



LEARNING THE ROPES

SKILLS AND TRAINING IN SMALL BUSINESSES

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Experts in Business

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ABOUT FSB

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. FSB is also the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

LEARNING THE ROPES

Skills and training in small businesses

A third of small firms looking to recruit have faced **skills shortages**



What skills are most important to future business growth?



50%
Technical



38%
Interpersonal



32%
Self-management

Jobs with the most skills shortage vacancies



37%
Skilled trades



23%
Professionals



15%
Sales and customer service

A quarter of small business owners lack confidence in their basic digital skills



Main barriers to providing training for business owners and staff

25%

Employees are too busy



21%

Training is too expensive

16%

Training is not available locally



Main barriers to small firms becoming more digital



22%

Lack of staff with digital skills

21%

Concerns about cyber security



21%

Use word of mouth to promote business



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FOREWORD

The UK is facing two significant changes – Brexit and increasing digitisation – which bring both huge challenges and opportunities. Skills are at the very heart of it all. As the very fabric of the economy changes around us, the need to invest in one's own skills and the skills of others is more pressing than ever. It is essential that we take a long overdue look at how we can support individuals to develop the skills they will need for the future, and businesses to fully utilise them.

Having skilled and experienced staff – and being skilled and experienced oneself – is crucial to running a successful, resilient and agile small business. Aside from the more tangible benefits of learning new skills, such as the creation of a new product or company website, training improves business competitiveness, efficiency and longer-term effectiveness. Essentially, keeping our skills up to date and learning new ones is an indispensable part of growing a business.

But our research shows that small businesses are already struggling with skills-related issues. We know that around a third of business owners who have attempted to recruit in the last 12 months have been affected by 'skills shortages', unable to find the individuals they're looking for. Skilled trade occupations, such as IT engineers, chefs and construction workers, have been most affected, which is worrying given that our members tell us that technical skills are the most important skill-set to achieving future growth. But that's not all. We found that our members are dealing with 'skills gaps' in their businesses, caused by a lack of fully proficient staff.

However, small businesses are being proactive in addressing these challenges. Encouragingly, we found that most small firms are upskilling their employees. What's more, there's even an appetite to further increase this activity if skills challenges persist or worsen.

Still, around a quarter of small firms did not organise any staff training over the past year, and a quarter of sole traders did not undertake any training themselves in the same period, with most citing issues related to time, resource and cost. These are perennial problems that are part and parcel of running a small business or being self-employed, and aren't going to go away. However, we also found that most small firms and sole traders are without either a training plan or budget, which implies that training may not be being undertaken in a strategic way.

But perhaps the most interesting finding of this research is the increasing integration of digital technology into the everyday life of a small business owner and sole trader. Doing more online is the future and, although most business owners profess to be confident about their digital skills, it is not clear whether they are making full use of this capability in their business.

We are pleased that the Government is investing in policies to strengthen technical education, improve lifelong learning, boost basic skills – including digital – and support local skills development. However, we believe that more can be done to make these policies more inclusive of small businesses and sole traders, helping them to upskill and satisfy their skills demands. What our members need is support that addresses the unique challenges they face, as key members of the business community and important actors in the skills system.

Learning new skills can be daunting, but we, as business owners and individuals, must not shy away from it.



Martin McTague
FSB Policy Director

EXECUTIVE SUMMARY

'It takes time out of the business, but it is necessary to have certain training to progress and to grow.'

Wholesale and retail business, Lancashire, 1 to 9 staff

Productivity has become the watchword for Government and business alike, and solving the 'productivity puzzle', as it's known, is causing a national headache. The UK's labour productivity continues to be weak relative to leading European economies and, unlike previous downturns, productivity has not subsequently bounced back to the previous trend rate of growth. This puzzle, then, remains unsolvable, at least for now.

Boosting UK productivity is complex and calls for a range of policy responses, yet it is clear that some kind of investment is required. Arguably, one of the most important investments a business can make is in skills. Indeed, there is strong evidence to suggest that investing in the skills of the workforce is one of the most significant factors in achieving strong, inclusive and sustainable growth.¹ The skills of business owners themselves are equally crucial, with evidence pointing to a direct link between flagging UK productivity and weaknesses in leadership and management capabilities at firm level, particularly among small businesses.²

Despite this, education and learning is often viewed as something that ends at the school gates, whereas in fact, the need to upskill, retrain and improve the relevance of our skills is a continual process throughout our working lives. That is not to say that there isn't significant work to be done to improve young people's basic skills and provide them with a firm foundation upon which to enter and progress in the labour market. Compared to countries like Finland or the Netherlands, England has three times the number of people with low numeracy and literacy between the ages of 16 and 19.³ In addition, large-scale reforms to the skills system – including changes to apprenticeships and the introduction of T levels – aim to improve technical skills provision for mainly young people; although, the 41 per cent drop in young people under 19 years of age starting apprenticeships compared to this time last year is a troubling trend that will need to be monitored closely.⁴

Now, more than ever, it is crucial that adults maintain the relevance of their skills, and in some circumstances, learn entirely new ones, in response to new technologies and ways of working, as well as sectoral and industrial developments. As individuals, skills are a fundamental determinant of our earnings potential and employment outcomes, and therefore life chances; but businesses also rely on an individual's evolving expertise – as well as their own – to be successful. With around 90 per cent of the current labour force predicted to be active in the labour market a decade from now⁵, the responsibility can no longer lie squarely with educators in schools, colleges and universities across England, but must rest with businesses too.

It's not only the supply of skills that the UK must focus on. It is equally important that these skills are valued by employers, and that skills are utilised effectively at firm-level to avoid skills mismatches. According to the OECD, 40 per cent of British workers are employed in an occupation for which they did not have the correct qualification.⁶ In addition, while demand for lower level qualifications is in line with supply, demand for higher level qualifications falls short. Only a third of jobs require post-secondary education, while 43 per cent of UK adults hold qualifications above this level.⁷

As the workplace and working practices become increasingly digitised, businesses are being forced to not only assess the role technology plays in their business, but their own readiness to take advantage of it. The way that business owners, consumers and individuals interact with digital,

1 Organisation for Economic Co-operation and Development (OECD), The Future of Productivity, 2015. Available at <https://www.oecd.org/eco/growth/OECD-2015-The-future-of-productivity-book.pdf>

2 Department for Business, Energy and Industrial Strategy (then BIS), Leadership and Management in the UK – The key to sustainable growth: A summary of the evidence for the value of investing in leadership and management development, July 2012. Available at <file:///C:/Users/annie.peate/Downloads/12-923-leadership-management-key-to-sustainable-growth-evidence.pdf>

3 National Institute of Economic and Social Research (NIESR), Skilled immigration and strategically important skills in the UK economy, Final report to the Migration Advisory Committee (MAC), February 2012, http://www.niesr.ac.uk/sites/default/files/publications/290212_151752_0.pdf

4 Department for Education (DfE), National statistics, Further education and skills, October 2017. Available at: <https://www.gov.uk/government/statistics/further-education-and-skills-october-2017>

5 UKCES, Growth through people: evidence and analysis, 2015. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/410289/GTP_EA_final_v8.pdf

6 Organisation for Economic Co-operation and Development (OECD), Getting Skills Right: United Kingdom, November 2017. Available at: <http://www.oecd.org/unitedkingdom/getting-skills-right-united-kingdom-9789264280489-en.htm>

7 Ibid.

particularly artificial intelligence (AI), is changing, and with new devices and platforms emerging at a rapid pace, firms need the skills to take advantage of technology in order to remain responsive and competitive, or risk being left behind.

Skills development and deployment in England's small businesses – making-up the majority of firms in the UK – will have a significant bearing on how successfully and efficiently the productivity challenge will be overcome. In this report we share insights gathered through in-depth survey work⁸ with FSB members, which show small business owners' attitudes towards, and investment in, skills and training – both in regards to themselves and their staff. We also examine the extent to which small businesses are experiencing skills shortages (difficulty recruiting individuals with the appropriate skills, knowledge and qualifications) and skills gaps (where an employee is deemed unable to do their job to the required level) and the impact of these on their enterprises. Finally, we make a series of recommendations to policymakers aimed at supporting and incentivising small business owners and the self-employed to invest in their own, and their employees' skills.

KEY FINDINGS

Skills and growth

- Half (50%) of small businesses say that technical skills are the most important skill for achieving future business growth, but interpersonal skills, such as communication (38%) and self-management (32%) are also key.

Recruitment and skills shortage vacancies

- Over half (52%) of small firms have recruited in the last 12 months⁹
- Of these, nearly a third (30%) have faced skills shortages
- Skilled Trade occupations, such as chefs, IT engineers and construction workers, report the highest number (37%) of skill shortage vacancies
- 30 per cent of small business owners would consider 'investing in staff training' to overcome challenges associated with skills shortage vacancies

Skills gaps

- Almost half (46%) of small businesses lack full proficiency within their workforce
- Wholesale and retail trade (57%), information and communication (48%), and professional, scientific and technical activities (46%) report the highest number of skills gaps
- Transient factors, such as incomplete staff training (42%) and newness to the role (36%), are the most common reasons for skills gaps

Training in small businesses

- On-the-job training is most common among respondents, offered to staff in 70 per cent of businesses, and undertaken by 62 per cent of business owners, during the last 12 months
- Of all the types of training by small firms in the last 12 months, technical skills training is most common, with almost half (49%) of small firms organising this training for their staff, and 40 per cent receiving training of this type themselves, both on- and off-the-job

⁸ Only FSB members in England were invited to complete the survey.

⁹ Any references to the 'last 12 months' in this report refer to the one year period before this survey was conducted (August 2016 – August 2017)

- A quarter (24%) of businesses have not provided any training for their staff in the last year. Also, a quarter (27%) of business owners have not provided any training for themselves in the last year
- Issues related to time, resource and cost, are the most common barriers to training, with a quarter (25%) of business owners citing ‘busyness of staff’
- Three-quarters of sole traders (75%) and almost half (49%) of microbusinesses, have neither a training plan nor budget

Leadership and management

- Just under a quarter (23%) of small business owners believe that leadership and management are the most important skills for future growth. However, leadership and management training has only been undertaken by staff in 18 per cent of businesses, and 17 per cent of business owners, in the past year

Digital skills

- A quarter (26%) of small business owners report lacking confidence in their basic digital skills, with sole traders more likely to classify themselves as ‘unconfident’ than businesses with employees (18% versus 8%)
- Over a fifth (22%) believe that a lack of basic digital skills among their staff is preventing them from becoming more digital. A fifth (21%) cite cyber security as a barrier
- A quarter (25%) of small businesses do not consider digital skills to be important to the growth of their business

RECOMMENDATIONS

- 1. All Local Enterprise Partnerships (LEPs) should conduct an audit of training provision to establish whether it meets the needs of small businesses and sole traders.** A number of LEPs are successfully collecting and analysing detailed intelligence on their local economy and the skills needed to sustain it. We urge all LEPs to carry out detailed skills and training audits that align with Growth Hub priorities to establish whether local training provision is meeting the needs of small businesses and the self-employed. The findings of these audits could lead to positive changes in existing training provision, inform each LEPs’ Skills Strategy as well as the future work of the new Skills Advisory Panels and improve skills-mismatches at firm-level.
- 2. Growth Hubs should introduce Leadership and Management Champions.** With the announcement in the Industrial Strategy White Paper that Growth Hubs would continue to receive funding¹⁰, each of the 39 Growth Hubs in England should investigate the benefits of appointing Leadership and Management Champions. These face-to-face business advisers would play a key role in supporting business owners in understanding areas for improvement, in terms of their managerial and leadership capabilities.
- 3. Government should consider allowing tax-deductions for training courses for the self-employed that *develop new, not just refresh existing, skills*.** If a business owner undertakes training that updates existing skills then it is tax-deductible; however, if they undertake training that gives them new skills it is not tax-deductible. FSB recommends that HMRC consider changing the tax treatment of training for the self-employed to

¹⁰ Department for Business, Energy and Industrial Strategy (BEIS), Industrial Strategy: building a Britain fit for the future, November 2017. Available at: <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

further incentivise the self-employed to develop new expertise so that they might improve their chances of success in an increasingly demanding and adapting labour market, and bring the rules in line with those that apply to employees.

4. Government should explore the effectiveness of the right to request time off for training to build the ‘business case’ for small firms and the self-employed to invest in skills.

In April 2010, new rules were introduced by Government which enabled employees in businesses with 250 or more staff to make a formal request for time away from their core duties to undertake training. Policymakers should evaluate the effectiveness of this policy on training in businesses and establish whether firms have benefitted as a result. If clear benefits are uncovered, this would provide the much-needed evidence-base on which to build a compelling employer ‘business case’ to pursue training, and assist policymakers in encouraging small business owners to be more proactive about identifying, and discussing, development opportunities with their staff.

5. Apprenticeship levy-paying businesses should prioritise transferring apprenticeship vouchers to small businesses in their supply chain, sector or community. From April 2018, the Government plans to allow employers paying the apprenticeships levy to transfer up to 10 per cent of their funds to another employer. To encourage technical skills development in small businesses not subject to the levy, Government should urge levy-paying businesses to prioritise transferring some or all of their vouchers to small businesses in their supply chain, sector or community, over larger businesses. A matching service should be introduced as part of the online Apprenticeship Service, where levy-paying businesses can locate smaller businesses wishing to receive funding.

6. Government should incentivise small businesses to offer T level work placements to grow the technical skills base. The recent T level action plan¹¹ stipulates that the compulsory work placements students must undertake should be an average length of 50 working days, for a minimum of 315 hours. FSB research shows that just six per cent of small businesses would offer work placements as they are currently proposed.¹² Policymakers should consider providing small businesses with financial assistance, a formal agreement, and clear guidance, to secure enough work placements to meet projected demand.

7. Government should use the new National Careers Service website to capture and signpost businesses searching for local skills training, and inform adults and young people about opportunities available through self-employment. The Government’s newly launched and long-awaited Careers Strategy sets out plans for the creation of a ‘new, engaging and inspiring website’ for the National Careers Service which will be developed in 2018, including over 800 job profiles and an interactive course directory. The Government should capitalise on the significantly raised profile of the new National Careers Service website to capture and signpost business owners who may be searching the internet for local skills and training information and support and inspire and inform young people and adults about self-employment as a viable pathway to their chosen career.

¹¹ Department for Education, Post-16 technical education reforms: T level action plan, October 2017. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650969/T_level_Action_Plan.pdf

¹² FSB, Skills and training survey, April 2017.

- 8. Government should ensure that pilots funded as part of the Department for Education's Flexible Learning Fund offer a wide-range of solutions to delivering portable, lifelong learning to adults and ensure that these are accessible to those that are least skilled and on the lowest incomes.** The launch of the Department for Education's £10 million Flexible Learning Fund (the first of the career learning pilots for which £40 million was announced at the 2017 Spring Budget) which aims to support innovative projects that deliver technical and basic skills learning to adults, represents a positive step towards upskilling individuals throughout their working lives. In order to maximise the effectiveness and reach of these pilots, Government should fund a range of interventions that offer differing methods of delivery – including traditional face to face – to ensure that 'innovative' does not become a proxy for digital which might exclude those without the capability or confidence. Government should prioritise pilots that target the least skilled individuals on the lowest incomes; those who stand to gain the most from this support.
- 9. The Digital Skills Partnership should prioritise local coordination of local partners to support basic digital skills training for the self-employed and employees in small firms.** The Autumn Budget 2017 and Industrial Strategy White Paper outlined a number of welcome additions to the landscape of support available to individuals to improve their digital capability. However, it is difficult to clearly discern where smaller firms, particularly the self-employed, fit into this landscape and initiatives. The Digital Skills Partnership represents an opportunity for Government to play an important role in convening partners who are aimed at closing the digital skills gap. We urge Government to use the findings of this research to inform its approach to upskilling small business owners and employees in small firms, as well as sole traders, focussing support on basic digital skills training for business purposes, and demonstrating the impact of being more digital on business growth.

SKILLS AND GROWTH

As shown in Figure 1, half (50%) of small business owners say that technical skills are the most important skills for achieving future growth. This is perhaps unsurprising given that previous FSB research on Brexit found a significant reliance among many small businesses on workers with technical skills and capabilities. Our research found that almost half (47%) of small businesses with EU workers (one FSB member business in five) employ people in roles that require specialist, usually technical, skills and training, like care and construction workers, engineers and mechanics.¹³ Therefore, it is fairly safe to assume that if we were to ask *all* small businesses about their technical skills dependencies, this percentage would increase. Technical skills are the lifeblood of many small firms.

Figure 1: Skills small businesses consider most important to the future growth of their business
Source: FSB skills and training survey, August 2017

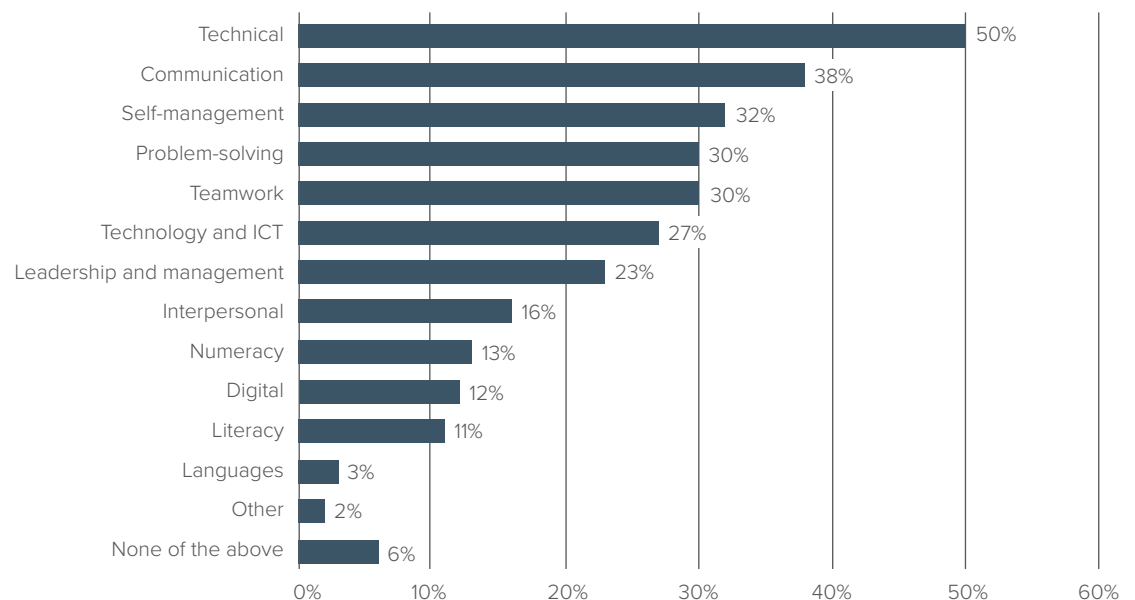


Figure 1 also illustrates that small businesses identify interpersonal skills, including communication (38%), self-management (32%), problem-solving (30%) and teamwork (30%), as being important to future growth. While at first this may seem at odds with business owners' emphasis on the importance of technical ability, one interpretation could be that they view these capabilities as integral to the successful deployment of practical expertise. A survey of business leaders carried out by Demos confirmed that with a greater personalisation of goods products and services in tomorrow's economy, soft skills, including adaptability and creativity, are considered prerequisites for success.¹⁴

'In different ways, these options are equally important. In the matter of vehicle repairs, a high degree of technical knowledge is highly desirable but that alone is virtually useless without the correct aptitude and attitude. The work is less about repairing vehicles and more about solving problems for people.'

Training and consultancy business, Coventry, sole trader

¹³ FSB, A skilful exit: What small firms want from Brexit, April 2017. 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>

¹⁴ Gillinson, S. and O'Leary, D., Working progress: How to reconnect young people and organisations, Demos, 2006. Available at <https://www.demos.co.uk/files/workingprogress1.pdf>

It is interesting to observe the differing importance of technology and ICT (27%) and digital skills (12%) to achieving growth, according to small business owners. One explanation for this could be that digital skills are less tangible and their impact on growth harder to define. Whereas technology and ICT are tangible, physical assets and their impact on day to day operations is more visible.

Finally, just under a quarter (23%) of small business owners believe that leadership and management skills are the most important to future growth. Perhaps unsurprisingly, as the size of business increases, so does the importance of leadership and management skills. For example, 37 per cent of small firms with 10-19 staff view leadership and management skills as important to growth, however this rises to almost half (49%) of businesses with 20-49 staff. By contrast, leadership and management skills do not feature in the top three skills that are considered most important to future growth among businesses with 1-9 workers or sole traders.

Government research has found that the adoption of good management practices is key to driving innovation and high performance working, and can help ensure that organisations adopt the right strategies to boost productivity and growth.¹⁵ Despite this, FSB research from 2016 found that just a quarter (25%) of small business owners have undertaken specific management training in the last 12 months, and roughly the same percentage (26%) of firms have never undertaken such training.¹⁶

¹⁵ Department for Business, Energy and Industrial Strategy (then BIS), Leadership and Management in the UK – The key to sustainable growth, July 2012. Available at <http://www.employment-studies.co.uk/resource/leadership-and-management-uk-key-sustainable-growth>

¹⁶ FSB, Leading the way: Boosting leadership and management in small firms: Discussion paper, March 2016. Available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/leading-the-way-boosting-leadership-and-management-in-small-firms.pdf?sfvrsn=1>

RECRUITMENT AND SKILLS SHORTAGES

Vacancies

Figure 2 shows the number of individual roles that each small business owner has recruited for in the last 12 months.¹⁷ Almost half (48%) of small business owners did not recruit for any roles during the past year. Of those businesses that did attempt to hire, a fifth (20%) recruited for at least one role in their business, and there is also evidence of attempts to fill between two and five roles per organisation.

Figure 2: Number of roles small business owners have recruited for in the last 12 months
Source: FSB skills and training survey, August 2017

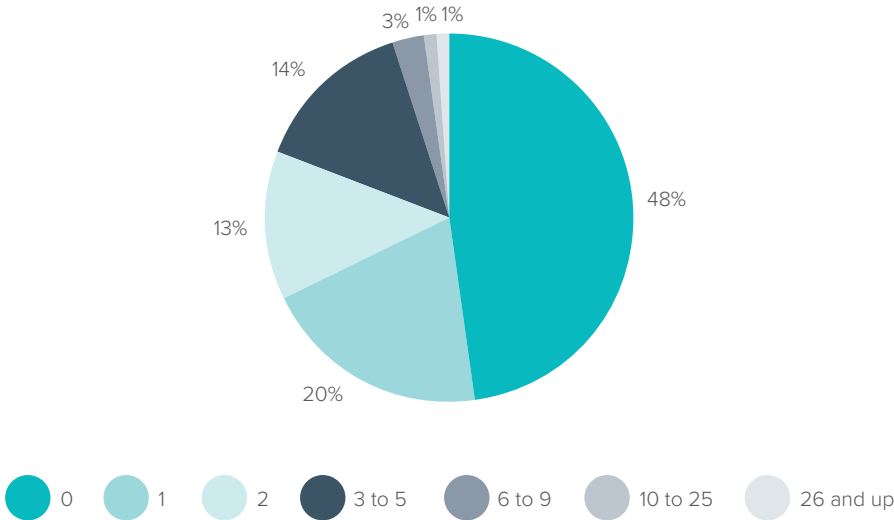
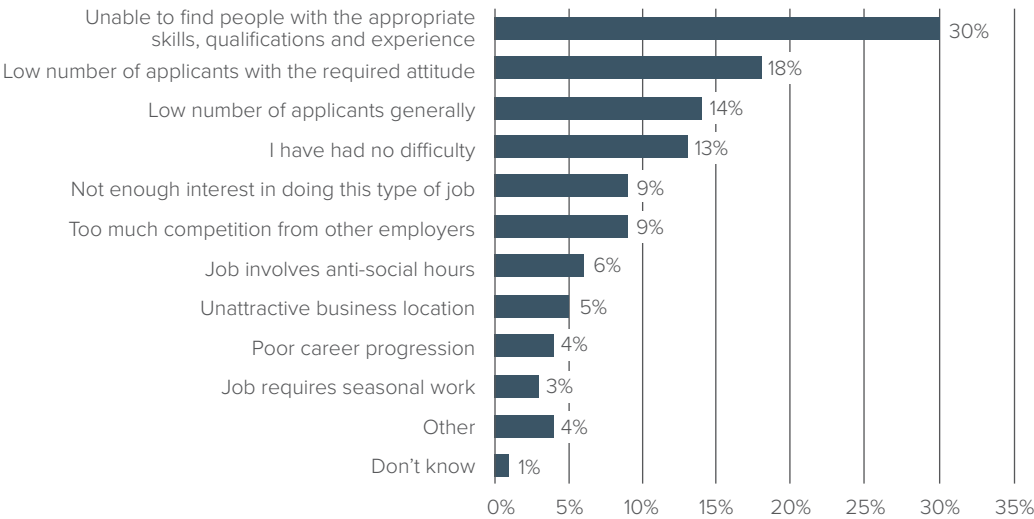


Figure 3: Recruitment difficulties experienced by small business owners in the last 12 months
Source: FSB skills and training survey, August 2017



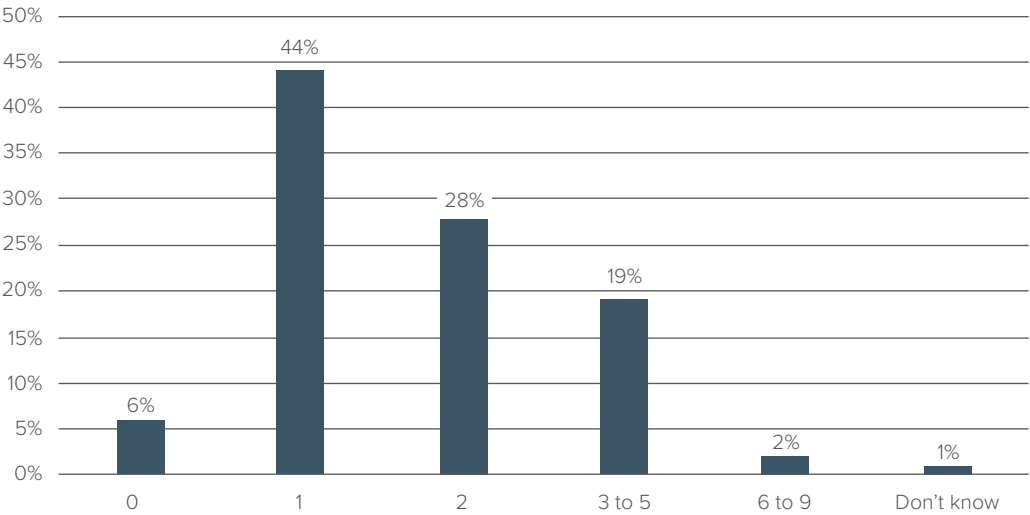
Most of the recruitment difficulties shown in Figure 3 result in vacancies that are defined as ‘hard-to-fill’.¹⁸ These are roles that are difficult to appoint for due to a number of factors related to the job or business, such as the seasonality of the work (3%) or unattractive location (5%).

¹⁷ It should be noted that this includes businesses with no staff at the time of completing the survey in order to capture the self-employed who may have tried to recruit, but were ultimately unable to.
¹⁸ UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

However, the most significant challenge faced by just under a third (30%) of small business owners that have recruited in the last year has been successfully finding individuals with the appropriate skills, qualifications and experience to fill the advertised role(s). Unlike hard-to-fill vacancies, these ‘skills shortage vacancies’ result from a lack of skilled or qualified people to do a particular job.¹⁹ The impact of skills shortages on businesses can be significant. Research has found that over two-thirds of employers that have had difficulty filling their vacancies solely as a result of skill shortages have experienced a direct financial impact through either loss of business to competitors, or increased operating costs.²⁰

As Figure 4 shows, 44 per cent of business owners say they have experienced a skills shortage vacancy when recruiting for at least one role in their firm.

Figure 4: Number of roles that have been difficult to fill due to skills shortages
Source: FSB skills and training survey, August 2017



Occupations that have been most difficult to recruit people for, and have, therefore, been most impacted by skills shortages, are listed below.

Table 1: Occupations that have been difficult to fill because of skills shortages
Source: FSB skills and training survey, August 2017

Occupation	%
Skilled trades, e.g. construction and building supervisor, plumber, chef, vehicle technician	37%
Professionals, e.g. web designer, dentist, architect, chartered accountant	23%
Sales and customer service, e.g. retail assistant, call centre operator, stall holder, pharmacy assistant	15%

19 UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf
20 Ibid.

According to UKCES, skilled trades has historically had the greatest density of skill shortage vacancies compared to other occupational categories.²¹ Its survey of over 90,000 establishments²² across the UK has found that skills shortages in skilled trades are cross-sectoral and have hampered recruitment to machine operative roles in engineering and construction and professional roles in the manufacturing, business services, transport and communications, and health and social work sectors, as well as in other emerging areas.²³

'In our sector, experienced machine operatives should be offered training incentives to become certified operatives.'

Wholesale and retail business, Nottinghamshire, 1 to 9 staff

'I believe that we should reinstate subjects like woodwork and metalwork...in all schools. These are practical and important subjects [and] they should have the same importance and stature as academic subjects.'

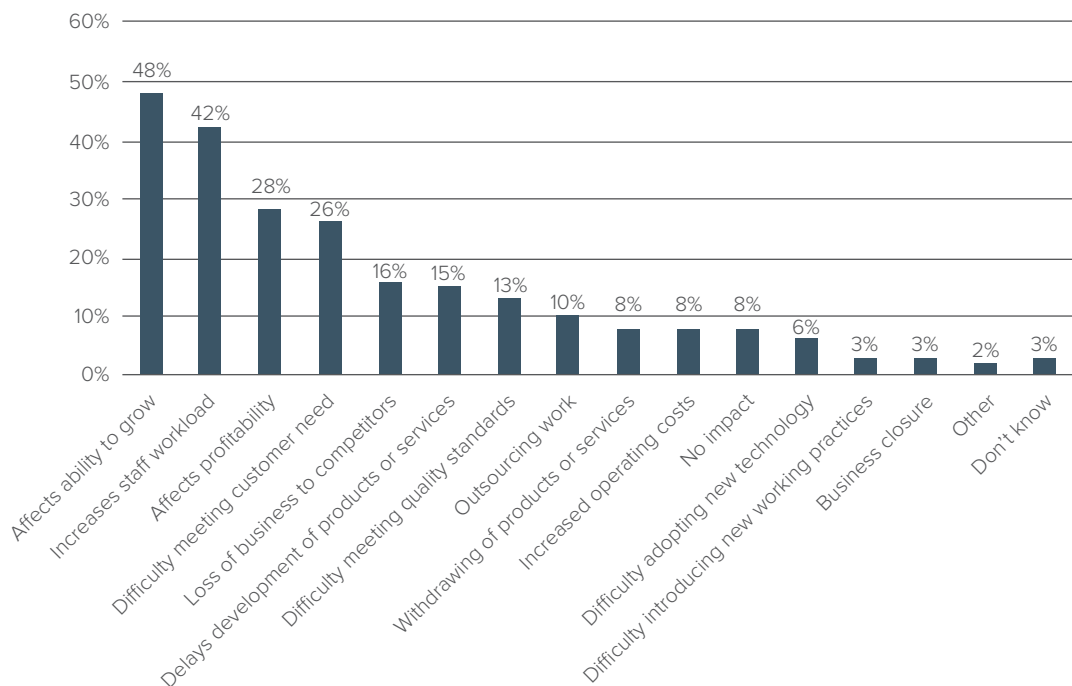
Arts, entertainment and recreation business, Thames Valley, 1 to 9 staff

It is also worth noting that the occupations most affected by skills shortages are spread across three occupational groups, including high-skill, mid-skill and service-intensive (lower skilled),²⁴ suggesting that any potential solution, or solutions, must address the specific supply and demand issues at each of these levels.

Challenges and solutions

Figure 5: Impact of skills shortages on small firms

Source: FSB skills and training survey, August 2017



²¹ UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

²² Fieldwork for UKCES Employer Skills Survey 2015 was UK-wide. Core survey was undertaken between March and July 2015, and involved 91,210 interviews.

²³ UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

²⁴ The categories appear in UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

Figure 5 shows that almost half (48%) of business owners – whether or not they have tried to recruit in the past 12 months – believe that skills shortages would affect their ability to grow. Other problems associated with skills shortages that are closely linked to the ability to grow include an increase to staff workload (42%) and difficulty meeting customer need (16%). Fifteen per cent of business owners say that skills shortages could lead to delays in the development of new products and services.

Only six per cent of business owners believe skills shortages will result in difficulties adopting new technology. This comparatively low percentage is not surprising, given that just 12 per cent of business owners see digital skills as most important to the future growth of their business.

Figure 6: Steps that small business owners consider taking in order to overcome skills shortage vacancies

Source: FSB skills and training survey, August 2017

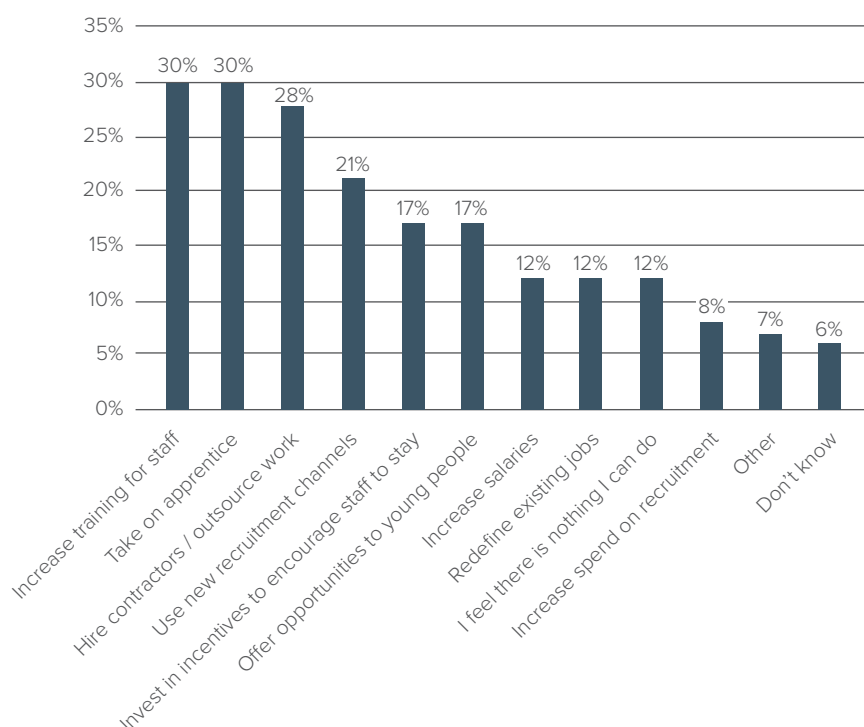


Figure 6 shows the steps that small business owners say they would consider taking to overcome challenges associated with skills shortage vacancies.

There is a clear preference towards building the capability of the existing workers by increasing staff training (30%) or taking on apprentices (30%). Although, arguably, there is also an appetite among small businesses to seek solutions to skills shortage vacancies from outside the business, such as hiring contractors and outsourcing work (28%), most small firms would choose to invest in improving the skills of their employees and taking on individuals to train.

'I use freelancers and when I need people with new skills I tend to search online, especially the Society for Editors and Proofreaders (SfEP) Directory. If that failed, I would use LinkedIn.'

Professional, scientific and technical activities business, Greater London, sole trader

It is also encouraging to see the number of firms that consider apprenticeships as a viable route to addressing skills shortages in their business – a fifth (20%) of sole traders, around a third of firms with between one to nine staff, and 10 to 19 staff (32% and 37%, respectively) and 37 per cent of businesses with 20 to 49 employees. Previous survey work by FSB on Brexit also found that small employers with EU workers would consider investing in UK workers by offering new opportunities, like apprenticeships (16%), if their access to their non-UK workers was restricted in any way.²⁵ With a quarter (24%) of small businesses already invested in apprenticeships, and a further quarter (24%) considering employing one in the future, many small firms are making effective use of the skills gained by their apprentices and, as a result, their business.²⁶

A number of small business owners suggested that offering greater job flexibility and opportunities to job-share, increased mechanisation of certain tasks, supporting older people and the unemployed back into the labour market and greater support to be more effective when hiring new employees would help them overcome challenges associated with skills shortage vacancies:

‘There’s the possibility of replacing staff with electronic alternatives.’

Wholesale and retail business, Nottinghamshire, 1 to 9 staff

‘Develop a creative business-focused training course that retrain retired personnel, as well as those that have had to leave jobs.’

Professional, scientific and technical activities business, Greater London, sole trader

‘Having a more structured efficient process on the recruitment process would help, including more assistance in reviewing the written job specification and interview questions when looking to recruit. The documents on FSB Employment are great.’

Training and consultancy business, Coventry, sole trader

²⁵ FSB, A skilful exit: What small firms want from Brexit, April 2017. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/a-skilful-exit---what-small-firms-want-from-brexid.pdf?sfvrsn=0>

²⁶ FSB, Make or break: Getting apprenticeship reform right for small businesses, August 2016. Available at <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=0>

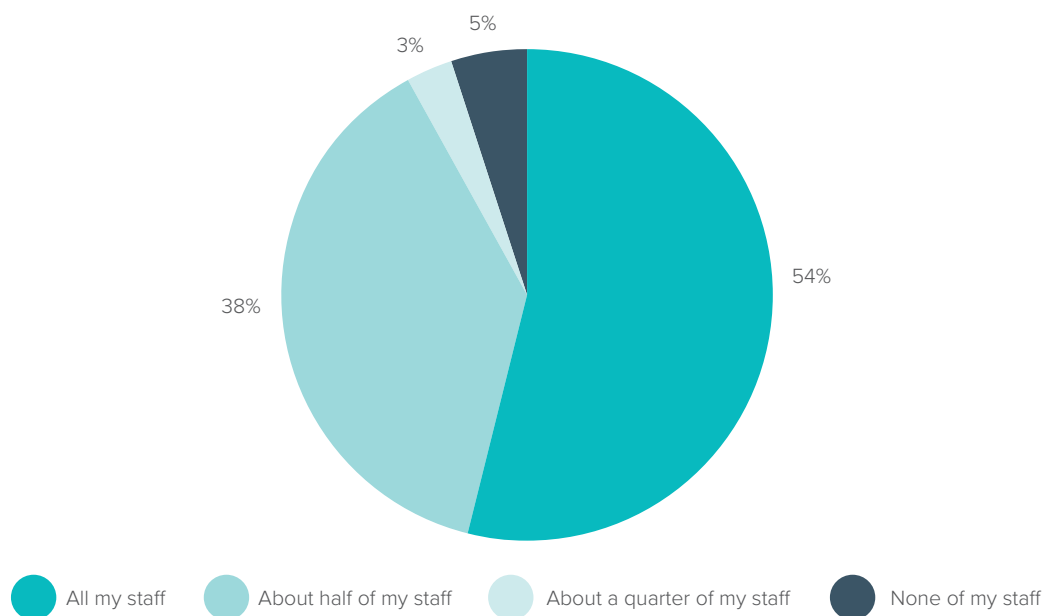
SKILLS GAPS

Proficiency of the workforce

According to some commentators, ‘skills gaps’ – caused when individuals, despite being skilled, do not possess the particular skill(s) that their employer needs, resulting in differences in the skills that are supplied and demanded – are an increasing concern in advanced economies.²⁷ According to Van Rens, the skills gap has two related but distinct macroeconomic effects: one of which is low productivity, which results from workers undertaking roles for which they are either underqualified or overqualified.²⁸ Skills gaps at firm-level can be determined by looking at the proficiency of the workforce to see whether any employees are deemed by their employer to be not fully proficient and, thus, are unable to do their job to the required level.²⁹

Figure 7: Proportion of staff considered by business owners to be ‘fully proficient’ at their job

Source: FSB skills and training survey, August 2017



Just over half (54%) of small business owners believe that all their staff are ‘fully proficient’ at their job. Conversely, just under half (46%) of small businesses lack a ‘fully proficient’ workforce and are, therefore, to differing degrees, experiencing a skills gap. Research by UKCES has found that smaller businesses are more likely to suffer major impacts from skills gaps than large establishments, particularly in terms of delays in developing new products or services (23% among those with two to four staff compared with 17% overall).³⁰

Wholesale and retail trade (57%), information and communication (48%) and professional, scientific and technical activities (46%) report the highest percentage of small firms lacking fully proficient employees.³¹

²⁷ FSB, Make or break: Getting apprenticeship reform right for small businesses, August 2016. Available at <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-apprenticeships-report-final.pdf?sfvrsn=0>

²⁸ Ibid.

²⁹ UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

³⁰ Ibid.

³¹ There were six sectors with statistically significant numbers of survey respondents: construction; education; information and communication; manufacturing; professional, scientific and technical activities; and wholesale and retail trade.

Lastly, as Figure 8 shows, the proficiency of the workforce appears to decrease as the size of firm increases. UKCES also finds this to be true; however, it warns that, although businesses with fewer employees were less likely to experience skills gaps, they were also less likely to have responded to them.³² It also found that 75 per cent of small establishments with skills gaps had taken steps to tackle them compared with 85 per cent overall³³. It would appear, therefore, that smaller enterprises are in need of greater support to overcome their internal skills problem.³⁴

Figure 8: Proportion of businesses in which staff are considered ‘not fully proficient’ at their job, by business size
Source: FSB skills and training survey, August 2017

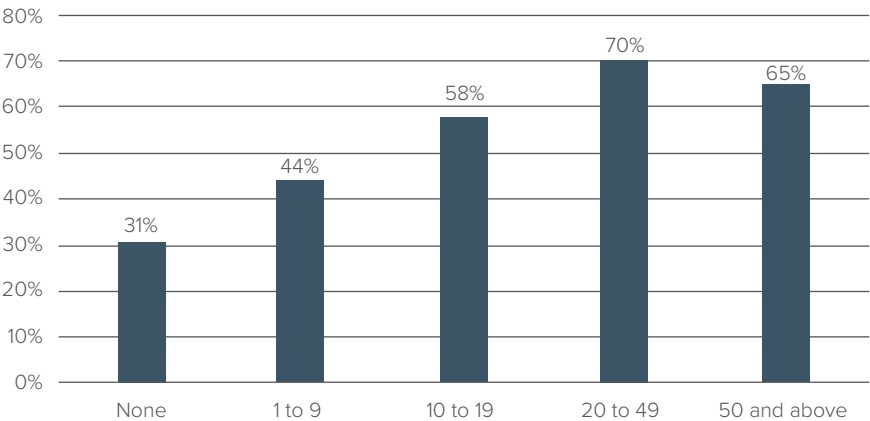
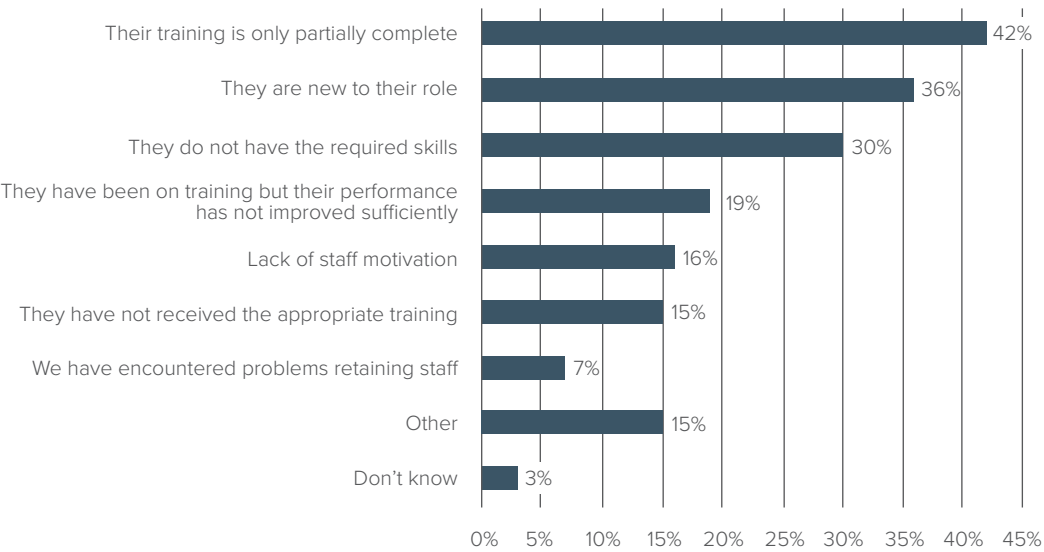


Figure 9: Reasons for staff not being ‘fully proficient’ at their job
Source: FSB skills and training survey, August 2017



Two of the most common reasons given for staff not being fully proficient at their jobs, according to business owners, are that their training has not yet been completed (42%) and that they are new to the role itself (36%). These ‘transient factors’ have been found to be the most common source of

32 There were six sectors with statistically significant numbers of survey respondents: construction; education; information and communication; manufacturing; professional, scientific and technical activities; and wholesale and retail trade.
33 Ibid.
34 Ibid.

skills gaps.³⁵ In addition, written responses from business owners suggest that many are struggling to provide training at a fast enough pace to match the changing economic demands on the business and/or the industry's technological progress:

'Technology moves so quickly, and the staff need to constant self-train to keep up.'
Agriculture, forestry and fisheries business, Surrey, 1 to 9 staff

'The technology my staff use is evolving, so we have to train them to keep up (or even to be ahead) of the competition.'
Education business, Bedfordshire, 1 to 9 staff

'Our market moves so quickly we don't expect to ever be totally proficient. Life is a learning curve.'
Property development business, Portsmouth, 1 to 9 staff

'I, as the MD and only employee, am not skilled in the area of research my new company will carry out. At present, I have a research partner (a local university) but in future I want my own R&D department and staff.'
Wholesale and retail business, West Yorkshire, sole trader

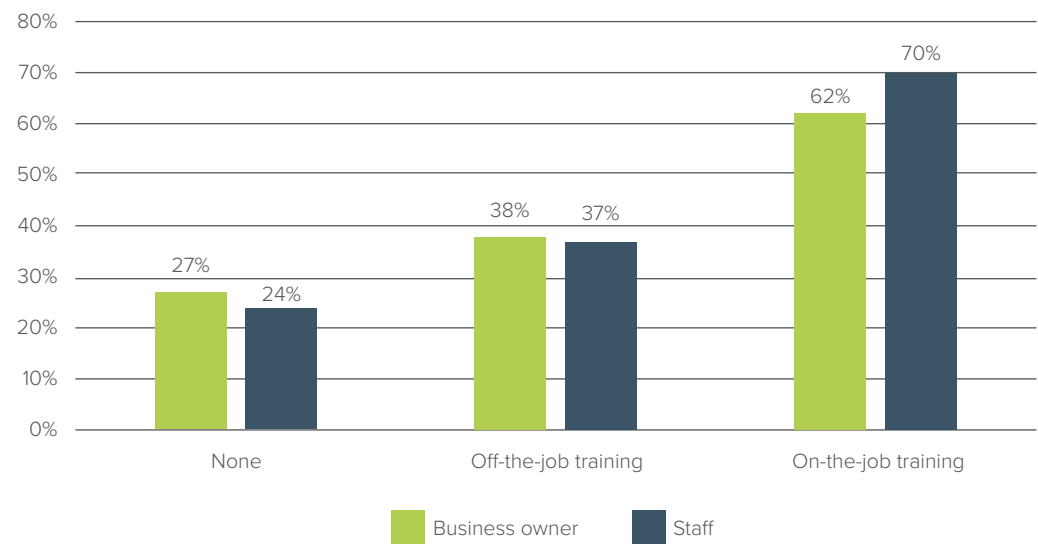
³⁵ There were six sectors with statistically significant numbers of survey respondents: construction; education; information and communication; manufacturing; professional, scientific and technical activities; and wholesale and retail trade.

TRAINING IN SMALL BUSINESSES

A quarter (24%) of small businesses have not provided any training for their staff in the last year. On-the-job training is most common, offered to staff in 70 per cent of businesses; conversely, almost half the number of business owners provided off-the-job training for their employees.

In terms of the training business owners undertake themselves, there is also a clear preference for on-the-job training (62%). In addition, fewer small business owners have provided any training for themselves in the last year, compared with employees in small businesses (24% versus 27%).

Figure 10: Training provided in the last 12 months, by business owner and staff
Source: FSB skills and training survey, August 2017



When breaking-down this data by business size, it is clear that the proportion of business owners providing training for both themselves and their employees increases with business size, as Figure 11 and 12 show.

Figure 11: Business owner training provided in the last 12 months, by business size

Source: FSB skills and training survey, August 2017

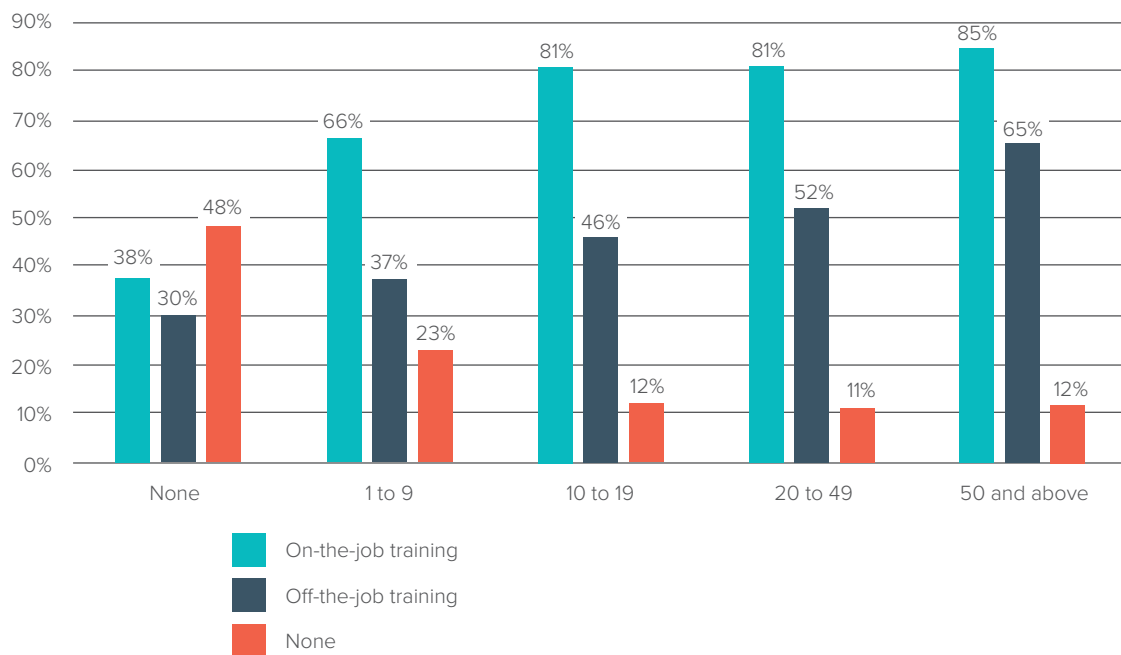
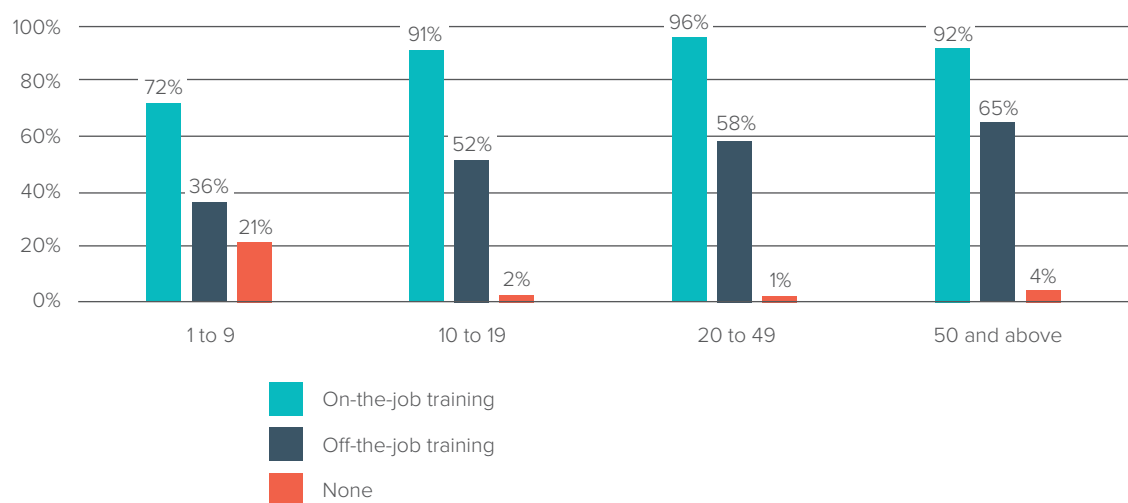


Figure 12: Staff training provided in the last 12 months, by business size

Source: FSB skills and training survey, August 2017



These two figures also show that, although levels of on-the-job training are high for both business owners and staff, and a similar number of firms are providing off-the-job training to both groups (albeit slightly less than on-the-job training), business owners are neglecting their own training. This is particularly the case amongst sole traders, with almost half (48%) not having undertaken any training in the last year.

Type of training

Figure 13: Type of training undertaken in the last 12 months, by business owner and staff
Source: FSB skills and training survey, August 2017

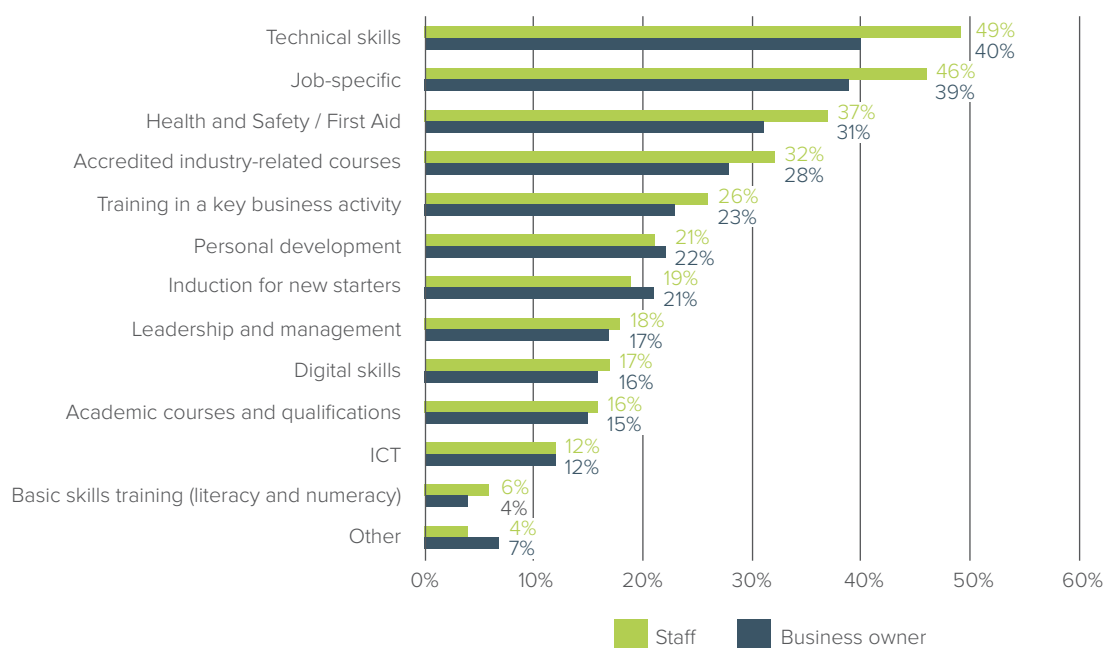


Figure 13 shows that, of all the types of training by small firms in the last 12 months, technical skills training is most common, with 49 per cent of small firms providing staff and 40 per cent providing themselves with training in this area. This is an encouraging sign as it suggests that business owners are investing in the development of these skills among existing workers in order to combat a shortage of technical skills in the labour market. Similarly, training in job-specific skills is popular, with 46 per cent of businesses providing staff training in this area and 39 per cent of business owners being trained themselves.

‘The lack of relevant technical background limits the ability of some of my staff to engage with tasks – it’s not a question of training or intelligence, just of professional experience.’

Business management consultancy business, Manchester, 1 to 9 staff

Leadership and management training has only been undertaken by staff in 18 per cent of businesses, and by a similar share (17%) of business owners. In addition, investment in digital skills training and ICT training, for both staff and the business owner, is low. Improving technologies in the workplace is perceived to be a critical area of change for businesses over the next few years.³⁶

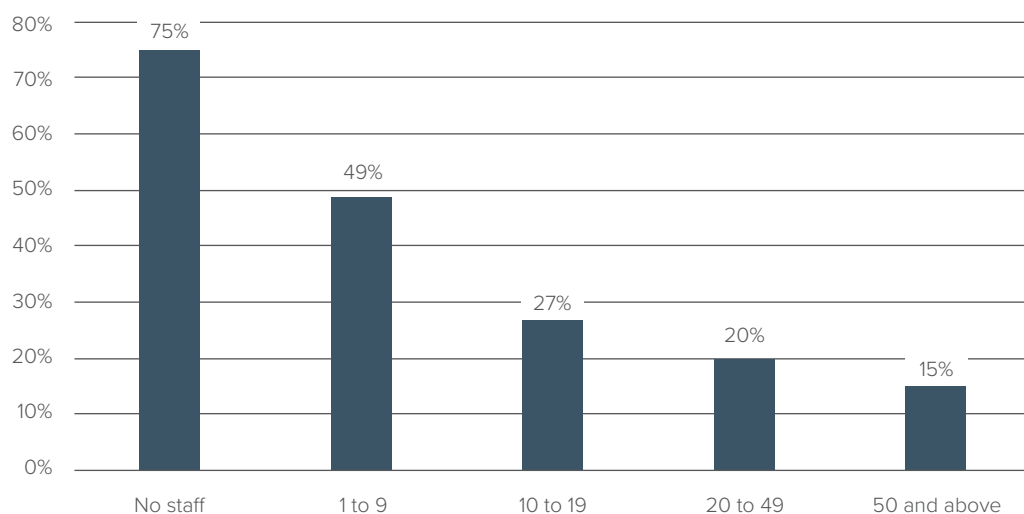
³⁶ UKCES, Careers of the Future, December 2014. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/391911/15.01.05_UKCES_Career_Brochure_V13_reduced.pdf

Measures to support training

Training plans and budgets can help small firms to anticipate and meet their training needs. Despite this, most sole traders (75%) are without either a training plan or a budget. As Figure 14 shows, the number of businesses without either measure decreases as the size of business increases.

Figure 14: Small firms without a training plan or budget, by business size

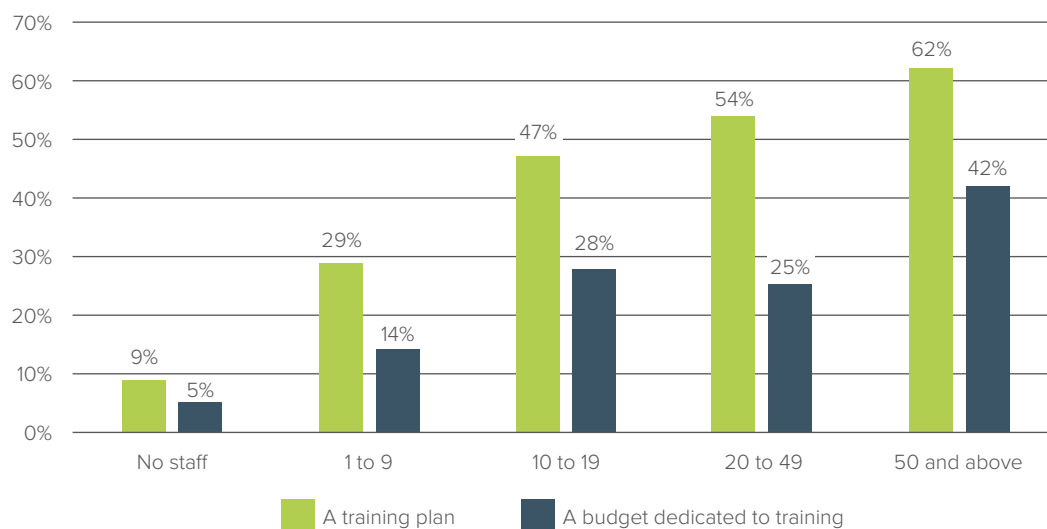
Source: FSB skills and training survey, August 2017



In addition, as Figure 15 demonstrates, training plans are more common than training budgets in small businesses, regardless of their size, although the use of both training plans and budgets increases significantly among businesses with more staff.

Figure 15: Small firms with a training plan or budget, by business size

Source: FSB skills and training survey, August 2017



Written responses from small firms suggest that some small business owners are choosing to address their own, and their staff's, training needs on an ad-hoc and informal basis:

'It varies year to year; I rarely plan a year ahead, but tend to book relevant courses when they come up. So it's all a bit ad hoc really.'

Human health business, Bedfordshire, 1 to 9 staff

'We do not budget for training, but all our training is done as required regardless of cost.'

Wholesale and retail business, Hull, 1 to 9 staff

'We do ad-hoc training based on a need to update skills to improve business, availability of relevant training, and available time and budget – there is no fixed plan or budget.'

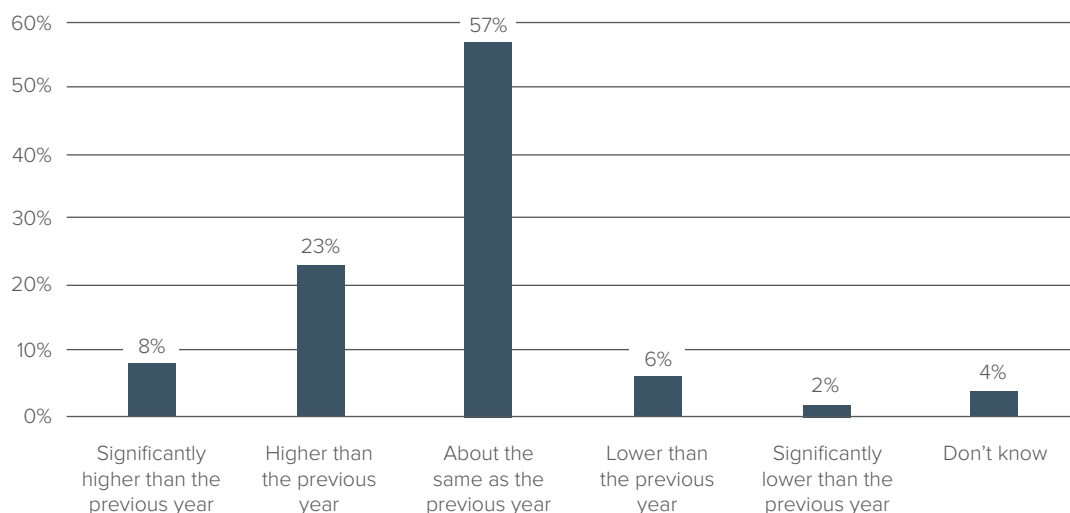
Professional, scientific and technical activities business, North Yorkshire, sole trader

Days and number of staff trained

The average number of days dedicated to training (either on-the-job and/or off-the-job) per staff member (including the owner themselves) in small business in the past 12 months is 6.3; this matches data collected by UKCES, which found that, on average, establishments organised 6.8 days training per staff member in 2015, and 6.7 days in 2013.³⁷

Over half (57%) of small business owners who have organised training for staff (including themselves) in the last 12 months provided about the same number of training days, per person, as the previous year. By contrast, almost a third (30%) of small firms have provided more training days per staff member during the past 12 months, which some believe could be due to an a combination of increased levels of employment and increased recruitment activity, and, therefore, more training in areas such as inductions and health and safety.³⁸

Figure 16: Number of days dedicated to training, per person trained, compared to previous year
Source: FSB skills and training survey, August 2017



The average number of staff (including the business owner) in receipt of training and development over the past year, per organisation, is five.

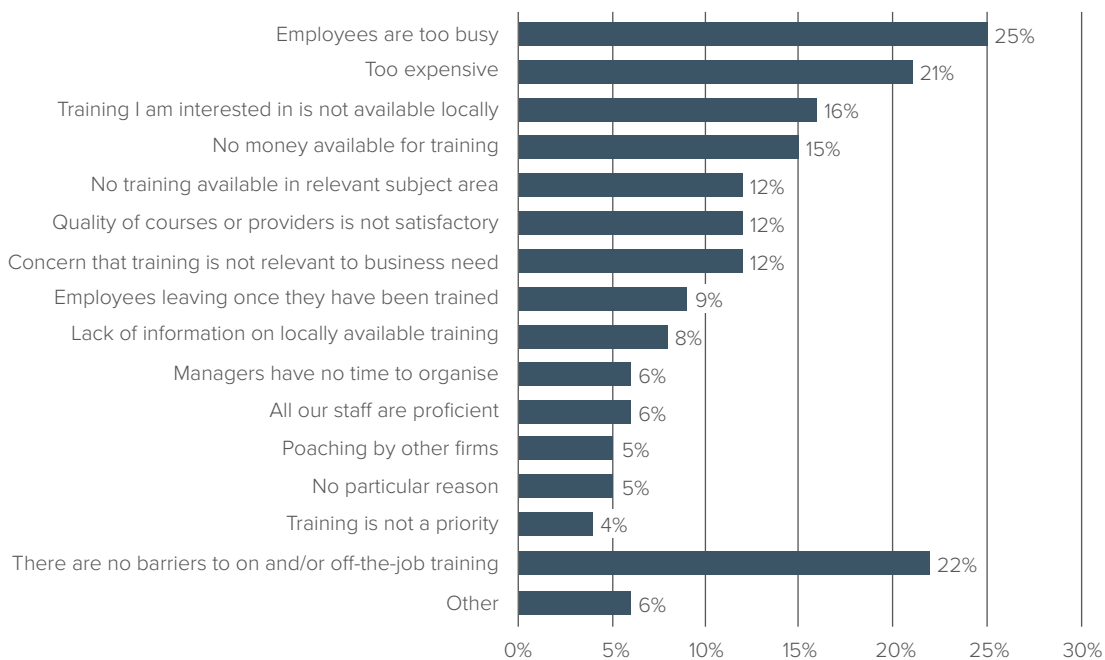
³⁷ UKCES, Employer Skills Survey 2015, May 2016. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

³⁸ Ibid.

Barriers to training

Figure 17: Main barriers to training for business owners and/or their employees

Source: FSB skills and training survey, August 2017



Identifying barriers to training can help to identify what support is required by small firms to invest in skills development.

As Figure 17 shows, issues related to time, resource and cost are the most common barriers to training; for example, just over a fifth (21%) say that the direct cost of training is an issue, and 12 per cent of business owners said a lack of money available for training prevents investment.

Overall, busyness of staff is identified as a barrier to training by a quarter (25%) of business owners:

'As we are a busy organisation it is difficult to release employees for the appropriate training without having a detrimental effect on output. The skills shortage in key areas of our business means the company runs a lean workforce with employees fully engaged on a daily basis. If one employee takes time off for training then others have to pick up the workload.'

Construction business, Gloucestershire, 20 to 49 staff

'As a small team, the cost of staff leaving to go on training adds a significant burden of work on colleagues.'

Professional, scientific and technical activities business, London, 1 to 9 staff

Local availability of provision (16%), lack of training in relevant subject areas (12%), belief that training is not relevant to business need and questions over quality of courses (12%) are also consistent themes, highlighting that concern around the ability of the business owner to see a return of investment may be preventing many businesses from accessing training.

Issues around staff retention (9%) and poaching by other firms (5%) do not appear to be significant barriers to training staff. Equally interesting is that few businesses – just four per cent – say that training is not a priority, suggesting that there is appetite among business owners to invest in training and skills development, but that barriers to training may be making it difficult to translate this into action.

'While we have done some in-house training, there are courses that we have considered but for one reason or another we haven't got round to organising.'

Agriculture, forestry and fisheries business, Lancashire, 1-9 staff

Figure 18: Main barriers to training for business owners and/or their employees, by businesses that train vs. businesses that do not

Source: FSB skills and training survey, August 2017



When comparing the responses of business owners that have organised training in the past 12 months with those that have not, the former actually report more barriers than the latter, suggesting that, despite these issues, they are still organising training. However, businesses that have not trained in the past year are more likely to report that training is not a priority than businesses that have (3% versus 12%), and are more likely to say that their staff are fully proficient (13% versus 4%). This suggests that, in order to boost training among businesses that have not organised training in the past year, there is a need to challenge attitudinal barriers to investing in training, alongside clarifying the business gains to be made from training and development.

Finally, firms run by sole traders experience almost identical barriers to training as business with staff. For sole traders, however, a lack of available funds is a slightly more significant a barrier than it is for the other respondents.

DIGITAL SKILLS

Confidence in basic digital skills

Digital technology continues to develop rapidly and businesses of all sizes are feeling the impact. According to Lloyds Bank Business Digital Index – a national, annual report, benchmarking and tracking the digital maturity of small businesses and charities in the UK – there is a clear link between digital maturity and organisational success. It finds that highly digitally-capable small businesses are 50 per cent more likely to say growth is important to their strategy than those with low digital capability, and those that see business growth and expansion as more important are 43 per cent more likely to be investing in digital skills.³⁹ Despite increasing augmentation of digital technology and ways of working into our everyday lives, the overall digital capability of small firms still requires improvement. In 2017, 1.6 million small businesses (41%) do not have basic digital skills.⁴⁰ This research has used an industry-recognised definition for basic digital skills, advanced by think-tank Doteveryone. In order to have basic digital skills, a person or organisation must have all five of the skills below:

Table 2: Digital capability: the five areas, Basic Digital Skills Framework

Source: Doteveryone⁴¹

Managing information	Find, manage and store digital information and content
Communicating	Communicate, interact, collaborate, share and connect with others
Transacting	Purchase and sell goods and services; organise your finances; register for and use digital government services
Problem solving	Increase independence and confidence by solving problems using digital tools and finding solutions
Creating	Engage with communities and create basic digital content

According to Lloyds Bank Business Digital Index, the number of organisations with all five basic digital skills has reduced; in 2017, 59 per cent of small firms have all of these skills, compared to 62 per cent in 2016.⁴² These skills are integral to exploiting the many opportunities presented by the digital economy, and being an active part of the business community. Research suggests that around 670,000 organisations are ‘on the cusp’ of achieving all five basic digital skills, and that, if these firms were to try just one more skill in the next 12 months, 75 per cent of firms could have basic digital skills by 2018.⁴³

³⁹ Lloyds Bank Business Digital Index 2017. Available at <http://resources.lloydsbank.com/insight/uk-business-digital-index/>

⁴⁰ Ibid.

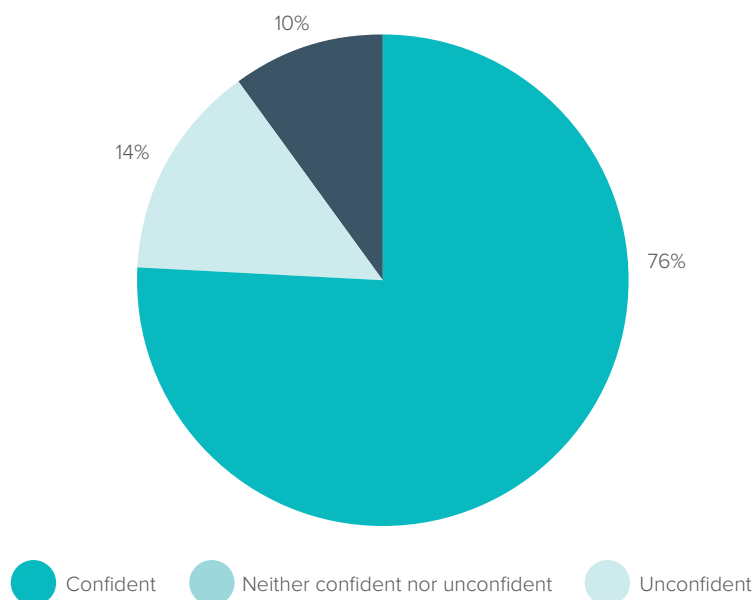
⁴¹ Doteveryone, Basic Digital Skills Framework. Available at <https://www.thetechpartnership.com/basic-digital-skills/basic-digital-skills-framework/#man>

⁴² Ibid.

⁴³ Ibid.

Figure 19: Business owner confidence about basic digital skills

Source: FSB skills and training survey, August 2017



Our survey has found that the majority (76%) of small business owners report feeling ‘confident’ about their basic digital skills, which is positive (however, it is worthwhile noting that our survey was conducted online, which might reflect the high percentage of digitally confident respondents). In addition, this does not tell us about whether business owners are applying these skills in their working lives, or whether their business is more digitally capable than those who are not confident about their basic digital skills.

Sole traders and the self-employed are more likely to classify themselves as being ‘unconfident’ than businesses with employees (18% versus 8%). As one sole trader said:

‘There is only me and I have been too busy earning a living to learn new stuff and suddenly I have become a dinosaur.’

Motor repair business, Greater Lincolnshire, sole trader

Digital skills and growth

Business owners were asked to rank, in order of importance, the five areas of basic digital skills in order of importance to the future growth of their business. The results are shown in Figure 20.

Over three-quarters (76%) of respondents assert that the ability to ‘communicate, interact, collaborate, share and connect with others online’ is the most important of the five areas of basic digital skills to future growth; this includes keeping in touch with people online using email, instant messaging and social media, as well as posting on forums and being part of an online discussion.⁴⁴ In a business context, this can involve maintaining customer and client relationships, using social media to promote the business and make new connections, and being an effective point of information for customers.⁴⁵ Indeed, there is growing evidence of an increasingly positive attitude towards social media as a revenue driver, with a third (32%) of small businesses agreeing that a social media presence has had this impact.⁴⁶

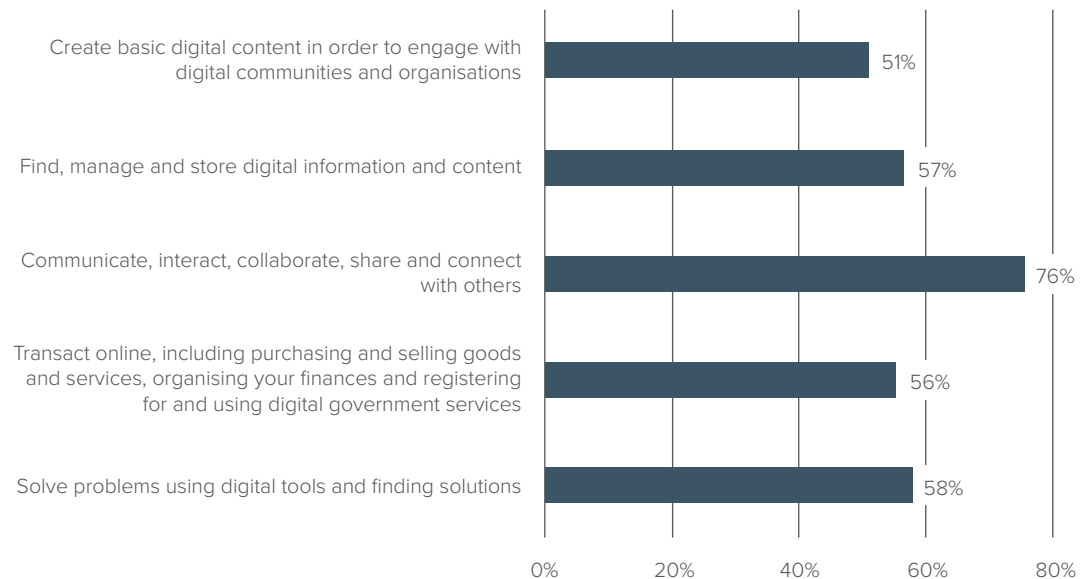
⁴⁴ Doteveryone, Basic Digital Skills Framework. Available at <https://www.thetechpartnership.com/basic-digital-skills/basic-digital-skills-framework/#man>

⁴⁵ Ibid.

⁴⁶ Ibid.

These are, perhaps, the most transferable of the five areas of basic digital skills, as business owners are more likely to have experience using them in a personal capacity. However, the question remains as to exactly *how successfully* and *to what extent* this competence is informing their business operations, practices and strategy.

Figure 20: Areas of basic digital skills business owners consider most important to future growth
Source: FSB skills and training survey, August 2017



According to small business owners, the least important area of the five basic digital skills in terms of their impact on future growth is the ability to ‘create basic digital content in order to engage with digital communities and organisations’. Typical activities as an individual include creating content on social media, creating and sharing a text document, or making an online photo album; while, in a business-context, this can be creating content to reach new audiences and customers (such as a logo) and using social media to engage with customers directly.⁴⁷ Unlike ‘communicating’, ‘creating’ expects a higher degree of independent input, and may require, for example, a more in-depth knowledge of the workings of certain social media sites, such as Facebook or Twitter. It also requires the business owner to be more active and contributory, as opposed to passive and reactionary, which, for many, could be a more difficult space to occupy, as feedback from one business owner shows:

‘[Social media] seems to be constantly poisoned by the drive to increase ‘friends’; LinkedIn is a prime example. It used to be a good business relationship platform, now it’s getting like Facebook! ‘People you may like to connect to’ Why, so I can show off how many contacts I have? What’s the use in that?’
Research and development (R&D) business, Merseyside, up to 10 staff

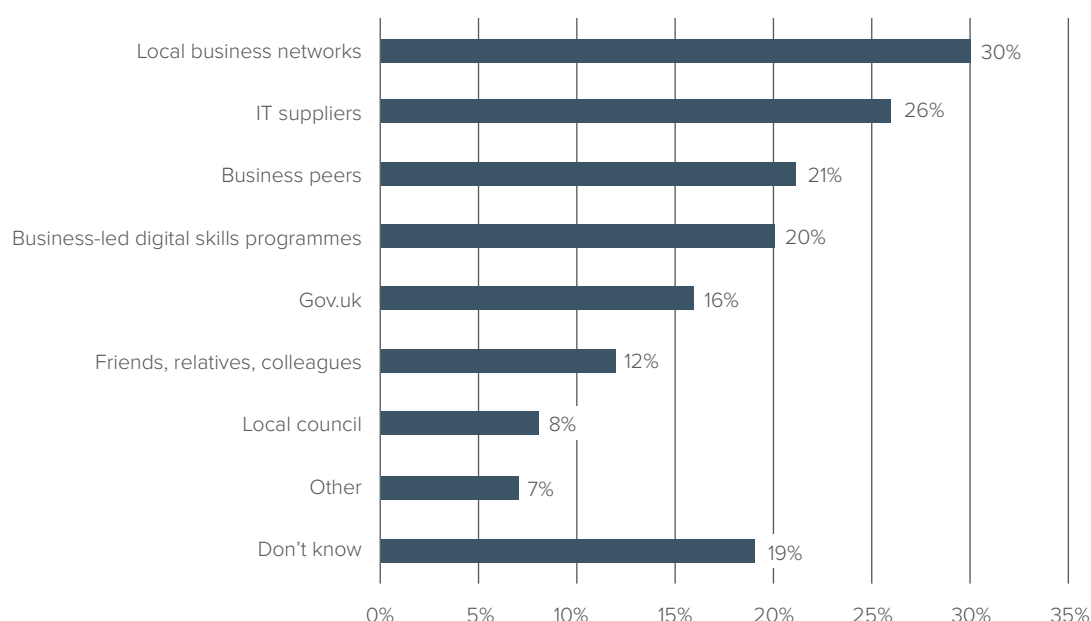
Perhaps worryingly, a quarter (25%) of survey respondents say they do not consider digital skills to be important to the growth of their business. Research suggests that digital transformation can make every business in every sector more productive, and most businesses can’t afford to miss out. It is estimated that small and medium-sized enterprises (SMEs) with a strong web presence on average grow more than twice as quickly as those with minimal or no presence, export twice as much and create twice as many jobs.⁴⁸

⁴⁷ Doteveryone, Basic Digital Skills Framework. Available at <https://www.thetechpartnership.com/basic-digital-skills/basic-digital-skills-framework/#man>

⁴⁸ Department for Digital, Culture, Media and Sport (DCMS), UK Digital Strategy: Policy paper, March 2017. Available at: <https://www.gov.uk/government/publications/uk-digital-strategy/4-the-wider-economy-helping-every-british-business-become-a-digital-business>

Digital skills training

Figure 21: How business owners would prefer basic digital skills training to be delivered
Source: FSB skills and training survey, August 2017



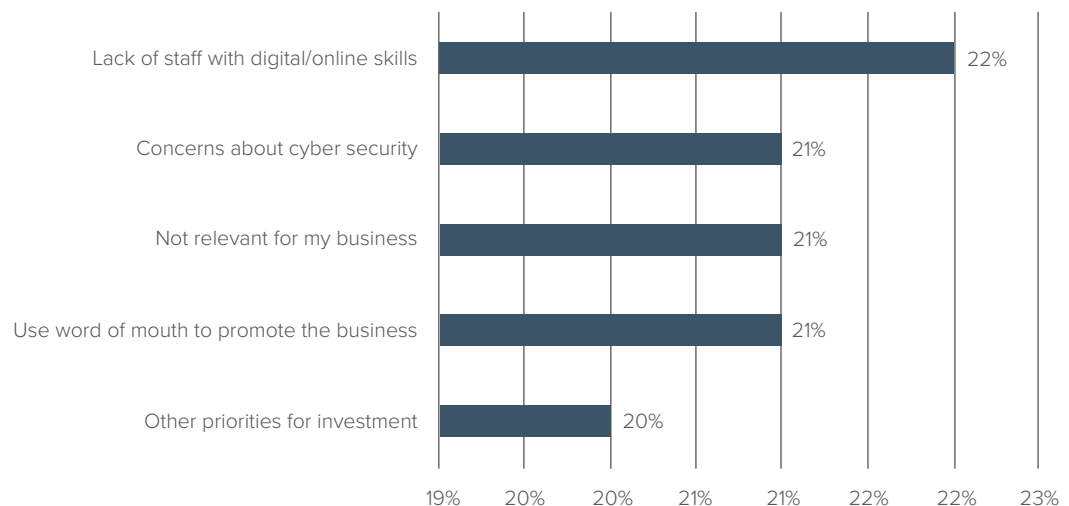
When it comes to how, and by whom, small business owners would like basic digital skills training to be delivered, almost a third (30%) say they would prefer the support of local business networks, and a fifth (21%) would like to go to their business peers, suggesting that familiar, recognisable organisations and networks which they trust are preferred over less well-known sources. Training support from businesses with specialist knowledge of digital technology is also welcome; for example, a quarter (26%) of business owners would like basic digital skills training from IT suppliers, with a fifth (20%) identifying business-led digital skills programmes, of which there are now numerous available. Most of these sources are free to use and accessible, making them an attractive proposition if there is no budget for training, or if basic digital skills training is not a priority.

Lastly, advice and support from Government services – national and local – is considerably less popular (16% and 8%, respectively) among small firms as a source of basic digital skills training.

Barriers to being more digital

Figure 22: Top five reasons for not being more digital

Source: FSB skills and training survey, August 2017



Interestingly, despite business owners' confidence in their own basic digital skills, over a fifth (22%) believe that a lack of basic digital skills among their *staff* is preventing them from being more digital, as Figure 22 shows. A preference for more traditional ways of doing business, including using word of mouth to promote the business (21%) and a belief that being more digital lacks relevance for their business (21%), is also stopping businesses from investing in digital technology and skills.

According to one business owner, time is a barrier to greater digital engagement:

'Time. Blogging more frequently takes time, for example. I have the time when I'm not too busy, but when I am busy I don't have the time to tell everyone what I am doing!'
Information and communications business, Greater London, 11 to 20 staff

A fifth (21%) of business owners are concerned about cyber security. Cyber crime is a considerable risk to smaller firms in the UK. FSB research estimates that small enterprises are impacted by around seven million cyber crimes every year and that these cost small business £5.26 billion annually.⁴⁹ This is a substantial on-going additional cost of doing business, reducing the competitiveness of smaller firms and creating a 'chilling effect' on the dynamism of the small business community, not least due to the higher costs of adopting new digital networked technologies as a result of such risks. Smaller firms are the least best placed to deal with cyber threats most effectively, because of the significant constraints under which they operate. Such constraints make smaller businesses highly vulnerable to cyber threats.⁵⁰

⁴⁹ FSB. Cyber Resilience: how to protect small firms in the digital economy, 2017. Available at: <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/FSB-Cyber-Resilience-report-2016.pdf?sfvrsn=0>

⁵⁰ For more FSB research into cyber crime, including policy recommendations on reducing the risks to smaller firms of cyber crime, read FSB, Cyber Resilience: how to protect small firms in the digital economy, 2017. Available at: <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/FSB-Cyber-Resilience-report-2016.pdf?sfvrsn=0>

RECOMMENDATIONS

1. All Local Enterprise Partnerships (LEPs) should conduct an audit of training provision to establish whether it meets the needs of small businesses and sole traders.

As this research has found, a quarter (24%) of small businesses have not provided any training for their staff in the last year, and a quarter (27%) of business owners have not provided any training for themselves. Conducting this survey has allowed us to gain an insight into what type of training small business and sole traders need, and how they would prefer it to be delivered, including provision that is:

- **Available to do ‘on-the-job’ or flexible** to accommodate the resourcing demands of small firms
- **Value for money** and guarantees a healthy return on investment
- **Available in areas where there is most need** (such as technical skills training)
- **High-quality and business-relevant**

We are aware that some LEPs are successfully collecting and analysing detailed intelligence on their local economy and the skills needed to sustain it, now and in the future. However, we urge all LEPs to carry out a detailed skills and training audit that aligns with Growth Hub priorities and establishes whether local training provision is meeting the needs of small businesses and the self-employed. As part of their role in providing strategic leadership by setting and addressing local economic priorities, the findings of these audits could lead to positive changes in existing training provision that caters for small businesses and the self-employed, and feed into each LEP’s Skills Strategy. In addition, these audits would help to inform the future work of the incoming Skills Advisory Panels, which aim to support employers, education providers and local government in identifying current and future local skills needs.⁵¹

Finally, understanding more about small firms’ demand for particular skills could also lead to a more strategic, local approach to building a local pipeline of skills that are valued by businesses and genuinely meet their current and future needs, to improve skills matching at firm-level.

2. Growth Hubs should introduce Leadership and Management Champions.

Growth hubs – of which there are now a total of 39 across England – are locally led and locally owned by LEPs, tasked with bringing together key local, national, public and private sector bodies involved in supporting business. Initially in receipt of Government funding through Local Growth Deals to establish or enhance existing Growth Hubs, 2016 saw a further £24 million made available as part of the Spending Review to help Growth Hubs to become self-sustaining.

The Wave 2 Growth Hub (W2GH) programme, funded by the Regional Growth Fund and led by Lancaster University, set out to build capacity and create an effective infrastructure for business support in 15 Growth Hubs in England. In total, 5,790 businesses were assisted across the 15 W2GHs, with micro and small firms (fewer than 50 employees) the main focus of assistance (more than 78 per cent of interventions).⁵² As part of the programme, face-to-face business advisers in most W2GHs helped businesses to understand and match their needs against existing business support. One of the key activities developed by these ‘navigators’ was to support business owners in understanding the potential areas for improvement, specifically in terms of managerial and leadership capabilities – one of the most important barriers for SME growth.⁵³

⁵¹ Department for Business, Energy and Industrial Strategy (BEIS), Industrial Strategy: building a Britain fit for the future, November 2017. Available at: <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

⁵² Lancaster University, Wave 2 Growth Hub Programme Interim Report, May 2016. Available at <http://www.lancaster.ac.uk/lums/business/programmes/sme-programmes/past-initiatives/>

⁵³ Ibid.

In the Industrial Strategy White Paper the Government announced that it would continue to fund Growth Hubs.⁵⁴ With this funding now secured, and drawing on the lessons of the W2GH programmes, Growth Hubs should investigate the appointment of Leadership and Management Champions that can successfully harness their local knowledge, pre-existing networks and experience of working in and supporting businesses to boost leadership and management skills in small businesses. With an estimated 67,000 SMEs having engaged with their local Growth Hubs to date, the reach and impact of Leadership and Management Champions in Growth Hubs could be significant.

3. Government should consider allowing tax-deductions for training courses for the self-employed that *develop new, not just refresh existing, skills.*

At present, if a sole trader attends a course that updates existing expertise or knowledge, and is directly relatable to the business activity, then expenditure for that course is regarded as revenue, and is, therefore, tax deductible. However, if a business owner undertakes training intended to give them *new* expertise, knowledge or skills, which they currently lack, it is regarded by HMRC as an ‘enduring benefit’ to the business and, as a result, deduction is prohibited by the Income Tax (Trading and Other Income) Act 2005.⁵⁵ This is particularly the case where a course leads to a recognised qualification, such as Master of Business Administration – an example used in the guidance.⁵⁶ In other words, new skills can’t be claimed.

This dividing line between courses that update existing skills and develop new skills is an increasingly grey area for sole traders. For example, it might be unclear as to whether the owner of a small retail shop can claim training costs for a course which equips them to take their business online. In addition, this rule increasingly conflicts with Government messaging to businesses around the increasing importance of developing new skills in order to keep up with a constantly changing labour market – nor does it reflect the reality of the need for business owners to acquire new expertise. Arguably, this guidance could disincentivise entrepreneurialism among self-employed people, as sole traders are put off from developing the skills needed to exploit emerging areas of business and the economy.

FSB recommends that HMRC considers changing the tax treatment of training for sole traders to further incentivise the self-employed to develop new expertise so that they might improve their chances of success in an increasingly demanding and changing labour market, and bring the rules in line with those that apply to employees.

4. Government should explore the effectiveness of the right to request time off for training to build the ‘business case’ for small firms and the self-employed to invest in skills.

In April 2010, new rules were introduced by Government which enabled employees in businesses with 250 or more staff to make a formal request for time away from their core duties to undertake training. This training can be accredited and lead to the award of a recognised qualification, or unaccredited.

Policymakers should evaluate the effectiveness of this policy on training in businesses and establish whether firms have benefitted as a result. If clear benefits are uncovered, this would provide the much-needed evidence base on which to build a compelling employer ‘business case’ to pursue training, and assist policymakers in encouraging small business owners to be more proactive about identifying, and discussing, development opportunities with their staff.

However, this assessment should not be used by policymakers to explore changes to the legislation that would extend the right to request time off for training to businesses with fewer than 250 staff. Doing so would have a negative effect on small firms and create yet another hurdle for business owners to worry about and a set of policies to be put in place. Instead, best practice should be identified, shared and used to inform future strategies that support – not compel – small businesses to invest in skills.

⁵⁴ Department for Business, Energy and Industrial Strategy (BEIS), *Industrial Strategy: building a Britain fit for the future*, November 2017. Available at: <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

⁵⁵ HMRC, *Income Tax (Trading and Other Income) Act 2005*. Available at <https://www.legislation.gov.uk/ukpga/2005/5/section/75>

⁵⁶ *Ibid.*

5. Apprenticeship levy-paying businesses should prioritise transferring apprenticeship vouchers to small businesses in their supply chain, sector or community.

From April 2018, the Government plans to allow employers paying the apprenticeship levy to transfer funds to another employer or apprenticeship training agency through the apprenticeship service. Levy-paying businesses will be able to transfer up to 10 per cent of the annual value of funds entering their apprenticeship service account. At present, the details of this model are yet to be announced; however, this mechanism has the potential for larger, levy-paying employers to use voucher transfers as a way to help boost the skills within businesses in their supply chain – many of them small – through apprenticeships.

According to official guidance, levy-payers will also be able to transfer vouchers to employers of any size in their sector or community, leaving smaller firms less likely to receive additional funding and facing increased competition from larger businesses. It is our concern, therefore, that this mechanism will not meet its intended purposes of boosting skills throughout supply chains and supporting those less able to invest in apprenticeships training.

To avoid this, and to encourage technical skills development in small businesses not subject to the levy, the following is recommended:

- Government should urge levy-paying businesses to prioritise transferring some or all of their vouchers to small businesses in their supply chain, sector or community over larger businesses.
- Government should also consider introducing a ‘matching service’, hosted on the Apprenticeship Service (the new web-based system through which employers monitor and spend their levy vouchers), where levy-paying businesses can locate smaller businesses wishing to receive funding.
- Smaller businesses that do not pay the apprenticeships levy need to be made aware of the possibility of receiving additional support for apprenticeship training via voucher transfers. Research carried out by FSB in 2016 found that awareness of the apprenticeship levy was extremely low amongst small firms – with 15 per cent of business owners surveyed believing that their business would need to pay the levy when it came into force, when, in fact, they would not. This obvious confusion around the levy is problematic. Policymakers have work to do, not only to socialise the existence of the apprenticeship levy with small businesses, but make them aware of what they could gain through apprenticeship voucher transfers.
- The terms upon which apprenticeship funds will be transferred between businesses are yet to be clarified; however, FSB research shows that small businesses find the apprenticeship system confusing and are heavily reliant on training providers. Support should be offered to small firms by the transferring business in order to help guide them through the process, while the receiving business retains necessary autonomy to come to an agreement with the levy-payer around the details of the training.

6. Government should incentivise small businesses to offer T level work placements to grow the technical skills base.

T levels – a new technical education route for 16-19 year olds, to be rolled out from 2020 in 15 areas where substantial technical training is needed – have the potential to greatly improve the quality and scope of technical provision in England, that has for so long been neglected. A key component of the new route is a high-quality, substantive work placement that each learner must complete in order to gain a pass.

However, the T level action plan, published in October 2017,⁵⁷ stipulates that placements should be an average length of 50 working days, within a range of 45 to 60, for a minimum of 315 hours, prompting concern from FSB that small businesses will be unable to cope with hosting a placement of this duration. With small businesses accounting for almost 60 per cent of all private sector employment

57 Department for Education, Post-16 technical education reforms: T level action plan, October 2017. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/650969/T_level_Action_Plan.pdf

in the UK, there is an expectation from policymakers that they will supply the majority of placements; in addition, the new guidance fails to adequately outline how businesses will be incentivised and supported. FSB research shows that just six per cent of small businesses would offer work placements as they are currently proposed.⁵⁸

If small firms don't get the right support, this will fall at the first hurdle. Taking on a young person for a placement of this nature is a big responsibility and, over several months, will mean the business will need to adapt to accommodate them. FSB, therefore, calls for policymakers to urgently take steps to redress this by working with us and our members to identify the best way to meet their needs in terms of support and to update the T level action plan. Specifically, we ask policymakers to consider providing small firms with:

- **Financial assistance** – Over a third (38%) of small businesses would like financial help to support them to offer this type of work placement.
- **Clear obligations** – Over a quarter (29%) say they would benefit from a formal agreement between the student, the business and the college outlining responsibilities on all sides.
- **Guidance** – A quarter (26%) of business owners would like accessible advice and support to help them deliver a high-quality and worthwhile experience.

Finally, policymakers should investigate the possibility of creating a lasting link between the school and the business that hosted them, so that the student might be able to discuss doing an apprenticeship, or working for them, in the future, and that a sustainable talent pipeline can be created. This may also encourage more small businesses to invest their time and resources into offering placements.

7. Government should use the new National Careers Service website to capture and signpost businesses searching for local skills training, and inform adults and young people about opportunities available through self-employment.

The National Careers Service, launched in 2012, is an online resource providing information and free tools for young people and adults making career decisions. The Government's newly launched and long-awaited Careers Strategy sets out plans for the creation of a 'new, engaging and inspiring website' for the National Careers Service which will be developed in 2018. The website will include over 800 job profiles which will give young people and adults a clear picture of what a job involves and the salary, qualifications and experience they require, and an interactive course directory which explains routes to apprenticeships, degrees and basic skills courses.

The launch of a new National Careers Service website with a significantly raised profile gives Government an opportunity to achieve two further goals, this paper has identified:

- **To capture and signpost business owners who may be searching the internet for local skills and training information and support** – Small businesses report feeling confused about where to go for information on training and overwhelmed when turning to the internet for further guidance. Although the National Careers Service is not designed for businesses, it could play an important role in signposting small firms to local sources of advice, such as the local Growth Hub.
- **To inspire and inform young people and adults about self-employment as a viable pathway to a chosen profession** – The Government has committed to ensuring that 'all Government careers information is available in one place and allows people to more easily find out about and consider the different pathways to a particular career'.⁵⁹ Although the Careers Strategy highlights the importance of young people having regular encounters with employers, including the self-employed and those who work for themselves, there is no specific reference to how self-employment will feature on the new National Careers Service website.

⁵⁸ FSB, Skills and training survey, August 2017.

⁵⁹ Department for Education, Careers strategy: making the most of everyone's skills and talents, December 2017. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/664319/Careers_strategy.pdf

Self-employment is growing part of the labour market and it is vital that – alongside awareness of the possibility of being self-employed – individuals know about the qualifications, experience and skills they will need. The Government should also ensure that each job profile includes example of how a career in these occupations can be pursued through self-employment, freelancing or business ownership.

8. Government should ensure that pilots funded as part of the Department for Education’s Flexible Learning Fund offer a wide-range of solutions to delivering portable, lifelong learning to adults and ensure that these are accessible to those that are least skilled and are on the lowest incomes.

In the 2017 Spring Budget, Government announced that the Department for Education would invest up to £40 million in career-learning pilots to test the effectiveness of different approaches to lifelong learning. In October 2017, DfE launched a £10 million Flexible Learning Fund to support projects that deliver learning to adults (including those looking to return to work) in ways that are flexible, easy to access and aim to deliver technical or basic skills to adults.

Both these announcements represent a positive step towards finding ways to deliver high-quality learning and training for individuals throughout their working lives. However, in order to maximise the effectiveness and reach of these pilots, Government should fund a range of interventions that offer differing methods of delivery – including traditional face-to-face – to ensure that ‘innovative’ does not become a proxy for digital and which might exclude those with limited capability or confidence.

So far, Government has announced its intention to invest £30 million to test the use of AI and innovative education technology (edtech) in online digital skills courses.⁶⁰ Examining the role of technology in supporting learning is important, however this work should be supplemented by projects which do not necessarily take place online, or are reliant on technology. As our research has shown, a quarter of business owners (24%) – many of whom are sole traders – are not confident about their digital skills.

Finally, any interventions aimed at delivering lifelong learning to adults should prioritise the least skilled individuals on the lowest incomes – those who would benefit the most from training opportunities, but who are least likely to participate in learning.

9. The Digital Skills Partnership should prioritise local coordination of local partners to support basic digital skills training for the self-employed and employees in small firms.

On the face of it, our report clearly shows that most small business owners are confident in their own basic digital skills. However, it is not yet clear whether small business owners are using these skills in the workplace. A quarter (25%) of survey respondents do not consider digital skills to be important to the growth of their business, and over a fifth (22%) of business owners believe that a lack of basic digital skills among their staff is preventing them from becoming more digital. However, refusal to engage with the digital future will almost certainly lead many to miss out on reaching new audiences and customers and being more successful as a result.

The Autumn Budget 2017 and subsequent Industrial Strategy White Paper outlined the introduction of a new adult digital skills entitlement to support basic training, and National Retraining Scheme which will help people re-skill and up-skill in priority areas, including digital.⁶¹ These are welcome additions to the landscape of support available to individuals to improve their digital capability; however, it is difficult to clearly discern where smaller firms, particularly the self-employed, fit into this landscape and there is concern that they could end up missing out altogether.

The Digital Skills Partnership represents an opportunity for Government to play an important role in convening partners, including technology companies, local businesses, local government, charities and other organisations, who are aimed at closing the digital skills gap by coordinating between the

⁶⁰ Department for Business, Energy and Industrial Strategy (BEIS), Industrial Strategy: building a Britain fit for the future, November 2017. Available at: <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

⁶¹ Ibid

various programmes, sharing of knowledge and best practice and improving the coherence of digital skills provision. We urge Government to use the findings of this research to inform its strategy and approach to upskilling small business owners and employees of small firms, focusing on enhancing the application of basic digital skills for *business purposes*, and to clarify the benefits of being more digitally capable for business growth, as well as improving access to – and take-up of – basic *digital business skills training* among small businesses *and* the self-employed, who are more likely to classify themselves as being ‘unconfident’.

METHODOLOGY

The survey was conducted with FSB members in England. Individuals were invited to participate in the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 14 August to 1 September 2017. The survey questionnaire was completed by a total of 1,203 small businesses.



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