

**LACK OF SKILLS OR LACK OF UNDERSTANDING  
(The Provision of Employee Training in UK SMEs)**

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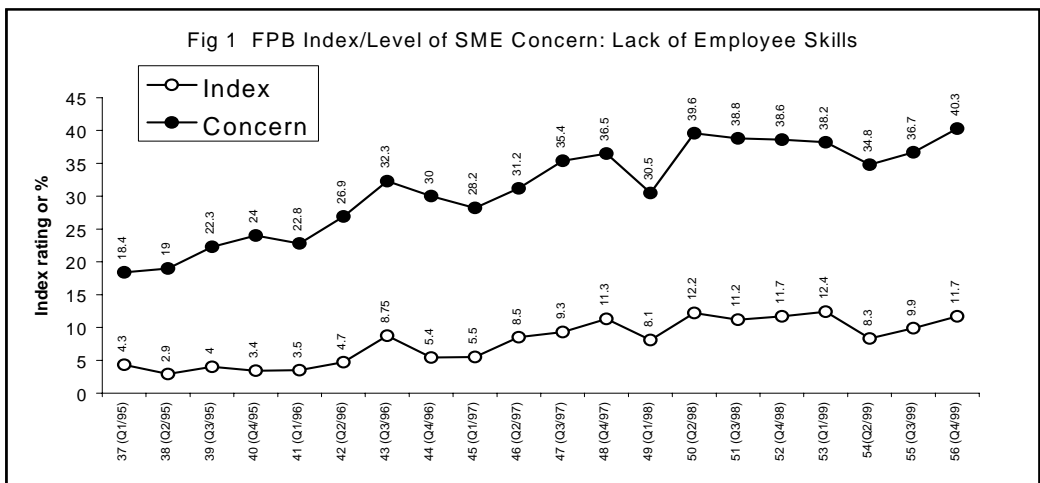
**Lack of Skills or Lack of Understanding?  
The Provision of Employee Training in UK SMEs**

**Abstract**

It is widely acknowledged that in the knowledge-based global economy of the 21<sup>st</sup> century, investment in human capital will be critical in ensuring business survival and competitiveness. Yet, small firms appear to have little training provision as we enter the new millennium. The National Skills Task Force 3<sup>rd</sup> Report says: “a substantial minority, especially of our small businesses, still offer little or no training for the bulk of their workforce”. It is often frustrating to observe that while small business owners and managers continue to complain of skills gaps within their firms, committing obvious resources to training has never featured prominently on their agenda. This study sets out to explore this apparent paradox. In particular, the attitudes of small business owners is analysed, since it is their ethos and perspective that is critical in determining the strategic direction of training within their firms. This examination of small firms training is presented in two parts: firstly, evidence from the Forum of Private Business (FPB)<sup>1</sup> in response to the National Skills Task Force 3<sup>rd</sup> Report “Tackling the Adult Skills Gap: Upskilling Adults and the Role of Workplace Learning” is considered, and secondly, the dedicated study of business owners’ attitudes to training is analysed. It raises the question as to whether, for the “substantial minority” of small businesses, the problem is less of a “skills gap” and more of a “lack of understanding” of their inherent and established training processes.

**Introduction**

The Forum of Private Business Index of SME Priorities, analysed each Quarter from responses of between 1,000 and 3,000 SME owner/managers, has shown a consistent trend of increasing concern in SMEs for the lack of employee skills since 1995. From the FPB research, it seems true to say that few Government initiatives had a significant impact on the perception of SMEs that training provision had resolved their employee skills problem. Fig 1 demonstrates growth in this level of concern.



Source: Forum of Private Business

<sup>1</sup> (a non-profit organisation with a membership of around 24,000 SMEs that spans all industrial sectors and geographic regions throughout the United Kingdom).

In order to assess the extent of the so-called “skills gap” and the policies of training provision, it is necessary to consider the position of SMEs in relation to that training provision.

### The National Skills Task Force 3<sup>rd</sup> Report

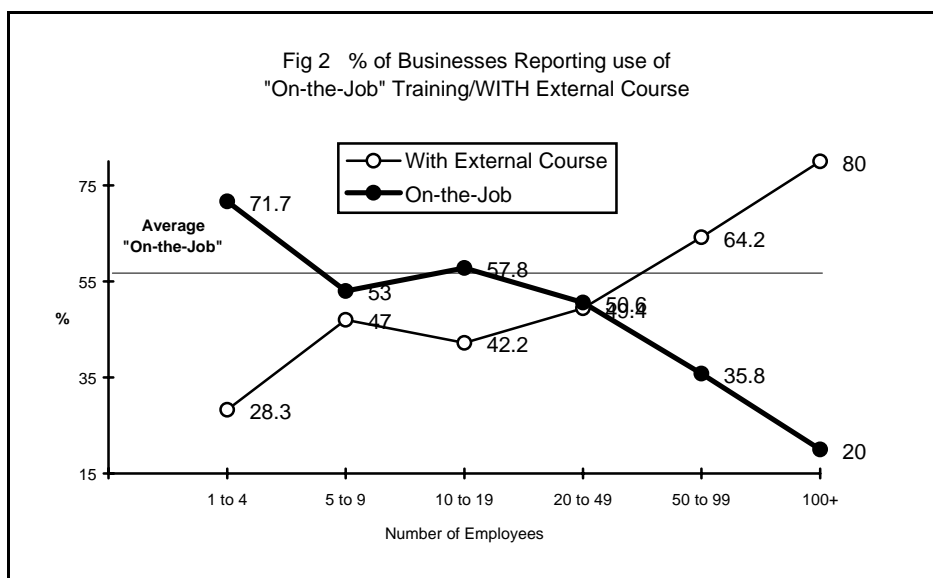
The National Skills Task Force (NSTF) was set up in April 1998 to “assist the Secretary of State in developing a National Skills Agenda which will ensure Britain has the skills needed to sustain high levels of employment, compete in the global market place and provide opportunity for all”. Their 3<sup>rd</sup> Report in 1999 contained an examination of evidence relating to “incentivising and supporting small firms training”. The Forum of Private Business response to this Report makes the following points:

A misleading impression of small firms’ training may have been created by two comments in this Report:

1. “...a substantial majority, especially of small businesses, still offer little or no training for the bulk of their workforce”.
2. “Small and Medium sized businesses, and especially those with less than 25 employees, are significantly less likely to provide formal training for their people than larger organisations”

“Little or no training” seems to be based on the findings that for businesses with less than 25 employees “only 36% provided some off the job training for their employees”, and “there are three main reasons to explain why employers might not train, or might train less than is thought to be desirable. These are: (1) “poaching”..; (2) that employers fail to recognise...the benefits of training; and finally, (3) that there are financial restraints...”.

More than half of UK SMEs (57%) operate “on-the-job” training which is NOT supported by external courses (FPB 1997). When this was examined by number of employees, it was shown that over 70% of the smallest businesses use informal training processes (Fig 2).



Source: Forum of Private Business Quarterly Report 48

The implications of these findings are that for SMEs there are two principal idiosyncrasies:

1. The characteristics of SMEs as related to number of employees.
2. The provision of “formal” or “informal” training in relation to the characteristics of the business.

Small businesses are frequently categorised as “SMEs” or quantified by number of employees (e.g. “less than 25 employees”, “less than 50 employees”), which leads to an assumption that there could be a generic solution for all “SMEs”. The Forum of Private Business suggests that an essential element of the “Micro” business is that it has NO “Specialist Manager”. Whilst this is a very broad base measure, it can be reasonably assumed that with less than 10 employees, the business is “Generalist”, but with more than 10 employees it is likely that a “Specialist” will be employed, even if only initially for financial management purposes.

In terms of training this study addresses recommendations for the Micro sector (generalist) where currently around 65% have no “off-the-job” training, and for the Small (specialist) businesses where around 40% do not currently use external training provision.

The NSTF Report suggests several reasons for the use of “Informal” training in small businesses. It points out that informal training:

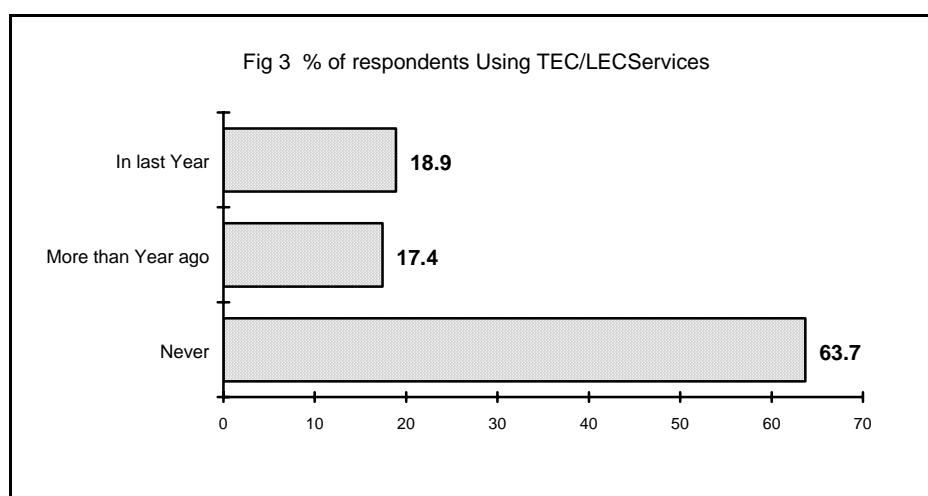
- “is more likely to be directly relevant to the worker’s current job”
- “takes place as people carry out their normal day-to-day tasks”
- “avoids some of the costs”
- “reduces lost working time, poor timing or accessibility of provision”
- “is less general or inappropriate”
- “is more flexible”.

It has to be said, however, that this is probably precisely how Micro businesses see their training objectives!

A significant element in the Micro business is the development of what we are now terming the “Small Business Ethos”. This could be described as the acquisition of multi-skills rather than a single specialist skill, but there is a wider remit. For an employee in a Micro business, the employee/employer relationship is very different to that even in a Medium size company, and certainly in a large organisation. The “Small Business Ethos” encompasses the “family” culture frequently apparent in the SME employer/employee relationship, and it exists in a situation where different levels of management do not exist – SME managements spend at least 20% of their time on the “shop floor”. Communication is therefore significantly closer than is the case where several levels of management are necessary, as in large companies, and this usually leads to continuous and progressive training functions, albeit informal, where it is apparent that improvement will increase profitability. A Micro business employee is much more closely connected to actions that literally determine the success or failure of the business, and the employee will develop a “cultural” attitude that will either contribute to this success, or will possibly hasten its failure. In most Micro businesses, there is no “career path” for an employee. Many other people, apart from employees, have prior claim to the “career” – family, inheritors, buyers or even friends of the owner(s). In place of the “career” path therefore, there is the “Small Business Ethos” that is a mix of pride, involvement, job satisfaction in terms of additional responsibility, and the real feeling of a direct contribution to success. There does not appear to be any “external” training provision that can offer this type of “cultural” development, and as a consequence, most Micro businesses take their own path to instil this element, and at the same time develop the personal skills of the employee.

Skills training in these businesses becomes an inherent process that offers much more than basic skills.

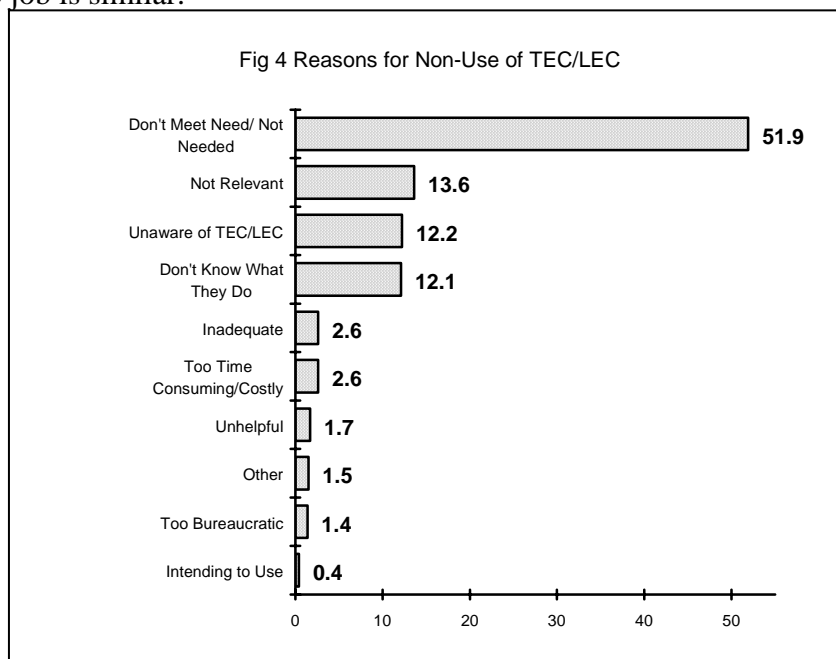
Recently a very large organisation (GKN) suggested establishing Internet information exchange amongst its workforce “to capture knowledge...of a kind that is rarely written down, let alone communicated to other...workers. It applies to the “black arts” of manufacturing techniques, commonly communicated...through informal techniques. These include the “learning from Nellie” concept under which a new employee picks up new techniques through studying the actions of an experienced employee. It is hoped that this strategy will save the company “tens of millions of pounds a year”. The company is treating the project to capture this “tacit knowledge” quite separately from its established schemes to pass on “explicit (or formal) knowledge” that accrues from formal training procedures. This raises the question as to what should therefore be allocated to “external” formal training provision, and what to the development of the informal “learning from Nellie” technique (the “tacit knowledge”) to enable such learning to be recognised by formal qualifications? There is no evidence of a defined qualification route for on-the-job training in job specific skills that include the needs of the SME “Ethos” – flexibility, generality and multi-skills responsibilities in addition to the individual, measured skill. The NSTF 3<sup>rd</sup> Report recommendation that “...it is essential that a statutory framework is created that, through a system of tax incentives and, where necessary, tax penalties, ensures that the training issue is placed on every company’s agenda”, does cause very serious disquiet to SMEs, if it is being suggested that a framework of enforced regulation based on the concepts of “big business” training practice should be developed. Recent FPB research (Fig 3) has shown that less than 20% of SMEs had used their local TEC in the last year, and over 60% had never used it.



Source: Forum of Private Business Quarterly Report 55

The reasons for non-use were also very varied, with 1706 responses indicating 580 categories of reasons. Analysed by 10 general headings, it is clear that “inappropriateness” to SME needs is by far the most significant barrier (Fig 4). It suggests that current “engagement”, certainly by Micro businesses, with the TECs is very low. The suggestion that “compulsory” training will have to be instituted by SMEs to ensure their competitiveness in terms of lower costs seems fraught with danger. How will the effectiveness of this training be measured? As explained above, there is often no “career path” to measure employee progression. How does skills improvement for the job in hand benefit the business when management sees the job is being performed effectively? If it is necessary to provide evidence of “qualifications”

of employees to obtain tax credits, then recruitment for small firms may well exclude those with lower academic qualifications, but higher manual skills, given that the potential to carry out the job is similar.



Source: Forum of Private Business Quarterly Report 55

The objectives set out in the 3<sup>rd</sup> NSTF Report are essentially linked to formal qualification, where it recommends:

- the achievement of an increase in the proportion of adults with Level 2 qualifications;
- more businesses providing workplace learning (within reasonable resources available to SMEs);
- a reduction in the number of low qualified adults,
- the introduction of modern management approaches by helping more smaller firms adopt the Investors In People approach.

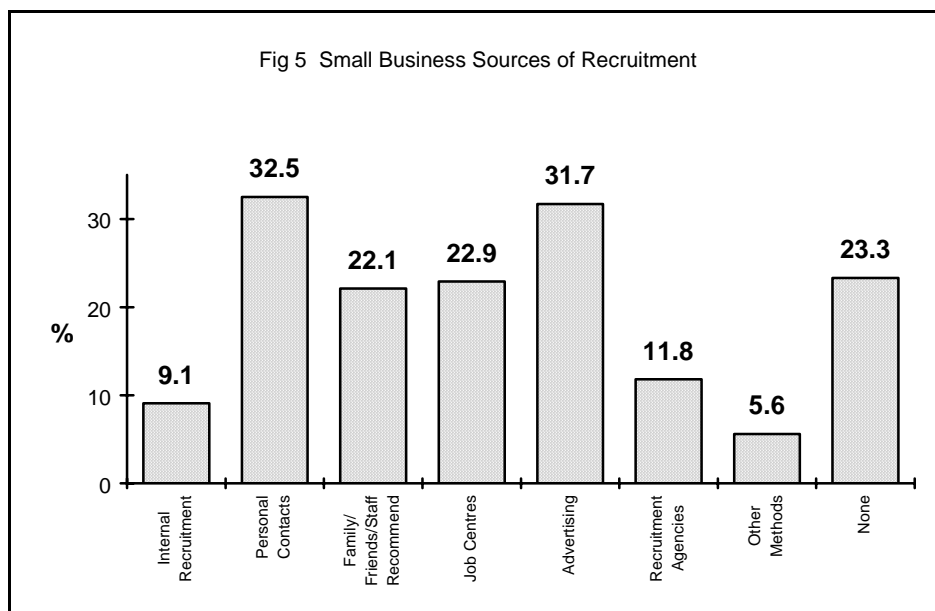
However, this does create a problem, for example, with the attainment of Investors In People, particularly for Micro businesses. Whilst it is not argued that the standard should not be sought, an essential difficulty is the inappropriateness of IIP for these businesses. Certainly for the vast majority of Micro businesses, the spirit of IIP is already practised. If a workforce of 4 or 5 does not “co-operate” or is treated poorly by the owner/manager(s), it rapidly becomes obvious, and the quality of the business deteriorates significantly. It is therefore in the financial interests of Micro business owner/managers to follow the principles of IIP without going through the formal process. Incentives become, in practical terms, irrelevant.

### Recruitment and Qualification

FPB research has shown that some 50% of recruitment and selection of employees in this sector is “informal” – i.e. relatives, friends, etc., of the principals or current employees of the business (Fig 5).

When these sources are categorised into the "Formal" and "Informal" approaches the two methods are almost equally shared by those respondents who report using a recruitment process (66.6% Formal and 66.7% Informal). The figures also indicate that there is an

overlap of recruitment processes, and a proportion will use both informal and formal methods. This implies that for a significant number of new employees, the evidence of qualification achievement may be less important than personal acquaintance. The latter provides a clue to the ability of the new employee to harmonise with the existing workforce (the “Small Business Ethos”), and can often count more than academic qualifications that cannot measure “personality” or compatibility.



Source: Forum of Private Business Quarterly Report 45

### “In-House Training Accreditation

There has been little suggestion in terms of direct employer accreditation, beyond the development of “learning organisations” that benefit directly from “team working”. Again, it has to be said that whilst there is a body of evidence to suggest the effectiveness of new work practices of this nature, much of it is related to the larger SMEs. The further question of “in-house” accreditation being recognised as an equivalent to academic accreditation is an issue that must be addressed. Reference is made in the NSTF Report to the German “Meister-Prüfung”, and whilst the German “Kraft” business is very different in its milieu to the UK SMEs, there may well be elements that could be explored more fully. There is a need for more research to be undertaken on the question of recognition of informal training, and there has to be more emphasis on the ability of Micro businesses, for example, to offer qualifications for the skills of their own employees whom they know well, and can demonstrate have achieved a significant skills level in their own job. It is doubtful that fiscal incentives will alter the recruitment, selection and in-house training functions, particularly of Micro businesses, as there has been little evidence in the past to suggest that financial subsidies change these patterns.

When the relationship between education and business is considered, it also seems that many opportunities for co-operation between local schools and local businesses are lost simply because little contact is made, particularly at Primary school level. The focus is generally on “careers” and “career paths” where links with large companies are easier and more obvious. But lack of networking organisations for SMEs, lack of time and above all, lack of resources make similar contacts between schools and SMEs very difficult. Evidence from the London

Business School: “Global Entrepreneurship Monitor” confirms the education/business partnership even at Primary level as a significant contributor to the entrepreneurial culture. A recent European “Traditional Craft” survey (Leonardo da Vinci Project “Vocational Training in Traditional Crafts (N/96/1/00006/PI/I.1.1a/FPI)” suggested, for example, that 24.5% of the “Traditional Craft” practitioners surveyed had made their decision to enter the Craft when they were still in Primary School. This was against a background where only 26.1% actually had any family tradition associated with the Craft, and consequently their career decisions were personal ones, made at a very early stage in the educational system. In a situation where 30.5% of school leavers will be either self-employed or employed in businesses with less than 10 people, this must have significant implications in the educational system, even at Primary School level.

### **SME Training – Literature Overview**

Assisted by technological advances, the business environment is fast changing where old assumptions and frameworks no longer apply. The changing hierarchical structure of firms is encouraging employers to delegate more responsibility to individual employees across a wide range of occupations. As a result, there is a general trend towards increasing skill demands within occupations as increased competition implies greater emphasis on efficiency and cost cutting which in turn is forcing businesses to ask more of their employees. In one recent national survey, 69% of employers in the United Kingdom stated that the skill need of their average employee is increasing due to factors such as changes in technology (42%), changing work practices and/or multi-skilling (32%), greater emphasis on customer care and/or service (17%), and keeping ahead of competition (15%) (SNIB 1997). As shown earlier, the “Small Business Ethos” will accelerate this process, particularly for Micro businesses.

Operating in such an environment, challenges faced by SMEs are greater in magnitude simply because such businesses are small. Western governments, in particular, have long harboured the desire to involve SMEs in the growing training revolution. Not surprisingly, this interest runs in parallel to the growing importance of SMEs as potential employers. As mentioned above in relation to IIP, for example, businesses with fewer than 100 employees account for over 50% of non-government employment, and nearly 50% of turnover in the United Kingdom (DTI 1998). Firms employing less than ten people account for around 30% of all non-government employment and contribute around 13% of total turnover. Similar patterns of employment are observed in other Western economies. As a result, there is a plethora of government schemes launched specifically to encourage training among small businesses with a view to improving their efficiency and performance. Some of the latest examples include Jobs for America’s Graduates Inc. whose biggest beneficiary has been the small business sector (Worsham 1999). ‘Skills for Small Business’ initiative and the ‘New Deal’ are just two of the schemes being promoted very aggressively in the United Kingdom. For the UK the National Skills Task Force has recommended a range of measures (DfEE 1998). However, despite periodic launches of high profile training initiatives, a recent government survey in the United Kingdom showed that 68% of employers believe the skills required of their typical employee are increasing while 15% said there is a significant gap between the current skills of employees and those needed to meet their business objectives (DfEE 1998). Evidence from FPB suggests that for many SME owner/managers the concept of “lack of employee skills” relates to basic literacy and numeracy, rather than to specialist, or even IT skills. It is the foundation for the development of individual multi-skills that appear to them to be lacking.

It would not be unfair to state that given their limited resources and knowledge, additional difficulties would be faced by the small business sector in recruiting people with the relevant skills. The importance of skills gap and skills shortages within small businesses have been highlighted by researchers (Lynch 1993; Voss et al 1988; Bloom 1998; Mukhtar et al 1999). However, before a meaningful discussion can take place, it is important to clarify and define what is meant by a 'skills gap' and what constitutes 'skills shortages'. The two terms are used rather loosely and often (quite wrongly) interchangeably in the literature thus confusing the debate relating to small business training. This is highlighted in the 1<sup>st</sup> National Skills Task Force Report.

The Department for Education and Employment (1998) defines skills shortage as a "situation where there is a genuine shortage in the accessible labour market of the type of skill being sought and which leads to a difficulty in recruitment" while skills gap implies "a deficiency in the skills of existing employees or new recruits which reduces business performance rather than being manifested in a current recruitment difficulty" (DfEE, 1998, p5-6). The former could arise from, for example, a lack of people when there is low unemployment, imbalances in supply where there are adequate skilled people but who are not accessible due to geographical immobility, or a genuine shortfall in the number of appropriately trained individuals both at new entrant and higher skilled levels. In terms of these definitions, it is clear that occurrence of skills shortages (a genuine shortfall in the availability of skilled personnel in the labour market) would be rather limited in the economy and it is the prevailing skills gap (lower than suitable skill levels in the existing labour force) that the training and education providers and for that matter small business owners, are trying to address at any given point in time. It is worth noting that while the consequences of skills gaps and skills shortages may be similar (and are often defined simply by SME owner/managers as a "lack of employee skills") in that both result in a sub-optimal workforce, since their causes are quite different (and therefore the remedies), it is paramount that they are defined accurately.

Small business owners like any other employer are restricted by the existing skills pool of potential recruits at any given point in time. The more skilled and qualified this pool, the greater is the likelihood of finding the 'right' people. Table 1 shows that in comparison with France and Germany, the United Kingdom fares well in terms of the proportion of population with higher or first degree qualification (notably, all three nations lag considerably behind the United States). However, at lower levels of the formal qualifications, a more damaging picture emerges with the United Kingdom ranked fourth. This finding is consistent with the International Adult literacy survey that ranks the United Kingdom ninth out of twelve industrial countries in terms of the adult population with low literacy skills. In another national survey, one in five employers said that there was a skills gap in their employees in computer literacy, customer handling, practical and management skills, communications. Shortcomings in basic literacy and numeric skills also ranked prominently (SNIB 1997).

**Table 1 - Proportion of Population with Qualifications**

Country	Higher/First Degree %		Level 2 or above %		Level 3 or above %	
	New Entrants	Total population	New Entrants	Total population	New Entrants	Total population
UK	23	19	58	45	36	30
France	27	16	78	65	42	30
Germany	13	15	66	70	75	62
USA	23	33	55	50	32	39

Source: Adapted from DfEE 1998. Note: Level 2 and 3 refer to vocational qualifications

These trends are worrying and imply that the problems of skills gaps are likely to be worse for small businesses as they face additional barriers such as the lack of training budgets (Cohen 1998), lack of specialist training department and personnel (Kiser 1999), lack of time (Kerr and McDougal 1999), lack of experience (Kerr and McDougal 1999), and an unclear training philosophy (Cohen 1998). These factors, in turn, mean a lack of commitment on part of the owners/managers both towards internal training initiatives and any external provision. By implication, Government schemes are doomed to failure (Johnson 1999). Other 'failure factors' include the level of bureaucracy involved in taking up government schemes, the lack of communication with the organisers and the inherent belief on part of small business owners and managers that such schemes do not cater for their needs and offer solutions that are often inappropriate and irrelevant (Johnson 1999). Furthermore, small business owners and managers are often distracted by the constant 'fire fighting' on a day to day basis and are unable to plan ahead on a strategic long term basis. Training suffers as a result since it demands long term commitment.

The current *status quo* is not helped by the fact that SMEs lack the purchasing power in the labour market (Blackburn and Hankinson 1989) and have no formal recruitment procedures, often relying on 'word of mouth' and recommendations from other employees (D&B Report 1987). As a result, SMEs are not favoured by graduates (Barthorpe 1996) who have a natural tendency to gravitate towards larger employers (Mukhtar et al 1999). The need for training (and thus retaining) people with the right skills, therefore, becomes even more critical when it is acknowledged that small businesses are not going to have the pick of the best talent (Mukhtar et al 1999). Surely, such an environment, if anything, should impel small business owners/managers, as well as the Government, to invest in a wider remit for training provision incorporating the informal training so predominant in SMEs, as a means of ensuring that they employ and retain the best people.

However, all the evidence points to the contrary. Not only do there appear to be barriers to formal training among SMEs but also an inability on the part of the owners to give it a high priority. This is partly because small business owners still tend to see investment in training as a cost rather than investment (Finegold and Soskice 1988) and anything beyond what caters for their immediate need is considered a superfluous cost (Hendry et al 1991). The latter is in line with the short-termism in owners' attitude towards decision making (Casson 1982). Any attention towards formal training is just a gesture, there is often no commitment (Stanworth et al 1992).

In such an uncertain and non-committal environment, training and educational qualifications are bound to be neglected (Voss et al 1998) or, at best, result in an *ad hoc* training policy (Hendry et al 1991), informal methods of evaluation needs and unclear HRD policies (Kerr and McDougal 1999). As a consequence, small businesses lose out (Bloom 1998). Poor formalised training combined with a lack of structure and sophisticated support that knowledge workers find in large companies, implies small businesses risk losing good employees. Small businesses must invest in training if they wish to retain valued employees (Barrier 1998; Love 1998; Mackinnon 1996). There is also evidence to suggest that management development training for owners or employees of even the smallest firms pays off (Oliver 1998) and there are clear benefits to be accrued especially if training is planned (Kerr and McDougal 1999). These linkages have also been studied by Gibb (1997) and Westhead and Storey (1996). However, the latter found them to be relatively weak. The NSTF suggests that there is a correlation between high employee involvement work practices

and the level and growth of skills in companies (Raper, Ashton, Felstead and Storey 1997), and for Micro businesses this may well be a natural situation.

## Survey Background

In order to determine the views and attitudes of small business owners and managers towards training and recruitment, a random sample of SMEs was selected for interview from amongst the membership of the FPB. A questionnaire was formulated in the light of critical issues highlighted by current literature and in view of recent government training initiatives as well as issues relevant to the objectives of this study. The interviews based on this questionnaire were conducted over the telephone during the period May-June 1999. A closed questionnaire was used which, in the main, constituted responses to multiple choice statements. The following analysis reports findings from 144 such interviews. It is worth mentioning that since the principal objective of this study was to gather views of the decision makers, it was ensured that the respondents were all individuals who would have the authority over the recruitment as well as the training process within their respective businesses. Given the very nature of small businesses and given that most SMEs (the “generalists”) do not have a specific personnel department and/or a personnel director, the decision makers and hence the respondents were invariably either the owner-managers or directors.

## Sample Profile

35.3% of businesses had a turnover of £150K-499K with 44.2% of businesses falling below £150K and 20.6% having £150K turnover or more. The majority of businesses in the sample had less than 50 employees and belonged to manufacturing (23.2%), retail (17.5%) or finance/business services and other services sector (28.8%). The majority tended to operate locally with only 36.4% operating at a national level, while 29.3% also exported. 46.8% firms in the sample are limited companies, while 25.5% are partnerships and 27.4% are sole proprietorships. This sample profile is in line with the national profile of the small businesses.

## Survey Findings - Skills Gap

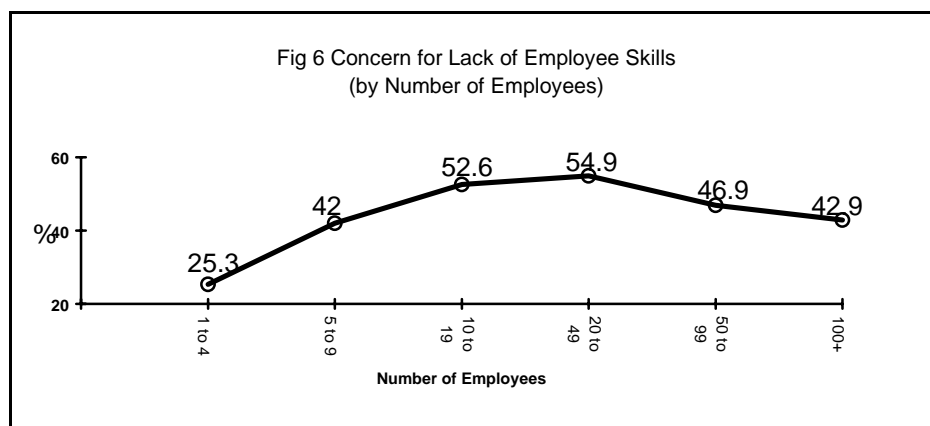
Table 2 shows that while 57.7% of owner-managers in the sample reported that they were experiencing skills gap within their businesses, the majority despite being aware of these shortcomings, were unable to overcome them due to lack of finance to train people within the business (75%) and lack of finance to recruit externally (74.5%). Other obstacles were a lack of time to train internally (65.3%) and the lack of trained personnel who could be recruited externally (52.1%).

**Table 2**

Why is your skills shortage not being met?	No. of Business (N=144)(%)
Lack of finance to train people within the business	75.0
Lack of time to train people within the business	65.3
Lack of trained people who can be recruited	52.1
Lack of finance to recruit trained people	74.5

Figure 6 shows the level of concern regarding skills gaps by the number of employees in the business. Those most concerned are in the 10 – 50 employee range. This chart demonstrates that the mid-range SMEs are now being severely hampered by problems in obtaining skilled staff. However, this in no way draws attention away from the plight of smaller businesses, but

also suggests that the micro businesses may see their lack of employee skills in a different light from the larger SMEs.



Source: Forum of Private Business Quarterly Report 55

### Existing Training Assessment Procedure

It is interesting to note that despite being aware of skills gaps, the majority (52.6%) of SMEs neither had a planned strategy to tackle the problem (Table 3) nor had a training budget (66.7%). However, 54.1% of respondents reported that they do keep some kind of ‘training needs’ documentation for monitoring and reviewing purposes.

**Table 3**

Are your firm’s training needs formally assessed within your business or on an ad-hoc basis as the training needs arise	No. of Business (N=144) (%)
Part of Strategy	47.7
Ad-hoc	52.6
Total Number	144

### Attitudes Towards External Training Assistance and Advice

What is surprising, however, is that even if there was an acknowledgement of difficulties regarding skills gap and training within their businesses, the owner/managers preferred to solve these internally (“sitting by Nellie”) and were uncomfortable with the idea of an external review or external advice with an overwhelming majority, 63.1%, rejecting such a suggestion completely. This confirms the suggestions earlier in this study that, at least for Micro businesses, informal training is an integral part of their policy. Of the 36.9% who did use external assistance in the past, 78.5% had tended to opt for independent consultants or government agencies (81.3%).

### Attitudes Towards Government Training Schemes

Although the majority (78.8%) were satisfied with the level of advice received overall, a lesser proportion 63.2% were satisfied with the government schemes used. A further analysis revealed that for over 90% of the 36.8% dissatisfied respondents, the training was either badly timed, too costly, beyond their understanding, or the owner/manager did not ‘trust’ and had no faith in the training initiative being undertaken.

**Table 4**

If the government scheme did not meet your expectations, is this because:	No. of Business (N=144) (%)
Training irrelevant to your needs	75.7
Timing did not coincide with your needs	94.4
Training was too costly	95.1
You did not understand the training scheme	91.7
You were put off by the bureaucracy	84.7
You don't understand the government initiative	94.4
There was lack of advice/information to make informed decision	84.7
Government does not understand small business needs – I know my needs best	82.6

The general mistrust of government-led training initiatives is further highlighted by the owner/managers attitudes towards one of the most high profile and aggressively marketed schemes ever in the United Kingdom, namely the 'New Deal'. The findings show that while three quarters of all businesses in the survey had heard of the New Deal, only 44.9% would ever consider taking it up (Table 5)

**Table 5**

Attitude Towards New Deal	No. of Business (N=144) (%)
Have you heard of New Deal?	74.7%
Do you intend to take part in New Deal?	44.9%

### Attitudes Towards Provision of Training

When training is undertaken, be it in a *ad hoc* manner, the largest proportion of businesses prefer it to be delivered either internally (34.5%) or through a mixture of internal and external provisions (46%). Furthermore, the majority (70.1%) of owner/managers insist that any training, if offered, should be seen as obligatory by their employees. It is note-worthy that this attitude conforms with the centralised decision making style of the owner-managers in the sample with the majority (57.3%) stating that any decisions regarding training lie solely with them. Only 10.4% of businesses reported having any consultative process that involved their employees.

This prescriptive attitude is consistent with other findings. For example, in a recent national survey, 46% of employers in the United Kingdom who had funded or arranged off-the-job training, stated that training decisions were the responsibility of management, while less than a third had decided to provide training as a result of an individual appraisal (SNIB 1997). FPB research on individual training grants supports the perception of SME management control, with 57.5% suggesting that training grants should go to individual employees, thus enabling management to direct the training of those employees in a more appropriate way (FPB 1997). The owner-managers do, however, acknowledge the importance of, and are willing to offer, incentives for their employees to encourage take up of training within their firms (Table 6). In their view, by far the most important training incentive for their employees is time off work (84.7%), followed by promotion (79.2%) and a salary increase (66.7%). Whether their employees agree with this is undeterminable as they are not likely to be consulted on the issue.

**Table 6**

Which of the following incentives do you think would encourage staff to take up training?	No. of Business (N=144) (%)
Salary increase	66.7
Promotion	79.2
Time off work	84.7

In view of the mistrust and apathy shown by owner/-managers in general towards government initiatives, it is not surprising to find that 76.5% would like to exercise greater control over provision of training within their businesses. The majority would also like to have a greater say in the choice of the training provider as well as in the allocation of the training budget. More specifically, and in contrast to current practice, the majority (65.3%) of the owner/managers stated that they would prefer an allocation of specified lump sum subsidy which could be used in accordance with their specific needs. This is consistent with their attitude reported earlier with 82.6% stating that they know and understand their training needs best (see Table 4 above) and further highlights the reluctance on part of SMEs to be receptive to any external training provision.

### Does Strategic planning for Training help?

A comparative analysis of businesses with a training assessment as part of formal strategy (47.7%) with those with none (52.6%), reveals some significant differences in their approach. For example, the former have a greater propensity to record their training needs (Table 7) undergo an external review (Table 8, use consultants (Table 9), approach government agencies (Table 10) and to take up Government-led training initiatives (Table 11). The last point may indicate that if small businesses do have a planned approach towards training, their expectations are more strictly defined. While, those businesses with no clear policy even if they do undertake a training initiative, do not know what their end objective is and hence are more likely to be disappointed with the outcome.

**Table 7**

Do you have training needs documentation and regular training reviews?	Training Part of Strategy	Ad hoc training
Yes	67.4% (31)	42.0% (21)
No	32.6% (15)	58.0% (28)

Chi-Square=6.698 p=0.03

**Table 8**

Have you ever used external resources to review/advise on your training needs?	Training Part of Strategy	Ad hoc training
Yes	56.5 % (26)	24.5% (12)
No	43.5% (20)	75.5% (37)

Chi-Square=10.143 p=0.00%

**Table 9**

Were the external sources independent consultants?	Training Part of Strategy	Ad hoc training
Yes	67.4% (31)	84.3% (43)
No	32.6% (15)	15.7% (8)

Chi-Square=3.828 p=0.05

**Table 10**

Were the external sources government agencies?	Training Part of Strategy	Ad hoc training
Yes	69.6% (32)	88.2% (45)
No	30.4% (14)	11.8% (6)

Chi-Square=5.150 p=0.02

**Table 11**

Do you intend to take part in the 'New Deal' initiative?	Training Part of Strategy	Ad hoc training
Yes	58.8% (20)	30.3% (10)
No	41.2% (14)	69.7% (23)

Chi-Square=5.50 p=0.01

It is worth noting that no statistically significant differences were found between business practicing a formal training policy and those that did not, in terms of their desire for greater control over the nature of training provided within their businesses. Furthermore, both sets of businesses were equally happy with offering incentives for their workforce if it helped to promote take up of training amongst their employees. Overall, both sets of businesses felt very dissatisfied with the current training provision and believed that their expectations were not being met satisfactorily. The statistical results of these findings are not reported here, but the clear indication is that there is an urgent need to change dissatisfaction into satisfaction if any progress is to be made!

### **Policy Implications and the Agenda for the Future**

This study has demonstrated that the lack of employee skills continues to rate as a major concern for small businesses with 57.7% of SMEs in this study reporting skills gaps. 57% of SMEs operate with informal "on-the-job" training, possibly without the support of any formal "external" training process, and it is this characteristic of small business training that needs to be more fully understood, in order to fit it with the provision of "formal" training processes. Around 50% of SME recruitment is conducted on an "informal" basis, and consequently may not consider the relationship of employee skills to the established "formal" systems of qualification through current processes. It is therefore vital to find some method of combining real "on-the-job" training with any external programme, and even the ability of well qualified SME owner/managers to accredit qualifications within the business, if measurement of training qualification continues to be the criterion for assessment of Government initiatives. This view is supported by the study with 80.5% of SMEs preferring training provision to be either internal or a mixture of internal and external measures.

Formal small business training programmes are popular with policy makers and policy deliverers alike because of their potential to create employment. However, such programmes invariably tend to be *supply driven* resulting in standardised 'off the shelf' type training packages which are unpopular and even resented by small business owners. There is a paramount need for such programmes to become *demand driven*. Greater involvement of the small business owners and managers is absolutely critical to the success of any training programme. They need to have a sense of ownership of training provision within their firms. 57.3% of SME owner/managers in this study see training assessment and provision as their sole responsibility within the company, while 76.5% would like greater control over training provision in terms of how training subsidy is spent as 'they', the owner-managers, know their needs the best (82.6%), while 65.3% reported that they would favour a lump-sum subsidy payment. Training provision, therefore, needs to shift its emphasis away from being generic in nature towards becoming more customised if it is to meet the needs of small business sector. It is argued that such an approach is likely to stimulate sustained small business growth (Tendler and Amorim 1996).

A customised approach is not without difficulties. One of the factors that makes targeting training at small business sector so difficult is the diverse nature of businesses within this sector. However, any potential difficulties are counter balanced by the finding that owner/managers, once committed, are willing to provide incentives to encourage take up of training by their employees in the form of time off work (84.7%), promotion prospects (79.2%), and salary increment (66.7%). Surely, any option would be superior to the present *status quo* whereby small business at times have no alternative but to hire unskilled

employees if their business is faced with the prospect of either taking on anyone through hiring agencies, leasing employees or risk losing customers and deadlines. There are obvious benefits to be accrued from cultivating improved and more robust relationships with local colleges and universities and partaking in internships and apprentice programmes. However, even if small business owners were partial to such an initiative, there are often no mechanisms to facilitate such an exchange (Mukhtar et al 1999). The result is that small business owners continue to view educators as too academic, graduates as irrelevant, and any attempt to bridge the gap between the two as a non-contributory cost to their viability.

### **Implications for Small Business Owners and Managers**

The inability of small firms to take advantage of training initiatives is, however, in part self imposing. The onus should be placed on small businesses to shoulder part of the burden of training. Small business owners cannot rely entirely on external assistance, offer no input and later complain that the outsiders do not have any clue about their training needs. SMEs need to take a more proactive stance. But this must be developed with the essential element of demonstrable financial benefit to the business. Proscriptive or penal regimes as suggested by the National Skills Task Force will be totally counterproductive for SMEs. In addition, there needs to be a realisation that for small firms with limited funds, learning what local training help is available is only the beginning. This is the point at which the real work begins - involving commitment and dedication on part of the owners to see it through and ensure that it is enhancing the skills of their employees. SMEs, and training providers, should seek to design more informal customised training programs for SME employees if these businesses cannot afford a more formal programme (Gruner 1997). If anything, the constraints of time and funding mean that informal training and learning methods take up even greater importance (Bacon et al 1996).

SMEs themselves need to realise that training is an ongoing process, not a one-off event that would somehow solve all their problems. It is an attitude of mind to be incorporated in the "Small Business Ethos". Owner/managers tend to hide behind the fact that they do not need formal training because they are too small or that they cannot afford the cost (75%) and the time (65.3%). However, they may find that embracing a structured training oriented culture, reluctantly or otherwise, will be inevitable if they are to survive in the new millennium.

### **Conclusion: "Ten Steps in the Evolution of Small Business Training"**

Recommendations for improvement of SME training must incorporate:

1. Financial support to research, analysis and planning of SME (Micro business) needs.
2. Supported targeted encouragement to SME involvement in local training planning.
3. Recognition of the "Small Business Ethos".
4. Differentiation of training provision for Micro, Small and Medium sized businesses.
5. Proactive SME guidance on developing a training strategy within their business.
6. Customised, simple, local Training modules to support informal "on-the-job" training.
7. Accreditation of "informal" learning by qualified SME employers.
8. Closer links between local schools (including Primary level) and local SMEs.
9. Staged development of standards, like IIP, for lower, simpler steps to achievement.
10. Greater representation of the SME sector (particularly Micro business) in the training planning process.

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