

**Government-supported
Management and
Workforce Development
Initiatives for SMEs:
*There is another way***

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Summary

All of us in workforce development share a vision that a vital learning culture is a key foundation for thriving, prosperous businesses and a strong, competitive economy. Whilst for many years, successive Government initiatives have sought to enable a learning culture; too few have had any significant success. The purpose of this paper is to bring out what is best in all that we do, to then propose 'another way' that builds upon it.

1. "People are our greatest asset" is a belief of the supply side, and results in many offers for which there is little demand amongst small businesses. Instead, we need to understand that skills are a derived need – they derive from managers working to a business goal and identifying learning as their preferred means of achieving it.

Whilst policy has focused on deficiencies in Basic and NVQ 2/3 skills, effective engagement of small businesses favours a shift to promote active participation by owners and managers. With successful management learning, a 'trickle down' effect triggers greater participation in workforce development by small businesses.

2. Preoccupation with outputs rather than the development process leads us to focus our efforts on that which is easiest to measure, rather than that which has a real impact for business performance. Consequently, the return on our investment in reaching out to small business has been disappointing. The problem is also often that we design our offer to meet our interpretation of business needs, rather than the realities of business.

Where we make an offer to small businesses, we have to make sure that it is an offer to *them*, not to our stereotypes of 'business'. This means that when our initiatives should be based upon our knowledge of what it is that small business managers value – we should work from good practice, rather than stretching schemes designed for large companies into an area where they just do not fit.

3. In order to stimulate demand we have to refocus our efforts on key target groups: owner managers; managers; prospective entrepreneurs; and key workers. These individuals, within the small firm workplace, are the critical link for new initiatives – by demonstrating the value of learning to them, we provide the bedrock for workforce development.

This starts with an implementation of the Council for Excellence in Management and Leadership recommendations, especially in tailoring provision to "join the entrepreneur in their world" and tap seamlessly into the activities that they would normally undertake as part of their business.

4. Skills development most of all needs to be set in the context of small businesses and their needs, not as a good in itself. This will mean raising standards but also developing new forms of learning opportunities, especially shorter, more practical interventions that answer small business questions, i.e., 'how do I?' and 'who knows' about rather than say, being sold an NVQ or an IIP recognition.

By taking this approach, many small businesses will over time make most of the way to recognition under national standards. The advantage of taking this more natural, evolutionary path is that we can tailor learning opportunities to the needs of smaller businesses. Our efforts should be focused on creating a strong, sustainable market for workforce development interventions – especially IIP – amongst small and medium-sized businesses.

Practical actions

- *Information, Advice and Guidance (IAG)*
The language and service of the new IAG partnerships is all geared towards individuals, rather than small business. Consideration should be given to using partnerships to build capacity in business support intermediaries. The lack of IAG for small businesses has the potential to become a barrier to any stimulation of demand for workforce development. We need to develop a sensitive, IAG brokerage for small businesses that can connect learning options to business needs.
- *The Small Business Gym*
A change from funding outputs to a focus on learning for business needs brings with it a requirement for a new approach to delivery. Businesses and individuals should determine their own learning benefits package, to suit their needs. We propose the creation of a network of Small Business 'Gyms' tightly regulated for competence but free to develop learning content tailored to their specific customers. The Gym offers a combination of strong prudential regulation with a freedom to innovate, by regulating form rather than prescribing content.
- *The Company Learning Account*
If we are to support skills development in the small business context, consideration should be given to a shift in funding to follow learners' preferences and decisions. Following from the successful Small Firm Learning Account pilot, we propose a business-level Company Learning Account. This would support purchases of learning from recognised providers – FE Colleges and the new Small Business 'Gyms' – and would be marketed by an account manager who would offer brokerage advice to client businesses to address their learning needs.

1. There is another way

1.1. Shared goal

- (a) Management and workforce development is critical to the future competitiveness of the nation's small and medium-sized businesses. Market failure prevents action in the workplace and so we intervene in different ways to create the learning culture needed for thriving, prosperous businesses. This – a learning culture for business success – is the shared goal of all those debating workforce development.
- (b) As independent organisations working in the field, we are concerned that funding of workforce development initiatives for small businesses, through both the Department for Education and Skills (DfES) and Small Business Service (SBS), has not achieved and will not achieve the necessary impact. In particular, we believe that funding supports prescriptive approaches that do not fit with the reality of life for small business owners and managers. Consequently, this funding is unlikely to realise a worthwhile return on investment.
- (c) This is not to blame or to point the finger – all of us in workforce development have the same hopes and we agree on the essentials of how to get there. Institutions such as Investors in People (IIP) UK have over recent decades developed valuable operational knowledge and transferred it into ways of working for managers and the workforce. The challenge we present here is not one of reinventing the wheel, but of making sure we use it in the right way. Our weakness in workforce development is one of application.

1.2. For the future

- (a) It is in that spirit that we present this paper, with its analysis on the current position and ideas for a new future. It is our belief that a great deal of existing and recent initiatives in this field have not achieved significant progress and that there has been an insufficient return on the millions of pounds of public investment. That said, this paper is not about knocking down but instead about bringing out the best in what we do to build upon it and raise standards. Against the *status quo*, we propose 'another way.'
- (b) This paper is a promised outcome from a DfES-sponsored initiative by SFEDI (the Small Firm Enterprise Development Initiative) to develop Employer Learning Networks. SFEDI's initiative was one of seventeen, and through an e-learning network approach, the project reached 400,000 small businesses, using 4 websites, for a DfES investment of £195,000. The project also involved the Centre for Enterprise (CfE) and this paper presents our shared thinking.
- (c) The paper has been informed by:
 - SFEDI's project

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- 5 years of practical work with the aim of raising the standard of small firms' learning interventions
 - CfE's recent paper *Management and Leadership Development in the East Midlands: is supply meeting demand?*
 - the work of the SFEDI and CfE Boards
 - the SFEDI Research and Products & Services Advisory Groups
 - the CfE Small Firm Learning Account (SFLA) pilot
 - the ELWA Company Learning Account pilot
- (d) Particular input was sought, gained and included within the paper from:
- Michael Davis, Managing Director, CfE
 - Dr Lew Perren, Adviser, Council for Excellence in Management and Leadership
 - Anthony Drew, Director, and Rachael Gill, Manager, ELWA
- (e) The proposals advanced in the paper have policy implications that would in particular affect:
- Regional Development Agencies
 - Learning and Skills Council
 - Business Link network
 - National Training Organisations / Sector Skills Councils
 - Changes would also impact government-supported organisations such as Investors in People UK; Ufi/learnirect; the Basic Skills Agency; the Health and Safety Executive; and SFEDI itself.
- (f) We make these proposals as our contribution to what is a continuing, evolving debate – we hope that at the very least they will spark a new openness to ideas for change in management and workforce development.

2. Current Provision

We believe that a change needs to take place in the way government funds are provided to small business-focused workforce development initiatives. This belief has been developed on the basis of the following observations, formed through our experience of and participation in these initiatives:

2.1. Low demand

- (a) **There is little demand from small and medium-sized businesses for the myriad local publicly funded schemes currently on offer.** Unless they tackle the root cause of this, there is great danger that the new local Learning and Skills Councils (LSCs) and Sector Skills Councils will develop new programmes and initiatives and find there is still no demand. These programmes may be repackaged, 'networked' and remarketed, but they will still be predicated on the old idea: "skills development is good for you."
- (b) We need to accept that skills needs derive from continued development – be it growth, consolidation, diversification – of the business. Only where the business is making a change will it need to reach out and change its approach to workforce development. Even then, we need to sell this particular option – improving skills is only one way to improve business performance, alongside new machines, technology, or even rationalisation. **The notion that 'people are our greatest asset' doesn't come from small business managers – we have to show them why and how this is so.**
- (c) This is not to say that we've got it all wrong, that we need to throw out our whole philosophy for workforce development. Most of the essential tools and practices that already exist are capable of giving small businesses the knowledge to realise people-led development. The point is this: **the way we apply these tools is not working – we are failing to get a foot in the door for workforce development.**
- (d) At the same time, we leave relatively untouched other areas where we can make a difference. For example, more emphasis should be placed upon skills for the **next generation of entrepreneurs and owner-managers, presently at school, at college, considering 'a business of their own' or in the start-up phase now.**
- (e) All this leads to the need to integrate business and workforce development provision, through a **brokerage interface that is dynamic enough to understand the subtle inter-relationships at work.** This also means that the interface has to integrate fully with all of the development services businesses use – and most of these are in the private sector.

The evidence also makes clear the need to understand management development as a critical element within workforce development – because it makes managers alert to change. Whilst policy has focused on deficiencies in NVQ 2/3 skills, effective engagement of small businesses favours a shift to promote active participation by owners and managers. With successful management learning, a 'trickle down' effect triggers greater use of workforce development.

2.2. *Poor returns*

- (a) Engagement with formal workforce, management and leadership development programmes has typically been easier with managers rather than with entrepreneurs in the small business sector. However, **the overall level of engagement is still under one in ten**. This state of affairs is not likely to change greatly unless new routes to market are employed, with a different offer for small firms.
- (b) The credibility, value for money and return on investment of publicly funded initiatives is being sorely tested by the **incredibly high investment cost, in hundreds of millions of pounds every year**. For every business, large sums are expended in marketing, PR, advice and then delivery. These amounts cannot be justified except in meeting government targets for 'successfully engaged' businesses. In the last ten years, such an approach has consumed large sums from TEC, Business Link and NTO (and equivalents) bodies, together with direct investment at national level.
- (c) **An example**. By 31 March 2001, Investors in People (IIP) had recognised 7,431 English small firms under the standard. This has been achieved with a substantial investment – some **89% of costs have been covered by the public purse**.¹ And yet the initiatives currently funded to promote IIP also have levels of deadweight costs – supporting IIP implementation where it has no significant impact – running at 30% of spending.² **Despite the clear benefits the standard gives to small businesses, we have to make a large investment to get past the levels of deadweight because of the way we make our offer**. Further, some 40%³ of costs are devoted to non-firm-specific promotion and support activity, rather than direct application of the standard within the workplace.
- (d) **The return on this investment in reaching small businesses has been disappointing**. The 7,431 recognised small firms are progress towards a National Learning Target of 10,000 firms by 2002. To place this in context, there are some 360,000 businesses with between 5 and 49 employees. IIP has over 9½ years achieved only 2% market penetration. Whilst overall, IIP has been a success – over one-third of the British workforce are now with recognised employers – it is failing to similarly change the small business workplace. And yet it is here that there is greatest potential benefit for IIP's application – these are the companies without HR managers and often with

¹ This includes Local Competitiveness Budget, TEC Reserves, European funding, etc. Employer charging revenue covers the 11% remainder. We can infer that this is primarily paid by large employers and mandated public organisations. Dodd, M, *et al*, York Consulting (2001) *Research on the Costs of Investors in People and Related Activities*, DfES Research Brief No.274, DfES.

² *Ibid*. This is likely to be generous, in that it is inferred from a survey of IIP company employer perceptions. As they have (a) received a subsidised product, and (b) just invested a large amount of time in the standard – they are unlikely to write it off as a bad idea.

³ *Ibid*.

very casual working practices. **There is a clear, pressing need to raise the appetite for IIP amongst small businesses.**

- (e) This shows through to the qualitative results of IIP – small businesses miss out, so we don't realise the full benefit. Because initiatives target larger companies, and those already engaged in workforce development, the IIP standard isn't being applied where it can add the most value, reducing the return on our investment. Doubtless this is the case with many programmes – **that only those already engaged in workforce development are using initiatives, so we're missing out on some of the largest potential gains.**
- (f) The problem is not with the standards themselves – but instead with **poor funding mechanisms and perverse incentives.** Tying funding to top-down outputs and targets set by Government creates an incentive to chase 'easy hits' and force-feed them with one-size-fits-all products. Targets are set for the ultimate output rather than the work of getting there – which incentivates providers to drop any 'difficult' customer and concentrate on those likely to go all the way with a product. Consequently, even assuming some 'churn' we can confidently predict less than 5% of small businesses have taken any workforce or management development action driven by publicly funded initiatives.
- (g) **To continue with our example** – initiatives are funded for 'IIP recognitions'. Those companies on the margin, for whom achieving *recognition* holds little value, could benefit dramatically from implementing much of the IIP standard, using it as a measure of quality and not a threshold. However, because funding follows recognition, these businesses – often those with no background in workforce development – receive no support and yet, by diminishing returns, **their engagement is a powerful driver to our policy aims of improved productivity and employment.**
- (h) Again, we find the need to look at things from the small business perspective. We know that owners, managers and entrepreneurs are often jaded about publicly funded initiatives. **We also know that they see workforce development as only one option as a strategy for improving performance – sometimes it has a business case, but not always.** In these cases, we need to be sensitive, and realise that even when businesses aren't interested, individuals can be, as they pursue their personal development.
- (i) In other words, it may not always be possible to convince a small business of the case for a radical organisation-level workforce development intervention (such as IIP recognition) but then we should seek to persuade the managers and key workers to learn individually. This could be through short courses (including, e.g., IIP 'Build a Better Business' toolkit), mentoring or online assistance (such as 'Laurel Online') – we know that the new IIP UK SME Task Group is already looking into these different approaches. **From such a small starting point, we can demonstrate the value of learning.** We can use the IIP standard and qualifications as a measure of distance travelled, and by evolution, move many businesses and their employees to the desired outcomes – IIP recognition and NVQ qualification.

- (j) **The initial offer to small business is often too big and complex** (e.g., the business case for NVQs, Modern Apprenticeships, IIP, Excellence Model, etc.) and almost requires small businesses to accept a wholly new support structure. Instead, **we should seek to appeal to every business's unique position, recognising that often we need to start small and appeal on a wholly different level.** Standards should be opened to allow businesses to work through them at their own pace, and to achieve the level of progress that suits them.

If there is one small step that could improve on our current approach, it would be to replace the present offer with an effort to demonstrate to the SME manager the benefit of investing in their own development as a means to address a specific business problem.

2.3. *Missing the mark*

- (a) Even when providers engage with small businesses with an appropriate offer, delivery of the management or workforce development initiative is **often inappropriate in scope, quality and 'small business friendliness'**. Sustainable workforce development initiatives for small business will not occur until the delivery network provides the value that the SME manager deserves.
- (b) There is a question here too of when our interventions, predicated upon market failure, actually compound the situation. **Initiatives are designed to draw small businesses into an area they are not familiar with** – but if this first contact is a bad experience, then maybe in the process, we blight the whole market. We need to be sure that the net impact of our initiatives is to improve the market situation – not make it worse.
- (c) We know the owner manager values:
- learning through problem solving in the 'here and now'
 - learning/networking with peers
 - small learning bites at times and places convenient for them
 - informal mentoring
 - delivery in their language
 - delivery through facilitators they view as having credibility
- (d) There is **another thing we know about SME owners and managers – they are all different**, and so are their businesses. For this reason, 'relevance' is not a simple checklist of small business attributes for initiatives, but requires an intrinsic flexibility in the way we offer products and opportunities.

Where we make an offer to small businesses, we have to make sure that it is an offer *to them*, not to our stereotypes of 'business'. This means that when our initiatives should be based upon our knowledge of what it is that owner managers value – we should work from good practice, rather than stretching schemes designed for large companies into an area where they just do not fit.

3. How to refocus the offer and stimulate demand

The task then is to refocus our efforts, and in particular, what we offer to small businesses. At the same time, however, we have to take steps to stimulate demand for new services – both to promote workforce development as a positive choice and overcome suspicion of ‘another new scheme’. Key pressure points are:

3.1. Focus on the owner manager

- (a) Make the individual owner manager the focus of new initiatives, starting with an implementation of the recommendations of the Council for Excellence in Management and Leadership (CEML).⁴
- (b) Management and leadership development **provision needs to “join the entrepreneur in their world”** and tap seamlessly into the activities that they would be normally undertaking as part of their business and within their life as an entrepreneur. It also needs to **“mimic the informal opportunities that many successful entrepreneurs experience.”**
- (c) This approach can only be realised through the willingness of DfES and SBS to adopt CEML’s recommendations and **provide support and incentives to the private sector, so that they have the means to act as an introducer for workforce and management development interventions.** Constantly pouring government money into the small part of the existing, publicly funded business support network will never succeed in “joining the entrepreneurs in their world.”
- (d) We need also to recognise that this will mean **allowing and approving for use by owner managers (with government support), many non-prescriptive, informal mechanisms which develop managers and leaders in small businesses.** This is why SFEDI’s approach to the Employer Learning Networks project was to provide a rich diversity of business problem solving learning opportunities, through websites which small businesses were already visiting in great number.

3.2. Focus on the manager

- (a) Unlike the owner manager or entrepreneur, managers in small businesses are more likely to purchase informal development opportunities. The reason for this is that their future success is driven by their skills, and their ability to move up the job ladder, rather than in the success of the business *per se*. The logic of such an approach to managers has been proven by such programmes as **‘Building a Better Business’ (the Investors in People toolkit for small firms).**

⁴ CEML (2001) *Meeting the need: excellent managers and leaders – a consultation paper*, Council for Excellence in Management and Leadership.

- (b) However, there is a need to reconnect the manager's learning to that of the business. We suggest the **creation of very short, practical learning interventions that link directly to the business's development needs**. Currently, there is a great shortage of such appropriate 'courses', with delivery tailored to the small business manager market.
- (c) **This shortage has occurred regardless of the growing Business School sector** – they have proven unwilling to offer such short courses, often claiming that it is 'not their market.' Yet if we tackle this shortage, we can help managers become a champion for learning and skills development in small firms, making up for the absence of a Personnel or HRD managers in companies of this size.

3.3. *Focus on prospective owner manager*

- (a) Prospective owner managers need support through innovative start-up programmes. Government has an enabling role to support a range of stakeholders closest to target groups to equip the next generation of entrepreneurs in small business with the appropriate skills and in helping them to found their ventures on the basis of good workforce development. **Targeting prospective owner managers and entrepreneurs** is a more effective strategy than constantly trying to change attitudes of existing owners of established businesses.

3.4. *Focus on the individual*

- (a) **Within any small businesses, there will be a number of employees who may be open to learning on their own.** The concept of financial incentives for adult learners (ILAs, Career Development Loans) recognised our earlier point that it is not always appropriate to present the *business* case for training as the only case.
- (b) Indeed, in some cases, workforce development is not even relevant, such as when a business competes on product price alone and requires low-skilled minimum waged workers to make that product. In many cases – and these are valid businesses, with real people working in them – **it is better to promote the benefits and to provide the opportunities for the individual to learn to further their contribution and their career.**

4. Improve the delivery network and the 'language' it uses

Even with a refocused offer, the market for management and workforce development in small businesses will not be stimulated unless the following areas are addressed.

4.1. SBS to take responsibility for overall strategy

- (a) **We recommend that the LSC and SBS hold joint responsibility for creating and managing overall strategy for management and workforce development.** This should occur regardless of the source of funding streams. Management and workforce development is closely associated with, and so derived from, general support for small businesses and the 'think small first' vision and so SBS needs to be fully involved at the strategic level.
- (b) **SBS and the local Learning and Skills Councils should not be restricted to a delivery network based on the current, publicly funded small business and learning and skills support provision** of Business Links, NTOs, learndirect Learning Centres, IIP Assessment Centres, Approved Centres for NVQs and Modern Apprenticeships, etc. Accreditation should be on a standardised, open application basis, and funding streams open to bids from all accredited providers. It is especially important to remember that much of learning provision, and most of business support is in the private sector – we need to avoid artificial barriers that hinder small businesses' free consumer choice.

4.2. Incentivating introducers

- (a) We need to tap existing formal and informal support networks that small businesses already choose in 'their world' rather than asking them to engage with a new world of suppliers of which they have never heard. **As suggested by CEML, this will mean offering incentives to private sector operators who already engage with small businesses, to introduce their clients to management and workforce development opportunities.** They should be able to introduce their clients to a choice of 'small business-friendly approved centres', local or on-line, that can meet their needs.
- (b) **Developing and quality assuring this model will require policy integration across DfES and SBS,** to ensure cohesion from introduction stage through to delivery. Both parties will need to establish a common engagement and delivery framework, which can build upon existing work in setting independent and nationally recognised standards. This will involve organisations including:
- SFEDI
 - Council for Excellence in Management and Leadership
 - Investors in People UK
 - NTO National Council / Sector Skills Development Agency

- Ufi / learndirect

4.3. *Raising standards across all providers*

- (a) **Quality assurance and standards raising is a priority task.** This should include small business trainers and learning facilitators as much as consultants, advisers, mentors and information providers. Training/learning introducers and mentors should know who is good and the deals on offer.
- (b) All too often, **providers write up their learning offer in terms of publicly funded outcomes** – e.g., NVQs, IIP, Modern Apprenticeships – whereas businesses identify their learning needs in terms of business problems and want to know who can help them deal with them.
- (c) In taking this role, **the SBS and LSC should work to develop a Single Learning Provider Register** to stand alongside the Single Consultants' Register. Using SFEDI standards as the benchmark for accreditation, and working with provider associations so that they can take a role in raising quality.

4.4. *Develop new learning opportunities*

- (a) **Working through the existing private and public small business support network, we need to build the management and workforce development capacity with a range of formal and informal bite size learning opportunities.** We know that very few small businesses are interested in assessment, qualifications or quality awards, unless they need them to trade, or they receive them as an 'added bonus' for completing something they wanted to do for other, problem solving, reasons. The delivery network must, therefore, be capable of developing small interventions that meet the language of small businesses, i.e., 'how do I?', 'who knows about?' rather than say, being sold an NVQ in Customer Care or an IIP recognition.
- (b) Small businesses often have long term plans, training budgets and strategies, but they are often not referred to as such, or even seen as such. Consequently, small businesses miss out when it comes to complying with the conditions for grant funding under government supported initiatives, because the government 'rules' do not fit the way small businesses operate. **We must put skills development opportunities into a small business context.**
- (c) All learning opportunities and actions should be accredited for their value to small businesses against the IIP standard. **The IIP standard should be seen in a new light here – as an index, a common reference to measure progress for businesses moving towards becoming 'learning organisations'.** This is to accept that many won't reach the fixed recognition threshold – but instead of 10,000 recognitions, we could aim for 100,000 businesses having passed the halfway point. By recognising the small 'bites' of learning that tackle real day-to-day problems, we encourage many more businesses to engage with the standard.

- (d) Many small businesses will over time make most of the way to recognition – those doing so will seek recognition where it is worthwhile. By this more natural, evolutionary process, **we probably will achieve the same headline number of recognitions** – but we can be sure that all of them will do so for its essential value.

4.5. *Building in peer based activities*

- (a) We know that academic -type training is still popular for managers and staff in larger firms, but it is also proven that for the most part, this is not the case in small businesses. **We also know that learning networks, group training approaches and informal mentoring and facilitators (rather like an action learning approach to problem solving) are both popular and welcomed by small businesses.** They provide long-term motivation to the owner managers to keep investing in personal and staff development.
- (b) **Peer based activities are a means to transfer the tacit knowledge so critical to business success,** and are therefore of great use in developing managers and key workers. In the East Midlands, CfE have developed the Beacon Company Initiative as a good practice peer based learning model working around a network of 91 leading small and medium-sized businesses.
- (c) The Initiative has already led to the creation of sustained learning clusters for managers to explore e-commerce and human resource management.⁵ In doing so, it is able to spark managers' enthusiasm for developing their business, creating the need for skills. **Such an approach can connect small businesses to potential opportunities, and so stimulate demand for workforce development.**

4.6. *Good practice*

- (a) The continuous improvement programme of the learning and skills development media available for small businesses must continue and this is a prime role for SFEDI, through its endorsement and dissemination programme. **We need to ensure that SFEDI endorsed good practice is preferred, used and built upon consistently through the delivery network.**

4.7. *IAG for small businesses*

- (a) Across the country, local partnerships have come together to form Information, Advice and Guidance partnerships (IAG), with a primary responsibility to serve adults and young people. They are building up a wealth of knowledge on learning opportunities. However, their **language and service is all geared towards the aspirations of the individuals,** rather than the needs of small businesses.

⁵ For more, CfE (2001) *The Beacon Company Initiative: facilitating peer based learning*, Centre for Enterprise.

- (b) Consideration should be given to **using IAG partnerships as a capacity building resource to business support intermediaries** such as Enterprise Agencies, Business Links and Chambers of Commerce to allow them to 'translate' the Information, Advice and Guidance available for individuals to meet the IAG requirements of small businesses.

- (c) **The lack of IAG for small business has the potential to become a source of difficulty in any attempt to stimulate demand for workforce development.** Two problems in particular call for attention. First, most existing IAG – because it is provided through the public sector – is forbidden to be selective, discriminating workforce development opportunities on the basis of quality. Consequently, businesses are confronted with a long list of possible options with no clue as to which ones offer what they need. A sensitive, brokerage-type IAG model could improve upon this situation – connecting options to the business's own needs.

- (d) Second, the knowledge needed to overcome this problem is tacit in nature – difficult to sum up, to communicate clearly. Knowing good provision often requires long experience of providers – which most businesses cannot accumulate. It is widely dispersed, and for this reason, **we need to tap experience across business and providers – perhaps through trainer-training networks and also through the kind of peer learning business networks mentioned above.**

- (e) It is because of the large element of tacit knowledge **in working with workforce development opportunities that a human element, to mentor businesses, is necessary.** It is for this reason that the simple creation of an integrated, up-to-date and user-friendly Internet database of provision – although in itself offering a lot of value – is not enough to address this problem.

5. Change the requirements and structures of public funding

5.1. *Outcomes, not outputs*

- (a) We must change the funding process from its current bias towards learning outputs, taken from national targets, and to a focus on delivering concrete solutions. **Business and individuals should determine their own learning benefits package, to suit their needs.** They can decide why they will or will not participate in a particular learning activity, and bring together the elements they want into a single package. The benefits will be quite specific to an individual or business, depending on their personal or business circumstances. It is not acceptable to subordinate the quality and relevance of the learning experience to the achievement of an output target.
- (b) If, however, emphasis is placed on driving up delivery standards, it would still lead to quality outputs, without prescribing to the individual or business. **By certifying the provider as competent to deliver the learning experience to an appropriate quality standard, we can leave the individual to determine what 'qualification' or recognition for their achievements they will seek.** Each of these certified providers can offer a whole range of SFEDI endorsed learning interventions for staff in small businesses. Each SFEDI endorsed learning intervention can be given a 'guidance value' or notional credit as to how it may contribute to the formal awards, such as qualifications, IIP or EFQM recognition.

5.2. *The Small Business Gym*

- (a) **An analogy.** A Health and Fitness Centre provides a broad suite of facilities (e.g., swimming pool) and supporting services (e.g., coaching) that members can use and it is against these standards that the Centre is judged. Within that, individuals, guided by coaches, determine their own personal goals – to lower blood pressure, to improve personal fitness, etc. – and combine the facilities and services to achieve those goals. There is no restriction on which services they use, or how they combine them – every case is different. Form is the same – content changes for every member. Finally, the member is trusted to make the right choice – to pull together their own package of services and monitor its success, ensuring it delivers as they hoped.
- (b) **SFEDI can help DfES and SBS achieve 'fit' small business 'members' by developing a network of centres – call them 'gyms' - similarly approved for their competence rather than any specific offering.** The small business members will be recruited by the gyms themselves or by other initiatives, according to how they fund workforce development. Most important here will be the ability of the approved small business gyms to mix and match funding sources, including within packages subsidised and chargeable service offerings. The gyms can also serve individuals and whole companies – and cater for their different learning aims, be they qualifications or skills development.

- (c) **The approval process – perhaps undertaken by local Business Links – would be separate from the funding process.** As discussed in the next section, we favour a significant shift towards demand-side funding, throwing learning account mechanisms, as competition is the best way to exert discipline on providers and promote innovation. At the same time, we recognise that the majority of funding will still be policy-driven, financing specific activities with funds drawn down by providers. Approved gyms can serve equally as, say, LSC learning providers – although the LSC regime should complement, rather than subsume, the gym approvals process.
- (d) **Small Business Gyms would be subject to the following review systems:**
- Regular quality assurance testing undertaken by the network of Regional Investors in People Quality Centres
 - Individual Learning Facilitators having to meet the relevant requirements from SBS/SFEDI business support standards
 - Learning media and qualifications developed in line with appropriate sectoral and business support standards

5.3. *Smarter Regulation*

- (a) With a shift to demand-side funding over recent years, a specific ILA learning provider network has been developed. The ILA National Framework has operated on a 'light touch' basis – which had an upside, in being open to diverse, innovative provision; but also a downside, in being open to financial abuse by disreputable providers. At some stage, with any great move to use a learning accounts system for workforce development, we will need to remove the bad apples from such a network. **It is important, though, that we do not throw the baby out with the bathwater – if we move too quickly to a heavy-handed regulatory regime, the network's present diversity could be stifled.**
- (b) The 'small business gym' system could be an answer to this problem. **By regulating form rather than prescribing content, we can maintain the full, evolving diversity of provision presently on offer.** We could also move to such a regime on a gradual basis – offering improved audit terms and accessibility to LSC funding for 'small business gyms' providers would allow a voluntary move by providers at their own pace. Such an approach allows the bad apple providers to select themselves by their unwillingness to move to 'small business gym' status.

6. How the Company Learning Account would work

6.1. Funding learning instead of teaching

- (a) **Delivery of funding can also change – many of the problems of perverse incentives are a consequence of channelling resources through the supply-side.** A shift away means making public funds available to support decisions made by learners.
- (b) Although funds have been used in a limited scale for individuals (ILAs until the recent announcement, as well as Career Development Loans), business level interventions have been limited.⁶ Yet **recent pilots – especially CfE’s experience with the Small Firm Learning Account – suggest that this approach has a lot to offer.** With a target of 200 firms to engage in the present financial year, the pilot stopped recruiting in September 2001 with approaching 350 businesses engaged.
- (c) Historically, workforce development has received public funding through initiatives – subsidies to specific products such as IIP or Skills for Small Business. **The poor track record for many initiatives, all driven by a regime of targets and audits, at least suggests that this approach has seen better days.**
- (d) Certainly, **if we are to achieve the shared priority of raising Level 2 qualifications⁷ then we need a new approach.** Experience suggests that the workplace, and support for employers to promote learning amongst their employees seems to offer the greatest potential.

6.2. A Company Learning Account

- (a) Following on from this, **we propose a Company Learning Account (CLA) with funding diverted from supply-side streams (such as the local Workforce Development budgets allocated to Business Links, and Local Initiative Funds).**
- (b) The CLA would have the following attributes:⁸

⁶ The only example being the Small Firm Training Loan, which in seven years has been used for just 574 interventions, worth a total of £3.74m – very small beer. This low take-up can be comprehended by looking at the cause of small businesses’ under-investment in skills – trained workers cannot be sold as can machines, and can leave at will (writing off the investment). Borrowing against them as assets seems a risky proposition – large firms can invest confidently because their workforces are large enough to limit risk by diversification.

⁷ As supported by the recent joint TUC -CBI paper – TUC/CBI (2001) *The UK Productivity Challenge: CBI/TUC Submission to the Productivity Initiative*, Trades Unions Congress / Confederation of British Industry.

⁸ As with the SFLA pilot, ‘small business’ is defined here as a company with between 5 and 50 employees.

- it would be an account held by government for each business, with the discount-subsidies allocated to employees by the business's managers according to their priorities in management and workforce development
 - CLA discounts would be redeemable only with recognised providers, including FE Colleges and the 'small business gyms' with the competence to deliver and with safeguards to ensure quality and avoid abuse
 - CLA discounts would be available as a percentage of spending (perhaps 20% or 25%), up to a limit for the company made up of a starter sum plus an amount per employee
 - as discounts are offered as a percentage of purchases, the CLA offers a 'shopping benefit' for public funding, and it works to leverage in substantial additional private investment in workforce development
- (c) **The CLA would be marketed by an 'account manager'**. This account manager, whilst working independently in promoting and supporting take-up, would be subject to rigorous quality and financial monitoring to ensure its competence and stability.
- 6.3. *Brokering into learning and development*
- (a) The account manager will, as well as promoting and managing the accounts, also offer a complete and ongoing support service to account-holding businesses. **Their full brokerage role** will include the following services:
- Marketing and promoting the CLA to small businesses
 - Managing account transactions and keeping small businesses engaged
 - Developing managers or key workers as company learning representatives, with knowledge and understanding of workforce development
 - Providing Information, Advice and Guidance support to client businesses
 - Advising businesses on putting together the right package of learning
 - Sharing good practice and experience by developing business networks
- (b) CfE's own experience in running the SFLA pilot **suggests businesses naturally seek such a broker/adviser role in the account managing organisation** – once signed up, businesses expect a continuing service.
- (c) **Operationally, we propose that the account manager would be paid a percentage of the amount spent by CLA client businesses on learning provision.** This incentivates the account manager both to maximise take-up and to ensure that the businesses are continuing to use the CLA. Contract management of the account managers should be arranged jointly between SBS and LSC – to ensure that the interests of small business and the workforce development are served adequately.

7. Realisation

7.1. The ideas presented above give an outline of 'another way' to tackle the need to nurture management and workforce development. In this final section, we explore possible pathways to realise this vision of a newly reinvigorated support structure, one that works within the world of the small business.

7.2. Obviously, radical and immediate implementation of all of the concepts would carry great risks and transition costs. We all know from experience the dangers of untested ideas as the basis for comprehensive reform. Therefore, we propose the new model as an agenda for reform over the medium-term, and the use of piloting where possible to test and refine the different elements.

7.3. Developing and *implementing* Local Workforce Development Strategies

The LSC should take the lead in local strategy with the close involvement of the SBS. The strategy will not be effective unless it is underpinned by genuine consensus amongst local businesses as well as local providers. The LSC and SBS should therefore undertake a consultation process including representatives of:

- The FE sector
- Business Schools
- Chambers of Commerce
- Other business representative bodies
- NTOs / Sector Skills Councils (especially in locally relevant sectors)
- Ufi Local Hub Operators
- Sub-regional Strategic Partnerships

Responsibility for drafting local Management and Workforce Development Strategies would still remain with the LSC and SBS as ultimate funders. However, a commitment to open processes will allow for a better dialogue with employers so that provision can be tailored to meet business needs.

7.4. Mapping a refocused offer

The most pressing need is to break through existing preconceptions about small business workforce development within the provider and funder communities. This includes the local LSC and Business Link networks. Two options present themselves: a programme of action research to highlight specific gaps in SME needs and tie them back into initiative design briefings to local operators; and a development programme for workforce development professionals to create a shared understanding and improve the relationships across sectors.

7.5. Networking workforce development

Taking up CEML's proposals to incentivate private sector introducers will require a substantial effort to bring together the necessary players and the

establishment of rigorous standards and processes. There is also an important role to play in creating a consistent level of business network coverage, to open opportunities for small businesses across sector and areas. In both cases, there is space for piloting and working with local delivery agencies to create and implement shared techniques.

7.6. Raising provision quality

Perhaps the most pressing area – because even within current structures, it is a blight on workforce development – is to raise the general standard of provider quality. SFEDI would like to work with DfES and SBS to extend its quality standards for business support to cover learning providers, and to work with local networks to embed these in rigorous quality assurance arrangements. We would also like to develop the Single Learning Provider Register as the best foundation for a consistent delivery network.

7.7. Developing 'Gym' Networks

This is one of the more far-reaching proposals presented here – and we suggest is a good candidate for a piloting programme, possibly in more than one area to allow comparison. There are several elements here. First, a research and development programme to create a competency standard for 'small business gyms' that fit with the needs of customers and the constraints of providers. Second, a design and delivery programme to implement the standard and create a controlled 'gym' market for selected customers.

7.8. Developing a SME-oriented Company Learning Account

The Company Learning Account is of course a 'hot' topic in business and skills development policy. Our experience with the Small Firm Learning Account pilot suggests that achieving the vision will require a significant effort to balance all of the priorities and develop a product that delivers well. Piloting will be important, but so will a substantial effort to research and refine product design. Any delivery pilot would complement well a pilot of developing 'gym' networks – Company Learning Account purchases could be restricted to 'gym' centres.