

# BEYOND KNOWN UNKNOWNNS

A further exploration of the  
demand for higher level  
skills from businesses

James Kewin, Lindsey Bowes &  
Tristram Hughes



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The project team was James Kewin, Lindsey Bowes and Tristram Hughes

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For more information about this report, please contact James Kewin at:  
CFE, Phoenix Yard, Upper Brown Street, Leicester, LE1 5TE

Tel: 0116 229 3300

Email: [james.kewin@cfe.org.uk](mailto:james.kewin@cfe.org.uk)

Website: [www.cfe.org.uk](http://www.cfe.org.uk)

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## Key Findings

- 1 In March 2008, CFE published *Known Unknowns*, a report that assessed the extent and nature of demand for higher level skills from businesses in the East Midlands.
- 2 Through a series of focus groups with businesses in the region, the second stage of our research set out to develop an even greater understanding of this demand. Our aim was to provide valuable intelligence that could be used by Higher Education Institutions (HEIs) to develop their higher level skills 'offer' to businesses. Our hope was that through this further exploration, the demand for higher level skills would become more of a *known*, and less of an *unknown* quantity.
- 3 The focus groups were based around six key questions, the main answers to which are outlined below:

### *What do businesses understand by the term 'higher level skills'?*

- Most businesses agreed that the definition formulated for this research encapsulated the majority of training and development activities that can be used to acquire higher level skills. The definition used was:

*Training and development which is all or just elements of a degree, post-graduate certificate, diploma, masters or doctorate. Equally, it can be studying for an equivalent level professional or vocational qualification at Level 4 and above, perhaps through an industry or trade body, for example, accountancy or law. These higher level skills can be acquired through long, short or distance learning without necessarily leading to a qualification and can be offered in part or in full by universities, further education colleges, private providers and in-house training facilities.*

- There was a widely held perception that higher level skills training tends to result in the award of a qualification. This was an *expectation* of most businesses that *do* train at higher levels. While less important to those businesses that do not, qualifications were rarely cited as a *barrier* to investing in training.

### *Why do businesses invest (or not) in higher level skills training?*

- Overwhelmingly, the HR and business strategy adopted by an organisation are the primary internal drivers to invest. Investment decisions are driven by rational strategies and the presence (or absence) of a clear business case.
- A number of businesses that had not undertaken higher level skills training cited financial costs as a barrier to doing so. Significantly though, these

businesses tended to have good *awareness* of state funding programmes, but had still decided not to invest.

- More businesses cited the opportunity cost, rather than direct financial cost of higher level skills training as a barrier to investment. Links were made between time away from the coalface and productivity, but again, the context of business strategy was all important.
- The decision to increase or decrease investment levels as a response to economic conditions appears to be business, rather than sector specific.

#### *What is the impact of higher level skills training?*

- The majority of employers that undertake higher level skills training report a positive impact on their business from doing so. Training helps staff to feel more motivated, which can increase productivity and reduce staff turnover.
- Higher level skills training can have a positive impact on corporate image, which in turn can help with recruitment and provide a competitive advantage over rivals.
- Businesses also identified a number of 'bottom line' benefits such as the opportunity to charge more for the expertise developed through training at higher levels.
- The actual (or perceived) negative impact of higher level skills training tended to relate to staff motivation and retention. In particular, if employees were not provided with the opportunity to deploy their newly developed skills, training could often be counter-productive.

#### *How are providers of higher level skills training perceived?*

- The majority of businesses do not appear to view HEIs and private training providers as competitors in the same marketplace. Many businesses were unaware that some HEIs could offer the sort of bespoke provision offered by private training providers; HEIs were commonly viewed as providers of (high quality) 'traditional' academic qualifications.
- Private training providers are widely perceived as being flexible and responsive to the needs of business. Contrastingly, businesses considered HEIs as adopting a 'one size fits all' approach to the content and delivery of training.
- Some businesses questioned the extent to which academic staff are able to keep pace with industry developments and whether programme content is always up-to-date. Slow response times and the perception of inflexibility put HEIs at a disadvantage in the market for short programmes and continuous professional development.
- Quality is the area that the majority of businesses perceived HEIs to have a distinct advantage over other provider types. HEIs have a well established

reputation as *the* provider of high quality and academically rigorous provision.

- Most businesses felt that private training providers offered better value for money than FE Colleges or HEIs. They were perceived to operate in a more competitive market where commercial imperatives drive down cost and have the ability to deliver a more complete training 'offer'.

#### *How should higher level skills training be delivered?*

- The overall message from businesses was that flexible delivery options should not be developed at the expense of quality.
- On balance, credit accumulation and transfer (CAT) represents an appealing alternative to traditional methods of higher level skills delivery.
- Bite-sized learning was viewed positively by most businesses, with the caveat that the size of the bite is right and the qualification is achieved within an agreed timeframe.
- The appeal of accrediting in-house training was limited to larger businesses with existing training and development structures. Some regarded this as the ultimate in tailor-made training.
- Some businesses questioned whether qualifications achieved in-house would have any currency outside of the organisation that provided the training. Those that had directly experienced the accreditation process reported that it was complex and bureaucratic.
- Many businesses saw potential cost benefits in employees being fast-tracked through full qualifications by gaining credits for prior experience and learning. There was also a clear appeal to non-traditional learners in the workplace.
- In several groups, the theoretical appeal of accrediting prior and experiential learning (APEL) was punctured by employers that had practical experience of the process – it was regarded as costly and bureaucratic. By 'rubber stamping' existing skills and experiences, fears were also expressed that staff could seek employment elsewhere with their newly acquired qualifications.

#### *Who should fund higher level skills training?*

- The majority of businesses believed that payment of tuition fees should be the shared responsibility of employers and government. Contracts obliging employees to repay all or a proportion of tuition fees if they failed to complete their training were widespread.
- Most businesses felt that learning materials, books and equipment should be funded jointly between employer and employee. Time away from the workplace was regarded by many employers as a more significant cost to the organisation than the financial cost of the training itself. There was

considerable variation in the amount and nature of the study time businesses were prepared to grant staff.

- Only a small number of businesses indicated that increased levels of funding from government would – in isolation – affect their decision to invest in higher level skills training. The decision to invest is usually driven by a strategic business case rather than financial considerations.
- The businesses that did cite financial costs as a barrier to training were usually well aware of the funding support available from government, but had still opted not to invest. The availability of subsidised provision is unlikely in itself to encourage business to begin training or to change their existing training provider.

# 1 Introduction

## *Background*

- 1.1 In March 2008, CFE published *Known Unknowns*, a research report that assessed the extent and nature of demand for higher level skills from businesses in the East Midlands.<sup>1</sup>
- 1.2 The report was set against the backdrop of the recommendation in the Leitch Review of Skills that 40 per cent of the population aged 19 to State Pension age should be qualified to Level 4 or above by 2020.<sup>2</sup> This is a formidable target – in 2005 the figure was estimated to be around 28 per cent.
- 1.3 As 70 per cent of the 2020 workforce has already left compulsory education, the Review indicated that:  
  
*‘Further improvements in the UK’s high skills base must come from workforce development and increased employer engagement.’<sup>3</sup>*
- 1.4 In *Known Unknowns*, we contend that public policy focuses too narrowly on the need to reform the supply of higher level skills. In our view, supply side reform must be informed by a more sophisticated understanding of the extent and nature of the demand for higher level skills from businesses, which, to return to the title of the report, is very much a *known unknown*.
- 1.5 While Further Education colleges and other training providers have a role to play in meeting the Leitch challenge, it is Higher Education Institutions (HEIs) that will shoulder most of the responsibility for delivering this significant increase in higher level skills.
- 1.6 On this basis, we approached the project in classic market research terms: a customer (HEIs in the East Midlands) wants to deliver more products and services to a particular market (businesses in the East Midlands). To do this successfully, HEIs must first develop a clear idea of what the market looks like, what its needs are and how these needs are likely to develop in the future.
- 1.7 The findings in *Known Unknowns* are drawn from a review of the relevant policy literature and a telephone survey of 438 businesses in the region that employ more than 25 staff. The report provides a ‘snapshot’ of the demand from private sector businesses in the East Midlands - our findings have been

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<sup>1</sup> James Kewin, Paul Casey & Rachel Smith (2008) *Known Unknowns: The demand for higher level skills from businesses*, CFE, available to download at [www.cfe.org.uk](http://www.cfe.org.uk).

<sup>2</sup> Leitch Review of Skills (2006) *Prosperity for all in the global economy - world class skills*, HM Treasury, [http://www.hm-treasury.gov.uk/media/6/4/leitch\\_finalreport051206.pdf](http://www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf) [Accessed 1st August, 2008], p. 3. (In Leitch, qualifications are accepted as being an imperfect but necessary proxy for skills.)

<sup>3</sup> Leitch, *World Class Skills*, p. 68.

used to inform the strategy of individual HEIs and policymakers at a national, as well as a regional level. Key findings include:

- 1.8 In total, **39 per cent** of the businesses we surveyed *had* undertaken higher level skills training in the preceding 12 months. The research also tells us that:
  - Over half of these businesses (when the 15% that used universities from outside the region are added to the 42% that worked with regional institutions) used HEIs to deliver the training and it is the post-1992 HEIs that have the most significant share of the *overall* market.
  - Businesses expect higher level skills training to result in a qualification. In choosing a provider, this is a more important factor than the method, location or cost of training.
  - Most businesses tend to meet the full cost of higher level skills training and when they buy from HEIs, they are more likely to buy locally.
  - Employers that undertake higher level skills training tend to do so because it forms part of their wider business and/or human resource strategy.
  - A resounding 77 per cent reported that higher level skills training had had a positive impact on their business.
- 1.9 The remaining **61 per cent** of businesses that we surveyed *had not* undertaken higher level skills training in the preceding 12 months. When asked why:
  - The most frequent response was that they saw no benefit to their business by doing so.
  - Only a small number of businesses cited financial costs or lack of awareness as a barrier to undertaking higher level skills training.
  - Although around a third of these businesses (34%) indicated that they may undertake higher level skills training in the future, the majority reported that they were 'unlikely' or 'definitely not' inclined to do so during the next 12 months.
- 1.10 Drawing on these key findings, Figure 1 illustrates how the market for higher level skills training in the East Midlands can be segmented.

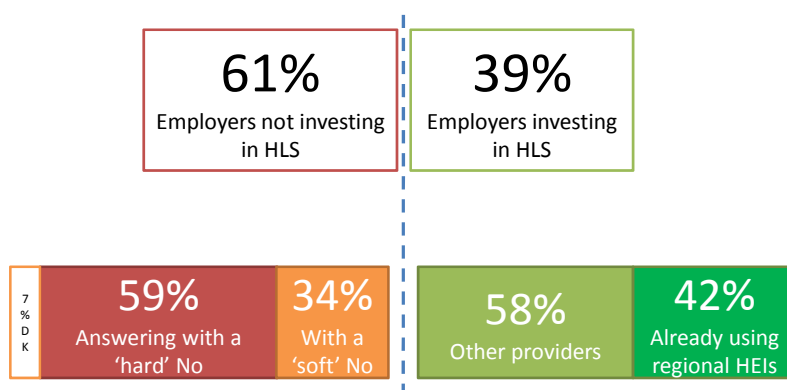


Figure 1: Market demand for higher level skills in the East Midlands<sup>4</sup>

### Research objectives

- 1.11 While providing us with a useful 'snapshot' of demand in the East Midlands, the findings from *Known Unknowns* also raised a series of additional questions that we were keen to explore further.
- 1.12 Through a series of focus groups with businesses in the East Midlands, we set out to answer six key research questions:
  - What do businesses understand by the term 'higher level skills'?
  - Why do businesses invest (or not) in higher level skills training?
  - What is the impact of higher level skills training?
  - How are providers of higher level skills training perceived?
  - How should higher level skills training be delivered?
  - Who should fund higher level skills training?
- 1.13 Our aim was to develop an even more detailed understanding of the nature of demand for higher level skills from businesses. Our hope was that through this further exploration, the demand for higher level skills would become more of a *known*, and less of an *unknown* quantity. The research was conducted on behalf of, and funded by, the East Midlands Universities Association (EMUA) and De Montfort University with support from the Higher Education Funding Council for England (HEFCE).
- 1.14 This report outlines the key findings from the focus groups and is intended primarily for HEIs that are in the process of developing their higher level skills 'offer' to businesses.

<sup>4</sup> In some earlier versions of *Known Unknowns*, the market share of HEIs and other providers was incorrectly reported as 47% and 53% respectively.

## 2 Research method

2.1 Our research set out to add qualitative depth to the survey data generated to produce *Known Unknowns*. On this basis, the businesses recruited to participate in the focus groups mirrored the characteristics of respondents to the survey. All participants were identified as having overall responsibility for skills and training (e.g., CEO/Director, senior manager, HR manager) within organisations that:

- had invested in training at any level in the preceding 12 months
- were based in the East Midlands region
- were operating in the private sector
- employed 25 or more staff.

2.2 Public sector and third sector organisations (social entrepreneurships and voluntary and community organisations) were excluded, leaving VAT registered, private enterprises. The decision to focus on the private sector is in line with regional economic priorities:

*“We are quite clear, it is businesses that create and generate wealth and they will make the difference to the economic success of the East Midlands.”<sup>5</sup>*

2.3 Companies employing fewer than 25 staff members were also excluded from the survey for three key reasons. First, although these businesses form the bulk of the business stock, it is businesses that employ more than 25 staff members that account for 74 per cent of the region’s private sector workforce (1,058,975 employees), see Figure 2 below.

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<sup>5</sup> East Midlands Development Agency (EMDA) (2006) *A Flourishing Region: Regional Economic Strategy*, [www.emda.org.uk/res/](http://www.emda.org.uk/res/) [Accessed October 2008], p. 12.

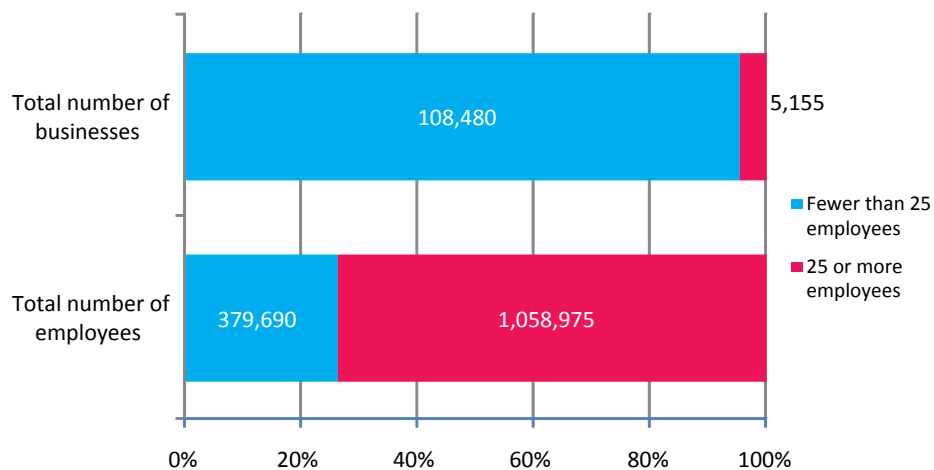


Figure 2: Private sector workforce in the East Midlands by business size

2.4 Second, evidence suggests that a significant proportion of micro and small employers do not provide any training for their staff, let alone at higher levels. The National Employer Skills Survey 2007 identified that companies employing fewer than 25 staff were much less likely to invest in general training compared to those employing 25 or more.

*“Size is a key determinant of likelihood to train ... establishments with 25 or more staff are considerably more likely to provide training than smaller establishments. Smaller establishments are less likely to provide training - only just over half of those with fewer than five staff had provided any training in the last 12 months”.*<sup>6</sup>

2.5 Third, the National Employer Skills Survey 2007 suggests that the average expenditure on training per business increases sharply by business size, as illustrated by Figure 3 below. Employers with fewer than 25 staff invest significantly less than larger employers.<sup>7</sup>

<sup>6</sup> The Learning and Skills Council (2008) *National Employer Skills Survey 2007: Main Report*, <http://research.lsc.gov.uk/LSC+Research/published/ness/ness2007.htm> [Accessed October 2008], p. 131.

<sup>7</sup> *Ibid.*, pp. 186-88.

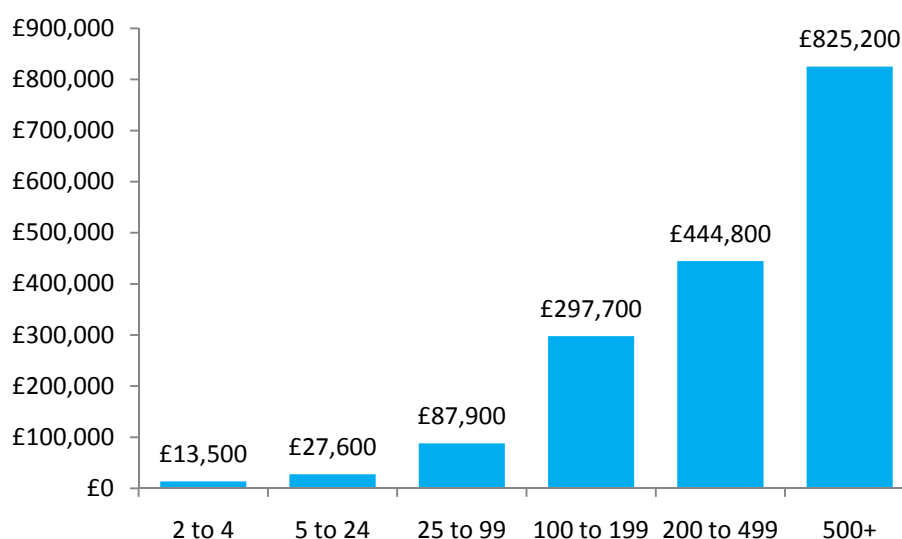


Figure 3: Average expenditure on training by business size (source: LSC, NESS 2007)

2.6 In total, 10 focus groups were conducted, two in each of the five main sub-regions of the East Midlands.<sup>8</sup> In each sub-region, one group focused on businesses that *had* undertaken higher level skills training in the preceding 12 months, the other with businesses that had not.

2.7 When recruiting businesses for the focus groups, our fieldwork partner used the following definition of higher level skills, developed in consultation with the East Midlands Universities Association (EMUA) and the Higher Education Funding Council for England (HEFCE):

*Training and development which is all or just elements of a degree, post-graduate certificate, diploma, masters or doctorate. Equally, it can be studying for an equivalent level professional or vocational qualification at Level 4 and above, perhaps through an industry or trade body, for example, accountancy or law. These higher level skills can be acquired through long, short or distance learning without necessarily leading to a qualification and can be offered in part or in full by universities, further education colleges, private providers and in-house training facilities.*

2.8 A cross section of businesses operating in a range of industrial sectors was recruited. Our sample broadly reflects the proportion of businesses operating in key industrial sectors in the East Midlands. Table 1 shows the distribution of focus group attendees by sector.<sup>9</sup>

<sup>8</sup> The sub-regions are the five counties of Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire.

<sup>9</sup> Industry groups were assigned using the 2003 UK Standard Industrial Classification of economic activities, see Office for National Statistics (2007) *Standard Industrial Classification (SIC)*, <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14012>.

Sector	Number of participants
Manufacturing	10
Construction	9
Wholesale & retail trade	4
Hotels & restaurants	6
Transport, storage & communication	6
Financial Intermediation	6
Real estate, renting & business activities	19
Health & social work	10
Other community, social & personal service activities	3
Other	3
<b>Total</b>	<b>76</b>

*Table 1: Focus group participants by broad industrial group (UK SIC 2003)*

Business size (number of employees)	Number of participants
20-24	2
25-49	23
50-99	17
100-249	8
250-499	7
500+	15
<b>Total</b>	<b>72</b>

*Table 2: Focus group participants by business size<sup>10</sup>*

- 2.9 The focus groups were conducted during July and August 2008. We consulted a total of 76 employers, 41 in the higher level skills groups and 35 in the non-higher level skills groups. The groups were facilitated by two members of the CFE research team. A third member of the team took notes and the discussions were digitally recorded.
- 2.10 Verbatim quotations are included in this report to amplify the key findings. However, they are only attributed to a group (abbreviated to either HLS or non-HLS, depending on whether the businesses had undertaken higher level skills training) and a location (e.g. Leicestershire) as participants were assured that their identities would remain anonymous. The focus groups were used to address the six key research questions outlined in Para 1.12.

<sup>10</sup> 4 of the 76 businesses would only disclose that they employed more than 25 staff, 2 had employed more than 25 at the time of recruitment before subsequently reducing in size.

### 3 What do businesses understand by the term 'higher level skills'?

- 3.1 One of the difficulties in conducting research into higher level skills is that it is not a term or a concept that resonates particularly loudly outside of educational circles. Only a select group are familiar with the levels used in the National Qualifications Framework and it was our experience (from both the survey and focus groups) that this group includes very few businesses. It is significant that 55 of the 225 businesses that initially indicated they had undertaken higher level skills training through the survey had *actually* trained at a lower level.
- 3.2 For HEI sales teams to engage with businesses effectively, it is important to understand what businesses understand by the term higher level skills, the perceptions they hold and the language they use to describe their current and potential needs.
- 3.3 We began the focus groups by asking the businesses to comment on the definition of higher level skills formulated for this project, and outlined in Para 2.7.
- 3.4 There was general agreement across all the groups that this definition encapsulated the majority of training and development activities that can be used to acquire higher level skills.
- 3.5 However, a small number of participants felt that the definition could be expanded to encompass higher level skills that are acquired in ways that do not involve 'studying for' a qualification, such as those developed through on the job training or experience:

*'What's missing [from this definition] is the practicalities of actually doing it...so it's not studying per se; it's actually on-the-job training...studying doesn't really cover that I don't think.'*

*(Leicestershire: HLS Group)*

*'Would you include people who have gained skills through experience, not through a degree or something? We have managers who have no degrees or anything, but they are really skilled in the job in terms of marketing or customer interactions.'*

*(Leicestershire: Non-HLS Group)*

- 3.6 While the definition was clear that higher level skills can be acquired '*without necessarily leading to a qualification*' the majority of businesses in both groups made a very clear conceptual link between the two. There was a widely held perception that higher level skills training tends to result in the award of a qualification.

3.7 In *Known Unknowns*, we identified that existing consumers of higher level skills exhibited a strong preference for training that resulted in a qualification. From the focus groups, it is clear that this is an *expectation* of most businesses that train at higher levels. While qualifications were often less important to businesses in the non-higher level skills groups, they were rarely cited as a barrier to investing in training.

3.8 The definition triggered a debate within some groups about the meaning of, and the distinction between, academic, vocational and professional qualifications. For example:

*Respondent A: 'Are accountancy or law vocational qualifications?'*

*Respondent B: 'That's professional I would say, accountancy and law.'*

*Respondent A: 'Well I see that as a big issue, especially for academia... I would class accountancy, law, medicine as vocational qualifications because it's a qualification for actually doing something. The only true academic qualifications are mathematics, Latin, Greek, where you are actually reading something as a pure intellectual exercise.'*

*(Derbyshire: HLS Group)*

3.9 Many businesses believed that academic qualifications provide a theoretical grounding, but, in order to be effective practitioners, employees also need to develop a range of professional/vocational skills. Businesses in highly regulated sectors frequently observed that higher level qualifications were a prerequisite for individuals *entering* their profession. As a result, these businesses were more likely to define higher level skills training as continuing professional development (CPD).

3.10 In Chapter 6, we will explore in more detail how providers of higher level skills are perceived by businesses, but it is worth noting here that employers considered HEIs primarily as providers of 'traditional' academic qualifications. While it is difficult to distinguish between academic, professional and vocational qualifications, employers more closely associated delivery of the latter with private training providers, and to a certain extent, FE Colleges.

## 4 Why do businesses invest (or not) in higher level skills training?

- 4.1 In developing a supply side offer, it is essential to understand the business context that drives employers to invest (or not) in higher level skills. *Known Unknowns* identified that this decision is driven primarily by the business and/or human resource strategy of an organisation.
- 4.2 The findings from the focus groups support this view, although when the employers were asked to participate in an initial brainstorming exercise to address this question, a range of additional internal and external drivers presented themselves. The most frequently cited internal and external drivers are outlined below in Table 3.

Internal drivers	External drivers
Human resource strategy	Regulatory requirements
Business strategy	Economic conditions
Financial cost	Labour market conditions
Opportunity cost	

*Table 3: key drivers to invest (or not) in higher level skills*

- 4.3 In order to examine their relative importance, participants were asked to rank these drivers based on the influence they had within their own businesses. However, there was considerable diversity in employers' perceptions of their relative importance. Our findings suggest that the degree of influence a driver has is highly context dependent and is inextricably linked to the business strategy an organisation has chosen to adopt. In this chapter we explore these internal and external drivers in more detail.

### Internal drivers

#### *Human resource (HR) strategy*

- 4.4 The most common reason for investing in higher level skills training cited by respondents to the *Known Unknowns* survey was that it formed an integral part of their company's HR strategy. This was also frequently cited as a key driver by participants in the focus groups.
- 4.5 In short, businesses believe that training supports the achievement of HR objectives linked to the recruitment and retention of staff. Those that had invested in higher level skills training believed they had gained a competitive advantage in the market for skilled recruits:

*'[Higher level skills training] attracts somebody who feels that they want to develop themselves personally and is looking for a company that will offer them development. So it supports recruitment.'*

*(Leicestershire: HLS Group)*

- 4.6 A number of businesses indicated that their organisation had an HR policy of training and promoting from within rather than recruiting in order to address skills shortages and gaps:

*'We've trained two people because we had a perceived skills gap in the business. We specifically decided not to recruit for those skills – better the devil we knew.'*

*(Northamptonshire: HLS Group)*

- 4.7 Many businesses reported that their staff (particularly those already in possession of a higher level qualification) expected opportunities for training and continuous professional development to be presented to them as a matter of course. Significantly, the business that did make this strategic investment reported that staff remained with and committed to the organisation for longer:

*'If they ask for [training] and you give them that, then that will be far more effective than the equivalent money as a pay rise in terms of retaining them.'*

*(Derbyshire: HLS Group)*

- 4.8 Although only a tiny minority of respondents to the employer survey cited 'reluctance of staff to train' as a reason for not undertaking higher level skills training, several employers during the focus groups described a situation where a need for training had been identified, but existing staff were unwilling to train:

*'Nobody wants the responsibility of being a manager. I'm not prepared to force somebody beyond the level that they're really comfortable at...but if somebody came along within the factory and said that they really wanted to go for a trainee manager position, assuming they were up to it,, we would take them on to do it and start training them up.'*

*(Leicestershire: Non-HLS Group)*

*'You've got to have the availability of competent and willing staff; you can't force people to go and train.'*

*(Derbyshire: Non-HLS Group)*

- 4.9 A number of respondents reported that the extent of a 'learning culture' within an organisation can also determine the level of investment in training. In the view of most businesses, this culture reflects the attitude and qualification level of senior members of staff. Organisations that value learning are believed to be more likely to support training at a higher level than those that do not.

### *Business strategy*

- 4.10 Respondents to the employer survey indicated that higher level skills training was integral to their wider business strategy. Businesses in the focus groups shared this view and described how training helped to consolidate the position of their organisation, grow their business and penetrate new markets:

*'We wouldn't continue to do it if we didn't believe there was a financial benefit, because we are a commercial organisation. However, it is really difficult to assess what that is, a tangible benefit, and come up with an equation or a financial justification for doing it. We do it because we believe it's the right way to further develop the business.'*

*'Diversification into new markets. [You train] if you want to go into a new area.'*

*(Leicestershire: HLS Group)*

- 4.11 The findings suggest that employers that engage in higher level skills training are driven to invest by a need to ensure that their workforce is equipped with the necessary skills to achieve their business objectives.

*'Each part of the business could be saying, we need to be investing x amount of money for y training...who gets it [is based on] what is perceived to be the biggest business need.'*

*(Leicestershire: HLS Group)*

- 4.12 By the same token, decisions *not* to engage in training at higher levels can also be driven by rational business strategies and the absence of a clear business case to invest:

*'You might not actually need it; if you've got no intention of growing then taking on higher level people is a waste of money and time. ...You can take a company where the skills are not Level 4. Let's say whoever's running the company has enough skills to manage the finance and the marketing and they're highly profitable and all they need is just to bring in more operators to pull out the potatoes or plant the seeds or whatever.'*

*(Leicestershire: Non-HLS Group)*

### *Financial costs*

- 4.13 Financial costs can also influence the decision to train (or not) at higher levels. Several businesses that had not undertaken higher level skills training cited financial cost as a barrier:

*'Where I work the main factor is a lack of resources, especially financial, to invest in higher level skills.'*

*(Leicestershire: Non-HLS Group)*

- 4.14 However, many of the businesses that cited financial costs as a barrier to investment were well aware of the external funding sources available to them:

*'In our situation CITB give a certain amount towards the training, plus they say you can get a top up from Train to Gain. Providing that the employee can get through the course and pass, we get a percentage back - so the cost to us at the end is actually very little, but there is an upfront investment.'*

*(Nottinghamshire: Non-HLS Group)*

### Opportunity costs

- 4.15 Although only a small proportion of respondents to the *Known Unknowns* survey indicated that opportunity costs were the reason they had not undertaken higher level skills training, it was raised as a potential barrier by businesses in several of the focus groups.
- 4.16 Opportunity costs were reported by most businesses as productivity lost as the result of staff being released from normal duties to participate in training. This was often exacerbated by the additional cost of 'back filling' the position of the staff member undergoing training. Many small businesses that had not invested in higher level skills indicated that the cost of backfill was prohibitive to doing so. Others noted that it was rarely practical to backfill the posts targeted for higher level skills training because of the nature and seniority of the roles.
- 4.17 Although some employers that had invested in higher level skills indicated that they were prepared to absorb the opportunity costs of training, others had developed strategies to minimise the impact. These included re-allocating work to other staff members, ensuring employees undertake all training-related activities outside of normal working hours and providing flexibility for staff to manage their workloads around training activities that may take place during normal working hours.

*'Time is the biggest issue. It's not only time they spend away, it's also, if it's something they're really into, then it actually deflects them, because they'd rather spend time working on their interest subject, rather than doing what we're paying them to do and want them to do...but you've got to trust people to be sensible.'*

*(Derbyshire: HLS Group)*

## External drivers

### Regulatory requirements

- 4.18 *Known Unknowns* revealed that approximately one fifth of employers undertake higher level skills training because it is a requirement of working in their sector. Focus group participants drawn from regulated industries such as accountancy, law and (to a lesser extent) care, reported that regulatory requirements were the principal driver for training at higher levels:

*'In Law there is a regulatory requirement that we do CPD, otherwise we'd lose our practising certificates - so that will always be a priority.'*

*(Leicestershire: HLS Group)*

- 4.19 Although not always a regulatory requirement, businesses also indicated that they were driven to invest in training by a need to keep up-to-date with latest industry practice, product developments and technical innovations:

*'Changing client criteria: we've been hugely affected by the move towards sustainable construction, so we're suddenly having to outreach for sustainability courses and professional qualifications in that.'*

*(Leicestershire: HLS Group)*

- 4.20 Clearly, in sectors where there are fewer regulatory requirements, or where they only extend to lower level qualifications, the imperative to invest in higher level skills is reduced:

*'In the hospitality industry there are no such regulatory requirements that you have to gain, so I think that would be one of the main reasons that people do not invest. Especially in smaller organisations...our chairman wouldn't even think of training at higher levels.'*

*(Leicestershire: Non-HLS Group)*

#### *Economic conditions*

- 4.21 The prevailing economic conditions were reported as having a significant influence on the decision to train. This was closely linked to the business strategy and, to a certain extent, cost:

*'If we have a buoyant market then we can afford to spend more on our staff; if it isn't, then we have to tighten the belts.'*

*'For us at the moment [in the construction industry], there won't be anybody going on any expensive courses, because obviously we're battening down the hatches and riding the [economic] storm.'*

*(Leicestershire: HLS Group)*

- 4.22 Conversely, some employers indicated that an economic downturn often increases levels of investment in training. By investing in their staff when others are not, these businesses believed they gained a competitive advantage over their rivals.

*'Our style of business is that we take quite an aggressive view, or an active view, through difficult economic times. We try and up our resources and make sure we are ...investing in people because we are doing so through a period when our competitors may be reining in a little. Experience over a long time and a few different recessions has shown that it's a very good policy. If you can afford to do it you can gain market share. You might not gain a corresponding increase in your turnover levels but you do gain economic share. Economic cycles do cycle and when you come out of the other side you come out with a much stronger business.'*

*(Leicestershire: HLS Group)*

### Labour market conditions

- 4.23 Closely associated with internal drivers such as HR strategy, the external labour market can also act as a driver for investment in higher level skills. Several employers reported that when skilled labour is in plentiful supply, there is less imperative to train existing staff and more to recruit externally. Conversely, if the skills required are not present in the wider workforce, companies are driven to invest in training in order to plug skills gaps.

*'If we didn't train we wouldn't have a business. With the nature of the business, we would find it incredibly difficult to buy in as many qualified people as we want and need - so it's really a no brainer, you have to do it.'*

*'In our industry, construction, there is a shortage of skills, so obviously we need to invest in training for the staff that we've already got so that we overcome difficulties of recruitment and skills shortages.'*

*(Derbyshire: HLS Group)*

## Summary

- 4.24 We have identified a range of internal and external factors that drive businesses to invest (or not) in higher level skills:
- Overwhelmingly, the HR and business strategy adopted by an organisation are the primary internal drivers to invest. Investment decisions are driven by rational strategies and the presence (or absence) of a clear business case.
  - A number of businesses that had not undertaken higher level skills training cited financial costs as a barrier to doing so. Significantly though, these businesses tended to have good *awareness* of state funding programmes, but had still decided not to invest.
  - Significantly more businesses cited the *opportunity* cost of higher level skills training as barrier to investment. Links were made between time away from the coalface and productivity, but, again, the context of business strategy was all important.
  - While regulatory requirements drove the investments decision for businesses in certain sectors, the prevailing economic conditions were a factor across the piece. The decision to increase or decrease investment levels appears to be business, rather than sector specific.

## 5 What is the impact of higher level skills training?

- 5.1 From *Known Unknowns*, we know that over 70 per cent of respondents who had undertaken higher level skills training reported a positive impact on their business from doing so. Through the focus groups we were keen to explore this impact in more detail.
- 5.2 Clearly, the focus groups with businesses that had undertaken higher level skills training provided the most insight here, but employers in both groups reported that higher level skills training had (or could potentially have) a *negative* impact on their business. A summary of the most frequently cited responses are outlined in Table 4 below.

Positive impact	Negative impact
Staff motivation and retention	Staff motivation
Skill levels	Staff retention
Productivity and Profitability	
Corporate image	

Table 4: reported impact of higher level skills training

### Positive impact

#### *Staff motivation and retention*

- 5.3 Overwhelmingly, businesses reported that higher level skills training helps staff to feel more motivated in their role. Increased motivation was reported by many employers to be closely linked to productivity:

*'It's motivation as well isn't it? If they can see that there is another level they can aim for, they will work that little bit harder to try to attain that.'*

(Leicestershire: HLS Group)

*'Happy, contented staff equals greater productivity.'*

(Leicestershire: HLS Group)

- 5.4 The majority of businesses also reported that that staff were more committed to the organisation as a result of undertaking higher level skills training:

*'Money can only motivate you for so long. If you go into a company and they want to invest in you long term...you're more likely to be committed.'*

(Nottinghamshire: Non-HLS Group)

*'If you put into your staff the ability for them to train to higher levels then it aids staff retention, they feel that they're working for a good company that's interested in their career progression.'*

(Leicestershire: HLS Group)

- 5.5 Greater levels of commitment were also reported to help minimise the costs associated with staff turnover:

*'If you are investing in your people, they tend to stay with you longer and your staff turnover is less. That's one of the things that we've seen: our staff turnover has gone down considerably when we're investing in people and making sure that we're giving them the right training and skills.'*

(Derbyshire: HLS Group)

### Skill levels

- 5.6 Fundamentally, higher level skills training can equip staff with the knowledge and skills to undertake their existing job more effectively.

*'If you go on a course, you can apply what you've learned and be more productive.'*

(Leicestershire: HLS Group)

- 5.7 However, higher level training can also enable employees to achieve the necessary skills and qualifications to undertake additional and/or new roles. Once again, employers perceived that savings can be made by training existing staff at a higher level to undertake functions that were previously outsourced at considerable cost to the organisation.

*'A long-term reduction in outsourcing costs.'*

(Leicestershire: HLS Group)

- 5.8 To achieve the maximum return on their investment in higher level skills training, businesses emphasised the importance of cascading the newly acquired knowledge and skills to other members of staff within their organisation.

*'It can be an overall benefit within the organisation as well, because if one's learning, they can pass on knowledge as well, so it's not just confined to one person.'*

(Leicestershire: HLS Group)

### Corporate image

- 5.9 Many businesses reported that investing in higher level skills was good for their corporate image. Developing a reputation as an organisation that invests in higher level skills was regarded as a key factor in attracting and retaining the best individuals in the workforce. This was particularly important for businesses competing for skilled workers in sectors experiencing skills

shortages and for smaller companies unable to match the financial packages offered by their larger competitors:

*'People will come to us as a regional firm because we offer good training... despite the fact that other, national companies may offer bigger salaries.'*

(Derbyshire: HLS Group)

- 5.10 Several businesses also reported that a highly skilled workforce can afford their organisation a degree of kudos with new and existing clients and that this can provide them with a competitive advantage over their rivals. This was particularly true of businesses in highly regulated sectors, as a way of distinguishing one organisation from its competitors:

*'It's good to demonstrate to clients that you have a professional level of individuals within that organisation...Some clients certainly want to see a certain number of chartered engineers in a business. Some clients want to see, not only that you have the skills, but that you're investing in your people.'*

(Derbyshire: HLS Group)

*'Credibility is certainly one element. I mean if you are pitching for a particular job then the qualifications of the team that you are pitching makes a difference, particularly with new clients.'*

(Nottinghamshire: HLS Group)

#### *Productivity and Profitability*

- 5.11 Many of the businesses that had invested in higher level skills reported a positive impact on productivity and profitability.

*'You can charge more for your services...and your level of expertise means you can get more work.'*

(Leicestershire: HLS Group)

- 5.12 Higher level skills training was regarded as an effective mechanism through which to diversify the business and gain footholds in new markets.

*'Some of the more recent business areas that we've expanded to...have come around because people have been through education, got more skills and, therefore, been able to offer new areas of business.'*

(Derbyshire: HLS Group)

- 5.13 Businesses also reported the positive impact of higher level skills in their existing market:

*'I think competitive edge comes into it...because if you're not training your staff and they've not got all the skills, then you're obviously not going to be very competitive within the market.'*

(Derbyshire: HLS Group)

## Negative impact

### Staff motivation

- 5.14 Higher level skills training can, in some cases, have a negative impact on staff motivation. In short, if employees do not have the opportunity to deploy their newly developed skills, this can lead to problems:

*'Having an over-skilled staff is a risk for us. If we trained up all our technicians to be architects we just wouldn't have enough interesting work for them all and they'd just leave.'*

*'We're not a huge organisation and in a family business providing opportunities for people to progress is difficult because people see that you can only go so far and unless you're part of the family it's difficult to progress further. We have to look to provide innovative ways to keep creating progression routes for people.'*

*(Leicestershire: HLS Group)*

- 5.15 Supporting employees to progress their learning to a higher level often raises their career aspirations and creates an expectation that their efforts will be rewarded with a promotion. If this does not materialise, employees are often unwilling to return to their old role.

*'You can over-develop egos. People do their training then don't want to do the same jobs they were doing before.'*

*(Leicestershire: HLS Group)*

- 5.16 All businesses indicated that time and resources for training are limited and they are not able to support all employees who wish to develop higher level skills. No matter how transparent the process, investment decisions can be divisive and de-motivate employees who feel they have been overlooked.
- 5.17 Businesses operating in highly regulated industries observed that the obligation to undertake a specified number of hours of training each year can also damage morale. Compulsory training is often perceived to have little intrinsic value and can have a negative effect on staff motivation.

### Staff turnover

- 5.18 The majority of businesses that had undertaken higher level skills training reported a positive impact on recruitment and retention. However, many of those that had not, saw the potential for an *increase* in staff turnover:

*'I think it's a risk...if you don't put through certain individuals, you run the risk of them leaving the company because they feel they're under-achieving in what they're doing and under-paid and under-valued. Having said that though, if you put the wrong people through, they see the pot of gold at the end of the tunnel and they jump ship. But for me in the construction industry, I have to sub all my work out because I don't have that level of skill within the company at the moment. That obviously costs*

*me far more, but on the flip side, if I do train my own people, are they going to get a better job elsewhere?’*

*(Derbyshire: Non-HLS Group)*

5.19 In some instances, this was based on experiences of training staff at lower levels:

*‘I lost twelve grand last year on four individuals through training. I put four individuals that I thought were absolutely spot-on through a training course at three grand a pop. They worked with me for about two to three weeks then moved overseas. I’m paying them £500 or £600 a week; they’re earning £600 a day overseas. You can’t always keep hold of the people that you’re training. This year, the only people that I’m training will have to sign a contract to say that they’ll stay with me for x amount of time or have to pay for it themselves.’*

*(Derbyshire: Non-HLS Group)*

## Summary

5.20 The majority of employers that do undertake higher level skills training report a positive impact on their business from doing so:

- Training at higher levels helps staff to feel more motivated, which can increase productivity and reduce staff turnover. Increased skill levels can help staff to fulfil their existing role more effectively and allow them to undertake new or additional roles.
- Higher level skills training can have a positive impact on corporate image, which in turn can help with recruitment and provide a competitive advantage over rivals.
- A number of ‘bottom line’ benefits were also identified by businesses, such as the opportunity to charge more for the expertise developed through training at higher levels.
- The actual (or perceived) negative impact of higher level skills training tended to relate to staff motivation and retention. In particular, if employees were not provided with the opportunity to deploy their newly developed skills, training could often be counter-productive.

## 6 How are providers of higher level skills training perceived?

6.1 The higher level skills training market is a crowded one. As some HEIs are relative newcomers to the world of employer engagement, it is important to understand how they and other provider types are perceived by businesses.

6.2 In *Known Unknowns* we identified that over 90 per cent of the higher level skills training provided to business in the East Midlands was delivered by one of three provider types:

- HEIs
- FE colleges
- Private training providers

6.3 In the focus groups, we asked respondents to share their experiences and perceptions of the relative strengths and weaknesses of these provider types. The issues that emerged can be categorised under five thematic headings:

- Awareness and marketing
- Relevance of content
- Delivery methods
- Quality of provision
- Value for money

6.4 The extent to which these provider types are perceived to offer value for money is explored in more detail in Chapter 8.

### *Awareness and marketing*

6.5 Private training providers were overwhelmingly regarded as the most effective at raising awareness of their higher level skills offer. While some businesses found frequent marketing calls, emails or mail shots to be intrusive, the majority had a greater awareness of private sector provision.

*'I went all the way down to Brighton this year and paid for two days, £1000 to go on training simply because some training came up that was absolutely up our street at the right time and you know they sent me an email about it at the right time. One of the things that makes you go is simply knowing the course is available...so it's effective communication, what is going on, when its going on and how it's going on.'*

*(Lincolnshire: HLS Group)*

- 6.6 Conversely, HEIs (and to a certain extent FE Colleges) are considered to be much less effective at engaging with businesses. Even when employers contacted HEIs directly, their enquiries were often passed between departments and it was not uncommon for enquiries to get lost in the system altogether.
- 6.7 Significantly, many businesses were unaware that some HEIs could offer the sort of bespoke provision offered by private training providers; HEIs were commonly viewed as providers of (high quality) 'traditional' academic qualifications. Businesses also appear to regard HEIs as a relatively homogenous group and do not fully appreciate the diversity that exists within the sector.

#### *Relevance of content*

- 6.8 All businesses agreed on the importance of provision that is relevant to the needs of their organisation. Private training providers were considered to be far more effective at delivering highly specialised, bespoke training linked to the specific requirements of individual businesses:

*'For us they can tailor make: we can say we need x, y and z addressing. They will go away, look at our business and come back with a training programme to suit our needs.'*

*(Northamptonshire: HLS Group)*

- 6.9 Businesses that had used both private providers and HEIs identified that the former were far more effective at linking training to their business strategy and objectives.
- 6.10 Many businesses perceived HEIs to be out of touch with industry and too distant from the world of business to respond effectively to their requirements. Contrastingly, most private training providers were perceived to be much more in touch with the commercial world, in part because they inhabit this world themselves.

#### *Delivery methods*

- 6.11 Unsurprisingly, employers emphasised the need for training to be delivered in a way that was flexible and responsive to their business needs. Private providers were generally regarded to be far more effective than HEIs in this area, specifically:
- Responding quickly to initial enquiries
  - Delivering training at an appropriate time and location
  - Ensuring the pace and style of training suited the business
- 6.12 In the eyes of many businesses, HEIs are synonymous with bureaucratic processes and a one size fits all approach to delivery. For example, employers perceived that the validation procedure for new programmes prevented HEIs

from responding rapidly to demand for training in new skill areas. In addition, the academic calendar is perceived to prevent institutions from delivering provision at a time in the year that suits the needs of employers.

- 6.13 While private training providers are recognised for their ability to deliver training in the workplace at a time to suit the business, the HEI offer is perceived to be campus-based and limited to the academic calendar:

*'Universities are probably as not as flexible as the other providers. They can't usually come out to the workplace; it is a case that the student has to go to them and what they do it quite rigid in the syllabus and what they are going to cover. But if you had something more tailor-made you could do the things that are more useful to you.'*

(Leicestershire: HLS Group)

*'I think [private training providers] are [more flexible] by nature really: they can come in and see you, they can come in and do parts of it in-house they can do parts of it over the internet now they have all got their sites set up, they can do smaller groups as well and one-to-one.'*

(Lincolnshire: Non-HLS Group)

#### Quality of provision

- 6.14 Quality is the area that the majority of businesses perceived HEIs to have a distinct advantage over other provider types. It was clear that HEIs have developed a strong brand based on their reputation for delivering high quality provision and providing access to a wide range of learning resources. Although businesses indicated that they were broadly satisfied with the quality of the training they purchased from private providers, most regarded programmes of higher education as the 'gold standard' in relation to higher level skills.

*'But doing degree courses and diploma courses at university you do find out they are hard courses and you know you don't get a reputation by passing everybody, you do it by being strict and working within parameters and that's why the universities are the best.'*

(Lincolnshire: HLS Group)

- 6.15 Businesses were clear that improvements to the flexibility of the HEI 'offer' should not come at the expense of quality. Further insights into the appeal and potential impact of flexible approaches to delivery, such as bite-sized learning and credit accumulation and transfer, are provided in the following chapter.

#### Value for money

- 6.16 Businesses were asked to identify which provider type offered the best value for money when purchasing higher level skills training. Overwhelmingly, private training providers came out on top. They were perceived to operate in a highly competitive market where commercial imperatives drive down cost.

They were also perceived to offer a more complete package than other types of providers and offer a single point of contact, which leads to a more effective working relationship.

- 6.17 This more personal service helps the provider to develop a better understanding of the needs of the business and to offer bespoke training. In turn, bespoke training delivers specific outcomes for businesses, which are reported to have a greater and more immediate impact than the more generic provision offered by HEIs. Private providers are also perceived as more likely to deliver at a time, place and pace to suit the business.
- 6.18 A minority of respondents believed that FE Colleges offered the best value for money, particularly for small organisations that only need to purchase training at a higher level for a relatively small number of employees. Smaller companies benefit from the economies of scale achieved by colleges delivering programmes to more substantial numbers of learners and, as some courses are subsidised by government, employers are not liable to meet the full cost of tuition. FE Colleges are perceived to be well integrated into local communities and their network of campuses and satellite sites help to minimise travel time and costs.

## Summary

- 6.19 The majority of businesses do not appear to view HEIs and private training providers as competitors in the same marketplace:
- Many businesses were unaware that some HEIs could offer the sort of bespoke provision offered by private training providers; HEIs were commonly viewed as providers of (high quality) 'traditional' academic qualifications.
  - Private training providers were widely perceived as being flexible and responsive to the needs of business. Contrastingly, HEIs are considered to adopt a 'one size fits all' approach to the content and delivery of training.
  - Some businesses questioned the extent to which academic staff are able to keep pace with industry developments and whether programme content is always up-to-date. Slow response times and the perception of inflexibility put HEIs at a disadvantage in the market for short programmes and continuous professional development.
  - Quality is the area that the majority of businesses perceived HEIs to have a distinct advantage over other provider types. HEIs have a well established reputation as *the* provider of high quality and academically rigorous provision.
  - Most business felt that private training providers offered better value for money than FE Colleges or HEIs. They were perceived to operate in a more competitive market where commercial imperatives drive down cost and have the ability to deliver a more complete training 'offer'.

## 7 How should higher level skills training be delivered?

7.1 Innovative solutions to the higher level skills challenge are currently being developed by HEIs across the region. Through the focus groups, we explored the response of businesses to three broad approaches to higher level skills training:

- **Credit accumulation and transfer (CAT):** CAT systems enable learners to work towards a full qualification through the accumulation of credit for discrete units or modules of study over time. Learners have the flexibility to take a break between modules and move between courses, or to another university, in order to achieve a full qualification.<sup>11</sup>
- **Accreditation of in-house training:** This system enables employers to achieve accreditation for their in-house training by either: becoming a recognised awarding organisation with the ability to develop and award its own nationally accredited qualifications; working with an existing awarding organisation that designs, quality assures and accredits bespoke qualifications on behalf of the employer; and/or working with a third party such as a provider, sector regulator, trade association or professional body that provides quality assurance to meet the requirements of the national qualification system.<sup>12</sup>
- **Accreditation of prior and experiential learning (APEL):** APEL is a process that enables people to receive formal recognition for skills and knowledge they already possess. Organised prior learning where the learning has been assessed and where certificates are awarded on completion and learning gained through unstructured experiences and short courses can be taken into account. APEL can enable learners to gain entry to further or higher education courses, achieve exemption from certain elements of a course or qualify for an award in an appropriate subject.<sup>13</sup>

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<sup>11</sup> Bahram Bekhradnia (2004) *Credit Accumulation and Transfer, and the Bologna Process: An Overview*, Higher Education Policy Institute (HEPI).

<sup>12</sup> Qualifications and Curriculum Authority (2007) *Approaches: Achieving accreditation for in-house training*, QCF: Employer Recognition Programme, [http://www.qca.org.uk/qca\\_18857.aspx](http://www.qca.org.uk/qca_18857.aspx).

<sup>13</sup> J. Wilcox & R. Brown (2008) *Accreditation of Prior and Experiential Learning*, UK Centre for Materials Education, The Higher Education Academy, <http://www.materials.ac.uk/resources/library/apelintro.asp>. Also see D. Hemsworth (2007) 'Accrediting prior experiential learning (APEL)', in L. Brennan & Hemsworth (eds) *Incorporating into Higher Education Programmes the Learning People do for, in and through work*, University of Bolton: University Vocational Awards Council (UVAC.)

7.2 In this chapter, we outline the main strengths and weaknesses of each approach that were identified by businesses. It is worth noting that only a small number had directly experienced these approaches and so the insights generated relate largely to the *perceptions* held by businesses.

## Credit accumulation and transfer (CAT)

### Strengths

7.3 On balance, the concept of credit accumulation and transfer was one that appealed to businesses. Many regarded the opportunity to undertake small bite-sized modules of learning as being more convenient than traditional delivery methods:

*'You might not be talking about higher level management; you might be talking about some of your senior operators who you want to have a higher level qualification and if they don't get that qualification are they going to feel belittled. So if you can do it in bite-sized chunks then it would help people [make it] manageable.'*

(Lincolnshire: HLS Group)

7.4 Smaller modules of learning were perceived to be less disruptive and easier to manage alongside other work and personal commitments.

*'It is appealing to me as an employer and from the employee perspective. I can do the bits when I want even if it takes me 10 years. It is not necessarily going to impact on my job, whereas if I turn round to my employer and say, "I'm not going to be around for the next four months is that OK?" Well it's "absolutely no." Whereas if I am going to be doing one night for a couple of hours, you know that is going to be much more appealing to the employer - it fits around the business.'*

(Nottinghamshire: Non-HLS Group)

7.5 The option to take a break between modules of learning was also perceived to offer a degree of flexibility that could make the difference between a learner dropping out because of external pressures and successfully completing a programme. A high failure rate can be extremely costly for employers seeking to maximise the return on their investment.

7.6 The opportunity to 'pick and mix' modules was viewed positively by most businesses, particularly those seeking to ensure they are able respond to changing industry and/or sector needs:

*'In our sector you can take various modules suitable to your role...There are lots of sets of exams and they all gain points: so if you are going to be a specialist fund manager then you take the investments leading to be a fund manager...It is so good because people can do modules in their own time and areas of expertise and still get that higher level qualification.'*

*'For us...to be able to cherry pick the best of what any provider can give is much more appealing.'*

(Leicestershire: HLS Group)

- 7.7 In addition, the opportunity to purchase smaller modules of provision was attractive to some businesses, as it would enable them to spread the cost of training:

*'If I have got three members of staff that come to me with a proposal...the reality is at the moment I am going to have to choose one out of the three, because it is far too costly to choose all three, it is just not financially viable. But under this system I can choose all three. It is a much more arguable position for my directors. It increases scope for retention amongst a larger group of members of staff.'*

(Lincolnshire: HLS Group)

- 7.8 Even those businesses that had not undertaken higher level skills training could see the potential benefits of bite-sized learning in helping to open up higher education to a wider constituency of learners.

*'I think it would probably appeal to certain types of people, returners to learning or somebody who has had a particularly traumatic experience in learning...If you said to them well you can do it in this sort of way it may be palatable.'*

(Leicestershire: Non-HLS Group)

*'If I wanted to start a degree and I wanted a baby then I could stop where I was and then I could continue, you know, that would be flexible.'*

(Lincolnshire: Non-HLS Group)

### Weaknesses

- 7.9 There was broad agreement that the size of the 'bite' was critical when assessing the viability of bite-sized learning. Accumulating credit that amounts to a very small percentage of a higher level qualification was widely agreed to have limited value for both the business and the individual learner:

*'If you get it down to two per cent fragments they become meaningless and the retention of that information [over time] is doubtful.'*

(Lincolnshire: Non-HLS Group)

- 7.10 There was also a strong feeling that the achievement of qualifications should be time-bound to ensure the learning undertaken in the early stages of study was not 'lost' by the time the qualification was completed.
- 7.11 Some businesses expressed concern about the quality of learning obtained through the accumulation of small credit-bearing units. There was certainly a *perception* that this form of delivery could lead to HEIs compromising on quality.
- 7.12 Significantly, some of the businesses that had not undertaken higher level skills training questioned the desirability of higher education being made more accessible:

*'What worries me is that eventually anybody can get a degree and I don't think that is what it should be about.'*

*(Lincolnshire: Non-HLS Group)*

## Accreditation of in-house training

### Strengths

- 7.13 Larger businesses that delivered training in-house perceived that a system of external accreditation would enable them to benchmark the quality of their training against other organisations. They also felt that it would provide a stamp of credibility.

*'I know we run our own courses within the organisation and it would be appealing to me to know how good that is, as a benchmark or a method, the method that we deliver it, how good is that? At the moment it is home grown and I would like to try and figure that out, and is there any better way of doing it.'*

*(Leicestershire: HLS Group)*

- 7.14 The concept of externally-accredited, in-house training was regarded by some businesses as the best of both worlds:

*'Because you can control it yourself, if it is something that you are responsible for, it is something that you can develop within your own company and hopefully get your own status from.'*

*(Lincolnshire: Non-HLS Group)*

- 7.15 A small number of businesses even saw the potential to develop an additional revenue stream by delivering externally-accredited in-house training to other companies. There were several examples of where this had already taken place:

*'In the past we have been accredited and we have also been able to offer it to other employers in a similar situation to us and for them to come in and share the training.'*

*(Lincolnshire: HLS Group)*

### Weaknesses

- 7.16 Unsurprisingly, this model had little appeal for businesses that did not have existing in-house training facilities. The costs involved in setting-up an internal training infrastructure are substantial and employers perceived that it would be more cost effective for smaller organisations without in-house facilities to purchase training from external providers.

*'I think the company would find it unappealing, because it would be too much hassle for them to set up, because we have so many homes all over the country... the hassle of setting it up would be too much for them to do.'*

*(Lincolnshire: HLS Group)*

- 7.17 Some businesses questioned whether qualifications achieved in-house would have any currency outside of the organisation that provided the training. Those that had experienced the accreditation process also reported that the process was complex and bureaucratic. They indicated that they would be reluctant to purchase this type of provision in the future if the system could not be simplified:

*'We have tried it, and it is so complex to actually get the accreditation and get the standard of work that you are going to put on your course agreed and it is just so complex. If they made it easier then it would be appealing.'*

*(Nottinghamshire: HLS Group)*

## Accreditation of Prior and Experiential Learning (APEL)

### Strengths

- 7.18 Many businesses saw potential cost benefits in employees being fast-tracked through full qualifications by gaining credits for prior experience and learning. Savings could potentially be made on course fees and the opportunity costs of releasing staff would also be reduced.
- 7.19 Several businesses saw the potential of using APEL as a tool to assess their current skills base and to identify future training requirements. This model was particularly appealing to businesses that employ highly experienced staff members who lack formal qualification. These individuals often lack the confidence to study at a higher level and experience difficulties with traditional modes of assessment. APEL would help to overcome this barrier and open up opportunities to those who would otherwise be unwilling or unable to study at a higher level:

*'You also get a lot of people you know that don't like the pressure of having tests: they could be the brightest person in the world but as soon as you put a test in front of them they panic and they don't pass.'*

*(Lincolnshire: Non-HLS Group)*

### Weaknesses

- 7.20 As with credit accumulation and transfer, some businesses were concerned that APEL represented a dilution of academic standards. Some felt that higher level skills training should involve more than just a simple demonstration of context-specific skills and competencies. To be of value, businesses perceived that higher level skills training should equip learners with the knowledge and skills that transcend the specific context of an individual workplace.
- 7.21 Reservations were also expressed about the quality of the assessment process and the extent to which standards could be compared and maintained across different workplaces.

- 7.22 Bureaucracy and cost were also a concern to businesses. In several groups, the theoretical appeal of APEL was punctured by employers that had practical experience of the process:

*'This isn't new, the accreditation of prior learning is not new, it's been around for donkey's years. The problem is that it's tied to academia, it's tied to universities, it's way too bureaucratic and rigid. It's just so bureaucratic, it's the process itself and it is so rigid and it is tied to the university system. That's what puts me off and other people off.'*

*(Lincolnshire: HLS Group)*

- 7.23 Some businesses regarded the portability afforded by APEL as more appealing to their employees than to them as employers. By 'rubber stamping' existing skills and experiences, fears were expressed that staff could seek employment elsewhere with their newly acquired qualifications.

## Summary

- 7.24 It is significant that so few businesses had direct experience of these innovative approaches to the delivery of higher level skills. Those that did have direct experience tended to point towards the strengths of CAT and the weaknesses of in-house accreditation and APEL. However, it is equally important to understand the *perceptions* held by businesses as they can be a powerful factor when deciding to invest (or not) in higher level skills training, particularly with an HEI.
- 7.25 In the previous section we identified quality as the strongest weapon in the collective armoury of HEIs. With all three approaches, the message from businesses was that that flexible delivery options should not be developed at the expense of quality.
- On balance, credit accumulation and transfer (CAT) represents an appealing alternative to traditional methods of higher level skills delivery.
  - The option to spread the cost of training and potential for more flexible delivery were considered to be real strengths. The option to 'pick and mix' modules (and if required, providers) seemed to make business sense.
  - Bite-sized learning was viewed positively by most businesses, with the caveat that the size of the bite is right and that the qualification was achieved within an agreed timeframe.
  - The appeal of accrediting in-house training was limited to larger businesses with existing training and development structures. Some regarded this as the ultimate in tailor-made training.
  - Some businesses questioned whether qualifications achieved in-house would have any currency outside of the organisation that provided the training. Those that had experienced the accreditation process also reported that the process was complex and bureaucratic.

- Many businesses saw potential cost benefits in employees being fast-tracked through full qualifications by gaining credits for prior experience and learning. There was also a clear appeal to non-traditional learners in the workplace.
- Bureaucracy and cost concerned some businesses. In several groups, the theoretical appeal of APEL was punctured by employers that had practical experience of the process. Employers also expressed fears that, after 'rubber stamping' existing skills and experiences, staff could seek employment elsewhere with their newly acquired qualifications.

## 8 Who should fund higher level skills training?

- 8.1 In *Known Unknowns*, we identified that 70 per cent of the businesses we surveyed met the full cost of their higher level skills training. However, it is notoriously difficult to accurately assess employer spend on training, particularly at higher levels. It is likely that some businesses reported that they had met the full cost of their higher level skills training because they paid the fee charged to them at the point of delivery. For training undertaken with providers in the private sector this is likely to be the case. For qualification-bearing courses delivered by HEIs it is equally likely that a partial, rather than a full financial contribution to the actual cost of the training has been made (for example, by paying an employee's tuition fees).
- 8.2 It is also possible that some businesses will have underestimated the overall cost of training to their business. While payment of course fees might, in their view, constitute meeting the 'full cost' of training, this does not include the costs incurred for learning materials or time off to train.
- 8.3 As HEFCE and LSC have recently commissioned a comprehensive report on employer investment (at NQF Level 4-8),<sup>14</sup> our focus was very much on the *attitude* of businesses to funding higher level skills training. This is important to understand, as government increasingly expects employers to co-fund (in cash or in kind) higher level skills training.
- 8.4 With this in mind, we asked businesses to identify where responsibility for funding higher level skills training should rest. The discussions centred around three key areas:
- Tuition fees
  - Learning materials, books and equipment
  - Time to train

### *Tuition fees*

- 8.5 The majority of businesses in both groups believed that payment of tuition fees should be the shared responsibility of employers and government.
- 8.6 No respondents felt that employees should be solely liable, especially if the training is a requirement of the job or otherwise work-related. However, a number of businesses reported putting mechanisms in place to minimise the financial risks to the organisation when an employee fails to complete a course or leaves the organisation prematurely. Although problematic to enforce,

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<sup>14</sup> C. Howat (2008) *Employer Investment in Learning at National Qualifications Framework Level 4 – 8*, GHK Consulting for HEFCE and LSC.

sponsorship contracts obliging employees to repay all or a proportion of tuition fees were widespread.

- 8.7 Helyer and Hooker contend that employers cannot be expected to fund the full cost of learning that has wider social and economic benefits.<sup>15</sup> This view was certainly shared by businesses, particularly those that had not purchased higher level skills training.
- 8.8 The following exchange that took place between members of the Nottinghamshire Non-HLS group reflects the opinions expressed in most groups on the issue of tuition fees:

*Respondent A: I think it should be part government, part employer.*

*Respondent B: If its education, then it should be funded by the government.*

*Respondent C: Are we talking about qualifications relating to the job that we're doing at the moment? [Moderator: Yes.] I couldn't see the government funding anything that related to a private company. On that basis it would be the employer to pay full.*

*Respondent D: If the qualification is a recognised qualification, and not something that has just been made up just for my company, like accountancy, what is the difference between a person getting that qualification as soon as they leave school or getting it 15 years after they have left school? I think that the government should put their hand up for both.*

*Respondent E: If it's a transferable and widely recognised qualification, I just wonder whether you should have the employee contributing as well, because they can take it elsewhere.*

#### *Learning materials, books and equipment*

- 8.9 Only a small minority of businesses felt that government should assume sole responsibility for the cost of learning materials and other resources. The majority of businesses felt that the training organisation should provide the core learning materials and that the responsibility for additional resources such as books and equipment should be shared between the employer and the employee. Employees were, in general, only expected to meet the full cost if they intended to keep the resources. A number of respondents indicated that their company had developed a training resource centre. These organisations commonly met the full cost of learning resources which they subsequently made available to the wider workforce.

*'My experience is that that is usually shared between the employer and employee...it is a way of trying to keep on track, [learners] are not just taking [learning] in, but are making an investment as well as an employee - I wouldn't expect the government to contribute to that.'*

*(Lincolnshire: Non-HLS Group)*

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<sup>15</sup> R. Helyer & E. Hooker (2007) 'Employer / employee engagement – who pays?', in D. Young & J. Garnett (eds) (2007) *Work-based Learning Futures. Proceedings from the Work-based learning Futures Conference, Buxton, April 2007* Bolton: UVAC.

### *Time to train*

- 8.10 The majority of employers in both groups indicated that the investment of time required to successfully complete a training course should be shared between the employer and the employee. However, there was considerable variation in the amount and nature of the study time employers were prepared to grant staff. Some permitted employees to attend courses on day or block release; others only allowed staff to take time off for examinations.

*'Shared [between employer and employee], because you have to be realistic: everybody is human, nobody can just work and study 24/7, the productivity loss will be huge.'*

*(Northamptonshire: HLS Group,)*

- 8.11 Most businesses accepted that they should absorb some of the costs associated with any losses in productivity caused by releasing staff for training purposes and the subsequent costs of 'back-filling'. In most cases, it was the responsibility of the employee to ensure their work commitments were fulfilled alongside their training.

- 8.12 Although difficult to quantify, time spent away from the business was regarded by most employers to be the most significant cost of training. While appreciating the complexity of the issue, some felt that government had an obligation here too:

*'As an employer sending somebody on a course, I think the government should incentivise it, for you to improve your skills base and your staff, your spending x amount of money, your losing productivity...you are having to bring in somebody to replace the individual that's on there. I mean my profit margins aren't the biggest in the world anyway.'*

*(Derbyshire: Non-HLS Group)*

### *The role of government*

- 8.13 Significantly, only a small number of businesses indicated that increased levels of funding from government would – in isolation – affect their decision to invest in higher level skills training. The key drivers in Chapter 4 were far more likely to have an impact on their decision making processes. In this respect, the availability of additional funding from government is unlikely to act as a 'tipping point' for most businesses. The decision to invest is usually driven by strategic rather than financial considerations.

- 8.14 We noted earlier in the report that the businesses that did cite financial costs as a barrier to training were usually well aware of the funding support available from government, but had still opted not to invest. From an HEI perspective, while it is important to be clear about the price of products and services, the availability of subsidised provision is unlikely in itself to encourage businesses to begin training or to change their existing training provider.

8.15 As we identified in *Known Unknowns*, there is actually a risk that co-funding could act as a disincentive to greater financial investment. Businesses that already invest will be expected to pay more as government pays less, and businesses that do not invest are even less likely to do so as the cost of training increases.

## Summary

- The majority of businesses believed that payment of tuition fees should be the shared responsibility of employers and government. Contracts obliging employees to repay all or a proportion of tuition fees if they failed to complete their training were widespread.
- Most businesses felt that learning materials, books and equipment should be funded jointly between employer and employee. There was also broad agreement that the investment of time required to successfully complete a training course should be shared between the employer and the employee.
- Employers regarded time away from the workplace as a more significant cost to the organisation than the financial cost of training. There was considerable variation in the amount and nature of the study time businesses were prepared to grant staff.
- Only a small number of businesses indicated that increased levels of funding from government would – in isolation – affect their decision to invest in higher level skills training. The decision to invest is usually driven by strategic rather than financial considerations.
- The businesses that did cite financial costs as a barrier to training were usually well aware of the funding support available from government, but had still opted not to invest. The availability of subsidised provision is unlikely in itself to encourage businesses to begin training or to change their existing training provider.

## 9 Key Lessons

- 9.1 While *Known Unknowns* provided a useful 'snapshot' of the demand for higher level skills in the East Midlands, the focus groups have enabled us to develop a more sophisticated understanding of this demand. It is our hope that HEIs in the region can use this report to help refine their higher level skills 'offer' to businesses.
- 9.2 We certainly feel that the demand for higher level skills has become more of a *known*, and less of an *unknown* quantity; the key lessons that we feel can be drawn from our research are outlined in more detail below.

### *Challenge perceptions*

- 9.3 It is important to understand how the training provider market is viewed from an employer perspective. We identified in *Known Unknowns* that HEIs in the East Midlands deliver higher level skills training to businesses in the region than private training providers. However, from the focus groups it is clear that the majority of businesses do not appear to view HEIs and private training providers as competitors in the same marketplace.
- 9.4 Many businesses were unaware that some universities could offer the sort of bespoke provision offered by private training providers; HEIs were commonly viewed as providers of (high quality) 'traditional' academic qualifications, delivered in a 'traditional' way. We also found there to be little awareness of the diversity that exists within the sector: HEIs were viewed as a largely homogenous group. This is a key lesson that 'employer facing' universities are already learning, as John Brookes, Vice Chancellor of Manchester Metropolitan University observed recently:

*'there's a real lack of understanding on the part of employers, and often their criticism is based on a 1970s model of higher education because that is their model of higher education.'*<sup>16</sup>

### *Understand the competition*

- 9.5 There is clearly an existing market for HEIs that are keen to deliver traditional, academic qualifications to businesses. To extend their reach into the vocational and professional markets, universities will increasingly have to compete with private training providers. A key lesson from the focus groups is that private training providers are perceived by businesses to offer more relevant provision, be more flexible and responsive in their delivery and offer better value for money.

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<sup>16</sup> John Gill (28 August 2008) 'Employers "stuck in 1970s" over co-funding', in *The Times Higher Education Supplement*, <http://www.timeshighereducation.co.uk/story.asp?sectioncode=26&storycode=403298> [Accessed September 2008].

9.6 On this basis, it would be a high risk strategy for any HEI to attempt to compete with private training providers in the market for non-credit/non-qualification bearing short-course training. These providers are unencumbered by the cultural and practical barriers that can bedevil universities when attempting to engage with employers. Like any entrant to a (relatively) new market, HEIs must play to their strengths and exploit their unique selling point.

#### *Play to your strengths*

9.7 Our research suggests that *quality* is where the majority of businesses perceive HEIs to have a distinct advantage over other provider types. Universities have a well-established reputation as the foremost provider of high quality, rigorous provision; a key challenge for all HEIs is to develop a more flexible approach to delivery without compromising this quality.

9.8 Qualifications are important to employers. HEIs would benefit from marketing their 'new' innovative-delivery products for credit/qualification bearing quality-assured courses. As businesses overwhelmingly report the positive impact of higher level skills training, there is real value in capturing these success stories for marketing purposes.

#### *Meet market norms*

9.9 Some businesses observed that many of the 'innovative' delivery methods being developed by HEIs already came as standard in the private sector. There is now an *expectation* that training can be tailored to the needs of an individual business and delivered at a time and place that is convenient to the employer. To use an analogy from another sector, most banks can now offer services via telephone, text message and the internet. If a new provider entered the market promoting their telephone banking service, this would have little impact as the service now comes as standard in the sector.

9.10 In short, HEIs must deliver to the same standard as private training providers and differentiate on the basis of brand, quality and qualification. Universities have the potential to grow their market share by embracing credit accumulation and transfer, and delivering bite-sized learning. Contrastingly, the accreditation of in-house training and prior experiential learning will continue to have a limited appeal to businesses unless the processes involved can be significantly streamlined.

#### *Segment the market*

9.11 Market segmentation is also important. Universities in the East Midlands should be unapologetic about targeting businesses employing more than 25 staff. This market segment accounts for three quarters of the region's private sector workforce, has a much higher propensity to train and spends significantly more on training than businesses employing fewer than 25 staff. This is not to say that small businesses are unimportant, it is simply a rational response to the realities of the marketplace. From a university perspective, the

opportunity cost of attempting to engage with micro and smaller businesses is likely to be very high.

- 9.12 Our research suggests that the presence (or absence) of a clear business case is the primary driver to investing in higher level skills. Businesses with a well-developed strategy, of which training forms a part, are likely to prove most receptive to an approach from an HEI. Where this business case does not exist, it is unlikely that simply banging the skills drum will lead employers to change their behaviour. In some instances this can actually have a negative impact – where employees are not provided with the opportunity to deploy their newly developed skills this can damage staff motivation and retention.

#### *Understand the role of cost*

- 9.13 We have already identified the primary importance of a business case in driving investment in higher level skills; cost has an important, but secondary role to play here. Most businesses are prepared to meet *some* of the costs of higher level skills training but believe this responsibility should be shared with government. More specifically, it is the cost of time spent away from the business, rather than the unit cost of training, that is regarded as the biggest investment by many employers. On this basis, promoting subsidised training (more common at lower levels) is likely to have only a marginal impact on businesses where higher level skills are concerned.

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CFE  
Phoenix Yard  
Upper Brown Street  
Leicester  
LE1 5TE

0116 229 3300

[www.cfe.org.uk](http://www.cfe.org.uk)