

A photograph of two men in a server room. The man on the left, wearing glasses and a grey sweater, is pointing at a rack of colorful network cables. The man on the right, also wearing glasses and a blue shirt, is looking at a tablet. The background shows server racks with blue lighting.

A Skills-Led Economy for Wales:

Growing SMEs through Skills Development

fsb^{co}
Federation of Small Businesses
Ffederasiwn y Busnesau Bach

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Chapter 1

Introduction

“The level of people’s well-being is not merely defined by income and wealth, but by their capabilities and opportunities for improvement.”

Amartya Sen

The landscape of skills in Wales is complicated. When looking at skills from the top down, in the context of the small to medium enterprise (SME) economy, the whole picture becomes ever more disparate, fragmented, and complex. The provision landscape is made up of different schools, colleges, and higher education (HE) institutions, as well as private sector skills providers for businesses. From their perspective it is difficult to dissect the widely varying needs of SMEs across different sectors, sizes and locations of businesses of Wales. It is clear, that providing a reactive and flexible system that also answers the needs of different stakeholders in this context is challenging.

Moreover, for both the business and skills sides of the equation, it is difficult to assess small business needs effectively. One of the enduring issues for SMEs is the relative lack of time and capacity, especially for micro businesses. Often, a single individual employer must oversee everything from market changes, stock and supply, to regulation, to understanding staff needs and everything in between. In this context, the HR capacity of SMEs is often limited. Even when there is expertise available to develop a skills strategy, identify their skills needs, and conduct a skills audit, the time to do so is limited. This also makes it difficult for central institutions to map out the territory of SME skills needs too. Our research suggests that building links across to develop understandings over time can help address this.

As a result, SMEs often encounter difficulties attaining relevant skills. FSB's own research found that almost 80% of small firms struggled to recruit in the past 12 months.¹ These challenges can arise from competition with larger companies and a system that often feels geared towards larger companies and public institutions. This report looks to contribute an analysis of the view from the firms themselves from the bottom-up. Serving to complement views from central institutions and skills experts, this can help provide a different view to bring into focus where policy interventions can be made to make a difference.

For SMEs experiencing growth, there are pinch points where growth changes their needs, as well as their management and HR challenges. Scaling up is not just a matter of financial resource, although that is a crucial component. It also entails addressing their specific skills needs, including those of the business owners themselves.

When factoring in the necessity to anticipate future skill requirements for harnessing new economic opportunities during the transition to a net-zero economy and ensuring that Welsh businesses and their workforce can adapt and flourish in the future, the complexity of the situation deepens further.

There is a mutual dependency as businesses need new skills and a resource to tap into for their development and the pursuit of future opportunities. Similarly, without the development and growth of those businesses, the jobs and opportunities for any newly skilled labour force will be lacking.

There is a real frustration here, felt by all. In this context, while some may suggest a “lack of work ethic” among young people, what is often observed instead is the presenting response to a highly complex situation. Small firms need to be aware that expecting all individuals to come from an education and skills system ‘fully baked’ to the workplace is unrealistic. However, the skills and business support system must also recognise its responsibility to the broader business community. It should aim to provide a well-rounded and practical education while actively working to develop the local skills pipeline in collaboration with small firms in the area. Particularly in more rural or deprived areas, where the skill pool is often smaller, and the economy is more dependent on smaller businesses than large companies.

In this context, the key anchors for SMEs locally are often not large companies, but public institutions, including further education (FE) colleges and higher education (HE) universities. These anchors were vital to many of the businesses we interviewed.

On the other hand, all this points to opportunities waiting to be explored, and a will to bring growth from firms themselves, if they are provided with the tools and support to do so. There are untapped resources and better ways can be found to signpost SMEs to the skills they need, along with support, to help them identify their own skills opportunities. At the same time in a Welsh economy where 99.3% of businesses are small businesses, and provide 63% of private sector employment², the part of the economy that has the most potential to grow is the small business economy.

Almost all our interviewees were looking to grow their business. These varied from a minority with vague aspirations in this regard, to others with clear plans to pursue. Of these some had concrete examples of where the access to skills, capacity, and capability had already forced them to hold off on growth, innovation, and/or capital acquisition.

¹ FSB, August 2022, *Scaling Up Skills: Developing education and training to help small businesses and the economy*, available at <https://www.fsb.org.uk/resource-report/scaling-up-skills.html>.

² Welsh Government (2023), *Size Analysis of Active Businesses in Wales, 2022*, available at <https://www.gov.wales/size-analysis-businesses-2022#:~:text=Main%20points,enterprises%20in%20Wales%20in%202022>.

As such we can point to clear experiences of opportunity costs – of roads that firms have not been able to travel toward growth – due to them being unable to access the skills necessary to facilitate that growth. Similarly, [CIPD research](#) has highlighted that many small firms also have challenges making the most of their workforce skills and/or retaining the skills of their existing staff because of a lack of knowledge on HR and people management issues.

When we think of all these opportunity costs across the wider SME economy, it is clear that significant growth is being lost at a time when there is a need not only for an approach to economic growth but enabling the structures which allow for this. Interviewees' experiences are of being unable to access skilled staff needed for jobs necessary for their firm to grow. There are latent opportunities for growth that can be encouraged, developed, and harnessed to grow the Welsh economy from its foundation of embedded small business. As OECD analysis suggests, bringing Wales closer to best practice on establishing these links could lead to a significant boost in growth and productivity.³

A strong emphasis on cultivating the SME skills-based economy, often described by economists as a 'capacity and capabilities approach,' holds promise for alleviating Wales's longstanding economic development challenges. By nurturing human capital, we can establish a systemic strategy that seeks to create a mutually reinforcing agenda for both skills development and skills-driven growth among SMEs in Wales.

Firms cannot do this by themselves. This calls for effective institutional guidance and steering.

Small businesses would welcome a role in such a project, indeed, FSB's own research from 2019 found that one third (33%) of small businesses engaged with schools and/or colleges. But this figure had nearly halved to 17 per cent in 2022. Our research suggests this downward trend is the opposite of SME desires, which actually trends towards wanting an increase in encounters with educational institutions.⁴

Therefore, it requires a nimble architecture that is easier to access, alongside a long-term commitment from all governments to take on the challenge and mission to economic development in Wales over the long term. Such an approach would require governmental and institutional support that is mutually beneficial for individuals, firms, and public institutions, as well as the places, communities, and economies that are embedded across Wales. A firmer foundation for economic growth takes time, and there is no silver bullet, but a process of hard work dedicated to the long-term economic development across small businesses is a vital part of the answer.

³ OECD (2015) *Skill mismatch and public policy in OECD countries*. Paris: OECD

⁴ FSB (2019), 'Small Business, Big Heart: Bringing communities together' available at <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.htm>



The newly formed Commission for Tertiary Education and Research (CTER) provides opportunities for reassessing ways of working and bringing in best practice, as well as providing a central point for engagement and trusted and independent evidence.

This report begins with a brief overview of the skills environment in Wales, before looking at the empirical evidence and interview findings on economic context and then skills challenges. We then look at how firms themselves respond to their skills challenges and adapt to gaps in provision in innovative and effective ways, but necessarily fragmented and limited in some respects, before looking at how firms have engaged with business and skills support. This all leads to FSB and CIPD's recommendations and approach to an SME skills-led economy model for sustainable growth. This approach advocates for a whole government approach with concrete recommendations to fulfil this aspiration, based on real, known gaps, to develop an SME Skills-Led Economy for Wales.

This project is a partnership between two of Wales's leading industry bodies representing smaller businesses across Wales and the professional advisory community among HR and development professionals, so vital for guiding and informing the decisions of those businesses. It is borne out of an understanding that growing skills supply, capability, and development across our smaller businesses is key to returning sustainable growth for the Welsh economy and wellbeing for those within it.

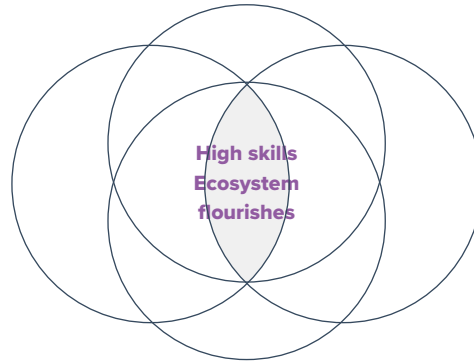
Recommendations

Strategic Framework

Local ‘Skills Ecosystems’

Firms - see comparative advantage through addressing skills development and business performance in tandem to generate innovation and growth.

Education and training - responsive delivery at all levels that individuals and employers value.



Vocational education and training, employment and industry policies support high skills strategy.

Individuals - invest in skills because rewarding jobs /career opportunities are available.

Small businesses in Wales are currently grappling with **accessing sufficiently skilled staff** while they also confront the challenge of a growing perceived **mismatch between the skills in the education system and those that business needs**.

This structural dilemma arises from a combination of factors, including a lack of foresight in anticipating skill requirements and a failure to adequately adapt vocational education and training to address the evolving needs of the labour market.

This requires a more robust **alliance between the spheres of education and training, and the stakeholders within the labour market, with a particular emphasis on SMEs**. This collaborative effort is essential for enhancing the alignment of skills with the rapidly changing demands of the labour market.

At Welsh Government level, there is a need to ensure a **collaborative cross-departmental approach** that **aligns skills and economic needs** and ensures an agenda that addresses the needs of all stakeholders. **A Skills led mission** that gives Welsh Government a priority through a taskforce for skills-led SME approach, taking in senior officials and policy development across Economy and Skills and Education to ensure a joined-up approach geared toward long term economic development.

There is also a need for a more **interconnected policy response at a local level**, the importance of which particularly relevant in the case of SMEs, which are much more likely to serve local markets and are required to draw from a local supply of skills. For instance, the OECD has long advocated for a local ecosystem approach⁵ to address issues related to growth, jobs and skills. This is because addressing these issues requires action across a range of inter-connected policy areas – including business support, innovation, skills, economic development, and industrial strategy.

⁵ See papers at https://www.oecd-ilibrary.org/industry-and-services/oecd-local-economic-and-employment-development-leed-working-papers_20794797

Building core people-management capability and **improving firms ‘absorptive capacity’** is a necessary first step to business improvement given that many SMEs either lack a dedicated HR function or **are time and resource poor** and therefore lack in depth knowledge of the skills gaps and people management challenges and how to address them effectively.

From this general strategic framework, the economic mission on skills follows. Focusing on growing the SME economy in Wales and refreshing the ‘missing middle’ agenda we can build the key policy interventions for a better Skills-Led Economy in Wales geared for SME growth, building the capacity and capabilities of our firms while also building our citizens to have new skills opportunities, equipping them for future transition in the economy.

List of Recommendations

Principles for Focus on SME Skills Based Economy Growth approach

- OECD research finds that the UK could benefit from a 5% productivity gain if the level of skills mismatch was reduced to OECD best practice levels. While many economic development and growth levers do not sit with Welsh Government, this area is largely devolved, and so should provide a clear economic priority and be developed as a mission for Welsh Government to address on a cross-governmental basis.
- The strategy for skills-led growth, geared for SMEs, must be based around the aim of making access to skills easier, within a wider business support aim of creating more time and space – or headroom – for businesses to take opportunities, including particularly in skills development.
- The general focus of business support should be on alleviating, in the short-term, the difficulties Welsh SMEs are facing in the cost of living and cost of doing business crisis, with the aim of providing headroom in the longer-term to build a more resilient SME-growth entrepreneurial ecosystem in which they can maximise the opportunities.
- A Mission approach would then look to gear our institutions, ways of working, targets and measures, and contracting obligations and procurement processes to building that goal.



Specific recommendations for business support

Wales benefits from a well-known, and comparatively well-funded, business support infrastructure through Business Wales and Development Bank Wales.

- It is vital that this core business support infrastructure is protected and developed and placed on a statutory footing with core multi-year funding set out and viewed as a key competitive advantage to Wales's economic and business development.
- When determining value-for-money, business support should move beyond simple job creation targets towards a broader economic conversation. This could include modernisation, decarbonisation targets, productivity gains, capacity, and capabilities.
- The business and skills support systems must work together in a holistic way to ensure that maximum benefits are taken for individuals, firms, and stakeholders of creating a skills ecosystem. Crucially, business support services need to be flexible, bespoke, and accessible and provide a range of support through start-up and growth phases.
- Financial Support appears from our research to miss on medium-sized funding and financing to provide for scaling up Welsh Government should also review the size of funds available where relatively small-medium amounts of funding are needed. There appears to be a funding gap – or an access to funding gap - between small pots (£5-10,000) and large pots (£1m+). Breaking currently larger pots into smaller pots, and / or ensuring a proportion are set aside for SME funding would look to address a missing middle and help develop smaller firms to grow.

While there is a need to protect these assets, the research indicates that SMEs appreciate the start-up support available. However, as their needs become more complex, the support for scaling was perceived as less relevant. SMEs understand Business Wales can't do everything and should focus on what it does well, and indeed it should avoid going into the market where private businesses providing advice and bespoke services can provide better services. These should be better joined up and signposted across through central resources:

- the private and public support services should be better linked to ensure that they feed into each other in a way that feels seamless to firms on their journey, via **providing a searchable facility and list of accredited and trusted providers to support businesses access additional specialist support.**
- more opportunities for peer-to-peer networking as well as promotion and sharing of examples of good practice via business networks could help to scale and spread successful ways to working. Learning from the impact of community networks from Accelerator programmes should be taken to wider business support mechanisms.

Specific recommendations for the skills and training system

Small businesses typically find navigating the skills and training system more difficult than larger firms. For those that don't invest in external training a lack of awareness of the availability of provision as well as the benefits of investing are key barriers to overcome.

- better alignment between skills support and business support could help overcome obstacles alongside the increased availability of more suitable training opportunities, such as bespoke, flexible and modular provision.

- Welsh Government and state institutions should build increased partnership between business and HE to support the development of more specifically relevant courses with appropriate mixture of practical skills and more relevant innovation by increasing representatives from businesses and SMEs.
- A structured approach that provides through a central point of contact to match-make SMEs and education providers as was done previously by Careers Wales would lower the time and costs for SMEs. This may sit in Careers Wales or another body that is suitable and able to provide the expertise to span across the business and skills landscape. The impact of reducing Careers Wales's offer of linking across firms and skills system is to displace and increase the costs in time and effort for many more businesses across Wales. It is inefficient to push that role onto time-poor SMEs, and this lack of central knowledgeable contact works against matching skills with SMEs, and this role should be reintroduced either via Careers Wales or elsewhere. But Careers Wales appears to be well-known and respected body among SMEs.
- In any case, it is important that Careers Wales be adequately resourced to fulfil its roles and responsibilities in a mission for SME-based Skills-led economic growth approach.
- It was noticeable that there was no mention of Welsh Government's Regional Skills Partnership in any of the interviews which is a core part of its regional development approach. More needs to be done to demonstrate the relevance and value of such structures to smaller businesses.

SMEs' **dependence on informal and ad-hoc links** across educational institutions mean that SMEs have ways to shape the skills they need on an ad-hoc piecemeal and fragmented basis. This should be addressed by

- ensuring wider pool of SMEs on boards and forums by HE and FE departments to help shape skills pedagogy and courses to fit local needs, providing more potential routes to employment while also building a pipeline for skills acquisition for local firms.
- FE and HE should develop clear strategies to facilitate links and to outreach to businesses where they are in the local area. These should be done in partnership with Local Authorities to provide a strong network that can be utilised to wider business and skills needs and provide a local partnership approach.

Growing **SME engagement** among businesses with the skills system will require clear actions sustained over the long term:

- Alongside the above strategy Welsh Government needs to be a clear long-term communication and marketing strategy to outline the benefits and to reach SMEs on what they are for their businesses.
- This is itself linked to building networks and engagement as noted above throughout the education and skills sector with local businesses as main means of publicising awareness of the strategy.
- Engagement and network development should be viewed as a long-term process, rather than 'singular' consultation events. Relationship building is the key.
- This should sit alongside developing Peer-to-Peer networks on skills development to publicise good practice and examples.



Measures for success, such as in the national indicators, need to align to clear milestones of a ‘missing middle’ approach of growing smaller firms to provide for sustainable growth, with skills access being a core part of this.

- Targets on skills provision (e.g., apprenticeships, placements) must also provide targets and contracts for provision within different size businesses, split from micro to small and medium. This would ensure a better distribution of skills by business, but also by geographical location and better serves rural areas.
- the success of the SME skills based economic mission and the health of our economy is ‘missing middle charting’ of how many businesses are moving up through different bands of number of employees over time.
- Greater consistency on the understanding, measurement and tracking and trends of skills gaps among Welsh SMEs with targeted and mechanisms for clear strategies to address those gaps.
- The functioning of the Commission for Tertiary Education and Research (CTER) should follow the best practice of arm’s length body to provide for a trusted central point of contact and engagement, and an independent evidence base that can then serve decision makers across the system. As such CTER should: use its role as an arm’s length and institution with clear autonomy as an opportunity to developing an SME focused strategy with a mission to skills-based growth, and to articulate the value to employers within the system.
- CTER should provide a central hub for research and analysis for understanding the skills gaps SMEs face in the short-term, while also commissioning research to the same ends over the long term.
- Multiyear budgets should help ensure the system has this research data in development to build the systemic capacity. This data should then be openly available and shared with all decision-makers within the system (especially RSPs) to ensure decision making is effective and based on strong and independent evidence base.
- CTER should explore and develop a model that better links an economic policy growth lens alongside the policy social lens as mutually reinforcing. This links to ensuring the best capacity and capabilities-based growth approach that serves employers, learners and provides better outcomes for providers. This should look at international best practice and look to SME-focused ‘think small first’ agenda, acknowledging that this is the area with the most latent potential for growth.

Chapter 2

Skills and Productivity

Challenges in Wales:

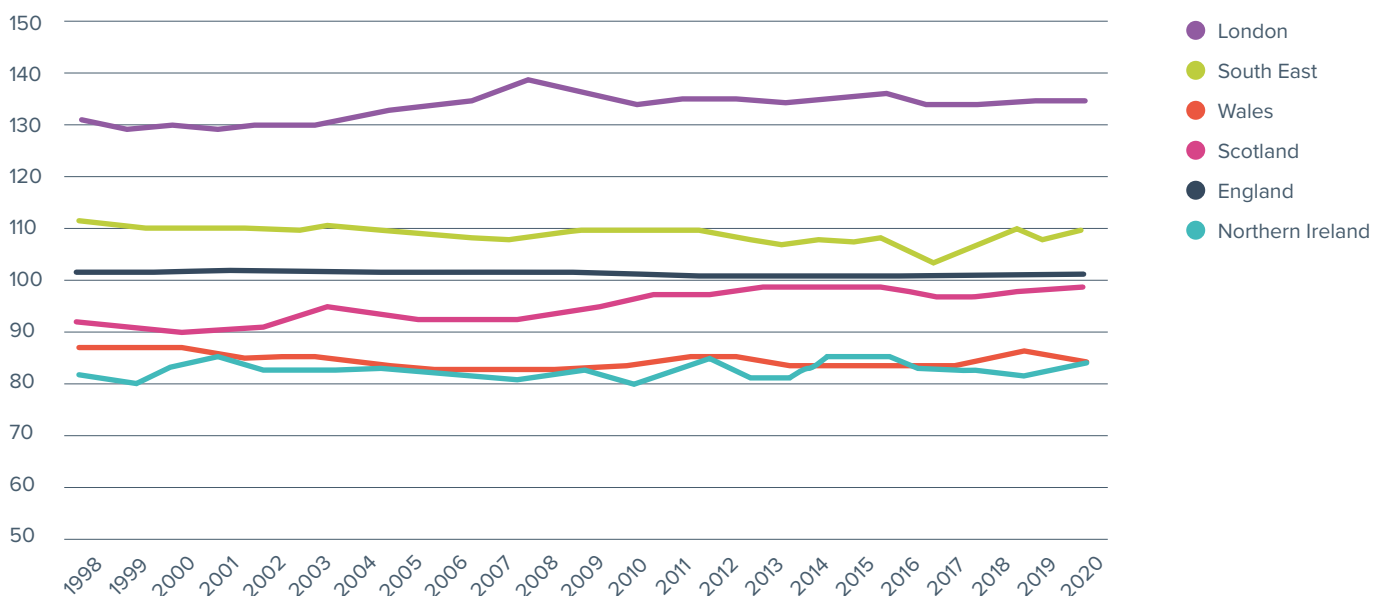
Evidence Base

Below average productivity

Productivity, measured as Gross Value Added (GVA) per hour worked, is lower than average in Wales, as demonstrated by Figure 1. In 2020, GVA per hour worked stood at 16% below the UK average in Wales. The productivity gap has widened slightly over the last two decades, previously standing at 13% lower than the UK average in 1998.

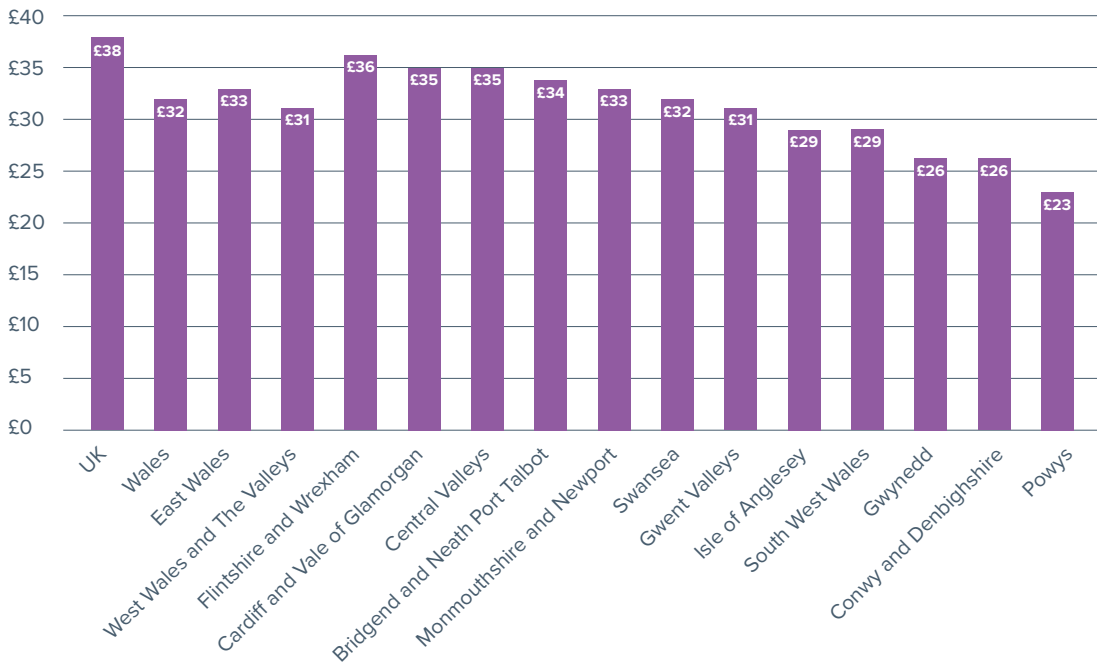
As Figure 1 shows there is considerable subnational variation in productivity with GVA per hour worked highest in Flintshire and Wrexham and lowest in Powys, and rural areas scoring significantly less for productivity than more urban areas.

Figure 1: National and regional GVA per hour worked (UK=100): UK nations compared to London and the South East



Source: UK regional gross value added, ONS

Figure 2: Subregional productivity: GVA per hour worked, 2020.



Source: Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, ONS

Skills supply: qualifications of the working age population

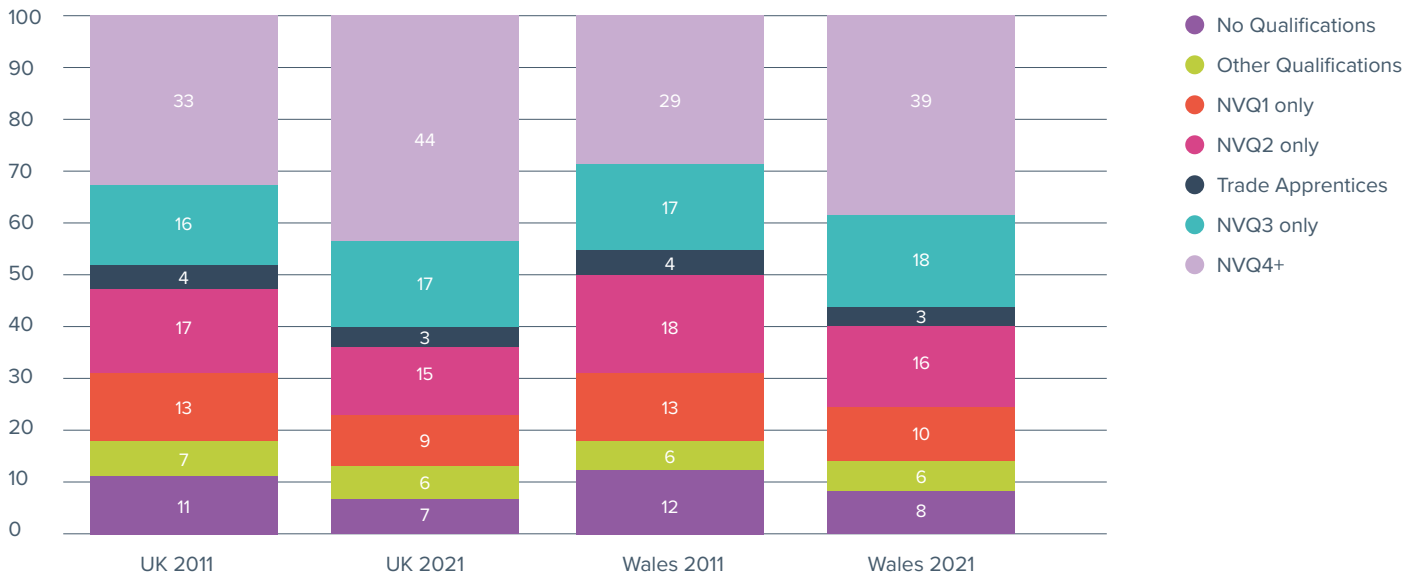
The skills of the population are an important component of labour productivity and improvements in skills are estimated to account for 20% of the UK's productivity growth before the financial crisis.⁶ Compared to the UK average, Wales has a higher concentration of low-skilled adults (NVQ 2 and below) and a lower concentration of adults educated to degree level or above (NVQ 4+), as demonstrated by Figure 2.

There have been improvements over the last decade, with a substantial reduction in the proportion with no educational qualifications. However, while there has been growth in higher-level qualifications, this has not kept pace with the UK average:

- The proportion of working-age residents with no qualifications has fallen from 12% in 2011 to 8% in 2020. This represented a fall of 34% in the total number of working aged residents without any qualifications against a decline of 37% across the UK as a whole.
- The proportion of adults educated to NVQ Level 4 and above has increased from 29% in 2011 to 39% in 2021. This represented an increase of 31% in the total number of working aged residents qualified to degree level and above, this was below the UK-wide figure of a 37% increase.

⁶ BIS (2015) 'UK skills and productivity in an international context' (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486500/BIS-15-704-UK-skills-and-productivity-in-an-international_context.pdf)

Figure 3: Qualifications of the working age population (16–64 years old) 2011 and 2021



Source: ONS/Annual Population Survey Jan 2011-Dec 2011 and Jan 2021-Dec 2021

Skills demand occupational structure

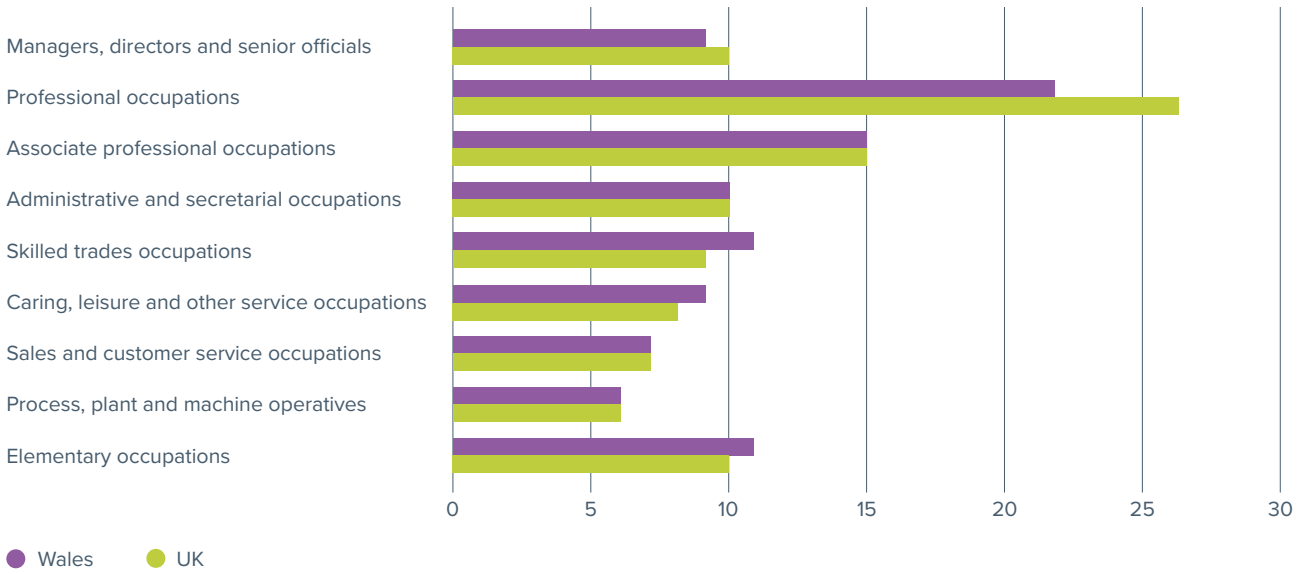
Wales has fewer ‘high skill’ jobs compared to the UK average. In 2022 46% of employment in Wales was in the top 3 occupational categories compared to a UK average of 51%. This was almost entirely driven by lower levels of employment in professional occupations (22% vs 26%).

Figure 4 shows how the occupational structure of Wales has changed over the past decade. The pattern has largely followed that of the wider UK economy, with growth concentrated amongst the top three occupational categories. However, there are several important differences to note:

- Wales has seen much greater growth in the number of people employed in caring, leisure and service occupations
- Growth in professional occupations has been considerably lower than the UK average
- Wales has experienced a higher rate of growth in the number of people employed in associate professional and technical roles.

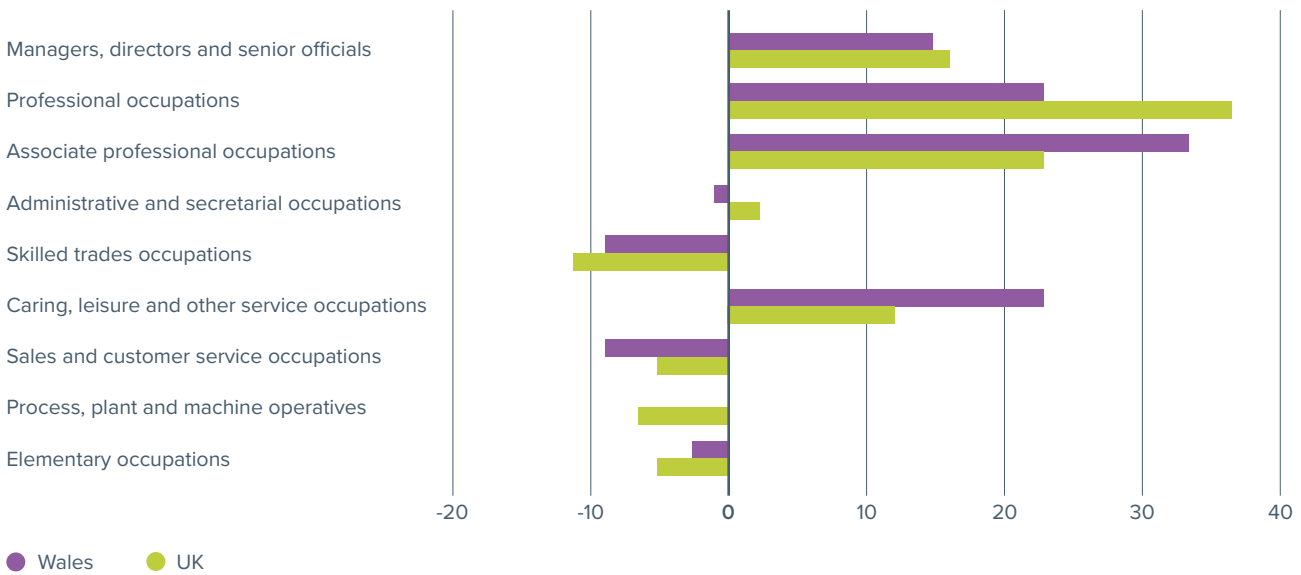


Figure 4: Skills demand – employment by broad occupational category (SOC 2020)



Source: ONS/Annual Population Survey Oct 2021-Sep 2022

Figure 5: Change in skill demand – employment by broad occupational category (SOC 2010)



Source: ONS/Annual Population Survey Jan 2011-Dec 2011 and Jan 2021-Dec 2021

Skills gaps and poor use of workforce skills

The supply of skills is only one part of the picture. A significant part of the UK's low productivity levels, compared with some other major Organisation for Economic Cooperation and Development (OECD) economies such as Germany, is attributed to poor workforce skills development,⁷ in addition to how well an individual's skills are matched to their jobs and whether they are used effectively in the workplace. For example, OECD research finds that **the UK could benefit from a 5% productivity gain if the level of skills mismatch was reduced to OECD best practice levels.**⁸

Employer demand for skills, and the ways skills are used in the workplace, has seen increased focus in local economic development in recent years. The OECD Local Economic and Employment Development programme has been particularly influential, arguing that policies to tackle skills mismatch include improved job design, human resource management and businesses' product market strategies. Further, they have called for a focus at the local level, as 'it is often at the local level where the interface of these factors can be best addressed. Policies which aim to improve skills use in the workplace can address the multifaceted challenges many local economies are facing and contribute to national productivity and inclusive growth objectives.'⁹

The importance of the local dimension is particularly relevant in the case of SMEs, which are more likely to serve local markets and draw from a local supply of skills. Smaller firms find it particularly difficult to make the best use of their employees' skills because of less management capacity or a lack of a HR function.¹⁰ The UK Government's 2019 Business Productivity Review noted that 'UK SMEs compare particularly unfavourably internationally on people management, which is the factor most correlated to productivity. Leadership and management practices therefore represent one of the greatest opportunities for firm-level productivity growth in the UK.'¹¹

The demand for, and use of, skills demonstrates that, while skills shortages and gaps present challenges for employers in Wales, it is the poor use of existing skills in the workplace that is a more pervasive problem.

According to the latest Employers Skills Survey (2022), employers in Wales reported that over a third (35%) of vacancies were proving hard to fill due to applicants lacking the relevant skills, qualifications or experience the role required. These skills shortage vacancies totalled almost more than 20,000 and affected 10% of organisations in Wales, in line with the UK average. These numbers are considerably worse than the last set of comparable figures in 2017. The number of skills shortage vacancies has more than doubled. Similarly, the percentage of establishments with at least one skill-shortage vacancy has increased by four percentage points.

While skills gaps are undoubtedly a challenge, utilization of existing workforce skills is a more prevalent problem. Around third of organisations in Wales report that they had at least one employee with both qualifications and skills more advanced than required for their current job role. Overskilling or overqualification can have a negative impact on organisations and individuals alike, resulting in lower pay and poorer career progression, as well as increased stress and decreased life and job satisfaction for individuals and higher turnover and inefficiency for employers. A recent Colegau Cymru / Colleges Wales report 'Enabling Renewal' noted this as a serious problem in Wales too noting that Wales has persistently high levels of over-qualification, with 40% of Welsh workers are over-qualified for their job, and that this leads many young people with a higher education to migrate internally or to work in England. The report concludes that "more of the same policy on education and skills will give us the best qualified underemployed workforce Wales has ever had."¹²

⁷ BIS, 2016, 'Education, skills and productivity: commissioned research', www.publications.parliament.uk/pa/cm201516/cmselect/cmbis/565/565.pdf

⁸ OECD (2015) *Skill mismatch and public policy in OECD countries*. Paris: OECD

⁹ OECD (2017) *Better use of skills in the workplace: why it matters for productivity and local jobs*. Paris: OECD, ILO.

¹⁰ Warhurst, C. and Findlay, P. (2012) *More effective skills utilization: shifting the terrain of skills policy in Scotland*. SKOPE Research Paper No 107. Cardiff: SKOPE.

¹¹ UK Government, 2019 'Business Productivity Review'

¹² Buchanan, J, Froud, J, Lang, M, Lloyd, C, Williams, K, 'Enabling Renewal: Further Education and Building Better Citizenship, Occupations and Business Communities in Wales' (Colegau Cymru: 2021)

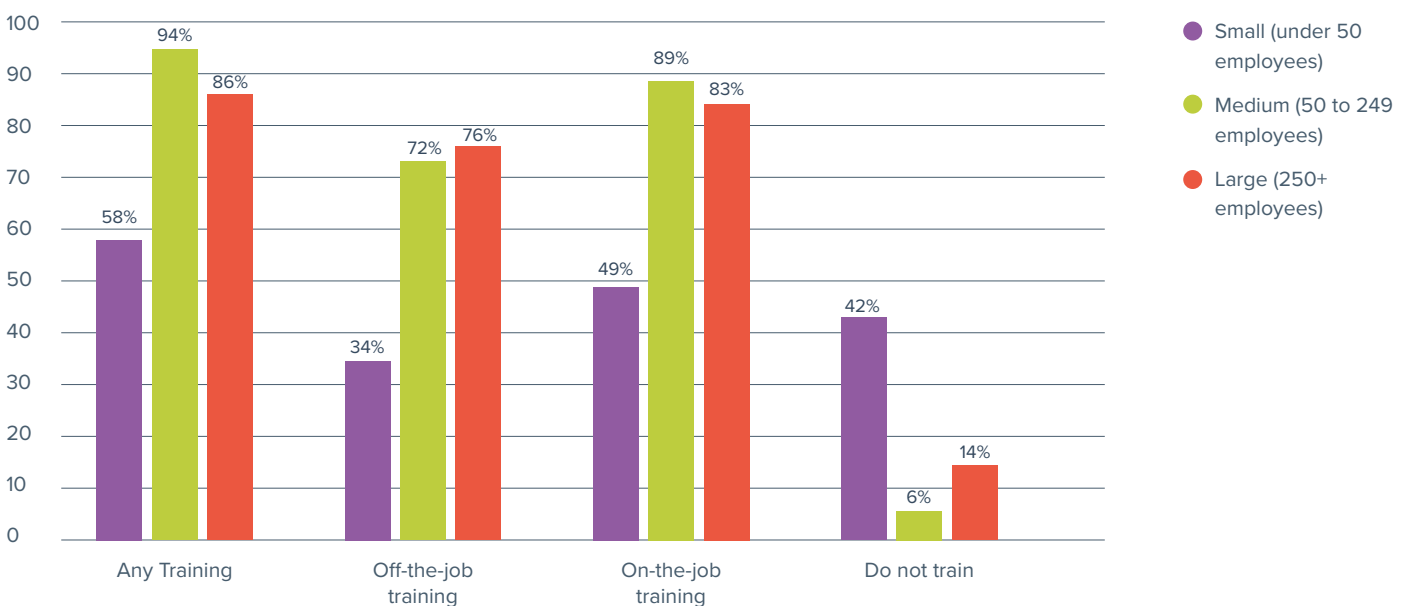


SME skills challenges and engagement in training

Investing in training and development is critical for tackling skill gaps and improving workplace productivity. Yet, despite its importance, evidence suggests that many smaller employers do not invest in their workforces; in 2022 just 14% of large firms and 6% of medium sized enterprises in Wales are non-training enterprises. The figure for small employers (under 50 employees) stands at 42% (Figure 4). Engagement with the apprenticeship system also varies by size of business with small firms (2 to 49 employees), less likely to host apprenticeships in comparison with medium sized enterprise, figures of 8% and 26% respectively.¹³

Smaller employers typically face greater barriers to training participation than larger firms. These include, but are not limited to, informational barriers such as lack of knowledge about the availability of training opportunities, lack of understanding of its potential benefits, and financial barriers with small organisations unable to achieve the economies of scale enjoyed by larger businesses. Smaller firms are also more likely to be focused on the short-term goals, on business survival and ‘getting the job done’ and are therefore less likely to make longer term strategic investments in developing their people.

Figure 6: On-the job and off-the job training in the last 12 months by business size in Wales, 2022



Source: Employers Skills Survey 2022

¹³ Employers Skills Survey for Wales, 2019

It should be noted that despite the barriers, a majority (58%) do invest in training. However, small firms will also lack capacity to identify what skills challenge they have, and so further support could provide for better training. Figure 5 shows that are much less likely to report that they have workers who lack key skills (skill gaps) or that they are struggling to fill vacancies due to a shortage of sufficiently skilled applicants (skill shortage).

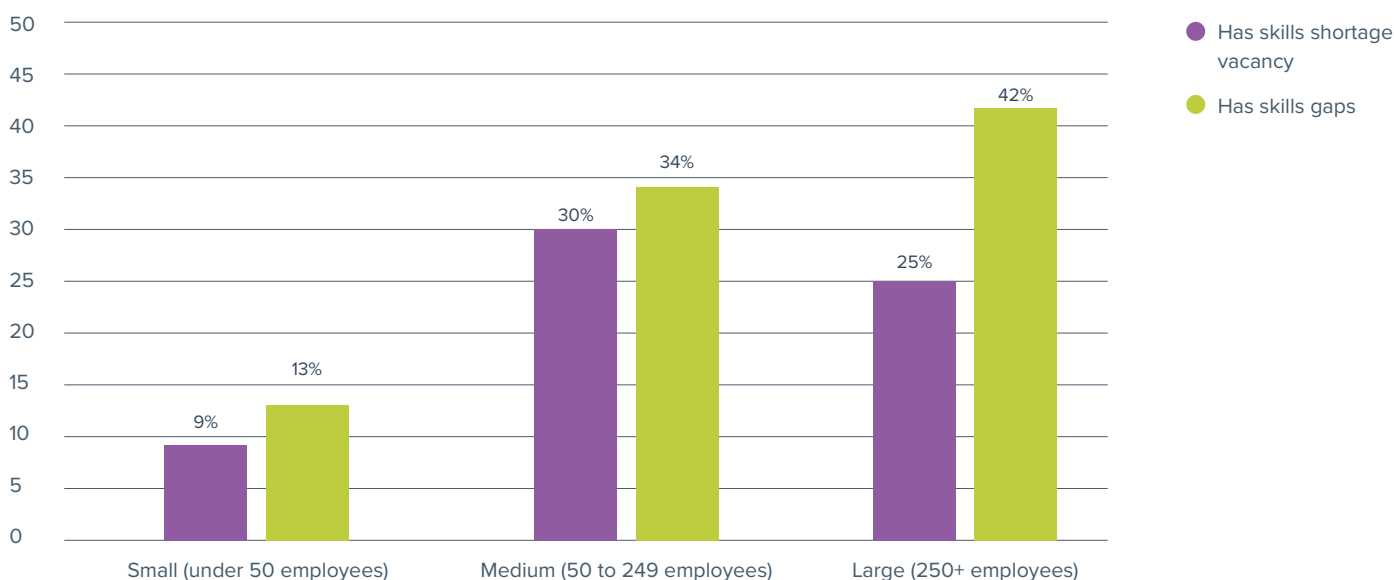
Yet, we also know that many smaller organisations are often blind to the skills challenges facing their organisations and even when they do identify a skills challenge, they often lack the internal capacity to put into place practices to develop their employees' skills because of poor management or a lack of a HR function.

Training plans and budgets can help small firms to anticipate and meet their training needs. FSB surveys show that most small businesses do not have these in place. Only 17 per cent of small business employers have a training budget; 21 per cent have a relationship with a training provider, and 31 per cent have a training plan for the year ahead, while 19 per cent have a longer-term training plan. Almost half (47%) have none of these.

About half of small business employers (51%) indicate that a training plan is not necessary for their business. They report that either it is not a business priority (29%), or that their focus is on immediate recruitment needs (25%), with some overlap between the two. For the rest, the top reasons are that they are unclear of their future training needs (31%), it takes too much time (23%), or it is too expensive (18%). Only five per cent say it is too difficult to carry out.¹⁴

Evidence also suggest that small employers are also less likely to seek advice on skills or recruitment challenges. For instance, the 2021 Small Business Survey showed that for the minority of businesses in Wales that did accessed support it was is most likely to be around financial advice (27%) and business growth (24%) with very few seeking external support on skills or training related issues (7%). This is despite the same survey showing that staff recruitment and skills was a top five business challenges identified by SMEs and that improving workplace skills was the number one priority for action they identified for the next three years.

Figure 7: Skills deficiency summary amongst Welsh employers by size of business, 2022



Source: Employers Skills Survey 2022

¹⁴ FSB, August 2022, *Scaling Up Skills: Developing education and training to help small businesses and the economy*, available at <https://www.fsb.org.uk/resource-report/scaling-up-skills.html>

It is also widely accepted that many firms, particularly smaller or family-owned firms, adopt a 'low-road' approach to competitiveness and see human resources as a cost to be absorbed rather than invested in and properly harnessed. A low-road strategy can be self-reinforcing, in that previous decisions relating to capital and human investments take on path-dependency and determine future investments.

Summary

This chapter has provided an overview of the statistical evidence that underpins our investigations, and the interviews reflect many of the issues noted here, showing that there is a potential opportunity to harness skills for growth by supporting firms' ability to access and invest in skills in a more systematic way. The OECD report notes that the system as is currently makes for a competitive disadvantage for Welsh (and UK) firms. As we will see, firms have adapted in their own fragmented ways to challenges they face as individual firms, illustrating they have the ability and will to innovate and take on skills development, but are currently doing so in a context of little time and space and without support.



Chapter 3

Interviews findings

Issues and Challenges

identified by SMEs

We undertook semi-structured interviews with over 30 businesses to understand the context in which they were operating, the people and skills challenges they were facing, the actions they had taken to try to address them, and the views of the available government advice and support.

This section looks at what interviewees told us about the business environment as they saw it.

3.1 Economic Climate: The context for Business' Skills Approach and Challenges

“Time. Time is the thing. I’m involved in three businesses at once basically.”
(micro business, real estate)

For many firms, there is a feeling of constantly firefighting over the last few years, with respondents often reeling off a list of issues. Smaller businesses, who generally have less capacity, are using their time trying to respond to the myriad of immediate issues, which then impacts the headroom available to look beyond the current crisis. This points to an opportunity, in terms of policy intervention, to develop their capacity and capabilities and support economic development that is driven by the parts of our economy with the most room and potential to grow if we can make room for them – the Small Business sector.

“The key challenges are if you put the last three years in context with Brexit, COVID, the war, material prices, energy prices, cost of living, wage pressures, skill shortages, normally those things happen in sort of seven-year cycles. But we’ve had all of these situations happen in such a short space of time.”
(medium sized business, manufacturing)

It is important to note that even amid the current crisis, some sectors were growing and thriving. Three interviewees were in sectors where there is going to be continuing, substantial public investment over the next few years, providing a clarity of investment opportunities and growth for these firms. One working in the rail industry described this time as a ‘boom’ for the industry and another childcare provider described their growth to new sites. Yet both noted their main difficulty as the recruitment of the people needed to fulfil their contracts and achieve the growth of the business, while the funding did not change to meet all the costs. The key point is that the public investment in these sectors has provided the opportunity for growth and skills development in those sectors, even if they do come with their own challenges.

As has been widely discussed by FSB elsewhere¹⁵, our interviews found significant energy and fuel costs impact on all firms, and clearly there are some sectors that require a larger use of energy outside those classed as 'energy intensive' who are particularly affected. Rising rents was also cited, particularly for high street retailers.

All SMEs found that customers' lack of disposable income had an impact on their business and the cost-of-living crisis was also a cost-of-doing-business crisis. Topics raised around inflation noted the fact that many small companies are in a 'squeezed middle' when it comes to absorbing the costs involved – they are at the mercy of price hikes higher up the chain, but find a lower level of tolerance for equal hikes for their own customers, meaning that they absorb disproportionately within the chain:

“So, there are two key things- skills and the squeeze on us as the middle man.”

(small business, IT and tech)

Access to finance was an issue raised by several interviewees, with one noting that their own movement toward sustainability had left them with debts, but also meant that borrowing to expand further or for better efficiency was not possible as a result:

“I don't have enough to do the expansion I need to do and because I'd been reinvesting my profits to be more sustainable, I don't have a high enough profit on a regular basis to be able to borrow massive amounts of money..I could create a lot more jobs and I could offset my seasonality. But at the moment I can't borrow enough.”

(small business, tourism)

In this case there were questions raised too, given the business's core mission was around sustainability and conservation this appears against the grain of government policy and rhetoric.



¹⁵ FSB, 2022, *Out in The Cold: Helping small businesses through the energy crisis*, available at <https://www.fsb.org.uk/resources-page/out-in-the-cold.html>

A general issue raised by other firms was on wider funding streams, the level of green grants and loans have either been too small or too large to build medium-sized firms – what we refer to as the ‘missing middle’ (and so geared to micro or large firms). It is important therefore to look at how the finance context also impacts the opening up and use of skills for growing firms, as these should be mutually reinforcing, but it is possible their fragmentary delivery leads to policy failure in each.

A few interviews noted challenges around increased costs related importing goods and supplies viewed as a result of the UK’s withdrawal from the European Union, as well as wider issues affecting supply chains worldwide.

However, it should be noted that Brexit had also pushed some firms to think differently and identify market opportunities elsewhere rather than default to trading with the EU (i.e., nudged towards opportunities which had been there already but had not been looked for):

“So, we’ve just cut out that middleman kind of trying to recoup some cases, cloths, it all comes directly from China. Now that we get it sent in to us it’s more of a cost cutting activity than anything else, because within the European Union, what we were tending to find was they were buying them out there [in China] anyway. I found out about it because I went to trade show and someone I spoke to mentioned that this was possible.... Until you meet somebody who’s a who can link you into these kinds of things, you don’t know what’s out there. You don’t know what you can do. And it’s kind of built from there. But for years and years, we were paying extortionate prices to companies.”

(micro business, healthcare)

The issue around accessing labour from EU was also raised, across skilled areas, but also in terms of the costs of the visas scheme to access wider skills levels generally.

“There’s one specialist job we’re looking at, which is an R&D post, and we are potentially looking to recruit a postgrad and we’ve struggled to recruit graduates from this country. So, we are looking more into Europe, but we are finding that the cost of visas and such after a sort of post-Brexit is putting off a lot of European students coming over to the UK.”

(medium sized building, engineering)

“We now have no access to European staff because we would have to pay them more than we would have to pay UK staff and I think that’s part of the misunderstandings from our people who negotiate these things.”

(micro business, aerospace)

Summary: Economic Climate

The economic context within which firms operates shapes their skills need, and this must be kept in mind as we look at developing policy proposals. Despite tough conditions, many interviewees are actively looking to grow, and this provides opportunities for policy interventions which provide integrated business and skills support to drive towards local SME-based economic development and growth.

People and skills challenges

This section will look at the specific people and skills issues identified by respondents, before looking at how they address those issues in the next section. Recruitment was seen as a severe issue across the board, with volume of workers available being a problem at all skill levels, and a consistent and reliable pipeline of skilled labour also widely being viewed as a problem. Interestingly there were some exceptions where there were links made to anchor universities, although how these relationships had been built were often ad-hoc, reliant on the SMEs themselves, or often through informal connections, suggesting that this was not as consistent as it could be. A particular pinch point for skills and support on skills would be in scaling up when a firm needed bespoke support and skills to expand. As such, this area is of particular concern as a brake on growth opportunities.

Recruitment

Almost all businesses interviewed highlighted current issues with being able to recruit sufficient staff to fill vacancies, with many facing intense competition from larger businesses alongside upward pressure on wages. Some businesses struggled with both labour shortages as well as skills shortages, while a number of interviewees pointed to what they saw as a mismatch between the skills coming out of the education sector and those that were required by business. As such, there was a shortage in volume of serious applicants, but also

For some business these recruitment challenges were linked to fulfilling contracts provided through **substantial infrastructure investments**, but this was addressed through working alongside public sector supply chains to **promote the skills alongside the investments in a more holistic way.**

“The challenge that we have as a whole industry is getting enough manpower to meet the obligation of contractual delivery. So, we are working together with the sponsoring or the employing authorities to look at where those resources could come from, and we get initiatives on that front and to tap into areas and to get the resource.”

(micro business, education and training)

“So, every time we grow, we need a load of people to go with that and it’s not just anyone that we can have to be included in the numbers, it’s quite specific in terms of the qualifications.”

(medium sized business, childcare)

This approach appeared to be more clearly articulated with large public investment commitments in these areas than in other sectors, with success in delivery on investment was dependent on that skills pool being developed, and a key measure of success itself. It also leveraged and steered skills support toward these investments.

Some sectors – particularly in tourism and hospitality - noted they had issues in particular **recruitment for the less specialist skills and seasonal staff.** In one conservation and tourism SME, which had a mix of high skilled and permanent marine biologist staff and other service industry staff. It was the latter that they were struggling most to fill:

“Yeah, the other thing is areas like the cafe and the cleaning stuff and things like that and we’ve massively struggled with that. Cleaning is really difficult because it’s not a full-time daytime job. particularly post COVID a lot of people don’t want, you know, they want their 9-5.... And I know we’re not alone in struggling with getting reliable cleaners

(small business, tourism and conservation)

“So, the most difficult area we’ve had for retention and recruitment is have been in the kitchen side. So, it’s the skilled workers as in your head chefs and your pastry chefs and the manual work is so you’re looking maybe your kitchen porters, your bar staff, people are working on unsocial hours.”



Interestingly, the reason in this case the higher skills were less of an issue was due to links with the School of Ocean Sciences in Bangor University. Bangor University as anchor institution was also cited by a tech company based in M-Sparc:

“So, our lead developer came from the Bangor Graduate Support program, and I think we’ve been really lucky as to where he was and where we were in the company and we’ve kind of grown together. We are based in M-Sparc, and they do a [Skills Academy]. So, the last round of people, was placing into creative or digital companies. So, they’ll place them in the company, and they’ll pay for their wage up to a certain value for five months. So, it gives them the industry experience and it gives the company the flexibility to kind of take that person on board and get them up and running and profitable really. So, that’s four people out of the eight that have come through those kinds of avenues.”

(small business, tech)

This was also seen in links to other universities based in more rural areas, such as University of Trinity St David – perhaps indicating how key such higher and further education anchors are away from the key productivity urban zones around Cardiff and North East Wales.

Geography also played a role for several firms, with a number of interviewees noting that there was a gap in the skills they needed in their areas and/or where there were no skills development for their needs. This was noted by interviewees in rural areas in north, mid, and west Wales:

“Geographically, I think it is quite hard to get people to Pembrokeshire. I think people see it as being quite remote and so on.”

(medium business, tourism, and leisure/manufacturing)

“Our biggest challenge is where we need formal qualifications. So, where we need degree qualifications, what we find in mid Wales, [is] the brain drain in mid Wales. It’s very hard for us to recruit graduates or postgrads in mid Wales ...we do definitely struggle with recruiting in that sector.”

(medium business, construction)

“I had a previously business for 12 years up in North Wales and absolutely the lack of software and digital IT skills were the overwhelming barrier, and the business could have been four times bigger. We weren’t short of customers. We weren’t short of anything. We were just short of people to deliver.”

(micro business, IT, and software development)

In other areas, this worked a little differently, with SMEs competing for skills with larger companies in South Wales, while for one firm the increase in remote working post pandemic had also led to poaching of staff from London companies able to pay higher wages:

“There are lots now remote working - it’s such a big thing. Since COVID what we’ve had is organisations from London come down here and offer remote working but offer 25% to 50% more salary wise to our people which we just can’t compete with.”

(small business, IT services)

Some businesses noted how recruitment challenges and the lack of availability of labour had a direct impact on their prospects for growth and for job creation and that they had to adapt their timelines for growth dramatically to be able to plan for skills development:

“Yeah, we could expand our business. We are working at the moment on getting grants to build a new factory to create up to 30 jobs, the people aren’t there. So, therefore our plan is to basically take on two apprentices a year for a number of years and to grow towards that and hopefully as we get more people, we can build that up. I would have liked that when we say there’s an apprenticeship position to have 10 applicants, but there’s not, there’s not. And why isn’t there? I think that the biggest challenge that we have is that the schools and colleges are not [there]...”

(micro business, aerospace)



For predominantly rural business considering investment in expensive machinery, there needed also to be consideration on if they could develop or attract people and skills to operate that new machinery. **Lack of access to skills for this firm was acting as a disincentive to invest** in their business:

“But we’re kind of in a chicken and egg situation at some point over this summer, we’re going to make that decision to buy the equipment and put an advert out and find the person... we’re talking £40-50 grand and without the skills to use it, it will just collect dust, there’s no point in having it.”

(small business, manufacturing)

Alongside challenges recruiting sufficient and/or suitably skilled staff to fill current vacancies, a significant number of businesses also raised concerns regarding a perceived **mismatch with the skills coming out of the education system and the skills their businesses needed**. For several interviews, it was felt that the education did not build sufficient practical skills while other interviewees noted their experience of graduates and postgraduates having unrealistic expectations about pay, progression and what the job involved:

“The university throws out hundreds of graduates a year, postgraduates, master students, whatever, with marine biology or zoology. Over the years that they’re coming out with great grades and big student loans and absolutely no idea of what’s involved in the job...So in a way like the opposite [to what you may expect] in that we have loads of people that apply for work that wants to work here, you know, for the skilled work. However well qualified they are, they’re often not armed with any of the skills that we need for them to actually step into the job.”

(small business, tourism)

“People believe that they should fly a desk. Well, the reality is in order to make things you get dirty, you sweep floors, you run machines.”

(micro business, aerospace)

There were issues in finding quality staff, and many issues noted **around the time the process took** with a number of applications that were made, but few that were of quality. These firms also noted that they had trouble **recruiting people with the right attitude and work ethic**. This was also linked to the number of no shows for interviews, and on occasion to work:

“The amount of people we call in for the interview, and then don’t turn up is ridiculous. It’s one of those things where we got to the point now where we wonder if it’s worth actually putting a job description online. It doesn’t work.”

(small business, manufacturing)

“You know, to recruit those two positions, I’ll have to take two months of my calendar and pretty much clear them because all my discretionary time will be spent on job specs, filtering CVs, interviewing and then you know the first three to six months is going to be a slow induction period”

(micro business, IT)

Alongside the perceived education and business skills mismatch a few businesses in the STEM sector identified challenges with careers information, advice and guidance and presumed gender roles, which impacted on the future skills pipeline for their sector. There were also concerns raised by businesses around what they saw as a **negative perception of their sector**, particularly in hospitality, retail, and tourism:

“The things are cooking, and the cleaning and you know you go to Europe with hospitality side, and they have hotels and hospitality schools, and you know that people are really proud to have these kinds of jobs. But in the UK, people for whatever reason [aren’t].”

(small business, tourism)



Retention and Performance

Compared to recruitment challenges, **retention of existing staff was less of an issue** with than expected. For many of the businesses we interviewed, once they had recruited and established staff many generally felt their retention was less a problem than other issues. It was interesting to note how much pride interviewees took in retaining staff and how personally connected they felt to their employees, focusing on values rather than transactional relationships when it came to developing their culture and supporting their employees. This supports the view that SMEs provide a good, personalised culture.

For many their good retention was felt to be partly due to training they provided and their culture. However, with a minority anticipated frustrations arose when training staff, only to have them move on to other positions elsewhere:

“I would say it takes probably 9 to 12 months to become competent and confident because you have to be able to triage, to ask the right questions... It takes a good while and we did find for a while, but just as we were getting people to be really useful and competent, then we lose them.”

(micro business, optometry)

The risk of a small business **depending on the expertise of a few individuals** was also noted by another firm's recent experiences meaning such skills were a vulnerability, and illustrates the need for a consistent and reliable pipeline:

“Over the past few months, we did have three technicians/engineers and one of them had been with us for coming up four years, the other one around three years, and then the third one had been with us about six months when the longest two standing decided to leave. So, that left us a little bit in the lurch, really and we're kind of having to start from scratch again with another new person.”

(micro business, green energy, and manufacturing)

For most interviewees **managing the performance of existing employees was not seen as a problematic issue**, and neither was **absenteeism**, and this they linked to their positive work culture. However, for a minority of businesses managing employee absence was one of the more challenging staffing issues encountered, particularly dealing with the impact on other members of staff workloads and/or the need to cover the additional hours themselves:

“If I can't get someone to cover, I simply do more myself but that then impacts on the management of the business as I'm just working and don't have time for anything else.”

(small business, hospitality)

The challenging recruitment context was placing upwards pressure pay and making competing with larger companies difficult. However, for most who raised the issue and **increases in the minimum wage** as a challenge this was more to do with the impact it had on their pay scales their ability to offer pay progression for other staff with more experience and expertise.

Scaling up and Skills

For many SMEs their identified people and skills challenges had emerged as a result of **growing their businesses**, particularly around the **leadership and people management skills and processes needed to scale up**:

“I think as we have grown, it’s become more apparent because when you are a business owner starting out, you just have to manage yourself, and then it’s a skill in itself to figure out how to manage other people properly. You can still manage them, but whether you manage them well enough to keep your staff, I think that is another thing....I think we’re at that stage now where we’ve grown enough so that we need to really cement our processes and workflows in order to give us the ability to scale... we’re still a small company, but it’s formalizing those processes so that as we scale, it all sort of works out perfectly rather than just being a big gang of people doing stuff. Yeah, it’s getting those processes in place.”

(small business, tech)

For one business who had experienced rapid growth the additional management layers they put in place made them feel like they had lost connection with their business purpose and their values and were looking to scale back as a result:

“Previously we’ve had all these management layers... and when we stripped all that away, we’ve realized we have the best team right in front of us, who have that culture and care about each other and care about the business and most importantly, care about the clients and that was there all along... we’ll have the core team that has the culture that we don’t move away from. They are our management team and then we build back up from there.”

(small business, IT and tech support)

This appeared to be a severe pinch point, whereby the need for skills to grow also necessitated a challenge to maintaining the personalised work culture built in the company. It is both the most challenging areas for any system to address (as the advice needed is bespoke to the particular firm’s needs and culture), but also the area where there is the most potential for policy intervention that impacts on SME growth (as this is the sector looking to grow but requiring bespoke support to do so. This illustrates an area where a coordinated systemic approach geared toward growing such firms can have a beneficial effect to firms, jobs and the Welsh economy where opportunities for growth are currently not able to be identified or taken.

Summary

This section highlighted the challenging context facing SMEs across Wales, with recruitment challenges identified as being particularly intense and for some was acting as a break on growth. The next section explores the diverse ways that the SMEs interviewed have responded to these challenges and shows that while some businesses have had to turn down business and halt their expansion plans in response others had adopted innovative practices to help address their skills and people challenges.



Businesses' responses to skill challenges

Businesses have not been passive about the skills challenges they face but have come up with disparate and innovative responses to those challenges, often off their own back. These illustrate how some of the 'shining light' businesses can adapt to the skills environment, with good practice that should be captured and shared. Many of these responses were strategic and in context very successful. The general picture – even among those succeeding in providing workarounds to the challenges - illustrate the necessary limitations of depending on individualized firms to address these issues in an isolated and disparate way, leading to fragmented and partial responses to a complex systemic problem. This also points to the issues we address in the next chapter on how this points to ways to provide for a more holistic approach across skills and economy.

The majority of businesses interviewed offered some type of workplace training to their employees either to help close skills gaps, support employee development or meet organisational requirements. However, **only a minority of business had a training plan in place, or a specific budget allocated towards training**, reinforcing the data noted in previous FSB research outlined above. Further, for some organisations, particularly those in hospitality, retail and the charity sector, the training that was offered was mainly focused on mandatory training to meet regulatory requirements and/or health and safety training and induction.

Several organisations expressed **a preference for in-house and on-the-job training over external training**. The reasons for this preference included the view that on-the-job training was the most effective way to develop their employees; that external training was not relevant, or sufficiently tailored to their organisations, or that it was too costly and had limited returns on investment; while other organisations reported geographic constraints in accessing external training which meets their specialist needs:

“I don’t like corporate training. I’ve always found it to be expensive and ineffective. You know, there’s lots of providers and you are you paying a lot of money and you’re only as good as the provider and a lot of the providers aren’t offering anything special.”

(microbusiness, IT)

“We’ve got quite specific needs, and we get the training to meet the regulatory, the compliance-related stuff, but then the other stuff is really kind of quite specific to our own business and an off the shelf offer that won’t help in that area.”

(small business, real estate)

“The majority of the training is on the job. It’s learning by example and so, you know shadowing, becoming part of the team.”

(microbusiness, engineering construction)

One business had **cross-trained** their employees during the pandemic to enable them to continue to function when employees had to isolate or take time off due to illness, this has helped them reduce reliance on part-time workers and has acted to ease current recruitment difficulties. Another organisation had used the enforced break from business as usual during the pandemic to rethink their workforce development strategy, invest in their management and leadership capabilities, and consider their succession planning needs in response to their aging workforce. This headroom was seen as valuable by this business:

“Covid did give a natural break to take stock, I suppose it gave a senior management team time to breathe and look at how the develop a future strategy, if we want to grow the business, we have to grow our resources, and we needed to look at long term development, we realised we need to focus on development from the top all the way down. So, at senior management level we all have an external mentor...so that’s also sort of the legacy of COVID.”

(medium sized business, manufacturing)

The majority of SMEs interviewed **did not have a strategic approach in place to identify skills gaps among their existing workforce**, taking a more ad hoc and informal approach to addressing staff development needs. However, a small minority of SMEs have taken a more structured approach to identifying and addressing development needs, in one business this was prompted by the need to shift to a more formal arrangements because of growth.

“So, we have written descriptors, a development plan and we use that as a tool within the most recent review process that we’ve done, and to be honest, it was really, really well received and they could see where perhaps their gap were and what they could do to develop themselves.”

(medium sized business, manufacturing)

“We’ve moved as we’ve got bigger, so we went from informal pieces to more formal. We have 6 monthly annual appraisals for all the staff, so identify training needs, and sending to external courses. We probably spent £30,000 last year.”

(medium sized business, manufacturing)

Only a minority of SMEs offered apprenticeships to their existing employees or new recruits. Those that did offer apprenticeships did so for a variety of reasons these including altruistic reasons, it was seen as the ‘right thing to do’, while others were using apprenticeships as a way to meet organisational skills needs and to attract and retain staff.

“I’m a great believer in is apprenticeships. And the reason I’m a great believer in that is I absolutely believe as the owner of a business that this business has the ability to transform lives for the good. And I think that as a responsibility that my business partner and I take very seriously.”

(small business, tech and IT)

“We’ve had two people who started with us as apprentices, and now they’re moving into becoming senior engineers. And I get a real kick out of that. But also, what it means is they’ve come into the business, they understand it from the ground up and then they understand our clients really well Those engineers are far better than anyone that we can bring in.”

(small business, IT)

“Throughout the pandemic did not furlough anybody. What we did do, is we did right by our people, by taking on apprentices. And last year we took on 6, the year before that was 4, and the year before that was 5. So, we have continued our policy on bringing in apprentices and developing succession planning accordingly.”

(medium business, manufacturing)



Reasons given for those who didn't offer apprenticeship pathways were diverse. For some it was a lack of awareness, for others because they didn't think they needed them in their businesses. However, for others it was due to a lack of time and capacity to mentor, support and develop apprentices, and this lack of time and capacity was being exacerbated by the need to firefight current recruitment difficulties and increased workloads for existing staff.

“I did approach a local college shortly before the pandemic to see if a staff member working in the kitchen might be able to develop his cooking skills via an apprenticeship... unfortunately, the college level of cooking was not what I was looking for as the training was at a higher level than we were looking for and would have been able to support.”

(microbusiness, hospitality)

“The reason we don't do apprenticeships is because of the nature and the geographically dispersed nature of our organization... but more of the issue is because I'm fully versed in apprenticeships and I know the degree of support required to get the people and business benefits and we haven't got the time, I haven't got the time.”

(medium sized business, charity/third sector)

In response to the cost-of-living crisis, recruitment challenges and intense competition for staff a few of the SMEs interviewed had focused on **reviewing their wage and benefit packages** to try to attract and retain employees.

“We just started the process of reviewing our benefits package. So basically, you know what are the key things we can look at? So physical health, mental health as well. So, we're looking at that and then other perks we're looking at as well. So, for example, we are looking at performance related bonuses.”

(small business, professional services)

“Yes, and it is one of our obvious things, certainly from my perspective in terms of HR, my strategic pillars. So yes, reward and benefits, so salaries are very competitive. When we hit certain turnover markers, certain benefits or additional benefits will be introduced. So that has been, yes, that has been looked at.”

(medium business, agriculture)

While one firm was attempting to retain senior employees via piloting a new approach to reward:

“We're trying to do that [retain staff] through an employee management initiative... we've set KPI for senior managers in the company and if they hit those targets then they got the option to buy shares. A bit like the John Lewis kind of portfolio, where they're actually partners, not employees, to try and give them to feel that it is their company as well and also sustain growth in a way that we're going to keep key members of staff and we know that those positions are secured.”

(small business, hospitality)



One successful example came from a firm in the construction sector which had managed to tap into a wider pool of labour **by shifting their recruitment approach to focus on broader transferable capabilities and attitude** rather than technical or specialist job skills:

“But in the last couple of years we changed our tack, and we thought you know what, as long as we take on people who’ve got the right attitude, they fit our company values, then we can retrain them. Doesn’t matter what sector they’ve come from. So yeah, I think that’s where we’ve hit our success is that we’ve just started almost targeting people and saying, you know, it doesn’t matter if you’re not from this industry. We will train you up as long as you’re willing to learn, and you’ve got the right work ethic, then yeah, you’re a good fit for us.”

(medium sized business, construction)

Some seasonal businesses have adopted **contractual arrangements that mean they can retain valuable employees** to ensure that they don’t need to recruit and retrain new members of staff:

“So, they’re salaried so they get a nice even, you know, distribution of wages and hours basically across the year. I also have part timers who are permanent because it’s very, very difficult to replace people like that and you’ve got them, and you trained them up. And just because you’re quiet for sort of two months a year or something, you know it could be a lot more hassle like trying to find people retrain people.”

(small business, tourism)

Some SMEs have taken a proactive approach to creating a better **work place culture/environment**, including through adopting flexible and/or hybrid working arrangements; increasing employee engagement; and enhancing 'employee voice' through developing feedback mechanisms:

"I could give you so many anecdotes where enabling staff to provide that feedback has changed processes and practices for the management. It is small things, but it's really making a major difference to the team. It is also empowering for that manager because he can see already see the benefit of taking account of people's thoughts and ideas and it is quite early days but the buy in with managers is really strong because they feel that they could already see the benefit."

(medium sized business, manufacturing)

Several businesses interviewed were actively working with schools, colleges or universities to help **build their future talent pipelines**.

"You cannot wake up one morning and go "I need staff" and expect them to be there. You need to plan. You need to put yourself out there. You need to build relationships with your academic partners, school colleges, universities, and you need to give it time. You can't just snap your fingers and they will arrive."

(micro business, manufacturing)

When asked how they'd built the relationship with colleges and universities, the general response was that the firm had approached the institutions rather than vice versa, or that it had been through relationships with those institutions through networks built prior to running the business, indicating that there could be work in terms of outreach and inclusion of SMEs locally from the central FE and HE institutions too. **Relationship with education providers had developed in ad hoc and informal way, via personal connections**, and are therefore at risk of being unsustainable in the longer-term, for instance if staff move on to other organisations. In addition, a number of businesses highlighted the negative impact that losing intermediary support, for example, around work experience, had had on their ability to engage with the education sector.

"I think it's more informal... and it tends to be on basis of who the managers know. We did a recruitment event in the evening about 3 months ago. We put that out to some local colleges saying we've got some vacancies you know can you advertise this to come along. So, there are those kinds of informal links of doing that."

(Medium sized employer, childcare)

"We try every so often you really, whether it's local colleges and through the chambers or whichever network will get us into local schools. So, we do try that, but it doesn't ever seem to get any traction and Careers Wales used to do all the work experience and look after that side and losing that probably has had a detrimental effect. I think that that isn't something that's pursued."

(medium sized business, agriculture)

The reasons for engaging with the education system varied, some were doing it purely because they felt it as the “right thing to do” (especially schools) while others engaging to try and raise the profile of their sector, increase the relevance of course content, or build the transferable and specialist skills of students – and provide a pipeline for new staff - through placements.

One business also highlighted the organisational benefits of providing placements for students, enabling them to try out new ideas in a risk-free-way, bring in a fresh perspective, and access new skills:

“Yes, there’s a lot more minds coming from a completely different backgrounds to look at a solution, a problem that we’ve got and sometimes the solutions they come up with are completely different to the direction we’d have gone in. Obviously, they’re from a different generation, so they’re exposed to newer technologies, potentially stuff that they’ve learned in their first and second years at university that now you know is new to us.”

(small business, manufacturing)



Summary

This section has highlighted the diverse range SMEs had responded to their people and skills challenges. A number were focusing on building talent pipelines via links with schools, colleges and universities or through offering structured apprenticeship pathways into their businesses. Others were changing their recruitment practices to reach broader talent pools, reviewing the pay and benefit packages to attract and retain staff, and creating a positive workplace culture. These examples of innovative approaches to tackling skills and people challenge highlight the opportunity to find ways to scale and spread good practices among the wider small business community.

Chapter 4

Interviews findings

Perceptions and use of business and skills support

“There are lots of good ideas, I meet people all the time with fantastic business models and concepts, but the right support at the right time, and it is not agile enough here... by the time you’ve got the money somebody probably already launching it somewhere else in the UK and you’ve missed the boat.”

(micro business, real estate)

This chapter examines the experiences of SMEs interviewed when accessing support, in terms of wider business and skills support and its effectiveness. Both business support and support for skills and individuals from various sources play a crucial role in fostering the growth of startups and small businesses and building their capacity and capabilities. Whether this is measured in terms of productivity, workforce size, services provided, or skills aimed at enhancing sustainability and efficiency, will differ depending on the industry, company size, and business type.

However, in many cases this will in some way be mutually dependent. For example, when an SME decides to invest in new machinery (known as process innovation), they become dependent on their ability to access the required skills in the area. Without this access, any potential gains from the investment are lost. Similarly, if an SME aims to expand, it must be able to build its workforce and skills to capitalise on its growth plans. Indeed, any multiplier effect resulting from infrastructure development or public and private investments is in some way dependent on establishing this skills pipeline alongside any physical infrastructure.

SME Business Support – Support Accessed and Effectiveness

It is significant that almost all our respondents brought up Business Wales. While responses were not universally in its favour, it has clearly succeeded in getting name recognition and therefore serves a useful function as one stop shop. Many had good experiences of its support in the start-up phase, and FSB surveys have regularly noted its support as being a competitive advantage for Wales.

However, issues regarding the **accessibility and general awareness** of SME business support was an occurring theme throughout the interviews:

“I think it’s not clear what support there is, we’ve never been proactively contacted to say this is the support that there is, and we can give this to you. There are pockets of money here, there and everywhere that I hear about, but I think it’s if you’re in the know, you’re in the know and if you’re not, you’d never find out about it. And there’s just not enough joined-up thinking.”

(small business, IT)

“My biggest issue is the bureaucracy. And the same applies to any funding because you’ve got to fill in so much paperwork. ... I know it’s public money and I accept that they need to check there’s not waste, I buy into that, but there’s overkill.”

(medium business, manufacturing)

“How the Welsh Assembly [sic] gets this across to small businesses I don’t know, but there are probably a lot of schemes out there that small businesses aren’t taking advantage of. And it’s simply because they don’t know about it.”

(micro business, retail)

Smaller businesses have relatively **less time and capacity to access support**. This was reflected in our interviews as some found that business support, such as Business Wales, was not useful because it was too time consuming to access:

“I find Business Wales helpful to a point. I think if I had more time where I could sit down with them, it’s cause I’m time poor.”

(micro business, retail)

The time it takes, and how the particular business did not match with the paperwork required was also raised. They identified that additional face to face support and business visits to understand how they operated might have made the process more effective. Concerningly, in one case expressed how the experience would make them reluctant to try it again:

“They are so risk adverse and they need so much information with business plans and so on that I could spend weeks and weeks putting something together and because it wouldn’t marry up with what they want see then it would get thrown out and it would be a waste of my time.”

(micro business, real estate)

Some interviews were more critical of Business Wales:

“I have in the past [tried Business Wales] but again it’s an issue with the quality - sometimes it takes more effort to engage and not get an answer and then have to call your accountant or professional advisor anyway.”

(micro business, IT and software development)

“The lack of engagement, the lack of insight, a lot it was more of a box ticking exercise for them rather than an actual impact measurement. It was lack of maybe specialist knowledge around the type of business we were looking to start up and grow. There could have been kind of more specialist advisors, and I think they didn’t give much contact time.”

(micro business, recruitment)

For many, while Business Wales support had been **effective when they were at start-up phase** when they **progressed beyond this the availability of support diminished**. They also identified an **absence in the building of peer-to-peer networks** resulting from business support engagement:

“It was very good about helping you think about setting things up and then they sort of let you go. There isn’t really the support [afterwards] - So you’d think why they can’t not a pair up new company, and [an established] company together. blindingly obvious, but it doesn’t happen, you know.”

(medium business, housing)

One concern was that **funding conditions were narrowly focused** on achieving job numbers alone, neglecting the firm’s broader needs for successfully scaling up:

“There’s such a drive to grow, isn’t there? You know, there’s such a drive to have a bigger business and you know in Wales in particular. We’re supported by Development Bank Wales, and they send a questionnaire out every year, and you know it’s a lot about kind of how many jobs are you created and what they want to see is job creation... But is that the only health metric we’re going on?”

(small business, tech and IT support)

As with Business Wales, the same respondent noted that they had effective support by the Development Bank early in their start-up phase, but noted there was still a **missed opportunity in support available, particularly in scaling up**:

“I will forever be grateful for Development Bank of Wales, but I think there’s a real issue here in terms of giving the money [out]... I just think there’s a massive piece missing of going - ‘Here’s an exciting business that’s gone from 5 employees to 27 at one point in a five-year period. They’re going to need a lot of support. We’ve seen this happen in other businesses. Let’s get that support in the let’s fund it and we can see great things happen there.”

(small business, tech and IT support)



Where support was identified as being effective the role of personal connections with business support staff was identified as a key reason for this several interviews, while one business was particularly positive about the face-to-face support provided:

“I think you have to find that soul mate in Business Wales... the fact is that you need that positivity, and we are seeing that and I’m confident that in the next year or three we will get something because that’s really what’s stopping us going forward.”

(micro, aerospace)

“They’ve actually come down and looked at the business and it’s really helpful when somebody takes the time to come and see what you do, and how the different elements of the business are interlinked. So yeah, that’s been really positive, it is sort of something that we’ve sort of renewed or engaged in more in the last six months. I think that’s been beneficial, definitely.”

(medium sized business, manufacturing, leisure and tourism)

The importance of personal and trusted connection is something that was found in FSB’s recent UK report on innovation ‘The Tech Tonic’, as a key to being able to get impact from the policy intervention in delivery.¹⁶

Some had been able to get on the **Welsh Government Business Wales Accelerated Growth Programme (AGP)** and this support had been appreciated, which appeared to have helped to grow the firms:

“We’re on the Accelerated Growth Programme, the AGP and we’re about to start at work package on procurement, where a procurement specialist comes into the company and sort of looks at how we do things and will give advice on how we can sort of improve it or streamline it. I’ve always been very open to get an external eyes and ears coming into the company and putting a critical opinion on how we’re doing things...We don’t excessively use the AGP, but whenever we do it usually it is very useful for us.”

(medium sized business, construction)

¹⁶ Russell, C (FSB 2023), ‘The Tech Tonic’ available at <https://www.fsb.org.uk/resource-report/the-tech-tonic.html>

One participant on another accelerator programme highlighted the **peer-to-peer business network** that had been established as a result particularly helpful. This was considered beneficial, and it is worth noting this is something that other respondents have said is missing when engaging with Business Wales at other stages and in other start up programmes:

“In the end we were lucky enough to get taken on to the NatWest Accelerator programme. What it created was very much a community of kind of start-ups and scaling businesses... and it’s amazing, even though kind of we were working alongside businesses in completely different industries and fields, a lot of the challenges we were facing for exactly the same. So, we really kind of leaned on that community and really kind of felt comfort and motivated by seeing what other businesses were doing, collaborating and generating ideas.”

(micro business, recruitment)

Interviewees also bought up **UK business support** that they had accessed, with one respondent who had worked with Innovate UK finding the specialist and bespoke nature of the support they access particularly useful:

“I work with Innovate [UK] Edge based around their sort of growth plan to try and help us with some projects that are going through. But they do give whatever experience the specialist has got and then they can give advice etcetera.”

(micro business, tech)

It is important that innovation and R&D funding be more easily accessible, and it has proven beneficial when accessed. It’s worth noting that Wales has historically received a proportionately lower share of UK R&D and innovation funds in this sector than other UK regions and nations.¹⁷



¹⁷ Panjawi, A. House of Commons Library Sep 2023, ‘Research and Development spending’ <https://researchbriefings.files.parliament.uk/documents/SN04223/SN04223.pdf>

Private sector business support

Several of our interviewees **used private sector sources of support** for their needs and found useful bespoke services. However, in most of the cases we identified this was concentrated around the legal and/or accountancy support rather than strategic business or people management support. Nevertheless, two business interviewed sought more strategic support as demonstrated by the quotes below:

“We’re actually doing a piece of work with a HR professional, a systems specialist who’s coming in to look a lot the processes and policies that we have in place and this highlights one of the internal challenges we have as a business at the moment.”

(micro business, recruitment)

“I use external support, legal support, and I’ve just gone to a new legal provider who’s an SME or a micro or a one-man band nearly and moved away from a medium sized company. And I’m getting much better service. That person I found through one of our board members. I belong to a network of private commercial HR consultants. So, if I’m looking for somebody specialist to do some investigation training and like that, I’ll go to that network of people and go there.”

(medium sized business, housing)

However, a minority of businesses, particularly micro and small retail and hospitality firms, had not accessed any public or private sector business or skills support and relied on informal and family connections:

“If it wasn’t for my peers, I would be stuck. I would be looking for support 100%. I’m only lucky that my brother-in-law has a garage with five or six staff so all they’re all set up. They’re all ready. So, I’ve got that [support and advice] there but someone else might not. From my point of view, I’m just a normal working mum who’s taking over a shop and trying to keep it going, the best she can. So, without that, yes, I would definitely be in trouble.”

(micro business, retail)



Striking the right balance

It's important to acknowledge that while FSB Wales values Business Wales as an institution that aids Welsh SMEs, there's a delicate balance between offering support and potentially crowding out private providers of expertise. Anecdotally, this concern has been raised by some professional private business support practitioners. However, there does seem to be a viable happy medium. As one interviewee put it:

“I think it's easy to say ‘oh, Welsh Government should be doing this, and they should be doing that’. I think there are definitely organizations out there that are offering the skills and even advice on creating a good skills plan. Because if you are looking to grow then you need to start thinking about that growth ahead of time and understand where that person is going to do, what their job description is going to be...plan it all out ahead of time...with all the will in the world, I don't think Welsh government can cover every industry and every community in the whole of Wales.”

(small business, tech)

Business Wales provides a valuable one stop shop for business, but it has struggled in terms of providing expertise in certain areas. We have heard this too in other work in terms of exporting, scaling up, and the missing middle agenda. At a time of continued tight public finance, it is important that we coordinate expertise whether public or private, and do not have unrealistic expectations of Business Wales provision it provides. Further development in useful signposting to other UK agencies for particular support, such as R&D would be useful, as well as a means to point to private sector provision where appropriate for bespoke needs.

As such, a **rational approach that bridges the public-private divide is to have a list of trusted and accredited providers on the Business Wales, with all the usual appropriate conditions.** For example, that Business Wales do not take responsibility for external providers. This would seem to provide a good way to signpost to other providers based on their accredited expertise and types of businesses they support.

Accessing the skills and employment support system

As noted in the previous chapter while most businesses interviewed offered workplace training to their employees most expressed **a preference for on-the-job rather than external training**. This was because many felt that external training was not relevant, or sufficiently tailored to their organisations, or that it was too costly, while other organisations reported geographic constraints in accessing training that meets needs. Many of the same reasons were expressed by firms who did not offer apprenticeships, alongside a lack of time and capacity to mentor, support and develop apprentices. There was also a **general lack of awareness of availability of training opportunities** and confusion about how to navigate what was seen as a complex and fragmented system.

It should be noted that there are successful and effective examples of initiatives promoting greater engagement between business and education, **but we need to learn from successful, best-practice models already in operation across Wales**. Often, good practice is happening in fragmented pockets, and it is important that we showcase and share this across the system, which hopefully new structures such as CTER can help support.

The Career Ready programme at Cardiff & Vale College is part of the wider, and well-proven Career Ready model – an education charity operating across the UK in colleges and sixth forms.

The programme affords career-focussed experiential opportunities for young people aged 16-19 via masterclasses on a range of subjects presented by representatives from across different industries as well as mentoring with volunteers from business and the opportunity of an internship with a range of different organisations. The programme is overseen and assisted by a ‘Regional Advisory Board’ of volunteer representatives from businesses as well as Cardiff & Vale College staff ensuring not only that the Programme remains relevant but is equally responsive to the needs of learners and businesses alike. This also reinforces the relationship between the College and industry creating benefit for other activity.

From our interviews, a few businesses were working directly with FE and HE providers to develop flexible and bespoke training to meet their skills needs with some interviewees mentioning their local universities as being very helpful:

“UWTSD [University of Trinity St David], we work closely with them. Of course, smart partnership is part of that shared knowledge and having one of their lecturers 2 days a month with us.”

(micro business, aerospace)

Some had found access easier, owing to presence on boards, and personal relationships, that allowed for better flexibility in courses to match students to their work practices:

“I’m actually a board member of the Cardiff and Vale Hospitality and Tourism Board. So, I work very closely with the Cardiff and Vale colleges, and we bring people in on job experience and sort of we use them, and I go to the college, and I speak to the, to the students and things like that.”

(micro business, events, hospitality and leisure)

“Well, they kind of came to me because I did my Masters at Bangor University, Ocean Sciences.”

(small business, tourism)

“The Advanced Manufacturing Academy is a lot more open to designing bespoke modules to accommodate the way that we could bespoke training to accommodate our needs.”

(medium sized business, precision engineering)

It was also noted that their links to groups and different levels of government (including personal contacts built over time) were useful to get their points across and to feed in to shaping the skills system:

“We worked in collaboration with Welsh Government of many years on their various sector panel, in industrial advisory groups, Task and finish groups and so on and so forth. Just to raise the profile of manufacturing and to raise the profile of industry and we always keep saying, you know, for every one job in manufacturing, there’s three in the supply chain. So, if you want to grow and rebalance the economy, this is an area that should be considered.”

(medium sized business, precision engineering)

This personal connection is appreciated by those businesses and building relationships over time is a good approach and builds understanding across both sides of the equation. It is to be noted however that for many the recruitment onto boards and college activities seemed often to be based around ad-hoc relationships rather than systematic. This was from both sides of the business/institution equation.

In part this can be attributed to the **importance that building networks and social capital plays in developing businesses**. Nevertheless, while aiming to keep personal points of contact, there is an opportunity to systematise and explore strategies to promote increased small business engagement across college boards, partnerships, and other avenues. This includes further strengthening connections with relevant departments in colleges and universities.

However, many found **accessing schools and FE for practical based education and work experience difficult**, with many instances of SMEs themselves approaching colleges and universities but not getting a constructive response.

It was also acknowledged by one business that there was a need to show willing from both sides and to understand the benefits:

“We’ve worked with Pembrokeshire County Council, their education department, with the college, and the university, and as a business we made that that link. And now, when the college has an open day for engineering, they ask us to go in as a business alongside them. Other businesses don’t give that time, so part of the challenge is the schools, colleges, universities have got to try to get more engagement, but we’ve also got to get that engagement from businesses.”

(micro business, aerospace)

A service that better signposts businesses instead of leaving it to time-poor employers, would be of great added-value to ensure the success of both sides, if done effectively.



Employment Support Schemes

One respondent was glowing in praise for Jobs Growth Wales in its earlier inception but felt it became more bureaucratic as it went on. They now felt it was no longer worth their while:

“When they did the Jobs Growth Wales the first time it was excellent. It created lots and lots of jobs. But by the second time it become an administrative nightmare to get people... we couldn’t even get a get a placement because the paperwork was so bad and so much required, that we decided not to do it. We don’t have our own HR departments, so even though we comply with all the regulation, but what they’re asking for is horrendous.”

(medium sized business, manufacturing)

The UK Kickstart programme for training during Covid-19 was one programme many had used, but with which **very few interviewees noted positive experiences**. For some this was due to the client group requiring too much support while others highlighted a poor match between the role offered and individuals put forward for the placement:

“I tried Kickstart [scheme] and I had eight positions on the Kickstart. One of them, I still have. So, it didn’t really work out, to be honest. I think one of the problems is that they needed an awful lot of support, and a lot of them lack motivation to work or to get their own goals. And so that didn’t really work out.”

(small business, tourism)

Another had come up with a **training plan that was rejected after lots of effort and cost** was put in. This serves as an example of how a training plan tailored for business growth and the development of young talent has the potential to be transformative for both the business and the local community, as well as help to **fulfil the Young People's Guarantee**. However, this appears to have got lost in the processes, at least according to the employer.

“We spent so much work on it, and we got our training officer to write all the modules and how we were going to do it. We submitted it to the Welsh Government, and they came back to us, and they thought all it was a brilliant idea but then I put the application into the Department of Work [and Pensions] and they said our business wasn't suitable as we didn't reach the criteria to train hospitality staff.. I had staff there waiting to train them and that's what makes you mad, isn't it? And then we've come out of covid and now you can't get any hospitality staff where if they would have allowed me to train 30 and we would have had sixty members of staff.”

(medium sized business, events, leisure, and hospitality)

In general, it is important to recognise the potential negative impact of poor service in skills support for SMEs, as **these experiences can discourage SMES from accessing support in future**, as highlighted from the quote from one employer who had a negative experience with the Kick Start programme:

“It doesn't always get done rather than the way it should get done. And the problem is then you end up with employers thinking ‘right, I'm never doing that again’.”

(small business, tourism)



Commission for Tertiary Education and Research

The Commission for Tertiary Education and Research (CTER) was established in September 2023 and will become operational from April 2024. It will become responsible for the strategy, funding and oversight of further education (FE), higher education (HE), lifelong learning, apprenticeships and training.

The Responsibilities of the Commission are:

- Take a whole system approach to research and innovation funding with an ability to provide funding to a wide range of HE and FE institutions.
- Protect the interests of learners, ensuring vocational and academic learning are equally valued.
- Align education and training more closely with the needs of employers.
- Monitor performance and governance whilst protecting the academic freedom of institutions.
- Monitor and promote improvement in education and training providers.
- Increase the availability of Welsh-medium tertiary education and to encourage individuals to learn through the medium of Welsh.¹⁸

The new Commission begins its work at an extremely challenging moment with cuts being felt in the Skills budget in particular¹⁹. However, it also presents an excellent opportunity to provide a trusted and autonomous arm's length body that better links business needs with education and training. Potentially, it could renew and build a holistic strategy that provides an economic growth strategy within skills. At a time when public finances remain tight, it is vital that governance changes use the best practice model to add value wherever possible, and CTER as an arm's length body has the potential to deliver on this.

FSB Wales have noted in previous reports the principles an arm's length body can promote better to provide the most effective governance.²⁰ These include that HE institutions have clear autonomy and independence to provide for:

- An overarching forward-thinking strategy: promote a focus on sustainable long-term outcomes, and avoid incremental, piecemeal but uncoordinated actions.
- Building consensus and mitigating political risk: Lack of continuity can make for risk with a change in administration meaning decisions can be reversed. A system geared toward building consensus and mitigating against these weaknesses would be better.
- Building a strong and independent evidence base and building trust: An independent evidence base provided by a trusted actor or institution at arm's length from government acting in accordance with wider general principles would allow for a debate based around a common ground of evidence.
- Effective engagement: Arm's length bodies can provide a central point to coordinate different actors and interests, and this is useful for a key but disparate sector such as SMEs.

In terms of policy agenda, CETER's holistic approach should look to develop on Dr Hefin David MS's recent report 'Transitions to Employment'²¹ and its themes on transitions to world of work and a commitment to work-related learning, alongside a wider strategy to prime growth in SMEs to open new opportunities.

¹⁸ <https://www.gov.wales/tertiary-education-and-research-commission>

¹⁹ Welsh Government (Oct 2023), 'Update on 2023-24 Financial Position', available at <https://www.gov.wales/sites/default/files/publications/2023-10/update-on-2023-2024-financial-position-summary-of-main-changes.pdf>

²⁰ ap Gareth, L (FSB: 2019), 'Are We There Yet?: A Roadmap to Better Infrastructure for Wales', available at: <https://www.fsb.org.uk/resources-page/arewethereyet.html>

²¹ David, H (Welsh Government:2023), 'Transitions to Employment: A Report for Welsh Government', available at <https://www.gov.wales/sites/default/files/publications/2023-06/230616-transitions-to-employment.pdf> David, H (Welsh Government:2023), 'Transitions to Employment: A Report for Welsh Government', available at <https://www.gov.wales/sites/default/files/publications/2023-06/230616-transitions-to-employment.pdf>

Development of this agenda should then look to:

- Use its role as an arm's length institution as an opportunity to developing an SME focused strategy with a mission to skills-based growth, and to articulate the value to employers within the system.
- CTER should provide a central hub for research and analysis for understanding the skills gaps SMEs face in the short-term, while also commissioning research to the same ends over the long term.
- Multiyear budgets should help ensure the system has this research data in development to build the systemic capacity. This data should then be openly available and shared with all decision-makers within the system (especially RSPs) to ensure decision making is effective and based on strong and independent evidence base.
- CTER should explore and develop a model that better links an economic policy growth lens alongside the policy social lens as mutually reinforcing. This links to ensuring the best capacity and capabilities-based growth approach that serves employers, learners and provides better outcomes for providers. This should look at international best practice and look to SME-focused 'think small first' agenda, acknowledging that this is the area with the most latent potential for growth.

Summary and conclusions

The feedback on public sector business start-up support was broadly positive. However, as needs become more specialised when scaling up, business support seems to struggle to be flexible enough to respond to the firms' needs and is perceived to become increasingly bureaucratic. Similarly, accessing support around skills was seen as difficult and time consuming with often little reward, with a perceived mismatch between firm needs and education and skills provision.

Businesses found schools and colleges mostly difficult to access and felt courses lacked a practical element that matches the skill needs of firms, while some noted that their location made it difficult to access skills and training opportunities. While a number had made links with educational institutions at times these felt ad-hoc and dependent, to some extent, on individual relationship. They were also limited by what sectoral departments were available in their local areas in FE and HE. Where there are universities that are locally active – and this may be within departments rather than systematic – this clearly has a huge impact on the prospects for growth on SMEs that can match those skills.

Others did not know where to start and expressed the need for a single point of contact within the skills system to signpost them and match their needs. Significantly, a few noted that the cuts in funding for Careers Wales had resulted in the loss of the 'matchmaking' that was previously offered to some extent. It is worth noting that cost savings in the Government budget here seemed to have led to significant opportunity costs for many small businesses. For those trying to access skills for the first time, especially, this has added significant cost, with often little reward and significant discouragement, in trying to navigate the skill systems.

These are longstanding issues, and it also must be acknowledged that balancing different needs across skills is extremely complex. However, this does present an opportunity. Firstly, business support through Business Wales and the Development Bank of Wales, while not perfect, is very well recognised as part of the furniture in the Welsh SME landscape. This contrasts with other UK regions and provides a competitive advantage.

Recommendations

“Skills are especially relevant for the competitiveness and resilience of small- and medium-sized enterprises, which, compared to larger organisations, typically have a more limited ability to leverage other sources of capital and productivity. Access to skills is also critical for SMEs to adapt to rapid changes in economies, whereby value creation increasingly hinges on human capital and intangible assets.”

OECD SME and Entrepreneurship Outlook 2023

Strategic Framework

This report shines a light on the experiences and views of Welsh SMEs in relation to their key business and skills challenges as well as their perceptions of the effectiveness of the business support and skills and training system in meeting their needs.

It is clear from the interviews that small businesses in Wales are currently grappling with **accessing sufficiently skilled staff** while they also confront the challenge of a growing perceived **mismatch between the skills in the education system and those that business needs**.

This structural dilemma arises from a combination of factors, including a lack of foresight in anticipating skill requirements and a failure to adequately adapt vocational education and training to address the evolving needs of the labour market.

The critical imperative lies in forging a more robust **alliance between the spheres of education and training, and the stakeholders within the labour market, with a particular emphasis on SMEs**. This collaborative effort is essential for enhancing the alignment of skills with the rapidly changing demands of the labour market.

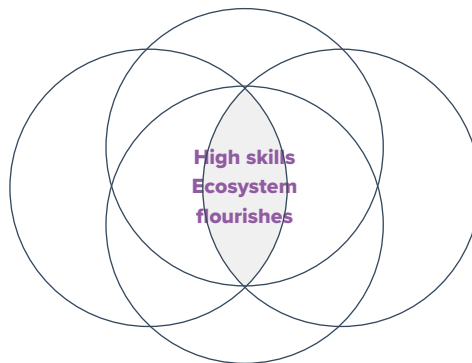
At Welsh Government level, there is a need to ensure a **collaborative cross-departmental approach** that **aligns skills and economic needs** and ensures an agenda that addresses the needs of all stakeholders. **A Skills led mission** that gives Welsh Government a priority through a taskforce for skills-led SME approach, taking in senior officials and policy development across Economy and Skills and Education to ensure a joined-up approach geared toward long term economic development.

There is also a need for a more **interconnected policy response at a local level**, the importance of which particularly relevant in the case of SMEs, which are much more likely to serve local markets and are required to draw from a local supply of skills. For instance, the OECD has long advocated for a local ecosystem approach²² to address issues related to growth, jobs and skills. This is because addressing these issues requires action across a range of inter-connected policy areas – including business support, innovation, skills, economic development, and industrial strategy.

Local ‘Skills Ecosystems’

Firms - see comparative advantage through addressing skills development and business performance in tandem to generate innovation and growth.

Education and training - responsive delivery at all levels that individuals and employers value.



Vocational education and training, employment and industry policies support high skills strategy.

Individuals - invest in skills because rewarding jobs /career opportunities are available.

Previous CIPD research has also shown that building core people-management capability and improving firms ‘absorptive capacity’, is a necessary first step to business improvement given that many SMEs either lack a dedicated HR function or are time and resource poor and therefore lack in depth knowledge of the skills gaps and people management challenges and how to address them effectively.²³

From this general strategic framework, the economic mission on skills follows. Focusing on these desired outcomes to grow the SME economy in Wales and refresh the ‘missing middle’ agenda. Then we can build the key policy interventions for a better Skills-Led Economy in Wales geared for SME growth, building the capacity and capabilities of our firms while also building our citizens to have new skills opportunities, equipping them for future transition in the economy.

²² See papers at https://www.oecd-ilibrary.org/industry-and-services/oecd-local-economic-and-employment-development-leed-working-papers_20794797

²³ Keep, E (CIPD: 2023) *An industrial strategy for the everyday economy*, available at <https://www.cipd.org/globalassets/media/knowledge/knowledge-hub/reports/2023-pdfs/july23-industrial-strategy-policy-paper-8421.pdf>

List of Recommendations

Principles for Focus on SME Skills Based Economy Growth approach

- OECD research finds that **the UK could benefit from a 5% productivity gain if the level of skills mismatch was reduced to OECD best practice levels.** While many economic development and growth levers do not sit with Welsh Government, this area is largely devolved, and so should provide a clear economic priority and be developed as a mission for Welsh Government to address on a cross-governmental basis.
- The strategy for skills-led growth, geared for SMEs, must be based around the aim of making access to skills easier, within a wider business support aim of creating more time and space – or headroom – for businesses to take opportunities, including particularly in skills development.
- The general focus of business support should be on **alleviating**, in the short-term, the difficulties Welsh SMEs are facing in the cost of living and cost of doing business crisis, with the aim of providing **headroom** in the longer-term to build a more resilient SME-growth entrepreneurial ecosystem in which they can maximise the opportunities.
- A Mission approach would then look to gear our institutions, ways of working, targets and measures, and contracting obligations and procurement processes to building that goal.

Specific recommendations for business support

Wales benefits from a well-known, and comparatively well-funded, business support infrastructure through Business Wales and Development Bank Wales.

- **It is vital that this core business support infrastructure is protected and developed and placed on a statutory footing with core multi-year funding set out** and viewed as a key competitive advantage to Wales's economic and business development.
- When determining value-for-money, business support should **move beyond simple job creation targets towards a broader economic conversation.** This could include modernisation, decarbonisation targets, productivity gains, capacity and capabilities.
- The business and skills support systems must work together in a holistic way to ensure that maximum benefits are taken for individuals, firms and stakeholders of creating a skills ecosystem. Crucially, **business support services need to be flexible, bespoke and accessible and provide a range of support through start-up and growth phases.**
- Financial Support appears from our research to miss on medium-sized funding and financing to provide for scaling up **Welsh Government should also review the size of funds available where relatively small-medium amounts of funding are needed.** There appears to be a funding gap – or access to funding gap - between smaller pots (£5-10,000) and larger pots (£1m+). Breaking currently larger pots into smaller pots, and / or ensuring a proportion are set aside for SME funding would look to address a missing middle and help develop smaller firms to grow.

While there is a need to protect these assets the research has shown while the start-up support available is well received by SME support to scale as needs become more complex was seen as less relevant. SMEs understand Business Wales can't do everything and should focus on what it does well, and indeed it should avoid going into the market where private businesses providing advice and bespoke services can provide better services. These should be better joined up and signposted across through central resources:

- the private and public support services should be better linked to ensure that they feed into each other in a way that feels seamless to firms on their journey, via **providing a searchable facility and list of accredited and trusted providers to support businesses access additional specialist support.**
- more opportunities for peer-to-peer networking as well as promotion and sharing of examples of good practice via business networks could help to scale and spread successful ways to working. Learning from the impact of community networks from Accelerator programmes should be taken to wider business support mechanisms.



Specific recommendations for the skills and training system

Small businesses typically find navigating the skills and training system more difficult than larger firms. For those that don't invest in external training a lack of awareness of the availability of provision as well as the benefits of investing are key barriers to overcome.

- better alignment between skills support and business support could help overcome obstacles alongside the increased availability of more suitable training opportunities, such as bespoke, flexible and modular provision.
- Welsh Government and state institutions should build increased partnership between business and HE to support the development of more specifically relevant courses with appropriate mixture of practical skills and more relevant innovation by increasing representatives from businesses and SMEs

- A structured approach that provides through a central point of contact to match-make SMEs and education providers as was done previously by Careers Wales would lower the time and costs for SMEs. This may sit in Careers Wales or another body that is suitable and able to provide the expertise to span across the business and skills landscape. The impact of reducing Careers Wales's offer of linking across firms and skills system is to displace and increase the costs in time and effort for many more businesses across Wales. It is inefficient to push that role onto time-poor SMEs, and this lack of central knowledgeable contact works against matching skills with SMEs, and this role should be reintroduced either via Careers Wales or elsewhere. But Careers Wales appears to be well-known and respected body among SMEs.
- In any case, it is important that Careers Wales be adequately resourced to fulfil its roles and responsibilities in a mission for SME-based Skills-led economic growth approach.
- It was noticeable that there was no mention of Welsh Government's Regional Skills Partnership in any of the interviews which is a core part of its regional development approach. More needs to be done to demonstrate the relevance and value of such structures to smaller businesses

SMEs' **dependence on informal and ad-hoc links** across educational institutions mean that SMEs have ways to shape the skills they need on an ad-hoc piecemeal and fragmented basis. This should be addressed by

- ensuring wider pool of SMEs on boards and forums by HE and FE departments to help shape skills pedagogy and courses to fit local needs, providing more potential routes to employment while also building a pipeline for skills acquisition for local firms.
- FE and HE should develop clear strategies to facilitate links and to outreach to businesses where they are in the local area. These should be done in partnership with Local Authorities to provide a strong network that can be utilised to wider business and skills needs and provide a local partnership approach.

Growing **SME engagement** among businesses with the skills system will require clear actions sustained over the long term:

- Alongside the above strategy Welsh Government needs to be a clear long-term communication and marketing strategy to outline the benefits and to reach SMEs on what they are for their businesses.
- This is itself linked to building networks and engagement as noted above throughout the education and skills sector with local businesses as main means of publicising awareness of the strategy
- Engagement and network development should be viewed as a long-term process, rather than 'singular' consultation events. Relationship building is the key.
- This should sit alongside developing Peer-to-Peer networks on skills development to publicise good practice and examples.

Measures for success, such as in the national indicators, need to align to clear milestones of a ‘missing middle’ approach of growing smaller firms to provide for sustainable growth, with skills access being a core part of this.

- Targets on skills provision (e.g., apprenticeships, placements) must also provide targets and contracts for provision within different size businesses, split from micro to small and medium. This would ensure a better distribution of skills by business, but also by geographical location and better serves rural areas.
- the success of the SME skills based economic mission and the health of our economy is ‘missing middle charting’ of how many businesses are moving up through different bands of number of employees over time.
- Greater consistency on the understanding, measurement and tracking and trends of skills gaps among Welsh SMEs with targeted and mechanisms for clear strategies to address those gaps

Recommendations for Commission for Tertiary Education and Research (CTER)

- The functioning of the Commission for Tertiary Education and Research (CTER) should follow the best practice of arm’s length body to provide for a trusted central point of contact and engagement, and an independent evidence base that can then serve decision makers across the system. As such CTER should: use its role as an arm’s length and institution with clear autonomy as an opportunity to developing an SME focused strategy with a mission to skills-based growth, and to articulate the value to employers within the system.
- CTER should provide a central hub for research and analysis for understanding the skills gaps SMEs face in the short-term, while also commissioning research to the same ends over the long term.
- Multiyear budgets should help ensure the system has this research data in development to build the systemic capacity. This data should then be openly available and shared with all decision-makers within the system (especially RSPs) to ensure decision making is effective and based on strong and independent evidence base.
- CTER should explore and develop a model that better links an economic policy growth lens alongside the policy social lens as mutually reinforcing. This links to ensuring the best capacity and capabilities-based growth approach that serves employers, learners and provides better outcomes for providers. This should look at international best practice and look to SME-focused ‘think small first’ agenda, acknowledging that this is the area with the most latent potential for growth.



Annex: Methodology

FSB and CIPD conducted 30 in depth semi-structured interviews with 30 firms and stakeholders.

The Questions were based around the following themes:

- Business overview.
- Operational context and any business challenges.
- Any people and skills related challenges (i.e., recruitment, retention, absence, skills gaps).
- External support sought in addressing any people and skills challenges (inc. advice received/actions taken, any impacts seen).
- Experience (if applicable) in accessing government advice, support or skills/training services.

Underneath the themes interviewers were supplied with structured questions but given latitude to also pursue lines as they came up in the interviews, with interviews taking from 20-45 minutes.

Having sourced 20 Interviews, we employed to source a final 10 interviewees to balance our sample and to fill the most substantial gaps in terms of location, sectors, and size of businesses. This ensured a broadly representative sample. Qualitative software was used to help with analysis.

We had a broad sample of SMEs that covered agriculture, manufacturing and engineering, IT and tech, retail, leisure, hospitality and tourism, housing and real estate, childcare, healthcare, business services and skills and education. SMEs of different sizes were interviewed, with the bulk of the interviewees micro or small businesses, and a few medium sized. One education provider interviewed is a large business. Interviewees were sourced from all different areas of Wales.

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