

# Satisfying Employer Demand for Skills

the work foundation



A report prepared for City & Guilds



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## 1. Executive Summary

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- Debate over the health of the UK's skills policy and the direction for its future has traditionally focused on comparisons with international competitors, and there has been a widespread belief that UK skills have lagged behind those of other western European countries and the US. Efforts to encourage investment in skills and training have boosted the supply of skilled and qualified labour, but persuading firms to invest in skills development has not always been as successful. The common perception is that SMEs, in particular, feel that they can recruit from the labour market, whilst not investing in it.
- According to 2007 figures from the Department for Business Enterprise and Regulatory Reform (BERR), over 99 per cent of UK firms are SMEs, defined by EU<sup>1</sup>, as having less than 250 employees. Many of these firms have focused on short-term survival rather than long term skills investment. Understanding how these SMEs think about and manage skills is a crucial factor in determining how skill levels can be increased.
- This report draws on case studies from three different industrial sectors – tourism and hospitality; health; and manufacturing, to focus on how skill demand is perceived by SMEs and how they overcome skill gaps. Annual Learning and Skills Council data shows that common to all three of the sectors are a series of soft skills gaps, including team working and communication, and this report illustrates how best practice employers have worked to overcome these and other technical skills gaps.
- Some of the ways in which the skills gaps and skills shortages have been addressed are very innovative. Alongside accredited external training programmes, there are examples of organisations building teamwork through a variety of methods including sailing expeditions and treasure hunts.
- The case study organisations seemed to perceive a difference between skills and qualifications, the former being a measure of learning and experience.
- Several determinants of propensity to up-skill emerged during the analysis. They were a mixture of external and internal influences. The internal influences included:
  - Strong leadership;

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<sup>1</sup> According to the EU definition from Article 2 of the Annex of Recommendation 2003/361/EC 'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons' Available from [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/sme\\_user\\_guide.pdf](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf) as retrieved March 2009

- The organisation undergoing rapid change/ growth or being under new management;
- The need to overcome a business problem;
- Belief in the long-term view of the positive impact of up-skilling on a business.

The external influences included:

- A lack of available local labour;
  - Access to sources of information on Sector Skills Councils, Investors In People and other schemes;
  - The availability of help from external experts or consultants.
- Broadly speaking, the organisations studied fitted into two categories defined by the way that they took the decision to up-skill and the circumstances that dictated those decisions. 'Fresh eyes, big picture strategies' were one group, comprised of organisations where the decision to up-skill had been accompanied by significant organisational change. The other group had not had cause for a fundamental review of policies and procedures and therefore fell into the category of 'adaptive, incremental decisions', making smaller changes over time.
  - The report argues that the manner in which policy makers communicate with small and medium sized enterprises needs to be changed to reflect the predominant concerns of smaller organisations. At the moment 'performance' and 'the bottom-line' are often the focus of policy literature designed to persuade organisations to invest in skills. However, SMEs often do not think of performance in terms of the bottom-line, but in broader and more diverse ways: maintaining reputation; extending geographical reach or improving customer satisfaction, which should be reflected in a more nuanced policy language.
  - The report concludes that it is important that policy makers continue to emphasise the importance of firms investing in training and skills, even during times of economic downturn, in order to best position themselves for post-recession recovery.

## 2. Introduction

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The skills policy debate in the UK has, for over a century, explored international comparisons of skills as a catalyst for reflection and examination and as an incentive for calls to action.<sup>2</sup> Indeed over at least the last 25 years the policy narrative in the UK has been focused on the necessity of raising skills, an imperative given extra incentive by the simultaneous belief that UK skills are behind those of our competitor nations and whatever improvements we make on skills they are more than matched by improvements in the skill profile of other countries. This debate is still current:

*'A generation ago, a British Prime Minister had to worry about a global arms race. Today a British Prime Minister has to worry about a global skills race... because the nation that shows it can bring out the best in all its people will be the greatest success story of the coming decades.*

*So it is time for a wake up call for young people, employees and employers... that we now summon ourselves to a new national effort and mobilisation to win the new skills race.'*<sup>3</sup>

It is also true that the response to these issues has focused on encouraging companies to invest in skills and training, raising individual demand for skill and therefore the supply of skilled and qualified labour, and improving the operation of the training market to increase flexibility of provision.

Convincing employers that there are benefits to planning and investing in skills is therefore a key part of the drive to improve the UK's competitive advantage.<sup>4</sup> Unfortunately this has not been an easy task for a number of reasons. It has been suggested that UK firms tend towards a reliance on reactive approaches to resourcing, recruitment, retention and skills development that can frequently inhibit their capacity to make changes in their product or service market strategy. For some, there remains a fundamental belief that they can 'live off the labour market', ie recruit from the market but not invest in it. This is an approach that rarely leads to high investment, and undermines the capacity of firms to match the productivity levels of their international counterparts.<sup>5</sup> It has also been suggested that SMEs typically under-invest in

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<sup>2</sup> Keep, E., *From Competence and Competition to the Leitch Review – The Utility of Comparative Analysis of Skills and Performance*, ESRC Centre on Skills, Knowledge and Organisational Performance, Cardiff University, (2008)

<sup>3</sup> Brown, G., *The Guardian*, 28 January 2008

<sup>4</sup> Leitch, S., *Skills in the UK, the long-term challenge*, HMT (2006)

<sup>5</sup> Finegold, D. & Soskice D., 'The Failure of British Training; Analysis and Prescription', *Oxford Review of Economic Policy*, Vol 4, ,No. 3, (1988)

skills<sup>6</sup> for a variety of reasons such as failure to see the benefits of such investment, increasing informality of training in small organisations, the need to focus more closely on short-term survival than their larger counterparts, and having less scope to invest in skills due to tighter finances.<sup>7</sup> This is of policy concern due to the importance of the SME sector. According to 2007 statistics from BERR, over 99 per cent of firms in the UK are SMEs, defined as organisations with fewer than 250 employees.<sup>8</sup>

Increasingly too, skills are seen as only one part of a broader articulation of the link between people and competitiveness.<sup>9</sup> Understanding better how organisations understand and manage skill demand is therefore important in terms of exploring how skill levels in SMEs might be increased.<sup>10</sup> Learning from organisations that have managed to overcome skills gaps and shortages and meet their demand for skills forms a vital part of this.

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### The scope of this study

This small-scale study will examine how skill demand is understood and defined by SMEs, and how some SMEs have overcome skills gaps, using a literature review of changing attitudes to skills development and a series of seven illustrative case studies. We will examine the policies the case study organisations have in place to meet their skill demand, and how they articulate their attitude to skills. The literature review will draw on human capital theory, the various approaches of policy makers, employers and employees, and the specific characteristics of SMEs in their approach to training. This will be followed by an examination of the shortages and issues experienced by three industrial sectors: tourism and hospitality; health; and manufacturing. They were chosen because they represent three important areas of the economy: the service sector, manufacturing and a specialist technical sector.

The case studies will then be used to illustrate ways in which organisations in these sectors have overcome skills challenges. The common themes that emerge from the case studies will then be highlighted, in order to demonstrate some of the transferable lessons these organisations present for other organisations in a similar position, as well as providing learning points for skills providers and policy makers.

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<sup>6</sup> Lange, T., Ottens, M., & Taylor, A., 'SMEs and barriers to skills development: a Scottish perspective', *Journal of European Industrial Training*, Volume 24; No. 1, (2000); Storey, D. J., 'Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries', *International Journal of Human Resource Management*, Volume 15, No. 1, (2004)

<sup>7</sup> Tamkin, P., Giles, L., Campbell, M., & Hillage, J., *Skills Pay: The contribution of skills to business success*, (IES, 2004)

<sup>8</sup> Available at: <http://www.business-inc.co.uk/news/2007/august/over-99-percent.htm>

<sup>9</sup> Tamkin, P., Giles, L., Campbell, M., & Hillage, J., *Skills Pay: The contribution of skills to business success*, (IES, 2004)

<sup>10</sup> Bevan, S., 'Contestability in the Learning and Skills Sector', paper submitted to the Foster Review of Further Education, The Work Foundation, (2005)

The analysis will focus on five core areas:

1. The conditions/catalyst that resulted in the decision to up-skill;
2. The processes put in place to identify skills needs;
3. The types of skills being addressed by the initiatives;
4. The outcome for the organisation;
5. The effects of up-skilling on organisational performance.

The conclusion will then address some of the learning points for employers, policy makers and training providers.

### 3. Literature review: Skills in the UK labour market

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*'Without increased skills, we would condemn ourselves to a lingering decline in competitiveness, diminishing economic growth and a bleaker future for all. The case for action is compelling and urgent. Becoming a world leader on skills will enable the UK to compete with the best in the world. I am optimistic.'*

Leitch, 2006<sup>11</sup>

Over the past three decades policy makers, employers and employees have been increasingly preoccupied with the skills challenges facing the UK. The 2006 Leitch Review, quoted above, outlined the government's latest 'call to action', emphasising the need for all stakeholders on both the supply and the demand side to play their part in improving skills.<sup>12</sup> To help achieve this, a range of tools have been put in place to assess the demand for skills evident among different groups of stakeholders.

Employers' needs for skills are analysed by a complex map of government bodies such as Sector Skills Councils, the newly formed UK Commission for Employment and Skills (UKCES) and a variety of other public sector agencies. The government's National Employers' Skills Survey (NESS) have become the official skills needs barometer over the years, reflecting what employers believe to be skills gaps and shortages through frequent surveys. There is also interest in understanding how employees find the labour market today; how satisfied they are with their jobs; to what extent they use their skills in their professional roles and what types of skills they see as most required in the labour market. Employee surveys, such as *Skills at Work, 1986-2001*, collect data on this, but the limitations of the survey method mean that the data collected does not provide a necessarily representative picture.

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#### **The focus on competitive advantage**

Policy makers have also introduced a series of education and training reforms to boost the supply of skills valued in the labour market, promoting the employability of those with qualifications and thereby encouraging macroeconomic growth for the UK.<sup>13</sup> These aims are underpinned by the perception that globalisation has increasingly led countries around the world to look for the competitive advantage that will give them comparative edge. Technological advancement, the shift towards a knowledge driven economy<sup>14</sup>, and unfavourable comparisons

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<sup>11</sup> From a speech by Lord Leitch in 5 December 2006 on the publication of his 2006 review into work-class skills, available from : ([http://www.hm-treasury.gov.uk/press\\_leitch\\_06.htm](http://www.hm-treasury.gov.uk/press_leitch_06.htm)) as retrieved 14 February 2009

<sup>12</sup> Touloumakos, A., unpublished work produced for DPhil transfer of status paper, University of Oxford, March 2008

<sup>13</sup> Touloumakos, A.K., 'Opening the black box of soft skills' in Hayward, G. and Kinti, I.(Eds) *Transitions and Professional Learning* SKOPE Research Monograph, Oxford (forthcoming 2009).

<sup>14</sup> There does not seem to be a uniform definition of what the knowledge economy is in the literature, but Ian Brinkley, in *Defining the Knowledge Economy*, The Work Foundation (2006) describes it as '*...bringing together powerful computers and well-educated minds...*'

of the UK's level of qualifications with several countries including US, France and Germany,<sup>15</sup> makes this a vital focus for UK policy makers.

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**Problems with  
the current  
approach  
to supply**

However, a persisting problem is the extent to which stakeholders in the supply and demand sides of the skills debate perceive skills differently. Human capital theory (HCT), as first put forward by Gary Becker<sup>16</sup>, has had a strong influence on the supply-side of skills policy in the UK in several ways. According to the theory, individuals choose for themselves how much effort they invest in their education. Education equates to skills enhancement, and therefore education (expressed in years or level) correlates with individual's level of productivity in the labour market as recognised by employers and expressed by their wage level.<sup>17</sup> Therefore, composite education levels are directly related to levels of macroeconomic growth or productivity,<sup>18</sup> and educational attainment should predict the level of an individual's pay at work.<sup>19</sup> This theory essentially takes human capital and places it within an input/output framework like other types of capital, calculating return on investment. For the majority of skilled individuals, the human capital model would appear to hold true. Graduates, for example, do earn more as a result of their qualifications than non-graduates.<sup>20</sup> However, evidence shows that for individuals gaining below an NVQ Level 3, the investment in the qualification does not necessarily result in wage gains for the individual, although it is obviously a stepping stone to higher qualifications, and therefore presumably there is no relative productivity gain for the firm. This therefore provides the justification for government intervention to subsidise and support companies in training their staff in NVQ Level 1 and 2, through schemes such as Train to Gain. It is felt that without external intervention and incentivisation, employers will not be encouraged to invest in this training.<sup>21</sup> Another way in which human capital theory has influenced supply-side approaches to skills, is through the equation of qualifications as a proxy for skills, when in fact the two concepts are different.<sup>22</sup>

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<sup>15</sup> Steedman H., McIntosh S., & Green A., *International Comparisons of Qualifications: Skills Audit Update*, DTI Research Report No. 548, (2004); Leitch, S., *Skills in the UK*, (2006).

<sup>16</sup> Becker, G., *Human Capital: A Theoretical and Empirical Analysis, with special reference to Education*, (1<sup>st</sup> edition, 1964)

<sup>17</sup> Ashton D., & Green F., *Education, Training and the Global Economy*, (1996); Becker G., *Human Capital*, (3<sup>rd</sup> edition, 1993); Keep E., & Mayhew, E. N., 'The Assessment: Education, Training and Economic Performance', *Oxford Review of Economic Policy*, Vol 4, No. 2, (1988).

<sup>18</sup> Becker, G., *Human Capital*, (3<sup>rd</sup> edition, 1993)

<sup>19</sup> Stasz, C., 'Assessing Skills for Work: Two Perspectives', *Oxford Economic Papers*, Vol. 53, No. 3 (2001)

<sup>20</sup> Ceci, S. J. & Williams, W. M., 'Schooling, Intelligence and Income', *American Psychologist*, Vol 52, No. 10 (1997)

<sup>21</sup> See, inter alia, Jenkins A., Greenwood C., & Vignoles A., 'The Returns to Qualifications in England: Updating the Evidence Base on Level 2 and Level 3 Qualifications', Centre for the Economics of Education, (2007)

<sup>22</sup> Touloumakos, A.K., 'Opening the black box of soft skills' in Hayward, G. & Kinti, I. (Eds) '*Transitions and Professional Learning*' SKOPE Research Monograph, (forthcoming 2009)

Skills gaps, inadequacies among individuals already in the workforce, and skills shortages, where there aren't enough skilled individuals to fill the roles available, do still persist in the economy, but at very low levels. Between 2001 and 2005, for example, the number of skills shortage vacancies (SSVs) across all organisations, irrespective of size, was around four per cent.<sup>23</sup> With regard to skills gaps just six per cent of employees are not considered proficient in their jobs.<sup>24</sup> The skills gaps are most prevalent in technical/practical skills, 'basic skills' such as literacy, numeracy and 'core/key skills' such as IT and foreign language skills. Soft skills (for example oral and written communication, customer handling skills, team working and problem solving skills) also appear as problem areas.<sup>25</sup> The most frequently reported SSV is in hard/technical skills whereas the most frequent skills gap amongst those already in the workforce is team working. Based on employee surveys, individuals in the labour market also perceive there to be a lack of soft skills, especially as these continually evolve, adding new dimensions such as influencing skills and emotional intelligence.<sup>26</sup>

Despite being the fourth largest economy in the world, the UK has historically performed less well in terms of GDP per hour worked, compared to its international competitors.<sup>27</sup> In relation to the EU 15, the UK ranks 12 out of 15 for productivity, according to OECD figures.<sup>28</sup> The extent of the role of skills gaps and vacancies in contributing to productivity problems is a subject of debate, however, employee skill levels contribute to productivity levels alongside other important drivers of productivity growth, including market competition, capital investment and innovation.<sup>29</sup> The spectrum of productivity levels across different firms is wide. Whilst the worst performing UK firms have productivity levels significantly lower than their international counterparts, the best performing UK organisations are on a par with their international competitors.<sup>30</sup>

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<sup>23</sup> According to the EU definition from Article 2 of the Annex of Recommendation 2003/361/EC 'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons' Available from [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/sme\\_user\\_guide.pdf](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf) as retrieved March 2009

<sup>24</sup> Hillage, J., Regan, J., Dickson, J. & McLoughlin, D, 'Employers Skill Survey', DfES, London, RR372 (2002); Learning and Skills Council, National Employers Skills Survey 2004: Key Findings. Coventry: Learning and Skills Council (2005)

<sup>25</sup> Hillage, J., Regan, J., Dickson, J. & McLoughlin, D, 'Employers Skill Survey', DfES, London, RR372 (2002); Learning and Skills Council, National Employers Skills Survey 2004: Key Findings. Coventry: Learning and Skills Council (2005); Payne, J., The unbearable lightness of skill: the changing meaning of skill in UK policy discourses and some implications for education and training. *Journal of Education Policy*, Vol 15, No. 3 (2000)

<sup>26</sup> Felstead, A., Gallie, D., Green, F. & Zhou, Y. 'Skills at Work 1986-2006' SKOPE Oxford University and Cardiff University (2007)

<sup>27</sup> Tamkin, P., Giles, L., Campbell, M. & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 3

<sup>28</sup> DTI, *Prosperity for all*, DTI Strategy Analysis, (2003)

<sup>29</sup> ESRC, *The UK's Productivity Gap*, (2004) p. 12

<sup>30</sup> Haskell J. & Martin R., *The UK manufacturing productivity spread*, CeRIBA (2002), Discussion Paper, quoted in Tamkin, P., Giles, L., Campbell, M. & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 7

The literature therefore presents a complex picture of persistent but low level skill gaps and SSVs. We are less well skilled than competitor nations and the secondary literature implies that a chunk of the productivity gap can be attributed to these skills problems. However, the success in up-skilling the UK has not been matched by a productivity gain which has led some to question if it is purely a question of skill supply. We now turn to a discussion of employers and firms to analyse the theories put forward to explain employer attitudes to training and skills in the literature and the factors that influence their demand for skills in the workplace.

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**The need to understand employer demand better**

One of the traditionally cited problems, which policy makers have been keen to address, is a lack of commitment to investment in skill on the part of employers. Finegold and Soskice first put forward the idea that the UK was trapped in a low skills equilibrium in 1988. They argued that the majority of organisations were staffed by poorly trained managers and employees and produced low quality goods and services. Fordist methods of production and low specification jobs created a self-reinforcing system which stifled demand for improvement in skills levels.<sup>31</sup> Yet the shortage of technical skill identified by NESS and other surveys, and the increasing importance of knowledge-workers to the economy, point to the existence of a significant number of highly skilled jobs, which undermines the extent to which the low-skill equilibrium story really explains the picture. The Work Foundation's research into the changing UK economy has illustrated that the situation is much more complex. The economy is essentially divided into three sections, 30 per cent of which are made up by knowledge intensive jobs requiring high skill, a middle 40 per cent made up of jobs requiring some knowledge content, and a bottom 30 per cent requiring little knowledge content.<sup>32</sup> Another problem also associated with employer investment in skills is that employers may want to avoid investment in transferable and 'soft' skills because they fear that their trained employees will be poached by other companies once they done so.<sup>33</sup>

There are many other issues which also shape employers' demand for skills. Henry Mintzberg,<sup>34</sup> for example, has identified the influence of power, politics and factions within the top team of an organisation as a factor which determines how strategic decisions are made both about recruitment from the external labour market and up-skilling individuals already in an organisation. External influences such as suppliers, customers, special interest groups and government agencies, also all have an impact of the decisions being made in organisations, as

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<sup>31</sup> Finegold, D. & Soskice, D., 'The Failure of British Training: Analysis and Prescription', *Oxford Review of Economic Policy*, Vol 4, No. 3, (1988)

<sup>32</sup> Brinkley, I. & Fauth, R., *Efficiency and labour market polarisation: Knowledge Economy Programme Report*, The Work Foundation, (2006)

<sup>33</sup> See Stevens, M., 'Transferable Training and Poaching Externalities', in Booth, A. & Snower, D. (eds). *Acquiring Skills: Market Failures, their Symptoms, and Policy Responses*, (1994)

<sup>34</sup> Mintzberg H., *Mintzberg on Management*, (1989)

well as the influence of the personal characteristics of decision-makers on strategic business decisions.<sup>35</sup> Power and politics are perhaps less important influences in small and medium-sized organisations, where often one or two individuals are making the important decisions. However, the personal preferences and traits of particular individuals who run SMEs might well impact significantly on the decisions made about training and skills.

Another important influence on demand for skills is regulation. Regulation structures the supply of skills and influences the ways in which employers can use labour. This conditions both the product market strategies used by firms and the ways in which work is organised within the company, as well as influencing the way in which training is delivered.<sup>36</sup> Taxes and levies are another way that governments tend to try and influence employer demand for skills. This is the approach taken by governments in France, South Africa, Canada (Ottawa) and Malaysia. The tax is levied on all employers and used to fund additional training.<sup>37</sup>

The external economic climate is also a context that impacts on the way in which organisations think about skill demand. In a recession, or in a declining sector, where jobs are under threat, employers are less likely to look to invest in training, and individuals, whose jobs are under threat, are likely to be less concerned about their training and development prospects. Sung et al. undertook a study that showed that formal training and development was not only seen as irrelevant by employers, particularly in times of crisis, but also as of little importance by employees whose jobs were at risk.<sup>38</sup>

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<sup>35</sup> Brouters, K., Andriessen, F. & Nicolaes, I., 'Driving blind: strategic decision making in small companies', *Long Range Planning*, Vol. 31 No.1, p. 131, (1998)

<sup>36</sup> DTI, *Raising Employer Demand for Skills: Lessons from Abroad*, (2003), p. 4

<sup>37</sup> DTI, *Raising Employer Demand for Skills: Lessons from Abroad*, (2003), p. 4

<sup>38</sup> Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small and medium-sized enterprises: implications for public policy*, ILO (2008) p. 14

## 4. The specific training attitudes of SMEs

Organisational size has become viewed as one determinant of attitudes to training and development.<sup>39</sup> Many studies have shown that smaller organisations have less well-qualified staff and are less likely to provide formal off-the-job training than larger ones.<sup>40</sup> This results from a number of different factors. Storey, for example, suggests that smaller organisations are less able to deal with external market factors, thus causing uncertainty, which results in them focusing more closely on immediate issues like cash-flow, customer needs, and day-to-day product or service concerns, rather than focusing on long-term issues.<sup>41</sup> Hill and Stewart, argue similarly that small organisations are reactive in nature, which leads to 'short-termism'.<sup>42</sup>

The structure of smaller organisations also tends to be less formal, with relationships and processes being more ad hoc than in larger organisations. This therefore leads to less systematic training in smaller organisations. A report by the 2000 UK Skills Task Force, for example, showed that 36 per cent of firms with less than 25 employees provide off-the-job training for employees, compared to 79 per cent of firms with 25-49 employees and 92 per cent of firms with more than 200 employees.<sup>43</sup>

However, as Ashton et al. argue, this does not necessarily mean that smaller organisations do not train, just that their training does not take the same structured form that it does in larger companies. They cite on-the-job training, mentoring and other types of ongoing learning, following also a series of other studies that have also emphasised the importance of less formal types of training.<sup>44</sup> Not all are convinced by this argument, though, and Tamkin et al. for example question the effectiveness and extent of informal training in small organisations.<sup>45</sup>

The personal influence of the owners or senior managers of SMEs also have a relatively large impact on their business strategy and approach to skills. A study by Brouthers, Andriessen

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<sup>39</sup> Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small enterprises: Implications for public policy*, ILO (2008), p. 11

<sup>40</sup> Tamkin, P., Giles, L., Campbell, M., & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 15; 'Small Firms Enterprise Development Initiative', Small firms Skills Assessment, SFEDI, (2002); Spilsbury, D., *Learning and Training at Work*, DFES, (2003)

<sup>41</sup> Storey, D. J., *Understanding the Small Business Sector*, (1994)

<sup>42</sup> Hill and Stewart, 2000, quoted in Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small and medium-sized enterprises: implications for public policy*, ILO (2008) p. 14

<sup>43</sup> Skills Taskforce report 2000, quoted in Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small and medium-sized enterprises: implications for public policy*, ILO (2008) p. 16

<sup>44</sup> Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small and medium-sized enterprises: implications for public policy*, ILO (2008) p. 17

<sup>45</sup> Tamkin, P., Giles, L., Campbell, M., & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 15

and Nicolaes, suggest that SME owners who have developed their organisations from scratch are prone to then leading the business in the wrong direction, because of their closeness and emotional attachment to the idea that made the enterprise take off in the first place.<sup>46</sup>

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### Measuring the impact on performance

An IFS study has suggested that an increase of five per cent in the proportion of workers trained raises value added per worker by four per cent.<sup>47</sup> NIESR, meanwhile, has suggested that skills gaps contribute to as much as a fifth of the productivity gap between the UK and Germany, the latter of which was shown to be significantly more productive across the economy as a whole and in certain sectors.<sup>48</sup>

However, despite evidence that points to the association between skills and productivity, as Tamkin et al. stress, 'finding evidence of the impact of skills and other HR practices on the bottom line is problematic'.<sup>49</sup> The impact of skills on performance depends in part on the type of training being undertaken, whether it is specific or general in nature,<sup>50</sup> and whether an organisation is recording specific performance data, which many do not. A study by Investors In People found little secondary information about how productivity was measured, except for number of goods produced per hour. Smaller organisations, in particular, were not recording productivity, and where they were, such measures were informal.<sup>51</sup> This is backed up by a report for the Small Business Council, examining training and performance in the Sunday Times' 50 top SMEs to work for in 2004. Although considered 'best practice exemplars', many of the organisations making the list had achieved successful performance, not through carefully researched appraisal of options and measurement of progress, but rather through ad hoc means,<sup>52</sup> again illustrating the extent to which even best practice organisations do not necessarily record and analyse data and use traditional processes associated with their larger counterparts to measure performance.

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<sup>46</sup> Brouters, K., Andriessen, F. & Nicolaes, I. (1988), 'Driving blind: strategic decision making in small companies', *Long Range Planning*, Vol. 31 No.1, p. 132

<sup>47</sup> Tamkin, P., Giles, L., Campbell, M. & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. vii

<sup>48</sup> Tamkin, P., Giles, L., Campbell, M. & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 23

<sup>49</sup> Tamkin P., Page R., Jagger N. & Henwood N., *The Measurement of Organisational Performance*, (SSDA, 2006), p. 12

<sup>50</sup> Almedia-Santos, F. & Mumford, K., *Employee Training, Wage Compression and Workplace Performance*, Department of Economics and Related Studies, University of York (2003)

<sup>51</sup> Investors In People survey, 2001, quoted in, Tamkin P., Page R., Jagger N. & Henwood N., *The Measurement of Organisational Performance*, (SSDA, 2006), p. 12

<sup>52</sup> Stone, I., Braidford, P. & Houston, M., *Insights from studying the 2004 Sunday Times' 50 Best SMEs to Work for*, Small Business Council (2006), p. i

The types of skills being measured for their productivity levels also determine the types of evaluation that takes place. As Tamkin et al. suggest, it is easier to measure return on investment for 'hard' or technical skills, than it is for 'soft' or interpersonal skills.<sup>53</sup> The desire to find hard evidence may however be misplaced; as Deardon warns, though, the complex picture of internal and external factors influencing productivity makes it hard to attribute changes in productivity to individual factors such as training.<sup>54</sup>

Where SME employers have invested in training and development, there is anecdotal evidence of improved performance, reduced costs and increased staff morale. The Learning and Skills Council's Train to Gain programme, uses skills brokers to encourage organisations to invest in training. Its own case studies give examples of business gains, which result from the up-skilling of staff, from the shop floor, upwards. Parafix Adhesive Tapes, for example, a manufacturing firm in the South East, was one organisation it worked with, putting several individuals through an NVQ Level 3 course in Lean Manufacturing, with the result that individual performance and staff morale improved.<sup>55</sup> However, limitations of the scheme in its current form include a deadweight count of between 85-90 per cent, some sectors using the scheme to meet their statutory requirements to train and the scheme being limited only to organisations training up to Level 2.<sup>56</sup>

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### The skills gaps of specific sectors

As we have detailed, this research focuses on three sectors: tourism and hospitality; manufacturing and health and we turn now to provide some background information on them. Each of these sectors faces specific challenges, although by analysing NESS data and other sources of information, it also becomes apparent that soft skills are universally an issue for these and other sectors.

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<sup>53</sup> Tamkin P., Page R., Jagger N. & Henwood N., *The Measurement of Organisational Performance*, (SSDA, 2006), p. 13

<sup>54</sup> Dearden, L., Reed, H. & Van Reener, J., 'The impact of training on productivity and wages' *Oxford Bulletin of Economics and Statistics*, Vol. 68, No 4.(2005)

<sup>55</sup> Example taken from Train to Gain Case Studies, available at <http://www.traintogain.gov.uk/casestudies>

<sup>56</sup> See for example <http://www.eef.org.uk/UK/whatwedo/policy/issuebriefs/education+and+skills+policy/issue+brief+-+Train+to+gain.htm>

## 5. Health sector

The health sector employs just over 2 million people<sup>57</sup>, 50,000 of whom are practitioners of complementary and alternative medicine (CAM).<sup>58</sup> The workforce in the health sector can be divided into four broad categories:

- Clinical practitioners and scientists (42 per cent);
- Working in clinical and technical support (37 per cent);
- Working in management and administration (19 per cent);
- Working in estates and maintenance functions (3 per cent).

The size of the sector is reflected in the amount of money spent on health care, which is over £50 billion a year; the investment in health care insurance and independent provision, which is about £8 billion a year; and a large, if un-costed, spend through voluntary organisations and carers.<sup>59</sup> There is steady growth in the workforce (c. one per cent per annum), which predominately comprises women, who make up 78 per cent of the workforce. The majority of the workforce falls within the 25-54 age range. There are a large number of part time workers and a rather complex mix of skills employed at the point of delivery.<sup>60</sup>

Government strategy for the health sector is being continuously updated and refined. Some of the main drivers of the changes introduced and implemented over the years relate to the following:

- An increasingly patient-centred approach to health care delivery;
- Technological change, that has had an effect on work roles;
- Changes in medical related knowledge which influences the demand for staff in unpredictable ways;
- The increase of more knowledgeable, expert, empowered consumers;

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<sup>57</sup> The sector has been sub-divided as follows: (a) National Health Service Hospital and Community Health Services, (NHS) staff ; (b) General Medical and Dental Practice (practitioners and staff); (c) Private and retail (health care professionals working in surgeries or retail outlets eg pharmacists, opticians, physiotherapists, etc); (d) Voluntary sector: paid employment only included

<sup>58</sup> Available at the official site of Skills for Health at <http://www.skillsforhealth.org.uk/page/about-us/strategic-intent> as retrieved 17 July 2008

<sup>59</sup> Available at the official site of Skills for Health at <http://www.skillsforhealth.org.uk/page/about-us/strategic-intent> as retrieved 17 July 2008 and A Health Sector Workforce Market Assessment 2003, available at <http://www.skillsforhealth.org.uk/js/uploaded/LMI/A%20Health%20Sector%20Workforce%20Market%20Assessment%202003.pdf> as retrieved 17 July 2008

<sup>60</sup> A Health Sector Workforce Market Assessment 2003, available at <http://www.skillsforhealth.org.uk/js/uploaded/LMI/A%20Health%20Sector%20Workforce%20Market%20Assessment%202003.pdf> as retrieved 17 July 2008

- The progressively more prevalent need for services provided on demand rather than at set hours
- The nature of work (non-hierarchical and team working based) which requires different sets of skills and attitudes ('softer' ones);
- The sector trends (ageing population, chronic diseases and long-term illnesses and the increasing emergency hospital admissions);
- The economic trends (skills gaps and shortages – the demand for higher level skills);
- The workforce trends (attracting people in the sector through the introduction of new career routes and qualifications pathways, removal of barriers for career development and offer of incentives).

### Levels of qualification and skills<sup>58</sup>

In terms of the level of skills presented by employees and skills shortages experienced by employers, the picture is complex. About half of the employees in health hold a degree or equivalent or have higher education qualifications. This is the highest percentage of employees holding high level qualifications across all sectors. Grouping health with public administration and education, based on 2004 data, about 31 per cent of employees hold a degree or equivalent and another 19 per cent hold a higher education qualification. Of the remainder, 15 per cent held a GCE A Level or equivalent, about 20 per cent held GCSE grades A-C or equivalent, about eight per cent held other qualifications, while the remaining seven per cent of them held no qualifications.<sup>62</sup>

Employees' skills surveys also suggest that health and social work is an area that demands relatively high levels of skills as well as qualifications. The following skills were viewed as particularly important in the health sector:

Skill	Type of activity it involves
Horizontal communication	Working with a team of people and listening carefully to colleagues
Emotional intelligence	Managing own feelings and handling others
Checking	Noticing and checking for errors
Planning	Planning activities, organising one's own time and thinking ahead

Source: Skills For Health website, July 2008

<sup>61</sup> Note that the data available for the Skills for Health sector are an amalgamation of data from Public Administration, Education and Health and hence should be considered with caution

<sup>62</sup> Office of National Statistics, Production Index, available at [http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) as retrieved on May 7 2008

Between 1997 and 2007 there has been an increased requirement for, and an increased ability of, individuals in the health sector to display generic skills such as: ‘checking’; ‘number’ (covering adding, subtracting, divisions, decimal point or fraction calculations and/or more advanced maths or statistical procedures); ‘technical know how’ (which encompasses knowing how to use tools or equipment or machinery, knowing about products, services and specialist knowledge and/or skill in using one’s hands); and ‘influence’ (which includes persuading or influencing others, instructing, training or teaching people, making speeches or presentations, writing long reports).<sup>63</sup>

Even so, employers’ skills surveys indicate that up to 2005 skills gaps persisted, with 18 percent of the establishments in the sector reporting gaps. From the total number of employees in this sector, five per cent are referred to as not fully proficient, the equivalent of 70,300 people. The table below shows what the most prevalent skills gaps were according to the 2005 NESS.

Most prevalent types of skills gaps in health	
<b>Categories of skills gap</b>	Team working (54%) <sup>a</sup> Customer handling skills (51%) <sup>a</sup>
<b>Areas where there were much higher than average skills gaps<sup>b</sup></b>	Written communication General IT user skills Office admin skill IT professional skills
<p><i>a. The percentage of industries in the sector identifying this type of skill as lacking.</i>  <i>b. ‘Much higher than average’ has been defined as a skill area being 10% or more likely to be mentioned in this sector than the all-sector average.</i></p>	

Source: LSC (2006) National Employer Skill Survey

The table above shows that in the health sector, written communication, general IT, technical IT, and office administration skills were at least ten per cent more likely to be reported in this sector as a skills gap, when compared to the cross-sector average. 54 per cent of the establishments in the sector felt that team working was a skills gap for their organisation, and 51 per cent felt that customer handling skills represented a skills gap.

<sup>63</sup> Felstead, A., Gallie, D. & Green, F. . *Work Skills in Britain 1986-2001*: Centre for Labour Market Studies, Nuffield College, & Department of Economics, University of Oxford, (2002); and Felstead, A., Gallie, D., Green, F. & Zhou, Y. *Skills at Work 1986-2006*: SKOPE Oxford University and Cardiff University (2007)

The table below illustrates vacancy data for the sector, as recorded in 2004.

<b>Vacancies and skill-shortage vacancies</b>			
<b>Percentage of total employment across the economy occupied by health</b>	<b>Percentage of total hard to fill vacancies<sup>61</sup> across the whole economy that fall within health sector</b>	<b>Percentage of total SSVs<sup>62</sup> across the economy that fall in the health sector</b>	<b>Percentage of total vacancies within the health sector that are SSVs</b>
6.9%	7.6%	6.6%	24%

Source: LSC (2005), *National Employers Skill Surveys: Key Findings*

This analysis shows that jobs in the health sector make up 6.9 per cent of the total jobs in the workforce across all sectors. Vacancies, defined as being hard to fill by employers, are higher at 7.6 per cent, making them high in proportion to the fraction of the economy represented by health jobs. The level of skills shortage vacancies (SSVs) attributed to the health sector, at 6.6 per cent, though, is roughly in proportion to the percentage of the economy occupied by the health workforce, which means that the remaining hard to fill vacancies probably result from other factors such as poor pay or conditions. More significant, though, is the fact that roughly a quarter (24 per cent) of the total number of vacancies within the sector, are defined as skills shortage vacancies ie ones for which there is not suitable labour supply in the local labour market. This figure is slightly higher than that for tourism and hospitality, although sits somewhere in the middle of the range of figures given for this measure by the various SSCs covering the branches of manufacturing.

<sup>64</sup> According to NESS (2005), HtFVs are those vacancies described by employers as being hard to fill. Reasons often include skills-related issues, something we explore in depth in this section, but can simply involve such aspects as poor pay or conditions of employment, or the employer being based in a remote location

<sup>65</sup> According to NESS (2005), SSVs are those hard to fill vacancies, which result from one or more of the following reasons: a low number of applicants with the required skills; a lack of candidates with the required work experience; or a lack of candidates with the required qualifications

## 6. Hospitality and tourism sector

The hospitality, leisure, travel and tourism sector encompasses 14 industries<sup>66</sup> that all revolve around the provision of food, drink, accommodation and leisure activities.<sup>67</sup> The sector has the poorest labour productivity in the whole UK economy and compares unfavourably to its international competitors. The tourism sector accounts for 20 per cent or two million employees.<sup>68</sup> The workforce is predominantly female, and 11 per cent of employees come from ethnic minorities. The sector also employs the highest percentage of young people across all industries, with the highest percentage of employees falling in the 14-25 age range.<sup>69</sup> One third of the more than 180,000 establishments in this sector are accounted for by pubs, bars and nightclubs, and another third are restaurants.<sup>70</sup>

The sector has a relatively low skills base:

- 54 per cent of the managers possess the minimum level of qualification required for the position;
- 63 per cent of the employers report that the customer service skills of their employees are inadequate;
- 40 per cent of chefs possess NVQ Level 2 qualifications (the minimum required);
- The sector has such high employee turnover that 70 per cent of the recruitment takes place in order to replace existing staff.<sup>71</sup>

The main areas of concern are management skills, staff retention, customer service and chef skills (classified by the SSC as craft skills). To be able to boost skills and productivity, and raise the bar for the sector, the UK government is aware that universal industry standards of professional training need to be established, a national skills programme must be set up, and high quality people should be attracted to the sector, making it more appealing to people.<sup>72</sup>

<sup>66</sup> The sector encompasses 14 industries: hotels, restaurants, pubs, bars and nightclubs, contract food service providers, hospitality services, membership clubs, events, gambling, travel services, tourist services, visitor attractions, hostels, holiday centres and self catering accommodation

<sup>67</sup> Available at the People 1st website at

<http://www.people1st.co.uk/default.asp?SID=1139851079195&nStart=10> retrieved on 29 May 2008

<sup>68</sup> Office of National Statistics, Production Index, available at

[http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) retrieved on 7 May 2008

<sup>69</sup> Available at People 1st website at

[http://www.people1st.co.uk/webfiles/Research/General/Key\\_Facts\\_and\\_Figures\\_2008.pdf](http://www.people1st.co.uk/webfiles/Research/General/Key_Facts_and_Figures_2008.pdf) as retrieved 16

March 2009 and Office of National Statistics, Production Index, available at

[http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) as retrieved 7 May 2008

<sup>70</sup> Office of National Statistics, Production Index, available at

[http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) as retrieved 7 May 2008

<sup>71</sup> Available at the People 1st website at

<http://www.people1st.co.uk/webfiles/NSS/NSS.pdf> as retrieved 16 March 2009

<sup>72</sup> Available at the People 1st website at

<http://www.people1st.co.uk/webfiles/NSS/NSS.pdf> as retrieved 16 March 2009

**Qualification and skills levels** Within the sector, and drawing on 2004 data, seven per cent of employees held a degree or equivalent, another seven per cent held a higher education qualification, 17 per cent held a GCE A Level or equivalent and about 29 per cent hold GCSE grades A-C or equivalent. 15 per cent of employees, meanwhile, held other qualifications, and 13 per cent have no qualifications<sup>73</sup>.

Employees' skills surveys inform us that hotels and restaurants have seen an increased requirement for generic skills. The most important have been:

Skill	Type of activity it involves
Horizontal communication	Working with a team of people, listening carefully to colleagues
Planning	Planning activities, organising one's own time and thinking ahead.
Client communication	Selling a product or service, counselling or caring for customers or clients, dealing with people, knowing about products and services
Influence	Persuading or influencing others, instructing, training or teaching people, making speeches or presentations, writing long reports

For further information see Felstead, Gallie and Green<sup>74</sup>

The table below shows the prevalent types of skills gaps in the sector, based on data drawn from employer surveys.

Most prevalent skills gaps in tourism and hospitality	
<b>Main categories of skills gaps</b>	Customer handling skills (65%) <sup>a</sup> Team working skills (55%)
<b>Areas where much higher than average skills gaps occur<sup>b</sup></b>	Customer handling skills Oral communication
<p><i>a. These percentages refer to the percentage of industries in the sector identifying these types of skills as lacking.</i></p> <p><i>b. Much higher than average has been defined as a skill area being 10% or more likely to be mentioned by a sector as presenting a gap than the all-sector average.</i></p>	

Source: LSC (2006) National Employer Skill Survey

<sup>73</sup> Office of National Statistics, Production Index, available at [http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) as retrieved 7 May 2008

<sup>74</sup> Felstead, A., Gallie, D. & Green, F., *Work Skills in Britain 1986-2001*: Centre for Labour Market Studies, Nuffield College, & Department of Economics, University of Oxford, (2002); Felstead, A., Gallie, D., Green, F. & Zhou, Y., *Skills at Work 1986-2006*: SKOPE Oxford University and Cardiff University, (2007)

As we can see, a majority of firms see customer handling skills and team-working skills to be problematic areas for them. Customer handling skills, in particular, seem to be problematic in this sector, because this category of skill was at least ten per cent more likely to be mentioned by organisations in this sector as a skills gap, than by the cross-sector average. Oral communication was also at least ten per cent more likely to be mentioned as a skills gap in tourism and hospitality, when compared to the cross-sector average.

The table below illustrates the vacancies and SSVs apparent in the sector in 2004.

<b>Vacancies and skill-shortage vacancies</b>			
<b>Percentage of total employment across the economy occupied by tourism</b>	<b>Percentage of total hard to fill vacancies across the whole economy that fall within tourism sector</b>	<b>Percentage of total SSVs across the economy that fall in the tourism sector</b>	<b>Percentage of total vacancies within the tourism sector that are SSVs</b>
8.2%	12.9%	12.3%	21%

*Source: LSC (2005), National Employers Skill Surveys: Key Findings*

The table above shows that the tourism sector has a significantly higher percentage of hard to fill vacancies, and skills shortage vacancies, when compared to the proportion of jobs across the economy represented by the sector. This reflects the data analysed above, showing that the tourism sector is one which particularly suffers from difficulties recruiting and skills gaps. The fact that the percentage of the vacancies in the sector, which are SSVs, is lower than the health sector, probably reflects the much higher levels of turnover experienced in this sector compared to health. Therefore the actual number of SSVs might well be much higher in the tourism sector than in others.

## 7. Manufacturing sector

Manufacturing<sup>75</sup> is important to UK economy. It accounts for one fifth of the UK national output, for over half of UK exports, 75 per cent of all business research and development; and four million people are directly employed in the manufacturing industry, with many more being indirectly employed.<sup>76</sup> There is variation across the sub-sectors (ie foods, beverages and tobacco, and leather and leather products) in terms of growth trends. Overall, however, UK manufacturing production steadily declined between 1995 and 2006, as did the number of enterprises in the sector, their turnover, and the number of employees.<sup>77</sup> As of 2006, however, the productivity picture seems to have improved, and there were significant increases in output.<sup>78</sup> As the UK economy entered recession in the autumn of 2008, however, output levels significantly declined once more.<sup>79</sup>

The UK government has long pushed a manufacturing strategy promoting increase in:

- Investment in new technologies, products and advanced processes;
- Innovation;
- Adoption of world class practices;
- Labour force skills.<sup>80</sup>

Almost 15 per cent of people in employment are accounted for by the sector, and of those employed in manufacturing, 15 per cent hold a degree or equivalent. Looking at the depth of qualifications within manufacturing, using 2004 data, ten per cent of employees in the field held

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<sup>75</sup> Manufacturing is divided to the following fourteen sub-sectors according to Office of National Statistics (2008) and Standard Industrial Classification (2003): (a) Food products, beverages and tobacco (DA), (b) Textile and textile products (DB), (c) Leather and leather products (DC), (d) Wood and wood products (DD), (e) Pulp, paper and paper products; publishing and printing (DE), (f) Coke, refined petroleum products and nuclear fuel (DF), (g) Chemical, chemical products and man-made fibres (DG), (h) Rubber and plastic products (DH), (i) Other non-metallic mineral products (DI), (j) Basic metals and fabricated metal products (DJ), (k) Machinery and equipment not elsewhere classified (DK), (l) Electrical and optical equipment (DL), (m) transport equipment (DM), (n) Not elsewhere classified (DN)

<sup>76</sup> ESRC, Facts and Figures: Manufacturing and Industry, available at <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/facts/UK/index58.aspx?ComponentId=13119&SourcePagelId=18135#footnote> as retrieved on 4 May 2008 and the Department for Business Enterprise and Regulatory Reform, available at <http://www.berr.gov.uk/files/file25266.pdf> as retrieved on 4 May 2008

<sup>77</sup> Office of National Statistics, Production Index, available at <http://www.statistics.gov.uk/STATBASE> as retrieved on 4 May 2008 and ESRC, Facts and Figures: Manufacturing and Industry, available at <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/facts/UK/index58.aspx?ComponentId=13119&SourcePagelId=18135#footnote> as retrieved on 4 May 2008

<sup>78</sup> Office of National Statistics, Production Index, available at <http://www.statistics.gov.uk/cci/nugget.asp?id=198> as retrieved on 7 May 2008

<sup>79</sup> Office of National Statistics, Production Index, available at <http://www.statistics.gov.uk/cci/nugget.asp?id=198> as retrieved on 7 May 2008

<sup>80</sup> Department for Business Enterprise and Regulatory Reform website, available at <http://www.berr.gov.uk/files/file25266.pdf> as retrieved on 7 May 2008

a higher education qualification, about 29 per cent held a GCE A Level or equivalent, about 20 per cent held GCSE grades A-C or equivalent, 13 per cent of them held other qualifications, and 13 per cent had no qualifications.<sup>81</sup>

Based on the data provided by The Office of National Statistics (ONS), and according to the government’s manufacturing strategy, skills gaps and shortages remain a challenge for the industry. Although British manufacturers match the best in the world for new product development, innovative production processes, marketing and service, there is still a productivity gap between UK manufacturing and international competitors attributed to long standing weaknesses such as lower levels of skill, investment in capital equipment, R&D and innovation. The government’s strategy proposes seven areas/goals for focus.

1. Maintaining macroeconomic stability;
2. Investment in new technology, products and processes;
3. Raising UK manufacturing innovation performance (using UK science base);
4. Adoption of a culture of continuous improvement and hence adoption of world-class practices;
5. Raising skills and education level of workforce;
6. Pursuing modern infrastructure (including transport system and broadband);
7. Development of a dynamic market, informed and confident businesses, consumers, employees and investors.<sup>82</sup>

Employees’ skills surveys show that between 1997 and 2007 there was an increased requirement for generic skills, as well as a rise in their supply. The table below summarises the most important generic skills required in the manufacturing industry.<sup>83</sup>

<b>Most important generic skills required in the manufacturing industry</b>	
<b>Literacy</b>	
<b>Influence</b>	Persuading or influencing others, instructing, training or teaching people, making speeches or presentations, writing long reports
<b>Planning</b>	Planning activities, organising one’s own time, thinking ahead

<sup>81</sup> Office of National Statistics, Production Index, available at [http://www.statistics.gov.uk/downloads/theme\\_labour/emp\\_by\\_occ\\_ind.pdf](http://www.statistics.gov.uk/downloads/theme_labour/emp_by_occ_ind.pdf) as retrieved at 7 May 2008

<sup>82</sup> The Government’s Manufacturing Strategy is available at [http://www.strath.ac.uk/media/media\\_90379\\_en.pdf](http://www.strath.ac.uk/media/media_90379_en.pdf) as retrieved at 10 May 2008

<sup>83</sup> Felstead, A., Gallie, D. & Green, F. (2002). *Work Skills in Britain 1986-2001*: Centre for Labour Market Studies, Nuffield College, & Department of Economics, University of Oxford (2002); Felstead, A., Gallie, D., Green, F., & Zhou, Y, *Skills at Work 1986-2006*: SKOPE Oxford University and Cardiff University, (2007)

Employers' skills surveys on the other hand, indicate that up to 2005 (the latest skills survey) skills gaps persisted, and affected up to six per cent of employees in the sector. Using the 2005 NESS, the table below summarises the most prevalent categories of skills gaps in the numerous branches of manufacturing covered by sector skills councils. These gaps cover both hard (technical and practical skills) and soft skills categories (team working, communication skills etc).

<b>Most prevalent types of skills gaps by sub-sector</b>		
<b>Area of manufacturing and SSC that represents it</b>	<b>Main skills gaps</b>	<b>Areas where much higher than average skills gaps occur<sup>b</sup></b>
Cogent (SSC for chemicals and pharmaceuticals, oil and gas, nuclear, petroleum and polymer industries)	Team working skills (65%) Technical and practical skills (52%) <sup>a</sup>	Team working Problem-solving skills Written communication Oral communication
Proskills UK (SSC for building products, coatings, extractives, glass and print industries)	Team working skills (57%) Problem-solving skills (51%)	Problem-solving skills General IT user skills Literacy and numeracy
Improve Ltd (SSC for food and drink manufacturing and processing)	Problem-solving skills (53%) Oral communication (50%)	Problem-solving skills Written communication Literacy and numeracy
Skills fast-UK (SSC for fashion and textiles: design, manufacturing and servicing of clothing, footwear and textile fabrics)	Technical and practical skills (51%) Team working skills (50%)	–
SEMTA (SSC for science, engineering & manufacturing technologies: aerospace, automotive, bioscience, electrical, electronics, maintenance, marine, mathematics, mechanical, metals and engineered metal products industries)	Technical and practical skills (63%) Team working skills (49%)	Technical and practical skills
<p><i>a. Percentage of industries in the sector identifying these types of skills as lacking.</i>  <i>b. 'Much higher than average' is defined as an area which is 10% or more likely to be mentioned by industries as a gap than the cross-sector average.</i></p>		

Source: LSC (2006) National Employer Skill Survey

The table above shows that many branches of manufacturing face major skills gaps. Team working was a skills gap for all the branches examined, except for food and drink manufacturing and processing, which was the only branch to report oral communication as a major problem.

The prevalence of team working as a deficiency illustrates the extent to which soft skills are a problem for the sector, in addition to technical skills, which were also considered a problem for three of the branches of manufacturing analysed here. Given the different types of skill needed for different branches of manufacturing, it is unsurprising, for example, that technical skills were an issue for engineering and high-technology companies, whilst literacy and numeracy were more problematic for construction and food and drink manufacturing sub-sectors.

The table below illustrates the vacancies and SSVs apparent in the sector in 2004.

<b>Vacancies and skill-shortage vacancies by Sector Skills Council</b>				
<b>SSC Sub-sectors</b>	<b>Percentage of total employment across the economy occupied by the sub-sectors of manufacturing</b>	<b>Percentage of total hard to fill vacancies across the whole economy that fall within manufacturing sub-sectors</b>	<b>Percentage of total SSVs across the economy that fall in the manufacturing sub-sectors</b>	<b>Percentage of the vacancies with the manufacturing sub-sectors that are SSVs</b>
Cogent	2.0%	1.5%	1.4%	24%
Proskills	1.6%	1.6%	2.1%	48%
Improve	1.8%	1.7%	1.3%	22%
Skillsfast-UK	1.3%	1.0%	0.9%	24%
SEMTA	6.0%	4.3%	5.3%	37%

*Source: LSC (2005), National Employers Skill Surveys: Key Findings*

This table shows that high-technology manufacturing, engineering and the manufacture of building products, are the areas of the sector which have the most difficulties caused by skills shortage vacancies. Nearly a half of all the vacancies in establishments relating to the manufacture of building materials were a result of a perceived lack of candidates with the required skills, work experience or qualifications to fulfil the roles in question. For high-tech and engineering, the figure was 37 per cent. This is much larger than for either of the other sectors examined, tourism or health, and suggests a real problem in these sub-sectors of manufacturing. Elsewhere, the percentage of hard to fill vacancies, and skills shortage vacancies in each of the sub-sectors, was roughly in proportion to the percentage of total employment across the whole economy that each sub-sector occupied.

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**Comparing analysis of the three sectors**

Comparing the data available on the three sectors above, it becomes apparent that soft skills, in particular team-working, are creating problem skills gaps in all three sectors. In addition, in the tourism and hospitality sector, customer handling skills were severely lacking amongst the existing workforce. In the manufacturing sector, in addition to some soft skills, technical skills were lacking in medium and high tech sub-sectors. Across all the sectors, including the manufacturing sub-sectors, at least a fifth of the vacancies reported were skills shortage vacancies, illustrating the extent to which these sectors have problems filling vacancies. As discussed earlier, the SSV figure for the whole economy is only four per cent.

Much of the literature on sectoral productivity and skills backs up the 2005 data from NESS outlined above. A study of small manufacturing companies in Cambridgeshire, for example, highlighted the problem of otherwise competent staff lacking soft skills such as 'people skills', particularly managers.<sup>84</sup> Work by Tamkin et al., has also shown that skills gaps are particularly prevalent in textile and clothing manufacture, food and drink, agriculture, hotels and catering and retailing, covering two of the sectors we will examine in this report.<sup>85</sup>

Stakeholder interviews with experts including academics, individuals working for SSCs, LSCs and other relevant bodies such as IIP, which we undertook as part of the scoping phase for this study, can also enrich the picture above, both in terms of the specific sectors analysed, and SMEs more generally.

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**Stakeholder interviews**

A representative of SEMTA, the manufacturing SSC, was keen to emphasise the extent to which some SMEs in the sector were now using Train to Gain brokers and other external providers to assess their training needs and help them identify gaps. Wendy Hirsch from the Institute for Employment Studies (IES), meanwhile, considered that, more generally, SMEs were frustrated by college based training schemes, because they often do not fulfil their requirements. Dilys Robinson, also of IES, emphasised how important it was for SMEs to become flexible and multi-skill staff so that they could perform multiple job roles, whilst Robert Cirin of the LSC national office, was keen to emphasise that evidence suggesting SMEs have higher SSVs than their larger counterparts might reflect problems with their recruitment strategies. We spoke to a variety of other stakeholders in addition to these, the main purpose of which was to gather information and advice on how to structure the discussion guides we used for the main part of this project, the case study interviews. This report therefore now turns to examine the case studies, starting with a brief outline of the methodologies used in the case study process.

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<sup>84</sup> Baker, R. & Stanton, G., 'Meeting the skills needs of small manufacturing companies in the Cambridgeshire area', *Report for The Learning and Skills Council Cambridgeshire*, (2004), p. 11  
<sup>85</sup> Tamkin, P., Giles, L., Campbell, M. & Hillage, J., *Skills Pay: The contribution of skills to business success*, IES, (2004) p. 11

## 8. The case studies

**Method** The purposes of the case studies in this report are to offer examples of the ways in which SMEs in the manufacturing, health, and tourism and hospitality sectors think about skill demand, the types of skills they were lacking in their workforce, and how they had overcome these skills gaps and skills shortages. Therefore the organisations featured here do so because they are examples of best practice, and provide interesting lessons for other SMEs.

We identified the seven case study organisations involved in this project using a combination of methods. It proved difficult to secure interviews with owners and managers of SMEs across all three sectors, in part because of the severe time pressures many in smaller businesses feel subject to. We approached the organisations that were secured for the study, using a variety of methods, including short telephone interviews to assess suitability and to broach the subject of a further interview, recommendations from contacts in SSCs, LSCs and other bodies, and by analysing the characteristics of the firms with which The Work Foundation already had a relationship.

Having secured interviews, we spoke to the owner/senior managers of the organisations, and other members of staff where possible. We sent pre-interview questions before interviews, asking for background information on the company, and then used a semi-structured interview process, adapting where necessary to make the most of the flow of conversation.

**Background information on the case studies**

The table below summarises the organisations featured as case studies in this report.

Sector	Name of Company	Number of Staff
Tourism and Hospitality	The Fourcroft Hotel	32
Tourism and Hospitality	The Slieve Donard Resort and Spa	198 FT plus 100 PT
Health	Caerphilly Occupational Health	16 FTE plus 12-15 peripatetic health practitioners
Health	Royal College of Midwives	60
Health	Primary Care UK	90
Manufacturing	Vimpex	18
Manufacturing	C&C Marshall	269

Other characteristics:

- Five out of seven of the organisations were Investors In People accredited.
- Four offered accredited training.
- Two had designated training budgets, despite the relatively small sizes of these particular organisations at 32 and 60 employees respectively.
- All seven organisations considered that they provided training for all staff.
- Labour Market Information (LMI) did not feature that heavily in the recruitment processes of any of the organisations.
- Two said that they were aware of LMI provided by their Sector Skills Council, but did not use this in making decisions about recruitment. This was partly a result in several cases of the small towns where the organisations were located, as a result of which the labour pool was so small that it was not considered that important to use the information in recruiting staff.
- Turnover rates varied across the organisations.

This report will now outline the individual case studies, before turning to analysis in the next chapter, which will draw out the transferable lessons and common themes.

## 9. Case study 1: The Fourcroft Hotel, Tenby, South Wales

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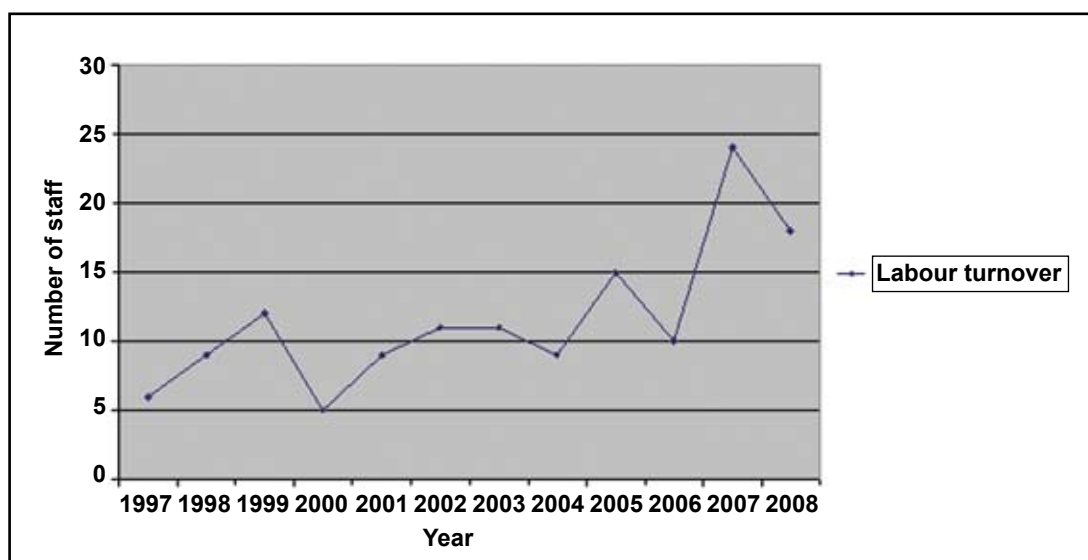
The Fourcroft Hotel is a family-run independent hotel in Tenby, Pembrokeshire, employing 32 staff, including 26 permanent employees. The hotel has been in proprietor Chris Osborne's family for three generations. In 1993, when Chris took over the day-to-day management of the hotel from his parents, he began to formalise some of the procedures relating to personnel and sought help in developing a more strategic approach to business development. Through Investors In People (IIP) and the West Wales Training and Enterprise Council, he was put in touch with an Investors In People consultant, who began to work with the organisation. Since then the Fourcroft has become IIP accredited and has striven continually to improve its standards, most recently seeing five members of staff undertake the IIP leadership and management module.

However, in a relatively tight local labour market, with an increasing shortage of young people wanting to work in the local area, a few years ago the Fourcroft started to have difficulties filling vacancies. The hotel was able to source some staff from outside the UK, but gaps persisted. The problem was compounded by a high turnover rate, caused partly by the seasonal nature of work, but also by an increasing number of applicants accepting positions for a very short period of time and then deciding to look for work elsewhere, including the construction of two LNG (Liquid Natural Gas) terminals at Milford Haven, half an hour away, and a new 'Centreparks-type' development, Bluestone, about ten miles away. Difficulties filling recruitment gaps came to a head in 2006-7, when turnover reached its peak, and the Fourcroft lost 24 staff in one 12-month period. The graph on the next page shows levels of staff turnover at the Fourcroft from 1997- 2007.

As a result, Chris decided to restructure the training programme in place at the hotel in order to up-skill the existing staff and build the proficiency across a range of soft skills and team working, hoping to attract and retain more talent.

The types of measures he has introduced have been innovative and varied, and the training has ranged from the opportunity for kitchen staff to go and work alongside chefs in highly acclaimed regional restaurants, to coasteering, a teambuilding exercise where groups of staff scramble, climb and swim around the coast learning to rely on and work with each other. Everyone from the proprietor downwards takes part on these activity days. The aim has been to consolidate the sense of community and teamwork at the Fourcroft, as well as improving employees' 'soft' customer relations skills. The owners acknowledge the importance of tailoring training to the needs of the individuals in question and have therefore sourced training from a variety of different trainers offering a mixture of more innovative and traditional staff development.

Figure 1: Labour turnover levels over the past ten years at the Fourcroft Hotel



Source: The Work Foundation 2008

The hotel has also used other innovative approaches, such as paying for some of the staff working in the hotel to go and stay away as guests at other hotels for the weekend, taking their families along as a treat. As Chris pointed out, some of the people working for him had never stayed in a hotel, and it was therefore very difficult to expect them to empathise with customers. By giving them this experience, they have been able to identify more strongly with the customer, and customer service standards have anecdotally improved, with increased positive feedback from guests. Another interesting learning tool has been the introduction of a 'words of the week', designed to help foreign workers get to grips with English and feel integrated into the staff community. This has been coupled with an annual one hour assessment of all employees' numeracy and literacy levels, to ensure that they have a grasp of basics and in order to instil confidence in the team. Where deficiencies are found they are dealt with by support from management. Another integration exercise is an annual treasure hunt for staff around Tenby, with prizes at the end. This method has been very effective in getting both local recruits and staff from further afield to learn about the local landmarks and facilities, knowledge that is important to be able to pass on to customers and which provides an informal learning opportunity.

## Case study 1: The Fourcroft Hotel, Tenby, South Wales

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Alongside innovative development, the hotel undertakes more traditional methods of staff training, using a detailed workforce plan drawn up by the owners in conjunction with their IIP consultant. Having been given match funding from the Welsh Assembly government, through the Workforce Development Programme, a comprehensive programme of training and courses is ongoing. Some of the more traditional training also being undertaken by staff at the Fourcroft includes management and leadership and customer care training, in addition to specific food handling, coffee making and wet stock ordering for bar and catering staff, and health and safety and induction training for all employees.

Pre-economic downturn data indicates that levels of staff stability were already improving earlier this year, with the overall turnover rate reducing from 45 per cent down to 39 per cent. In addition, despite a high turnover among some sections of the staff, others have always been stable, the hotel's head receptionist, for example, has been working there for 30 years, and the head chef had been at the Fourcroft for 16 years. With a keen desire to develop the staff, the management hope that developing employee skills will enhance the teamwork of their staff despite the seasonal nature of the environment, and thereby offer an enhanced experience to their customers. The Fourcroft Hotel has been short listed for a British Hospitality Association 'Excellence through People Award', reflecting in part its innovative approach to meeting skill demands.

## 10. Case study 2: The Slieve Donard Resort and Spa, Northern Ireland

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The Slieve Donard Resort and Spa is based in County Down, Northern Ireland in six acres of private grounds. It employs 198 full-time employees and around 100 part time staff. The hotel is part of an independent local hotel chain, Hastings Hotels, which also owns five other resorts in Northern Ireland. The hotel has been interested in personnel development for several years, and is currently Investors In People accredited.

The Slieve Donard, like the other resorts in the Hastings group, was increasingly finding that it was experiencing a mismatch between the skills of the individuals applying for jobs at the hotel and the requirements of the vacant positions. It was increasingly difficult to get front of house staff including bar attendants, housekeeping staff, supervisors, managers and room attendants in particular. This was due, in part, to a shortage of people looking for work in the local labour market.

Therefore, five years ago, an initiative was developed by the general managers of all six hotels, in conjunction with the central HR function, to establish a new programme of training and development to improve the customer services capabilities of staff. Due to the limited supply of qualified labour, the idea was to ensure that applicants, who often lacked the skills necessary, could still be trained up once they had been taken on. As a result of the new initiatives, there has been an increase in the number of foreign nationals applying to work at the hotel. Many are choosing to get mortgages and set up homes in the areas, when they had perhaps originally only decided to come over to Northern Ireland for a short time. There are three main training initiatives in place: 'Making a Difference', 'Leaders for Profit' and 'Vision and Values,' which are reviewed every two years to ensure that the training they provide is still relevant to the needs of the business.

For each of the courses in question, individuals working in the hotel apply to the management to be financed on one of the courses applicable to them, and are then interviewed to discuss what they are hoping to get out of the experience. At a cost of £2,000 to £3,000 per person per course, this approach has helped to ensure that the individuals most committed to developing their skills have had the opportunity and support to do so. 'Making a Difference' is a programme designed for junior level supervisors in the hotel, to develop their generic skills and capabilities and move them up the career ladder within the organisation. This one, and the other training programmes, has been outsourced to an external company, White Water Consultancy, which tendered for the contract, developing a tailored programme to suit the needs of the business. Every participant on the course has a personal review with the managing director of the hotel

## Case study 2: The Slieve Donard Resort and Spa, Northern Ireland

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at the end of the course, and then meets up with a group of peers that also took part, every six months, to review how they have put what they learnt into practice. The HR department uses this opportunity to review the programme and adapt it to ensure that it best serves the needs of the business. The outcome of 'Making a Difference' has been very positive, with several participants being described by management as 'shining' in their work as a result of their training. The financial benefits of the training to the organisation have not been measured directly, and the impact is viewed as being more wide-ranging. However, there has been a marked increase in the number of positive comments from customers about the friendly and efficient attitude of the staff. There has also been an increase in the number of people re-booking at the hotel, so business has gone up.

'Vision and Values' meanwhile, has served to reinforce the cohesion of the hotel's culture, providing English language training, diversity awareness and product and service standards training to staff. Rather than being a formal course that individuals apply to take part on, it provides a refresher for all staff on the organisations key values. 'Leaders for profit' has also been successful. Designed to build the confidence of staff members with leadership roles, the programme has seen an improvement in their confidence in several areas, including oral communication. The focus of this course includes advertising and management development training, and the whole scheme lasts 12 months. At the end of the course, the hotel hosts a closing dinner, where participants are asked to present feedback on the course in front of senior managers. Their confidence in oral communication has often improved, and they are happy to relate the benefits of the training, which then often encourages other colleagues to apply for training. Overall, all three training courses have seen a positive impact on staff turnover, with 80 per cent of the individuals who have taken part on the courses over the last five years still remaining employed by the hotel.

In addition to the training courses above, the hotel also provides job specific training for all employees. Any employee at shift leader level or above, that has expressed an interest in learning about wine, for example, is able to attend a wine course run by one of the hotel's suppliers. The hotel also provides other training specific to departments, including coffee and water training, basic food hygiene and chemical training.

## 11. Case study 3: Caerphilly Occupational Health, South Wales

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Caerphilly Occupational Health Services Ltd (COHS) is an occupational health provider to both public and private sectors in Wales. Its mission statement is to 'be the largest independent provider of occupational health services in Wales by 2010.' Its clients span local authorities and private sector organisations across a range of industries, including manufacturing. The organisation was established as a limited company in 2002 by Dr Huw Davies, an occupational health practitioner who observed a rising need for occupational health services throughout Wales. The company started off as a very small operation consisting of himself, an occupational health nurse and a small amount of administrative support delivering services from his front room.

With business thriving and the widening of the company's geographical and market share, in 2007 it relocated to much larger, purpose built premises which included private medical consultation rooms, physiotherapy suites and a central administrative office. The company now employs sixteen full time members of staff and between twelve and fifteen peripatetic employees working as occupational health specialists and advisors (nurses), who provide health services both from the company's main establishment and at client premises throughout South and Mid Wales.

Until early 2007 the company had no business plan, marketing strategy or an overall clear mission statement. However, Dr Davies was keen that his expanding organisation used good quality employment contracts, job descriptions and training schemes to ensure that all company employees were subject to fair and equitable employment practices. To make sure that the expanding needs of the organisation's customers and staff were met, he therefore employed a consultant, with a background in HR, to work with the organisation to implement an HR policy and training plan to ensure that as it grew, staff had the skills necessary to undertake their jobs and develop through the organisation. Neil Lodwick, an HR specialist with a long career in local government, has been working alongside the managing director and his newly established Management Board ever since to make sure that as it expands the company has the training and skills policies in place to deal with this transition.

The organisation has now published two annual business plans, and a human resource strategy that incorporates recruitment and selection, discipline and grievance, induction, training and development, health and safety and equalities processes. It has also put in place performance and development reviews for all staff with the exception of occupational medical professionals,

### Case study 3: Caerphilly Occupational Health, South Wales

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and is following a clinical governance programme, which includes a commitment to also introducing PDRs for clinical practitioners.

The company has a strong philosophy that staff development and training should be linked to business enhancement and meeting current and future customer requirements. COHS was recently Investors In People accredited, and also receives 50 per cent match funding from the Welsh Assembly Government to help support staff development training. This funding has enabled the organisation to get support from an IIP advisor and introduce a range of programmes and skills development initiatives.

There is a strong importance attached to 'growing one's own timber' at Caerphilly Occupational Health. As one example of this, the company recently employed a modern apprentice within its administrative team, one of the initiatives sponsored by the Welsh Assembly Government. There are several examples where staff are currently being developed to take on more senior roles. Two members of the administrative team are currently undertaking NVQs in business administration, and the senior administrative officer is being trained in management, leadership and HR with the anticipation that she will become HR manager when the consultant leaves. The management training is college based with a practical work-place based element included. The senior administrative officer has therefore been closely involved in the development of the organisation's HR policy. The customer relations officer is also undertaking a marketing foundation course. The directors of the organisation are keen to multi-skill as many members of staff as possible to ensure that employees can undertake a variety of roles.

COHS has also held tentative talks with local academic institutions and the Welsh Assembly Government about establishing a training programme for potential physicians and advisors. The Welsh Assembly Government perceives a shortage of occupational health provision in Wales, and COHS are keen to be involved in initiatives to combat this.

## 12. Case study 4: The Royal College of Midwives

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The Royal College of Midwives (RCM) is a professional organisation and trade union for midwives across the UK employing around 60 people, based in London. It is a highly traditional organisation with a long history. Objectives and strategy are set by the RCM Council, a governing body made up of around 30 midwife practitioners, chosen from the midwifery community, and who appoint a president and a chair. The General Secretary of the College is responsible for ensuring that their direction and objectives are delivered, covering the College's functions as an educational establishment, a trade union and a membership body. A senior management team co-ordinate staff in each of these areas.

The culture of the organisation is traditional and relatively hierarchical. However, over the last 18 months there have been attempts to modernise it and deal with some of the challenges it is facing, sparked by a declining membership base. In the area of personnel, challenges include a perceived lack of focus on the development of soft skills that go beyond specific specialisms, a need for more extensive project, financial and line management training, and a need to formalise the processes to identify and deal with skills shortages, with the aim of improving performance. There are challenges created by the variety of roles that exist within the organisation. Whilst many of the health professionals have routes for progression open to them, for the administrators there has been a lack of a clear development path. The long period in which many of the incumbent processes and procedures have been in place has made reform more challenging.

The first move made to address the issues being faced was the appointment of Claire Martin, an interim HR specialist, around ten months ago. Her main task has been to establish a new HR strategy and business plan, which has included a new vision, mission, objectives, and best practice aims, as well as a framework for how these objectives can be met by the organisation, using a balanced-scorecard approach. A significant part of this process has been the development of a new Learning and Development Plan in conjunction with the actions required by the last Investors In People assessment. This is currently being discussed by the RCM Senior Team.

Her Learning and Development blueprint includes an overhaul of the core competency framework, to help embed discussions about development across the organisation, and introducing for the first time, a measurable performance management framework, including a grading system, where individual employees are measured on their performance, and gaps in their skills set are identified through regular line management monitoring. Once training

## Case study 4: The Royal College of Midwives

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needs have been identified, staff would then be given opportunities to gain extra skills through training. Areas of particular concern are management skills which are felt to be lacking within the organisation. At present a selection of potential course providers are being explored and it is likely that a variety of providers will eventually be used. Claire is also keen to slim layers within the organisation, creating the right reward incentives and salary bands to encourage key staff to stay at RCM.

In order to embed a sense of ownership for these proposed changes within the organisation, Claire has been running a series of focus groups and working groups with leaders, key influencers and other key groups of employees, with the aim of ensuring that once she has finished her fixed term contract the reform of the learning and development system continues. She has already finished implementing some changes in the organisation and recently re-designed the jobs of a range of administrators to empower them to make more decisions, giving them more responsibility and therefore the chance to develop. At the RCM the new proposed approach to skills and training and development is encompassed firmly within a broader cohesive strategy to improve performance but also address the concerns and needs of staff.

## 13. Case study 5: Primary Care UK

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Primary Care UK is a medium-sized private sector provider of community-based support for individuals with learning difficulties and physical or sensory impairment. It employs around 100 members of staff on a range of full-time and part-time contracts, in addition to using bank staff when the need arises. Primary Care was founded in 2000 to fulfil a need in the local community of Clacton-on-Sea in Essex. It is committed to the development of its staff and one of its core aims and principles is to 'invest in training to improve workforce skills'.

The health and social care sector requires all registered practitioners to reach set standards of competency, set out in the National Minimum Standards Framework. NVQ qualifications are often seen as the best route to achieving these standards, with domiciliary care workers needing to obtain NVQ Level 2 or equivalent. This sector therefore requires higher minimum skills requirements than many others because of the sensitive nature of the work care professionals do, working often with vulnerable people. All organisations providing care will therefore have training avenues in place. This case study though, focuses on some of the details of how Primary Care UK makes sure its staff obtain the skills they need, including its innovative decision to bring training in-house, in order to ensure that it was robust enough to suit the needs of its staff.

Primary Care UK has not traditionally experienced problems recruiting, unlike many other care providers in the industry, a result that they put down to their good reputation in the field and in the locality, in part due to the structured training programme they have in place. The organisation will take on a wide variety of people, and its Training Co-ordinator Jean Kelly, who has since left the organisation, described how the individuals coming to work at Primary Care varied from those who had previous experience of social care, for example as a result of a family member having received support in the past, to individuals who had no previous experience of social care at all. Recruits have induction training when they first arrive, and are then assigned a mentor who assesses their progress every three months. This is particularly important for employees who work alone in the community and who might otherwise fail to get the support and development opportunities that they need. If a member of staff has a weakness in a certain area, when their tri-monthly appraisal is undertaken, this is picked up and dealt with in the most appropriate way. This might involve attending a formal training course or shadowing a more experienced member of staff for example. New recruits also develop a rolling development plan, which enables them to work with their line manager to determine the types of training they need. Many staff also use distance learning packs to work towards extra qualifications, and every three months they are supervised on the material by their mentor.

Primary Care UK also now has four members of staff with a Registered Managers Award and is keen to invest in others. One of the problems the organisation faces, though, despite investment in training, is a lack of interest on the part of some staff to progress further. Despite an internal exercise to recruit staff onto NVQ programmes to enhance their skills, it proved difficult to persuade some staff to invest in their own development over and above what the regulations require. The organisation also tries to accommodate the training needs of individuals who can demonstrate a work-related need. A few months ago, one individual needed to use the sign language Makaton, for example, in order to communicate with one of their clients, and Primary Care UK supported them in developing this skill. However, due to financial constraints, only training which can be justified as being job-enhancing is currently funded by the organisation, as it gets a fixed amount of support from Essex County Council to develop staff, and has a tight budget itself.

Perhaps the most innovative move undertaken by Primary Care UK was to open its own training centre, which enabled it to provide training in-house and ensure that it meets the needs of staff. The brain-child of the former Training Co-ordinator, the centre has run for around a year, and is currently being reviewed. It has provided training for NVQ Levels 2 and 3 in Health and Social Care, and external organisations as well as internal staff have signed up to courses.

## 14. Case Study 6: VimpeX, design, production and sale of alarms, Essex

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VimpeX is a family owned SME which designs, manufactures and sells voice sounders and audio-visual evacuation technology, including fire alarms. It employs 17 FTE staff in Great Wakering, Essex, covering sales, R&D, administration and warehousing and has a small subsidiary company in Sweden. The structure of this company is relatively flat with all but four members of staff reporting directly to the managing director.

The organisation believes in the importance of training its staff, and James Jones, one of the company's senior managers, sees staff development as one of the reasons for the company's relatively low employee turnover. He sees investment in staff skills as a positive thing, making it 'more likely that you'll retain them', rather than a necessary evil which might see them defect to competitors once they've gained their qualification. The organisation is keen to continually review its skills gaps and seek to meet both the skill demands of its business and the desires of its staff to undertake qualifications. When one member of staff decided that she wanted to train on an account technician scheme, the organisation decided to give her all the support necessary to undertake the course including time off for exam preparation and sitting the exams themselves. Although there were no specific skills gaps in accountancy at the time for the business, this member of staff is now able to undertake book keeping and accountancy tasks and has been given responsibility for keeping the accounts for the Swedish subsidiary company.

The organisation also innovated when it found it difficult to recruit a technical designer in the local area, instead taking on a designer that lived 150 miles away. Although this has presented some communication problems within the organisation, it fulfilled a need and solved a skills shortage issue. The designer currently works from home, only coming in to the VimpeX offices rarely. However, fulfilling technical and sales roles at VimpeX has continued to be a problem for the organisation and it is keen going forward to take on new recruits that can work on site.

Despite its proactive attitude to up-skilling the workforce and dealing with skills gaps, the organisation continues to face project management deficiencies and has found it particularly challenging to identify a specific course that provides the right level and content of project management training. James Jones, who is responsible for the sale and exhibition of products, emphasised how important it is that the organisation finds a way of improving its project management. VimpeX is keen to expand its manufacturing, but the directors are only too aware that they need to introduce project management training before this can be achieved, as there is currently a problem with projects running beyond time. James has recently finished studying for an MBA in order to increase his skills offer, but has found through extensive research and

## Case Study 6: Vimpex, design, production and sale of alarms, Essex

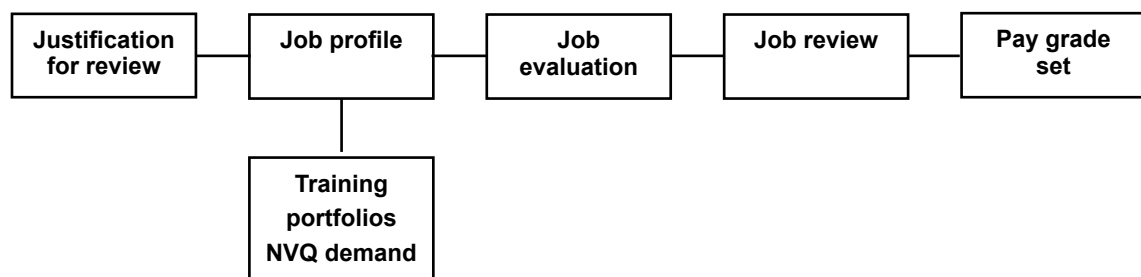
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contacts provided by MBA tutors that there is a shortage of project management courses in the local area. As he pointed out, 'project management is not an academic subject' and therefore finding the right course has been a real challenge. As project management doesn't currently have chartered status, it is difficult for employers to distinguish between the different types of training offered and there is no body to provide guidance on the quality of training provided. The directors at Vimpex feel that more tailored project management training specific to commercial needs, and a quality standard to help distinguish between providers, would help organisations like theirs understand more clearly where to look for this type of training and support.

## 15. Case Study 7: C&C Marshall Limited, manufacturing, Hastings

C&C Marshall Limited is a manufacturing firm based in East Sussex. It trades largely under the brand name Marshall-Tufflex, selling PVC cable management solutions. It is a pioneer of PVC-U extrusion and injection moulding techniques and it employs across the entire organisation, just over 300 people on four main sites in and around Hastings and St Leonards-on-Sea.<sup>86</sup> The skills of the organisation's workforce are considered an important priority by management, and the nature and extent of the formal training and development provided has changed and developed over time. Steve Baldry, the company's HR manager who has worked at C&C for 25 years, described that whereas traditionally many of the employees entering the firm to work on the factory floor were apprentices who came and were trained informally as part of the job, it has been increasingly important, in recent years, to formalise the training programme. The Company is now working towards providing, every individual with a tailored development plan, which seeks to help them progress. Every individual entering the company is also required to work towards a specific job related NVQ Level 2 even if they already hold one in another discipline. Currently the production and warehouse teams have 100 per cent of employees with NVQ Level 2.

The company carefully links performance to pay, with each job role going through a job evaluation process that sets base pay rate and each employee targeted to deliver specific levels of performance to attain movement in pay grades. The model developed by the company is outlined below.



This model ensures that the staff are fully supported and training needs are identified efficiently. The changing labour market in which the company is operating was one of the drivers of this change. As many of the staff entering the organisation to join the factory floor come in with no skills at all, there is a detailed progression programme outlined for them to help them progress up towards NVQ Level 2. They work with their line managers to ensure that each step they take is recorded in a personal development profile. All staff then have regular Personal Development

<sup>86</sup> Technically this organisation is just over the size limit for an SME, but is included here anyway, as an example of a manufacturing organisation that has a good skills agenda

## Case Study 7: C&C Marshall Limited, manufacturing, Hastings

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Reviews (PDRs) and 1:1 meetings with their line managers to discuss, amongst other things, their training needs.

The company is also currently trialling an annual test for employees encompassing modules that match each section of their development profile. The response from employees has been positive because rather than being pitched as a potential hurdle for them to jump, it has been described to them as the most effective way of identifying training needs. This new process tests soft skills as well as technical ones, and the company is currently thinking about including an 'ability to work with others' section.

The recruitment process at C&C Marshall is also innovative, using a variety of different methods to assess the aptitude of candidates. For qualified positions within the company, core competencies and technical skill are assessed in the usual ways, however, for production and warehouse staff, interviews are set up to test the attitude of candidates, as well as tests of sums and addition, putting together a Lego car and health and safety knowledge.

The organisation is also keen to develop its leaders of the future and over a number of years has run training and development programmes for aspiring managers and leaders within the organisation, to ensure they have the skills necessary to lead the company in the future. Central to this is their idea of the 'Golden Thread' a line of sight that links clearly the organisation's strategic goal of achieving 'business sustainability' to the tasks and objectives set for individual teams. The organisation is keen to involve employees in the business planning process, and one of the ways they do this is through an annual leadership development course, called 'Opportunities for Change', where participants are involved in developing thinking around business tasks in light of the company's strategic goals. This programme is open to anyone in the organisation with the desire to develop and take on responsibility. Each year 15 individuals are chosen to take part from those that apply, ranging from truck drivers, through to sales and marketing employees.

## 16. Case studies: The analysis

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### 1. Problems recruiting from the local labour market

**Conditions/  
catalysts that  
resulted in the  
decision to  
up-skill**

Four of our seven case studies cited problems recruiting staff, rather than skills gaps with the individuals already working for them, as the main catalyst in driving them to review and reform their training and development and workforce planning processes. All four of the cases in question were drawn from organisations in relatively small towns: Hastings; Great Wakering near Southend on Sea; Newcastle in County Down, Northern Ireland; and Tenby, South Wales, and reported a drying up of their local labour markets. In the manufacturing sector, one organisation in particular felt that increasingly applicants for work on the factory floor were coming in with less experience of similar work than they had done twenty years ago, a result they suggested of the diminishing role of traditional apprenticeships in manufacturing. In both of the tourism sector organisations, the decline of experienced local labour was accompanied by a new influx of foreign workers, to some extent filling a gap left by a shortage of locals. Both of the hotels we spoke to felt that with the local labour market diminishing as a perceived pool of experienced labour, their best course of action was to reform their training and development processes, both to integrate foreign workers into their organisations and to train up the unskilled individuals who they were able to attract. All four of these organisations perceived it as their responsibility to skill their staff to the adequate levels to perform their roles.

### Skills development as part of a larger programme of reform

The main catalyst for another two of the case study organisations, meanwhile, was a significant period of change for the organisation more broadly. For Caerphilly Occupational Health, a provider of occupational health services in South Wales, the decision to put in place a more systematic and wide-ranging programme of up-skilling, reflected the rapid growth of the organisation from a three-person operation to one many times bigger. The transition from a position where only a handful of individuals are employed and therefore processes and structures are not necessary, to one where logical and systematic forms of communication and strategy are necessary because of a rising employee base, is an important moment in the lifecycle of the organisation. In this instance, the founder felt that embedding good processes, procedures and multi-skilling staff adequately from the beginning, would help assist the continued rapid growth and success of the business. At the Royal College of Midwives meanwhile, reform of the skills process was a result of a declining membership base and a newly appointed General Secretary, who was keen to overhaul the business planning process. This involved the creation of a new business plan, a significant part of the successful delivery of which, relied on delivery mechanisms such as a new learning and development policy, designed to help meet the business's aims and visions. The fact that organisational change was a catalyst

for a change in skills strategy, in several of the case study organisations, reflects the findings put forward by Ashton, Sung, Raddon and Riordan in a recent Employment Working paper.<sup>87</sup>

### **Strong leadership**

Nearly all of the case studies displayed examples of strong leadership, intent on breaking the mould, and changing how business procedures had been carried out in the past. As we have seen, at the Royal College of Midwives this was the result of the appointment of a new General Secretary. At the Fourcroft Hotel, this was a result of the owner, Chris Osborne, taking over the day-to-day management of the hotel from his parents and bringing fresh eyes to business strategy. At the Slieve Donard Resort and Spa, meanwhile, change resulted from a push by the General Manager, who worked with peers at the hotel's sister establishments, to create a new programme of training for staff. At Primary Care UK, an organisation providing social care for individuals with learning disabilities, devolved leadership was exhibited by a senior manager in allowing the training and development co-ordinator to innovate and set up an internal training centre to run NVQ courses.

### **Advice and support from external bodies: external consultants and funding**

It seems significant that of the seven organisations we spoke to, three had gained advice and support in changing their approach to skills by bringing people in from outside to assist them. At the Royal College of Midwives, a new interim HR manager on a ten-month contract was appointed to develop a new HR strategy, business plan and skill policy. Similarly, at Caerphilly Occupational Health, the managing director appointed a former HR professional, acting as an external consultant, to develop the business plan and HR policies and work alongside the organisation for two years to see the changes implemented. At the Fourcroft Hotel in Tenby, meanwhile, it was contact with Investors In People and the West Wales Training and Enterprise Council that led to the organisation seeking the advice of an Investors In People consultant, who worked with the organisation to reform and develop its new training programme.

Investors In People and similar government sponsored enterprises were viewed as important by many of the organisations we questioned. Five were IIP accredited, and one had previously been, but had withdrawn when they felt that they had realised the benefits from their achievement of the standard and did not need to maintain it. All the organisations that were Investors In People accredited described that they were involved with the scheme not for the accolade and award itself but because of the principles to which it adhered.

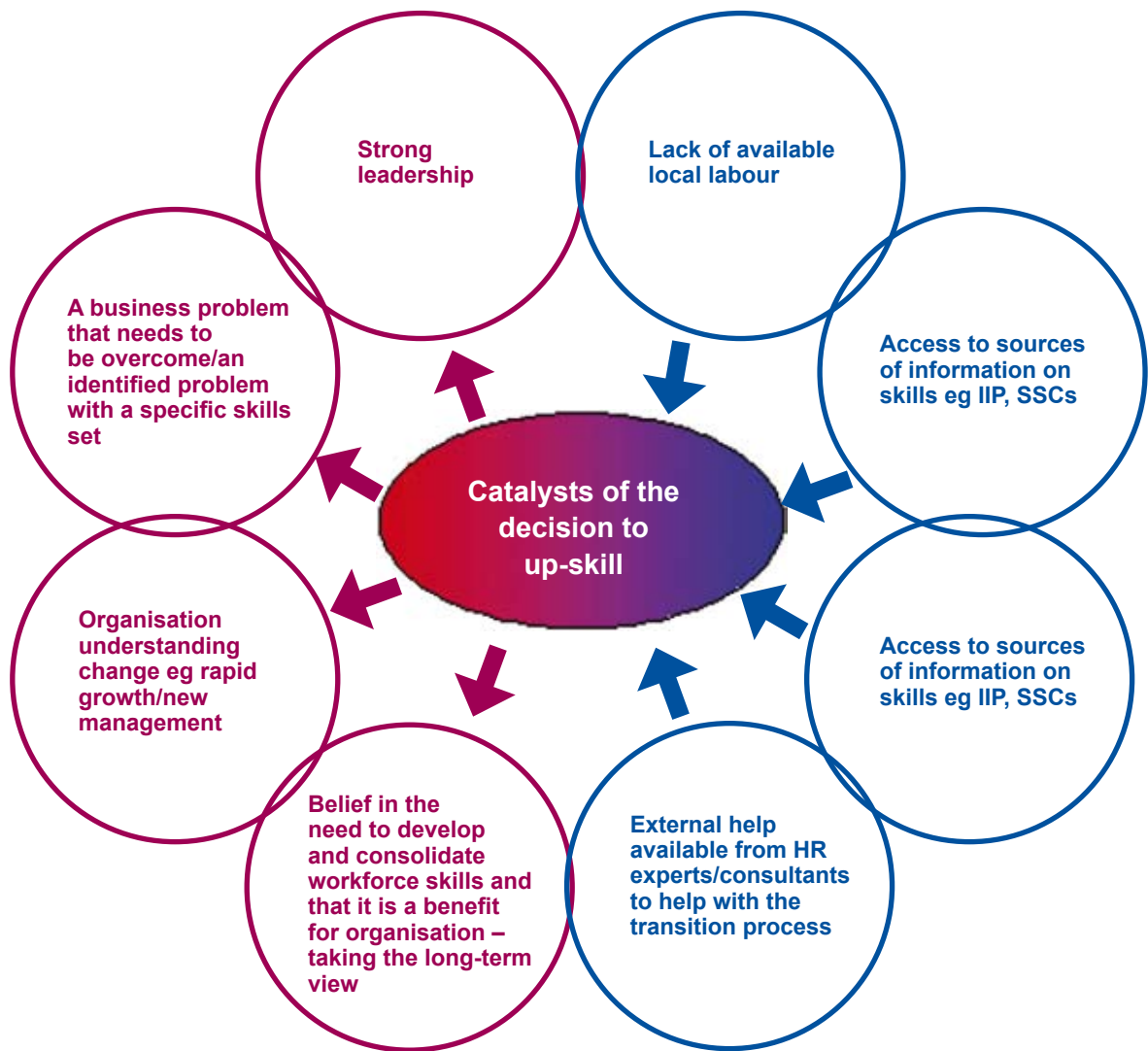
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<sup>87</sup> See Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small enterprises: Implications for public policy*, (2008), p. 3

Local training providers, meanwhile, were given a mixed review by the case studies. The Fourcroft Hotel had sourced a range of training sessions, both formal training courses and support with more informal ongoing training from the private and public sector, including the FE sector. However, some of the other case studies appeared to be less willing to use local FE colleges. Four had a tendering process in place, where training providers were asked to present to the organisation about what they could provide, but none of these organisations had actively sought out training from FE colleges, and none had been forthcoming. Two of the organisations said that they had not considered the option of training from their local FE college, although this was not meant to reflect negatively on their perception of it, as they engaged with the local college in other ways.

Perhaps most important of all in Wales, though, was the influence of match funding provided for SMEs to encourage training and development. Both the organisations we spoke to were involved with the Workforce Development Programme run by the Welsh Assembly Government. The scheme, which requires organisations to develop a workforce plan and apply for funding, matches training and development costs put up by the organisation itself for work-related skills development, up to a maximum of £10,000. Most of the other organisations we spoke to as case studies had also been given some form of government support in the past. Vimpex benefited from the government Profit from Learning scheme in 2004, when one of its employees achieved an NVQ Level 2 in Distribution, Warehousing and Storage. The scheme was free to the organisation and the scheme provided assessment of the individual's performance, although it was left to the company to address any training gaps left after the course in-house. C&C Marshall, meanwhile, gets occasional funding, primarily for NVQs at their satellite offices, because they are located in 'deprivation areas'. They have also received some funding to support cost-efficiency training locally in Hastings. The Slieve Donard Resort and Spa, has received funding from Invest NI for company development. This match funding has been used to fund some of the staff training courses they run. As in Wales, a condition of gaining the funding is the submission of a workforce development plan outlining how the money will be spent. Primary Care UK, meanwhile, has received funding from Essex County Council, and the Royal College of Midwives has received money from the national Union Modernisation Fund to pay for staff development.

**Figure 2: The different influences on the decision to up-skill the workforce presented by the case studies**



Source: The Work Foundation 2008

The diagram above outlines the internal and external push and pull factors acting on organisations, and which influence the decision to up-skill.

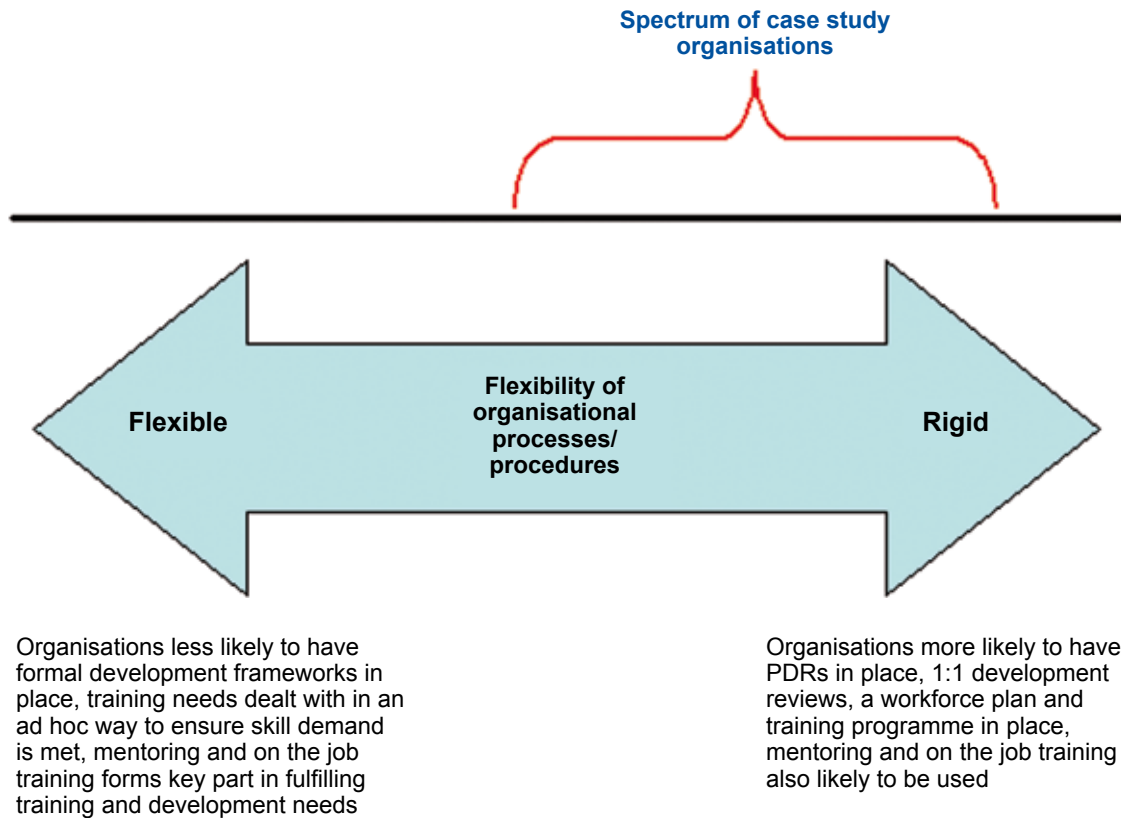
**2. The processes put in place to identify skills needs**

Ashton et al.<sup>88</sup> have followed several other studies in suggesting that small organisations tend to use more informal ways of identifying skills needs than medium or larger organisations, and this accounts for the perception that small organisations are less involved in the skills agenda than their larger counterparts, when in fact it is more a difference of approach. To this degree our case studies did not reflect the general finding that smaller organisations do not tend to adopt formal processes. The majority of our organisations tended to adopt a more formalised approach to training, rather than an ad hoc approach, with two organisations even embedding skills development in a larger business and HR plan, including a small organisation of 16 FTE with a pool of peripatetic health practitioners. The other organisation to embed training in a larger HR plan was the Royal College of Midwives, a medium organisation of around 60. The rest of the organisations varied in the formality of their training and development procedures, but most seemed to include regularised processes and procedures including PDRs and 1:1s. Two organisations out of the seven seemed to have a less formal approach, one small manufacturing firm and a larger hotel of around 100. These two organisations also had ways of measuring training needs, but their approach was less uniform and relied more on individuals as well as managers bringing up the subject of development. For these organisations the costs of training meant that it was best to encourage individuals to be proactive about their development and ensure that those wanting to be trained had access to the types of course they needed. With limited money, this approach ensured that those most committed to their own development and the organisation were favoured when it came to training. Importantly, all seven of the organisations we spoke to felt that training was a way of encouraging talent to stay with them, and did not consider the poaching of trained staff from competitors as being a real threat to their business.

One challenge for many small and medium-sized organisations, as emphasised by one of the HR directors we spoke to, is the difficulty of balancing processes versus innovation and flexibility in small and medium sized organisations. The processes applicable to large organisations are often not most appropriate for smaller companies which rely more on flexibility, innovation and multi-skilling. However, processes also help to create a better sense of fairness and the systematic application of resources and getting this balance right is difficult, especially as an organisation is growing.

<sup>88</sup> Ashton, D., Sung, J., Raddon, A. & Riordan, T., *Challenging the myths about learning and training in small and medium-sized enterprises: implications for public policy*, ILO (2008)

**Figure 3: Diagram representing how rigid/ flexible skills and development processes were in the case studies**



Source: *The Work Foundation 2008*

- 3. How the SMEs define skills – the types of skills being addressed and training used**
- The term 'skills' was interpreted widely by the case study organisations, covering technical skills required for a specific job role, eg medical knowledge for an occupational health physician, through to generic soft skills such as communication, team-working and customer awareness. Skills seemed to be viewed as something learnt on the job, supplemented by training and qualifications.
- It is very clear that the skills required by these organisations are viewed as being different to qualifications in several ways. It was the lack of work experience and soft social skills in customer facing roles that the employers in the tourist industry were focusing their efforts on, for example. A more technical skill that was repeatedly mentioned as lacking was project

management expertise. As James Jones, senior manager at the manufacturing firm Vimplex, was keen to point out, project management is not an academic qualification, but a skill that needs to be taught in an applied way. For his organisation, which was experiencing a problem with projects running over time, selecting the best project management course, in order to try and overcome these problems, was a priority. However, due to a perceived lack of available advice about which course would be best in the local area, this had become a problem for the firm. This might reflect a wider problem – that organisations need more support to help them distinguish between training providers.

This is a function that Train to Gain was designed to address in England, however, when we asked the personnel manager at Vimplex if she had ever heard of the Train to Gain initiative she said she hadn't. They were the only English-based<sup>89</sup> case study, though, that had not heard of the scheme at all, and two of the others have or are considering using the scheme's services. The Royal College of Midwives are in talks with South Thames College to provide courses under the Train to Gain programme and they are also trying to arrange touch typing courses through Train to Gain. The HR manager at C&C Marshall was also due to meet with representatives from Train to Gain in January 2009 to discuss available support, although his experience in the past has been that there is not much help available through Train to Gain in the local area.

The types of training offered by the case study organisations and the spectrum of skills that their up-skilling initiatives covered was also wide. Chris Osborne, owner of the Fourcroft Hotel, for example, included training ranging from technical job-related skills – food handling and coffee machine training – to a much more fluid concept of 'customer awareness'. The types of initiatives ranged from traditional institution-based learning, to treasure hunts and team building exercises. For some of the other organisations, though, the types of training they were implementing were more traditional college-based courses.

Modern apprentices, who work alongside other members of staff to gain experience of the workplace, and attend off-the-job training at local training centres, often FE colleges, have been employed by several of the case studies. Caerphilly Occupational health has recently employed a modern apprentice, and hopes that they will grow with the organisation, gaining the necessary experience to potentially be taken on long-term. The Fourcroft Hotel had also taken on several apprentices in the past. The experience was 'mostly successful', according to the hotel owner, Chris Osborne, with only two individuals leaving before they had completed the qualification.

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<sup>89</sup> Train to Gain is only available to organisations in England. The devolved regions have other schemes, such as the Welsh Workforce Development Programme

In addition, he felt that being an apprentice encouraged individuals to commit more to their work and take responsibility for their development. On the other hand, both C&C Marshall and the Slieve Donard Resort and Spa commented on the additional bureaucracy of employing a modern apprentice and the general manager of the Slieve Donard Resort and Spa said that this had put them off employing more people through the scheme. Vimpex, meanwhile, had not employed any apprentices and felt that the scheme would not work for their organisation. They felt that most modern apprentices were younger individuals, and that their local FE college was not particularly good at providing training for electronics and electrical engineering, which is what they would have needed.

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**4. The outcome for the organisation** Much of the evidence of the outcome and impact of up-skilling staff gathered by our case study organisations was anecdotal rather than measured. Some of the organisations were still in the stage of implementing the changes, and therefore the overall impact was still to be determined. For others, that had completed their changes, little had been formally assessed. Having said this, more than one of the employers was quick to point to falling turnover figures as a sign that the measures were improving staff commitment and loyalty. They were also using more informal measures, such as anecdotal feedback from customers, to gauge the success of the development they had put in place.

The lack of systematic measurement is partly a reflection of the small size of most of these organisations, for which data collection is perhaps less important than larger companies. In small organisations, keeping abreast of the performance improvements of staff is possible through more informal means than strict measurements. This is reflected, for example, through the processes in place at the Slieve Donard Resort and Spa. Individuals being funded to take part on courses to improve their soft skills, or develop their leadership capabilities, were required to explain what they had learned and how they had benefited from the courses, many of which spanned a year, both directly after the course, and at several month intervals for a period after their training was complete. This approach ensured that the individuals were thinking about how their training could be applied in their jobs, and embedded the improvements they had made. Over 80 per cent of the individuals at this organisation who had undertaken the training courses over the last four years were still with the organisation. In many ways, this anecdotal feedback might reflect a more realistic way for SMEs to assess the effectiveness of their training programmes.

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**5. The effects of up-skilling on organisational performance**

It is striking that none of the organisations we spoke to described their decision to up-skill as being directly a result of the need to improve the bottom line. The indirect link was implicit, and for several the strategic change seemed to be viewed as a longer term investment, which would inevitably improve business performance in the long run. Especially in the smaller organisations we spoke to, staff investment was seen as an important way of moulding and cementing team spirit and loyalty, without which business performance could not become better. This second objective takes on more importance in small organisations where the local labour market is tight and the small size of an organisation's team means that every individual and their commitment and skills level is important. Essentially, though, concern about the bottom line did not directly precipitate the decision to up-skill in many of these organisations. In many ways this makes sense, as organisations with severe performance problems are unlikely to be looking to increase their spending on training and development as (especially in SMEs) any spare cash will be otherwise tied up.

For policy makers and skills agencies, therefore, these examples suggest that the picture is more complex than merely the need for SMEs to improve their bottom line. Whilst competitiveness is always the ultimate goal of businesses, the evidence from the case studies shows that other business problems, such as a lack of labour supply, can be more pressing as a direct motivation for businesses, even though these issues impact ultimately on business performance.

## 17. Typifying the case studies: 'fresh eyes, big picture strategies' versus 'adaptive, incremental decisions'

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The case study organisations can broadly fit into two groups, dictated in part by their immediate circumstances and lifecycle stage. Some of the organisations we spoke to fit with elements of both.

Generally, however, the first model for change is represented by those organisations whose decisions to review their skills strategies coincided with significant changes in the organisation, for example, a change in management, significant growth of the business leading to a need for a new business plan, or a declining market share. Here they will be termed 'fresh eyes and big picture strategies'. In these circumstances, organisations responded by bringing in help from outside, to manage a wide-ranging and strategic overhaul of a whole group of processes, of which those relating to skills were only a part, with the result that a comprehensive framework of training, or a comprehensive system of processes to identify training needs, were put in place.

The second set of organisations fall into a group that made 'adaptive and incremental decisions'. They were often not at a critical point in the lifecycle of their organisation, and so responses to skill demand were more incremental and adaptive. Examples here include responses to labour shortage resulting in the creation of a new internal training programme, which took place in several organisations, and ad hoc reactions to specific skills shortages, for eg technical skills.

Both groups got to similar end points, overcoming skills shortages and gaps, although their journeys getting there were different. Neither model should be viewed as better than the other, and should simply be seen as reflecting the needs of the organisations as different points in their life cycles. The same organisation might well undergo changes which resonate with both scenarios during its life cycle.

## Conclusion

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This report emphasises the extent to which a simple input-output model of ‘more skills equals better business performance’ does not resonate with SMEs. Their decisions to up-skill tend to revolve around related problems, such as a lack of available labour in the local labour market, or the desire to plan for the future leadership of the organisation, issues which inevitably lead to improved business performance when solved. However, none of our case study organisations, partly a result of their size, were measuring the impact of training and skills development, except in an anecdotal way, and not directly relating improved employee performance to their bottom-line. It is therefore vital that government develops a sophisticated dialogue with SMEs that taps into the issues that concern them and will help them overcome problems that threaten their survival, eg lack of available local labour, in addition to emphasising that improving skills can help improve business performance. If government uses language that is too closely related to financial indicators as a justification for up-skilling, some smaller organisations may not associate the problems that they are experiencing as being something that can be improved by investment in skills.

Catalysts of the decision to up-skill included both internal factors and external drivers, which were pushing or pulling the organisation towards investment in skills. The conditions necessary included a lack of local labour supply and the availability of external support, both from consultants and advisers and also in the form of funding for training. Strong leadership and a critical point in the lifecycle of an organisation were also important drivers. Organisations that were growing rapidly, or had experienced a change in management, for example, were likely to include a review and development of good skills processes and procedures as part of a strategic overhaul. Contrary to some other studies, that have shown the informality of the processes often used by SMEs, this study has found examples of relatively small organisations putting in place relatively formal skills processes and procedures to identify skills needs amongst their staff.

Broadly speaking, the organisations we analysed fit into two categories, which describe the processes the organisations go through to address their demand for skills. The first, ‘fresh eyes, big picture strategies’, refer to organisations, which are at the point in their lifecycle where strategic overhaul of significant business priorities encompasses a change in how skill demand is calculated and articulated through new procedures. These organisations often draw on external help, because the job they are doing is large. These organisations are also more likely to adopt formal procedures, because the HR experts they bring in to help them are likely

## Conclusion

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to develop sophisticated processes and procedures, in line with those that are more likely to appear in larger organisations.

The other category of organisation is those that adopt 'adaptive, incremental decisions'. These organisations are more likely to be reacting to external factors that are hampering their attempts to meet their demand for skills. These organisations will often not be at a critical stage of their lifecycle, which requires more wide-spread strategic change.

It is also important for policy-makers to note that several of the organisations we spoke to had received match funding for their training and development programmes and all had some experience of receiving financial support from the government at some point. Two of the organisations had received match funding for skills development from the Welsh Assembly Government, one had received match funding from Invest NI, and other sources of funding had included local government and the Union Modernisation fund. Providing clear and accessible avenues for SMEs to get financial support for training and development is vital, and match funding seems to be a great way of incentivising organisations to invest in their own staff, but also giving them help to do so. The government recently took steps to heavily publicise the money available to SMEs as part of Train to Gain, although the fact that one of our case studies had still not heard of Train to Gain shows how difficult it is to engage with SMEs. On the other hand, though, a danger posed by government funding for training is that organisations become too dependent on it, failing to invest their own money because the government will step in if they don't. The provision of match funding where both sides are contributing is therefore the best solution.<sup>90</sup>

In the current economic climate, with the economy entering recession, persuading SMEs to invest in training will become more difficult, as many are fighting for survival. As some of the secondary literature above also shows, both employers and employees are also less concerned about training and development when job insecurity is a harsh reality. However, this highlights another important point for policy makers. Even in good times, targeting organisations for which performance is a real problem is the wrong place to put emphasis. Organisations fighting to survive are unlikely to heed messages telling them to invest in staff – the message will be lost on them. Therefore, focusing on improving skill provision in SMEs that are performing well would be a better tactic, as these organisations are likely to have the time and funds available to think more about the long-term. It is also important in the current climate to emphasise the

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<sup>90</sup> Keep, E., (2008) *From Competence and Competition to the Leitch Review* pp. 9-10

importance of organisations positioning themselves for post recession advantage by training when some of their competitors can no longer afford to.

The companies presented as case studies in this study exhibited interesting ways of improving skill level, in some circumstances, introducing initiatives that cost relatively little, but brought a good return. The Fourcroft Hotel's decision to send staff on a treasure hunt around the local area, both to improve team morale and knowledge of the local area which could be passed onto customers, illustrates the extent to which creativity pays dividends. It is not the case that the majority of skills needs can be met without large financial outgoings, but it does illustrate that organisations should not abandon training and skills development altogether in difficult economic times.

The way in which some of these organisations were thinking outside the box when it comes to training and development also emphasises the extent to which the term 'skills' is interpreted widely in many organisations, and often very differently from qualifications, echoing some of the secondary literature quoted above. Soft skills, as the literature and case studies also show, are an important priority for many organisations. It might be the case that Train to Gain's focus on qualifications is another reason why many SMEs do not engage with it. This study also provides fresh evidence that training and development does not necessarily result in the poaching of the best staff. None of the organisations we spoke to had experienced poaching as a result of training their staff. This should provide organisations with encouraging evidence, that up-skilling is not something to fear, although this might also reflect that soft skills training is hard to codify and less transferable and generic. However, it makes logical sense that in a tight local labour market employees might be more likely to stay with organisations that provide them with a route for progression, and therefore being regarded as an employer of choice should be considered an important part of business strategy.

Overall, therefore, this study throws new light on the innovative ways in which organisations are meeting skills demands, as well as arguing that the way policy makers communicate with SMEs should be adapted to reflect their concerns in a language they identify with: extending the run of the family business as an important employer in the area, for eg or cementing their teamwork, or extending their catchment area. Focusing only on the bottom-line and performance as a means of encouraging investment in skills will never be as effective for SMEs as it is for their larger counterparts.

## Conclusion

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### Key points for policy makers

- It is important to place the rationale for businesses engaging with skills firmly in the context of the current issues they are facing, in order to engage them most fully. Examples of such issues might include problems with recruitment or customer care and will need to be board ranging to capture the full range of issues faced. This is likely to be more powerful than using linking up-skilling to increasing the bottom-line, as many organisations see this as an indirect output of better recruitment or customer experiences etc rather than an immediate objective.
- Focusing training initiatives around existing qualifications designed by training suppliers should be reviewed and adapted to reflect the fact that skills and qualifications are not necessarily viewed as the same thing by organisations.
- Match funding provision should be encouraged because it supports staff development in organisations, at the same time as incentivising rather than substituting company investment.
- Providing bench-marking and examples of innovative up-skilling initiatives would provide organisations with examples of what they could do.
- Policy makers should focus their efforts on convincing organisations that are performing better financially to invest in training and skills, as these, rather than failing organisations, are more likely to have the resources to invest in their staff. In hard economic times this can be sold as a need to position themselves in the best place for the recovery by investing in the downturn.
- Intermediaries can be an effective way of engaging with businesses and can support the development of extensive HR reforms that include up-skilling policies. Schemes providing such services, including IIP, should therefore be encouraged.

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### Key points for organisations

- Organisations should think outside of the box when it comes to training and skills development. It is possible to provide some types of training without spending huge amounts of money, as our case study examples show.

- Organisations should make sure of the full range of funding opportunities available to them, and investigate the support open to them by contacting local networks such as business link.
- Organisations should view the up-skilling agenda pro-actively and therefore seek out sources of support.

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