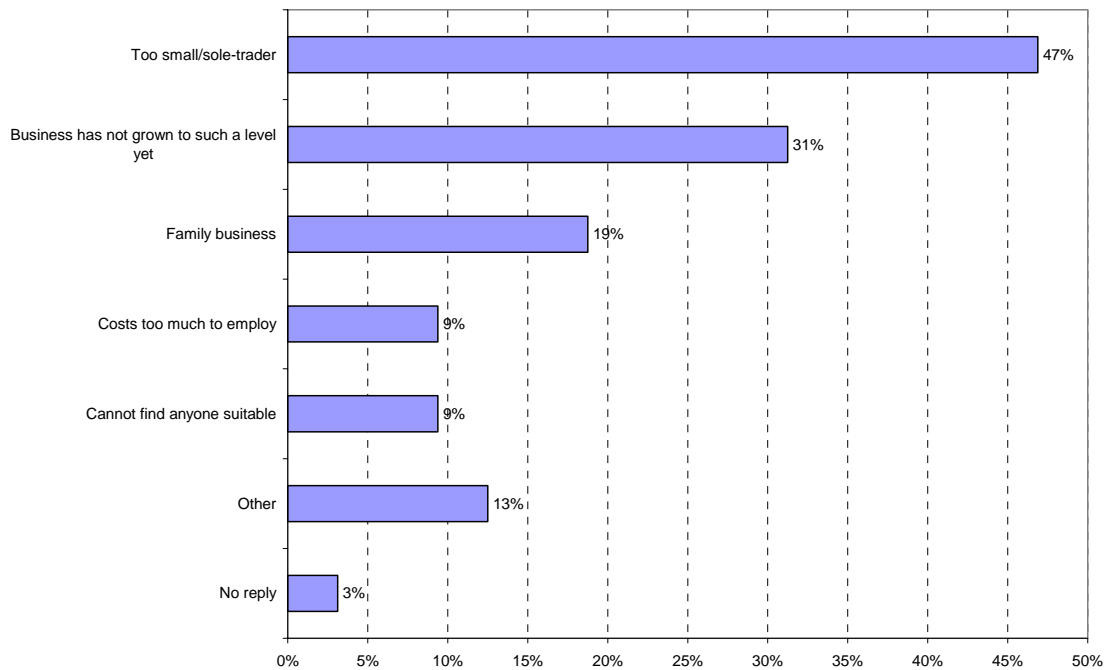
**Level at which SMEs recruit (weighted vs unweighted)**

	Unweighted	Weighted	Number of SMEs
School-leavers with or without GCSEs	61%	16%	743,607
School-leavers with A-levels/college-leavers	40%	11%	517,091
Graduates/post-graduates	35%	11%	504,284
Do not recruit	22%	75%	3,461,429

**Reasons why SMEs do not recruit**

The majority of reasons why companies did not recruit were simply to do with the size of the business; however, one in five did not recruit because of lack of appropriately qualified staff. These were equally split between not being able to find anyone suitable and those that felt the cost was excessive for their businesses.

**Reason why SMEs do not recruit (unweighted)**

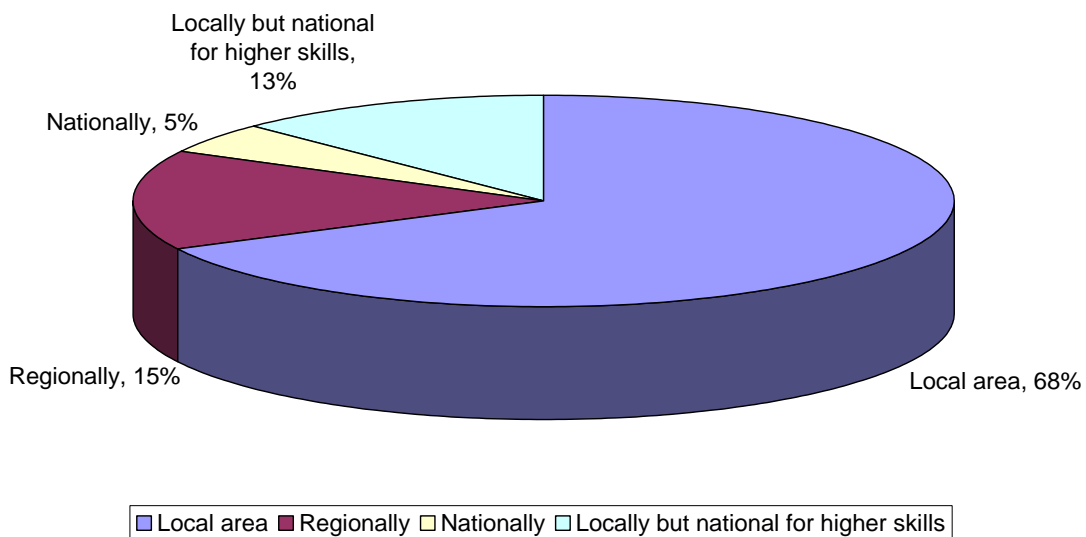


The 2007 NESS survey asked recruiters why vacancies were hard to fill, to which 71% mentioned skills-related issues. This was the predominant issue in the FPB’s survey and could explain why small businesses going down the recruitment route may be left frustrated. “Other” was predominantly that those businesses had chosen to use associates or sub-contracted labour rather than recruit directly. One respondent clearly stated that recent employment rights were to blame, this compared to 1% in the NESS survey; however, the fieldwork for the NESS survey was undertaken before the recent raft of employment measures were introduced in the 2008 Budget.

### Locations where businesses recruit

Businesses tend to recruit locally as much as possible, with two-thirds recruiting solely from this geographic location and over 80% viewing this as a key recruiting ground. There was no significant difference in size or industry and 42% of those looking for graduate or postgraduate staff looked locally. Few people tended to look throughout the region for staff, though this may change as the Learning and Skills Councils become more regional in their outlook.

### Locations where businesses recruit



All recent start-ups (those that did so in the last three years) that recruit do so from the local labour supply. Other research undertaken by the FPB as part of its ‘Think Smallest First’ campaign highlights that this stage in the lifecycle of a business is when it is at its most vulnerable, highlighting the importance of the local skills supply on the local economic development.

Manufacturing and construction were most likely to recruit locally for some positions, such as apprentices or shop-floor workers, and nationally for higher-skilled positions, such as engineers, where there is a national shortage. Business-to-business services were most likely to recruit nationally, with around a quarter recruiting nationally, whilst only 3% of customer-facing services (retail or personal services) did so.

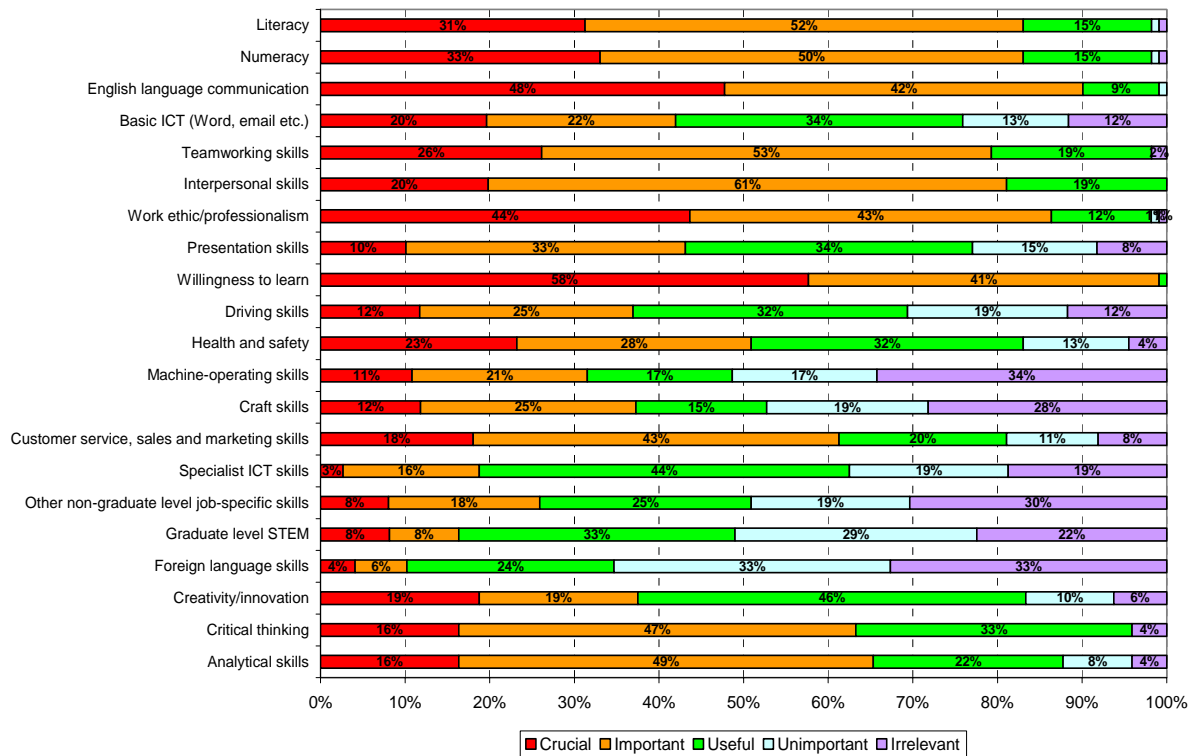
## SME skills needs

### Importance of skills when recruiting staff

Traditionally, in skills surveys, basic skills such as numeracy, literacy and communication are the most important ones that employers are looking for; however, the introduction of employment attributes such as work ethics and willingness to learn are more important overall than these particular skills. 12% of respondents to our survey did not feel that Information and Communication Technology (ICT) skills were relevant and specialist ICT skills were only classed as crucial by 1% of the respondents, indicating that high-level ICT skills are only required in a small number of specialist businesses.

Employability attributes (willingness to learn, teamworking skills, interpersonal skills, presentation skills, driving skills and work ethic) all scored highly, which indicates that many employers are looking for key personal attributes so that they can train individuals up to meet their specific needs. This is unsurprising as smaller businesses are more likely to have their own unique processes that will give those companies an advantage over their rivals.

### Importance of skills (unweighted)



Job-specific skills (health and safety, machine-operating skills, craft skills, customer service skills, specialist ICT and other non-graduate skills) were often only important for their particular industries, with machine-operating skills more important to manufacturers than retailers. Customer service skills bridged this gap as employees in an SME are more likely to have client-facing elements of their work, even in sectors such as manufacturing. Health and safety was also important to some degree, although most employees are given such training by employers.

Graduate-level skills for science, technology, engineering and mathematics (STEM), foreign language, creativity, critical thinking and analytical skills) were relevant in terms of the broader disciplines learnt, such as analytical skills or critical thinking, rather than subject-specific (STEM or foreign language skills). This equates to 23,000 UK businesses defining STEM qualifications as crucial to their businesses (it was important for around 37,000 businesses) and 125,000 businesses viewed foreign language skills as important or crucial to their businesses.

Employers also rated the workforce's ability to deliver the skills needed for each of these four skills groups (basic, employer attributes, job-specific skills and graduate skills) as part of the next four sections.

### **Importance of basic skills (literacy, numeracy, communication and basic ICT)**

Basic skills (literacy, numeracy, communication and basic ICT) showed to be fairly consistent attributes in terms of the importance that SMEs placed on them. The higher the education level at which businesses recruited, the greater the importance they attach to basic skills, with those recruiting graduates attaching the most importance to literacy, numeracy and English language/communication skills. Recent start-ups were less likely to be concerned with basic skills than more established businesses, whilst businesses with fewer than five employees required the highest levels of basic skills overall. In the lifecycle of the business, these are the businesses that need to recruit a very high proportion of individuals who are fee earners or producers, as the business requires rapid expansion.

Overall communication/English language skills were the most important of the basic skills, with little to distinguish between the importance overall between numeracy and literacy. Numeracy was most important in the business-to-business environment, particularly in the financial intermediation industry, and was as important as English language skills.

Basic ICT skills were significantly less important than the other basic skills, with the average rating being between useful and important, rather than between important and crucial. Unsurprisingly, basic ICT skills were least important to manufacturing and construction workers, and to businesses that were on the larger side of micro businesses (with between five and ten employees).

### **Rating the ability of the current labour force to provide basic skills**

18% of businesses, the equivalent of more than 200,000 SMEs, regard the workforce as being poor or very poor in this area. The lowest rating is to be found amongst recent start-ups, which do not see the current workforce as having the necessary basic skills they require for growing their businesses.

### Ability of the current workforce to deliver basic skills

	Unweighted	Weighted	Number of SMEs
Very good	12%	10%	115,151
Good	27%	14%	159,597
Average	43%	58%	690,109
Poor	16%	15%	181,120
Very poor	2%	3%	32,880
Do not know	1%	0%	2,033

Figures from research undertaken by the FPB into basic skills in autumn 2006 indicate that this has only marginally improved, despite the importance that small businesses attach to them. This is despite rising levels of qualification, which suggest that the workforce leaving school is better trained than it was two years ago. The 2007 NESS figures indicate that literacy and numeracy has also improved since 2005.

### Comparison between basic skills provision in 2006 and 2008

	FPB 2008	FPB 2006	
	Overall	Literacy	Numeracy
Very good	12%	4%	2%
Good	27%	12%	16%
Average	43%	44%	47%
Poor	16%	34%	28%
Very poor	2%	6%	7%
Do not know	1%	-	-

### Employment attributes

Employment attributes were included in the list of skills as the research undertaken in the NESS regularly highlights these skills as lacking amongst young recruits direct from education. In the last NESS survey, lack of motivation, work ethic and people skills all featured highly, whilst teamworking and presentation skills also feature in the list. These skills were the very ones to which SMEs attached most importance, indicating how much damage poor levels of competency can do to SMEs.

Willingness to learn was the most important of the employability attributes for all businesses other than those that had been set up recently, which were looking for a greater work ethic from individuals who were already a more finished example. Willingness to learn was most important amongst businesses with fewer than five employees as it is in these businesses that the employee is most likely to get direct support from the owner-manager on a day-to-day basis. This was particularly important in customer-facing services, such as retail or personal services, where these skills are crucial as to whether the businesses will prosper. More established businesses (businesses trading for over 10 years) were also more likely to appreciate these skills as they may well have a specific way of working to meet their customers' needs.

Team-working was less important with companies that recruit graduates and for those in the manufacturing or construction business, and it was most important for school-leavers to show that they were able to work closely with individuals. Unsurprisingly, those with fewer than five employees were also more likely to rate this as an important facet of a member of staff.

Interpersonal skills were closely linked to team-working skills, but were more important amongst recent start-ups and those that recruit graduates. In both cases, the indications from this research are that these companies are looking to recruit a more finished staff member. This is highlighted by the fact that recent start-ups were more important in work ethic/professionalism than willingness to learn, with graduate-recruiters showing the least difference between the two attributes.

Presentation and driving skills were the least important employment attributes, although recent businesses and those involved in distribution (transport providers and wholesalers, in particular) rated driving skills as more important than other businesses. Presentation was most important for graduate-recruiters, businesses with fewer than five employees and customer-facing services, such as retail, personal services and construction.

### Rating the ability of the current labour force to provide employment attributes

The figures are broadly similar when looking at weighted or unweighted figures. Larger companies were more likely to be satisfied with the level of the workforce than smaller businesses. Nevertheless, an estimated 181,000 businesses feel that employment attributes of employees could be improved significantly.

#### Ability of the current labour force to provide employment attributes

	Unweighted	Weighted	Number of SMEs
Very good	11%	10%	112,662
Good	30%	20%	226,269
Average	41%	55%	637,844
Poor	13%	12%	144,174
Very poor	4%	3%	36,946
Do not know	2%	0%	4,066

The quality of supply was broadly similar to that of basic skills overall; however, there were significant differences in terms of industries, with business services considering the employment attributes of those entering the office environment to be relatively good, in comparison to customer-facing industries where the figures were a lot lower. Businesses with between six and nine employees, and recent start-ups, had the lowest composite scores, with those in the 10 to 19 employee group having the highest score. This may be because in a smaller firm, where managers are less experienced, the impact that employees with poor employability attributes can have is much greater than in those that

have reached a particular size. Businesses with just over 10 employees may have the best balance of access of recruits to senior staff and the impact that this access to senior staff may have on the firm as a whole.

### **Job-specific skills**

Health and safety was a key requirement for manufacturing and construction, ahead of machine-operating, as this is less of a priority in construction and can be taught on the job. Health and safety was less important for the customer service sector, and was likewise less of an issue in business to business services or customer-facing occupations than customer service skills.

Machine-operating skills were a key requirement for manufacturers and recent start-ups. In the latter, they were as important as health and safety, highlighting a practical rather than process-driven outlook on health and safety. Unsurprisingly, they were less of an issue in other industries, although skills such as the ability to operate tills, vehicles and even photocopying machines were viewed as useful in these sectors. Businesses looking for graduate recruits were less interested in this area than those that recruited school- or college-leavers, where this skill was significantly more important.

Craft skills were again industry-based, with construction and, to a lesser extent, manufacturing considering this area to be important. Craft skills were also important in sectors such as hotels and restaurants, some areas of retail (for example, butchery) and useful to have in some business services, such as IT or architecture.

Customer services skills were most important for businesses that were customer facing, such as retail. However, they were also the most important skills for office-based businesses due to the customer-focused nature of their work. For production-based businesses, customer services was still quite important, but less so than health and safety, and the skills required to do the job itself (craft or machine-operating skills). Customer service was also highest in businesses with fewer than five employees, as staff were more likely to come into contact immediately with the business's customers.

Specialist ICT skills were important for graduates and recent businesses where ICT usage would give the organisation a particular advantage. It was important in some areas of business services, but in many cases it was a useful skill to have and distinctly less important than other areas, such as customer services.

Other non-graduate job-specific skills depended heavily on the business that responded. They include areas such as health and safety, admin skills and use of specific equipment, such as operating tills.

## Rating the ability of the current labour force to provide job-specific skills

The table below indicates that more than 500,000 SMEs believe that the current workforce is poorly or very poorly trained. On the face of it, the figure looks exceptionally high, but it highlights the diversity of small businesses and the importance these organisations attach to employees' willingness to learn.

### Ability of the current labour force to provide job-specific skills

	Unweighted	Weighted	Number of SMEs
Very good	11%	11%	127,069
Good	26%	16%	188,867
Average	39%	27%	322,244
Poor	18%	41%	484,802
Very poor	4%	3%	37,402
Do not know	3%	2%	20,506

Businesses in manufacturing and construction, where specific technical skills are needed, had the highest proportion of companies stating that this was an issue, along with businesses that recruited school-leavers. Alongside craft skills and machinery skills, customer service skills were also considered important or crucial to the business. Businesses that have been established for more than 10 years, and the very smallest businesses (four employees or below), were the most likely to have problems in this skills area.

The NESS analysis shows that 290,000 SME employers (with between 1 and 99 employees) have difficulties recruiting due to skills issues. These figures are slightly lower than the FBP's figures; however, the figures do not include sole traders who cannot recruit due to the lack of skilled labour. The main reason behind these skills gaps were the lack of technical and practical skills (52%), with customer service also important.

### Graduate-level skills

Apart from specific industries that required STEM (science, technology, engineering and maths) qualifications, cross-cutting graduate skills such as critical thinking, innovation and analytical skills were more important to SMEs. STEM skills were seen as twice as important in manufacturing and construction than in business services or distribution, although in some sectors, such as transport and certain repair sectors (garages and so on), these were also important. Based on the figures, however, this still equates to 60,000 businesses needing STEM graduates, with 23,000 stating it was crucial and 37,000 as important.

Languages were considered more important by more mature businesses, as these were more likely to require highly-skilled language speakers for export opportunities, as is indicated by the importance that some manufacturers made of this area. In total, 125,000 SMEs indicated that this was important or crucial to their businesses.

Critical thinking and analytical skills were, however, more important than STEM skills amongst manufacturers and construction businesses, whilst creativity and innovation was most highly required by retail and personal services.

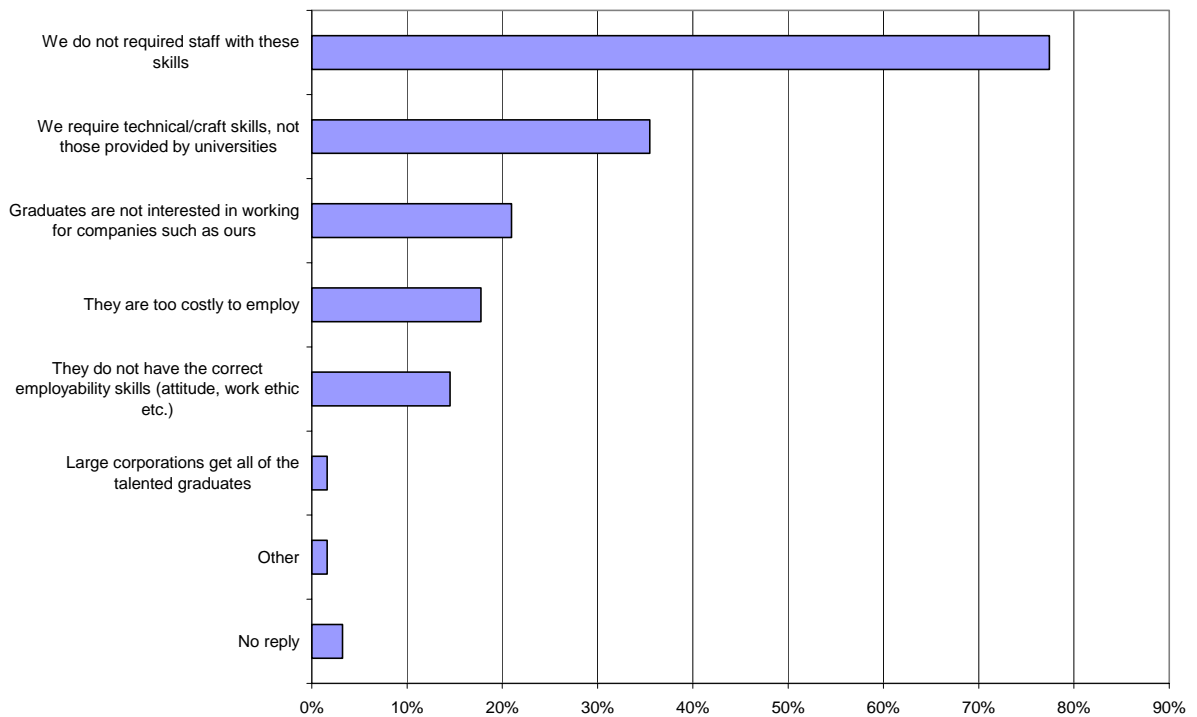
### Rating the ability of the current labour force to provide graduate-level skills

#### Ability of the current labour force to provide graduate-level skills

	Unweighted	Weighted	Number of SMEs
Very good	4%	3%	15,103
Good	25%	11%	53,056
Average	45%	68%	345,338
Poor	18%	12%	60,943
Very poor	6%	6%	28,220
Do not know	2%	0%	1,622

Reasons why SMEs did not recruit graduates typically followed the trends seen in other surveys, most notably the NESS. In this case, around 72% of SMEs did not recruit due to lack of needs, for 5% it was due to training supply issues, 4% cited cost reasons, 8% did not offer a reason and 10% listed other reasons.

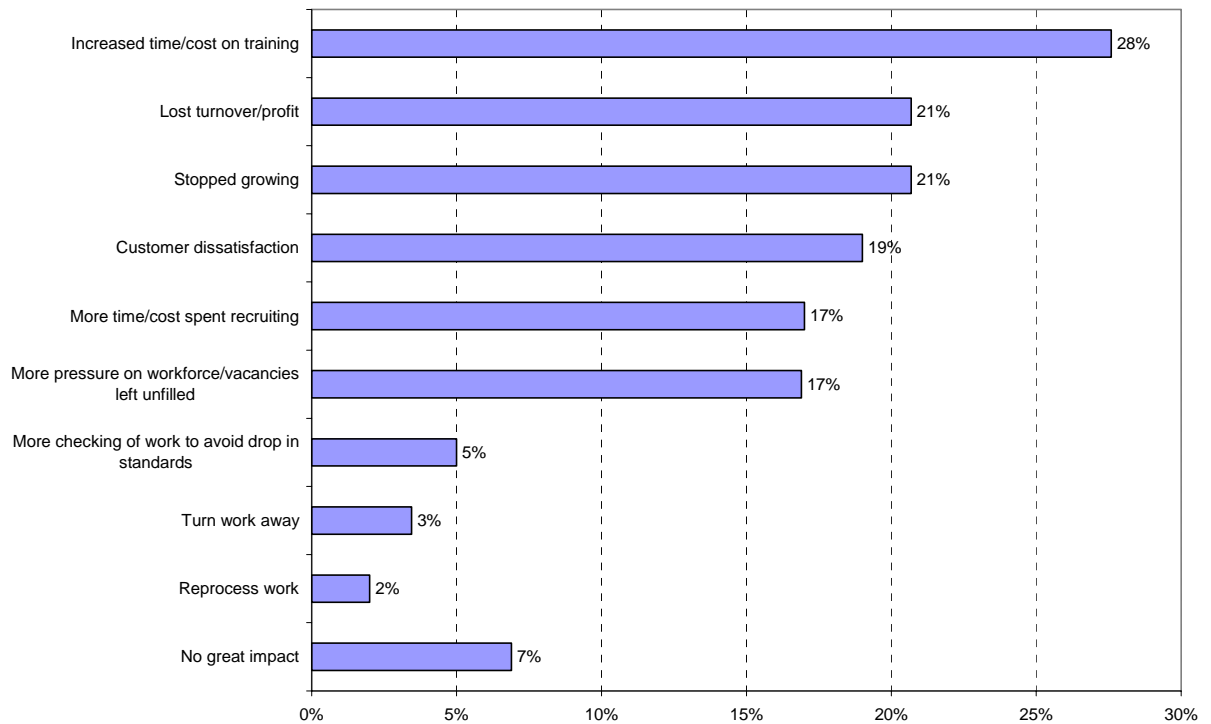
#### Reasons why SMEs do not recruit graduates



## Impact of poor skills

One in five respondents reported poor skills as part of this process, which equates to approximately 540,000 small businesses, including about 200,000 non-employers, who had difficulty in finding the right candidates. Since this would be their first recruit, such businesses may have much higher requirements on an individual than a business that already has employees due to the importance of bringing in people who can add immediate value to the business. This has had a direct impact on the financials of 40% of responding businesses, with similar proportions reporting lack of growth as those reporting loss of turnover or profit as an issue. Unsurprisingly, arresting of growth was a particular issue of non-employers wanting to recruit.

## Impact of poor skills



The most common response was simply to spend more time training staff, which will also impact on the bottom line as additional time is taken away from producing added value for the business. There were also quality issues, with greater checking of work required (in one extreme example, the work had to be reprocessed) and concern over customer satisfaction. 19% indicated that customer dissatisfaction was an issue, but this could also have been a quantity issue as businesses have to turn work away or cannot complete it in a timely manner.

## Workplace training

### Overview

90% of businesses in the survey undertook informal, on-the-job training with their staff. In some cases, this was a necessity caused by lack of skills in the workforce and the requirement on businesses to provide basic induction and health and safety.

### Training offered to SMEs

	Unweighted	Weighted	Number of SMEs
No reply	2%	0.1%	4,066
On-the-job training	90%	55%	2,551,463
Formal in-house training (structured)	44%	15%	693,158
Apprentice training	26%	5%	249,929
Work-based learning	49%	18%	837,052
Other external courses	61%	27%	1,260,160
Do not train	6%	44%	2,051,421

Although just 7% of businesses did not train their staff, the majority of these do not employ anyone. There is some on-the-job training within this group, which is likely to be in shared workplaces with other members of their supply chains. Figures may seem high, but will include freelancers and sub-contractors working in the same workplace as their clients; however, the sample is likely to be skewed towards businesses that were more receptive to training because it was self-completing. Having said that, there are indications that a large proportion of owner-managers in specific industries learn informally on the job when they come across new problems. The internet also allows for greater on-the-job training as issues facing owner-managers can be researched and solutions found.

Comparison with other recent surveys looking at training is shown below. The NESS is the main point of comparison as the survey by the BCC refers only to external training and includes all businesses. The BCC survey further indicates the importance of training at work.

### Summary of businesses not offering training

	Weighted	Unweighted
FPB survey	44%	6%
NESS 2007	54%	N/A
BCC 2007	n/a	17%

Structured, in-house training is mainly undertaken by almost half of respondents in the FPB's survey and was particularly important in the office-based business support services sector. The proportion of businesses that undertook such training rose steadily with the number of employees, indicating that a critical mass of staff is required for this type of training.

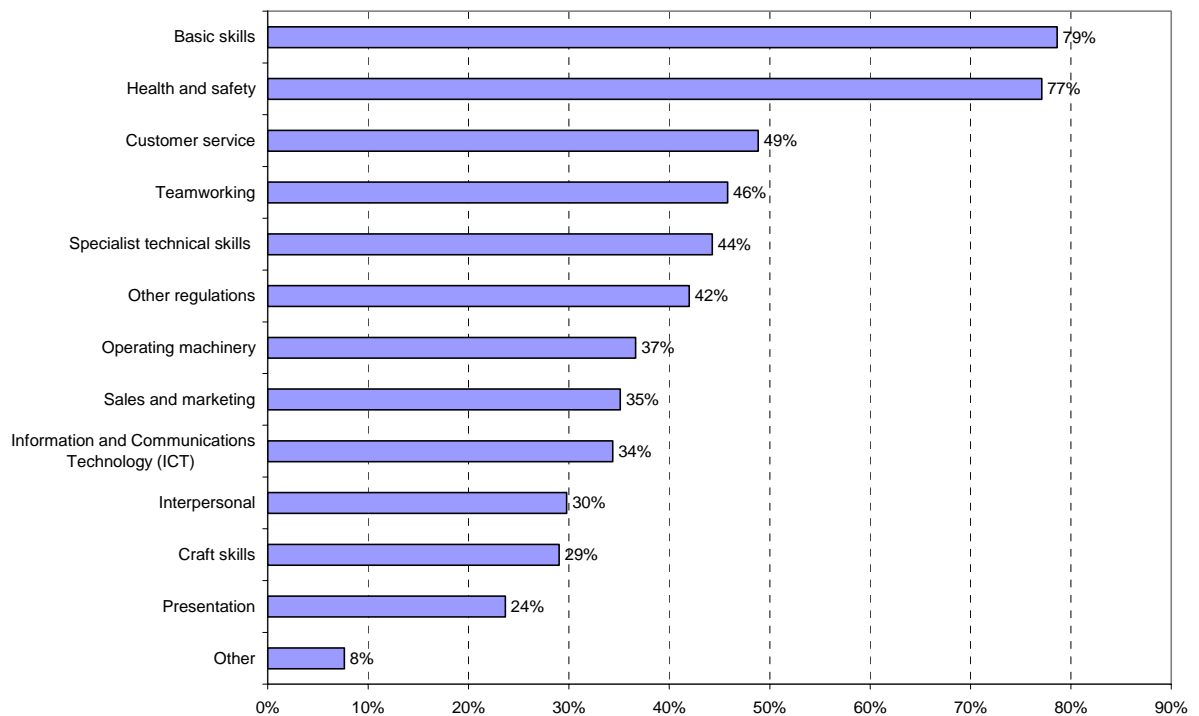
As a point of comparison, between 130,000 and 150,000 apprentices start Learning and Skills Council (LSC) courses per year, so the FPB figures appear realistic, especially as courses can last up to five years and many respondents would state that they provide apprentice training even if they have not actually had an apprentice on a course in the last few years. The indications are that micro businesses were less likely to employ apprentices than medium-sized businesses; however, this depended on the sector. This is supported by the results of the NESS survey, which indicate that 14% of employers have had some contact with apprentices.

### Type of training provided to staff

Training provision cited by the FPB’s members is closely aligned to areas where the NESS survey found skills gaps. In the NESS survey, technical and practical skills was the main skills gap, followed by communication skills. In this survey, technical and practical skills was split into health and safety and specialist technical skills, whilst basic skills denoted communication as well as literacy and numeracy skills. The burden of training to meet regulatory requirements is also apparent. A higher proportion of skills lacking in all businesses was, in general, a lot lower in the NESS survey, indicating that smaller businesses need staff that require much broader skills from each recruit compared to larger businesses that can be more specialised.

This is consistent with NESS data, which indicated 66% on-the-job and 77% off-the-job training had an element of health and safety or induction training, with this being the only training provided in the case of 11% of businesses.

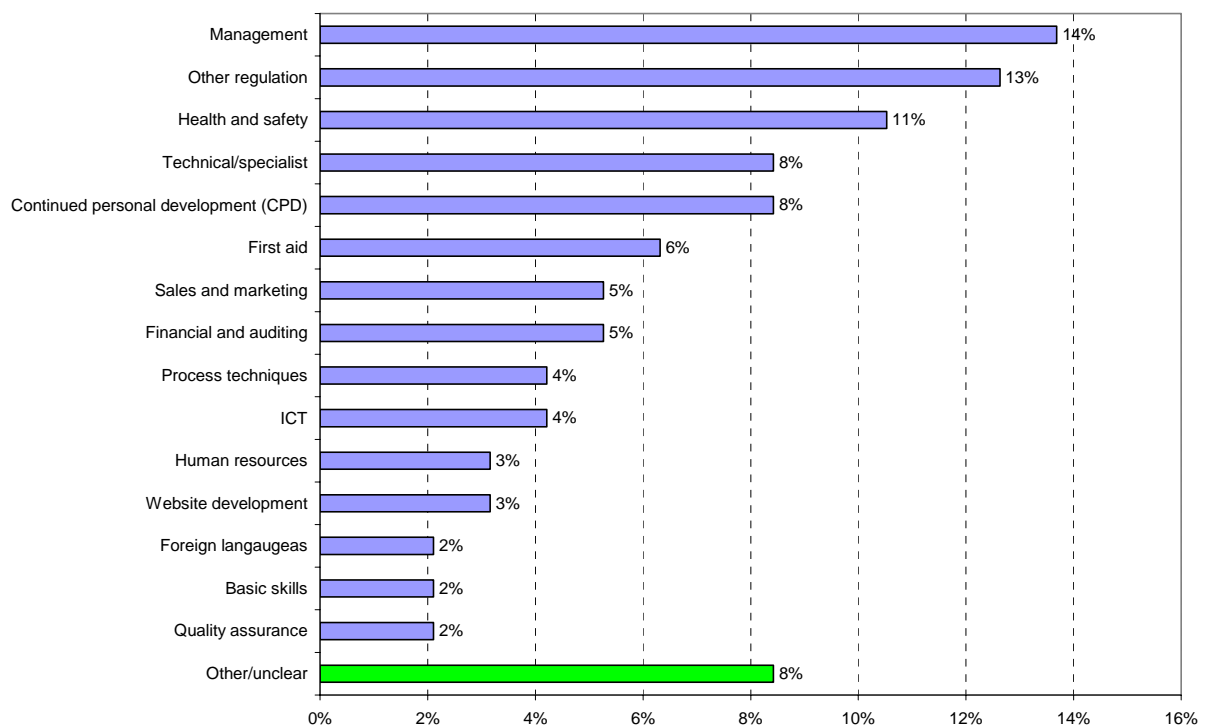
### Training provided to staff



## Type of training provided to owner-managers

47% of respondents have undertaken training themselves in the last year. This equates to 1.4 million owner-managers, although this figure is likely to be an overestimation due to the number of lifestyle businesses in the UK economy. The 2007 NESS survey also gave a figure of 1.4 million managers of employing organisations receiving support. The figure denotes a relatively high proportion of informal, on-the-job training, as well as the more management-orientated training (14%). On a slightly more negative note, it also includes updating knowledge on regulatory changes in key areas such as health and safety (11%) and other regulatory issues (13%). A list of the responses provided are shown below, where 'other' includes unclear answers to questions such as where it took place (for example, "internal") or where a specific answer was not given (for example, "too many to give"). It will also include team-working skills, equalities and diversity training, and environmental awareness, amongst other issues.

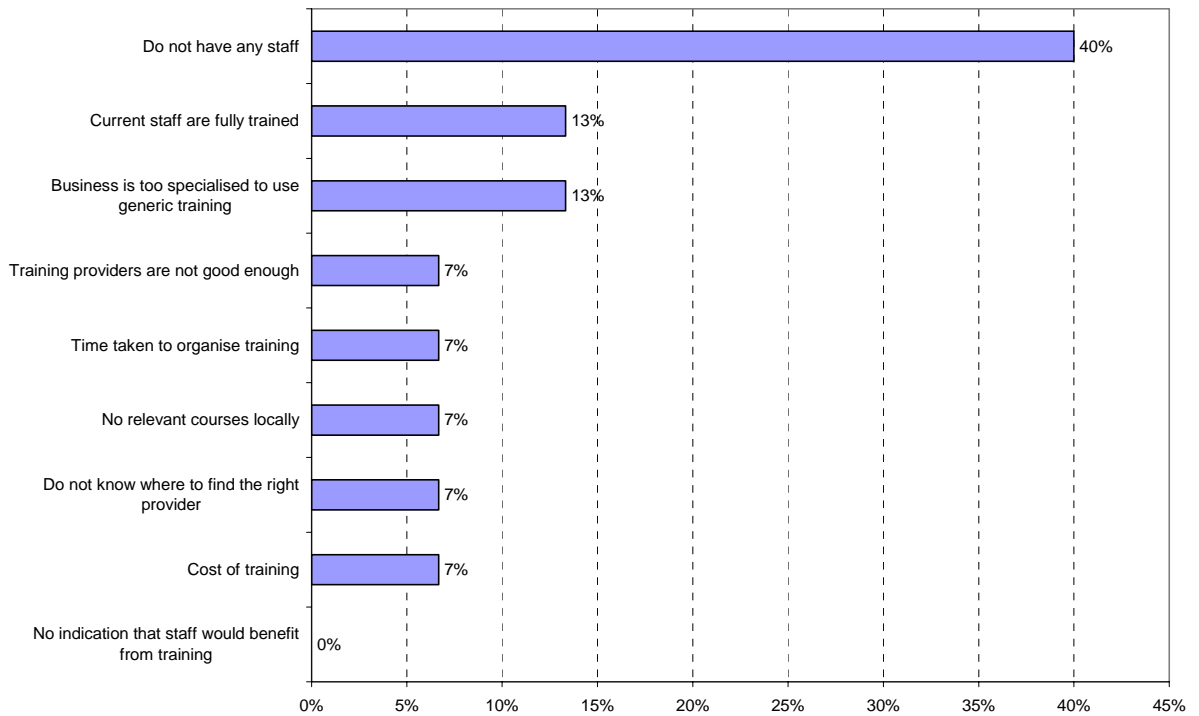
## Training provided to owner-managers



## Reasons why no training was undertaken

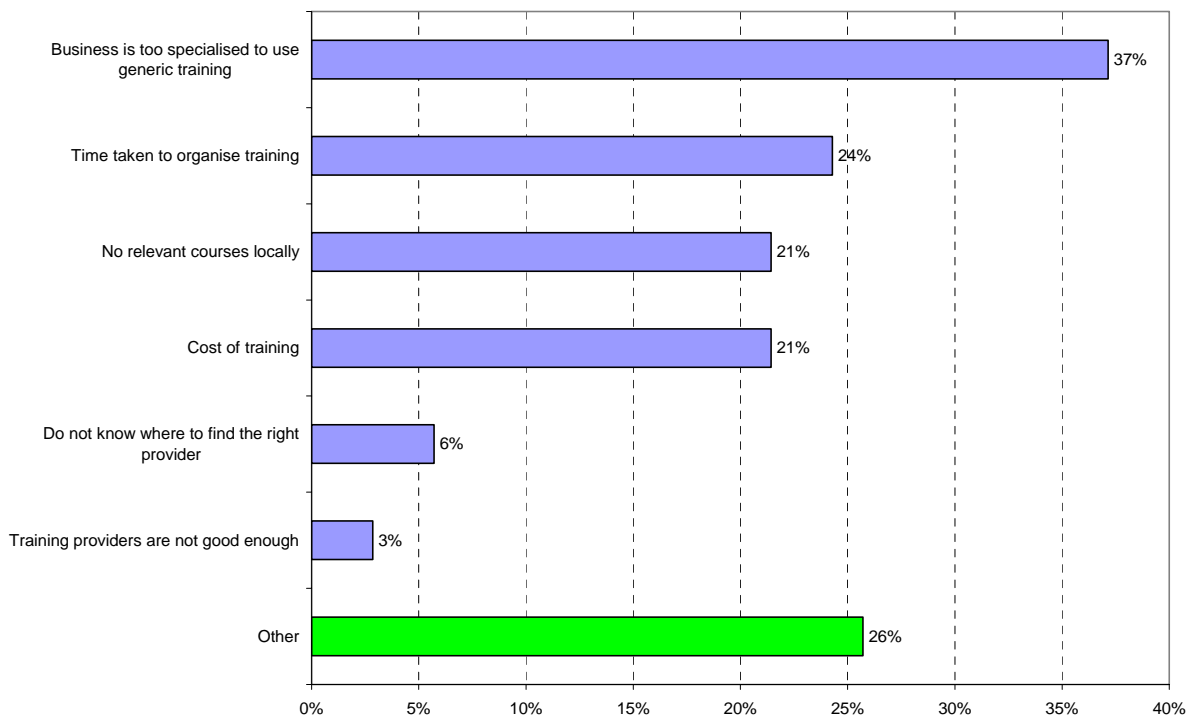
The main reason why no training was undertaken was due to the size of the business, as can be seen from the chart below. These businesses were also asked whether the right of staff to have time off to train would have any impact on their training policies. Not one felt it would do; however, this is mainly because the staff in question would be the owner-managers themselves. The sample is not sufficient to make any meaningful conclusions, but, interestingly, none of the respondents was concerned about whether training would benefit staff.

### Why respondents do not offer training to their staff



Reasons why owner-managers did not train was slightly different. The main problem was finding a course that fitted the specialised needs of the organisations. Time, local provision and the cost of training were all issues; however, the quality of the training providers was not an issue, nor was lack of knowledge of where to go to find a provider.

### Reason why owner-managers do not train



## Training as part of the recruitment process

Not all training is undertaken as a way of developing the business as, in 88% of SMEs, training was required to get the individual up to the appropriate standard.

Have you ever recruited an individual with lower qualifications than you required and then had to train them up?

	Unweighted	Weighted	Number of SMEs
Yes	87%	63.60%	750,842
No	11%	36.10%	425,982
Do not know	2%	0.3%	<5,000

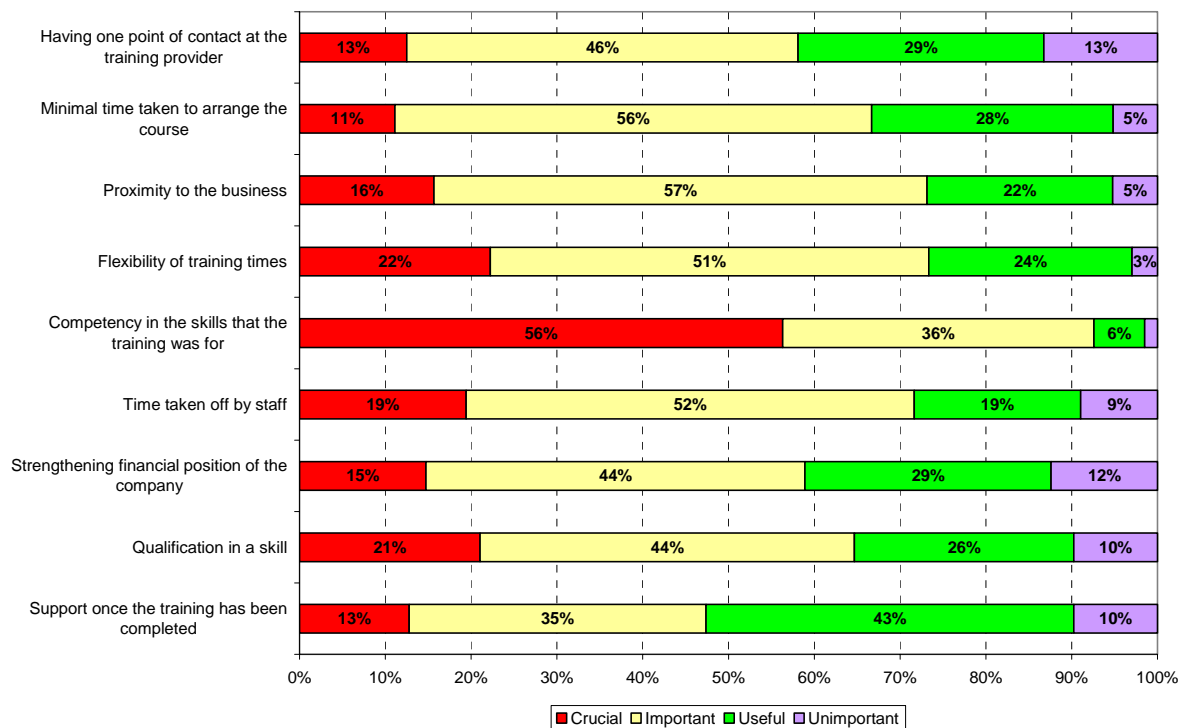
87% of businesses have had to recruit individuals with lower qualification levels than they would have liked. If this is weighted according to the size of the business, it equates to 750,800 firms (63.8%) of SME employers. This indicates the pivotal importance of smaller firms in training staff up to a required standard and also indicates that a significant amount of time is lost to the economy in getting staff sufficiently trained. Training is often on the job and, as so, the level of the problem is likely to be under-reported.

## Needs from training courses

The major requirement from businesses was trainees' competency in that specific skill, with qualifications much less important, except in industries where qualifications provided an entry into a trade or profession. Flexibility of the course and the time required off by staff were the other important factors.

Needs from training courses remain operational (fulfilling gaps that occur in the workforce) rather than strategic (discerning ways in which the courses can be for the financial benefit of the organisation).

### Importance attributed to elements of training



Flexibility of training is a key requirement after competency, which chimes with the barriers to providing more training to staff highlighted in the BCC's survey, where the lack of flexibility in delivery (15% of respondents mentioned this) was a key barrier after cost (27%) and the lack of staff to cover for training (25%). Time taken off by staff was also a key consideration, but was less important in this survey due to the informal nature of the training that was provided in the majority of instances.

For production-based industries, ratings in competency in a skill was significantly higher than the average, as was proximity to the business and the flexibility of training times, indicating the importance of practical, hands-on training. By contrast, localisation was least important for business support services, which may indicate the growing acceptance of training using internet and distance learning. Competency was again high for these businesses, although the ratings were lower than average, whilst the minimal time in arranging the courses scored comparatively highly. For retail and distribution,

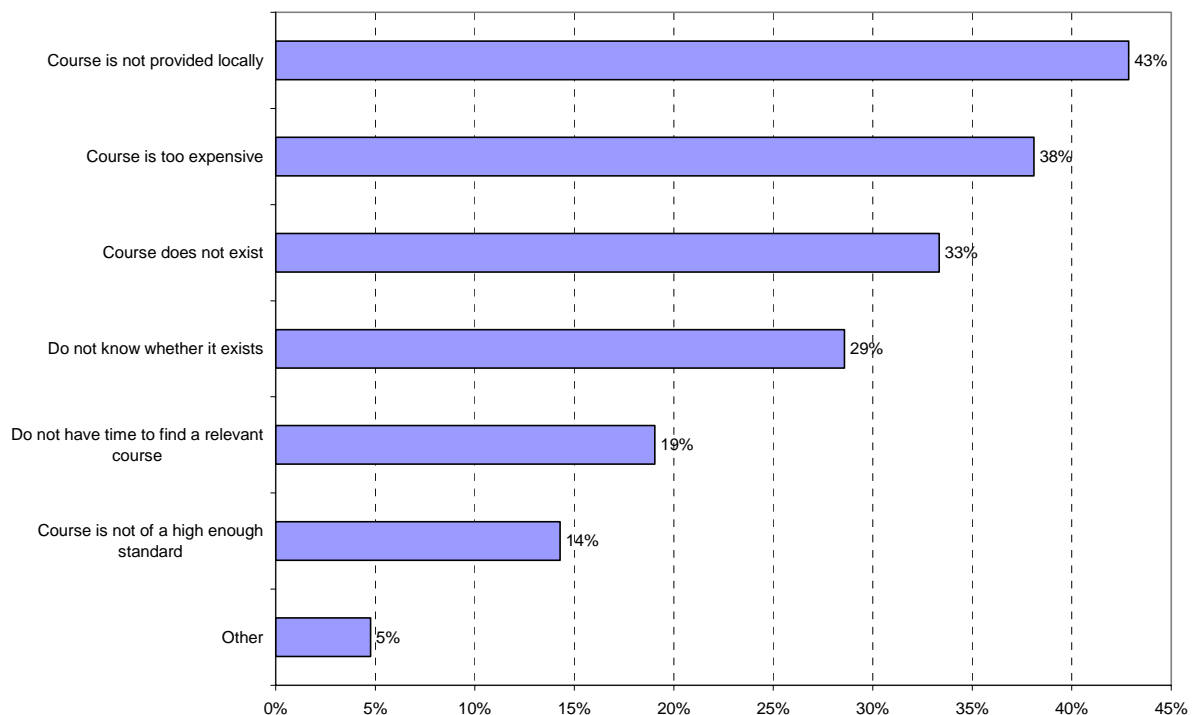
having one point of contact and the time staff took off work was more important than in other areas, this may be due to the routine nature of training required for customer service staff, as well as the highly competitive nature of the industry. For health, education and other services, the qualification was as important as the competency due to regulatory requirements for staff to have specific training levels.

For those without staff, competency was the most important element, whilst time taken off was perceived as irrelevant, Scores were much lower for this sub-sector as the training process is far less formal than for those businesses with staff. There was very little difference in size terms, except that businesses with more than 20 employees placed a higher priority on proximity to the business. Recent start-ups generally rated these issues higher than average, with the exception of qualifications in a skill and the support once the training has been completed. Qualification, proximity and time off for staff were more important for businesses that took on college-leavers, reflecting the predominance of work-based learning schemes such as apprentices. Flexibility of courses was more important for those employing school-leavers due to the importance of on-the-job training for these groups as part of their induction periods.

## Gaps in the provision of training

Gaps in the provision of training were highly specialised, indicating the difficulty in trying to provide comprehensive coverage for such a diverse range of organisations. These were very diverse, ranging from power coating to fishery and cost-effective care training, although marketing courses and (reasonably-costed/subsidised) management courses were mentioned frequently, as was specialist computer courses, including CAD design, specific databases and web development. There was also an important gap identified at the smallest stage, as there were few specific financial courses designed to help a sole trader become an employer, such as setting up PAYE and understanding employment law.

### Reasons why respondents feel there is a gap in training provision



There was a preference for courses to be provided close to the workplace, with 86% of respondents stating that they would prefer training to be provided locally (57%) or at their workplace (29%). Use of the internet was a preference for one in seven businesses, with around 10% stating no preference.

### Awareness of training policy

Just 7% of respondents felt that the current training policy, encompassing Train to Gain and higher skill learning, offered value for money. This would be reduced to fewer than 50,000 businesses when the businesses are weighted according to size. The figures are in contrast to research in 2006 in which small businesses stated that, if the Government offered a grant of £1,000 for leadership and management courses, this would be a valuable resource. 67% agreed too that this was the case, albeit that there was a feeling that this was not enough to deliver a course of a high enough standard and costs would, therefore, be incurred by businesses.

However, over half of the sample, and an estimated 72% of the total population of SMEs, are uncertain about this issue. This is unsurprising, when over 78% of businesses have no employees and therefore are unlikely to have even considered using such training.

#### Does the current skills policy of Train to Gain and higher skills support offer value for money?

	Unweighted	Weighted	Number of SMEs
Yes	7%	1%	49,600
No	34%	27%	1,248,818
Do not know	59%	72%	3,327,461

This may simply be due to lack of awareness, as the research undertaken by the NESS and the BCC indicate that only one in three are aware of Train to Gain and very few (around 5%) had used them.

The NESS and the BCC surveys show that there are fairly consistent levels of awareness of train to gain and the involvement in it. This has been summarised in the table below:

#### Awareness and involvement in Train to Gain

	Awareness of Train to Gain	Involvement in Train to Gain
NESS (2007)	28%	4%
BCC (2007)	33%	6%

#### Awareness of local training provision

Smaller businesses are more aware of their own local provision and their knowledge of training schemes is at best patchy when asked such a question out of the blue. Around half of UK businesses are not familiar with their training provision in contrast to around 70% of employers. If non-employers were removed from this survey, then the familiarity with training provision would be significantly higher.

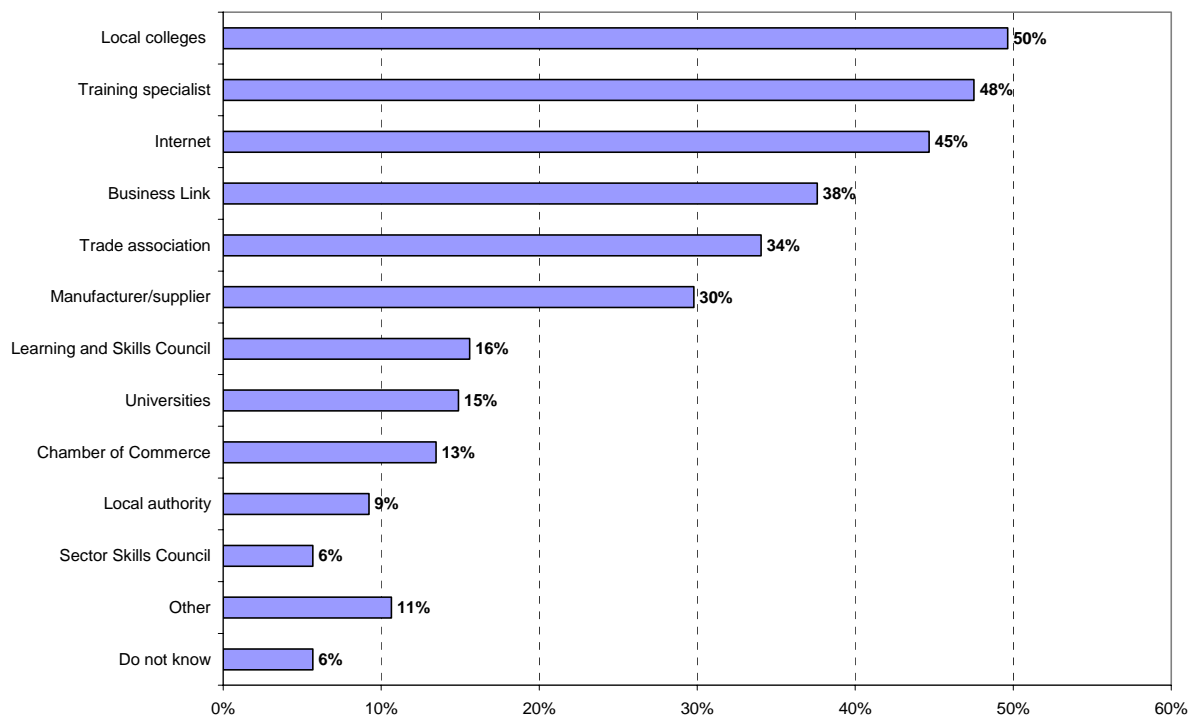
#### Familiarity with local training provision

	Unweighted	Weighted	Number of SMEs
Very familiar	9%	2%	99,376
Familiar	30%	18%	820,627
Knowledge of some provision	39%	30%	1,404,174
Not very familiar	22%	50%	2,299,213

Of more importance for small businesses is that they know where to look for courses if they spot a training gap. 920,000 businesses (20%) did not know where to look and the majority of these were small businesses, accounting for just 6% of the unweighted sample.

Local colleges are the most important point of contact for small businesses, followed by training specialists and the internet. Surprisingly, a higher proportion of SMEs would go to Business Link for training information than would go to the LSC. This highlights the attitude that training is simply another facet of business support, as well as the comparatively high profile Business Link has amongst SMEs and the importance of regulatory training. Local LSC providers can also be found over the internet, making contacting the LSC directly less likely at this stage, since businesses can go straight to the training provider instead.

#### Where SMEs look for training provision initially



The NESS concluded that “satisfaction with FE colleges has increased noticeably” and that a majority of SMEs keep an eye on the training courses provided by local colleges, yet usage remains significantly lower (20% BCC or 22% NESS).

Sector Skills Councils (SSCs) was mentioned by 6% of organisations. These tended to be the larger firms in the survey rather than micro businesses. Since many of the courses provided by the SSCs are through local colleges, it is unsurprising that this is not an initial contact for information on courses.

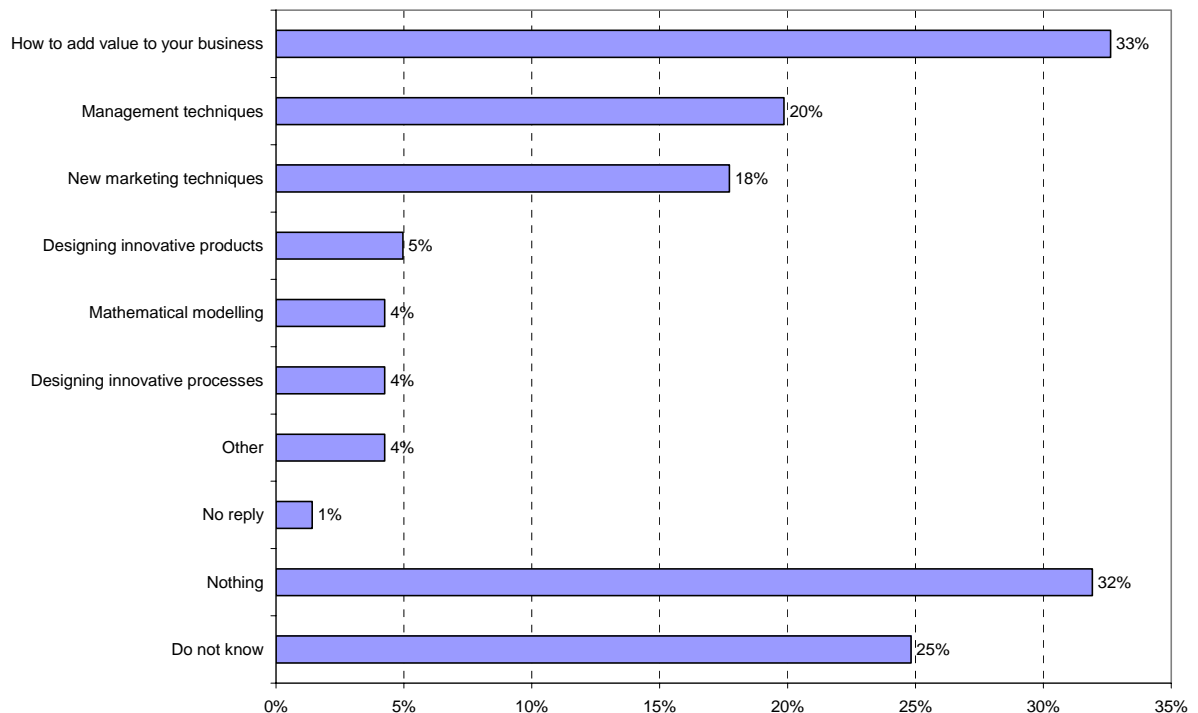
The results may also indicate a growing frustration with government to supply the training that is required for businesses through the demand-led approach to training. While SMEs see the cost of doing business increase and the needs of their businesses are not met, the figure is likely to increase still further.

## Closer links to universities

If appropriate support were provided, 31% of businesses would provide information and support to universities to help them improve the employability of graduates. This would equate to around 1.2 million businesses, but around double this figure were unsure, primarily due to the uncertainty as to what they could provide or how much of a burden this would be. In most cases, businesses would look for some sort of financial support, with the provision of labour another requirement. The key issue was that this should not be an additional burden on their businesses. There was also genuine concern over the paperwork that might be involved.

In terms of how universities could help businesses, one in three respondents felt that universities could not offer them anything, while one in four did not know. Recent start-ups were most likely to be unsure about how universities could help them, whilst businesses that had started up between two and ten years ago were the most enthusiastic for universities adding value to their businesses. Businesses employing fewer than five members of staff, or that employed graduates themselves, were most enthusiastic about university support.

## How universities could help respondents' businesses



Those in manufacturing or construction were most sceptical about how universities could help them, with 43% stating they could not help them with anything.

## Methodology

The Forum of Private Business (FPB) is a company limited by guarantee and was founded in 1977. It is a formal representative of small and medium-sized businesses in this country and represents 25,000 smaller firms, which in turn have a total of 600,000 employees.

The research was undertaken initially as a consultation on higher skills; however, the FPB wanted to widen this to identify the importance of higher skills as part of the operational needs of smaller businesses.

1,500 of the FPB's members were contacted by email, with further advertising undertaken in the FPB's eNewsletter, resulting in a response rate of 9%.

Confidence levels in this report are shown below from the latest BERR statistics (August 2008)

Result	Confidence level (at 95%)
10/90	+/-4.9%
25/75	+/-7.0%
50/50	+/-8.1%

The research has been confirmed by various types of validity.

Repeat validity: Some questions were repeated from a previous survey of our members in 2007. The survey selected a similar number of respondents and contacted them at random. Similar response numbers were recorded.

Statistical analysis, where appropriate use of Chi squared analysis was undertaken to see if the hypothesis was valid.

Face validity: the FPB asked Dr Steven Johnson, a leading skills and employment expert from WM Enterprise, to give an overview of SME skills needs based on his knowledge of other skills-related research conducted over the last few years. His expectations are shown in the foreword and dovetail with the actual findings. His comments on higher skills are provided below:

Department for Universities Innovation and Skills: *'Higher Education at Work – High Skills, High Value'*, Consultation Document HLSS 4/08, 2008

## Comments on higher-level skills by Dr Steve Johnson

Director of Research at WM Enterprise

The higher level skills consultation process is helpful in re-stating and highlighting the key role played by higher-level skills in improving the performance of businesses and increasing the productivity and competitiveness of the UK economy as a whole. The weight of evidence is clear: the UK needs to produce more people with higher-level skills and – perhaps more significantly – make better use of these skills in the workplace.

Higher Education institutions have a key role to play in this process, as do employers, large and small. The consultation document rightly emphasises the need for universities to focus on preparing students for the realities of the world of work, and this means forging better links with all types of businesses, not just the traditional – typically large – recruiters of graduates.

Small and medium-sized enterprises (SMEs) are significant employers of people with higher-level skills, particularly in sectors such as IT, professional services and the rapidly growing creative and cultural sector. SMEs are also important suppliers of higher-level skills, providing training and work experience opportunities for large numbers of talented people. It is therefore vital that any national approach to higher-level skills takes due account of the realities of the SME sector and recognises that many SMEs do not employ graduates, yet still make a crucial contribution to the national economy.

Research demonstrates that, in general, SMEs tend to be less concerned than larger organisations with formal qualifications, focusing more closely on the capability, attitudes and potential of their employees. The relatively informal methods used by many SMEs to develop their staff may not fit easily with the more formal, structured approaches typically associated with Higher Education. SMEs tend to be less involved than larger organisations in bodies such as Sector Skills Councils, so there is a danger that the ‘demand-led approach’ – highly desirable though it is – may not reflect the needs of the considerable number of SMEs that may potentially benefit from the initiatives outlined in this document.

Finally, it is clear that improved management and leadership skills will benefit the SME sector and enable many businesses to improve their performance dramatically. As with general workforce development, it will be important to ensure that government-backed initiatives build on what is good about the most successful SMEs, rather than try to encourage SME owner-managers to adopt approaches that are designed for use in larger, more structured organisations.

Avoiding slavish adherence to targets based on formal qualifications, bringing SMEs closer to the HE sector, recognising that higher-level skills are not relevant for all SMEs and –crucially – building on models adopted by successful SMEs, will all help to ensure that the useful ideas set out in this document benefit all parts of the economy, not just large organisations and the public sector.

**Note:** Dr Steve Johnson is Director of Research at WM Enterprise, an economic development and social research consultancy. He has published many articles on enterprise, skills and labour market issues and has acted as a consultant to the Sector Skills Development Agency and the National Skills Task Force, as well as the European Commission and OECD. Email: [stevej@wm-enterprise.co.uk](mailto:stevej@wm-enterprise.co.uk) Website: [www.wm-enterprise.co.uk](http://www.wm-enterprise.co.uk)