Young people who work in small businesses are more likely to become entrepreneurs.

Training leads to staff loyalty, retention and motivation.

46% of business owners believe that sales, marketing and PR training will help their business develop and grow.

Government must reintroduce the Graduate Internship Scheme for small businesses.

Apprenticeships are vital for achieving growth in small businesses.

44% of businesses say that training received has increased staff motivation.

The National Apprenticeship Service must do more to promote the benefits of apprenticeship.

The FSB is calling on the Government to make leadership and management skills obtainable for businesses of all sizes.

With investment small businesses will provide the skills needed for tomorrow’s markets.

Raising the standards: An FSB skills survey

by Matthew Jaffa
edited by Andrew Cave
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Biographies

Colin Willman
Colin is the Chairman for the FSB Education, Skills and Business Support Committee.

During twenty five years service in Banking, he has been involved in training and coaching, business plan interpretation, sales management, insurance advice and sales, payroll control, counselling (debt and small business) and management accounts.

For the last 17 years he has provided start-up advice and coaching, business advice to existing businesses and training in whole range of business skills. Support Shop is a SFEDI Centre of Excellence.

Matthew Jaffa
Matthew is the Deputy Head of Policy at the FSB. He joined the organisation in 2006 after four years working in the Cabinet Office. Whilst working in the Cabinet Office, Matthew worked in the Strategy Unit and the Better Regulation Executive. Matthew specialises in Education and Skills policy along with Business Support issues affecting small businesses.

Andrew Cave
Andrew is the Head of Policy and Public Affairs at the Federation of Small Businesses.
Small businesses have long argued that a lack of basic employability skills is a major barrier to growth. This continues to be the case. However, small businesses are being more selective about their training. They want to invest in skills but only in areas that will bring the greatest benefits to the business.

It is not the job of business to have to pick up the tab for the literacy and numeracy shortfall in the education system. This Federation of Small Businesses (FSB) ‘Voice of Small Business’ survey has found that skills that help promote the business, such as sales and marketing skills, are critical. Businesses need to be competitive, and they must have the skills to attract new business to grow.

Small businesses can play a part in providing skills to meet the Government’s policy priorities. For instance, there will be opportunities for small businesses through growth in energy efficiency skills. According to Department for Energy and Climate Change estimations, the number of people employed in insulation alone could soar from the present 27,000 to 100,000 by 2015, eventually rising to a peak of 250,000 in the next decade.¹ Small businesses can provide growth in these new economies, but it requires a fully functioning, supply-side skills market for them to invest the necessary time and resources.

The FSB surveyed small businesses at the height of the recession in the summer of 2008. The most alarming statistic was that less than one-fifth of respondents (17%) indicated that they were expecting to increase actual expenditure on skills development and training over the next two years.²

We are now in a different economic climate and yet small businesses are still showing a reluctance to invest in formal skills and take on apprentices and graduate interns.

The findings and recommendations in this report aim to provide policy makers with the tools to achieve economic growth by means of improving skills in small businesses.

Colin Willman
FSB Education and Skills Chairman

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¹ Department for Energy and Climate Change – No Place for Cowboys (Green Deal) – 9 December 2010 http://www.decc.gov.uk/en/content/cms/news/pr10_125/pr10_125.aspx
² FSB Membership Survey on Skills (2008).
The FSB carried out a survey in March 2011 to look at the skills issues affecting the small-business community. The survey received 1,710 responses, and was conducted by Research by Design. Our survey attracted responses from all parts of the UK, and the results presented and conclusions drawn apply to all regions and nations unless otherwise indicated, such as a reference to a result in a particular region.
region. The national data was weighted to the membership profile.

The FSB recognises that responsibilities for some of the concerns discussed in this document are devolved to the respective governments of Scotland, Northern Ireland and Wales. While the devolved nations have different agencies, departments and institutions and sometimes even separate legislation, we believe that our recommendations are relevant to and apply in principle across the UK.

Responses were received from all sectors of the UK economy. Figure 1 shows that Business services (19%) is the most represented economic sector, followed by Retailing (13%), Construction and building related activities (11%) and Manufacturing (11%).

Figure 2 below shows the distribution broken down into number of employees. Three-quarters of respondents (75%) are defined as micro businesses, with 9 per cent operating as self-employed and 7 per cent having between 11 and 20 members of staff.

"Responses were received from all sectors of the UK economy"
Key messages

Findings

- Almost half (47%) of businesses have not invested in training for either the business owner or the employees in the past year. This has significantly increased from last year, when only 29 per cent had not done any training.3
- Businesses have to spend more time training staff on legislative and regulatory measures and not enough on key job-specific skills.
- Low levels of training have been experienced in the Retail, Transport related and Service sectors. This can be attributed to matters such as the VAT increase, adverse weather conditions and the rising cost of fuel.
- Almost half (46%) of business owners believe that sales, marketing and PR training for themselves (34% for employees) would help their business develop or improve in order to grow.
- One-third (32%) think that customer service and 20 per cent say basic communication skills of staff are integral to business growth.
- Small businesses are reluctant to provide training in literacy and numeracy (only 6% felt that literacy/numeracy training would lead to growth in their business) as opposed to job-relevant skills that will bring immediate benefits. Work related learning for 14–19-year-olds must not be scrapped.
- Over half (56%) of businesses investing in training and skills have used external private providers to facilitate their training requirements in the past year.
- A disappointing 68 per cent of businesses said that their recent investment in training had no impact on the profitability of the business, and 61 per cent said it had no impact on productivity either.
- Almost half (44%) of businesses investing in training and skills said that training received in the last year had increased staff motivation.

Recommendations

- The FSB is calling on the Government to make Leadership and Management Skills obtainable for businesses of all sizes if they can demonstrate a capacity for growth.
- The FSB believes that funding allocated to apprenticeships must be used to benefit micro businesses and not spent on larger businesses that are in a position to pay for training themselves.
- The National Apprenticeship Service must do more to promote the benefits of Apprenticeship Training Agencies (ATAs) to small businesses.
- Government must reintroduce the Graduate Internship Scheme for small businesses. The original scheme was scrapped in March 2011.

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Small business investment in skills in the last year

Almost one-half (47%) of businesses have not invested in training for either the business owner or the employees in the past year. This has worsened from last year, when only 29 per cent had not had any training.

Small businesses have made financial cutbacks in the area of training but that is not to say that less formal approaches are not being used from day to day. Very often, training is going on unrecognised and unaccredited in small businesses.

Smaller scale employers have been less likely to participate in government training initiatives and training programmes aimed at basic skills, ICT, numeracy and literacy. Policy makers often regard this as evidence that such employers provide insufficient training.

Small businesses rate learning by doing, on-the-job training and private training provision most highly when it comes to satisfaction with various sources of training. This demonstrates the point that a lot of beneficial training for business is being undertaken that is unaccredited and unseen by policy makers.

The FSB survey shows that the level of formal training obtained is directly proportionate to the size of the business. Figure 3 shows that only 39 per cent of self-employed businesses had undertaken formal training, compared with 87 per cent for businesses with more than 21 employees.

Owner-managers tend to assess the value of workplace training in an informal way and therefore lean towards more informal job-based forms of training. ‘When necessary’ training is therefore likely to be approached differently from ongoing training.

Figure 4 shows that London-based businesses (63%) have undertaken more training than those in other parts of the country. This contrasts with our 2008 survey when London used relatively less training (compared to the UK average). Businesses based in the North-East and Yorkshire and Humberside accessed the least amount of formal training. These parts of the country have a greater reliance on the public sector and, in particular, public contracts through the supply chain. These contracts will be thinner on the ground with the public-sector cutbacks due in 2011.

“Low levels of training have been experienced in the Retail, Transport related and Service sectors”

Accredit informal skills through unitisation of learning

The FSB urges Sector Skills Councils and Employer-Based Training Accreditation services to ensure that the new Qualifications and Credit Framework finds ways to capture the informal learning that takes place within small businesses. This area of training needs to be formalised to acknowledge the role of small business and the achievements of employees.
Small business investment in skills in the last year

**Sectoral levels of training**

Training levels have been higher in public-sector-orientated sectors and fallen in sectors affected by the level of inflation.

Figure 5 shows that training in the last year was most prevalent in small businesses within the Health and Social work and Education sectors. This is almost certainly linked to businesses in these sectors working alongside public-sector-orientated supply chains. The FSB report on Skills and Training in 2008 found that these same sectors relied heavily on training as they had a greater degree of basic skills deficiencies. The public-sector cuts are likely to have a negative impact on these sectors in 2011/2012, and the FSB expects training to tail off to somewhere around the national average or below.

Low levels of training have been experienced in the Retail, Transport related and Service sectors. This can be linked to negative externalities. The period from the end of 2010 to the beginning of 2011 has been painful, with the impact of adverse weather conditions, VAT increases and rising fuel costs crippling many small businesses. The sectors most affected by the high level of inflation are the same ones that are training at levels below the UK average. Furthermore, the survey shows that they are less likely to take on apprentices.

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5 Federation of Small Businesses/University of Glamorgan report 2008 – Putting the UK economy back on track
6 FSB/CEBR Voice of Small Business Index http://www.fsb.org.uk/policy/assets/q1%20voice%20of%20small%20business.pdf
Figure 6 shows that in the past year small businesses have undertaken a sizeable amount of training in business promotion in order to remain competitive. A third (34%) of business owners said that they have acquired sales and marketing skills for themselves and 35 per cent said they had invested in staff training for IT purposes (including areas such as website development). Furthermore, 27 per cent of staff training has involved customer services.

**Training that has taken place in the past year**

**“27 per cent of staff training has involved customer services”**
Skills needed to achieve future growth

Figure 7 shows that 46 per cent of business owners believe that sales and marketing training for themselves (34% for employees) would help their business develop or improve in order to grow. This is particularly prevalent in micro businesses.

Small businesses rely on ‘softer’ employability skills as a means of achieving growth. A determination to succeed, punctuality and a willingness to learn are the skills that small businesses look for in potential employees. One-third (32%) regard customer service and 20 per cent see basic communication skills as integral to business growth. These softer, interpersonal skills are vital to a small business and critical to developing the owner-employee working relationship.
Leadership and management skills are in need of particular improvement within small businesses

The survey shows that, for those investing in training, 23 per cent of business owners and 16 per cent of employees accessed leadership and management training over the past year.

The Government has said that it will continue to provide the SME Leadership and Management development grant but from April 2011 they are prioritising support for small and medium-sized businesses that demonstrate a potential for growth. The criteria are that you can obtain assistance if you have been trading for less than 12 months and have the potential to achieve a turnover of £500,000 within three years. However, FSB statistics show that 58 per cent of small businesses have a turnover of less than £300,000.7

It is of concern that only turnover, and not profitability, is being taken into account when determining whether a business has the ability to grow.

The FSB supports government investment in Leadership and Management Skills – but the criteria for entry should not be as rigorous. If the threshold is lowered to enable businesses, including sole traders, to be co-funded for leadership and management training (from the inception of the business), we will see an increase in businesses looking to grow.

Small businesses have invested heavily in health and safety training over the past year. All employers have a duty to protect the health and safety of all employees. Training in this area can be conducted internally by the owner-manager or other staff members if they are able to do so. However, businesses may feel it necessary to get external help for such training.

Some specific health and safety-related training can be a legal requirement; for example, some firms need to have at least one Health and Safety Executive (HSE)-approved, qualified first aider and/or an appointed person depending on the type of business. The FSB fully recognises the need for such training in larger, high risk businesses. However, this can be onerous and expensive for the smallest firms as the average business has only four employees and some businesses may feel it necessary to have a trained first aider to protect their business, even if it is not necessary. A fifth (24%) of businesses have provided legal/regulatory training in the past year for staff, but only 13 per cent of business owners say that future investment in these skills will lead to business growth.

The FSB is keen to work with the Government to ensure that Lord Young’s recommendations for reducing the burdens of health and safety requirements are implemented in full, and is hopeful that the Löfstedt review will take these recommendations further. Training should be proportionate so that it does not impose a burden on small businesses. Many small businesses in low-hazard workplaces, such as offices, question the need to have a qualified first aider and/or appointed person when by the HSE’s own admission they are rarely used. While the regulations only require a qualified first aider in higher risk businesses, some do not feel confident about what this means for them. The FSB would recommend that the Löfstedt review reassesses this requirement for low hazard, small firms.

A wider problem for small businesses is that many do not feel confident that they are compliant owing to confusion about what is absolutely necessary, and so feel the need to gold-plate the law to protect them. The HSE needs to ensure that they communicate the legal minima for compliance for firms of all sizes and types.

Further anecdotal feedback shows that small businesses want to spend less time on regulatory skills requirements and more on Science, Technological, Engineering and Mathematical (STEM) related subjects. A large proportion of members said that technical skills would help their business improve or develop in order to grow.
Source of training and its usefulness for the business

Businesses are using external private providers for their training needs

Figure 8 shows that 56 per cent of businesses have used private external providers to facilitate their training requirements in the past year – this has risen from 30 per cent in our 2008 survey – and 17 per cent of businesses use private providers within the workplace. There was a particularly strong use of private providers in the North-Eastern and East Midlands regions of England. Small businesses are less likely to use publicly funded training as only 14 per cent use a local college and 13 per cent utilise government programmes. Small businesses are prepared to pay towards training as long as it leads to positive end results.

Over a quarter of businesses (26%) answered that they use in-house staff to provide training. There was a particularly high level of internal training within businesses based in Scotland over the past year. Small businesses, particularly in the Retail and Hotel sectors, have preferred to use informal, on-the-job learning as it has proved to be an effective way of meeting business needs. There is a ‘time’ and ‘opportunity’ cost associated with training and for many small firms informal training is still cheaper, easier to incorporate into the working day and more likely to meet business needs. This is evidenced

Fig. 8: Which source of training did you use in the last year?
by the fact that 45 per cent of those who had trained ‘in house’ said that this form of training had increased productivity, compared with 31 per cent of businesses using external providers.

The FSB is concerned that the investment in training is often not having enough of a positive impact on the business. Small businesses rely on the quality of training to deliver tangible outcomes. The benefits are evident to the employee, as 44 per cent of businesses have said that the training in the last year had increased staff motivation. However, 68 per cent of businesses said that their recent investment in training had no impact on the profitability of the business, and 61 per cent said it had no impact on productivity either. These are alarming statistics and demonstrate why small businesses are reluctant to invest financial resources in training that is simply not relevant to the business.

Furthermore, businesses with fewer than 20 employees were more likely to have seen positive effects on their business in relation to business productivity and profitability. Businesses with more than 20 employees were more likely to have seen greater levels of staff loyalty, retention and motivation.

“58 per cent of businesses have used private external providers to facilitate their training requirements in the past year”
The Government has stressed the importance of raising low level basic skills – which is an admirable objective. However, small businesses are reluctant to provide formal training in this area (only 6% felt that basic literacy/numeracy training would lead to growth in their business) when compared with technical and vocational skills that will bring immediate benefits. Small businesses should not have to pick up the tab for the shortfall in the education system.

A further concern for the FSB is that valuable ‘basic’ employability skills will be lost if work experience is deemed unnecessary within the school curriculum. The Government is seeking to remove the statutory duty to provide every young person (aged 14–16) with work related learning. We urge the Government to scrap this proposal and maintain this vital link between education and business.

Small businesses are more likely to employ people with lower level skills\(^8\) and are prepared to tailor learning and give support to suit the needs of the employee and the business.

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Only eight per cent of small businesses have taken on an apprentice in the past year.

This is worrying when we consider that, according to labour-force statistics, in 2009 over half of all apprenticeships took place in businesses with fewer than 50 employees. So why have businesses been reluctant to take on young people when the number of 16-to-24-year-olds out of work rose to 963,000 in the three months to February 2011?

The FSB has long argued that apprenticeships are vital for achieving growth in small businesses. However, small-scale employers are increasingly concerned about employment regulation – which is a considerable barrier to taking on that first apprentice, graduate intern or even first employee.

Figure 9 below shows that nearly half (46%) of businesses surveyed said that an apprentice was not suitable for their business – this has increased from 34 per cent last year. Furthermore, 60 per cent of sole proprietors and 47 per cent of micro businesses said that an apprenticeship would not be suitable. These statistics are troubling, as the private sector is expected to lead the economic recovery.

Furthermore, older business owners are less likely to take on an apprentice. Of business owners aged 16–34, 21 per cent would not take on an apprentice, compared with 50 per cent of those aged 55 and above. The National Apprenticeship Service must work more closely with organisations such as PRIME to ensure that businesspeople of all ages get better targeted information. Apprentices can provide a potential route for succession planning.

Governments of all persuasions have made clear commitments to invest in apprenticeships, which have been well received. However, it is vital that the right policy instruments should be adopted to create the conditions for small businesses to take on an apprentice.

**Incentives for the smallest employers**

Nearly four in ten (38%) of businesses said that with a wage subsidy they would take on an apprentice. One-fifth (19%) said they would be incentivised by an upfront payment. Most notably, businesses in the Agricultural and Construction sectors felt that they would benefit most significantly from financial incentives to help take on apprentices.

The Apprenticeship Grant for Employers\(^\text{10}\) scheme (England

10 http://www.apprenticeships.org.uk/About-Us/Newsletter/2010/February/OtherItem2.aspx – OtherItem2.aspx – small employers taking on a 16- and 17-year-old NEET would receive a grant of £1,000 followed by £1,500 after three months.

Fig. 9: What would encourage you to take on an apprentice?
The way forward for small employers looking to take on apprentices

only), with a value of £2,500 to encourage small employers to take on unemployed 16–17-year-olds, was well received. However, it was deemed a short-term measure.

The Government recently announced in the Budget their intention to create a further 10,000 higher apprenticeship placements in small and medium sized enterprises. If the Government is to create extra apprenticeship placements then funding must be directed towards those who need it most: micro businesses seeking to grow their business.

The FSB believes that Government funding allocated to apprenticeships must be used to benefit micro businesses and not spent on larger businesses that are in a position to fund more training themselves. Small financial incentives (from existing funds) must be considered by Government to stimulate micro businesses to take on an apprentice.

Greater promotion of Apprenticeship Training Agencies (ATAs) and Group Training Associations (GTAs)

Small businesses struggle with the bureaucracy of taking on an apprentice, which is why it is vital that small and particularly micro businesses should receive assistance to provide an apprenticeship to increase the growth potential within their business. If a separate organisation could deal with matters such as sourcing training and administrative and employment issues, 14 per cent of businesses said that they would be encouraged to take on an apprentice.

The FSB is calling for a greater nationwide focus on ATAs, which would act as ‘host’ employers. The National Apprenticeship Service (in England) must do more to promote the benefits of ATAs to small businesses.

Local Enterprise Partnerships (England only) to work with Apprenticeship partners on skills issues

With the removal of the Regional Development Agencies and the move to localism through Local Enterprise Partnerships (LEPs), it is vital that skills be recognised at the local level. Group Training Associations (GTAs)¹¹ provide an effective route for small employers to train apprentices and staff to suit their own requirements. GTAs can help create new jobs and training opportunities, allowing smaller businesses to offer training opportunities to apprentices.

LEPs will be critical to setting up these GTAs and it is vital that there should be a mix of micro, small, medium and large businesses on each LEP board to represent the skills needs of a geographical area. It is also essential for large businesses to engage with GTAs and LEPs to present smaller businesses with the opportunity to train through the supply chain.

¹¹ Definition of a GTA: A Group Training Association (GTA) is a not for-profit organisation providing support in accessing and managing training for a group of employers to encourage their involvement in apprenticeships.

"38 per cent of businesses said that with a wage subsidy they would take on an apprentice"
Focus on graduate internships

The FSB surveyed members in May 2010 and found that 60 per cent of small businesses would benefit from taking on a graduate intern. However, our most recent survey showed that only two per cent of small businesses had taken on a graduate intern in the past year.

Traditionally, graduates have rarely gone straight from university to work in small businesses, but the need to build a more innovative, knowledge-based economy means that graduates and small businesses must now come together. From February 2010, the Graduate Internship Programme (England only) supported paid internships in small businesses for 8,500 graduates. However, this scheme was scrapped in March 2011.

The FSB believes that this was a mistake and is calling on the Government to reintroduce the scheme. The facts speak for themselves:

- 25 per cent of the graduates taking up internships in small businesses are offered full-time employment at the end of their placement
- Young people who experience working in small businesses are more likely to set up their own business

A renewed government drive in this area would not only address the skills needs of small businesses, but would also give graduates the opportunity to work in an environment that is fast-paced and to acquire key skills useful for starting and running a business.

The FSB calls on the Government to reintroduce the Graduate Internship Scheme with an £8 million investment. This would create 5,000 places at a cost of £1,600 to cover the minimum wage of the graduate (£1,300) with the remainder meeting university administrative costs (£300).

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14 Research commissioned by Virgin Media.
15 http://www.fsb.org.uk/frontpage/assets/fsb%20graduate%20internship%20proposal%202011.pdf
Skills are vital to small businesses. For a business to grow, it needs to possess the right skills to meet its business objectives.

The skills system must be demand-led if we are to meet the overriding objective of the Leitch Review in 2006:¹⁶ to make the UK a world leader in skills by 2020.

For that vision to be realised it is vital for qualification designers and Sector Skills Councils to fully understand what small businesses want from the system. Providing short, bite sized, informal learning that can be accredited will help businesses to recognise the skills that they already have within the workplace – and ascertain where they need to invest in the future.

Policy makers must accept that small businesses want to invest in key employment-related skills. They do not perceive their role as involving making good the failures of the education system or training staff to comply with burdensome and outdated regulations.

Small businesses would take on apprentices and provide graduate internships if the conditions were conducive to doing so. Incentivising the smallest employers into taking on staff will generate higher levels of employment and offer young people more opportunities to gain key skills for their future.

Conclusion

¹⁶ Leitch Review of Skills – December 2006