

## Shaping up for the future

The business vision for  
education and skills



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# Foreword

BY RICHARD LAMBERT | DIRECTOR-GENERAL | CBI



We need a highly skilled workforce in order to achieve the productive and prosperous UK we all desire. But business will not continue to prosper in the twenty-first century – creating jobs, paying taxes, funding growth – with the current levels of workforce skills. This doesn't just mean more graduate scientists or

cutting-edge innovators, although these are vital. We also need to make sure improved employability skills, including basic numeracy and literacy are part of the strategy for raising our game across the board.

We've made real progress in recent years. Basic skill levels have been rising among school leavers and the workforce and the government has rightly made this a priority. We now compare well with the best of our European competitors on the proportion of the workforce qualified to degree level. But we need to do more. At the level of intermediate skills, we have too many employees who are competent, but who lack the qualifications they need to be mobile in the labour market. And while we have many world-class companies with outstanding leadership and management skills, performance elsewhere is patchy.

Let's be clear. To be competitive in a global economy, the UK needs to have a world-class workforce that matches the US and Japan and can compete with the growing challenges from China and India. Since we can't hope to match emerging economies on labour costs, it becomes all the more important to invest in our most important resource, which is the human capital in every individual.

Employers are already investing heavily in training and so is the government. But to be really world class we need a step change. Government, employers and employees must work together in order to achieve our shared objectives.

We need all young people emerging from our schools to be literate and numerate, which is surely not an unattainable dream after 11 years of compulsory schooling. We need a larger proportion of our university students studying the science and maths subjects employers need to ensure the UK remains a world leader in the areas where it now excels, such as high-value manufacturing and financial services.

We need more employers to invest in skills in ways that will deliver better bottom-line performance – and support for the smaller firms that need help in identifying skills needs and gaps. And we need to capture more of employers' and employees' investment in training through the qualifications which demonstrate their employability.

The UK is at a crossroads on skills, and we need to move forward quickly. This report sets out the CBI's vision for how employers, employees and government can best achieve the improvement in skills levels so urgently needed. This means choosing the right way forward and working together to achieve the improvements that will enable us all to prosper in tomorrow's competitive, global economy.

A handwritten signature in blue ink, which appears to read 'Richard Lambert'. The signature is written in a cursive, flowing style.

# Executive summary

Education and skills are at the top of the business and the government's agenda. Lord Leitch's report makes clear the UK has a long way to go on skills if we are to remain competitive over the next 20 years. Employers recognise that we have no other choice but to improve our skills base, but the UK's current skills profile is very much a patchwork quilt of strengths and weaknesses. Raising skills levels requires action by employers, employees and the government – all sides need to play their part:

- **Employers** are responsible for training and developing their employees to meet business needs, and where possible should assist in employees' long-term development
- **Employees** are responsible for their own development and employability beyond the needs of their current employment but may need support and encouragement to develop this level of responsibility
- **Government** is responsible for the education and training of young people and should ensure they are employable and are equipped with good numeracy and literacy skills. It should deal with market failure and support individuals without basic numeracy and literacy skills and organisations who need help identifying their skills gaps. It must ensure delivery of state funded training is efficient and effective.

Progress is being – and has been made. The government has focused on raising attainment levels in schools with some real success at primary level, and the Train to Gain and Skills for Life programmes have made progress in addressing poor basic skills among the workforce and unemployed. Employers too have played their part, investing more in the skills of their employees than ever before – £33bn a year by the government's own reckoning.

But, on education, business concern about low levels of numeracy and literacy among school leavers and sharp declines in the numbers studying physics and chemistry A Level (with a knock-on impact on science/engineering degrees), has highlighted a mismatch between business needs and the young people emerging from our education system.

Poor basic skills remains the biggest workforce skills issue – with 20% of the workforce having problems. Intermediate skills appear weak compared to other competitor nations, but this may be because international statistics tend to compare qualifications rather than competence. On higher skills, we compare well with European competitors, but there is no room for complacency. We are likely to see a big increase in demand over the next 15 years for managerial and professional occupations – up by 1.8 million as well as for science and technical occupations where we will need 2.4 million more workers just to keep up with demand.

	EXHIBIT 1 Proportion of adult population with at least... (%)			
	UK	France	Germany	USA
Low skills	60	72	78	66
Intermediate skills	40	37	63	57
Higher skills	27	25	25	40

At the same time, demand for unskilled workers will shrink to around half a million by 2020.

There is no magic bullet to solve the UK's skills shortfalls: these are long-term challenges requiring long-term thinking. The CBI has made detailed recommendations that will make a difference on education and skills. The recommendations – and reasons for them – are addressed in this report.

### **School leavers and graduates must have the skills they need for success in life and work**

Employers remain concerned that too many school leavers do not have the skills they need to succeed in life and in work. At present only 45% of school leavers have a C or above grade in both English and maths. We defined functional literacy and numeracy in our report *Working on the 3Rs* and the CBI has worked with the government to make functional skills a key part of English and maths GCSEs, and the new Specialised Diplomas.

Good employability skills, such as teamworking and problem solving, which are transferable between jobs and sectors and are relevant to all businesses, are vital for success in the workplace. The CBI's *Time well spent* report sponsored by the DFES, sets out ideas to improve work experience so it includes tasks and activities designed to embed employability skills and grow business awareness. We want students and employers to be more demanding of each other!

Science, engineering and maths skills are key to the UK remaining competitive in the global marketplace. Sharp declines in the numbers studying physics and chemistry A Level (with a knock-on impact on degrees) are a real concern. The main reasons why so few students choose to continue from GCSE to A Level includes an insufficiently stretching curriculum – with too many students taking 'double science' GCSE rather than the more demanding separate science GCSEs – lack of specialist teachers and poor careers advice. Careers advice is essential to ensure young people consider all options – vocational and academic – and to challenge stereotypical thinking. We believe all young people must receive good unbiased careers advice at 11, 14, 16 and 18.

The overall quality – rather than quantity of graduates is employers' main concern: employers want graduates with the right generic employability skills. Improving quality need not be costly and could be done with little additional resources through increased business-university collaboration. However, in some sectors quantity is the bigger issue – universities are not delivering sufficient numbers of science and engineering graduates. In order to match the growing countries of the world, we need to move from about 12% of students taking these subjects to at least 25%.

### **Developing a skilled and competent workforce**

Poor basic skills among the adult workforce remains our most challenging issue. The government's Train to Gain scheme is supported by employers because it delivers the help low-skilled workers – and their employers – need and is fitted around the needs of individual businesses. Lord Leitch's idea of a pledge from employers to commit to participating in this scheme is a good one – but high quality brokers will need to make a convincing business case to SMEs if we are to achieve high levels of participation.

The need to improve skills at intermediate level is essential if the UK is to create a knowledge-based economy. Intermediate skills appear weak compared to other competitor nations, but this may be because international statistics tend to compare qualifications rather than competence. We must give employers the power to award qualifications in respect of the high quality training they provide. Apprenticeship programmes have a role to play and where they have been delivered by employers – who often achieve completion rates of 90% – they provide excellent training. Foundation Degrees also represent a good opportunity for employers to give their staff a vocational qualification and offer a progression route into higher level skills. Here, existing employer training should count towards credits or full accreditation for Foundation Degrees.

On higher skills, we compare well with European competitors, but there is no room for complacency. We have entered a new global economic era which required new knowledge, innovation and technologies – and new ways of doing business. Businesses want their workforce to be able to identify, develop and adopt new ideas – improved business-university collaboration can play a key role here.

If we are to achieve the ambitious higher skills targets set by Lord Leitch – 40% of the population equipped with degree level skills – flexible delivery will be critical. As Leitch points out, 70% of the 2020 workforce is already out of the formal education system. New methods of training, accreditation of bite-sized training and e-learning could be powerful tools in raising the skills of those already in work.

Effective management and leadership skills are also vital at all levels – managers help ensure that the strategic aims and direction of the organisation are achieved and put into practice. Middle management and supervisory staff also have an important role to play – but their skills are often seen as weak. And it is employers' responsibility to ensure management staff are given the competencies they need to perform effectively.

### **Supporting employers and employees – the government's role**

Business is ready to play its part in improving the UK's skills base. Companies will wholeheartedly endorse Lord Leitch's central tenet that the skills needs of employers – and their employees – should be put at the heart of the UK's publicly funded adult training system. The government spends around £3bn on publicly funded training through FE colleges (£2bn) and the Train to Gain initiative (£230,000). But training must be demand-led if it is to provide economically valuable skills.

Employers have expressed concern that too much of the publicly funded skills infrastructure is not meeting their needs. The skills system is seen by many as an 'alphabet soup' – difficult to navigate, even for highly sophisticated employers. Some large firms want to deal at a national level, others find a regional or sectoral approach most helpful and SMEs often work best through sectoral or local clusters. CBI members support Lord Leitch's view that another revolution in the skills infrastructure would lead to an upheaval that would divert attention from the real task of raising skills in order to increase productivity. The priority for business is a coherent system that ensures public money is allocated effectively. The new Commission for Employment and Skills must be employer-led and focused on labour market needs.

Firms invest considerable sums in training their staff, but individuals do not always acquire qualifications as a result. Most employers train to competence rather than qualifications, but if the process for gaining qualifications is radically simplified and employers allowed to self-accredit in-house training, this would lead to a wholesale increase in qualifications awarded.

It must be recognised that there are significant differences between firms of different sizes, with larger firms more likely to provide employees with formal training. Action to support employers in improving the skills performance therefore needs to take a differentiated approach. More smaller firms need to be persuaded of the business case for training. Government should build on schemes such as Investors in People, the Small Firms Initiative and the Leadership and Management Programme for SMEs – they have all added real value by firmly linking investment in training with productivity improvement and good employment practices with improved business performance. But it must be acknowledged that some firms take a rational decision not to train – a more productive workforce does not mean training for training's sake. Initiatives such as skills audits can help uncover latent training needs but will not do so in every case.

Individuals too deserve our support – and incentives can play a role in overcoming resistance to training. Employers can help by creating a culture of learning and signposting opportunities to improve skills. Adult further education funding should be channelled through Adult Learner Accounts and these should incentivise people to undertake training that is relevant to the workplace. And they should also enable employees to get credit for their training in the form of qualifications.



# CBI recommendations

## 1 School leavers and graduates must have the skills they need for success

### BASIC SKILLS

- Ninety percent of young people should achieve the basic skills modules at Level 1 by age 16 through English and maths GCSE
- Seventy percent of young people should have skills levels equivalent to a C or above (Level 2) in GCSE English and maths at age 16
- Eighty percent of young people should achieve Level 2 competence in literacy and numeracy skills at 19, whether through an Apprenticeship or other training
- Employability skills must be embedded in the curriculum – assisted by high quality work experience.

### SPECIALISED DIPLOMAS

- Specialised Diplomas must deliver the basic numeracy and literacy skills employers need – the CBI has defined these
- Specialised Diplomas must deliver skills relevant to the sector – SSCs will play the key role
- The quantity of students taking Specialised Diplomas must be appropriate to employer demand – SSCs should advise on numbers. Improved careers advice will be essential
- Teachers with appropriate specialised knowledge must deliver Specialised Diplomas.

### SCIENCE AT SCHOOL

- Government should take interim short-term measures to ensure more students are able to study physics, chemistry and biology as full GCSEs – through disapplying the requirement for students to study all sciences at GCSE level or requiring increased collaboration between schools and colleges
- The impact of the new double science curriculum (new applied and additional science option) needs to be monitored to ensure there is not a further decline in A Level entries
- A significant improvement in the quality of careers advice is needed, highlighting the interesting and well-paid opportunities available to scientists. Employers are prepared to play their part
- The number of specialist teachers must be increased, especially in physics and chemistry, through initiatives designed to help older people with science qualifications (including HNDs) move into teaching.

### LANGUAGES

- Languages taught must reflect business needs as well as social needs – expansion of languages such as Spanish and Mandarin is essential
- Good quality careers advice should communicate the importance of languages and that those with language skills are in demand in the workplace
- Business should play its part in communicating the significance of languages in the workplace.

**CAREERS ADVICE**

- Guidance at ages 11, 14, 16 and 18 should be guaranteed – with one-to-one careers advice from qualified practitioners to ensure young people receive advice at critical points. This would cost £120m a year
- Experienced and knowledgeable advisers with experience of the labour market and the world of work are essential
- Improved work experience will help deliver increased understanding of the world of work. The CBI report *Time well spent* aims to improve work experience in raising awareness of the need for employability and knowledge of specialised sectors such as science and engineering
- Impartiality is essential – advice on vocational routes is often poor quality and not communicated well to young people and there is a worrying bias, with some schools promoting academic options above other post-16 routes of progression.

**GRADUATES**

- Universities should ensure students develop the generic employability skills that are valued by employers alongside their academic achievements
- Undergraduates should be offered incentives to take intensive modules in Mandarin and Spanish
- Greater business-university collaboration can play a role in improving both quality and quantity in higher education, and employers are prepared to play their part through work placements and provision of guest lecturers
- A target of 25% of all students studying for the STEM degrees employers want should be set and students should be offered bursaries to study these subjects at a cost of £610m a year
- A 'quality mark' system for institutions that meet employer needs for specialist skills would give employers and student some assurances of the quality of the course.

**2 Developing a skilled and competent workforce****BASIC SKILLS**

- Employers should engage with the Train to Gain initiative – the CBI believes employers will be willing to sign a skills pledge, if there is sufficient support from government for SMEs
- Train to Gain should be available to employees with a Level 1 or 2 qualification, if their qualification has not given them adequate numeracy and literacy.

**INTERMEDIATE SKILLS**

- Unnecessary barriers mean that too little high-quality employer training delivers qualifications for employees. The government should pilot fast-track accreditation in exemplar firms and sectors to ensure employees and employers receive the accreditation they deserve
- Lessons learnt in speeding up accreditation and removing bureaucratic excess should be applied in all sectors.

**APPRENTICESHIPS**

- Apprentices must receive proper careers advice – so they know what to expect and to address gender stereotyping
- Apprenticeships programmes should involve parents and make the level of commitment involved clear to the young apprentice
- Teaching of basic skills must be embedded in courses and working with sector skills councils made relevant to the particular industrial or service sector
- Workers of all ages without a Level 3 (A Level equivalent) should be funded to take an Apprenticeship programme – if 125,000 students above the age of 25 were enrolled this would cost £1.6bn.

#### FOUNDATION DEGREES

- Employers should be able to make their high quality training count towards credits or full accreditation for Foundation Degrees

#### HIGHER SKILLS

- Targets relating to higher skills qualifications in the workforce need to take business needs into account and lead to the acquisition of economically valuable skills eg business improvement techniques – and qualifications must reflect business and academic standards
- Greater flexibility (eg part-time courses, bite-size learning) in the delivery of Level 4 (degree equivalent) will help increase the number of workers with higher level skills.

#### LEADERSHIP AND MANAGEMENT SKILLS

- Management and leadership skills are traditionally identified as an area of weakness in the UK – more should be done to identify national solutions
- Employers need to ensure management staff are given the competencies they need to perform their jobs effectively – this requires resources but more importantly effective analysis of skills gaps and weaknesses in individuals. At times a company-wide approach will be necessary.

### 3 Supporting employers and employees – the government's role

#### SME SUPPORT

- Government should build on the success of the Small Firms Initiative and the Leadership and Management programme giving access to tailored packages of training for smaller firms – these programmes should be reinstated at a cost of £100m
- Smaller firms should be encouraged to gain IIP accreditation and should receive help with the administrative costs of this at a cost of £20m.

#### QUALIFICATIONS

- Employers should be allowed to self-accredit their internal training – this must be streamlined to encourage employer take-up
- A number of trailblazers or pilots should be established to show what can be done and drive forward accreditation of company training
- Government should fund the accreditation of employer provided training so that employees receive the qualifications that enhance their mobility – at a cost of £470m to the exchequer annually
- SSCs should take charge of the National Occupational Standards.

#### STIMULATING DEMAND FROM INDIVIDUALS

- Adult Learner Accounts (ALAs) should deliver skills employers need – with safeguards to avoid abuse
- Accounts should be used to accredit existing training and employees should arrange to group together to invest in training with employer agreement

#### THE SKILLS INFRASTRUCTURE

- The skills infrastructure should be streamlined, and public funds focused on the economically valuable skills employers need
- The creation of a new Commission for Employment and Skills, recommended by the Leitch Review, is welcomed by employers but must focus on labour market need.

#### SECTORAL AND GENERIC SKILLS NEEDS

- Revitalisation of sector skills councils must better define their responsibilities to ensure real employer buy-in
- Co-ordination and collaboration between the bodies responsible for skills (RDAs, JobcentrePlus and LSCs) should be improved

- Employers need a comprehensive 'Which' guide to training providers, which advises on quality of training as well as who provides what.

#### **PUBLICLY FUNDED WORKFORCE TRAINING**

- FE colleges' assessment must measure performance against employers' success criteria – the CBI has identified the KPIs
- Ring-fenced funding for FE colleges should be removed so employers can access the best quality training whether public or private sector.

#### **COMPULSORY APPROACHES TO TRAINING**

- Licences to operate and training levies must only be introduced – or continue – where at least 80% of employers in the sector vote in favour
- Rights to time off and collective bargaining on training must be resisted – an individual approach to skills works best.

# 1 School leavers and graduates must have the skills they need for success

## Ensuring all school leavers are numerate and literate

Employers are concerned that too many young people leaving school at 16 do not have the skills they will need to succeed in life and in work. Poor literacy and numeracy skills damage people's lives and their employment prospects. Those with poor basic skills are more likely to suffer higher unemployment rates and low earnings with poorer chances of career progression and social exclusion. They are also less likely to be fully effective in the workplace, damaging the competitiveness of UK firms.

At present only 45% of young people leave school at 16 with an A\*-C grade in both English and maths.<sup>1</sup> Although there have been improvements in primary schools, with increasing attainment levels, nine out of ten (90%) of those who fail to meet the standards expected at 11 fail to get A\*-C GCSEs by 16. Problems with basic skills manifest themselves in the workplace: the CBI/Pertemps *Employment trends survey 2006*,<sup>2</sup> showed 45% of employers were unhappy with school leavers' literacy and 44% with their numeracy skills (Exhibit 2).

In the light of members' concerns, a CBI report, *Working on the three Rs*,<sup>3</sup> sponsored by the DfES, defined the numeracy and literacy skills necessary to be competent in the world of work. On literacy, the CBI report showed that reading basic text is a vital skill for the workplace and that writing a short report, with legible handwriting, is also key. It is important to consider reading and writing separately as they are different skills – and they should be assessed separately too.

To be functionally literate, an individual must be able to:

- Read and understand basic texts – drawing out relevant information
- Construct properly spelt, grammatically correct writing that is suitable for the audience

- Write with legible handwriting
- Understand oral communications and react appropriately
- Be sufficiently articulate to communicate orally.

A good grasp of basic numeracy is also a vital tool for work and life, and is used in a wide variety of contexts – from checking change in a supermarket to understanding performance targets. The ability to interpret and respond to quantitative data is an essential skill for modern working life – there are charts, graphs and tables in most workplaces. It is important that employees understand these in order to contribute to problem solving and quality improvement to help create high performance organisations.

To be functionally numerate, an individual must have confidence with:

- Multiplication tables and mental arithmetic
- Percentages, ratios, fractions, decimals
- Different measures and conversion between them
- Spotting errors and rogue figures
- Odds and probabilities.



The government has promised to make functional skills a part of the new English and maths GCSEs, the new Specialised Diplomas and adult basic skills qualifications. It has said that young people will only be awarded these qualifications if they have achieved the basic numeracy and literacy standards – which may be equivalent to a Level 1 qualification. While this is welcome, employers do expect young people to have the skills commensurate with a C or above at GCSE level (Level 2). Therefore while functional skills modules within GCSEs should offer a welcome strengthening to the system, they cannot replace the goal of having more young people achieving a C or above. The CBI believes:

- Ninety percent of young people must have achieved the basic skills modules at Level 1 by age 16 via English and maths GCSE
- Seventy percent of young people should have skills levels equivalent to a C or above in GCSE English and maths at 16
- Eighty percent of young people should achieve a similar level of competence in basic skills at 19, whether through an Apprenticeship or other training.

### Employability skills are necessary for success at work

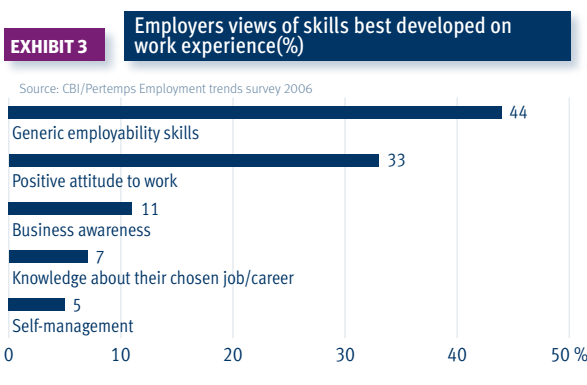
There are other basic skills that are vital for success in the workplace – employers expect young people to have the right employability skills. These skills are transferable between jobs and sectors – and are relevant to all businesses. The CBI has undertaken work during 2006 designed to identify these key employability skills. Consultation with members indicates that the seven essential skills here are:

- Self-management
- Teamworking
- Problem solving
- Communication – application of literacy
- Business awareness
- Customer care
- Application of numeracy
- Application of ICT.

Young people also need to have the right attitude towards work – motivated, enthusiastic and willing to learn. Typically employers say they view recruitment as an ‘80/20-type rule’ – 20% being the hard skills and 80% the soft skills. They are looking for an individual’s desire, determination, motivation and attitude. In a recent CBI/Pertemps survey,<sup>4</sup> almost half (47%) of employers expressed disappointment at the attitude of school leavers towards work (Exhibit 2).

Employers would like young people to have a basic understanding of business. The majority of employers (70%) are disappointed with young people’s lack of business awareness. This does not mean that they expect young people to be trained at school to do a job – rather that young people have sufficient understanding of such concepts as profit and loss and of the importance of customers to a business. Without this basic knowledge young people find it difficult to grasp the importance of, say, customer care in securing the future of the firm and their jobs.

Young people can gain an appreciation of the need for employability skills and grow their business awareness through good quality work experience which has tasks and activities designed to embed them. For example, communication skills can be developed by drafting a letter to a customer or reporting on customer feedback in a meeting, teamworking skills through helping a colleague, and ICT through searching a database for relevant information. One third of employers (33%) also think that work experience is a good way for young people to develop a positive attitude to work (Exhibit 3). Our report on work experience *Time well spent: a guide to embedding employability in work experience* published in March 2007 sets out ideas to improve work experience to the benefit of firms and school pupils.



## CBI RECOMMENDATIONS

- Ninety percent of young people should achieve the basic skills modules at Level 1 by age 16 through English and maths GCSE
- Seventy percent of young people should have skills levels equivalent to a C or above (Level 2) in GCSE English and maths at age 16
- Eighty percent of young people should achieve Level 2 competence in literacy and numeracy skills at 19, whether through an Apprenticeship or other training
- Employability skills must be embedded in the curriculum – assisted by high quality work experience.

### Specialised Diplomas could help embed the basics

Improving the quality of vocational education is important. Specialised Diplomas are intended to offer a more specialised and career-orientated education and to offer interesting and engaging routes into further education or training and the workplace. The government is keen to secure buy-in from employers, schools and universities, but while CBI members have supported the concept of Specialised Diplomas, a number of concerns remain. It is essential they do not become second class options – the default choice for the disaffected and less able: this would undermine their credibility as a high quality alternative to GCSEs.

In order to meet employers' needs the new qualifications must deliver:

- The basic numeracy and literacy skills employers need – the CBI has defined them
- Skills relevant to the sector – SSCs will play the key role but the CBI is doubtful that long work placements will be deliverable in some sectors
- The quantity of students appropriate to employer demand – improved careers advice will be essential
- Teachers with appropriate specialised knowledge – shortages could well be a problem.

It is essential that any student who has completed a Diploma should have mastered the basic literacy and numeracy skills that they will need to be competent in the

workplace – these were spelt out by the CBI in its *Working on the Three Rs* report.<sup>5</sup> The CBI hopes the present pilots will ensure that the new numeracy and literacy modules are fit for purpose and will study the results closely. The CBI has also welcomed the emphasis on employability skills such as teamworking, problem solving and communication.

The quality of the Specialised Diplomas will depend on the input of the Sector Skills Councils (SSCs) who have been taking a lead in the development of the Diplomas. It is essential that each SSC accurately represents the needs of employers in the sector as employers do not have the resources – and should not be responsible – for the delivery of the Diploma curriculum. However, some firms have suggested that problems may arise in certain sectors in delivery of the new Diplomas.

Suggestions that up to 25% of the curriculum for 14-16 year-olds should be delivered in the work-related context have raised concerns about the capacity to provide quality work experience (an important part of work-related learning) for the number of students interested. Particular problems will arise in sectors such as energy and utilities sectors where health and safety issues are paramount. There may also be issues, in particular geographical areas where the local economy does not have sufficient sectoral coverage to reflect students' chosen Diplomas.

Specialised Diplomas must meet employers' needs not only by providing relevant curricula but also in terms of quantity. Employers are concerned that students will prefer a Creative and Media Diploma rather than one in Health and Social Care or Engineering – good careers advice is therefore essential. For example, male and female students must be given advice about the wide variety of interesting – and well-paid – careers available to them if they study science or engineering.

Concerns have also been raised as to whether there are sufficient numbers of specialised teachers – they are currently in great demand in other areas of the education system. It is essential that current initiatives to recruit specialist teachers ensure that students receive teaching from high quality and inspirational teachers.

## CBI RECOMMENDATIONS

### Specialised Diplomas must deliver:

- The basic numeracy and literacy skills employers need – the CBI has defined them
- Skills relevant to the sector – SSCs will play the key role
- The quantity of students appropriate to employer demand – SSCs should advise on numbers. Improved careers advice will be essential
- Teachers with appropriate specialised knowledge.

## Decline in students taking science and maths A Level remains a real worry

Young people with science and maths A Levels are much in demand in the workplace – and it is essential for the competitiveness of UK firms that we produce more young people with the right science and maths skills. However, there has been a strong decline in numbers taking physics and chemistry at A Level, with declines of 56% and 31% respectively since 1984 (Exhibit 5). There is less concern about the number of young people taking biology as it has remained broadly unchanged: there has been a 1% rise in the number of entries.

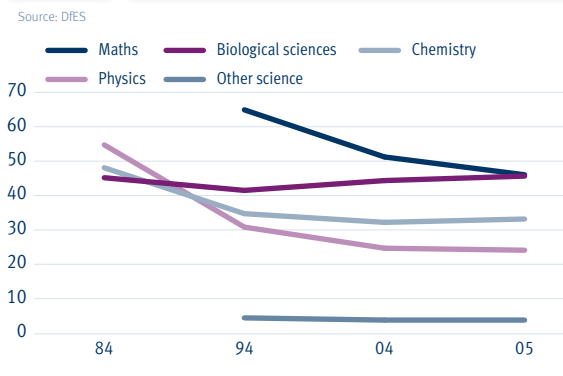
Twenty years ago physics was the most popular science – it is now the least popular. Biology was the least popular science A Level, but is now the most popular (Exhibit 4). Although the number of young people taking chemistry has fallen, there has been success in addressing the gender imbalance, with now roughly equal proportions of girls and boys taking chemistry at A Level. But physics remains a male-dominated subject accounting for over 75% of entrants, and biology remains somewhat dominated by female students with six out of ten (59%) entrants being women.

The number of maths entrants has fallen, but the decline is now slowing – 2006 even saw a slight increase in entrants. This may well be evidence of the positive impact of such measures as continuing professional development for teachers and curriculum-enhancement activities.

Why are so few students choosing to continue from GCSE to A Level? Science was made compulsory for 14-16 year-olds in 1989 and it might have been expected that this would have led to an increase in science A Levels. A number of reasons may explain the poor progression rates from GCSE to A level study. One reason can be found in the GCSE curriculum. The vast majority of students study all three sciences (physics, chemistry and biology) in the time usually taken for two GCSEs, which has led to concerns that students are ill-prepared for the step up to separate sciences at A Level. Curriculum changes were introduced in September 2006 with the aim of updating the science curriculum, making it more interesting and inspirational. But these changes will not address the issue of time allocated for science teaching – and problems are therefore likely to continue.

### EXHIBIT 4

#### Numbers of science and maths A Level entries, 1984-2005 (thousands)



### EXHIBIT 5

#### Change in the proportion of young people taking science and maths at A Level, 1984-2005 (%)

Source: DFES

	% change in entries
Biological sciences	1%
Chemistry	-31%
Physics	-56%
Other science*	-14%
Maths*	-29%

\* figures are for 1994-2005



Under the changes introduced in September 2006, young people are expected to continue studying two GCSEs' worth of science and all students will now study a core science GCSE. The vast majority will supplement this with another GCSE – the more academic and traditional route called additional science or a more hands-on and vocational route known as applied science. This change could exacerbate problems in that fewer young people may feel prepared for the study of separate sciences at A Level. This situation must be carefully monitored – a further decline in numbers at A Level could be disastrous.

The government has given a commitment<sup>6</sup> to increase the numbers of the brightest young people offered the opportunity to study all the sciences as individual GCSEs by 2008. But government targets are not sufficiently challenging to schools. More students must be able to study the three sciences at a full GCSE level and interim measures should be taken in order to increase the numbers of students taking science at A Level. For example, the government could consider – as an interim measure – allowing students in schools with specialists in chemistry and biology the opportunity to study for full GCSEs in these subjects, either waiving the requirement to study physics or providing a short physics unit. Schools and colleges must collaborate better: schools should be required to identify students who would benefit from studying three full GCSEs and arrangements made for students or teachers to move between educational sites – schools and further education colleges – to take advantage of specialised teachers. Under the Building Schools for the Future programme, the DfES is already

exploring more sharing of resources between schools, but it needs to tackle this issue with more urgency.

A lack of specialist teachers – ie physics specialists available to teach physics – has also contributed to the decline in the number of students studying physics and chemistry at A Level. Non-specialist teachers often lack confidence and enthusiasm teaching outside their subject, which in turn impacts on students' experience and confidence in choosing to study a subject at A Level. OFSTED has found that over 94% of the lessons taught by a specialist are 'good' or 'excellent' compared to only 25% taught by non-experts.<sup>7</sup> Physics teaching is in particular crisis – one quarter of 11-16 secondary schools lack a specialist physics teacher. Shortages will be exacerbated by future requirements. Chemistry, physics and maths are the subjects with the highest proportion of teachers aged over 50: again, physics suffers the most with a third (30%) of specialist teachers due to retire in the next ten years. The need to recruit more science teachers is more pressing than ever.<sup>8</sup>

'Chemistry, physics and maths are the subjects with the highest proportion of teachers aged over 50: again, physics suffers the most with a third of specialist teachers due to retire in the next ten years'

CASE STUDY

Siemens

Siemens plc, the UK subsidiary of the German electronics and electrical engineering giant, employs over 20,000 in the UK, with a turnover of £2.6bn. For Siemens, attracting young talent to engineering is vital to its ongoing competitiveness.

Each year the Lincoln plant takes on around 70 young people for a five-day work experience, usually in the design

or manufacturing departments – giving them a taster of the interesting careers on offer in engineering. Students undertake real work tasks during the placement that add value – such as tightening bolts within turbine assembly or setting specifications for automated machines – not artificial exercises designed to fill their time. They are treated like full-time employees and the importance of team-working and self-management skills such

as being punctual is continually reinforced. Students are therefore included in team building exercises and events such as inter-departmental football games or team briefings as they occur.

Even where there are specialist teachers, they do not always stay in the profession. One study found that 30-50% of newly qualified science teachers leave within five years of joining because of heavy workloads, poor pupil behaviour, low salaries, and an excessive number of government initiatives.<sup>9</sup> Incentives and measures to encourage teachers into, and to remain in, key subjects are essential and the government should explore whether older people with HND qualifications (rather than degrees) can be attracted into teaching. Continuing professional development for non-specialists is also vital. Initiatives designed to help more scientists move into teaching after leaving industry and commerce should also be explored. For example while incentive schemes already exist to help recruitment of specialist teachers in physics and chemistry, a little extra help – £4.4m – would allow professional scientists to take a full salary during their year of teacher training.

Specialist teachers should be supported by state of the art resources. The government has already set a capital budget to refurbish schools: a key priority within this should be to upgrade science labs. At present one quarter of labs are designated as unsafe or unsatisfactory and need urgent attention.<sup>10</sup>

Poor careers advice has also played a role in the decline of young people studying science subjects at A Level and beyond. Few students realise the exciting, interesting and well-paid careers available to science and maths graduates. There is considerable good practice in curriculum enhancement activities that engage and inspire young people – through organisations such as SETNET and the Science Centres. And employers are seeking to play their part in tackling the image of science and engineering – through providing work-related learning activities, as well as role models and champions to visit schools. But this work needs to be better co-ordinated to have full effect.

**‘Few students realise the exciting, interesting and well-paid careers available to science and maths graduates’**

## CBI RECOMMENDATIONS

- Government should take interim short-term measures to ensure more students are able to study physics, chemistry and biology as full GCSEs – through disapplying the requirement for students to study all sciences at GCSE level or requiring increased collaboration between schools and colleges
- The impact of the new double science curriculum (new applied and additional science option) must be addressed to ensure there is not a further decline in A Level entries
- A significant improvement in the quality of careers advice is needed, highlighting the interesting and well-paid opportunities available to scientists. Employers are prepared to play their part
- The number of specialist teachers must be increased – especially in physics and chemistry – through initiatives designed to help older people with science qualifications (including HNDs) move into teaching.

## Languages open doors – more young people need that key

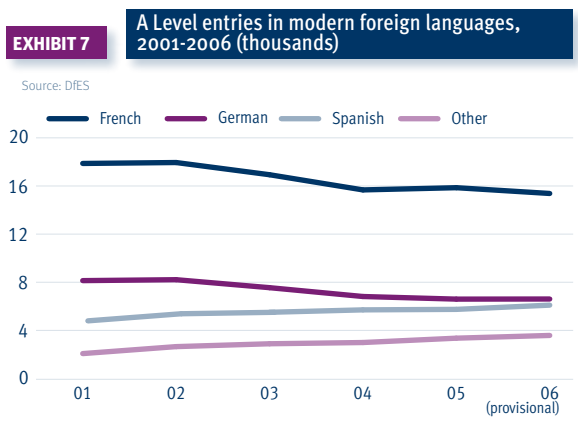
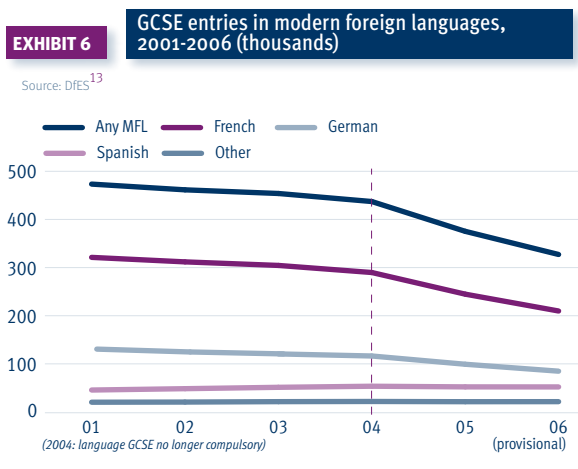
Business also needs more students with language skills. Languages are growing in importance for business as UK firms increasingly operate in a global marketplace. But employers are dissatisfied with the language skills of their new recruits, with 61% expressing disappointment with school leavers and 48% with their graduates.<sup>11</sup> More young people need to embrace foreign languages and cultures to be able to transfer their knowledge and skills and help firms build their businesses in new countries. Despite this, the number of young people choosing to study a language at A Level has fallen considerably in the last decade – with 28,000 taking a full A Level in a language in 2006 compared with 38,000 ten years ago, a 26% fall.

Against this background, employers’ concerns have been heightened by the dramatic fall in the numbers taking languages in the wake of the government’s decision in 2004 to make the study of a modern foreign language non-compulsory at GCSE level. In 2006, the number of students studying German fell by over 14% and French by 13% since

the previous year (Exhibit 6).<sup>12</sup> Although A Levels have seen a less dramatic decline since 2005, there has still been a steep fall in the last five years – French entries have dropped by 14% since 2001 and German entries by 19%. There has, however, been an increase in Spanish entries – of 27% since 2001 – which is welcome and must be built on (Exhibit 7).

All languages are useful because they open doors – but those opening the doors to emerging markets are especially valuable. Conversational levels of language and an appreciation of culture can be more valuable than fluency in only one language. Spanish and Mandarin are languages of the future – and an understanding of their respective cultures can help people to develop rapport with people they meet and operate as part of the global community. Currently, the number taking these languages is low – Spanish represented around 0.7% of total A Level entries in 2005, with 4,900 entries and the number taking Mandarin is also extremely low with only around 1,600 entries – or 0.2% of total entries – in 2005.<sup>13</sup>

Good progress is being made at primary level, and the CBI welcomed Lord Dearing’s recommendations to make foreign languages compulsory for seven to 14 year-olds. This will embed the skill when it matters most and emulate other European countries, where learning languages early on is the norm. GCSE languages curricula must also be made more engaging and relevant for pupils. Enthusiastic, specialist teachers, supported by quality careers advice which highlights the opportunities available to those with a command of languages are key. Recent measures to encourage more



**CASE STUDY**

**Japan Airlines (JAL)**

An airline is a visible manifestation of the globalised world – and language skills are essential. Japan Airlines (JAL) is involved in a variety of programmes to introduce British students to Japanese language and culture through competitions and visits. Its programme for young people from deprived areas, run for the last four years, is designed to open their eyes to a totally different culture and to encourage them to learn the language.

Recently high school pupils from Glasgow, Manchester and Leeds have participated. In a separate programme, language and geography teachers are also supported in their visits to Japan to give them a taste of the country. At university level, JAL supports the Japan Foundation in a language competition, the winner of which wins a trip to Japan to experience the country at first hand.

Haiku, a form of poetry distinct to Japan, is also used to engage young people. JAL supports an international competition. The British winner joins other 15 year-olds from across the world in a great opportunity to interact with many different cultures as well as to visit Japan.

schools to offer languages of the emerging markets – such as China or South America – rather than of Europe are a welcome step. Lord Dearing has chaired a Language Review for the government and his recommendations for more interesting and relevant teaching should be supported in order to encourage greater take up of foreign languages at secondary level. Business has a role to play – and the CBI will encourage employers to build on existing good practice in reaching out to schools and young people.

Companies already provide materials showing how languages are used in the workplace and receive schools and teachers for visits – but there is no more powerful message for young people than a potential employer saying “*Languages are vital to our business*”. Work experience and work placements can also play a useful role – and the CBI will highlight good practice via our website and publications.

### CBI RECOMMENDATIONS

- Languages taught must reflect business needs as well as social needs – expansion of languages such as Spanish and Mandarin is essential
- Good quality careers advice should communicate languages’ importance and that those with language skills are in demand in the workplace
- Business should play its part in communicating the significance of languages in the workplace.

### Improving careers advice to ensure young people consider all options

UK employers believe young people are ill-informed about their career options. The CBI/Pertemps *Employment trends survey 2006* shows 52% of employers are dissatisfied with school leavers’ knowledge about their future job or career (Exhibit 2, page 12).<sup>14</sup> This is a poor reflection on the current standard of careers advice.

It is essential that young people are able to make informed choices about the range of education, employment and training options available to them. But employers are not expecting young people to emerge from schools and universities with the skills necessary to do their jobs.

The CBI has long expressed concern about the lack of high quality, impartial and universal careers advice. These concerns are well-justified: OFSTED inspections in 2004 showed that 48 out of 49 local areas have failures in the area of information, advice and guidance (IAG).<sup>15</sup> Poor careers guidance certainly helps explain low completion rates for Apprenticeships – two thirds of apprentices do not complete the full programme and 45% of those not completing their Apprenticeship programme cite a lack of clear information on the course prior to starting it.

Employers wish to ensure young people are presented with a full range of choices, including university or sixth form colleges, Apprenticeships and other vocational options. In order to promote work-based training options, high quality, independent advice and guidance is essential.

Improved careers advice would also help address the causes of the gender pay gap and the occupational segregation that exists in some sectors. The CBI’s evidence to the Women and Work Commission pointed out that 97% of those studying for Apprenticeships in childcare were women whereas the number of female engineering and construction apprentices were 3% and 1% respectively. At graduate level, female engineering and technology graduates numbered just 14% of the total.<sup>16</sup>

The careers service has a key role in challenging misconceptions of young people and providing good quality information, advice and guidance on the options available to them. The Women and Work Commission emphasised the need for national standards to ensure high quality and impartial advice – so that young people have a good understanding of the rewards and challenges of all options, particularly those not seen as female or male jobs.

### High quality and accountable information, advice and guidance is needed

The CBI has proposed four benchmarks, inspired by OECD guidelines, which the careers service should have at their core and be held accountable to:

- **Guaranteed guidance at 11, 14, 16 and 18:** all young people should receive one-to-one careers advice from suitably experienced practitioners at the significant transition points – 11, 14, 16 and 18 – where young people make crucial decisions regarding subject choices and whether to

continue in education. A total of ten hours' careers advice for every student over their life at school or college (at each key stage 11, 14, 16 and 18) would increase costs by £120m per year and would be money well spent

- **Experienced and knowledgeable advisers:** IAG must be offered by independent, experienced and knowledgeable careers advisers with experience of the labour market and the world of work in order to provide in-depth, specialised advice on the choices facing young people. Research by the National Audit Office suggests that around two thirds of staff in schools providing careers advice do not have the relevant qualifications.<sup>17</sup> This situation must improve.
- **Understanding the world of work:** young people must be given information on the world of work and the current skills and employment needs of the labour market. This is essential if they are to assess the implications of their decisions later in life. Education-business links are crucial in making young people aware of the world of work and should be encouraged. The CBI report on work experience<sup>18</sup> highlights the importance of generic employability skills, including business awareness, and invites students and employers to be more demanding in embedding these skills in work placements.
- **Ensuring impartiality:** IAG must present young people with the full information about the career choices open to them, whether in education, employment or training. IAG on vocational routes is often poor quality and not communicated well to young people. There is a worrying bias in favour of going to university. This is particularly the case in schools with sixth forms which promote academic options above other post-16 routes of progression.<sup>19</sup>

## CBI RECOMMENDATIONS

- Guidance at ages 11, 14, 16 and 18 should be guaranteed – with one-to-one careers advice from qualified practitioners to ensure young people receive advice at critical points. This would cost £120m a year
- Experienced and knowledgeable advisers with experience of the labour market and the world of work are essential
- Improved work experience will help deliver increased understanding of the world of work – the CBI report

*Time well spent* aims to improve work experience by raising awareness of the need for employability skills and knowledge of specialised sectors such as science and engineering

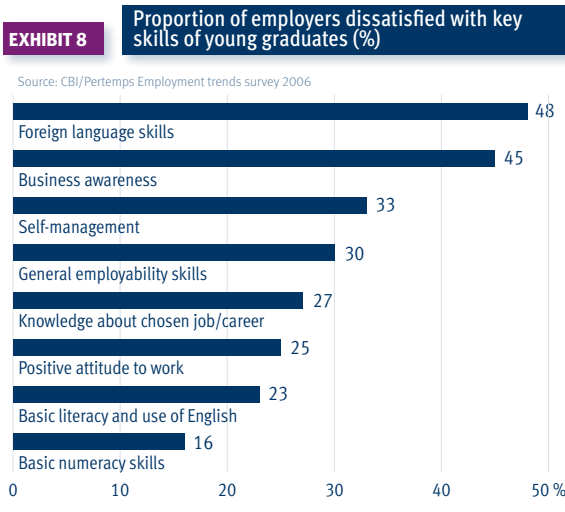
- Impartiality is essential – advice on vocational routes is often poor quality and not communicated well to young people and there is a worrying bias, with some schools promoting academic options above other post-16 routes of progression.

## Equipping graduates with the employability skills business needs

The quality of graduates remains employers' number one concern on higher education – well ahead of raising the numbers of graduates coming out of university, hence business scepticism about the government target to have 50% of young people in higher education. Thirty-two percent of employers thought that raising the quality of university graduates should be a government priority while raising the quantity of graduates was seen as a priority by only 2% of employers.<sup>20</sup> Employers want graduates with the right generic employability skills – around 70% of advertised graduate jobs do not specify a particular degree subject. However, the CBI/Pertemps *Employment trends survey 2006* found that almost a third of employers (30%) have problems with graduates' generic employability skills such as teamworking, communication and problem solving (Exhibit 8). Employers are also disappointed with graduates' attitude to work (25%), self-management (33%) and business awareness (44%).

Foreign language skills are highly valued by employers, but half (49%) were unhappy with these skills in graduates according to the CBI/Pertemps *Employment trends survey 2006*. And employers are right to be concerned about foreign language skills in their young recruits as the proportion of young people taking qualifications in languages is declining fast. The paucity of foreign language skills is clearly an important issue for business – the realities of globalisation mean that foreign languages, such as Mandarin and Spanish will give UK business access to growing economies.

Undergraduates should be offered opportunities to study foreign languages – either as part of their degree or as part of their development of wider skills. Clear careers advice



that promotes the importance of languages should be coupled with incentives to study particularly Mandarin and Spanish. The CBI proposes bite-sized language courses for undergraduates studying other disciplines. Following a pilot scheme in 2007/08, the cost of this would be some £270m the following year with 10% take-up, and £540m in 2010/11 assuming a 20% take-up. The aim beyond that should be 30%.

### Increased business-university collaboration could improve employability skills

Improving the employability skills of graduates need not be costly and could be done with little additional resource commitments. There is already good practice here and some universities are currently making changes to ensure that all students develop the generic employability skills valued by employers alongside their academic studies. The CBI has identified the key employability skills employers want and wants to work with universities to ensure these skills are embedded in undergraduate study.

The Lambert Review of business-university collaboration<sup>21</sup> pointed to the role business plays in improving entrepreneurship and business awareness, for example by offering work placements, giving staff time off to lecture students or to participate in courses. Employers already provide work experience or placements for graduates – over half (59%) did so in 2005 – and employability skills could play a more prominent role.<sup>22</sup>

### More world-class graduates needed in key science subjects

While the general quality of graduates remains the major concern for employers, for some quantity is the bigger issue. Projections of the likely demand for occupations requiring science, engineering and technology (SET) skills by 2014 show that we need to invest heavily in these skills for the future. Between 2004 and 2014 the net requirement for SET-related jobs, taking into account those leaving the labour market, will have increased to 2.4 million.<sup>23</sup> Employment in each SET occupation is expected to grow at a faster rate between 2004 and 2014 than that expected for all occupations, for example:

- Science and technology professionals up by 18%
- Science and technology associate professionals up by 30%.

The UK needs more graduates in science, technology, engineering and maths (STEM) subjects. For a variety of reasons, universities are just not delivering sufficient numbers of science and engineering graduates. While the number of students obtaining first degrees in 'science' subjects has apparently risen by 66% since 1984, the number of students obtaining first degrees has fallen by 7% in physical sciences (physics and chemistry) and by 11% for engineering and technology. A recent DTI report<sup>24</sup> acknowledged the problem CBI research had identified: the apparent overall increase in the number of graduates in 'science' subjects over the past ten years can be attributed to a rapid increase in the number of students taking subjects such as psychology (up 157%) and computer science (up 143%) – not the physics and chemistry degrees STEM employers want.

The CBI believes the UK must seek to match the growing countries of the world and increase the percentage of students studying the STEM degrees employers want. In China around 33% of students are studying engineering degrees and 9% science subjects. In India approximately 6% study engineering and 22% study science. The UK currently has around 12% of its students studying biological sciences, physical sciences and engineering.<sup>25</sup>

The UK should match the proportion studying these subjects and a target of one quarter of all UK students studying STEM degrees should be set. Students will need incentives

to study STEM subjects and the CBI proposes a £3,000 bursary. The cost would build to £610m in a full year if, as employers hope, a quarter of all students were studying these subjects by 2010.

At present the government spends £10bn on its higher education budget and this covers tuition, learner support and capital: this budget needs to be protected and raised over time, to achieve our goal of better quality HE outputs. The rise in tuition fees to £3,000 a year in 2006 means that students – through variable regulated fees – will contribute about £330m (net of bursaries) to the HE funding total for 2007. But this will only increase total funding in higher education by 3.3% a year. STEM degrees are expensive and more science lectures and laboratories will be required.

Employers should be involved in the curriculum design of science degree courses where particular technical and practical skills are key. A CBI survey in 2003<sup>26</sup> indicated that almost half (46%) of larger firms said that their links with universities helped to develop young people and potential future employees with the right skills. A further 16% of respondents used those links to ensure the content of courses was relevant for the workplace. The CBI would support moves to introduce a ‘quality mark’ system for institutions that meet employer needs for specialist skills. This would enable employers to recruit with confidence from these universities and give students some assurance that the course is fit for purpose.

## CBI RECOMMENDATIONS

- Universities should ensure that students develop the generic employability skills that are valued by employers alongside their academic achievements
- Undergraduates should be offered incentives to take intensive modules in Mandarin and Spanish
- Greater business-university collaboration can play a role in improving both quality and quantity in higher education and employers are prepared to play their part through work placements and provision of guest lecturers

- A target of 25% of all students studying for the STEM degrees employers want should be set and students should be offered bursaries to study these subjects at a cost of £610m per year
- A ‘quality mark’ system for institutions that meet employer needs for specialist skills would give employers and students some assurance of the quality of the course.

## Fostering an enterprise culture

The creation of a more enterprising culture is clearly of great benefit to the UK economy. One study has found that if the UK’s total entrepreneurship rate was that of the USA, there would be an additional 1.8 million people actively engaged in creating a new business or recently having started one.<sup>27</sup>

It is important to take a wide definition of enterprise. An enterprising person is innovative, creative, good at problem-solving and takes managed risks. To be enterprising, an individual does not need to set up a business – they can also work creatively for the benefit of an organisation. Employers are working to engage their staff, identifying and developing the talent at their disposal. This not only increases productivity and innovation in a company, but reduces staff turnover. The risk of not engaging is very real – 40% of career moves are made before the age of 25.<sup>28</sup>

Enterprise should be a core part of the education system. Currently, young people taking their GCSEs have an entitlement to five days of ‘enterprise’ learning, including activities to develop innovation and creativity, risk-management and a can-do attitude. This is supported by work on financial capability and business. Many schools cover this entitlement as part of work experience or by involvement in Enterprise Week, held annually in November, where young people can take part in a number of national competitions designed to highlight issues and develop enterprise skills.

Work experience offers a good opportunity to include enterprise learning, and to develop enterprise skills. The CBI report on work experience highlights the importance of developing ‘employability’ skills, such as teamworking and problem-solving, many of which are also ‘enterprise’ skills. Other work-related activities, including site visits and employer talks from enterprising role models can emphasise the value of these skills in the workplace.

## 2 Developing a skilled and competent workforce

### Brushing up employees' numeracy and literacy

Around seven million adults lack the literacy skills and 17 million lack the numeracy skills expected of an 11 year-old (around one fifth of the workforce) – almost half of these adults are in employment and many are older workers. The impact on business and the economy is huge – low basic skills cost the economy £10bn a year.

Poor workforce skills affect UK productivity and competitiveness – and the UK has a much higher proportion of adults (23%) with low basic skills than France (17%) and Germany (12% with low literacy, 7% with low numeracy). Older workers in the UK have particularly poor levels – 53% of 55-65 year-olds have low levels of numeracy skills and 22% have low levels of literacy skills.<sup>29</sup> This will hinder their future employment opportunities at a time when we need to raise participation rates of older workers.

The CBI has worked with the government to develop the Train to Gain programme so that it delivers the support low skilled workers – and their employers – need. The scheme provides flexible, tailored training to employees typically in their workplaces. The programme was piloted in various UK regions under the name 'Employer Training Pilots' and by autumn 2005, 15,000 employers and 80,000 learners had signed up. Under the national programme which started in April 2006, some 50,000 learners have started courses at Level 2 (equivalent to five GCSEs A\*-C) or basic skills qualifications. The vast majority (95%) of these individuals are from small organisations with fewer than 50 employees.<sup>30</sup>

Train to Gain has been supported by employers because it delivers high quality training typically in the workplace and fitted around the needs of the particular business. High quality brokerage is essential and brokers need to make a convincing business case for participation – one which links raising employees' skills with the firm's business strategy.

The CBI agrees with Lord Leitch that more can be done to raise awareness of the Train to Gain initiative, as well as the support available to firms whose employees lack basic numeracy and literacy skills. The Leitch Review has called for a major campaign to encourage all employers in the UK to make a skills 'pledge' that they will enable every employee to gain basic skills training and receive a first full Level 2 qualification.

CBI members have said they would sign up to such a pledge and are willing to get involved. Companies with large numbers of employees with no qualifications such as First Group and McDonald's are already involved in Train To Gain, and are very pleased with the results. Other firms would get involved if there were more flexibility. Currently, employees already holding a Level 2 qualification are not eligible even though it may be out of date or irrelevant – a woodworking CSE for example – and may not mean that the employee has adequate numeracy and literacy skills. This means that many who would benefit from the Train to Gain initiative are not eligible. And many of those with a high skilled workforce would be prepared to promote the pledge to their suppliers through the supply chain – as they recognise the benefits to themselves and the economy.

Smaller firms would also need to be persuaded of the business case for getting involved and signing the pledge. They are not typically members of their sector skills council and if they are to be brought on board, we need to build on the schemes the government has already successfully promoted. The Small Firms Initiative and the Leadership and Management programmes were effective in getting SMEs to see the value of training, and Train to Gain brokers can use them as the means of getting the commitment on basic skills. But the government must commit the necessary funds. We need to see these proven programmes getting the resources they need, and suggest they receive £50m annually for the next three years.



The idea of the pledge will need to be supported by a serious and long-term communications campaign – with champion firms identified and recognised by the government. The appointment of Sir Digby Jones as the UK Skills Envoy will have a significant impact on increasing awareness of the UK’s basics skills challenge and how employers can facilitate more basic skills training.

### CBI RECOMMENDATIONS

- Employers should engage with the Train to Gain initiative – the CBI believes employers will be willing to sign a skills pledge, if there is sufficient support from government for SMEs
- Train to Gain should be available to employees with a Level 1 or 2 qualification, if their qualification has not given them adequate numeracy and literacy.

### Recognising the importance of intermediate skills

The need to improve skills at intermediate level is vital if the UK is to create a knowledge-based economy. All EU states have recognised this challenge and it is reflected in the EU-wide Lisbon Growth and Jobs Strategy,<sup>31</sup> which aims to make Europe “...the most competitive and dynamic knowledge-based economy in the world.” While the UK is doing well on other aspects of this drive such as a flexible labour market, more effort is needed to equip UK workers with the knowledge and skills they will need in the future.

The UK ranks 20th across the 30 countries of the OECD for its intermediate skills levels, although this may be because other countries are more successful in turning competency into

qualifications. But it does not indicate that the UK has necessarily a less competent workforce. CBI members report that many employees are competent at Level 3 (A Level and equivalent), but lack formal qualifications. But the figures are stark – in Germany for example, 63% of the workforce is qualified to Level 3, compared to just 40% in the UK (Exhibit 9).

A large proportion of the workforce with intermediate skills may not have gained further qualifications after leaving formal education – but this does not mean they have not received any training or that their skills have not developed. For example, many companies – particularly in the manufacturing sector – are training their technicians in new business improvement techniques. In the case of well-known and respected firms, employees’ training with the company may not require accreditation as the ‘brand effect’ will be enough to make these new skills portable – indeed other employers may value their skills more highly than qualifications awarded through other routes.

CBI members say what matters most to them when developing the skills of their workforces is raising levels of competence – providing employees with qualifications is not regarded as essential. IRS research for *The Competency Benchmarking Report* found that competency frameworks are now used by the majority of organisations in the UK, with two thirds of larger employers with operations in the UK using competencies. The research found that employers were using competency frameworks for training and development, performance management and recruitment and selection. A competency-based approach is regarded as essential where technical competencies are used to inform the analysis of training needs.

Behavioural competencies (known as soft skills or transferable competencies) and technical competencies (which

### CASE STUDY

#### First Group – Bus Division

First Group is the largest surface passenger transport company in the UK with a turnover of £3bn. Employees in this sector are highly likely to have below average basic skills levels. First UK Bus has invested heavily in the development of all employees and is an advocate of qualifications at work. It has worked with the Learning and Skills Council for

several years and is extremely positive about its support. Raising the basic and occupational skills levels of employees has had a dramatic effect on the bottom line.

It costs around £3,500 to train a bus driver, so high turnover rates can be crippling. Since implementing their ‘Learning

and Development Ladders’ driver, part of which is funded through Train to Gain, turnover has been reduced by 4.1%, saving £2.8m. There have also been other organisation benefits including increased safety levels and reduced assaults on staff. Lost mileage has also been reduced to save £1.6m.

**EXHIBIT 9****Proportion of adult population with at least... (%)**

	<b>UK</b>	<b>France</b>	<b>Germany</b>	<b>USA</b>
Low skills	60	72	78	66
Intermediate skills	40	37	63	57
Higher skills	27	25	25	40

identify the key job-related technical skills, knowledge and understanding required) are identified by organisations that have adopted this approach – used by 80% and 75% of organisations respectively.

However, IRS research indicated that NVQs, SVQs and National Occupational Standards are used by less than a third of employers (32%) – this is a matter of real concern which must be addressed. Individuals do value a qualification and the CBI believes that urgent action must be taken to free-up the qualifications logjam and remove the bureaucracy clogging up the system.

Many employers provide excellent training tailored to business and employer need. The CBI believes that as a matter of urgency, the accreditation of employer-provided training must be addressed – and our full proposals are detailed in chapter 3. For too long, the system for turning workplace training into workforce qualifications has been mired in bureaucracy. Immediate pilot programmes should be introduced to study the feasibility of fast-track accreditation in sectors recognised as providing high quality training: retailing, engineering and the chemical sectors seem excellent candidates for such pilot exercises.

**CBI RECOMMENDATIONS**

- **Unnecessary barriers mean too little high quality employer training delivers qualifications for employees. The government should pilot fast-track accreditation in exemplar firms and sectors to ensure employees and employers receive the accreditation they deserve**
- **Lessons learnt in speeding up accreditation and removing bureaucratic excess should be applied in all sectors.**

**Apprenticeships develop vocational specialisms with strong technical skills**

Apprenticeship programmes have a role to play in raising the skills levels of the UK and Lord Leitch recommends that that the number of apprentices be raised from 255,000 to around 500,000 a year by 2020. This programme will be costly and if the government achieved its target over the next three years, the additional annual cost would build to £910m.

Many CBI members have very successful Apprenticeship programmes and anecdotal evidence indicates that more employers are looking to re-engage with Apprenticeship programmes after not being involved for some years. Others are coming together under sectoral initiatives to build new programmes, and are finding excellent FE colleges and private providers to help them.

If such new initiatives are to succeed there are issues that will need to be addressed. At present completion rates suffer because young people lack the appropriate basic skills and many are unable to adapt to the requirements and expectations of working life – for example having a customer-minded attitude or putting in the hours necessary to finish a job. Too few understand what an Apprenticeship will involve – or are ill-informed about a particular career. A 2004 survey<sup>32</sup> revealed that 83% of students were given little or no information on Apprenticeships, and the vast majority were encouraged to remain in full-time academic education.

Clear and unbiased information, advice and guidance will also help to tackle the issue of low completion rates. Although these vary by sector, UK rates are low – an average of 40%<sup>33</sup> compared with Denmark, the Netherlands or Germany, who achieve rates of between 60% and 75%. Employer-provided schemes have generally high completion rates – CBI members report rates as high as 90% – and successful employers attribute this to a dedicated and highly-

**CASE STUDY**

**NG Bailey & Co**

NG Bailey & Co is one of Europe's leading independent mechanical, electrical and building services engineering contractors, with an annual turnover of around £350m. Its training programme has been recognised as outstanding by the Adult Learning Inspectorate and apprentices regularly out-perform the national average in exams, consistently winning major industry-sponsored awards.

The long-running scheme takes around 80-100 apprentices a year across electrical, plumbing, building, services and maintenance, and quality surveying from around 5,000 applications. A rigorous selection process of ability tests, candidate interviews and final interviews with parents of young apprentices combines to ensure that NG Bailey retains between 85% and 93% of its apprentices, compared to the industry average of 50%.

The structured training programme combines practical craft training and college studies with valuable site experience. A dedicated and highly-qualified staff teaches in the purpose-built craft training centre in Leeds. There is also a clear system of support – apprentices are assigned a tutor or 'Godfather' and have mentor buddies on-site who answer questions and give advice

qualified training staff who mentor and support young people through the Apprenticeship and associated self-development and team-building activities. Employers also recognise the need to involve parents in the recruitment and support of young apprentices. And it is essential that young people know what level of commitment and type of training an Apprenticeship will involve.

Low completion rates can also be attributed to the fact that many young people (64%) complete the NVQ part of the Apprenticeship but struggle to complete the full framework, which includes a Technical Certificate and a key skills component. Technical Certificates were introduced to ensure that the underpinning theoretical knowledge required by a successful apprentice was clearly demonstrated. While some sector skills councils and sector bodies have effective Technical Certificates that are fit for purpose, others have

indicated they would like to see the knowledge element as part of the NVQ.

Finally, the quality, take-up and completion rate of Apprenticeship programmes would improve if bureaucracy were reduced: this will particularly help smaller firms who need additional support as they lack the dedicated training experts that larger firms employ. Measures to facilitate SME participation should encourage them to collaborate with other employers in their sector or locality. Some sector skills councils such as Cogent are looking to co-ordinate employers' activities on Apprenticeships to make them more accessible to employers, particularly the smaller ones.

The age threshold for Apprenticeship programmes should be reviewed. Many employers would welcome taking on older apprentices but current funding rules prohibit this. Funding should be offered to all workers, irrespective of

**CASE STUDY**

**Network Rail**

Network Rail employs 33,000 people and has responsibility for maintaining the infrastructure of the UK's railways. With a drop-out rate of 11 apprentices from a starting group of 200 in 2005, Network Rail has an effective and engaging programme. Annual intake has been increased to 240 a year making it the largest scheme of its type in the UK.

Apprentices are residential in their first year, giving them the opportunity to acquire life skills and helping them build strong teams. They are trained at Europe's largest specialist engineering training centre – HMS Sultan – where the Royal Navy trains its own recruits. The second and third years of the programme are based on practical

experience near the recruit's home, with regular visits to HMS Sultan for further training. Leadership and team-building activities are central and run throughout the three-year programme.

age, without a Level 3 qualification (A Level equivalent). If 125,000 students above the age of 25 (25% of Leitch's target) were enrolled, this would cost £1.6bn

### CBI RECOMMENDATIONS

- Apprentices must receive proper careers advice – so they know what to expect and to address gender stereotyping
- Apprenticeship programmes should involve parents and make the level of commitment involved clear to the young apprentice
- Teaching of basic skills must be embedded in courses and working with sector skills councils made relevant to the particular industrial or service sector
- Workers of all ages without a Level 3 (A Level equivalent) should be funded to take an Apprenticeship programme – if 125,000 students above the age of 25 were enrolled this would cost £1.6bn.

### Foundation Degrees offer a progression route into higher education – but are growing slowly

Foundation Degrees should represent a good opportunity for employers to give their staff a vocational qualification, with a technical content focused on meeting business needs. They were introduced by the government in 2001 to sit between HNDs and Bachelor Degrees. Courses are typically two years long and are offered by both universities and Further Education colleges. Foundation Degrees are becoming more popular, with nearly 14,385 students applying in 2006 – 17% more than last year. But it is doubtful whether the government will meet its target of 100,000 to 200,000 students by 2010.

Foundation Degrees have been 'locally grown' by universities/FE colleges/industry partnerships following guidelines laid down by 'Foundation Degree Forward'. The partnerships have been able to offer a range of formats, including full-time, part-time and distance learning. One of the conditions attached to the validation of a Foundation Degree is that it must lead to a full degree award, sometimes known as a

### CASE STUDY

#### Rolls-Royce

Rolls-Royce, the world-leading provider of power systems and services for use on land, at sea and in the air, employs around 37000 people in offices, manufacturing and service facilities in 50 countries. Within the UK, Rolls-Royce currently trains around 170 new apprentices a year, to undertake a wide variety of technical and craft-based engineering roles.

In addition to foundation and specialist engineering training, Rolls-Royce apprentices experience a broad spectrum of additional training aimed at embedding a greater understanding of the wider business and personal development issues, each sponsored by an appropriate Rolls-Royce director. These include: organisation of the company, products, business issues (eg understanding com-

pany financial results), lean engineering, quality, personal skills, team skills, cultural understanding, diversity & equality, and health safety & environment. As well as completing the NVQ and Technical Certificate requirements of their Apprenticeship framework, they also complete an NVQ Level 2 in business improvement techniques, science & engineering, ambassador training, creativity & innovation training, and international exchange programmes.

Apprentices experience the concept of self-directed teams from day one of their programme. They are required to work together in small teams which meet on a weekly basis to monitor progress with regard to all aspects of their training – including completion against plan, time keeping and absence, health & safety,

and college issues. Each team also allocates its own team roles, which includes Communication Champions. These attend the main staff meeting to raise issues or concerns and feedback results to their team. Teams are also responsible for maintaining their own 'Visual Factory' Performance Management Board, which provides a clear representation of all teams' progress in line with accepted practice in their business areas.

The high quality of the apprentices recruited and the programmes provided, are clearly reflected in retention figures: of those recruited for all UK sites since 2003, 99% have been retained.

'Top-up degree'. The Foundation Degree Benchmark Statement seeks to involve employers in the design, teaching, assessment and review of Foundation Degrees.

However, a recent review of Foundation Degrees by the Quality Assurance Agency concludes that "...sustaining an effective level of employer engagement continues to present challenges for some providers".<sup>34</sup> This is because at present around one quarter of Foundation Degrees reviewed were developed and delivered without the participation of employers, and work-based learning is also said to be patchy – with just around 40% of programmes reviewed demonstrating good practices and strengths. Employers have not been able to accredit their own training programmes to provide a Foundation Degree – or units towards a Foundation Degree. The CBI is pleased that Foundation Degree Forward is now focusing its efforts on such a strategy.

#### CBI RECOMMENDATION

- Employers should be able to make their high quality training count towards credits or full accreditation for Foundation Degrees.

## The UK's future competitiveness requires high level skills

### Raised skills levels are essential for world-class innovation and research and development

Much of the future investment in education and training, as the Leitch Review recognises, is based on the fact that we have entered a new global economic era which requires new knowledge, innovation and technologies – and new ways of doing business. The new economy is characterised by an increase in demand for high-skilled workers and it is estimated that around half to three quarters of employees are 'knowledge' workers in the developed economies.<sup>35</sup> In a global economy, successful businesses need not only to be as efficient and effective as possible and to maximise the use of all available resources (including materials, labour, and finance), but also need to find ever more imaginative ways to differentiate themselves from their global competitors.

Skills will be a key factor in the rapidly changing, high technology and globalised economy, but the EU and the UK are playing catch up. Innovation – the successful exploitation of ideas – is critical for the development of new products and services and delivering competitive advantages for companies. According to the European Innovation Scoreboard, 26% of the innovation gap between the US and the

#### CASE STUDY

### Foundation Degrees at Nissan's Sunderland plant

The Sunderland Plant is Nissan's centre for European car manufacture. It was established in 1984 on a 750 acre site and has a workforce of 4,300 staff. Last year over 300,000 cars were produced with a volume of up to 370,000 planned in 2007.

Nissan has recently introduced two Foundation Degree programmes at its plant in Sunderland. The five-year Maintenance Training Technician programme was amended to include a Foundation Degree in years 4 and 5. This two-year programme is delivered by Sunderland University. Steve Pallas, Sunderland Plant Training Manager, believes that:

*"The flexibility to adjust the curriculum to meet our business priorities and the attention given to work-based learning has helped us to change our technicians' training to become more operationally focused".* There are currently 24 trainee technicians on the Foundation Degree programme.

Nissan is also introducing a two-year Foundation Degree in Lean Operations for its supervisors. The lean programme has been set up by Sunderland University with Gateshead College and a local training company called NAC. Graduates from the programme will be able to specify, undertake and manage a

range of operational improvement initiatives. Nissan Training section has already supported the teaching of the Lean Manufacturing modules in the pilot programme which began in September 2006. In April 2007, the first group of 24 Nissan supervisors and team leaders will begin the two-year course. The company is very much looking forward to building this training route into its staff development programme, which provides not only a recognised qualification, but the opportunity to underpin knowledge and carry out relevant work-based projects for the benefit of the business.

EU is due to the lower share of tertiary graduates in the EU's workforce.<sup>36</sup>

The World Economic Forum<sup>37</sup> has highlighted that the UK needs to do better in areas such as innovation (including government procurement), availability of scientists and engineers, as well as company R&D. There is no room for complacency and although we remain in the top ten of most competitive nations, we have slipped from ninth to tenth. We continue to do well in areas of traditional strength – market efficiency, availability of finance, competition, institutions and technological innovation, and our business schools are also recognised as particularly strong.

At the firm level, there is good evidence to show that UK firms which innovate and successfully exploit new ideas gain competitive advantage. The DTI R&D scoreboard looked at R&D investment in the FTSE 100 between 1997 and 2005, and while the FTSE100 grew by 10% over that period, the DTI portfolio of high R&D intensity companies grew by 60%. Clearly the UK has many innovative and world class companies but skills gaps and shortages are hindering growth in some firms. When asked to think about the factors that have compromised their level of innovation success, employers<sup>38</sup> cited skills and technical issues: 30% mention one or more factors grouped under this heading.

More encouragingly, the same survey – conducted as part of a joint CBI/QinetiQ campaign to help business and government deliver innovation successfully – suggested that a high proportion of companies are specifically training managers to identify and develop new ideas: 67% now compared to only 20% in 2002. Having a workforce that is able to identify, develop and adopt new ideas was seen as the second most important factor adding value to the innovation process.

### Increased university-business collaboration should raise innovation and skills

Encouragement for business university collaboration has been a major and welcome feature of government's innovation policy. The central reason companies cited for collaborating with other organisations is to access further knowledge, specialist skills and ideas – over three quarters (78%) cite this reason. The CBI/QinetiQ innovation survey shows that among experienced innovators the incidence of such partnerships continues to grow. Businesses and uni-

versities are collaborating more than ever before, 77% of respondents were collaborating with universities, compared to just under 50% in 2001 and around two thirds (63%) of respondents believed stronger links with universities would boost their competitive advantage.

Encouragingly, universities see business as an important customer and believe they need to strengthen their links with the private sector. But too many firms (74%) do not believe that academics understand business needs and this may reflect cultural differences between companies and university sectors. Companies need to be clearer about what kind of input is required as most academics are not business people and do not fully appreciate business needs. Improving effectiveness is something that both businesses and universities must continue to work on.

There is scope for universities and businesses to collaborate still further, and with greater effectiveness, and the CBI believes more can be done to encourage a culture which values collaboration with business. The government has made significant progress in helping universities build their capacity and capability to engage with firms on knowledge exchange, but there are still many firms that have not explored options for working on innovation with UK universities. Such knowledge exchange will help raise innovation but will also ensure universities produce the graduates employers need – and could well enthuse students about pursuing a career in science, technology, engineering or maths (STEM) subjects when they see the variety of exciting applications.

Firms are unlikely to be receptive to further knowledge 'push' from the HE sector, instead needing to be encouraged to make their own links. The CBI has supported Aston University's INDEX innovation voucher scheme to promote new engagements between SMEs and HEIs, and encourage government and the RDAs to learn the lessons from the pilot and adopt such a scheme as widely as possible. Larger follow-on vouchers should be made available to provide firms with up to 50% funding for their first major collaboration.

### Flexible delivery of higher skills is critical

The UK's current position with regard to high level skills compares well to key European competitor countries in terms of the number qualified to degree level. The UK's higher education sector has expanded rapidly over the last

30 years: full-time students have grown from 450,000 in 1974 to 1.4 million in 2004.

We now compare well with European competitors such as France and Germany in terms of the percentage of the workforce qualified to graduate level – 27% compared to 25% in France and Germany – although we compare poorly with the USA (40%) and Japan (45%), as Exhibit 10 shows. China and India are moving up the value chain: together they produce four million graduates annually compared to 250,000 in the UK – although only 10 to 25% may be suitable for employment by a multinational company.<sup>39</sup>

The Leitch Report concludes that the UK requires a significant increase in the number of those with high level skills in the future. In particular, Leitch<sup>40</sup> has suggested that the UK should move to 40% or above of the population holding Level 4 qualifications (equivalent to a bachelor’s degree) by 2020 – a hugely ambitious target given that currently only 27% of the population holds these qualifications. For employers the key is providing the degrees employers want in sufficient quantity and students with the generic employability skills all employers require.

The government has set itself a target of 50% of young people going to university but CBI members are not convinced that this is currently a sensible target. Employers are more concerned about improving the quality of graduates rather than the quantity – only 2% felt this should be the

government’s key priority in the CBI/Pertemps *Employment trends survey 2006*. It is only in the area of STEM skills that employers believe quantity is the issue – and this could be addressed by increasing the proportion of graduates taking the STEM degrees employers want, rather than an overall increase in the number of graduates.

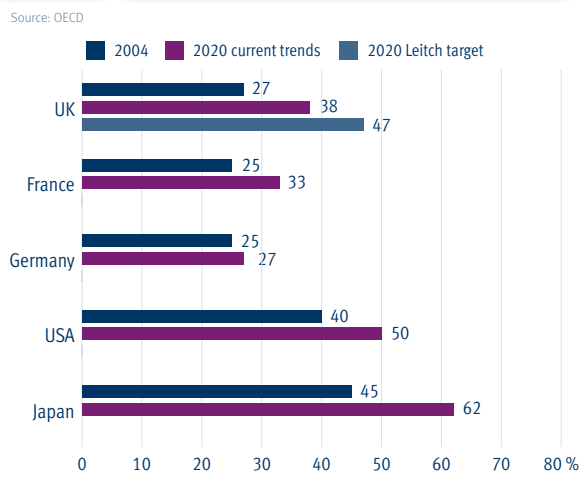
Employers agree that meeting the challenge of a highly skilled workforce is not simply a matter of more graduates: as Leitch points out, 70% of the 2020 workforce is already out of the formal education system. A credit system, innovative curriculum design and flexible forms of delivery have already led to some increase in the numbers studying part-time while working.<sup>41</sup> Some FE colleges are already providing degree level qualifications and there are good colleges which work in close partnership with local businesses to deliver excellent training.

However, new methods of delivery, accreditation of bite-sized training and e-learning could all be powerful tools in raising skills among those already in work. As with intermediate skills, innovative ways of accrediting high quality employer training with nationally recognised qualifications must be explored. But CBI members have stressed that ‘qualifications for qualifications’ sake’ will not deliver the overall economic benefits the government is after. Qualifications must reflect business needs and lead to an increase in relevant economically valuable higher skills, rather than some imposed academic super structure. Chapter 3 of this report provides practical ideas to deliver this agenda.

### Employees must be trained to meet changing demands and utilise their new skills

Employers are seeking out and deploying new ways of doing things in order to drive better business performance, with the best companies finding ways of working ‘smarter, not harder’. All quality improvement programmes require employer commitment to the development and upskilling of existing staff. Skills utilisation is regarded as significant with over a quarter (29%) of employers identifying this as a key priority in improving business competitiveness (Exhibit 11, page 32).<sup>42</sup> But not all such competencies can be measured by formal qualifications. By training staff in operational excellence methodologies, Jaguar and Land Rover provides its workforce with additional skill-sets to contribute positively to improved growth and productivity. The training includes classroom-based learning but this is reinforced by the completion of

**EXHIBIT 10** Proportion of workforce qualified to degree level (%) – international comparisons



sustainable improvement projects. At Lloyds TSB, Six Sigma is used to help gain a closer understanding of customer needs to drive forward business process improvement and reinvention.

Motivation, willingness to learn and interpersonal skills are also key elements of graduate training. At Data Connection, a communication and telephony technology company, graduate schemes last between two and three years and provide a comprehensive programme to nurture individual skills as well as key business competencies. At Shell, graduates spend a couple of months at the company's Netherlands training centre and then rotate between different business units in the company, developing their knowledge of all the company's business activities. Mentoring is a key part of the scheme.

### CBI RECOMMENDATIONS

- Targets relating to higher skills qualifications in the workforce need to take business needs into account and lead to the acquisition of economically valuable skills eg business improvement techniques – and qualifications must reflect business and academic standards
- Greater flexibility (eg part-time courses, bite-size learning) in the delivery of Level 4 (degree equivalent) will help increase the number of workers with higher level skills.

### Leadership, management and supervisory skills are weaker than employers would like

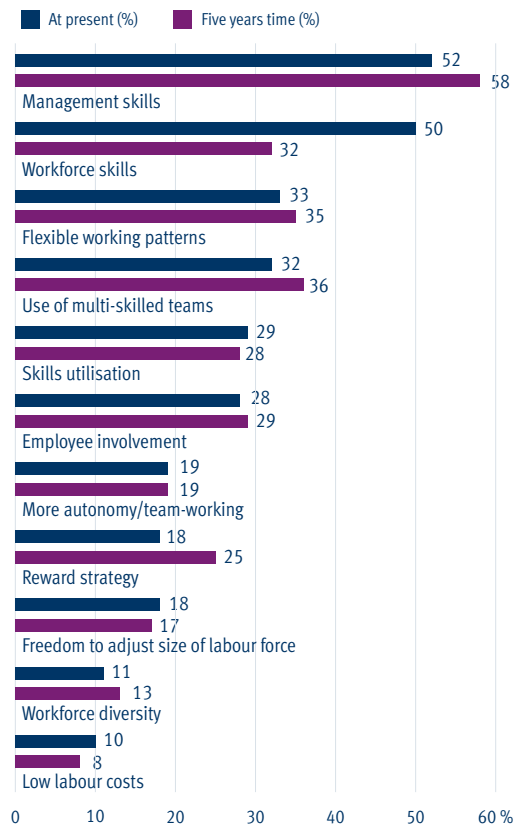
#### Effective management at all levels is vital for competitiveness

Effective leaders are of course central to ensuring that a business has an effective strategic vision and a culture of continuous improvement. Managers play a pivotal role in ensuring that the strategic aims and direction of the organisation are achieved and put into practice, and they must manage staff, budgets and resources effectively.

The CBI's own work shows that employers recognise that effective leadership is essential. Exhibit 11 shows that at present, half (52%) of employers believe that management

### EXHIBIT 11 HR factors influence past and future competitive advantage (%)

Source: CBI/Pertemps Employment trends survey 2006



skills are the most significant factors contributing to competitiveness, followed closely by workforce skills which were identified by 50% of all respondents to the CBI/Pertemps *Employment trends survey 2006*. Almost a third of firms say operating multi-skilled teams (32%) is important. Looking ahead to the next five years, management skills are still the most important factor with 58% saying it will be significant, followed by the use of multi-skilled teams (36%).

The UK has some world-class management schools and these get high ratings and attract many strong foreign students. However, many UK firms are providing their own leadership training and development. Employers are investing heavily in management and leadership programmes and it



is essential that employees are also fully committed – they benefit not just in terms of their existing job but also in their future employability. Employers typically look for talent within their organisation so that opportunities for progression are made available for staff.

At **Siemens** each employee at management level has a coach with whom to discuss self-development. The strong focus on coaching skills and relationship building ensures leaders are equipped with the necessary people management skills.

**Ogilvy** ensures its leadership development groups are cross functional to generate varied and productive discussions and to enable participants to network with colleagues they would not have otherwise met. Self-assessment and self-management is vital.

**Hexcel**, a composite manufacturer, has a succession planning process to ensure future generations of leaders in the company are properly prepared.

**NG Bailey** has invested in supervisors' skills to ensure the skilled staff they manage are effectively deployed on-site.

### **Middle management and supervisory staff have an important role to play**

Clear board-level vision on key issues such as innovation, mergers and acquisitions and responding to new commercial opportunities is essential in every dynamic business, large and small. Managing change is vital to commercial success and middle management and supervisory level support is essential – its absence can significantly undermine the process. Research by Bath University<sup>43</sup> demonstrated that front-line managers have a strong influence on the level of discretionary effort employees put into their jobs – and therefore significantly affect overall performance and productivity. Managers at all levels need to feel comfortable with internal organisational and structural change and to be equipped with the confidence and tools to support their teams through what can be an unsettling and concerning time.

Supervisory staff, as the 'front-line' management, are often best placed to identify areas where process improvements can be made and to provide solutions to problems as they arise. The relationship an employee has with their line man-

ager represents the single most important factor affecting an employee's attitude and motivation.<sup>44</sup>

Some studies have shown that the qualification level of a manager affects their strategy for dealing with change and that lower-qualified managers respond by adopting low-risk strategies with tightly defined returns, such as those centred on cost-reduction. More highly-qualified managers, who are able to adopt higher risk, more strategic responses that capitalise on change – such as introducing higher quality products or increasing efficiency – often lead their teams to higher returns.<sup>45</sup> Clear benefits arise from upskilling managers at all levels, and it is vital that managers and leaders are capable of handling change and view it as an opportunity rather than threat.

### **But management skills are seen as weak in UK**

While there are many world-class UK firms – of all sizes and in all sectors – a succession of reports including Porter<sup>46</sup> have drawn attention to leadership and management as an area of weakness. The UK has a lower share of managers with advanced formal education versus peer countries.

A greater proportion of those classified as 'managers' by the Labour Force Survey (LFS) hold low-level qualifications than in other 'higher' level occupations, such as professional occupations. For example, 41% of managers hold less than a Level 2 qualification (equivalent to A\*-C grade GCSEs). The problem of low qualification levels varies considerably across sectors – nearly a quarter of managers in the agricultural sector are estimated to be without qualifications, compared with around 14% of their retail counterparts and only 1% of managers in computing services.<sup>47</sup> But Porter notes that this could be a statistical artefact due to the very high number of employees classified as managers in the UK and that the supply of the most skilled managers in the UK is likely to be competitive. He suggests problems with managerial skills in the UK seem likely to be concentrated at the lower and middle management level.

Recent research<sup>48</sup> shows conflicting views on management performance with senior managers disillusioned with their middle management tier, and middle managers feeling unsupported in their efforts to contribute to business success. A majority of senior and middle managers alike diagnosed a lack of training and development at middle management level in their organisations: 68% of business leaders admitted that the middle managers were inade-

### The tests of a leader

The Merrill Lynch Leadership Model was designed specifically to clarify the expectations of leaders within the company and to help them meet these. Over 1,000 employees received feedback and coaching globally, with an emphasis on four areas of leadership:

- Strategic thinking
- Business results
- People leadership
- Personal effectiveness.

The company saw significant improvements as a result of its training and reports that “...by 2006, objective measures revealed that Merrill’s culture, which had been homogeneous, lenient, and clubby, had shifted significantly, becoming merit-based, rigorous and diverse.”

Source: Harvard Business Review, January 2007

quately trained for their current positions, while 54% of middle managers felt that a lack of training and development was preventing them from doing their job adequately. The Hay Group’s research suggests that senior managers found several barriers to training middle managers, including the cost of time invested in training, the cost of the training programme itself, and the cost of senior management time demanded to identify and action training needs. Firms need to identify what leadership model works for them and then dedicate the time and resources to providing the training to meet skills gaps and weaknesses.

At times this may be a company-wide issue – more often it will be newly appointed or promoted managers or those identified as needing training as part of the appraisal process.

The sector skills councils could play a key role in developing courses for supervisors and managers – and some of the better councils are already developing such courses. But these skills are generic and the CBI believes it is essential that action here is co-ordinated across sectors – this would be a key role for the Employment and Skills Commission proposed by Lord Leitch. At present Skills Active has taken a lead in coordinating this generic training and its role should be reviewed and assessed.

### CBI RECOMMENDATIONS

- Management and leadership skills are traditionally identified as an area of weakness in the UK – more should be done to identify national solutions
- Employers need to ensure management staff are given the competencies they need to perform their jobs effectively – this requires resources but more importantly effective analysis of skills gaps and weaknesses in individuals. At times a company-wide approach will be necessary.

### CASE STUDY

#### O2 plc

The mobile phone company O2 operates in a competitive and dynamic market – and has undergone major cultural changes during its demerger from BT in 2001 to its acquisition by Telefónica in 2006. Top level vision was key, but middle management buy-in was vital to making a success of the changes which were central to its competitiveness. Clear and effective communication with all audiences was critical to making this leadership felt. As restructuring meant job threats, changes needed to be made

quickly with appropriate reassurance from managers. Dynamic training and development programmes responded to, and linked with, new organisational structures to ensure that employees felt invested in and that they had a future with O2.

Visible joint leadership from O2 Chief Executive Peter Erskin and Telefónica Chairman Cesar Alierta was important to ensure the acquisition process was as open as possible. Technology, in the

form of the company intranet, has played a crucial role in the transparency and visibility of opportunities. Line managers had a crucial role to play in listening to concerns and supporting their teams through change – particularly important in a customer-facing business. O2 built on that determination and created a performance culture. Its online survey now suggests that 84% of its workforce is proud to be part of the organisation.

### 3 Supporting employers and employees – the government’s role

Employers are investing huge sums in workforce development and training – spending over £33bn in 2005 alone.<sup>49</sup> These employers do not need government to tell them how best to invest in training and developing their workforces, although they would like help in providing basic skills training or finding the best training provider. But some groups – including the TUC – have claimed the voluntary approach has failed to deliver and that rights to time off or levies are required to force employers to spend more money on training. Such a strategy would increase bureaucracy without raising skills levels. A more productive strategy would be to build on schemes that have been proved to deliver increased employer commitment to skills and therefore increased training and productivity – such schemes provide support for those firms that need it most, typically SMEs.

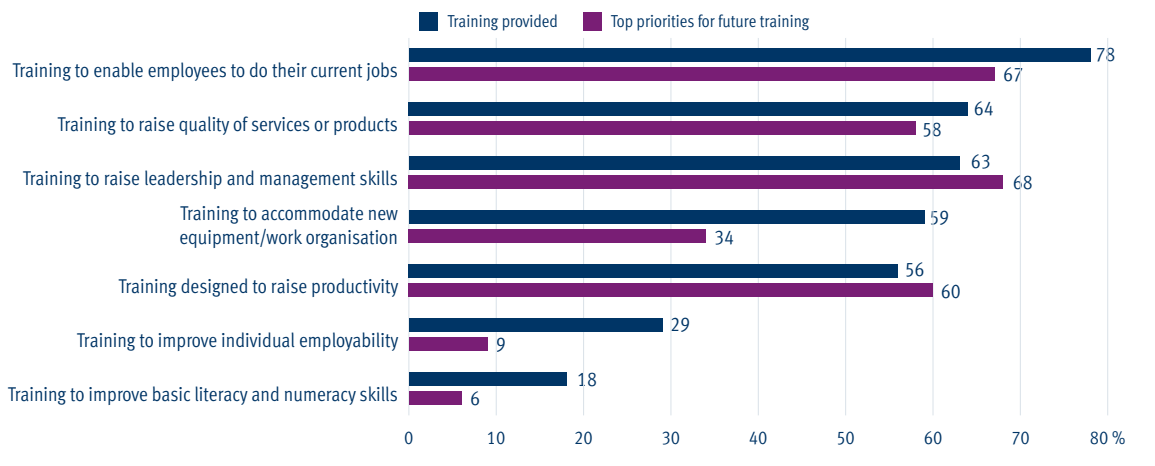
#### Most firms are committed to raising skills and training employees

Firms’ investment in skills is considerable and continues to increase. In 2005 alone, employers spent over £33.3bn on the skills of their workforces – compared to £23.5bn in 2000.<sup>50</sup> UK employers spend the most in the EU: 3.6% of their total payroll is spent on training compared to an average of 2.3% across the EU-25.<sup>51</sup> France spends 2.4% and Germany 1.5%. UK employers compare very well with key competitors such as the USA (2.5%) Canada (2.3%) and Japan (1.2%).<sup>52</sup>

Employers are committed to training their employees to ensure they maximise company productivity and performance – 78% provided training to existing employees last year and two thirds said training to improve productivity was a priority for future investment in skills (Exhibit 12).<sup>53</sup> But their commitment to training does not end there: the CBI/Pertemps *Employment trends survey* shows that one in

**EXHIBIT 12** Type of training provided by employers (%)

Source: CBI/Pertemps Employment trends survey 2006



five employers are helping employees address basic skills problems (typically without government funding) as well as over one quarter helping employees with their future employability.

### Some employers need support to raise skills – but not all

The CBI recognises there are significant differences between firms of different sizes, with larger firms more likely to provide employees with training – whether on or off the job. Figures from the National Employer Skills Survey<sup>54</sup> show that in the previous 12 months:

- Fifty percent of the smallest employers (four employees or less) trained their staff
- Seventy-eight percent of those employing between 5-24 did so
- Ninety-one percent of larger employers (over 500 staff) trained their staff.

The difference between large and small/medium-sized firms is not as important as often portrayed – only 13%. It is the very smallest – the micro firms – who train least.

Action to support employers in improving the skills performance therefore needs to take a differentiated approach. The CBI believes there are four distinct groups of employers, each of which would benefit from a targeted approach:

- Employers who might be persuaded to train if they saw an economic benefit – largely, but not solely, smaller firms
- Employers who invest heavily in training and need little support from government, but whose employees would benefit from having their training accredited
- Employers who recognise the benefits but are not able to find appropriate training provision
- Employers who do not train because they do not believe that training is worthwhile for their company – some of whom may be entirely justified.

CBI surveys and consultations indicate some of the areas where employers would value government support. Employers would like more help in accessing the funding available for training – under Train to Gain for example: two thirds of employers would like such support, but only one third have received it. Firms would like help in achieving Investors in People status – four in ten would like support but around a quarter have received it. And around 60% of employers would like help in getting employees accredited with formal qualifications – but only a quarter have received help (Exhibit 13).

### Government must build on proven schemes to make the business case

The CBI is convinced that more firms need to be persuaded of the business case for training. This group of employers may know there are skills gaps and weaknesses among

**EXHIBIT 13** Employers' views of government support for skills (%)

Source: CBI/Pertemps Employment trends survey 2006



**CASE STUDY**

**Ridgeons**

Timber and builders merchants Ridgeons has achieved the liP standard, finding the process very beneficial:

*Investors in People has been a barometer of communication effectiveness for us in a period of a very rapid growth. Given the size we now are, we had to formalise some practices to ensure consistency and frequency of application*

*of our HR methods of consultation with all levels of managers and staff...As we have developed our five-year strategy we have taken account of the strong recommendation from liP that we should keep our staff informed of the intended future direction of the company. As a consequence staff feel less surprised when changes are introduced...Our 'Individual Development Reviews' used to*

*be principally a training needs analysis. As a direct outcome of liP we have introduced a 'Performance and Development Review' which has addressed the necessity to include a two-way evaluation of performance as well as the way forward for the individual in relation to the company's long-term direction.*

PAUL ROGERS, GROUP DIRECTOR, NEW VENTURES AND SECURITY, RIDGEONS LTD

their employees, but they do not always recognise them and most do not believe addressing them would bring business benefits. They are often smaller firms – but not exclusively so.

A skills needs analysis tailored to the employer, firmly linking investment in training with productivity improvements and the bottom line, is an important tool in engaging this type of employer. This kind of bespoke analysis, carried out by an adviser with real business knowledge, can help map out the employer's training needs (present and future) and demonstrates how investment in training will bring business benefits.

**Investors in People is valued by employers and employees**

Some government initiatives have added real value. Investors in People (liP) is a well-established business development tool with proven business benefits, linking investment in training and good employment practices with improved business performance. Around 40% of the workforce now works in an liP firm, and employers of all sizes have seen

the benefits of getting involved in the scheme. The CBI was instrumental in the conception of liP and the Standard's subsequent success demonstrates the strength of voluntary measures, which approach training in ways that make business sense.

The CBI believes that government should help SMEs obtain full liP accreditation. All organisations, regardless of size or sector, could benefit from working towards the liP Standard. But smaller organisations, which have good awareness levels of Investors in People but low take-up, would benefit from more support in accessing the Standard.

**The Small Firms Initiative led to productivity improvements in SMEs**

The Small Firms Initiative (SFI) was an extremely successful scheme, which encouraged smaller firms to engage in training through a skills need analysis built on the first stage of the Investors in People model. It was focused at small firms (5-49 employees) and ran from 2002 to 2006, offering £1,250 worth of business support and engaging over 20,000 employers. The scheme offered a tailored skills need

**CASE STUDY**

**Taylor Vinters**

Taylor Vinters is a law firm with 200 people. It said:

*For us, Investors in People has been an essential tool through which we have been able to effect some sweeping cultural changes within the organisation.*

*We have been able to break out of the traditional law firm hierarchy, recognise, value and reward contributions of both lawyers and non-lawyers in the firm, and introduce firm-wide training and development programmes which engage all of us in achieving our aims as a business.*

*We have been liP accredited since 1999... There have been direct and tangible benefits to the business.*

CHRISTINE BERRY, MANAGING PARTNER,  
TAYLOR VINTERS

analysis and support to develop a training plan firmly linked with a business plan.

The scheme achieved its objectives of encouraging more firms to train:<sup>55</sup>

- Just under half (46%) of the firms involved said they had seen improvements in productivity
- Two thirds (66%) reported improved efficiency
- Almost all employers (90%) report a positive impact on staff training and development
- An overwhelming majority of firms (62%) said that the business support helped them get involved in Investors in People
- Only 6% of employers would have gone ahead anyway – so very little ‘deadweight’ cost was incurred.

The CBI recommends that this scheme, developed in partnership with the TUC, should not be mothballed. It should be re-established as the £50m invested will provide real value for money.

### SMEs commit to training through the Leadership and Management Programme

Another successful scheme was also directed at SMEs. The Leadership and Management Programme for SMEs designed to develop leadership and management skills was piloted allowing owner-managers of SMEs to agree with a skills broker a personal development plan up to a value of £1,000. This included mentoring, coaching or informal training, and did not necessarily result in a qualification. The first evaluation was extremely positive:

- Seventy percent of entrepreneur participants said the programme was having/was likely to have an influence on their business growth
- Seventy percent said it had an impact on their productivity.

Most significantly however, the programme created a culture of training in their firms – around three quarters said they would encourage others to seek development opportunities. This programme is now being ‘integrated’ into Train to Gain, but the CBI fears that the quality of the offer will lose focus and become diluted.

The CBI recommends that the Leadership and Management Programme receive £50m a year for the next three years.

### CBI RECOMMENDATIONS

- Government should build on the success of the Small Firms Initiative and the Leadership and Management programme, giving access to tailored packages of training for smaller firms – these programmes should be reinstated at a cost of £100m
- Smaller firms should be encouraged to gain IIP accreditation and receive help with the administrative costs of this at a cost of £20m.

### CASE STUDY

#### CITB-Construction Skills

As a major training provider and sector skills council for the construction industry, CITB-Construction Skills is well placed to develop an assessment model that accurately reflects the skills being tested. Many in the sector are already highly competent and experienced – so the qualification system must recognise these existing skills and assess them in an appropriate manner.

Much of the process to gain a vocational qualification involved compilation of portfolios of paper documentation and photographs to demonstrate competence, rather than assessing the skills in the context in which they are developed. This has been replaced in the CITB model by a one-day on-site competency test, which assesses skills in context, for example, a plasterer plastering walls.

Some estimates are that up to 80% of the workforce is highly competent in this fashion, and the remaining 20% would benefit from top-up courses to reach an appropriate skill level, which could then be assessed on-site in a practical way. This method of assessment could be adopted by other sector skills councils or training providers.

## Firms investing in training should be able to award qualifications

Many firms invest considerable sums in training their employees, but their employees do not always acquire qualifications as a result. This means the UK's skills base is higher than the statistics measuring qualifications suggest because most employers train to competence rather than qualifications. But employees value qualifications as these increase their mobility. Accreditation of learning can account for 10-20% of the cost of training but tends to be of more interest to the employee than to the employer who requires competence.

The CBI recommends that the government should pay for the accreditation of learning. The government could use the Adult Learner Accounts (ALAs) proposed by Lord Leitch to fund the accreditation of learning. There would be an additional exchequer cost – some £470m annually – associated with accreditation of a third of the employer training schemes not currently leading to qualifications.

A radical simplification of the qualifications system, as proposed by Lord Leitch, would be immensely helpful and is fully endorsed by the CBI. Research<sup>56</sup> shows that the return on NVQs is highest if the qualification was obtained via an employer and lowest (negative) if obtained through government training. NVQs work best when linked to a discrete programme of learning so that the qualification becomes the output and the validation of new skills. But IRS research indicates that NVQs, SVQs and National Occupational Standards are used by less than a third of employers (32%) – it is essential that the QCA works quickly with the SSCs to address this issue. Lord Leitch has suggested that only qualifications approved by the SSCs should receive government funding and the CBI endorses this goal.

The CBI fully endorses Lord Leitch's recommendation that employers be allowed to self-accredit their internal training. In a new framework, employers could provide particular units of training, possibly topped-up by the completion of additional units at a college or a private provider and may be using funding through ALAs or the employee's private contribution.

The Australian system provides a good model where employers are licensed to provide programmes, the content of which is directly agreed with Industry Training Advisory

Bodies – the Australian equivalent of SSCs. For example, Coles Group (the second largest retailer in Australia) is licensed and can accredit its own training and give its employees formal qualifications.

The UK should develop a similar model and we suggest that a number of trailblazers or pilots are established to show what can be done and drive forward this agenda. In some cases these would be individual firms who are recognised as providing first class training but we would also envisage the good SSCs be involved.

### An Australian approach – the Coles Myer Institute

In Australia the Coles Myer Institute is a unique model of corporate education. It was established in 2003 and emerged from a successful partnership between Coles Myer, one of Australia's largest retailers, and Deakin University. The Coles Myer Institute gives employees a pathway for further learning and career opportunities via integrated vocational and professional development courses and pathways to higher education awards, including postgraduate awards. Employees located across the organisation's 2,000-plus sites throughout Australia can progress through levels of the Australian qualifications framework, taking vocational education and training programmes offered by the Institute or Deakin Prime through to customised higher education awards, such as a Graduate Certificate of Corporate Management offered by Deakin University. These in turn provide a pathway into Deakin's MBA programme. As the higher education awards are those of Deakin University, they are recognised and portable in a way that might not be the case for awards of a multinational organisation's own corporate university.

Source: Ways to encourage lifelong learning, from Sally Walker, L Rolland, P Noonan, J Spieerings, V Nissen, I Deveson and P Laver, Committee for Economic Development of Australia

### CBI RECOMMENDATIONS

- Employers should be allowed to self-accredit their internal training – this must be streamlined to encourage employer take-up
- A number of trailblazers or pilots should be established to show what can be done and drive forward accreditation of company training
- Government should fund the accreditation of employer provided training so that employees receive the qualifications that enhance their mobility – at a cost to the exchequer of £470m annually
- SSCs should take charge of the National Occupational Standards.

### Some firms take a rational decision not to train

The evidence shows that when small firms receive advice on training gaps and they see the benefits of training at first hand, attitudes quickly change. But some employers take a rational decision in not training – a more productive workforce does not mean more training for training's sake. A minority (35%)<sup>57</sup> of employers do not offer any training to their staff. Of these, a majority (71%) choose this option because they do not see training as a reasonable investment for their business. Initiatives such as skills audits can

help uncover latent training needs, but will not do so in every case. For some employers, the decision not to offer training at a given time is a rational judgement that their staff have either the skills they need to do their job, or are engaged in tasks which do not require training.

Some employers – particularly in specialised high skilled areas – hire the expertise they need, often paying a premium for doing so, and there is little point providing training for those who arrive fully equipped to do their jobs. For others in low skilled sectors there may be other factors at work. Research shows that some firms may be making an entirely rational decision not to train given the products or services being provided. The proportion of the economy that requires few skills will reduce in the future, but is unlikely to disappear altogether.

But it does not make economic sense to force employers in this situation to train their staff when there is no business benefit.

### Adults need support – incentives can play a key role in overcoming resistance

Individuals need to play their part in raising the demand for skills. Their employers can help by creating a culture of learning and signposting different opportunities to improve their skills in the workplace. The Cheshire Building Society

#### CASE STUDY

#### Cheshire Building Society

Often people equate a course or educational activity as learning or development. Learning opportunities do not always come neatly packaged and labelled as such and there is often the perception that a course or specific event is the only place you will be 'trained' or can 'learn' new skills.

Within the business there are projects and new pieces of work happening all the time. These offer the chance to learn something new or to take part in something that is different from the norm for

many people which often go unnoticed as a chance to share knowledge and learn.

The Learning & Development team leads the Society in recognising and developing a Learning & Development culture. Its primary focus is encouraging employees to take ownership of their own learning and development and opening people minds to the continuous learning opportunities that occur day to day. The team endeavours to support line managers in understanding the many different

ways they can help to develop their staff. This will encourage a shared responsibility of learning which will continue to be supplemented with specific training and development events delivered by the Learning & Development team.

Ultimately, an organisational culture that promotes and supports learning and development is critical to achieving department business plans and the Society objectives and to developing a highly skilled and motivated workforce.



has recently renamed its training department the Learning & Development team to reflect the culture change it is hoping to instil with employees. The traditional focus on training infers that something is done to the individual and that it is the organisation's responsibility.

### Adult learner accounts could help engage learners

Adult Learner Accounts (ALAs) could be an important way of incentivising people to undertake training, especially higher level training. The Leitch Review's recommendation that all adult further education funding be channelled through ALAs and Train to Gain is a welcome step for the creation of a demand-led system. Employer commitment was a valuable part of the success of Individual Learning Accounts as it helped ensure real commitment to the courses by individuals and that skills were relevant to the work. The government should ensure employers are involved where possible in ALAs.

The ALAs should form a significant part of the government plan to make skills funding more demand-led. But it must tailor and deliver skills valued by employers – only 1% of Individual Learning Accounts (ILA) courses were delivered in the workplace and the CBI hopes this will increase significantly.

The CBI believes groups of employees should be encouraged to pool their resources to purchase relevant training. Firms may well be prepared to match fund employee training, particularly where it leads to skills the employer finds valuable. The Home Computing Initiative (HCI) provides a good model. This scheme played an important role in introducing people to ICT and developing their skills as it overcame many of the problems that usually inhibit access: lack of access to credit, fear, antipathy, affordability, technophobia and the relevance of computing. It achieved this through a tax exemption for computer systems purchased through the employer-led scheme, introduced by the Chancellor in 1999. Key success factors of the HCI included real employer buy-in and commitment, a non-bureaucratic approach and focus on employment needs.

ALAs should build on the success of the HCI to incentivise individuals to get involved in training with commitment from employers. Employees and employers worked in partnerships to deliver a benefit that also enhanced skills which were useful not just in home life – but also in work.

## CBI RECOMMENDATIONS

- **Adult Learner Accounts (ALAs) should deliver skills employers need – with safeguards to avoid abuse**
- **Accounts should be used to accredit exiting training and employees should arrange to group together to invest in training with employer agreement.**

### The government's skills structure needs streamlining to better meet employer needs

Employers have expressed concern that too much of the publicly funded skills infrastructure is not meeting their needs. The skills system is seen by many as an 'alphabet soup' – difficult to navigate, even for highly sophisticated employers. Some large firms want to deal at national level, others find a regional or sectoral approach most helpful and SMEs often work best through sectoral or local clusters. Too many firms have had some contact with government bodies designed to support them, without receiving helpful advice or information.

Extensive consultation with CBI members has shown high levels of dissatisfaction, and concern that the public bodies charged with facilitating training are:

- **Bureaucratic:** the process for accessing funding, seeking information and advice, and accrediting qualifications is seen as overly complicated and frequently fails to deliver the support employers need – for example advice on the quality of a particular training course
- **Difficult to navigate:** the Leitch Interim Report lists 26 'key skills bodies', demonstrating the complexity of the current system. As many have overlapping responsibilities, this adds to the confusion
- **Wasteful of resources:** bodies such as the Learning and Skills Council (LSC) and sector skills councils duplicate each other's roles.

Despite some indications that matters are improving, the pace of change is slow. Many employers are expressing strong dissatisfaction that the LSC structure, introduced eight years ago, still fails to match the service provided by Training and Enterprise Councils (TECs), which were felt to be more driven by employer needs. The CBI/Pertemps

*Employment trends survey 2006* shows that 62% of employers had contact with their local LSC – but that only 36% had received useful information as a result. SMEs were least likely to receive useful information (Exhibit 14).

The lack of effective support that business feels it is getting from the LSC is a major problem within the current system and needs to be addressed. Employers want to see the LSC’s role reduced within the national framework so that it can concentrate on the roles outlined for it in the Leitch Review:

- Only funding programmes leading to economically valuable skills
- Working to ensure quality by identifying providers that can receive public funds.

The creation of the Commission for Employment and Skills, recommended by the Leitch Review,<sup>58</sup> will be welcomed by employers, provided it is employer-led and focused on labour market need. Employers do not want another body focused on managing change in the public sector – although there is a need to involve private sector expertise on any executive board to ensure change is managed effectively.

CBI members support Lord Leitch’s view that another revolution in skills infrastructure, would lead to further upheaval that would divert attention from the real task of raising skills in order to raise productivity. The priority for business is a coherent system that ensures public money is allocated effectively to ensure limited resources are used to increase, in the words of the Leitch report, economically valuable skills.

### CBI RECOMMENDATIONS

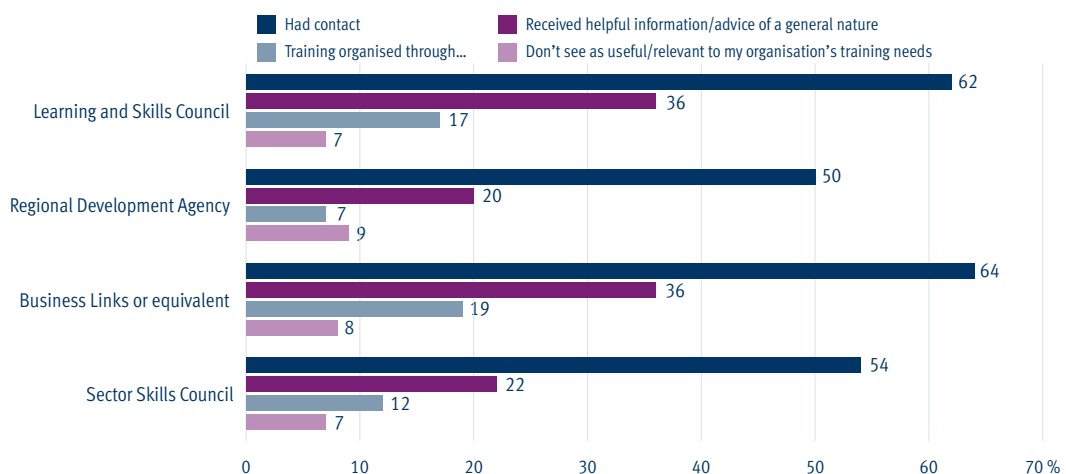
- The skills infrastructure should be streamlined, and public funds focused on the economically valuable skills employers need
- The creation of a new Commission for Employment and Skills, recommended by the Leitch Review, is welcomed by employers but must focus on labour market need.

### Skills bodies must meet the needs of all firms – one size does not fit all

Some firms want to deal at national level, others find a regional or sectoral approach most helpful: SMEs often work best through sectoral or local clusters.

#### EXHIBIT 14 Employer views of skills organisations (%)

Source: CBI/Pertemps Employment trends survey 2006



Any reformed structure must take account of the way employers do business. The supply chain, sectoral and local approaches can all add value.

### Larger employers

Operating on a national or international level, with sites across the UK, larger employers do not want or need contacts in every region – rather they want a single port of call nationally. The LSC has sought to address this with the creation of the National Employer Service. But while some large companies appear satisfied with this service, more could be done to improve it. Action on the Leitch Review's recommendation, that the National Employer Service be 'reformed, expanded and re-energised'<sup>59</sup> to provide a better service for large employers is necessary. Employers will judge the NES, and other public skills bodies, on the service they provide for businesses and their employees.

### The sectoral approach

This is only delivering in part. While some sector skills councils (SSCs) have been effective in their early work – notably in engineering, construction and IT, too many sectors are without an effective business-led SSC. Some of this can be put down to the comparatively short period of time that SSCs have had to establish themselves – but the success of e-skills, Cogent and other SSCs proves that success can and should be achieved across the board.

One area in which the sectoral approach could add real value is the design of qualifications, which must be relevant to the world of work to be of use to employers and students. The CBI sees merit in the proposal that SSCs, as well as the QCA, be responsible for approving qualifications.<sup>60</sup> This should ensure that students who qualify from SSC-approved courses have the skills employers need – as long as SSCs remain employer driven.

The new Sector Skills Academies developed by the SSCs are working well. The Fashion Retail Academy was established in 2005 as a trailblazer, and the first three National Skills Academies were launched in October 2006 in manufacturing, construction and financial services – all have been well supported by their sectors. Four more are preparing to launch: chemical, creative & cultural, food & drink manufacturing and hospitality. CBI members in the manufacturing sector have supported the development of the National

### e-skills – working on behalf of the IT and telecoms industry

e-skills was established as the sector skills council for the IT industry in 2000, and has proven effective in acting as a single voice for employers. This is due to a number of factors:

- **Leadership:** IBM CEO, Larry Hirst, is chair of e-skills and has been active in promoting the benefits of the SSC approach. Securing a chair with widespread respect among peers is an important part of making SSCs effective
- **Buy-in:** e-skills has the support of the employers and brings together a powerful collaboration of industry leaders. Board members include the CEOs/MDs of Accenture, IBM UK, EDS, Fujitsu, Hewlett Packard, Microsoft, Oracle, Smart421, Vodafone and T-Mobile, the heads of IT at BT, British Airways, Ford Motor Company, John Lewis and the Inland Revenue, and directors of Contact Centres including T-Mobile, Positive Contact, EDF Energy, Brakes, BT and 118 UK
- **Proven success:** e-skills has established its reputation by achieving concrete improvements in training for the IT and telecoms industry such as the Information Technology Management for Business (ITMB) degree. Unlike other IT degrees, the ITMB has been formed in close partnership with leading international companies, such as BT, CA, Ford, Fujitsu, HP, IBM, Lehman Brothers, Morgan Stanley, Norwich Union and Unilever, so the training given is a perfect fit for the needs of employers. The ITMB is currently being offered at Greenwich, UCE Birmingham and Northumbria universities.

Skills Academy for Manufacturing which opened for business in January 2007. The academy has the potential to rationalise training provision and add value by delivering specialist training developed in association with dedicated, high quality providers – in the public and private sectors.

But CBI members are concerned that having an academy for every major sector in the economy will lead to a duplication of resources, as there is often considerable overlap between sectors in terms of skill needs. It is essential that the second round of bidding for Academies does not lead to the problems of overlap and complexity pervading the present structure.

## Collaboration

Collaboration in supply chains and in local clusters can add real value. The CBI 2005 report *Employers collaborating to raise skills in supply chains and clusters*<sup>61</sup> investigated the benefits of skills collaboration – large employers driving skills improvement through the supply chain and SMEs working together in clusters to mutual benefit. The report found that a common business benefit of collaboration is the direct help it can provide to SMEs managers in resolving business problems through mentoring or good-practice workshops.

The CBI report shows that managers and leaders of SMEs are willing to trust and learn from their peers through mentoring groups or sharing expertise on dealing with business challenges. We have made a number of recommendations to facilitate this knowledge sharing, in particular that more should be done to develop support for business – especially SMEs – to foster collaboration on skills and innovation.

Sourcing and signposting of good quality training for employers is particularly important for those who want to train but cannot find suitable training provision – 12% of employers who do not train could not find appropriate courses, despite wanting to invest in their staff.<sup>62</sup> The LSC's initiatives to develop an Employer Guide to Training and the standard for excellence are welcome, but the information contained in them must go further than providing just ALI/Ofsted inspection grades. Together with a peer review section, employers – especially SMEs – would benefit greatly from a guide to procuring services, not simply a list of available courses.

Certainly, a national level approach is needed for generic skills where it makes little sense for each sector to develop courses in areas such as leadership or innovation. The Employment and Skills Commission could take a leading role in ensuring a co-ordinated approach to generic skills – as Lord Leitch recommends.

## CBI RECOMMENDATIONS

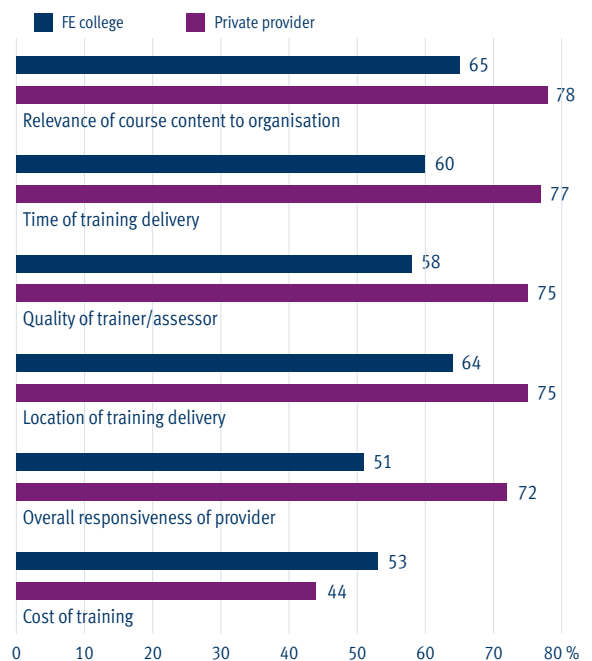
- Revitalisation of sector skills councils must better define their responsibilities to ensure real employer buy-in
- Co-ordination and collaboration between the bodies responsible for skills (RDAs, JobcentrePlus and LSCs) should be improved
- Employers need a comprehensive 'Which' guide to training providers, which advises on quality of training as well as who provides what.

## Raising the quality of publicly funded training to meet business needs

The scale of government investment in workforce training is substantial: last year, it spent £3bn on adult skills, with a further £161m spent on basic skills through the Train to Gain programme targeted at adult workers without a Level 2 qualification.

### EXHIBIT 15 Employer satisfaction with training providers (%)

Source: CBI/Pertemps Employment trends survey 2006



The FE sector as a whole receives £5bn a year from government.

Most publicly-funded training is delivered by Further Education colleges and while the LSC surveys shows high levels of 'satisfaction' with FE college provision, the proportion of employers who are very satisfied is higher for private provision (56%) than for FE college provision (43%).<sup>63</sup> CBI surveys show that private providers provide better quality of service across most areas. Exhibit 15 shows only half of employers (51%) rated the overall responsiveness of colleges as at least satisfactory, according to the 2006 CBI/ Pertemps *Employment trends survey* – while 72% of firms were satisfied with private providers' responsiveness to their needs.

While there are examples of excellence in terms of colleges providing employers with high quality tailored training, many more are needed if the fully responsive system required to underpin a globally competitive economy is to be created. The Foster report recognised this, calling on FE colleges to improve their services to employers. The CBI will be preparing a report in 2007 giving examples of best practice in employer/college partnership and providing support for colleges and employers keen to know how to work together.

The LSC made proposals for a Single Standard for excellence designed to assess providers' responsiveness to employers. The proposed single standard is intended to recognise excellence at subject or sector level. The CBI believes it is vital to provide a mechanism that can demonstrate providers' ability to provide high quality workforce training. Our work has already indicated the likely key factors for success including:

- Training provision predicated on improving business performance
- High-quality trainers
- Training which fits employers' and employees' work patterns
- Training customised to suit individual employer requirements
- Cost-effective provision
- Flexibility in delivery and assessment
- An identified college point of contact with knowledge of the business

- Clear procedures and practices – to remove complexity and confusion
- Qualifications designed to meet business needs.

## CBI RECOMMENDATIONS

- FE colleges' assessment must measure performance against employers' success criteria – the CBI has identified the KPIs
- Ringfenced funding for FE colleges should be removed so employers can access the best quality training whether public or private sector.

## And finally – what doesn't work?

Despite suggestions that compulsion could be revisited, the Leitch Review is right to have focused on incentives and reforms, rather than compelling firms to train, for which a good case has never been made. As Leitch highlights in his final report, a blunt 'one size fits all' form of compulsion is unlikely to be effective. CBI members would strongly oppose the introduction of compulsion for training.

## Training levies add bureaucracy but do not increase training

Training levies failed in the past to deliver increased training, with employers spending their time bureaucratically accounting for training costs to avoid the levy. The construction sector and film industry both operate a levy which works for them because it suits the particular situation of those industries, in particular a large proportion of self-employed workers sub-contracting. Each year CITB-Construction Skills must demonstrate to government that over half of employers eligible to pay the levy (usually employers with a wage bill of £69,000 or more per annum) support it. This is done by consulting with the main employer federations.

But while CBI members in these sectors have supported a levy, new levies must not be adopted without the support of the majority of firms in a sector. In other countries, national levies do not appear to have delivered the expected benefits. In France, companies with ten or more employees have to spend a minimum of 1.6% of their wage bill on training

or pay a corresponding levy. Companies with fewer than ten employees pay 0.55% of their wage bill. Most SMEs prefer to pay the levy to avoid the bureaucracy of justifying the training they have done. As a result, employees in SMEs receive little training. The levy fund finances part of the training given by larger firms, who would have funded training entirely if there had not been any public funds available.

The Australian training levy also failed to have a positive effect on the groups in most need of training. Australia had a training levy system in place in the 1990s – it was abolished in 1994. An assessment<sup>64</sup> of the levy in Australia suggested that it had increased spending on training, but had not been effective in stimulating demand from vulnerable groups: lower skilled workers, migrants, young workers, employees in small workplaces, casuals and highly mobile workers all fared worse in 1993 than they did in 1989. The evaluation report summarises this trend in terms of ‘more money being spent to train fewer people’.

The Australian levy also had the same effect on SMEs as the French levy in that small firms paid the levy but did not train. Australian employers were generally negative about the levy. The most common complaint was the ‘paper burden’ of compliance. The second most common complaint was the ‘insensitivity or irrelevance’ of the programme to the organisation’s business or industry.

### **Rights to time off for training are not taken up by those who most need help**

There is no evidence that a statutory approach is effective in raising skills levels in this section of the workforce. France, Belgium, Denmark, Germany and Finland give workers a right to paid educational leave (under certain conditions) but the OECD<sup>65</sup> found no clear evidence that such measures have been successful in increasing gainful adult training.

The ‘droit individuel à la formation’ (individual right to training) has been in place in France since 2004. All employees have a right to request up to 20 hours of off-the-job training per year – this can be cumulated over six years (up to 120 hours of training). In theory, this is not an absolute right – it requires the employer’s agreement. During the period of training, employees receive the equivalent of 50% of their net remuneration. The employer also covers training costs and transport expenses.

Employer organisations in France have suggested that this right is ‘more virtual than real’ as only a fraction of those eligible take up the right and these are generally employees with high levels of qualification. In France the vast majority of participants already have at least a Level 2 qualification and over 60% have at least a Level 3 qualification. This has resulted in the French government having to devise more training schemes for the low-skilled on top of the right.

Other sources confirm that the right has led to a situation of ‘sponsored training for the best qualified’, warning against the risk of ‘tick box’ approaches to training where employers, to satisfy legal requirements will let their employees do their 20 annual hours of training, without a strategic approach to skills development.

### **Collective bargaining on skills is not appropriate – an individualised approach is required**

CBI members are committed to involving their employees on training matters as the rising number of firms committed to the Investors in People Standard (IiP) demonstrates – approximately 40,000 companies are currently committed to IiP, covering 40% of the workforce. The CBI/Pertemps *Employment trends survey 2006* indicates that while bargaining on training is rare (of those firms recognising a union, just 11% do so), consulting with employees on training is much more common (of those firms recognising a union, 57% do so).<sup>66</sup>

Employers do not believe training should be included as a core issue for collective bargaining. It is difficult to envisage how individual training needs can be captured through this process. It is better suited within the context of individual performance reviews between an employee and their manager where training needs are identified and reviewed on an ongoing basis.

The purpose of training is to raise employee skills in order to raise business performance and increase individuals’ employability. If training were to become a core bargaining issue, the focus would increasingly fall on input factors, such as employer expenditure and days off for training, rather than on the output and impact of training on the employer and employee. A focus on input factors is not an effective means of measuring the benefits of training – employees have a diverse range of skills needs which can be addressed through formal and informal training, much of which cannot

be quantified by a training budget or the number of days off work for training.

There is some union involvement in training in companies where Union Learning Representatives operate – they can play a valuable role in encouraging employees to learn, particularly those with basic skills problems. The business and employees benefit most when learning reps work in partnership with the employer’s training team.

### **Licences to operate may only work in a limited number of sectors**

Other sectors have supported the approach of a licence to operate (employees must be trained to a certain level before the employer will be given a licence) and these work well in the nuclear industry, healthcare and professions such as medicine and law. In the construction sector, a card scheme allows workers to prove that they can do their jobs and that they can do it safely. The Construction Skills Certification Scheme (CSCS) card, for example, carries the worker’s name and photograph, says that they have passed a Health and Safety Test and lists qualifications. This form of license to operate has worked well in the construction sector where the need for strong health and safety standards needs to fit with the high labour turnover rates.

But while licences to operate are useful in sectors where it is essential that employees have the required technical competences to perform their jobs, there is little support for adoption of this approach as it will not be appropriate to most sectors.

## **CBI RECOMMENDATIONS**

- Licences to operate and training levies must only be introduced – or continue – where there is at least 80% of employers in the sector vote in favour
  - Rights to time off and collective bargaining on training must be resisted – an individualised approach to skills works best.
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# Footnotes

- 1 DFES, 2005
- 2 *Employment trends survey 2006*, CBI/Pertemps, September 2006
- 3 *Working on the three Rs: Employers' priorities for functional skills in maths and English*, CBI/DFES, August 2006
- 4 *Employment trends survey*, *ibid*
- 5 *Working on the three Rs*, *ibid*
- 6 *Next Steps, Science and Innovation Investment Framework*, March 2006
- 7 Next Steps document, *ibid*
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