

A SKILFUL WALES



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INTRODUCTION

The Welsh economy faces a number of challenges in the future. Two of the most prominent are Brexit and the disruptive nature of the digital economy. Both have the potential to fundamentally change the way businesses operate and both could have an impact on the nature of employment and skills needs within businesses across the Welsh economy.

For Brexit, our previous research has shown that faced with increasing difficulties in attracting and retaining skilled labour, firms will either absorb the costs of recruiting from elsewhere to fill their skills needs or will increase the level of training they give to their existing workforce.¹ Both of these outcomes will provoke questions for the nature, cost and content of skills provision in Wales and the existing routes to employment.

Likewise, much has been said about the impact digital innovation could have on firms. Whilst projections of impact are highly contested, a review commissioned by Welsh Government suggested as many as a third of Welsh jobs were vulnerable to advances in automation and artificial intelligence.² Whilst we cannot predict the future, we can say with some surety that businesses will need to be resilient to such changes.

In the context of these key challenges, Welsh Government is embarking on a number of reforms to employment and skills. It is for that reason, that FSB Wales commissioned a survey of SMEs to better understand their employment and skills requirements.

¹ FSB. 2017. A Skilful Exit. [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/a-skilful-exit---what-small-firms-want-from-brexit.pdf?sfvrsn=0> (accessed 19th November 2018).

² Public Policy Institute for Wales. The Future of Work in Wales [Online]. Available at: <https://www.wcpp.org.uk/wp-content/uploads/2018/04/The-Future-of-Work-in-Wales.pdf> (accessed 19th November 2018).

POLICY DRIVERS

There are three main policy drivers in this area from Welsh Government's perspective. They are:

Public Good and a Prosperous Wales

Welsh Government commissioned Professor Ellen Hazelkorn to carry out a wide-ranging review of all post-compulsory education in Wales. Professor Hazelkorn's 2016 report suggested a new Tertiary Education and Research Commission for Wales (TERCW) be established that would act as a single body overseeing, funding and regulating the entire post-compulsory sector.

This would be a shift in the nature of post-compulsory education in Wales and a large part of the rationale for change related to the need to make the post-compulsory sector more responsive to the needs of the Welsh economy and to create better alignment between work-based learning, further and higher education. Whilst the legislative proposals are still being developed, FSB Wales has consistently called for the new Commission to be inclusive and to put the skills needs of SMEs at the heart of its activity.

Regional Learning/Skills Partnerships

Another significant change in the landscape has been the development of regional learning and skills partnerships. The three partnerships (North Wales, Mid and West Wales and South East Wales) have created a regional emphasis to skills provision in Wales with employer engagement increasingly happening on a regional rather than national basis. While these organisations are still relatively nascent, they have developed in the context of city and growth deals and are beginning to articulate more wide-reaching regional policy on employment and skills matters.

Fair Work Commission

First Minister Carwyn Jones announced a commission on fair work in Wales during his 2017 Welsh Labour conference speech. The commission is currently undertaking its work and will examine how best to define fair work and to bring it about using the policy levers available to Welsh Government. FSB Wales played a part in the Fair Work Board under the social partnership banner and elements of the survey commissioned for this document have helped to shape our response to the commission using the best available evidence from SMEs in Wales.

METHODOLOGY

In order to inform this report, FSB Wales commissioned a mix method sample of SMEs from across Wales. This included surveying FSB Wales members, an online sample and a telephone sample. In total, we had 455 responses to our survey which allows us to give some indication as to the different issues in the various regions of Wales and between different sizes of businesses. The regional split was as follows; 26 per cent North Wales, 11 per cent Mid Wales, 24 per cent South West Wales and 39 per cent South East Wales.

As the survey relates to employment, we have differentiated between those that are self-employed businesses and those that employ others. Therefore, the sample for some questions excludes the self-employed, particularly around recruitment etc. The overall sample included 22 per cent self-employed, 44 per cent micro-businesses, 23 per cent small businesses and 11 per cent medium-sized businesses. The average business in our sample employed around 25 people. Those responding to the survey were business owners or key decision makers in the areas of concern to the survey.

In relation to turnover, 32 per cent had a turnover of £100,000 or less, 36 per cent between £100,000 and £1m and 16 per cent had over £1m turnover.

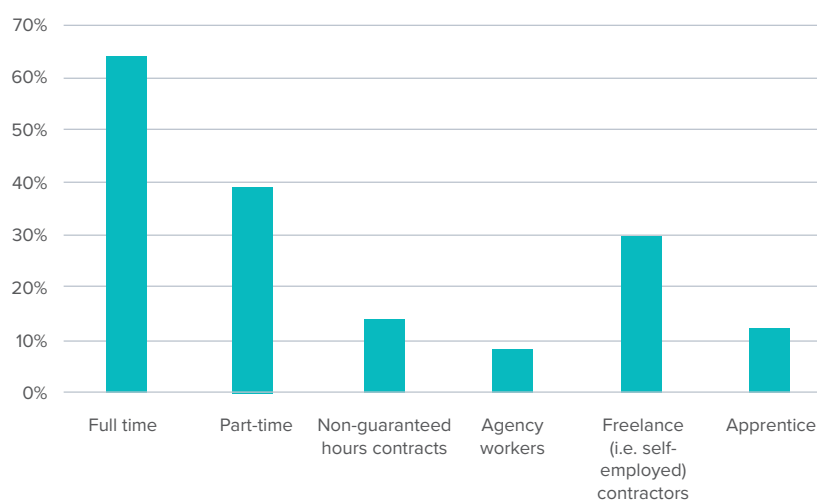
THE NATURE OF EMPLOYMENT AMONG SMES IN WALES

The first three questions in our survey related to the nature of employment among SMEs in Wales at present.

Types of Contract Used

As figure 1 shows, the vast majority of firms (64 per cent) use full-time employment contracts for their staff and around 39 per cent use part-time contracts. The average number of selections per firm on this section was 2, suggested that for the vast majority of businesses these two contract types dominate. Interestingly, both types of contract begin to dominate more as firm size increases with 92 per cent of firms employing 10 or more using full-time contracts and 56 per cent using part-time contracts.

Figure 1: Types of contracts used



14 per cent of firms used non-guaranteed hours contracts and 8 per cent used agency workers. Both of these seemed to increase in prevalence with size of business with only 3 per cent of micro-businesses using agency workers compared to 17 per cent of those employing over 10.

Conversely, the use of freelancers was fairly common with 30 per cent of firms using this type of relationship. This was notably prevalent among micro-businesses with 39 per cent using freelancers, suggesting additional capacity is often being found through sub-contracting relationships or through bringing in commissioned expertise for specific purposes.

Finally, 12 per cent of our sample indicated that they had used apprentices in their workforce.

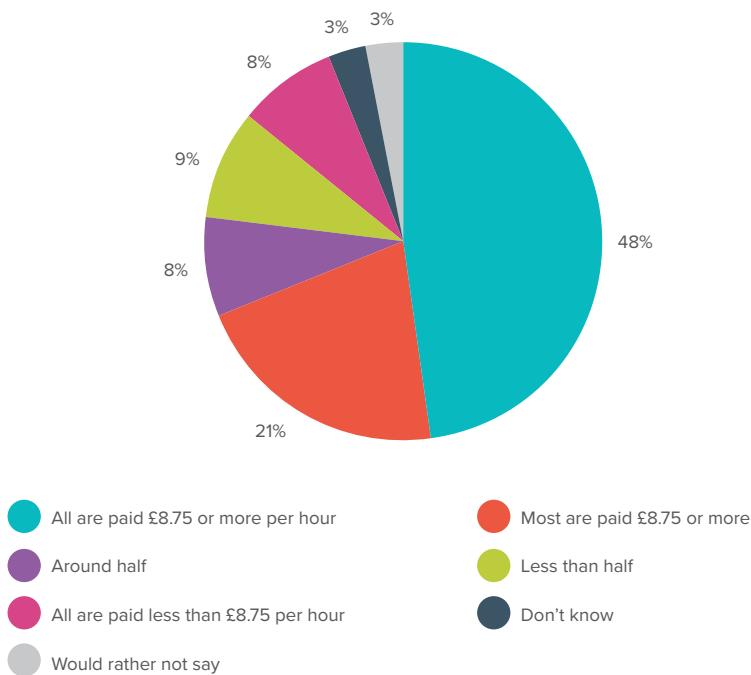


The **vast majority** of businesses use **traditional full-time or part-time** contracts to **employ** their staff. More **flexible** arrangements are used by a **minority** of businesses

Payment of the Real Living Wage

Figure 2 shows the number of businesses paying their staff above the real living wage as set out by the Living Wage Foundation. The real living wage is different to the National Living Wage which is the current mandated minimum wage for all those over 25 years old. According to our survey, 48 per cent of firms pay all of their staff above £8.75 per hour in Wales. A further 21 per cent pay most of their staff at this level. Significantly, 8 per cent of firms suggest all their staff are paid below the real living wage.

Figure 2: Payment of real living wage



In relation to business size and payment of the real living wage, our survey found that micro-businesses were more likely to pay all of their staff above the real living wage (53 per cent) compared to those employing over 10 (41 per cent). At the same time, micro-businesses are also more likely to be paying all their staff below the real living wage (11 per cent) compared to those employing over 10 (5 per cent). This suggests greater variation in salary levels between micro-businesses which is to some extent expected given that larger firms will employ more people on a variety of salaries.

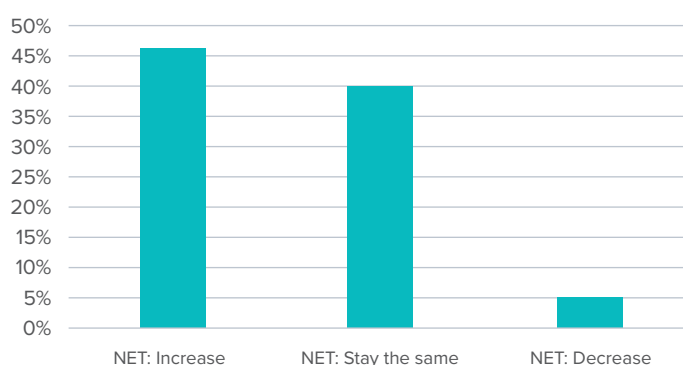


Just **under half** of firms pay all their staff **above** the **real living wage** with a small minority of **8 per cent** paying all staff **below** this level

Employment Intentions

When asked about future recruitment intentions its clear that most firms are intending on taking on more staff or maintaining current headcounts. 46 per cent of firms suggested that they would increase the number of staff they have over the next 2 years, with 9 per cent expecting to increase staff a lot. Furthermore 40 per cent of firms suggested that they would maintain their current staffing levels. Only 5 per cent of firms suggested that they would decrease their staffing levels of the next two years.

Figure 3: Employment intentions



It is worth noting here that employment intentions varied across the regions of Wales. For instance, in North Wales 36 per cent of firms had intentions to increase employment levels whereas in South East Wales this figure was around 53 per cent. Both Mid Wales and South West Wales were somewhere in between. When the number of firms who said they would increase staff were broken down further, firms in South East Wales were almost three times as likely to say they would increase employment a lot than firms in North Wales.

This suggested the nature of employment may change at different speeds in different regions.



Employment intentions are **strong** throughout Wales however firms in **South East Wales** have the **strongest intentions** to **increase** the number of employees

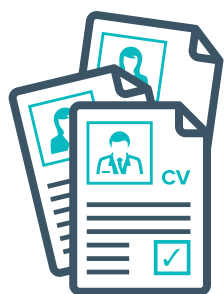
RECRUITMENT EXPERIENCES

In this section, we examine the experiences small firms have with recruitment and some of the barriers they face to finding the skills they need within their business.

Experience of Recruitment

Our survey suggests that 51 per cent of SMEs have been through a recruitment process in the last 2 years. This largely tracks the recruitment intentions in the previous section highlighting that for many this recruitment will lead to an increase in the size of a business. The figure for larger SMEs (those employing over 10) is 81 per cent which perhaps reflects the greater likelihood of staff turnover in a larger organisation, amongst other explanations.

Recruitment experiences were broadly consistent across all regions of Wales.



Around a **half of firms** in Wales have gone through a **recruitment process** in the last **2 years**

Problems in recruiting for roles

In order to understand the potential issues firms encounter when recruiting, we asked those that had recruited to identify any difficulties they had faced throughout the process. In total, 57 per cent of those that had recruited suggested that they were not able to find the right people to do the jobs they required. As figure 4 highlights, there are a number of reasons for this which mostly relate to the attitude, skills and experiences of applicants.

Figure 4: Reasons for recruitment difficulties

Not able to find people with the right attitude	38%
Not able to find people with the right experience	33%
Not able to find people with the skills and / or qualifications	32%
Received a low number of applicants	23%
Not enough interest in doing certain types of jobs	22%
The job involves antisocial hours	10%
Too much competition from other employers (e.g. pay and benefits)	10%
The job requires seasonal work	9%
The job has poor career progression / lack of prospects	9%
The business is in a location that is not attractive to employees	6%

The top three issues identified in figure 4 all have the ability to be impacted on by public policy. For instance, curriculum reform and programmes such as the Welsh Baccalaureate have sought to instil broader attitudinal based attributes in individuals by exposing them to the world of work in different ways.

Furthermore, a lack of skills and qualifications, which was cited by around a third of respondents, is the direct result of poor alignment between economic needs and skills provision. Likewise, in the context of younger workers experience is something that can be improved upon by exposing people to work-experience or internship opportunities. This becomes more difficult in the context of the existing labour market and in relation to workers who have may have long since left the education system.

Whilst the other reasons received lower responses – for instance around seasonal work and antisocial hours – it is clear for some businesses the nature of their business presents a barrier to successful recruitment. Indeed, for those citing a lack of career progression, it is difficult to see how this issue can be overcome without broader sectoral or business model changes.

The main difficulties businesses face in recruitment are a lack of the right attitude, experience or skills and qualifications.

Impact of recruitment problems

Given such a high number of firms (57 per cent) had encountered some difficulties, it is inevitable that there will be some impact on the success of their business. From our survey data, we can see that of those experiencing difficulties, the biggest impact was on the workload of other staff. This was closely matched by the ability of the business to grow in terms of overall impacts. This suggests that recruitment problems have a much bigger impact beyond the immediate issue of concern and can be stunting the growth of businesses and unnecessarily increasing the workload of other employees.

Figure 5: Impact of recruitment difficulties

Increases workload for other staff	52%
Affects ability to grow the business	51%
Affects the profitability of the business	30%
Difficulty meeting quality standards	27%
Difficulty meeting customer services objectives	20%
Delays development of new products, services or exploring new business areas	20%
Loss of business to competitors	19%
Leads to increased operating costs	18%
Have to outsource work	16%
Withdraw from offering some products or services	15%
Difficulty introducing new working practices	13%
Could lead to the closure of my business	6%
Difficulty adopting new technology, tools and practices	6%

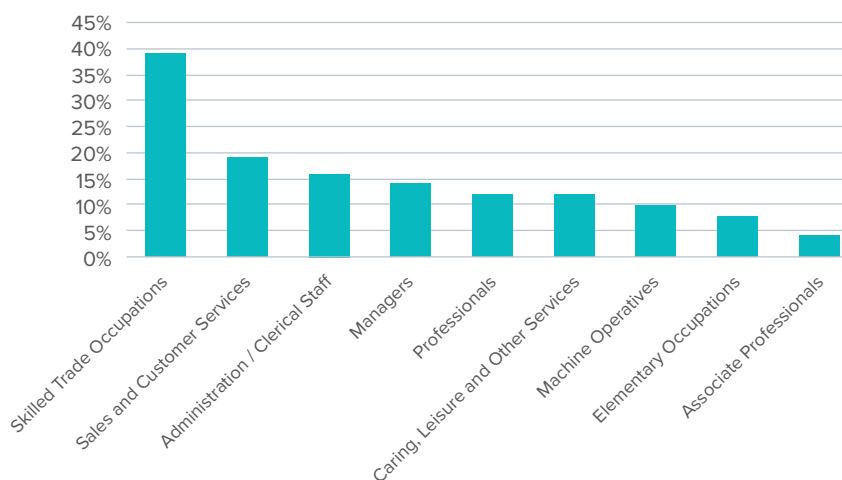
What's more, a significant number suggested recruitment difficulties also had an impact on the profitability of the business and the quality of a business' offer (30 per cent and 27 per cent respectively). If we are to avoid these impacts then we need public policy around employment and skills to work effectively and to help remove some of the barriers to recruitment and training.

Recruitment issues impact on other staff working within a business and on capacity for future growth.

Roles that cause the most issues

As we have shown, 57 per cent of firms said they had recruitment issues over the last 2 years. Further questioning in figure 6 revealed the occupations that cause the most issue for recruitment.

Figure 6: Occupations that are difficult to recruit



The most difficult occupations are those that relate to skilled trades. This is not necessarily surprising in that these occupations often take a long time to develop in terms of training through apprenticeships and work-based learning. Furthermore, there has been a shift in recent years away from skilled occupations towards higher education which has perhaps weakened the availability of skills in these areas. This is something that can be actively remedied through the provision of work-based learning in the post-16 sector.

Also of significance were sales and customer service staff and administration and clerical roles. This is notable in that the higher skilled roles such as managers and professionals tended to cause fewer issues for firms in recruitment than medium and low-skill roles. This again reflects a bias in education policy towards higher levels skills which is perhaps leaving gaps at other levels (for instance, Welsh Government has significantly reduced level 2 apprenticeship provision over recent years).

Skilled trade occupations were the most troubling for firms that have had recruitment issues with higher level skills being less of a concern.

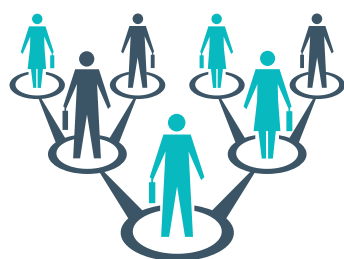
Overcoming the barriers to recruitment

When asked about how firms overcome the barriers to recruitment a number of responses emerged. As figure 7 shows, no single response emerges as the key answer to recruitment issues which suggests any policy response would need to be multi-faceted. 23 per cent of firms say they would increase salaries. One would imagine this is only suitable in a limited number of cases before a service or product become unviable, which is likely why only a minority of respondents deal with recruitment issues this way.

Figure 7: Most impactful measure to overcome recruitment issues

Increase salaries	23%
Increase training for existing staff	21%
Use new recruitment channels or methods	21%
Offer more opportunities to young people (e.g. work experience placements)	18%
Invest in incentives that would encourage my staff to stay with the business	14%
Take on an apprentice	12%
Hire contractors or outsource work	11%
Offer flexible working opportunities to existing staff in order to retain them in the business	10%
Increase advertising/spend on recruitment	9%
Redefine existing jobs	8%

Furthermore, 21 per cent say they train existing staff to increase their skill levels to fill the new role. Other firms try to find new recruitment methods (21 per cent) or increase the amount they spend on advertising the role (9 per cent). A significant number also focus on staff retention to avoid the need to recruit in the first place with 14 per cent looking at incentives for retention and 10 per cent offering flexible working.



Businesses adopt a **variety of approaches** to try and overcome **recruitment issues**, including increasing **salaries**, **training** existing staff or increasing **staff retention**

FINDING THE RIGHT SKILLS

As well as asking about the nature of employment and recruitment issues in SMEs, we used our survey to ask firms about how they go about finding the right skills for their business. The following issues emerged.

Number of firms carrying out training

Our research suggested that the vast majority of firms were undertaking some sort of training with their staff. In total, only 22 per cent of firms said they had engaged in neither internal on the job training nor external off the job training. This is encouraging as it suggests most businesses see upskilling their staff as a necessity. In terms of the split between on and off the job training, this was roughly equal with 20 per cent providing internal on the job training and 24 per cent off the job training. Furthermore, a larger minority (34 per cent) said they carried out both types of training.

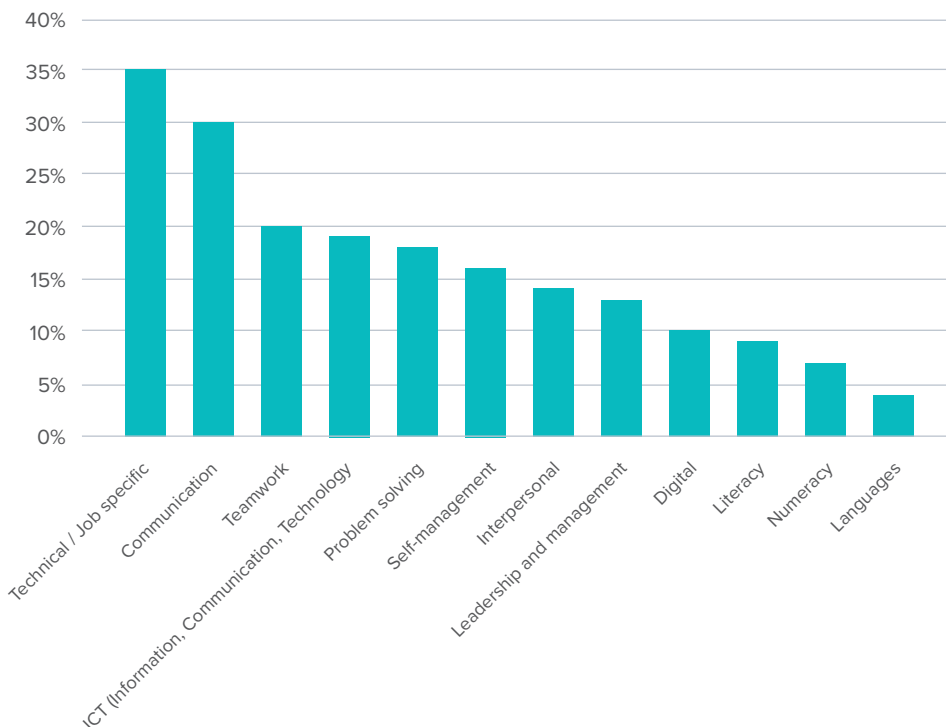
The larger a firm became the more likely it was that they would undertake training of some sort, with only 10 per cent of firms employing more than 10 employees undertaking no training of any kind.



Most important skills

When asked about the most important skills businesses need (figure 8), 35 per cent of businesses said the skills they need are technical or job specific. This seems to reflect the finding in figure 6 that showed skilled trade occupations were causing the most significant recruitment challenges.

Figure 8: Most important skills



The next two most popular responses related more to personal attributes in that businesses wanted to recruit staff that had good communication and team working skills. Indeed, these sorts of ‘soft skills’ emerge quite clearly as priorities among a broad number of firms. Likewise, ICT skills emerge as a relatively high priority.

These requirements are broadly consistent across all sizes of firms and all regions of Wales.

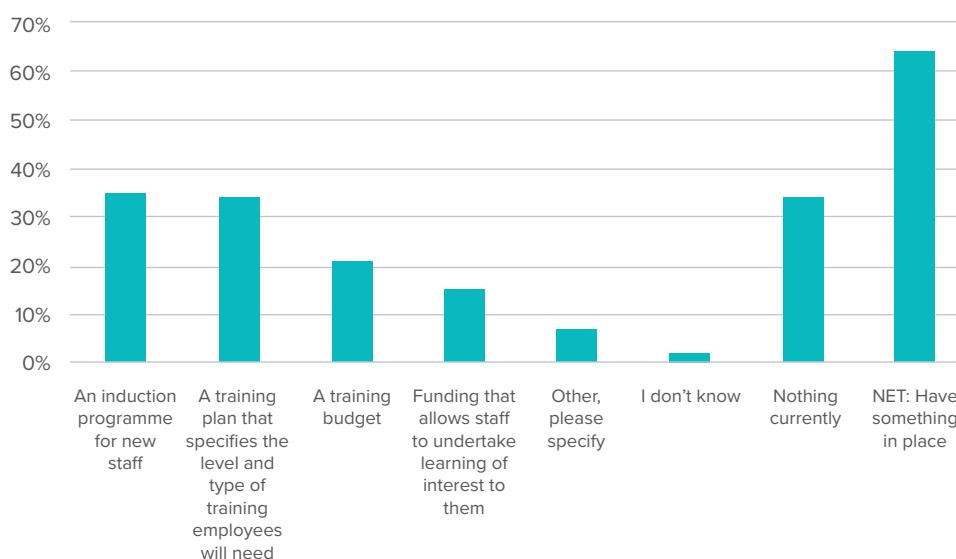


Technical skills are the most needed for **SMEs** followed by ‘**soft skills**’ such as **communication** and **team working** as well as **ICT**

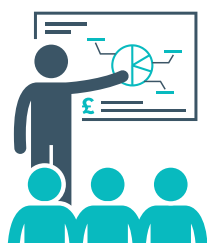
How do businesses improve skills?

One of the key issues that often emerges from debates on skills is that too few businesses are investing in their staff to realise skill and productivity gains. In order to test this, we asked what businesses themselves have in place to aid in the development of skills and training. Overall, 64 per cent of firms have something in place to help with training in their business.

Figure 9: Employee skill development



We found that roughly a third of firms have a training plan in place that specifies the type and level of training their employees require. Furthermore, a third also had a clear induction programme in place to aid in skill development. For around 21 per cent of firms this was accompanied by a training budget and 15 per cent of firms have funding in place that allows staff to undertake training that’s relevant to them.

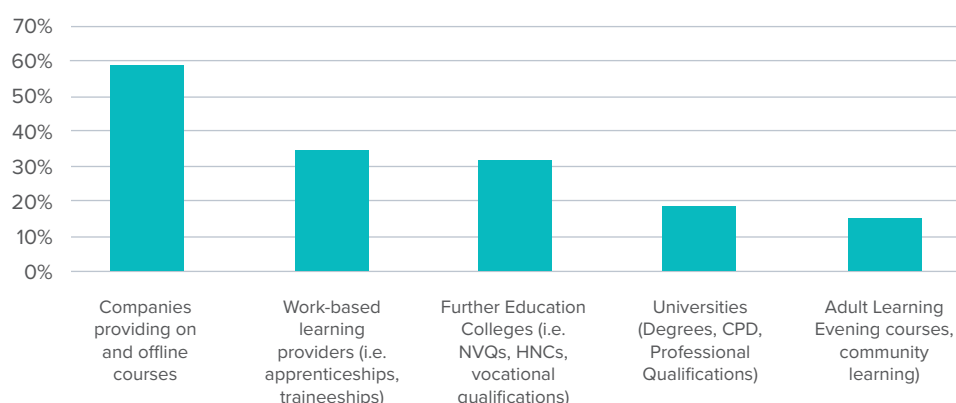


While around **two thirds** of firms have some provision for **training**, only a **third of firms** have a **formal training plan** and only a **fifth** have a **budget** dedicated to training

Who helps fulfil training needs?

In the context of the current debate around post-compulsory education in Wales, we thought it prudent to ask businesses who they go to in order to help them fulfil their training needs. Given much of the discussion around the creation of TERCW revolves around largely public sector provision, the results of our survey are significant.

Figure 10: Skills support organisations



It is clear that the main partner of choice for skills requirements are private sector providers, either as companies providing training directly or as work-based learning providers. The highest ranked public sector providers are further education colleges, which again may reflect the occupationally specific challenge highlighted earlier on in the survey. Finally, universities are used by fewer than 20 per cent of firms to help deliver the skills needed within businesses.

If TERCW is to succeed, a recalibration of its view of the post-compulsory system will be required. At present, the discussion around TERCW is very public sector driven. Whilst this is logical given that this is the area over which Welsh Government has most levers, it risks missing the bulk of training and the networks that firms in Wales rely on to solve their training issues. Indeed, it is notable that work-based learning providers rank relatively highly here yet receive significantly less funding than the FE and HE sectors.

That said, it is also worth noting that a number of private sector providers are providing services with the use of public sector funding. This is particularly true of programmes funded by the European Social Fund. It is therefore crucial that post-Brexit any replacement funding is properly channelled through a TERCW that is itself fully cognisant of the SME landscape for training and skills.

Most businesses use private sector providers to fulfil their training and skills needs. Where public providers are used, this tends to be with further education rather than higher education or adult and community learning.

Barriers to Training

Whilst it is encouraging that such a large number of respondents were engaged in some form of training, we wanted to understand any potential barriers to training and development that companies faced.

Figure 11: Barriers to training

Training is too expensive	24%
No money available for training	17%
Employees are too busy to undertake training	15%
Training I am interested in is not available locally	10%
Employees leave the business once they have received their training	9%
No training available in relevant subject area	9%
Managers have not had time to organise training	8%
Quality of courses or providers locally is not satisfactory	8%
All our staff are proficient/no need for training	7%
Training is not a priority	7%
Difficult to get information on locally available training	6%
Difficulty determining whether training is relevant to the needs of the business	6%
Other, please specify	8%
We have not experienced any barriers to training	26%

Over a quarter of our respondents said that they had not experienced any barriers to undertaking training. This was highest for those that were self-employed (36 per cent) and decreased as the size of firm increased with 21 per cent of those employing over 10 experiencing no barriers to training. Encouragingly, there were relatively few regional variations in this element with North Wales performing particularly strongly with 30 per cent of firms experiencing no barriers.

Where barriers did occur they related first and foremost to cost. 24 per cent of respondents felt that training was too expensive to undertake and 17 per cent felt that their business couldn't afford to undertake training. Two other lesser, but still important, factors were the lack of provision either locally or in their sector (around 10 per cent) or concerns of staff time or staff leaving once training has been undertaken (15 and 10 per cent respectively). Very few businesses suggested that training was not a priority for them (7 per cent).

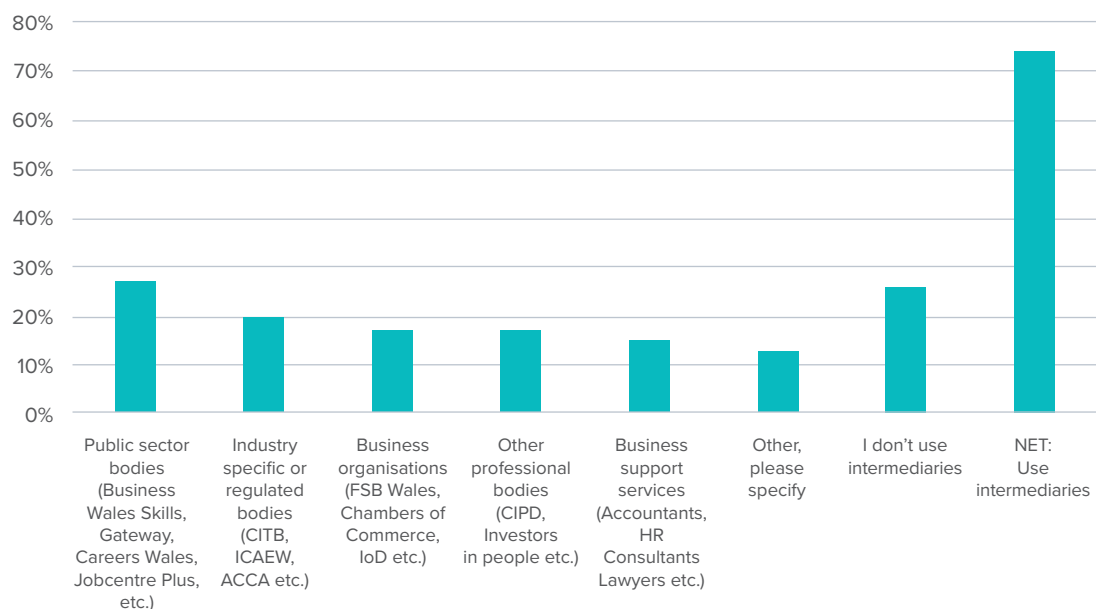
We know from our other work around self-employment that there is a perception that skills and training aren't sufficiently focused on that part of the business community.

A quarter of businesses have not experienced barriers to training. Those experiencing barriers cite cost and available finance as the prime concern, followed by relevance of provision and worries over staff time and commitments.

Use of intermediaries

In order to properly understand how a firm responds to training and skills issues, we also sought to explore their use of intermediaries in resolving their skills issues. Around 74 per cent of businesses said they used some sort of intermediaries to help them with their training and skills needs.

Figure 12: Use of intermediaries



Interestingly, while most provision used was in the private sector, advice and support was far more likely to be provided by the public sector in this regard with 27 per cent of firms saying they had used either Business Wales’ Skills Gateway, Careers Wales or the Jobcentre Plus for advice on training and skills. Around 20 per cent of firms said they used sector bodies such as the Construction Industry Training Board or ACCA to help them deal with training and skills issues. Similarly, 17 per cent said they used chartered bodies such as CIPD or Investors in People.

This was consistent across the regions of Wales but not in relation to size of firms. Micro-businesses were less likely to use intermediaries (66 per cent) compared to those employing over 10 (85 per cent). Furthermore, micro-businesses were far less likely to use public sector provision (19 per cent) compared to those employing more than 10 (38 per cent). This suggests that scale is a major factor in the appropriateness of public sector advice provision.

Despite using private sector providers for training needs, a large number of businesses use public sector intermediaries to help with training and skills.

A regional perspective

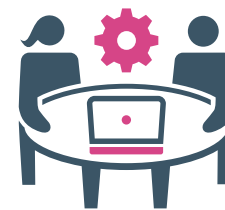
With a survey base of 455 we can break down the data at a regional level. While this can only be used for illustrative purposes, it does give us an understanding of where there may be some regional variances in the data.



36

per cent of firms intended to **increase** employment over the next 2 years, with **53 per cent staying the same** and **5 per cent decreasing** employment.

This suggests **less employment growth** than the Wales average.



61

per cent of businesses said they had **something in place** to help with the **training** of their employees.



61

per cent of businesses said they **weren't** able to find the **right people**.



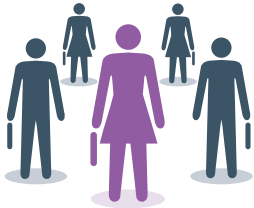
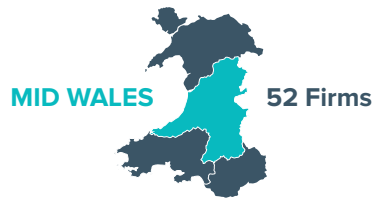
81

per cent of firms had undertaken either **on or off the job training** for their employees.

- **67 per cent** of businesses use full-time contracts with a further **43 per cent** using part-time. This is higher than the Wales average.
- **40 per cent** of firms paid all their staff above the living wage with **9 per cent** paying all their staff below. This is less favourable than the Wales average.

On the whole, firms in North Wales gave a more positive picture compared to elsewhere. They were more likely to be making use of 'traditional' full-time and part-time contracts for their staff. However, they were less likely to be paying all their staff above the living wage. North Wales firms had much lower ambitions in terms of recruitment over the next 2 years and were slightly more likely to say that when they do recruit they find it difficult to find the right people.

Of slightly more concern was the number of small firms with something in place to help with staff training, which was below the Wales average. Despite this, North Wales firms were more likely to have undertaken some form of training for their staff.



46

per cent of firms intended to **increase** employment over the next 2 years, with **44 per cent staying the same** and **2 per cent decreasing** employment.



73

per cent of businesses said they had **something in place** to help with the **training** of their employees.



46

per cent of businesses said they **weren't** able to find the **right people**.



81

per cent of firms had undertaken either **on** or **off the job training** for their employees.

The survey base for Mid Wales is particularly low so should be treated with caution.

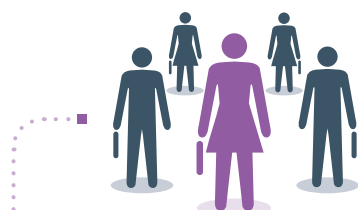
- **65 per cent** of businesses use full-time contracts with a further **46 per cent** using part-time.
- **47 per cent** of firms paid all their staff above the real living wage with **11 per cent** paying all their staff below.

Our survey base in Mid Wales was lower than elsewhere which reflects the smaller number of firms in that area. Similar to North Wales firms, in mid Wales there was more use of 'traditional' employment contracts that were either full-time or part-time. Payment of the living wage was roughly the same as the Wales average. Similarly, employment intentions were largely the same as in the rest of Wales with strong intentions to recruit over the coming years.

Mid Wales businesses were far less likely to report a difficulty in recruiting the right staff with fully 11 per cent fewer reporting it as an issue. This is perhaps reflective of the higher number of firms that had something in place to help with training of existing employees. Likewise, a higher proportion had undertaken some form of training with their staff which is encouraging.

SOUTH WEST WALES

110 Firms



45

per cent of firms intended to **increase** employment over the next 2 years, with **44 per cent staying the same** and **2 per cent decreasing** employment.



62

per cent of businesses said they had **something in place** to help with the **training** of their employees.



62

per cent of businesses said they **weren't** able to find the **right people**.



74

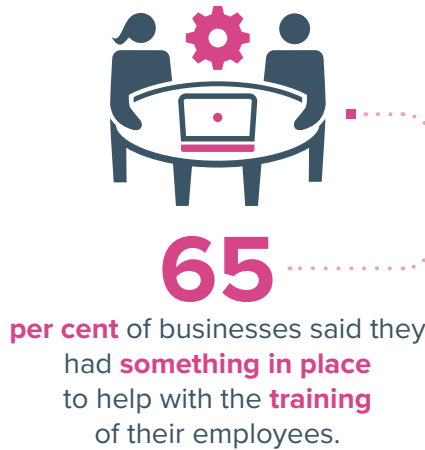
per cent of firms had undertaken either **on** or **off the job training** for their employees.

- **57 per cent** of businesses use full-time contracts with a further **36 per cent** using part-time.
- **51 per cent** of firms paid all their staff above the real living wage with **7 per cent** paying all their staff below.

Firms in south west Wales were less likely to use full-time or part-time contracts than the Wales-wide average and saw slightly more use of freelancers. Despite this, south west Wales businesses were more likely to be paying all their staff above the living wage with over half of firms doing so. Employment intentions were also relatively strong matching Wales-wide averages.

Some, 62 per cent of firms reported recruitment difficulties and slightly fewer firms had something in place to help with the training of employees. Firms in south west Wales were on the whole less likely to have undertaken training with over a quarter undertaking no training at all over the past two years.

SOUTH EAST WALES 176 Firms

- **57 per cent** of businesses use full-time contracts with a further **36 per cent** using part-time.
- **51 per cent** of firms paid all their staff above the real living wage with **8 per cent** paying all their staff below.

On the whole, firms in south east Wales tracked the Wales average in relation to the use of contracts with significant numbers using traditional full-time and part-time contracts. In common with south west Wales, over half of firms in south east Wales paid all their staff over the living wage which was higher than the Wales-wide average. South east Wales businesses had by far the highest recruitment intentions with more than half (53 per cent) intending to hire new staff over the coming two years pointing towards strong employment growth.

Whilst over half of firms had some difficulty in recruitment, this was lower than elsewhere in Wales. South east Wales was average in terms of businesses having something in place to support training with over two-thirds of firms doing so and this is reflected in similarly strong numbers engaging in training with only a fifth of companies providing neither on nor off the job training to employees.

RECOMMENDATIONS

The results of our employment and skills survey have provided significant food for thought for policy makers. We have included a regional analysis for the benefit of individual learning and skills partnerships and we hope that this will help inform their work.

That said, it's vital that the issues raised in the survey are approached by government at all levels and Welsh Government should wherever possible reflect these findings through the work of the Fair Work Commission and in formulating its final response to the post-compulsory education and training reform agenda.

We recommend the following areas of action:

SMEs and the Fair Work Commission

The data presented in this report highlights that for a significant majority of firms more traditional types of full-time and part-time contracts are the norm. Likewise, around half of firms pay all of their staff above the real living wage, with only 8 per cent paying all staff below this level. There is therefore a significant amount of good practice taking place in the SME sector in relationship to employment contracts and wage levels.

Despite this, for some businesses there are barriers to better pay and working conditions that need to be better understood. We know, for instance, that in some sectors such as in childcare, the margins are essentially dictated by public sector costs and as such don't often allow for progression of both salaries and skills.

Our previous report *Going Solo: Understanding Self-Employment in Wales* has also set out the landscape for self-employment in Wales, highlighting how the growth of self-employment relates more to opportunity than necessity.

We would suggest the Fair Work Commission consider the following:

- The Commission should consider practical barriers to paying the living wage among SMEs in Wales. Furthermore, ensuring additional barriers are not erected through the procurement process should be a critical consideration.
- The Commission should consider the adoption of a Fair Work certification scheme in some form which could incentivise and engender a positive and proactive conversation within business around its contribution to fair work.
- We are clear that any approach to developing fair work should state the absolute expectation of effective compliance with existing legal obligation and regulation in relation to employment matters.

Improving the recruitment process

Over half of firms are engaged in recruitment activities which leads to a significant amount of interaction between businesses and the labour market. Despite this, 57 per cent of firms said they were not able to find the right people to do the jobs they require with the main reasons being a lack of the correct attitude, a lack of experience or inappropriate skills. The impact of this is significant with 52 per cent saying it increases workload for other staff and just over half saying it presents a barrier to growth of the business.

Whilst many of the initial responses to these barriers are in the gift of individual firms (such as increasing salaries or training existing staff) the public sector has a role in terms of job search and the use of employment programmes such as Working Wales over the longer term. As such they should consider how these findings can be reflected in policy.

- The education and skills system needs to do more to improve 'soft skills' such as attitudes to work. This should be reflected in the curriculum in the first instance (as has happened with the Welsh Baccalaureate) but also in much greater use of work experience opportunities.
- Working Wales needs to continue to focus on giving individuals of all ages practical and relevant work-experience. This is the best means of closing the gap between employer expectations and employees capabilities. SMEs need to be heavily engaged in this programme.

- There is currently a mismatch between the skills that are required by firms and the qualifications of the workforce. This should be a key priority for any new body emerging from the PCET reform process.

Understanding how training provision works currently for SMEs

Our research has shown that only 22 per cent of firms are not engaged in any training or skills development for their staff. Whilst this is encouraging, more must be done to include the final fifth of businesses in training programmes and to ensure existing training is of sufficient quality and relevance to businesses. Significantly, 58 per cent of firms undertook training that had an external component which is where more ‘formal’ types of training begin.

What’s notable, is that where training is undertaken it tends to be through private sector providers (59 per cent) and work-based learning providers (35 per cent), rather than through traditional public sector actors such as further and higher education institutions (32 per cent and 18 per cent respectively). This is at odds with the focus in government policy on these providers.

Of the barriers to training, a number of firms suggested that the training they needed was either not available locally, was not of sufficient quality or was not relevant to their business. Cost is also a significant factor with a combined total of 41 per cent of firms citing either the cost of provision or the lack of available funding as a barrier to training. These are all aspects of the skills and training system that the regional learning and skills partnerships are designed to address.

- Welsh Government and regional policy on skills needs to start from where current training takes place, which is often through companies providing on and offline courses to existing employees and not in formal further or higher education settings.
- In producing their regional employment and skills plans, Wales’ three regional learning and skills partnerships should conduct an audit of current provision to establish whether it meets the need of SMEs and the self-employed, particular in the context of local provision, quality and relevance.
- Welsh Government and learning and skills partnerships should look at how the cost of training can be reduced across all elements of the post-16 sector. This may require direct funding from Welsh Government in particular areas of concern.
- Post-Brexit, replacement funding for programmes such as the European Social Fund should be channelled through a TERCW that is fully cognisant of the SME landscape for training and skills.

Occupational shortages and skills needs

Much of the focus of Welsh Government policy over recent years has been on creating higher level skills provision. We have therefore seen significant funding targeted towards higher education, the creation of many more apprenticeships at level 4 and above and even the creation of degree apprenticeships within universities. This focus is to be welcomed.

However, one side-effect of this focus has been the emergence of gaps at the lower end of the skills spectrum. Indeed, of those occupations that prove the most difficult to recruit the top three (skilled trade occupations – 39 per cent, sales and customer services – 19 per cent and administration/ clerical staff – 16 per cent) were all at the lower and middle of the skills hierarchy.

This suggests that the focus on higher skills has come to some extent at the expense of low and medium skilled occupations. We would suggest instead a stronger focus on progression with appropriate entry points and clear pathways through the skill levels.

- Welsh Government should ensure its focus on higher skills does not come at the expense of lower and medium skill levels. The emphasis should instead be on skills progression with entry levels being accompanied by clear pathways towards higher skills.
- Welsh Government and learning and skills partnerships should consider increasing the number of places available through apprenticeships and other work-based learning, particularly in relation to skilled trade occupations.

Advisory Infrastructure

In many areas of policy, SMEs rely heavily on the professions such as accountants and solicitors to provide the advice and guidance they need to succeed. We know from other research we've undertaken that this is the case for tax and HR issues for example. In relation to skills, we found that 74 per cent of SMEs made use of intermediaries to help them respond to training and skills issues.

What's clear from this finding is that public sector bodies such as Business Wales and Careers Wales provide a vital organ of support. This is also true of sector specific bodies such as CITB and ACCA and professional bodies such as CIPD. Previously, business had sector skills councils to call on but these have been in significant decline.

It is therefore crucial that the advisory infrastructure is well-placed to help business address their skill needs. Furthermore, while 64 per cent of firms have something in place to support employee skill development, only a third have a training plan and a fifth have a dedicated training budget.

- In considering how Business Wales and Careers Wales should work together in the future, Welsh Government should ensure that there is a single gateway for skills issues that is accompanied by practical support.
- Business Wales should work with SMEs in Wales to develop training plans and to advise on available funding for training and skills. This should be a priority for any company approaching the Skills Gateway.
- The Business Wales Skills Gateway should capture and signpost business owners towards local skills and training information, including where possible training through private companies.

CONCLUSION

There is significant amount of change underway in the employment and skills landscape in Wales. Many of the changes will take several years to come to fruition and will shape the types of skilled people that businesses are able to recruit and train. We need to ensure that these reforms are fully cognisant of the landscape for SMEs. They need to deliver a system that is stable and supportive in the long-term but responsive to the needs of the Welsh economy in the shorter-term. However, we also need a skills system which anticipates some of those future needs and is sufficiently connected with business to identify those needs.

In this report, we've painted a picture of how SMEs see the employment and skills landscape. We hope the recommendations we have made will help to define the reform process as it unfolds across Wales.

FSB Wales
1 Cleeve House
Lambourne Cres.
Llanishen
Cardiff CF14 5GP

FSB Cymru
1 Tŷ Cleeve
Cilgant Lambourne
Llanisien
Caerdydd CF14 5GP

Tel/Ffôn: 029 2074 7406
wales.policy@fsb.org.uk
www.fsb.wales

 federationofsmallbusinesses
 @FSB_Wales