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Using demand to shape supply: An assessment of the higher level skills needs of employers in England

Report by CFE to HEFCE

Contents

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1 Executive summary

1.1 In March 2008, CFE published *Known Unknowns: the demand for higher level skills from businesses.*[1] The aim of the report was to develop a more sophisticated understanding of the extent and nature of demand for higher level skills training in the East Midlands. Our findings were based on a telephone survey of businesses in the region employing 25 or more staff. After the publication of *Known Unknowns*, the Higher Education Funding Council for England (HEFCE) funded a repeat of the research in the West Midlands and Yorkshire and Humber regions.

1.2 This report aggregates the findings from all three regional surveys, based on the responses of some 1,332 businesses. Where possible, we draw comparisons with two similar studies commissioned for the HEFCE-funded regional associations in the South East and London (by Heist for Higher Education South East[2] and Grant Thornton for London Higher[3]). We also refer to the findings in *Beyond Known Unknowns*[4], our follow-up report in the East Midlands based on a series of 10 focus groups with businesses, and the CBI's *Stepping Higher*[5] report. All reports were published during 2008.

1.3 This report has three objectives:

- To provide an analysis of the *methodological* issues faced when attempting to measure and understand the demand for higher level skills;
- To compare and contrast the *key findings* from our own, and other, studies to paint a more detailed picture of the demand for higher level skills in England;
- To draw out the *key lessons* from our research to inform the employer engagement strategies of higher education (HE) providers.

1.4 Underpinning these objectives is a very simple proposition: that the supply of higher level skills training should be shaped by the current and future demand for this training from employers. While our findings have implications for HE policymakers, the report is aimed primarily at HE providers seeking to develop and/or refine their higher level skills 'offer' to employers.

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[1] Kewin, J., Casey, P. & Smith, R. (2008), *Known Unknowns: The demand for higher level skills from businesses*, CFE.

[2] Farrall et al. (2008), *The Market for Higher Level Skills Training in the South East 2008*, Heist Research for Higher Education South East.

[3] Grant Thornton (2008), *Highly Skilled London: The demand for higher level skills by London employers*, Grant Thornton for London Higher, London First and the Learning and Skills Network.

[4] Kewin, J., Bowes, L. & Hughes, T. (2009), *Beyond Known Unknowns: A further exploration of the demand for higher level skills from businesses*, CFE.

[5] CBI (2008), *Stepping Higher: Workforce development through employer-higher education partnership*.

Key findings: methodological issues

1.5 Studies aimed at measuring and/or understanding the demand for higher level skills from businesses often produce widely different findings. We have identified three key methodological issues that individually or collectively account for this:

- Different definitions of 'higher level skills' are used;
- Different groups of employers are surveyed;
- Different data collection techniques (and questions) are used.

1.6 The absence of an agreed definition is perhaps the fundamental reason why studies attempting to measure the extent of higher level skills training produce such different results. It is a significant challenge to formulate a definition of higher level skills that is comprehensive enough to encompass a broad range of training and development activities, but can still be understood by employers. Unsurprisingly, no two studies have used the same definition.

1.7 While our research targeted businesses in the private sector, other studies have tended to focus on 'employers' in the round. This is significant, as the demand for higher level skills is usually stronger in the public and third sectors. There has also been significant variation in the *size* of organisations surveyed (in terms of employee numbers). This matters, as evidence suggests that a significant proportion of micro and small businesses do not provide any training for their staff, let alone at higher levels.

1.8 Employers (and businesses in particular) do not always have the time or inclination to participate in survey research. Very few keep detailed data on training and even fewer distinguish between 'general' and 'higher level' skills training. This makes it difficult to accurately assess the scale of demand in terms of hard employee numbers.

Key findings: businesses that train

1.9 In total, 33% of the businesses we surveyed *had* undertaken higher level skills training in the preceding 12 months. We know, from our own and other research that:

- The more staff a business employs, the more likely it is to undertake higher level skills training;
- Universities have a larger share of the higher level skills training market than any other provider type;
- The majority of businesses have an *expectation* that higher level skills training will result in the award of a qualification;
- The demand for professional qualifications is greater than for academic or vocational qualifications;

- The importance of cost when choosing a training provider has increased in importance over time, perhaps reflecting the changing economic climate;
- Higher level skills training has a positive impact on the majority of businesses;
- To be effective, higher level skills training must form part of an organisation's wider business strategy.

Key findings: businesses that do not train

1.10 The remaining 67% of businesses CFE surveyed *had not* undertaken higher level skills training in the preceding 12 months. It is clear that for businesses in this group:

- The decision not to train is usually driven by a rational business strategy, and the absence of a clear business case to invest;
- Only a small number consider financial costs or lack of awareness to be significant barriers to higher level skills training;
- Awareness of the services a university can offer is often superficial and based on 'traditional' and/or outdated perceptions of the HE sector;
- Training, particularly at a higher level, requires a high level of commitment from both employer and employee.

1.11 Around one third of businesses in this group indicated that they would 'definitely' or 'maybe' undertake higher level skills training in the next 12 months. We characterise these businesses as 'soft nos', to distinguish them from the 'hard nos' that reported they were 'unlikely' or 'definitely not' inclined to do so in the next 12 months.

Key lessons for HE providers

1.12 Through our research, we have identified a number of key lessons for HE providers in the process of developing their higher level skills offer to employers:

- **Invest in market research:** The days of *'if we build it, they will come'* should be consigned to history. To be effective, any higher level skills 'offer' must be based on solid market research (ideally conducted at an institutional level), an iterative process of product development and responsive delivery;
- **Play to your strengths:** Universities (and further education colleges that choose to do so with Foundation Degrees) are in the unique position of being able to design and award higher level qualifications and should capitalise on the demand for this provision identified through our research;
- **Ensure delivery is responsive to the needs of employers:** Universities must deliver to the same standard as private training providers and differentiate on the basis of brand, quality and qualification. Higher education institutions

(HEIs) have the potential to grow their market share by embracing credit accumulation and transfer, and delivering bite-sized learning;

- **Build on your significant market share:** there has been a general acceptance in policy circles for some time that universities in particular have yet to significantly penetrate the market for delivering higher level skills training to employers. Our research does not support this view; in fact, universities have a higher market share than any other provider type;

- **...but focus on the professional and vocational training markets:** while universities dominate the market for academic qualifications, they enjoy less success in the professional and vocational markets. Universities in particular need to tackle the widely-held perception that they only deliver 'traditional' academic qualifications in a 'traditional' way;

- **Accept that not all businesses will invest in higher level skills:** 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 or further education (FE) college. Where the business case does not exist, improved marketing or increased financial support are unlikely to change the training patterns of these employers;

- **Understand the role of cost:** Our research suggests that there is *already* a culture of co-funding amongst employers that invest in higher level skills. Most businesses are prepared to meet some of the costs of higher level skills training but believe this responsibility should be shared with government. Only 5% of businesses that had not undertaken higher level skills training reported that reducing costs would make them more likely to train.

Taking the policy agenda forward

1.13 It is important to accept that not all universities need or want to engage with businesses to deliver training. For those that do, rational HE provider behaviour to increase sales volume and revenues would be to adopt a strategy along the following lines (in order of increasing risk):

- Increase sales volumes to *existing* customers;

- Win *new* customers by competing for those employers that currently undertake higher level skills training with other providers (these could of course include other universities and FE colleges);

- Win *new* customers by identifying and accessing the businesses we characterise as 'soft nos'.

1.14 To make these rational choices *relevant* to institutions, government policy has been to use subsidy to stimulate the development of employer engagement capacity and infrastructure. Although for many universities, public funding (through HEFCE) only accounts for a minority of their overall income, this funding remains the most effective lever/incentive at the disposal of policymakers.

1.15 The accepted rationale for the deployment of public subsidy is to stimulate activity in areas of demonstrable market failure. Our research suggests that universities actually enjoy a higher share of the existing higher level skills training market than they are usually given credit for. The evident market failure relates to those businesses that see *no need* for higher levels skills in their workforces and believe there is nothing that HE can offer them.

1.16 The reality is that these businesses will only start to undertake higher level skills training if there is a change to the market context in which they think about their business strategies. In other words, the 'hard nos' can only be tackled as part of a wider economic development strategy, in which HE providers and policymakers play a role alongside a much wider cast of characters. This is reflected in the emerging policy themes of 'skills activism' and 'industrial activism':

"Possibly the most desirable – and most difficult – dimension to get right is to join up the many different aspects of Government policy that shape the business environment. Alongside the basic levers of taxation, regulation and expenditure, the interaction of public policies on infrastructure, planning, public procurement, innovation, education and skills, migration, consumer welfare, social welfare and trade, all influence the environment in which businesses operate, in some cases in crucial ways."[6]

1.17 The further challenge for universities is to develop *sustainable* approaches to delivering higher level skills training to employers. The main risk (and one that often accompanies public funding) is that it is viewed both internally and externally as *just another project*. In the current economic climate, it is unlikely that the safety net of additional funding will be provided to institutions that are unable to develop a sustainable model of delivery.

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[6] Building Britain's Future: New Industry New Jobs (2009), Department for Business, Enterprise and Regulatory Reform p.22

2 Introduction

Background

2.1 In 2007, CFE self-funded an exploratory research project to assess the extent and nature of demand for higher level skills from businesses in the East Midlands. The findings from our research were presented in the report *Known Unknowns: the demand for higher level skills from businesses*[7], published in March 2008.

2.2 *Known Unknowns* was set against the backdrop of the recommendation in the Leitch Review of Skills[8] that 40% of the population aged 19 to State Pension age should be qualified to Level 4 or above by 2020.

2.3 The Review gave a clear indication of where this growth should come from:

'Growth of this order is unlikely to be achievable by trying to expand further the current model of HE. There are limits in capacity, and also limits to how far the current HE model can fully meet the expectations of the greater volume of employers and employees who would need to be attracted. Further improvements in the UK's high skills base must come from workforce development and increased employer engagement.'[9]

2.4 The focus on employer engagement is understandable – we know that 70% of the 2020 workforce has already left compulsory education.[10] While further education (FE) colleges and other training providers have a role to play in meeting the Leitch challenge, it is higher education institutions (HEIs) that will shoulder much of the responsibility for delivering this significant increase in higher level skills.

2.5 In our view, public policy tends to focus on the need to reform the *supply* of higher level skills. We agree that this is a necessary process; HEIs will increasingly need to develop high quality provision that is relevant to the needs of business and can be delivered in a flexible way.

2.6 At the same time, we also believe that this process must be informed by a more sophisticated understanding of the extent and nature of the *demand* for higher level skills. It was this central proposition that underpinned *Known Unknowns.*

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[7] Kewin, J., Casey, P. & Smith, R. (2008), *Known Unknowns: The demand for higher level skills from businesses*, CFE.

[8] Leitch Review of Skills (2006), *Prosperity for all in the global economy – world class skills*, HM Treasury, p. 3.

[9] *ibid p.68.*

[10] *ibid p.1.*

2.7 After the publication of the report, the Higher Education Funding Council for England (HEFCE) funded a repeat of the research in the West Midlands and Yorkshire and Humber regions. In the West Midlands, 446 businesses were surveyed by telephone between July and August 2008 and a further 448 businesses were surveyed during August and September 2008 in Yorkshire and Humber. The original *Known Unknowns* research in the East Midlands was based on a survey of 438 businesses conducted during October and November 2007.

Objectives

2.8 The objectives of all three regional studies were identical, namely:

- To identify the extent of demand for higher level skills from businesses;
- To assess the nature of this demand;
- To establish the market share of providers delivering higher level skills to businesses.

2.9 The objectives of this report are threefold:

- To provide an analysis of the methodological issues faced when attempting to measure and understand the demand for higher level skills;
- To compare and contrast the findings from our own, and other, studies to paint a more detailed picture of the demand for higher level skills in England;
- To draw out the key lessons from our research to inform the strategies of HE providers and policymakers.

2.10 This report aggregates the findings from our three regional telephone surveys, based on the responses of some 1,332 businesses. Where possible, we draw comparisons with two similar studies commissioned for the HEFCE-funded regional associations in the South East and London (by Heist for Higher Education South East[11] and Grant Thornton for London Higher[12]).

2.11 We also refer to the findings in *Beyond Known Unknowns*[13], our follow-up report in the East Midlands based on a series of 10 focus groups with businesses and the CBI's *Stepping Higher*[14] report published in October 2008. The latter included a special analysis of returns from the CBI/Edexcel Education and

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[11] Farrall et al. (2008), *The Market for Higher Level Skills Training in the South East 2008*, Heist Research for Higher Education South East.

[12] Grant Thornton (2008), *Highly Skilled London: The demand for higher level skills by London employers*, Grant Thornton for London Higher, London First and the Learning and Skills Network.

[13] Kewin, J., Bowes, L. & Hughes, T. (2009), *Beyond Known Unknowns: A further exploration of the demand for higher level skills from businesses*, CFE.

[14] CBI (2008), *Stepping Higher: Workforce development through employer-higher education partnership*.

Skills survey 2008 to generate data on employer links with universities and the use of higher level skills at work.

2.12 We have attempted to complement rather than duplicate the content of two further reports produced recently with strong employer engagement themes. In November 2008, the Centre for Leadership Studies at the University of Exeter (on behalf of the South West Higher Level Skills Project) published a comprehensive review[15] of the available literature in this area. In August 2008, GHK Consulting published (on behalf of HEFCE and the Learning and Skills Council) a similarly comprehensive study[16] into the more specific issue of employer *investment* in higher level skills. Both have provided valuable contextual information.

Report Structure

2.13 This report is structured as follows: an overview of the research is presented in **Chapter 2**. In **Chapter 3** we explore the methodological issues faced when attempting to measure and understand the demand for higher level skills training. **Chapter 4** assesses the *extent* of existing demand and **Chapter 5** explores the *nature* of this demand in more detail. In **Chapter 6** we switch our focus to those businesses that do not train, and explore the reasons for this. **Chapter 7** outlines the conclusions and key lessons that can be drawn from our research.

2.14 The charts used to present data in this report use percentages and/or absolute figures where applicable. Some are also accompanied by a base. This refers to the number of respondents answering a particular question. Bases may vary according to the numbers of respondents answering a given question.

2.15 Throughout this report we refer to the terms 'HEI' and 'university' interchangeably.

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[15] Bolden, R. & Petrov, G. (2008), *Employer Engagement with Higher Education: A Literature Review*, Centre for Leadership Studies for South West Higher Level Skills Project.

[16] Howat, C. (2008), *Employer Investment in Learning at National Qualifications Framework Level 4-8*, GHK Consulting for HEFCE and LSC.

3 Methodological issues

3.1 In this chapter we explore the methodological issues faced when attempting to measure and understand the demand for higher level skills. Studies aimed at measuring and/or understanding the demand for higher level skills from businesses often produce widely different findings. We have identified three key methodological issues that individually or collectively account for this:

- Different definitions of 'higher level skills' are used;
- Different groups of employers are surveyed;
- Different data collection techniques (and questions) are used.

Defining higher level skills

3.2 As GHK's research has already identified:

'*there is huge variation in how different studies define the types of training either supported by employers or undertaken by individuals*'.[17]

3.3 From our own experience, it is a significant challenge to formulate a definition of higher level skills that is comprehensive enough to encompass a broad range of training and development activities, but can still be understood by employers. We settled on the following definition after consulting with colleagues at the East Midlands Universities Association (EMUA) and HEFCE, and by piloting with a small group of businesses:

Higher Level Skills

Can by acquired through training and development which is all or just elements of a degree, post graduate certificate, diploma, masters or doctorate. Equally, it can involve 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.

3.4 This definition was read out verbatim to all respondents to accompany the opening question: *'Have you or your employees undertaken any work related higher level skills training in the last 12 months?'* At any point during the telephone interview, the definition could be repeated to the respondent.

[17] Howat, C. (2008), *op. cit.*, p.21.

3.5 We then checked the data and cross referenced each case with the responses to three subsequent questions that addressed:

- Where the training was undertaken;
- The name of the course;
- What, if any, qualification it resulted in.

3.6 After this analysis it became clear that 8% of the businesses (across all three regions) that reported they had undertaken higher level skills training, had not. The majority had *actually* studied for a qualification at Level 3, or had undertaken training that 'felt like' it was at a higher level. This is a significant finding and suggests both that the concept of higher level skills eludes clear definition and the qualification levels in the National Qualifications Framework do not resonate with employers.

3.7 It also illustrates the limitations of relying on a dichotomous response to a single question when attempting to measure the extent of higher level skills training. Even with our three subsequent 'checkpoint' questions it was still occasionally necessary to consult the websites of institutions or professional bodies to establish if the training was at Level 4 or above.

3.8 Our definition made clear that higher level skills training did not necessarily have to lead to the award of a qualification. Whilst helpful in correcting the popular misconception that higher level skills can only be acquired through degree-level undergraduate study, the definition could still be refined further.

3.9 For example, during our follow-up focus groups in the East Midlands, some participants felt that the definition could be expanded to encompass higher level skills that are acquired in ways that do not involve a programme of study:

'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 business)

'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 business)

3.10 All research in this area faces the same challenge – to strike a balance between measuring formal and informal types of learning:

'…it is important not to take a partial or narrow perspective on training (i.e. only looking at formal courses or accredited learning). Conversely, a robust definition is

required to avoid conflating more informal types of training with the general gaining of experience in the context of the workplace (i.e. 'learning by doing').[18]

3.11 CFE's definition is broadly similar to that used by Bolden and Petrov, originally developed by King (2007):

'…which considers "Higher-level" learning as broadly equivalent to first degree level and above (Level 4 onwards) and covering a range of provision from non-accredited CPD through foundation degrees to postgraduate and professional qualifications. It may also include small chunks of learning delivered in a flexible format, not specifically validated by a university.'[19]

3.12 In contrast, the regional research undertaken in the South East and London used narrower definitions:

'… work based learning at graduate and NVQ level 4 and above. This includes short courses and longer professionally accredited courses such as accountancy, or courses specific to your sector.'[20] (South East)

'Training at degree or equivalent level or above and executive and professional development courses, including short courses.'[21] (London)

3.13 The absence of an agreed definition is perhaps the fundamental reason why studies attempting to accurately assess the extent of higher level skills training produce such widely different results.

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[18] Howat, C. (2008), *op. cit.,* p.20.

[19] Bolden, R. & Petrov, G. (2008), *op. cit.*, p. 10.

[20] Farrall et al. (2008), *op. cit.*

[21] Grant Thornton (2008), *op. cit.,* p.6.

Population of interest

3.14 While the definition of higher level skills differs widely between research projects, so too does the population of interest. As table 1 illustrates, none of the major demand studies have focused on exactly the same section of the business community. Indeed, most are not limited to the *business* community and focus more broadly on employers (including the public and sometimes third sectors). This further complicates the task of attempting to draw comparisons between the various reports and develop a generalised picture of demand.

Researchers	Region	Sector	Number of employees	Sample size
CFE	East Midlands West Midlands Yorkshire and Humber	Private sector	25+	1,332
Grant Thornton	London	Public & private sectors	0+	500
Heist	South East	Public & private sectors	100+	439
CBI/Edexcel	All	Public & private sectors	0+	637

Table 1 – Population of interest in regional surveys

Region

3.15 With the exception of the CBI/Edexcel study, all the research was carried out on a regional basis, in line with Regional Development Agency definitions. Methodologically, these administrative boundaries are useful for conducting survey research and allow for broad comparisons to be made between regions.

3.16 However, the reality on the ground is that many employers and providers do not view themselves exclusively in regional terms. For example, a regional assessment of market share is always likely to underplay the success of HEIs with a predominantly national (rather than regional) customer base. In our research, we identified that 13% of businesses used an HEI or FE college from outside their region to deliver higher level skills training. It is highly likely that some of the private training providers used were also from a different region. In addition, many employers have a base in more than one region. Over 40% of respondents to the CBI/Edexcel survey had sites across England.

Sector

3.17 CFE targeted private sector employers only. Public sector and third sector organisations (social entrepreneurships and voluntary and community organisations) were excluded. Business sectors were defined using broad industry groupings as per UK Standard Industrial Classification of Economic Activities 2003.[22]

3.18 In our view, there is a clear rationale for focusing on the private sector. As a recent Department for Innovation, Universities and Skills (DIUS) consultation paper pointed out, *'the public sector has generally high levels of training spend'*, compared to the private sector where, *'spend… varies greatly'*.[23]

3.19 Focusing on the private sector also chimes with the regional economic priorities of each region surveyed by CFE. For example, the respective Regional Economic Strategies for the East Midlands and West Midlands emphasise the importance of developing the skills of staff employed by *businesses*:

'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.'[24]

'There is weak demand for skills from businesses, particularly in relation to higher level skills in private sector firms that are critical to the generation of added value in the [West Midlands] region.'[25]

Number of employees

3.20 Our research focused on businesses employing 25 or more staff. Companies employing fewer than 25 staff were excluded for three key reasons.

(i) First, although these companies form the bulk of the business stock, it is businesses that employ more than 25 staff that account for the majority of the private sector workforce.[26] In England, 4% of private sector businesses can be categorised as units employing 25+ staff, yet this 4% employs 73% of the private sector workforce, as illustrated in figure 1 below.

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[22] See Office of National Statistics: http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14012

[23] DIUS (2008), *Higher Education at Work – High Skills: High Value*, p. 25.

[24] East Midlands Development Agency (2006), *A Flourishing Region: Regional Economic Strategy*, p. 12.

[25] Advantage West Midlands (2007), *Connecting to Success: West Midlands Economic Strategy*, p.7.

[26] Figures based on data from the Inter Departmental Business Register (IDBR) of the Office for National Statistics (ONS).

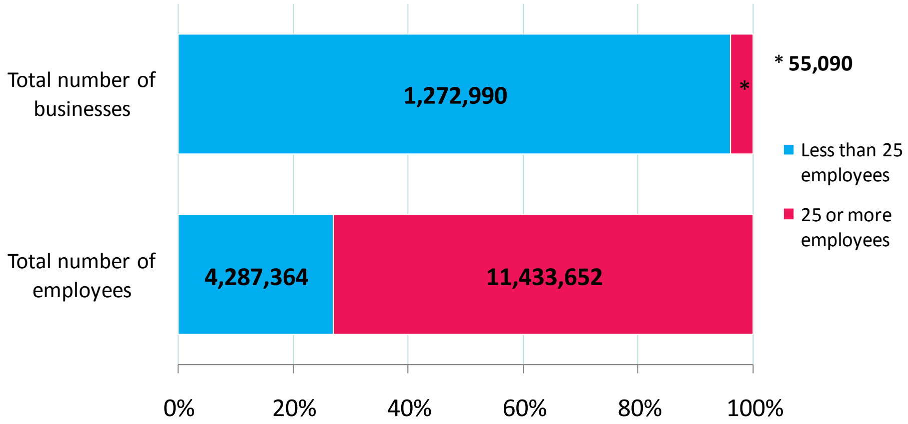

Figure 1: Total number of businesses and employees in England – Source: Inter Departmental Business Register, ONS (March 2008)

(ii) 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 Surveys (NESS) of 2005 and 2007 identified that companies employing fewer than 25 staff were much less likely to invest in general training than those employing 25 or more.[27]

(iii) Third, the NESS also indicates that the average expenditure on training per business increases sharply by business size. Employers with fewer than 25 staff invest significantly less than larger employers.[28]

3.21 This is not to say that small employers (in the private, public or third sector) are unimportant, it is simply a rational response to the realities of the marketplace. From an HEI perspective, the opportunity cost of attempting to engage with smaller employers is often very high.

3.22 While the research carried out on behalf of London Higher by Grant Thornton nominally included employers of all sizes, the sample was constructed to disproportionately focus on those employing more than 200 staff. Similarly, 50% of responses from the CBI/Edexcel survey came from organisations with more than 200 employees.

[27] LSC (2008), *National Employer Skills Survey 2007: Main Report*, p. 131.

[28] *Ibid.*, p. 186-88.

Data collection

3.23 A third challenge once a definition has been agreed and a population of interest identified, is to actually elicit responses from employers. Businesses in particular do not always have the time or inclination to participate in survey research. This is compounded by the fact that very few businesses keep detailed data on training and even fewer distinguish between 'general' and 'higher level' skills training.

3.24 To account for this, our surveys were conducted with the individual within each business identified as having overall responsibility for skills and training (e.g. CEO/Director, senior manager, HR Manager). To avoid survey fatigue, our interviews took no longer than 10 minutes to complete and were conducted using computer-aided telephone interviewing (CATI) software. In line with the other regional studies, our script consisted of pre-coded closed questions accompanied by a limited number of open-ended questions.

3.25 Even with these measures in place, the reality is that many employers rarely have detailed information on training at their fingertips and often have little incentive to collect it. The following finding from GHK relates to capturing *spend* on employer training but can also be applied to capturing data on training in the round:

'It became apparent that the distinction between what information employers could and would provide was not clear-cut in practice. Some employers reported that they could, in theory, gather the requisite information on actual spend, but that as it is not currently an internal reporting requirement it would be an onerous task to do so. In other words, they could theoretically audit investment to the level of individual interventions but in reality would not consider such an approach'.[29]

3.26 In our research we asked respondents (once they had been made familiar with our definition of higher level skills) to base their answers on *'the most recent staff member, including yourself, to undertake work-related higher level skills training'*. This helped to reduce the potential of respondent selection bias, such as basing responses on the most senior individual or prestigious training course attended. It also eliminated the need for respondents to base their answers on aggregated data for higher level skills training across their entire organisation, which as we have already identified, is not always feasible.

3.27 While this approach allowed us to highlight the number and nature of *employers* that procure higher level skills training, we could not identify how many *employees* actually benefited from the training. A mixed-method approach (e.g. quantitative survey research followed by qualitative interviews or focus groups) is perhaps the most effective way to make some working assumptions about the overall scale of demand, although demand is a dynamic concept and is always likely to elude very precise measurement.

[29] Howat, C. (2008), *op. cit.*, p.9.

4 The extent of demand

4.1 In this chapter we present our findings relating to the extent of existing demand for higher level skills training.

General training

4.2 In our three regional studies, respondents were asked an initial screening question to identify if their business had undertaken internal or external staff training at *any* level during the preceding 12 months. On average, only 8% of businesses had not, as shown in table 2 below. This chimes with the findings of the National Employer Skills Survey (2007), which reported that 7.5% of establishments with 25 or more staff had not trained any of their staff during the previous year.[30]

	East Midlands	West Midlands	Yorkshire & Humber	Average
'Yes'	93% (438)	91% (446)	92% (448)	92%
'No'	7% (34)	9% (44)	8% (41)	8%
Total	472	490	489	1451

Table 2: Undertaken general training in the last 12 months

Higher level skills training

4.3 The remaining 92% (1,332) of businesses that had undertaken some form of general skills training in the preceding 12 months were then asked if they had undertaken any *higher level* skills training during the same period. Our initial analysis of responses from each of the three surveys indicated that an average of 41% of businesses had done so.

4.4 After we had undertaken the data cleansing process (outlined in paragraph 3.5) it became clear that 8% of businesses that initially reported they *had* undertaken higher level skills training, *had not*. By filtering out these cases we are presented with a more robust picture of the extent of demand for higher level skills in the three regions. As figure 2 illustrates, higher level skills training had *actually* been undertaken by 33% (439) of the businesses surveyed.

[30] LSC (2008), *op. cit.*, p.131.

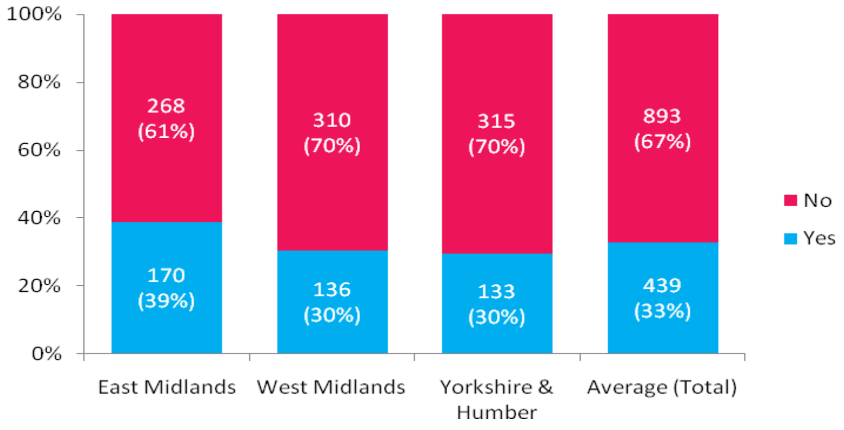

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Figure 2: Undertaken higher level skills training by region (revised results)

4.5 This finding is broadly in line with the two regional studies undertaken in the South East and London. The research for Higher Education South East (HESE)[31] indicated that 47% of employers with more than 100 employees, always or regularly had a need to train at Level 4 or above. The London Higher report indicated that 35% of all training carried out was at a higher level[32].

Business size

4.6 Our research suggests that the more staff a business employs, the more likely it is to undertake higher level skills training, and this is highlighted in figure 3.

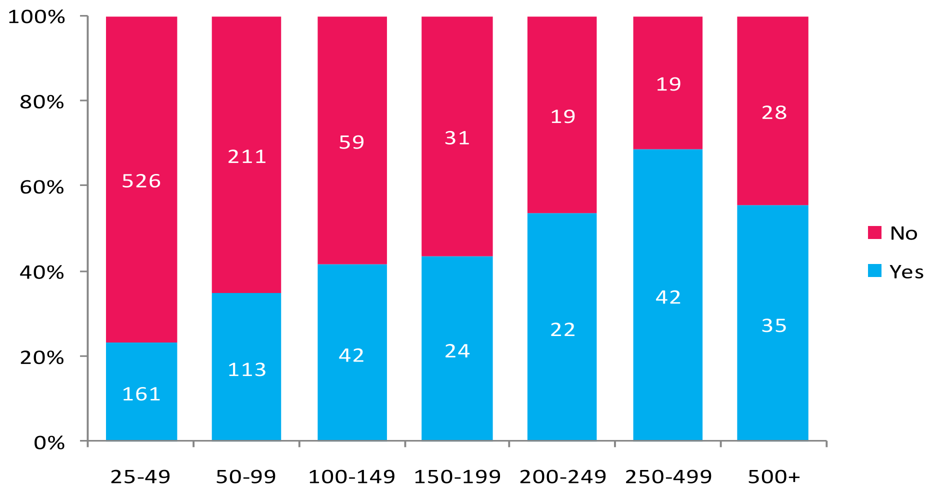

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Figure 3: Undertaken higher level skills training by business size

[31] Farrall *et al.* (2008), *op. cit.*, p. 36.

[32] Grant Thornton (2008), *op. cit.*, p. 28.

Sector

4.7 As figure 4 illustrates, businesses in the finance sector are more likely to undertake higher level skills training than those in any other sector. This broad industry grouping, as defined in the Standard Industrial Classification (SIC) 2003, covers businesses involved in general banking and financial services such as life insurance. It is worth noting that property, which was the second most highly represented sector, also includes sub-sectors such as accountancy. The HESE research also identified that businesses in the finance sector had a *regular* need for training at 'graduate level or NVQ Level 4 and above'.[33]

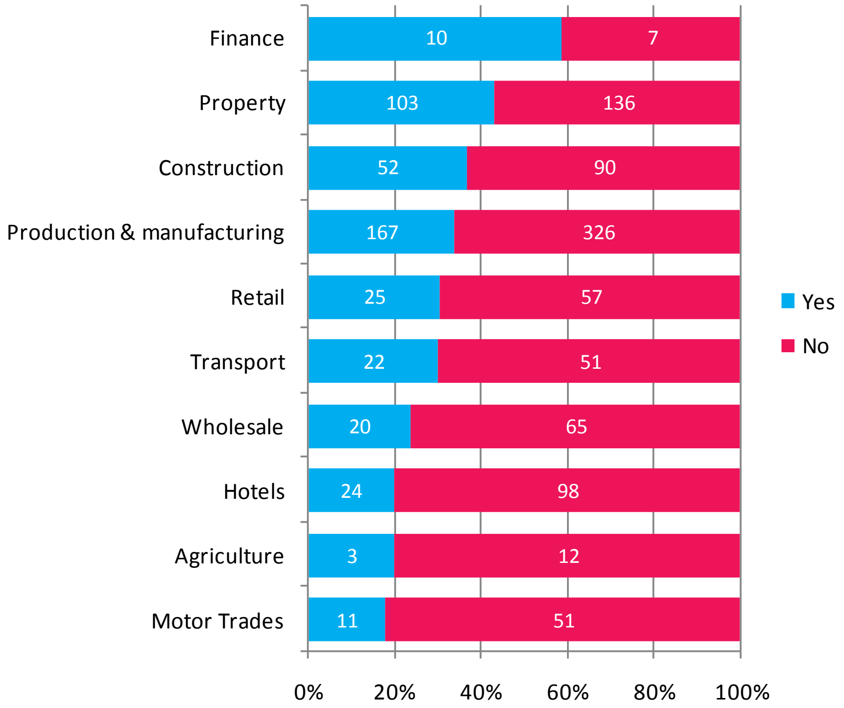

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Figure 4: Undertaken higher level skills training by sector

[33] Farrall *et al.* (2008), *op. cit.* p. 37.

5 The nature of demand: businesses that train

5.1 In this chapter we explore the nature of demand from employers that are existing consumers of higher level skills training.

5.2 We begin by examining the market share of the various providers of higher level skills before exploring the role of qualifications and cost. We then consider the main subjects in which training is undertaken, the motivation for training and its overall impact.

Market share of higher level skills providers

5.3 For the purposes of our three regional studies, we divided providers of higher level skills into seven categories:

- Higher education institutions (HEIs) within the respective regions
- Further education colleges (FECs) within the respective regions
- Non-regional HEIs
- Non-regional FECs
- Private training providers
- Internal training
- Industry bodies

5.4 Figure 5 highlights the relative market share of these seven broad provider types. Overall, regional HEIs have the largest share (36%) of the market, followed by private training providers (23%) and regional FECs (20%).

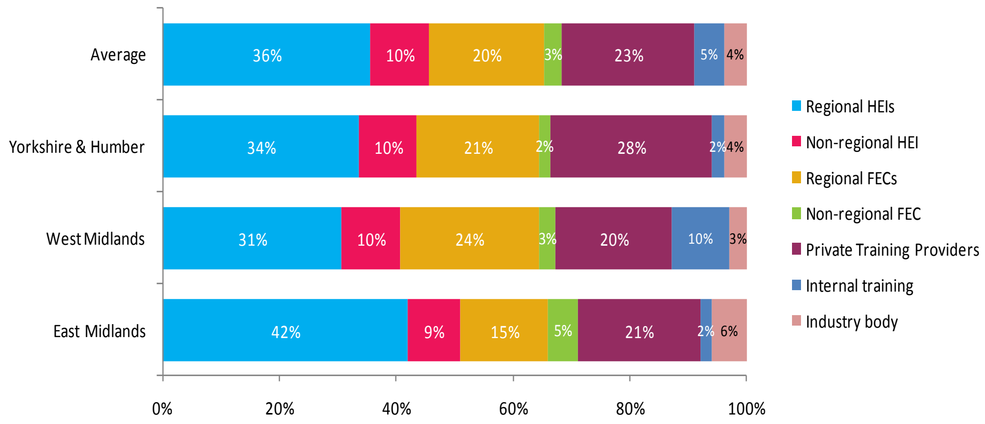

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Figure 5: Market share by region and provider type

5.5 Other research also suggests that universities enjoy a greater share of the training market than they are often given credit for. In *Stepping Higher*, 61% of participants reported that they had developed links with a university and just under half had used an HEI to deliver some form of workforce development. The London Higher research identified that 21% of employers had used HEIs for training and development purposes and the Higher Education South East research indicated that that 34% of organisations that had trained at Level 4 or above had done so with a regional HEI[34].

5.6 Significantly though, only 6% of respondents in the South East research indicated that a university was their *main* supplier of higher level skills training. A further 36% used private training providers as their main supplier and 37% responded that their higher level skills training was mostly carried out in-house (the latter probably related to the high number of larger businesses surveyed). Returning to the point made in Chapter 3, it is possible that while engagement with universities is more common than previously thought, this engagement has not yet been taken to scale and may only involve a small number of employees.

Qualifications

5.7 Our research indicates that existing consumers of higher level skills exhibit a strong preference for training that results in a qualification. As table 3 illustrates, this trend is consistent across the three regions, with the vast majority of all respondents indicating that the higher level skills training they had undertaken in the preceding 12 months had resulted in a qualification.

	East Midlands	West Midlands	Yorkshire & Humber	Average
Resulted in a qualification	98% (149)	97% (132)	96% (128)	97%
Did not result in a qualification	2% (3)	3% (4)	4% (5)	3%

Table 3: Training that results in a qualification

5.8 Contrastingly, *Stepping Higher*[35], reports that only around a fifth of all training that employers provide leads to a qualification. One possible explanation for this disparity is the definition of higher level skills used in the research (which is not made available in the CBI report). The CBI report also identified that smaller employers were more likely to offer training that did not lead to the award of a qualification.

5.9 This chimes with much of the existing evidence. For example, according to *Workforce Training in England 2006*[36] (see figure 6) the proportion of businesses

[34] Grant Thornton (2008), *op. cit.*, p. 10.

[35] CBI (2008), *op. cit.*, p. 43.

[36] Winterbotham, M. & Carter, K. (2006), *Workforce Training in England 2006*, RR848, DfES.

undertaking training that results in a formal qualification (at any level) rises in line with employee size, peaking at 85% with businesses in the 500+ band.

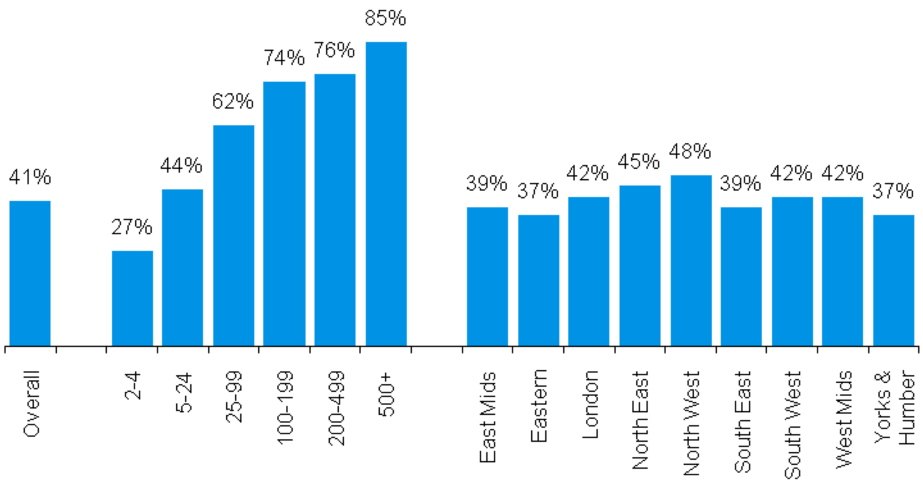

Figure 6: Proportion of training (at all levels) leading to a qualification. Adapted from 'Workforce Training in England 2006'

5.10 We were keen to assess whether the high incidence of training that led to a qualification in our research was borne out of *expectation* or *resignation* (i.e. little else was available). The findings in table 4 suggest it is primarily the former. Respondents were asked to rate (on a scale of 1-10 with 1 lowest and 10 highest) the importance of five key factors when choosing a provider of higher level skills. Training that results in a qualification was consistently rated as the most important of all five factors.

	East Midlands	West Midlands	Yorkshire & Humber	Average (Rank)
Training that results in a qualification	8.07	8.03	8.19	8.10 (1)
The cost of training	6.85	7.48	7.59	7.31 (2)
The location of delivery	6.98	6.86	7.56	7.13 (3)
Training that can be delivered in bite size chunks	6.99	6.95	6.99	6.98 (4)
The time of delivery	6.50	6.65	7.10	6.75 (5)

Table 4: Importance of factors when choosing a training provider. Scale of 1-10, with 1 the lowest and 10 the highest.

Type of qualification

5.11 Our research suggests that there is more demand for professional qualifications than academic or vocational ones (see figure 7, below). *Stepping Higher* identified that employers are twice as likely to fund a professional qualification than an academic qualification as:

'almost by definition, these (professional qualifications) are plainly and directly work-related, so it comes as little surprise that employers should be so ready to help employees to secure relevant ones'.[37]

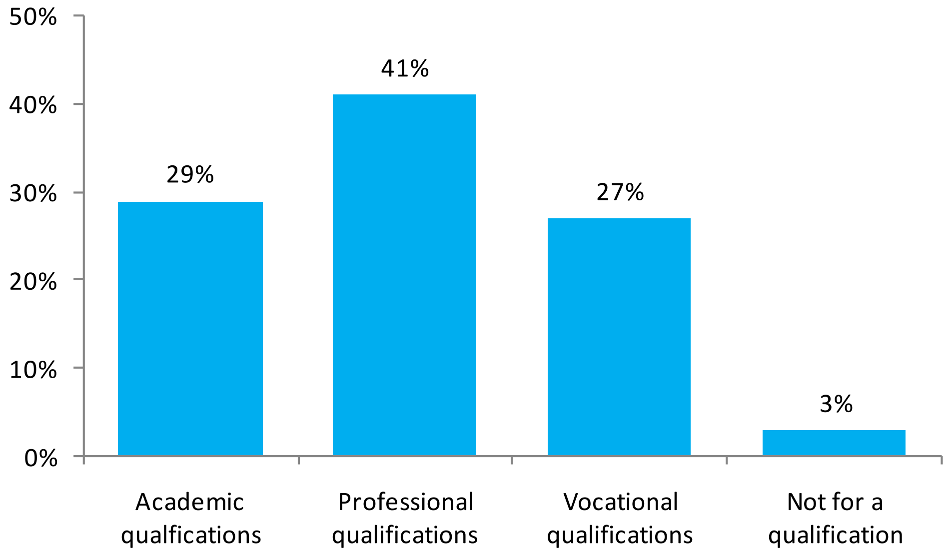

Figure 7: Type of higher level qualification undertaken by businesses in the preceding 12 months

5.12 However, the divide between academic, vocational and professional qualifications is far from clear cut. While such distinctions are helpful for research purposes, they do not always resonate with employers. While both vocational and professional qualifications *are plainly and directly work-related* our focus group research suggests that the former are more closely associated with traditional 'blue collar' occupations and the latter with 'white collar' professions such as accountancy or law.

5.13 The definitions used in our research triggered a debate between employers in our focus 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.'

5.14 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

[37] CBI (2008), *op. cit.*, p. 43.

businesses were more likely to define higher level skills training as continuing professional development (CPD).

5.15 Notwithstanding the imperfections of these definitions, our research suggests that HEIs dominate the market for delivering 'traditional' academic qualifications to businesses, while the professional and vocational markets are much more hotly contested, as figure 8 shows:

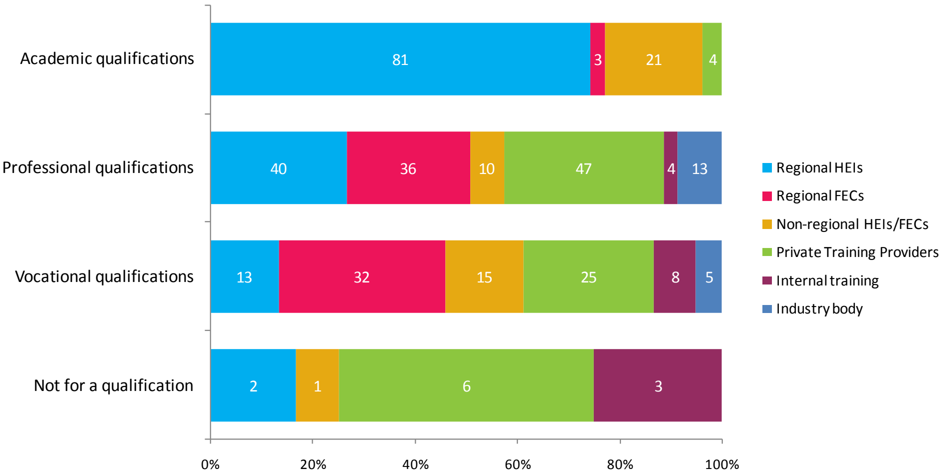

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Figure 8: Qualification by provider type

5.16 While a large proportion (41%) of the higher level skills training undertaken by businesses is industry specific; figure 9 shows that accountancy and finance, human resources, leadership and management and general business training account for some 53% of training.

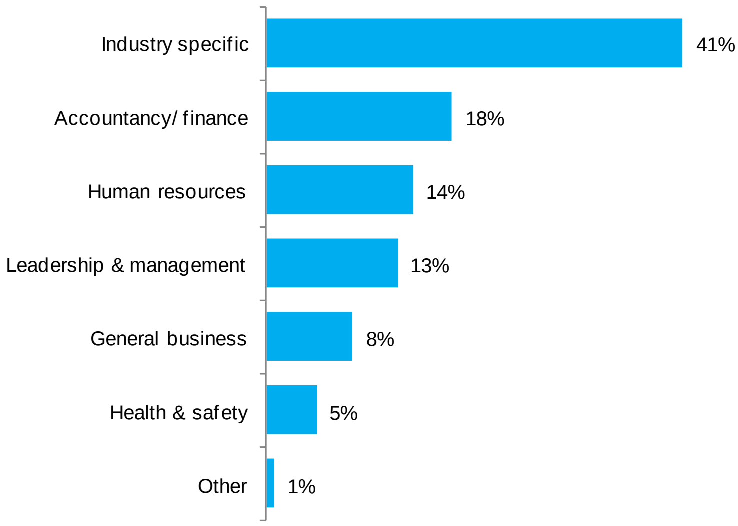

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Figure 9: Types of training subject undertaken by businesses in the last 12 months

5.17 Bolden and Petrov cite several examples of major employer surveys, including the *National Employers Skills Surveys* and the *Skills at Work 1986 to 2006*, that suggest employers value generic and cross cutting skills highly and invest in them:

'Employers have placed increasing emphasis on the importance of: leadership and management skills; influencing skills (including communication); customer-handling skills, including authority to act; numerical skills (especially among clerical and secretarial occupations); problem solving skills and team working.'[38]

Cost

5.18 We saw earlier (in table 4) that respondents were asked to rate (on a scale of 1-10 with 1 lowest and 10 highest) the importance of five key factors when choosing a provider of higher level skills. The position of cost in this table is interesting. When we carried out the first survey in the East Midlands in September 2007, cost was the second lowest priority for businesses, scoring an average rating of 6.85 out of 10.

5.19 In figure 10 we supplement our three regional surveys with data (in a darker blue) from three additional surveys conducted on behalf of other organisations. In each survey, the same question was asked. The importance of cost when choosing a training provider has increased in importance over time, perhaps reflecting the changing economic climate.

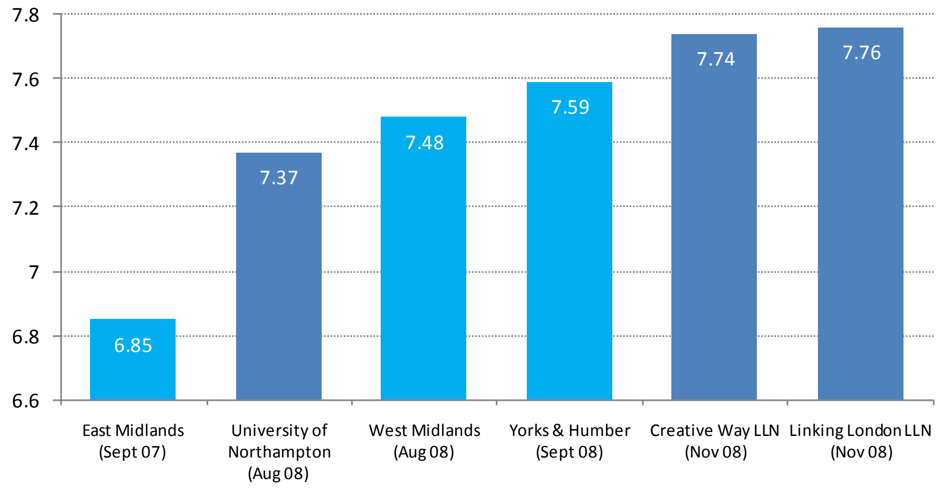

Figure 10: Importance of cost when choosing a training provider over time

5.20 Lack of funding is often cited as one of the key barriers that prevent businesses from undertaking higher level skills training. As figure 11 shows, 72% of businesses actually met the full cost of their higher level skills training. The HESE report also identified that 72% of training at graduate/NVQ Level 4 or

[38] Bolden, R. & Petrov, G. (2008), *op. cit.*, p. 28.

above had been paid for by employers.[39] However, employer perceptions are important here.

5.21 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, it is likely that the fee charged equated to the full cost of the training. For qualification-bearing courses delivered by HEIs it is equally likely a partial, rather than a full financial contribution to the actual cost of the training was made (e.g. by paying an employee's tuition fees).

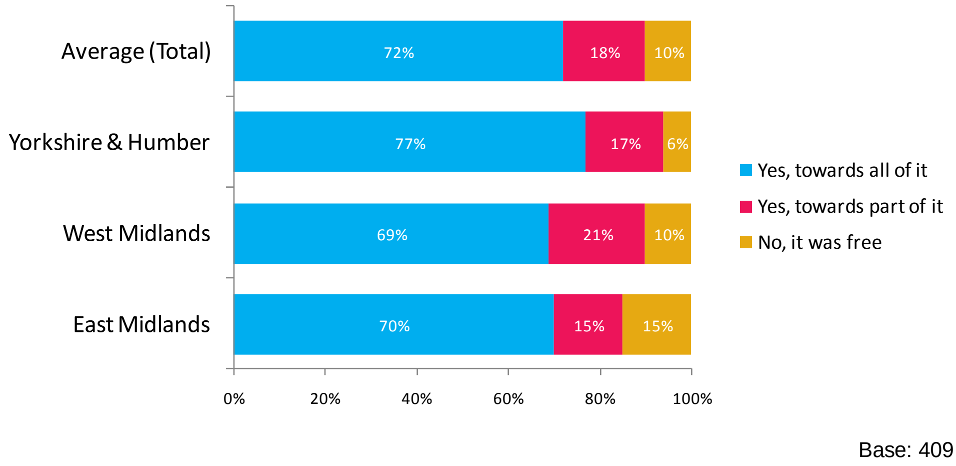

Figure 11: Contribution towards cost of training

Motivation

5.22 In understanding the nature of employer demand for higher level skills, the reasons and motivations of existing consumers can provide valuable insights. To this end, we asked employers to specify their principal reason for undertaking higher level skills training.

5.23 In our East Midlands survey, these principal reasons were categorised in broad terms, (e.g. part of business strategy, part of HR strategy). For the subsequent projects in the West Midlands and Yorkshire and Humberside, we were keen to develop a more detailed understanding of these motivations. As our more detailed breakdown in figure 12 illustrates, the most commonly cited reason for investing in training was for the personal development of the *employee*.

[39] Farrall *et al.* (2008), *op. cit.* p. 50.

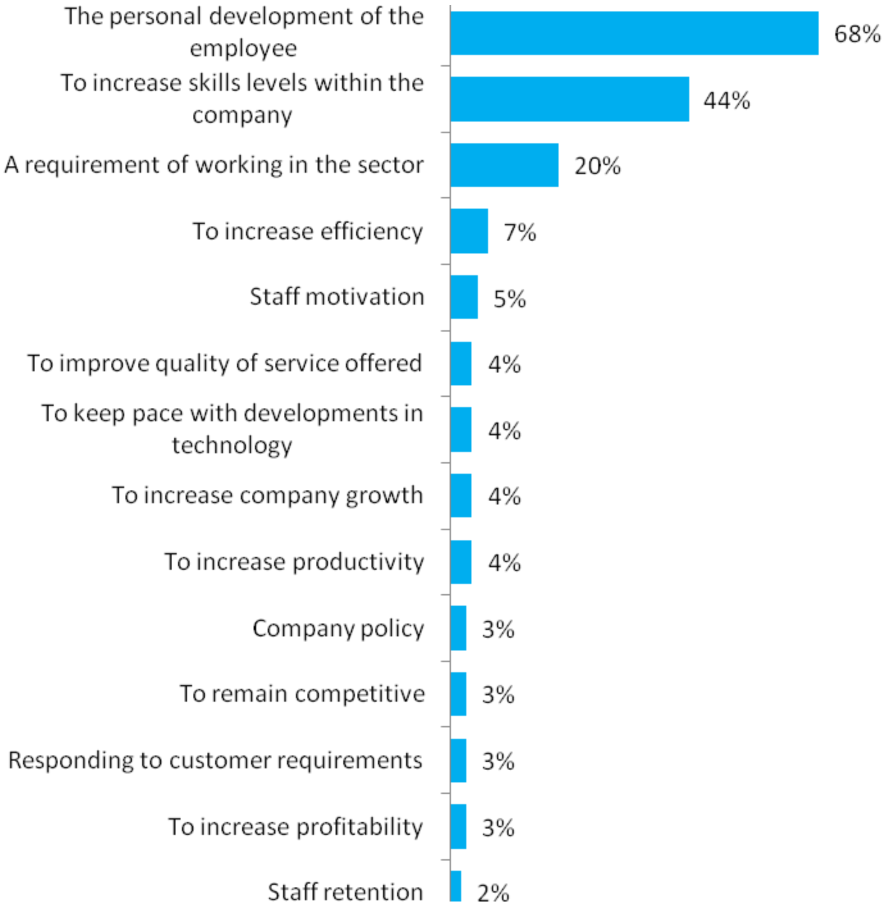

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Figure 12: Reason for training (multiple response, WM and Y&H data only)

5.24 The CBI report, *Stepping Higher*, identified a similar employee focus. Whilst not directly comparable (as the question asked 'why offer training leading to qualifications?') the findings are important to note:

"Respondents rated the impact on employees themselves as equally important, [as providing assurance of workforce competence] *with over 60% saying that they provide support in part because employees value qualifications; again this is a recurrent theme in the case studies".* [40]

5.25 Research undertaken by the Learning and Skills Council (LSC) also indicates that the commitment of employers to training and skills development is:

[40] CBI (2008), *op. cit.* p. 44.

"most frequently based on belief in the value of skills rather than any compelling empirical evidence [of impact on profits]."[41]

5.26 While a causal link between training and increased profitability/productivity/performance is often difficult to identify, ultimately, this is what drives most businesses to invest in training. Our focus groups suggest that most businesses appreciate that the benefits of training are often not immediate, or direct:

'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.'

(Leicestershire business)

Impact

5.27 An average of 75% of businesses across the three regions reported that higher level skills training had had a positive impact on their business. Contrastingly, only 3% reported no impact.

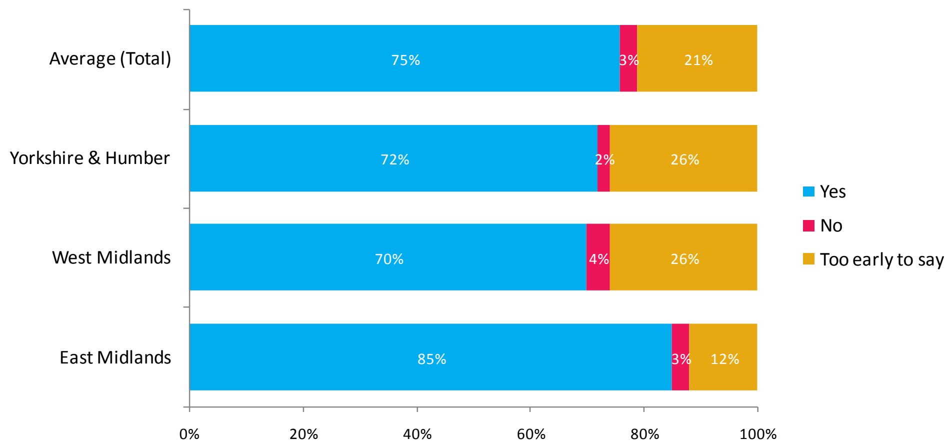

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Figure 13: Has the higher level skills training had a positive impact on your business?

5.28 All respondents that answered 'yes' in our survey were asked to rate the impact of the training on five key areas of their business. As table 5 illustrates, staff motivation was the area where higher level skills training was reported as having the most impact.

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[41] LSC (2007), *Skills in England 2007 Volume 1: Key Messages*, Learning & Skills Council.

	East Midlands	West Midlands	Yorkshire & Humber	Average (Rank)
Staff motivation	7.78	7.27	7.81	7.62 (1)
Skill levels	7.33	7.31	7.64	7.43 (2)
Customer Service	7.00	6.67	7.07	6.91 (3)
Labour productivity	6.50	6.31	6.77	6.51 (4)
Profitability	6.57	6.08	6.40	6.35 (5)

Table 5: Impact of higher level skills training on key areas of business, where 1 is the lowest and 10 is the highest.

5.29 This chimes with the findings in *Stepping Higher,* where the most important benefit of investing in training was identified as improved staff morale/lower staff turnover. Our research also strongly endorses the view that most employers invest in training as part of their wider business or HR strategy:

"…enhancing work-related skills is not an end in itself, instead it is a means of achieving the goal of improved organisational performance"[42]

5.30 Through the focus groups we explored the issue of impact in some depth. Businesses overwhelmingly 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:

'Happy, contented staff equals greater productivity.'

(Leicestershire business)

5.31 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 business)

5.32 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.'

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[42] CBI (2008), *op. cit.*, p.39.

(Derbyshire business)

5.33 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 business)

5.34 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 business)

5.35 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:

'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 business)

5.36 Whilst businesses overwhelmingly reported the positive impact of higher level skills training, to be effective, the training must sit within the organisation's wider business strategy.

6 The nature of demand: businesses that do not train

6.1 In this chapter we assess why some employers choose *not* to invest in higher level skills training. We focus on:

- Their reasons for not training;
- The implications for training providers;
- The employee dimension;
- The future intentions of these employers.

Reasons for not training

6.2 In total, 67% of businesses that we surveyed had not undertaken higher level skills training in the preceding 12 months. As figure 14 illustrates, a striking 50% of these businesses reported that the primary reason for this was *they saw no benefit to their business in doing so*. It is worth remembering that these businesses had invested in general skills training during the preceding 12 months and so had certainly acquired the 'habit' of training, but clearly not at a higher level.

6.3 In *Beyond Known Unknowns*, we identified that, for many businesses, the decision not to engage in higher level skills training is usually driven by a rational business strategy, 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. 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 business)

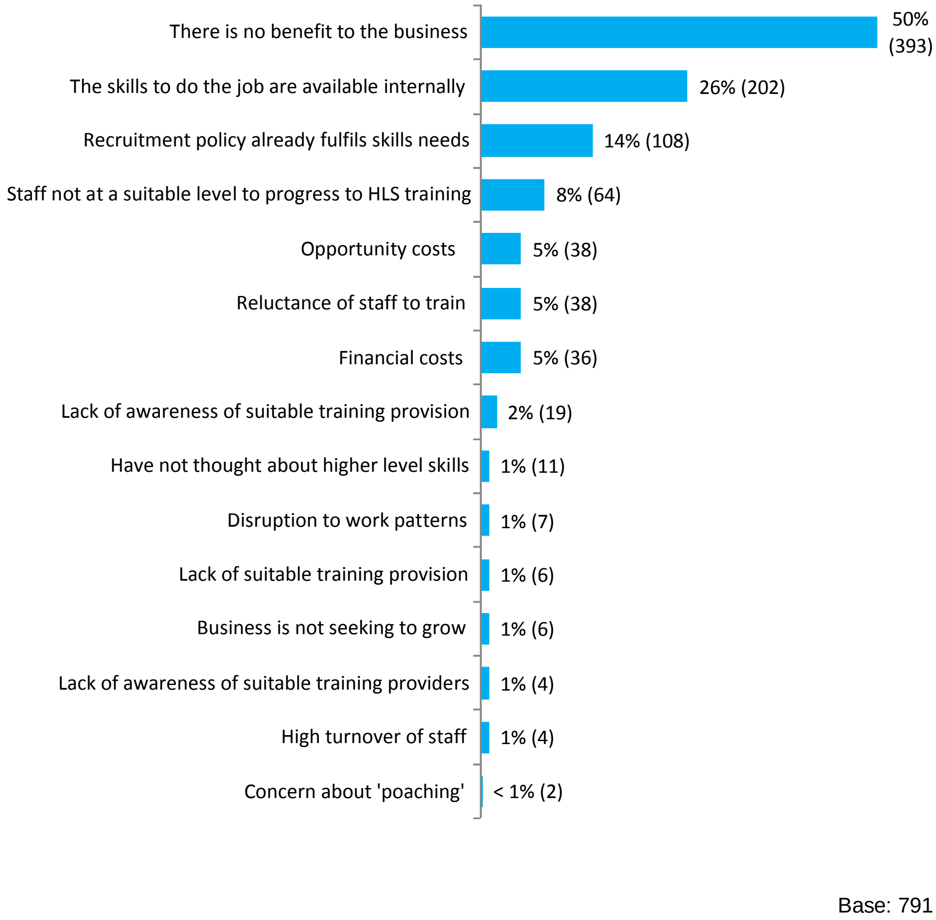

Figure 14: Reason for not training at higher level (multiple response)

6.4 Contrastingly, 40% of businesses indicated that they had not undertaken higher level skills either because the requisite skills were already available internally (26%) or because their recruitment policy already fulfilled their skills needs (14%). Some 64% of non-training businesses surveyed for the National Employers Skills Survey 2007[43] identified a similar lack of need as the skills (at all levels) were already available internally.

6.5 These are important distinctions. Not needing higher level skills training because there are perceived to be no benefits suggests a business model that does not require these skills to operate effectively (at least in the eyes of the respondent). Not training because the existing staff already have the necessary skills (or because the recruitment policy fulfils these requirements whenever necessary) does not point to the same *fundamental* lack of demand. In these businesses there is a demand for higher level skills, but it is already catered for, or could be catered for through a process of recruitment.

[43] LSC (2008), *op. cit.*, p. 132.

Implications for training providers

6.1 While providers have a role to play in stimulating demand for skills, it is clear that this involves more than improved marketing or increased financial support. Only 5% of businesses that had not invested in higher level skills cited financial cost as a barrier to doing so and just 3% cited a lack of awareness of suitable training provision or providers.

6.2 When asked how providers of higher level skills training could accommodate their requirements more effectively, an emphatic 61% responded that *there is nothing they can do* (see figure 15):

'It's not applicable to the business – we don't see it as relevant. We do lots of training, just at a lower level.'

(Survey respondent)

'I don't think there is really. Everybody is already fully qualified before they come in.'

(Survey respondent)

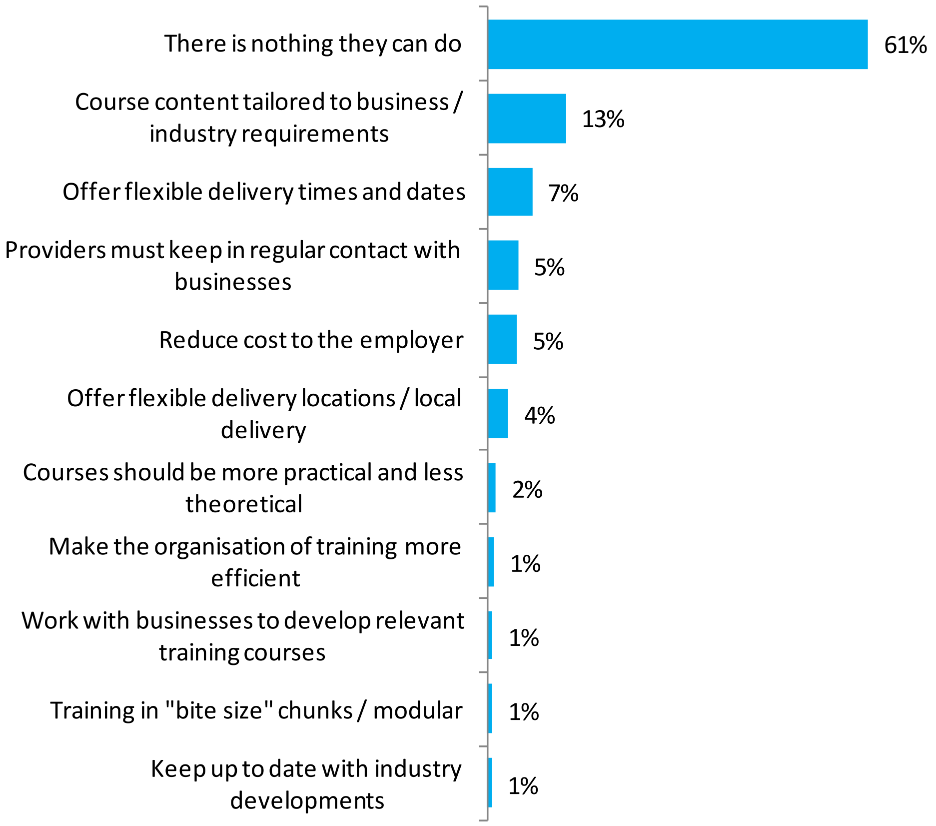

Figure 15: How can providers of higher level skills training accommodate your business requirements more effectively?

6.3 In *Stepping Higher* organisations that had not developed links of any kind were asked about the barriers to doing so. The most frequent response (41.7%) was that there was *no identified need for university services*.[44] However, as the report goes on to identify:

'This leaves open the issue of whether this was because of uncertainty about how universities might be able to help'.

6.4 A combined total of 47.7% of respondents in the CBI survey cited *either lack of information about what universities offer* or *lack of information about who to contact at universities* as barriers to forging links with an HEI. This is likely to account, at least in part, for the high number of businesses in our survey that reported there was nothing universities can do to more effectively accommodate their requirements.

6.5 It was clear from our focus groups that many businesses were unaware that some HEIs could offer the sort of bespoke provision offered by private training providers; universities were commonly viewed as providers of (high quality) 'traditional' academic qualifications.

The employee dimension

6.6 Although only 5% of respondents in our 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 business)

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

(Derbyshire business)

6.7 While other research on this issue has tended to focus on employers that *do* they still provide some valuable insights. Stepping Higher identified that:

'All but a small proportion of employers believed their employees were committed to training and self development, but most believed that commitment was not as much as they would like'.[45]

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[44] CBI (2008), *op. cit.*, p. 45.

[45] CBI (2008), *op. cit.*, p. 40.

6.8 A report by the Institute for Employment Studies,[46] found that 49% of workers without a Level 4 qualification saw no benefits to studying at a higher level. A recent report published by DIUS suggests that around 40% of people aged between 19 and 69 in England and Wales have negative attitudes towards learning generally; mostly older people with few qualifications. The group with the most 'enthusiastic and enlightened' attitude to learning tended to already be well-educated.

6.9 Training, particularly at a higher level, requires a high level of commitment from both employer and employee. A number of respondents in our focus groups reported that the extent of a 'learning culture' within an organisation often determines 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.

Future intentions

6.10 Figure 16 indicates that the majority (68%) of businesses in our research that had not undertaken higher level skills training in the preceding 12 months were 'definitely not' or 'unlikely' to do so in the next 12 months. Only 8% of businesses reported that they would 'definitely' undertake higher level skills training at some point during the next 12 months.

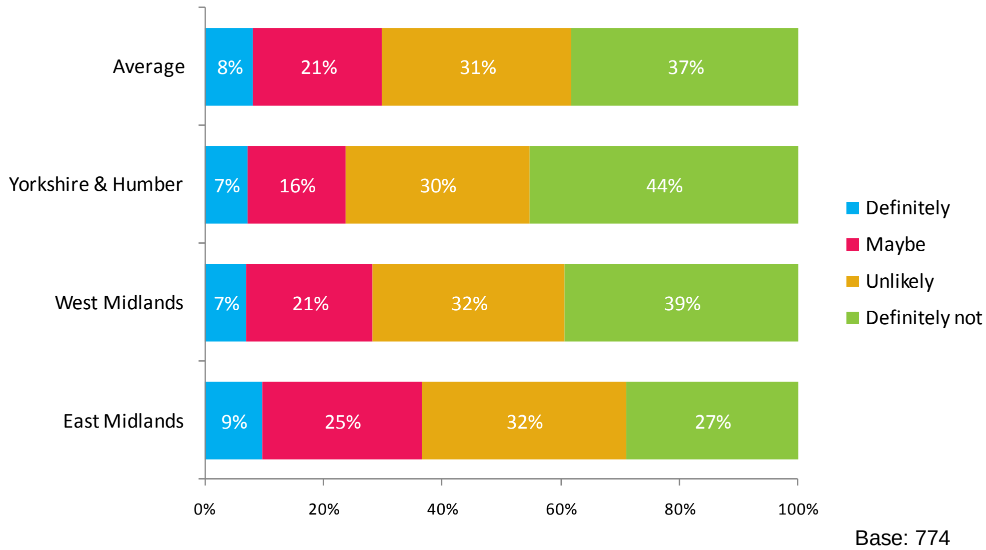

Figure 16: Likelihood of participating in higher level skills training in the next 12 months

[46] Pollard et al. (2008), *University is not just for Young People: Working adults' perceptions of an orientation to higher education,* Institute for Employment Studies for DIUS.

7 Conclusions

7.1 Since the publication of *Known Unknowns* in March 2008, a number of reports have been produced that further illuminate the higher level skills landscape. In this final chapter, we summarise the main findings from this research, identify the key lessons for HE providers and assess how the policy agenda can be taken forward.

Summary of findings

Methodological issues

- Assessing the extent and nature of demand for higher level skills from businesses is a challenging task. The absence of an agreed definition is problematic. Most businesses do not like to participate in survey research. Even those that do rarely have access to detailed data on training, or distinguish between general and 'higher level' skills. This makes it difficult to accurately assess the scale of demand in terms of hard employee numbers.

Extent and nature of demand

- With these caveats in mind, figure 17 draws on the findings from our three regional surveys to show how the overall market for higher level skills can be segmented.

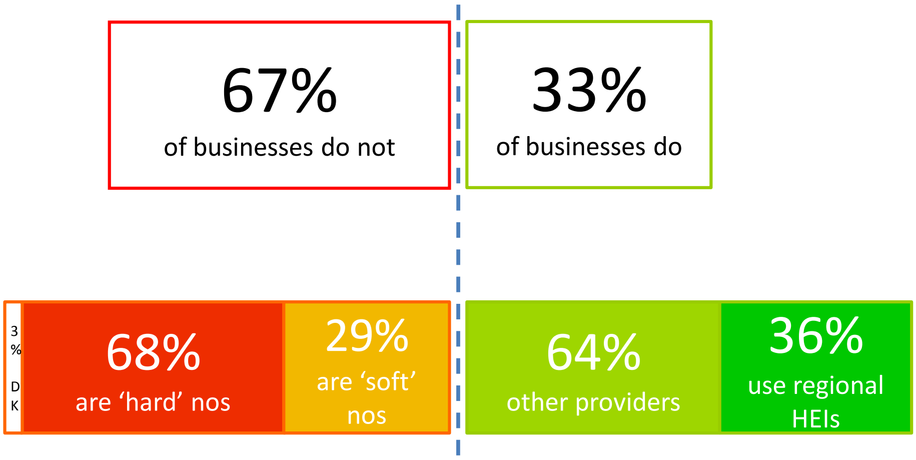

Figure 17: Market demand for higher level skills in the three regions

- Of the 33% of businesses that do invest in higher level skills, 36% use HEIs based within one of the three regions surveyed, whilst 64% use other training providers. These other providers include HEIs based outside of the East Midlands, West Midlands and Yorkshire and Humber regions. If we add their 10% market share to the 36% held by institutions in the three regions, 46% of these businesses undertake higher level skills training with an HEI of some description. As a further 23% of businesses use regional or non-regional FE colleges to deliver their higher level skills training, the combined market share of HEIs and FE colleges is a healthy 69%.

- Of the 67% of businesses that do not invest in higher level skills training, we can characterise these as 'soft nos' and 'hard nos'. The 'soft nos' represent businesses that have not undertaken higher level skills training in the preceding 12 months but indicated that they would 'definitely' or 'maybe' do so in the next 12 months. The rump of 'hard nos' represent businesses that have not undertaken higher level skills training in the past 12 months and reported that they were 'unlikely' or 'definitely not' inclined to do so in the next 12 months.

- Our research also tells us that businesses that do invest in higher level skills training really invest. On balance they pay, they pay for qualifications and they know the reasons for buying and the anticipated returns. The decision by businesses not to invest is usually driven by a similarly rational business strategy.

Key lessons for HE providers

1. *Invest in market research*

- As a starting point, universities and FE colleges that are serious about developing a presence in the training market must first understand their position within it. The employers (particularly businesses) that HE providers are attempting to engage with would not launch a product or service without testing it on their customer base first. Universities should be no different.

- The days of *'if we build it, they will come'* should be consigned to history. To be effective, any higher level skills 'offer' must be based on solid market research, an iterative process of product development and responsive delivery.

- This market research is most effective when conducted at an *institutional* level. Even a regional assessment of (say) market share is likely to underplay the penetration of providers with a predominantly national rather than regional customer base.

2. *Play to your strengths*

- Qualifications matter to the businesses that do invest in higher level skills. From our research, a resounding 97% reported that the training they had undertaken had resulted in the award of a qualification. This was cited as the most important factor when choosing a provider.

- Universities (and FE colleges that choose to do so with Foundation Degrees) are in the unique position of being able to design and award higher level qualifications and should capitalise on this demand from employers.

- Our research suggests that *quality* is where the majority of businesses perceive universities (in particular) 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.

- 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.

3. *Ensure delivery is responsive to the needs of employers*

- Some businesses in our focus groups observed that many of the 'innovative' delivery methods being developed by publicly-funded HE providers already come 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.

- Universities must deliver to the same standard as private training providers and differentiate on the basis of brand, quality and qualification. HEIs 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.

4. *Build on your significant market share*

- Universities and FE colleges are used to hearing that they only receive a tiny proportion of the £38.6 billion[47] it is estimated that employers spend on training each year. There has been a general acceptance in policy circles for some time that universities in particular have yet to significantly penetrate the market for delivering higher level skills training to employers. Our research does not support this view; in fact, universities have a higher market share than any other provider type.

- The depth of this market share (in terms of employees trained) is less easy to quantify. It is possible that while engagement with universities is more common than previously thought, this engagement has not yet been taken to scale and may only involve a small number of employees.

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[47] LSC (2008), *op. cit.*, p.18.

5. But focus on the professional and vocational training markets

- While universities dominate the market for academic qualifications, they enjoy less success in the professional and vocational markets. In *Beyond Known Unknowns* we identified that many employers have entrenched views of what universities can offer and the following quote may go some way to explaining this:

  '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.'[48]

- To extend their reach into the vocational and professional markets, universities will increasingly have to compete with private training providers. A key lesson from our 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. On the other hand, universities have a well-established reputation as the foremost provider of high quality, rigorous provision; a key challenge for HEIs is to develop a more flexible approach to delivering relevant training without compromising this quality.

6. Accept that not all businesses will invest in higher level skills

- 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 or FE college. 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.

- While universities and FE colleges have a role to play in *stimulating* demand for skills, it is clear that this involves more than improved marketing or increased financial support. Only 5% of employers that had not invested in higher level skills cited financial cost as a barrier to doing so and just 2% cited a lack of awareness of suitable training provision.

- In most cases, universities should be unapologetic about targeting businesses employing more than 25 staff. This market segment accounts for three quarters of England'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. For universities in particular, the opportunity cost of

[48] Kewin, J., Bowes, L. & Hughes, T. (2009), *Beyond Known Unknowns, op. cit.*, p.26.

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

7. Understand the role of cost

- Our research suggests that there is *already* a culture of co-funding amongst employers that invest in higher level skills. Most businesses are prepared to meet some of the costs of higher level skills training but believe this responsibility should be shared with government. Only 5% of businesses that had not undertaken higher level skills training reported that reducing costs would make them more likely to train.

- The lesson for providers here is that promoting the availability of public subsidy to businesses (through co-funding) is likely to have a limited impact. In short, those employers that already train already contribute, and those that do not, regard cost as a secondary barrier.

- The lesson for policymakers is that a concerted drive towards co-funding (the current policy aim is to achieve a 50% employer contribution) may result in significant deadweight. More specifically, our focus groups indicated that it is the cost of time spent away from the business, rather than the unit cost of training, that is often regarded as the biggest investment by employers.

Taking the policy agenda forward

7.2 It is important to accept that not all universities need or want to engage with businesses to deliver training. For those that do, rational HE provider behaviour to increase sales volume and revenues would be to adopt a strategy along the following lines (in order of increasing risk):

- Increase sales volumes to *existing* customers;

- Win *new* customers by competing for those employers that currently undertake higher level skills training with other providers (these could of course include other universities and FE colleges);

- Win *new* customers by identifying and accessing the ‘soft no’ businesses we refer to in our market segmentation graphic (see figure 17).

7.3 To make these rational choices *relevant* to institutions, government policy has been to use subsidy to stimulate the development of employer engagement capacity and infrastructure. Although for many universities, public funding (through HEFCE) only accounts for a minority of their overall income, this funding remains the most effective lever/incentive at the disposal of policymakers.

7.4 The accepted rationale for the deployment of public subsidy is to stimulate activity in areas of demonstrable market failure. Our research suggests that universities actually enjoy a higher share of the existing higher level skills training market than they are usually given credit for. The evident market failure relates to those businesses that see *no need* for higher levels skills in their workforces and believe there is nothing that HE can offer them.

7.5 The reality is that these businesses will only start to undertake higher level skills training if there is a change to the market context in which they think about their business strategies. In other words, the 'hard nos' can only be tackled as part of a wider economic development strategy, in which HE providers and policymakers play a role alongside a much wider cast of characters. This is reflected in the emerging policy themes of 'skills activism' and 'industrial activism':

"Possibly the most desirable – and most difficult – dimension to get right is to join up the many different aspects of Government policy that shape the business environment. Alongside the basic levers of taxation, regulation and expenditure, the interaction of public policies on infrastructure, planning, public procurement, innovation, education and skills, migration, consumer welfare, social welfare and trade, all influence the environment in which businesses operate, in some cases in crucial ways."[49]

7.6 The further challenge for universities is to develop *sustainable* approaches to delivering higher level skills training to employers. The main risk (and one that often accompanies public funding) is that it is viewed both internally and externally as *just another project*. In the current economic climate, it is unlikely that the safety net of additional funding will be provided to institutions that are unable to develop a sustainable model of delivery.

[49] Building Britain's Future: New Industry New Jobs (2009) Department for Business, Enterprise and Regulatory Reform p.22.

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List of acronyms

BERR – Department for Business, Enterprise and Regulatory Reform

CBI – Confederation of British Industry

CIHE – Council for Industry and Higher Education

CPD – Continuing professional development

DIUS – Department for Innovation, Universities and Skills

EMDA – East Midlands Development Agency

EMUA – East Midlands Universities Association

FE – Further education

FEC – Further education college

HE – Higher education

HEFCE – Higher Education Funding Council for England

HEI – Higher education institution

HESE – Higher Education South East

HERDA-SW – The Association of Higher Education Institutions in the South West

HR – Human Resources

LSC – Learning and Skills Council

NESS – National Employer Skills Survey

NVQ – National Vocational Qualification

ONS – Office for National Statistics

SIC – Standard Industrial Classification