ENGAGING SMALL EMPLOYERS IN CONTINUING TRAINING

AN INTERNATIONAL REVIEW OF POLICIES AND INITIATIVES

A Report for the Sector Skills Development Agency

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In October 2002 the then Department for Education and Skills (now DIUS) formally launched Skills for Business (SfB), a new UK-wide network of employer-led Sector Skills Councils (SSCs), supported and directed by the Sector Skills Development Agency (SSDA). The purpose of SfB is to bring employers more centre stage in articulating their skill needs and delivering skills-based productivity improvements that can enhance UK competitiveness and the effectiveness of public services. The remit of the SSDA includes establishing and progressing the network of SSCs, supporting the SSCs in the development of their own capacity and providing a range of core services. Additionally the SSDA has responsibility for representing sectors not covered by an SSC and co-ordinating action on generic issues.

Research, and developing a sound evidence base, is central to the SSDA and to Skills for Business as a whole. It is crucial in: analysing productivity and skill needs; identifying priorities for action; and improving the evolving policy and skills agenda. It is vital that the SSDA research team works closely with partners already involved in skills and related research to generally drive up the quality of sectoral labour market analysis in the UK and to develop a more shared understanding of UK-wide sector priorities.

The SSDA is undertaking a variety of activities to develop the analytical capacity of the Network and enhance its evidence base. This involves: developing a substantial programme of new research and evaluation, including international research; synthesizing existing research; developing a common skills and labour market intelligence framework; taking part in partnership research projects across the UK; and setting up an expert panel drawing on the knowledge of leading academics, consultants and researchers in the field of labour market studies. Members of this panel will feed into specific research projects and peer review the outputs; be invited to participate in seminars and consultation events on specific research and policy issues; and will be asked to contribute to an annual research conference.

The SSDA takes the dissemination of research findings seriously. As such it has developed this dedicated research series to publish all research sponsored by the SSDA.

Lesley Giles
Director of Strategy and Research at the SSDA
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EXECUTIVE SUMMARY

1 CONTEXT, AIMS AND APPROACHES

The extent and quality of training undertaken by small firms is one of the main challenges within the skills agenda. Among firms with fewer than 25 employees, 36% undertake no training and typically place little emphasis upon the role of skills in the overall business planning process. The situation is not confined to the UK, but felt across different countries, reflecting the fact that small firms generally face special challenges. Given opportunity cost barriers, and a pre-occupation with short-term and survival issues, such employers exhibit a preference for short-duration training over more formal, qualifications-based forms. Yet, most research focusing upon engaging employers in training relates to employers in general; the distinct needs of SMEs, and especially small employers, are often not specifically considered.

The SSDA commissioned this study in order to identify experiments and experiences from overseas that might inform UK policy-makers. It is concerned with continuing vocational training (CVT) of employed adults and focuses on specific areas of current policy interest, including management and leadership, the role of brokers, compensation for worker time in training, employer levies, and the effective role of Sector Skills Councils.

The study, conducted during 2007, was based largely upon internet search, supplemented by contacting policy-makers, analysts, and academics in various countries. Evidence was gathered through conducting nine country studies (France, the Netherlands, Denmark, Norway, Finland, Ireland, Australia, New Zealand and Canada), which allow exploration of the different ‘system’ approaches to this issue, together with 20 specific intervention measures or programmes, from a range of other countries.

2 COUNTRY APPROACHES

2.1 POLICY CONTEXT

The proportion of relevant policy measures that are specifically focused upon small firms is found to be relatively limited in all countries and the specific focus of interventions on small firms is not closely correlated to national levels of training undertaken by these employers.

Some of the best-performing countries in this respect, such as Denmark and other Scandinavian countries, simply have a good record of encouraging training in general, which means that small firms are naturally more engaged than they are in other nations. Some of the better performers make little or no effort to target SMEs. Nor does high spending on training by government offer a clear solution. This may help to produce a context encouraging training among small firms – but countries like the Netherlands and Norway achieve high incidences of small employer engagement in training, based largely on funding by the employers themselves.

The overall policy context, including the degree of involvement of the social partners and the political support of the relevant ministries, is a key factor. The cultural setting, which varies considerably between countries, is found to be a generally positive influence with respect to engaging firms in training in Scandinavian countries, where it facilitates collective approaches to skills issues (through extensive social partner involvement), and encourages the adoption of wider workplace development programmes.
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2.2 SECTORAL APPROACHES

A sectoral approach to developing training is used by a majority of countries in this study. Such approaches also facilitate a more formal, systematised route to the accreditation of prior experience and learning, than applies in the UK. Sectoral bodies can specify relatively easily the key competences required, and either link them to a unitised qualifications framework (as in the Antipodes) or opt for a looser, portfolio approach where the employee records both formally and informally acquired competences in a ‘passport’ (as in some European states).

While in some countries, sectoral training bodies are funded by the state, it is common in Europe for resources to be generated via a training levy, based upon a proportion of the employers’ wage bills. This can be used in various degrees to exert pressure upon firms to undertake training; several involve the drawing up of a training plan, which helps to create a training culture and is one means of drawing in small firms.

As a general rule, the sectoral approach to vocational training is set within a wider system of measures to stimulate lifelong learning. In some countries this is more developed in a cross-departmental sense; while in others devolution to regional level makes for a more complex pattern. In most countries a trend is clearly established of shifting responsibility for developing and delivering skills towards formal social partnerships, often regionally constituted.

2.3 COLLECTIVE BARGAINING

Labour relations and institutional framework permitting, the review findings suggest that structured involvement (at different levels) of employee representatives and social partners may be a means of overcoming deficiencies of access and provision, not just for smaller firms, but also for disadvantaged groups, such as less qualified workers. Participation by works councils, where they have the legal rights to influence training plans and strategies, are associated with higher employer engagement, although legal thresholds mean these often do not operate in relation to small firms.

Some aspects of the system of social partnership working and collective agreements have proven useful in engaging small businesses in particular. Although many small workplaces are outside formal systems of social dialogue, social influences are found to extend to these ‘harder to reach’ workplaces via their effects on the prevailing culture (including more equitable access to learning opportunities), the activities of sectoral bodies (including the administering of training funds) and better supply of information on training. Even in the UK, partnership working is becoming the norm for policy formation, and consensual and cooperative action might be expected to extend further in the coming years.

2.4 INTEGRATING THE EMPLOYMENT AND SKILLS SYSTEMS

In most countries, there is relatively little convergence between those policies which focus on engaging SMEs in vocational training and those for assisting the unemployed or low skilled. Experience suggests that, even in relation to job rotation - which is designed to combine encouragement of CVT and training/giving work opportunities to unemployed people - too much emphasis on the latter can conflict with the achievement of either objective.

Targeting can address both vocational training and employability, but it is not widely used in practice in the countries investigated. Indeed, political priority widely given to assisting the unemployed and low skilled workers often means that small firms are squeezed out of
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consideration. Our research suggests that more might be done to combine the two goals – and the Leitch proposals regarding the Skills Pledge for low skilled workers, combined with the idea of compensation for associated small firm costs and the emphasis in responsibilities of Train to Gain brokers towards small employers, are consistent with this notion.

3 INTERVENTIONS IN KEY AREAS

3.1 OUTLOOK CHANGE

Making ‘the business case for training’ is widely regarded as an important outstanding task in terms of developing interest in skills formation among under-investing enterprises, including small firms. A strong theme can also be identified among countries examined whereby training is encouraged within a broader attempt to improve competitiveness through strengthening workplaces and improving work experience. Scandinavian countries, in particular, have piloted programmes of this kind.

3.2 INFORMATION AND GUIDANCE MECHANISMS

A key issue in engaging small firms is that of embodying capacity for human resource development actually within the firms. In the countries examined, this is achieved either through on-going dialogue and regular interactions through agents or brokers, or, alternatively, officers appointed with responsibility for human resource issues. Although experience suggests that this is a resource-intensive exercise, the methods used chime with the Train to Gain brokers’ role within the UK context.

3.3 RELEVANT TRAINING

Addressing market failures and providing support - particularly in targeted areas, such as high-tech sectors - would be expected to contribute to meeting formal training targets and to benefit small firms themselves. However, much of the increased training sought by small firms is not of that kind, and schemes that are permissive rather than restrictive in their conditions are often found to be successful in engaging small (and especially micro) employers.

While it is widely accepted that there is value in having an effective system for accrediting non-formal and informal training, documentation of skills and creation of portfolios etc. can be off-putting for small employers, unless – as demonstrated by Antipodean experience – efforts are expressly made to design the system so it appeals to small employers.

Flexible delivery systems are identified in the UK National Skills Forum report as a key factor in engaging small firms. From experience overseas, the UK’s new Qualification and Credit Framework is seen as likely to be attractive to small employers in creating shorter, unit-based qualifications – especially as these ‘chunks’ of learning can be packaged together in a flexible way – as well as to employees.

3.4 MANAGEMENT TRAINING PROVISION

Successful examples of management training initiatives for small firms, drawn from evidence of initiatives and programmes in other countries, are found generally to involve critical self-reflection and the opportunity to learn from the experiences of others in a similar position to themselves. They are also commonly associated with benefits for the participant’s business post-training with respect to: accessing a larger firm’s supply chain or network; developing
management skills at the same time as encouraging networking within a cluster; solving actual business challenges using experienced mentors or certificate-based training focusing on the manager’s own business; and achieving business insights through learning from the experience of other owner-managers.

3.5 E-LEARNING

E-learning potentially offers an opportunity to engage time-poor SME owner-managers and their employees in training, through its greater flexibility, lower costs, logistical advantages etc. Successful e-learning projects tend to be rooted in actual work practices and contextualised to the owner’s workplace and experience - preferably involving networking with other owner-managers. Design of such schemes needs to harness the technology to fit closely both the study preferences and work-related requirements of busy SME managers.

Engaging small business in e-learning is sometimes aided by bundling the learning aspects together with other online activities as a complementary package of services (e.g. including marketing-relevant activities), rather than simply an e-learning platform.

Good examples exist of sector-specific e-learning programmes, well-tailored to the needs of employers and employees. However, familiar challenges remain for e-learning platforms aimed at small firms, including how to recognise informal e-learning’s exchange value within qualifications frameworks, and how they might better suit lower-skill employees.

3.6 FISCAL INCENTIVES AND SUBSIDIES

Most countries permit firms to offset training costs against profits in their tax returns, and some even allow deductions of more than the training costs for particular types of firms (or training). Such extra incentives can be justified for small firms in part by the additional costs of filing for the tax deduction. Profit tax deduction schemes are cheap to administer, allow employers choice in who is to be trained and how, and give an incentive balance for employers to train rather than recruiting skills externally. Scheme design and eligibility criteria affect the participation of smaller firms in training and also the level of deadweight.

SMEs are frequently targeted in training subsidy schemes. Evidence from countries such as Belgium and France show that, carefully designed, such schemes can be effective. Although they are usually only weakly related to business performance, efforts are made in some countries to restrict support to training activities that are linked to business strategy, or to a strategically important project. The research frequently uncovered specific training initiatives which, while not specifically targeted at small businesses, may prove of particular benefit to such firms.

In some countries it is common for contracts to be made permitting employers to recover part of their investment in training, should the employee leave voluntarily soon afterwards. These encourage employers to support training by reducing risk. Although not without practical problems, such devices could apply where there are joint contributions from employers as well as employees. However, no example of such a targeted approach has been uncovered by the study, giving weight to the conclusion that such clauses might discourage employees from taking training, while training itself helps to prevent loss of staff through poaching through its effect on staff loyalty.
3.7 TRAINING LEVIES

Levy schemes have the potential to raise and maintain a high degree of employer-based training through self-financing, and offer considerable scope for facilitating training among small firms through targeting the use of funds raised in this way. They are a low-cost measure for governments, and are in widespread use in Europe and beyond. A number of countries operate compulsory national schemes, while others have developed such systems on a sectoral basis, through agreements between social partners. The diverse range of experiences offers useful insights, given current interest in such models in the UK.

Findings suggest that this approach can make a positive contribution to the engagement of small employers in training. Administered through collective/sectoral bodies, levy-based funds can influence the level and type of training undertaken by small enterprises. As well, they can be used to address the need to train less qualified workers. It should be stressed that realising the full effect of levies is also dependent upon broader structures of advice and support.

3.8 TRAINING LEAVE

Although training leave is a direct means of encouraging CVT that can be targeted upon particular kinds of business, most government-supported training or study leave schemes are designed to support learning among disadvantaged groups, rather than being focused upon small firms. Of the schemes giving employees paid or unpaid leave to attend training courses, the majority do not discriminate in terms of the size of enterprise in which the employees are working – except occasionally in the sense of having a minimum size, thus placing smaller firms outside the system.

In general, take-up of training leave schemes is low, because a key aspect of this decision is the means by which the leave costs – training fees, wages of the absent employee and costs of replacement staff – are met. Among the countries reviewed, the Scandinavian countries achieve the highest rates of take-up among small firms – less because of targeting than a more generous framework for leave support alongside institutions and social norms that encourage employers to participate.

Initiatives based upon study leave accounts might encourage training among employees of small enterprises, were they supported more generously, such as through a higher rate of tax relief compared with larger firms. Support schemes directed at employees are operated in a number of countries, but these tend to be differentiated by employee characteristics, rather than firm size – even though employees of small firms tend to be disadvantaged in relation to training.

Giving a statutory right to study leave is regarded in many countries as sending an important message about training, but it leaves a problem to be solved if resources are not made available to support it. The Leitch proposal for giving a statutory entitlement to workplace training (in the event that the voluntarist Skills Pledge proves insufficiently effective) is consistent with practice in many countries. Experience of those countries supports the further suggestion by Leitch that, in such circumstances, smaller employers may need compensating for the time allowances at work.

3.9 JOB-ROTATION SCHEMES

Job-rotation potentially offers a solution to the problem of worker absence for training. It supports CVT through addressing the need to replace such workers and meeting the cost of the replacement worker. While the wage earner is absent from work whilst attending a
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course or event, an appropriately supported unemployed person is given the opportunity for a job placement. Such schemes potentially meet both the training needs of firms and aid unemployed persons. While these schemes are often practically more helpful to medium than small firms, they play a significant role in relation to small (and micro) firms in certain sectors and localities - reflecting aspects of scheme design and substantial investment in support infrastructure.

3.10 POOLING RESOURCES AND NETWORKS

Pooling of resources for training is commonly found as a means of addressing many of the obstacles to training confronting individual small firms. The use of collective funds, based upon levies or contributions, is one example of pooling resources. Pooling schemes can also make use of the facilities of larger firms for design and delivery of a variety of mentoring and training programmes to supply chain partners, including small suppliers. Such projects also offer spin-off benefits to do with networking in general and associated knowledge exchange.

Examples of successful consortia are common, demonstrating that the relationship between firms can provide the context for action on training, and that, typically, these linkages involve small firms. The larger companies play a role in facilitating training and establishing standards. While both large and small firms benefit from the resulting boost to efficiency, quality etc., the fact that participating in such training helps to secure a small firm’s market position with the larger company, constitutes a powerful incentive for them to engage.

The National Skills Forum recognised the value of existing small business networks and training associations in terms of offering opportunities for sharing best practice in training. Evidence from overseas provides strong support for this route to engaging small firms in training, especially given other benefits based on the associated networking and knowledge exchange. Encouraging more such activity in the UK could build on (and help make sustainable) the work of Train to Gain skills brokers. Experiences relating to initiatives for network collaboration indicate that they need to be focused, structured and supported in ways that allow the skill formation objectives to be realised, especially in relation to small firms.

4 FURTHER RESEARCH

This review has confirmed the extensive work that has been undertaken over recent years, by way of pilot studies, evaluations, etc., with respect to numerous (and mainly localised) initiatives in the UK that relate to small firm engagement. There may be benefits for policy understanding from systematically drawing together the findings of this literature and identifying lessons, particularly in relation to key areas of policy concern.

The large scope of this study means that many of the areas explored would yield further insights, were additional time available for their systematic investigation. In relation to areas that are considered promising from the point of view of developing initiatives for the UK – such as, for example, building networks based around larger firms, or indeed among SMEs/smaller firms – more detailed study could be undertaken to throw light on important aspects of existing initiatives, including the nature of support mechanisms, governance and leadership, etc.

A more systematic means of engaging with other countries might be used to access research findings and develop policy relating to a common issue - such as the one explored in this study. Generally, present practice involves periodic fact-finding activity, international
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workshops, etc. Such processes permit only a limited appreciation of policy context. Entering into a longer-term relationship(s), whereby officials with specialised knowledge, along with their advisors, regularly meet and exchange information with their counterparts in particular countries, would allow a deeper mutual understanding of issues and policy.
1. INTRODUCTION

1.1 SIGNIFICANCE OF RESEARCH TOPIC

The extent and quality of training undertaken by small firms is one of the main challenges within the skills agenda. Some 36% of firms with less than 25 employees undertake no training (Leitch Review of Skills, 2006). This is a significant issue considering that such enterprises make up over 90% of all businesses with employees and that the workplace is the principal location of learning for the majority of adults of working age (EIM/SEOR, 2005). Moreover, a recent report for the SSDA on the links between training and establishment survival suggests that firms that provide training for their employees were significantly less likely to close than firms not providing training (Collier et al., 2007).

Even where some form of training is offered by small employers, this is often focused disproportionately upon the most highly qualified employees; yet, at the same time, there is a reluctance among smaller firms to take on people with a degree. While larger firms are more likely to offer training to their staff, the costs per employee tend to be higher for smaller firms because it is more disruptive to their operations and they cannot access economies of scale. Thus, even in sectors where they dominate, engaging small firms widely is a problem (Sung et al., 2006).

Such practicalities mean that the problem is a general one, felt across different countries, and not just confined to the UK. Difficulties in getting small firms involved in Sector Skills Councils are similarly encountered in other countries operating equivalent systems (Sung et al., 2006) - a situation that both reflects and contributes to the training performance of smaller businesses and organisations. A recent EU study concluded, for example, that continuing vocational training (CVT) is presently the ‘weakest link’ in the lifelong learning chain: whereas the average enterprise in the EU25 spent 2.3% of labour costs on CVT, those with 10-19 employees spent only 1.5% (European Commission 2005a).

In spite of this situation, most research focusing upon engaging employers in training relates to employers in general; the distinct needs of SMEs, and especially small employers, are often not specifically considered (section 2.4.2). Thus, in the context of concern over the issue of increasing employer investment in training more generally, the SSDA commissioned this research project in order to identify how experiments and experiences from overseas might inform policy-makers in the UK. The Agency considered, more specifically, that it would be instructive to discover how a range of concerns central to the evolving system of skills development in the UK – e.g. demand-led approaches to skill formation, encouraging employers to take responsibility for up-skilling their workers, ensuring adult skills are increased across all levels, strengthening the employer voice, and statutory entitlements to workplace training – have been addressed elsewhere, specifically in ways that incorporate small businesses. The research findings, it is hoped, will be instructive for the new UK Commission for Employment and Skills. This will have a new remit that includes assessing the effectiveness of the entire UK skills and employment system, with increased emphasis on learning from international good practice, with the responsibility to make recommendations for system change, including the possible introduction of training levies in some sectors by 2010 if it is deemed necessary and desirable.

1.2 THE STUDY

This study investigates how the issue of small firm engagement in training is addressed overseas, including in a number of comparator countries, whether as part of the effort to assist small firm/SME development or as a specific element of skills strategy. In reviewing and assessing experiments and experiences overseas, the study seeks to inform policy approaches within the UK. It is focused principally upon the training of adults employed in mainly small firms.
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The project involved a number of stages. The first consisted of a review of the literature, to establish what research has been undertaken relating to this topic, including that covering patterns of training among small compared to large firms, obstacles to engagement, and potential areas of policy intervention. The second stage entailed reviewing the policy context in the UK (and more broadly within the EU), to establish key areas of current interest for UK policy-makers. The findings and understanding achieved as a result of these two stages allowed the identification of areas of potential policy focus that were to be investigated through reference to overseas experience. Thus, a framework of empirical inquiry was devised, permitting the selection of appropriate countries to be studied and choice of data collection methods.

In terms of the report’s structure, therefore, the following section (2) establishes the current basic understanding regarding small firms and their engagement in training, divided into sections covering empirical issues such as the differences by firm size categories in the level and nature of training activity (2.1-2), the barriers that operate to restrict small employer engagement with research (both in the UK and more generally) (2.3-4), and the research relating to policy intervention (2.4.2). The specific policy context for the UK - in particular the approach embodied in the Leitch Review of Skills (2006) and recommendations emanating from the National Skills Forum - are drawn out in section 3, which also includes a note on EU policy context (3.3). Taking account of the key policy directions relating to small firms currently being debated in the UK, in conjunction with the main messages that emerge generally from the extant research on policy for engaging small firms in training, the broad framework of inquiry is then set out (section 4.1). This identifies the individual policy areas where evidence was sought, and is followed by sections dealing with practical aspects of the research, including data collection methods, selection of comparator countries, and concepts and definitions (4.2.4).

Section 5 reports the findings of the extensive research undertaken for this study, discussing the extent to which this issue is being addressed elsewhere, through what means and (where possible) with what degree of success. First, the findings relating to specific country studies are summarised (5.1), followed by a more general review incorporating observations regarding interventions more broadly (5.2). The organisational structure used here corresponds to framework set out in 4.1. To aid accessibility, the detailed evidence on which the discussion of findings is based is presented in Evidence & Data (section 6). Material presented here respectively identifies and describes both national systems (6.1) and specific interventions (6.2), and - where evidence permits – provides assessments of their effectiveness and practical relevance for policy-makers. The country studies are detailed and instructive in themselves, as separate case studies, while the specific policies are extensively referenced in the discussion of findings.
2. SMALL FIRMS AND TRAINING

2.1 OBSERVED PATTERNS IN THE UK

The recent Skills for Business Network survey of 13,000 employers (Ipsos/MORI, 2006),
together with the 2005 National Employer Skills Survey (NESS), Johnson (2002) and survey-
based findings by Kitching and Blackburn (2002), allow the main features of small business
involvement in skilling their workers to be outlined in the bullet points below. Contrasts in
training activity between firm size groups are often substantial.

- Smaller employers provide less formal training than larger companies and are less likely
to participate in government training initiatives. Some 94% of firms with 25 employees
or more funded or arranged formal training for employees over the past year, compared
with 81% for firms with 5-24 employees and just 59% with 2-4 employees.

- Small and micro firms are less likely to provide ‘formal supervision structures’ to guide
employees through their job roles (86% and 69% respectively, versus 93% for
organisations of 250 or more employees). A similar pattern applies to work shadowing
(learning through observing others perform job roles).

- Smaller employers are more likely than large firms to source training from a private
provider, such as a training consultant. In 2005, some 46% of employers with fewer
than five employees, who had arranged training in the previous 12 months, used a
private provider, against 21% using an FE college.

- Eight out of ten firms with under 50 employees provided initial training for new recruits
over the previous 12 months, compared with 6/10 for established staff, and 4/10 for
owner-managers themselves.

- Training is more prevalent in businesses that are: (1) in particular sectors (especially
‘business and professional services’, ‘other services’); (2) employing ‘professional and
technical’ staff and ‘employed managers’; (3) introducing new products/services or new
technology; (4) undergoing organisational change; and (5) introducing new working
methods. Employers in ‘manufacturing’, ‘distribution, hotels and catering’ and ‘transport
and communications’ are the least likely to provide training.

- In-house informal training is preferred by smaller employers, primarily because it can be
tailored to their specific needs and conducted at suitable times. Johnson (2002) found
that, allowing for informal training, the training gap related to size tends to narrow
somewhat (although combining off-the-job and on-the-job training, employers with 100+
workers are still nearly twice as likely to train than those with 1-4 employees).

- Initial training, particularly, including on-the-job demonstrations of tasks and guidance on
the firm’s procedures, is virtually always undertaken in-house. Training for established
staff, and particularly for owner-managers, is more likely to be formal training by external
providers. Initial training for new recruits is sometimes the only form of workforce
training provided – e.g. in ‘distribution, hotels and catering’, with a higher proportion of
semi-skilled jobs and high rates of labour turnover.

- Training for qualifications is given low importance and around 1/10 employers reported
training offered no benefits. This figure from Kitching and Blackburn (2002) accords with
that of 11%, found by Ipsos/MORI (2006) - compared with 3% of larger businesses.

- Assessing the need for training is generally an unsystematic process and employers find
it particularly difficult to gauge its contribution to financial performance. ‘Strategic
trainers’ (i.e. 3/10 small firms, according to Kitching and Blackburn) were more likely to
report more benefits from training, to measure its effects, and to view qualifications
favourably. Interestingly, and consistent with research in Canada, small firms that
Engaging Small Employers in Continuing Training

seriously engage in training exhibit similar patterns to those of larger employers (Rabemananjara and Parsley, 2005).

- Strategic trainers tend to be larger businesses, in more competitive product markets, and competing on factors other than price. They have also typically grown in output or employment recently, have growth intentions, and/or have introduced new products or services. They provide further training to twice as many of their staff as ‘tactical trainers’ (half of all firms) and seven times as many as ‘low trainers’ (15% of firms).

- Half of small employers perceive no need for further training of their workforce - meeting their skills requirements either through recruitment or prior training; additional training is considered to offer no business benefit. Stable product markets, minimal product innovation and little interest in expansion generally characterise such firms. Real barriers to training are identified by only 43% of small firms (rising to 50% with respect to owner-manager training).

- Small firms typically place little emphasis upon the role of skills in the overall business planning process. While, overall, 7/10 firms consider their HR strategy to be linked to the overall business strategy, this applied to only 2/10 micro firms.

2.2 PATTERNS OVERSEAS

Similar forces appear to be at work in different countries. International comparisons of measures of the training participation rate, for example, consistently show that engagement in training activity falls as firm size diminishes. Thus, in Canada, workplace training is highly concentrated in larger firms, with establishments of over 500 employees having a participation rate (formal training) of 37%, compared to 25% for those with 20-99 employees and 18.5% for firms with fewer than 20 workers (2002 figures from CCL, 2007). The likelihood of an employee participating in employer-sponsored formal training is twice as high when employed by a firm of over 100 employees than when employed by one with fewer (when probabilities are adjusted for industry, occupation, age, ownership etc.) (Lin and Tremblay, 2003). Canadian research confirms the pattern found in the UK, whereby the small businesses that pursue an innovation and growth strategy are closer in their training behaviour to medium/large firms than that of other small businesses (Rabemananjara and Parsley, 2005).

To take another country example, surveys from Australia show that just one-third of small businesses (defined as those employing fewer than 20 employees) provided structured training for their employees compared with 70% of medium (20-199 employees) and 98% of large-sized enterprises, respectively (ABS, 2003). A recent survey of employers’ use and views of the VET system confirms that small businesses are consistently less engaged with the system than larger employers (NCVER, 2006). It also found that 14% of small businesses were not involved in any type of training in the previous 12 months, including apprenticeships or traineeships, nationally recognised training, and unaccredited and informal training. Moreover, small businesses revealed they were less satisfied with all types of recognised vocational qualifications (NCVER, 2007).

2.3 OBSTACLES TO TRAINING

It is widely accepted that SMEs face special challenges in relation to investing in workplace training. Messages that have emerged from studies in the UK (e.g. Kitching and Blackburn, 2002; Ipsos/MORI, 2006) regarding the obstacles to training reported by small firms are echoed in surveys and reports relating to the situation in overseas countries (e.g. Moy, 2000; Vaughan, 2002; Observatory of European SMEs, 2003; Lin and Tremblay, 2003; Industry Canada, 2004; Callan and Ashworth, 2004; NZ Tertiary Education Commission, 2005; CCL, 2007; Buyens and Wouters, 2005; OECD 2002; Devins et al., 2005).

The obstacles most commonly identified from our review of literature include the following:
There is often a lack of evidence to convince smaller employers of the benefits of training, so both perceived and real barriers operate to restrict training ambition and activity.

Formal, portable qualifications are perceived by many small employers as more valuable to employees than the business itself.

Small businesses consistently identify more barriers to training than larger firms. Most frequently cited are lost working time and financial costs of external training courses. Even where they perceive training to be of value, releasing employees for (especially formal) training is more difficult for smaller employers. For owner-manager training, lost working time is an especially important constraint.

Poaching by other firms, and training leading to wage demands are also frequently identified as obstacles by small employers - although less so with respect to induction/firm-specific training than more substantial training of individual workers - given that larger firms are usually able to pay higher wage rates.

Supply-side deficiencies in the availability, quality and location of training also act as constraints: commonly, perceived lack of relevance to employers’ training needs restricts participation in government training initiatives, as does lack of information about available initiatives. This applies equally to management training; owner-managers feel such training will not add to the knowledge s/he has of the firm, although fear of exposing their lack of knowledge can be a reason for owner-managers’ reluctance to participate.

Small firms report particular difficulty accessing training specifically tailored to their needs. Providers tend to be less willing to offer training to small businesses because of the costs of organising and customising the training. Colleges and commercial training providers largely work through partnerships focused on large companies rather than SMEs, who they see as offering only small numbers of trainees and reluctant to pay the full cost of training.

Not only do small firms generally lack access to economies of scale, but many also have more limited funds for investment in training. Of £33 billion spent on training, large employers (over 500 staff) spend on average £1.4 million, while those with 5 or fewer staff invested just £12,600. Yet, illustrating the importance of economies of scale, smaller firms spend three times more per member of staff than those with over 500 workers (£5,600 vs £1,600) (data from NESS, 2005).

While the decision to train is often linked to technological change, small firms tend to be less likely to adopt new technologies than larger businesses.

2.4 RESEARCH AND SMALL FIRM ENGAGEMENT

2.4.1 DECISION-MAKING CONTEXT

The above barriers make it highly probable that the level of training among small businesses is typically below its ‘optimal’ level. However, it would be a mistake to assume that optimality (in the sense of the efficient or desirable level of training) should be equated with achieving parity with larger firms in terms of standard training measures.

The level and pattern of small firm participation in training is substantially influenced by the characteristics of such businesses and the environment in which they operate (Johnson, 2002). Thus, for Kearns (2002), the ‘low and patchy’ small firm participation in training in Australia reflects the persistence of traditional barriers to participation, while the preference for largely informal methods of training is because they permit enterprises to meet
‘immediate business imperatives’ through an orientation towards the short-term ‘here-and-now’ and ‘just-in-time’. Indeed, the Tertiary Education Commission, reporting on the challenge of engaging New Zealand SMEs in industry training (2005), stressed the importance of viewing small firm engagement from the perspective of the business itself – thus giving due prominence to opportunity cost barriers, the pre-occupation with short-term and survival issues, and the preference for short-duration ‘as-and-when-required’ training over more formal, qualifications-based forms.

While informal training is often more relevant to smaller companies and their performance, formal training is easier to measure and tends to dominate comparative statistics (Ashton, 2007; Johnson, 2002). Simply increasing such training, in a small firm context, will tend to be of more value in terms of broader labour market efficiency, than to the firm itself.

However, where the level (and type) of training is restrained by market failure (information deficiencies, limited access to economies of scale, free riding, externalities, etc.), intervention may be justified through measures that increase investment in training. Thus, bringing about conditions that reduce poaching by other firms may encourage small firms to train. The same can be said with respect to increasing information flows on available training, making training programmes themselves more relevant and accessible, and demonstrating that there are positive returns to such action in terms of business performance. It is also possible for training to be expanded in ways that benefit small firms where such action is an adjunct of important organisational change – such as a move to a more skill intensive business model. The situation is far less clear, however, in relation to some forms of intervention - for example, with respect to accreditation of prior experience, or generic as opposed to firm-specific training, where the respective interests of small employers and employees can conflict (Ok and Tergeist, 2003).

Ultimately, therefore, policy-makers interested in finding ways of increasing engagement of small firms need to:

(1) understand the conditions under which small employers operate, both in relation to the internal and external environment, and how these affect training opportunities for workers;

(2) recognise that engagement in training among small employers may, as a consequence, be distinct in nature from that of larger firms and less amenable to standard measures of performance and national targets.

2.4.2 RESEARCH ON POLICY

Numerous national and international studies have been undertaken that are concerned with how to increase training by employers, but only a small proportion directly, and in any depth, address the issue of how policy-makers might enhance engagement in training by SMEs and, more particularly, small firms.

The most significant general review of intervention strategies for the engagement of small firms was recently undertaken in Australia (Dawe and Nguyen, 2007). Using a key word search, the authors filtered 2,688 (mainly published) references (relating particularly to Australia and the UK), down to 20 core sources, and from this exhaustive process distilled practical lessons based upon evaluations and assessments of experience. This constitutes a useful framework of areas which policy needs to address in order to raise the level of small firm engagement, and thus has informed this study with respect to the development of the inquiry framework (section 4.1). Dawe and Nguyen also draw attention to the extensive work that has been undertaken, by way of pilot studies, evaluations etc., with respect to initiatives in the UK aimed at small firm engagement – suggesting that there may be benefits to examining this literature systematically for its policy lessons.

Other notable large-scale studies focusing upon policy to increase employer engagement have been concerned with employers in general, rather than small firms specifically.
Drawing upon experience in 17 countries, the OECD (2005) investigated institutional arrangements conducive to enhancing investments by firms and individuals – in particular policies addressing the barriers of time constraints, motivation, information, financial constraints and supply quality. Similarly, de Kok et al. (EIM/SEOR 2005), in their multi-country European study of incentives and instruments used to encourage employer training, do not report specially upon the issue from the perspective of either SMEs or small enterprises. However the unpublished data collected for the study, generously made available by the authors, constitutes a useful source for its detail on initiatives targeted upon SMEs.

An earlier report by the OECD, on management training for SMEs (published in 2002), noted that there existed few careful evaluations of programmes and schemes aimed at SMEs - an observation with which a recent Expert Group on management development for SMEs in Ireland concurred, adding that ‘there has not yet been sufficient evaluation work done to identify best practice with certainty’ (EGFSN, 2006; p9). Extensive search by Devins et al. (2005) revealed ‘a lack of literature associated with [management] learning in the micro business context’. Equally under-researched, it would seem, is the contribution of management capability to business performance (Tamkin and Denvir, 2006; Fuller-Love, 2006). In terms of policy, the EGFSN found itself falling back upon recommendations of methods used for promotion of training among SMEs more generally - use of informal/on-the-job methods, providing learning locally at flexible times, and demand-led, business-focused content.

While the absence of authoritative studies that permit the identification of best practice justified undertaking this research, the wider literature includes work that addresses training issues from different perspectives, and these have informed the current study. One or two examples serve to demonstrate the value of various conceptualisations to this project. Of particular importance is work that departs from narrow and often static approaches focused upon individual firms, rational individualism etc., in favour of understanding training decisions in their wider context. Thus Bishop (2006), for example, views learning as a social construction, in which the role of networks is important, and argues that policy processes need to recognise such constructs. Such thinking is behind the arguments of Keep (2007a) in favour of public support for collective approaches (rather than for individual employers), and those of building enduring capacity, rather than simply achieving shorter-term ‘throughput’ goals. Building on the wider research of SKOPE, he also recognises the potential of dynamic workplaces in relation to training – consistent with Evans et al. (2006), who advocates giving attention to developing workplaces that offer ‘rich or expansive learning environments’. With small firms especially in mind, Keep importantly stresses the need for policy to avoid a ‘one-size-fits-all’ approach to intervention. The work of Kearns (2002), while related to Australian context, usefully demonstrates the complexity of the challenge confronting policy-makers in arguing the need for an integrated and holistic approach to learning, skills and enterprise in small business that brings together business-specific training, life-long learning and personal development in order to foster innovation, enterprise and continuous improvement. His all-encompassing theme includes the need for joined-up multiple perspectives in a comprehensive national framework for learning, skill and enterprises directed at individuals, communities and firms - including small firms.
3. UK POLICY CONTEXT

Some efforts are being made within the evolving UK skills system to address the needs and constraints of small firms with respect to training. This section outlines, from this perspective, the main features of recently-proposed changes to the system. It also briefly summarises the broader EU policy context.

3.1 LEITCH REPORT PROPOSALS

In its concern for the UK to achieve world class skill levels, the Final Report of the Leitch Review of Skills (2006) defines targets for the UK to achieve by 2020 with respect to: basic skills (target 95% of the working age population); level 2 (at least 90%); apprenticeships/level 3 attainment, and; level 4 and above (target above 40%). The continuing development of a demand-led approach is a key feature, with employers articulating their qualification needs through the Sector Skills Councils (SSCs) and the linking of planned provision with employer needs through Sector Skills Agreements. While SSCs will have a key role (alongside the Qualifications & Curriculum Authority) in developing Sector Qualifications Strategies, they may also have powers to introduce specific measures (including levies) if there is sufficient support from employers within the sector. Leitch recommended that Government should largely fund the skills upgrading at the lower end of the spectrum, with employers and individuals making more of a contribution (along with Government) in relation to higher intermediate skills (Level 3), and individuals and employers bearing the bulk of the additional costs for Level 4 and above. This means that employers are to be expected to increase their investment in skills, especially directed at ‘portable’ accredited training, and to commit (or Pledge) themselves to support, in partnership with Government, their low-skilled employees to reach Level 2. Employees will be expected to demand more of both themselves and their employers in this process.

The Report’s recommendations are built around a demand-led funding system (routing most of the public money for adult vocational skills through Train to Gain and Learner Accounts), intended to put effective purchasing power into the hands of individuals and employers and thus open the supply system to competition and make it more responsive to needs. As well as leading in developing occupational standards and approving vocational qualifications (for funding), increasing employer engagement would also be a responsibility for the suitably reformed SSCs. This duty would include considering ways in which collective action by employers can address specific sector skills needs. Train to Gain brokers, while tasked with providing advice and guidance to a full range of employers, would still give particular attention to ‘harder-to-reach’ firms – a category that includes small employers.

An important aspect of the Leitch Review is the Skills Pledge - a specific promise to the workforce that every eligible employee would be helped to gain basic skills and a level 2 qualification (with tuition costs paid by Government). If it proves necessary because of lack of progress, it is recommended that Government should consider introducing a statutory entitlement to workplace training. The needs of smaller employers are explicitly recognised in the suggestion that Government should consider providing them with compensation for the time allowances at work.

While the number of apprenticeships has grown in recent years, further progress is sought through greater emphasis on employers determining their content (via SSCs), expanding access, and creating a new entitlement permitting every eligible young person to take up an apprenticeship place. For higher level skills, demand-led mechanisms similar to Train to Gain are suggested as means of boosting young and adult HE attainment levels. More significantly, Leitch recognises that smaller firms often need support to ensure they have the management and leadership capabilities needed to deploy skills effectively, as well as requiring access to impartial advice on how to effectively invest in skills to the benefit of their business. As part of a general effort through SSCs and skills brokers to drive up employer investment in management skills, the Report recommended that the DfES (now Department
for Innovation, Universities and Skills, DIUS) Leadership & Management funding programme for SMEs, which offers grants for firms with 20-250 employees to spend on any training and development activity that will enhance their leadership performance, is extended to include small firms with 10-20 employees.

Apart from issues relating generally to the up-skilling of adult employees in small businesses, specific areas of interest in the light of Leitch’s recommendations include management and leadership, Train to Gain brokers, compensation for worker time in training, employer levies, and the effective role of SSCs.

3.2 NATIONAL SKILLS FORUM RECOMMENDATIONS

In the wake of the Leitch Review, the National Skills Forum (2007) and Associate Parliamentary Skills Group published findings from an interview and consultation exercise with a wide range of skills stakeholders. It sought to identify areas of consensus regarding the broad issue of ‘ensuring employer engagement’, and is notable for the considerable amount of attention it gives to SMEs within the engagement process. Thus, in its review of existing policies, it refers to the changing role and capacity of Business Link (referring to its practical tools to aid employers in identifying training needs), and the (increasing) SME focus of the Leadership & Management programme. From the published text, the report appears to draw from overseas experience only to a limited extent. However, it is to be welcomed as the latest and most detailed attempt to address the issue of employer engagement in general within the UK, with particular interest in small firms. Importantly, it placed considerable emphasis upon the sustainability of interventions through follow-up, behavioural change, established capacity etc. Our research, drawing more systematically upon evidence and experience from other countries, is expected to provide an additional perspective on the recommendations of this study.

The NSF report’s recommendations for action are summarised in Appendix 1 of this study, where they are presented in terms of the broad categories that are used to organise our report. In brief, the main initiatives relate to the following areas:

- **Making the business case for training** – was considered an important outstanding task and a key means of developing interest in under-investing enterprises.

- **Improving training information and advice** – develop the concept of staff training officers in small businesses to support preparation of training plans. Skills brokers are also seen as potentially useful, especially where they fit into a broader set of business advisory services.

- **Flexible delivery systems** – develop system of unit-based, ‘bite-sized’ qualifications that are compatible with the workplace.

- **Incentives** - practicalities and implications of tax incentives should be investigated, including in relation to employer contributions to Learner Accounts. Wage compensation for staff release, special training loans for small businesses and employee payback clauses were not recommended.

- **Funding mechanisms** - promote training levies, where they are developed voluntarily within a sector or industry.

- **Pooling resources** - exploit firm linkages, including those built around supply chains and local clusters, based upon SME networks and training associations; develop collective training funds.

- **Leadership and management training for SMEs** – continuation of the L&M Development Programme, and the change of eligibility size threshold to include firms of 10 employees were supported, plus the idea of extending such training to different levels of staff.
3.3 EUROPEAN POLICY CONTEXT

The main EU-wide programme aimed at vocational education is Leonardo da Vinci, established in 1996 and renewed until 2013. There is no direct funding of pan-European training or engagement programmes; instead, grants are awarded to bidding organisations. These grants are mostly aimed at engaging jobseekers and promoting mobility, rather than increasing the level and quality of training carried out within SMEs. Leonardo works closely with Cedefop, the Agency tasked with the development of VET in the EU, through compilation, analysis and dissemination of information (a good example would be Observatory of European SMEs (2003), which has looked at issues of competence in SMEs).

EIM/SEOR (2005) summarises the EU policy instruments for fostering lifelong learning, in light of the Lisbon agenda of improving competitiveness and developing the knowledge economy. The main tool to achieve this is the European Employment Strategy, directing employment priorities of member states to link to Lisbon, and aggregating commitments to increase investment in human capital. In general, according to the report’s survey of VET throughout Europe, workers in small firms receive substantially less support for training activities than in larger ones – for example, they are more likely to have to pay for training themselves (49% of those in firms with fewer than 20 workers, compared with 21% of those in firms with 500+).

Cedefop’s latest report on developments in VET at EU level (Cedefop, 2006) concentrates on national priorities, and how they tie in with EU policies, and stresses the need for a coherent strategy to cover VET, but with all actions devolved to the national level. In particular, the report notes that policies for the promotion of lifelong learning are lacking in many countries outside Scandinavia and that private investment in training is too low, raising issues of equity and efficiency (which will be the focus of the 2008 report). Engaging SMEs is not a specific objective, although will clearly be an important part of achieving such stated aims as improving the validation of non-formal learning, working on sectoral initiatives and improving the financing of VET.
4. INQUIRY FRAMEWORK AND APPROACH

4.1 ISSUES FOR INVESTIGATION

The study seeks to identify evidence, initiatives and experiences relating to a number of defined areas. These were developed during the early stages of the study and represent policy areas that were: (1) broadly relevant to the UK context; (2) identified from both consultations and a preliminary review of the literature as important in terms of small firm engagement; and (3) known (or likely) to have been incorporated in interventions in different countries.

This report thus seeks to examine experience elsewhere in order to throw light on the key areas of:

- presenting the business case in an effort to change the perceptions/culture of small businesses relating to training, including incorporating systems of skills-intensive production (Smart working, etc), and pursuing broader workplace development strategies;
- planning, together with SMEs and business service organisations, sector strategies for improving both the quality of information and support (including HR support) and access to it;
- organising effective sectoral outreach mechanisms for directly dealing with small businesses owner-managers and identifying training appropriate to their evolving business needs, including on an ongoing basis;
- ensuring there is flexible provision which carefully individualises training information, content and delivery to the needs of each small business (including employee and management training packages and e-learning initiatives);
- integrating formal training and learning with informal learning processes in the workplace, accommodating training around work demands and minimising time spent off-site;
- lowering the costs of training through financial incentives, such as a government subsidies/tax concessions or ‘interest free’ loans, etc. - suitably targeted on small firms and existing workers;
- collaborating with other small businesses through pooling resources, and the incentives that might help such approaches to training (and, more broadly, how to provide opportunities for small businesses to share skills, knowledge and experience with other business people);
- permitting small businesses to benefit from developing training partnerships with larger firms (vertically linked initiatives);
- ensuring that facilitators and trainers have the appropriate networks, motivation and experience to enable them to be trusted and respected by all business participants.

4.2 APPROACH AND DATA GATHERING

The study, which was conducted during 2007, is based largely upon internet search, supplemented by direct contact (email, telephone, interviews) with key individuals (policy-makers, analysts, and academics) in various countries. The contacts were identified through the SSDA expert networks, as well as other international groups of scholars and analysts. Search of the academic literature for critical reviews and evaluations accompanied this
process. The internet was systematically scanned for recent official publications, academic discussion papers, and proceedings of relevant academic and practitioner conferences.

At an early stage, a pilot country study (relating to Canada) was undertaken to explore in some detail a national approach to skill formation processes and its relation to small firms (Stone, 2007). On the basis of this exploratory process, a dual approach was adopted with a view to developing an understanding of both overall system approaches and effects, and the contribution of specific measures. Focusing upon how countries address the issue, and with what success, helps in (1) achieving an appreciation of the broader context within which intervention can occur and (2) appreciating the role of institutional factors and the way in which different measures combine. Looking at specific measures used in a wider range of countries allows a full range of policy interventions to be identified for assessment and comparison. Thus the investigation is centred upon nine country studies supplemented by 20 specific measures drawn from a range of other countries.

4.3 CHOICE OF COMPARATOR NATIONS

Issues and approaches relating to engaging small firms in training were investigated through selectively examining policy interventions, initiatives and debates in a group of nine comparator nations: France, The Netherlands, Denmark, Norway, Finland, Ireland, Australia, New Zealand and Canada. The study thus attempts to extend beyond the ‘usual’ comparators (Germany, France and USA) to examine approaches in other nations, such as the Nordic countries and those of the Anglo-Saxon Commonwealth, where skills may be developed differently. It is problematic to seek to identify countries on the basis of their success in engaging small firms - comparative data is unreliable and measures of performance contestible. Even in terms of crude measures of participation in training for firms of all sizes, comparisons are unreliable, given the different measures used nationally (OECD, 2005). The UK performance, for instance, in terms of participation in workplace training, is shown to be comparable with other nations because, although it is of shorter duration, UK firms tend to offer more frequent training than competitor countries. It should also be emphasised that the results of the European CVT Third Survey are still awaited, and it has been necessary to rely for comparative data largely upon figures from the previous survey (CVTS2), which relate mainly to 1999.

- In spite of productivity improvements, the UK lags behind France (by 20%) in terms of the output per hour worked in 2005, and skill differences contribute significantly to this difference (Leitch Review of Skills, 2006; Mason et al., 2007). France has long sought to develop employer training through statutory means.

- The Netherlands was recently singled out in an international study for the effectiveness of its incentives and structural arrangements in increasing employer investments in training (Sung et al., 2006); it also performs well in terms of available indicators of engaging SMEs to provide training (OECD, 2005), and productivity (output per hour worked), where levels achieved equate with those of France (Campbell and Garrett, 2004; Table 1).

- Ireland was included because of its market-based, cluster approach to engaging SMEs in training, a distinctly different system from sectoral or social partnership-based policies in use elsewhere. This policy was specifically intended to address the low training participation rate found among SMEs in the 1990s, which the government has subsequently made great efforts to raise.

- Three non-European Commonwealth economies are included – Canada, Australia and New Zealand – each of which has implemented a sector-based approach to skills issues and displays a significant degree of cultural consistency with the UK. In particular, in the approaches of these countries to employer-led training, the influence of social partners is less pronounced than in many European countries.
Scandinavian countries (Denmark, Finland and Norway) tend to stand out internationally for the achieved levels of worker participation in training, and occupy a position in the rankings somewhat ahead of the UK (OECD, 2005; Table 1) – although the UK scores actually stand comparison with these countries when the OECD's new adjusted participation rate is used (OECD, 2005; Figure 1.3). Denmark, in particular, out-performs the UK in terms of the proportion of small firms (and SMEs) that provide training – although this is based on surveys that are now somewhat dated (OECD, 2005; Fig 1.2). Finland and Norway are also interesting in that their skills policy is increasingly becoming integrated with business improvement, employee relations, work organisation and job design (Keep, 2007).

In terms of broad qualifications profiles, the countries studied all perform at least as well as the UK with regard to the proportion of the adult population (aged 25-64) with low qualification levels. While proportions are very similar to that in the UK in France, Ireland and Australia, the other case study countries record smaller proportions of people with low or no qualifications in the workforce - in some cases (Norway and Canada) the share is proportionately less than half the UK level (Leitch Review of Skills, 2006). Canada (most noticeably), but also Finland, is proportionally ahead of the UK in terms of employees with high level qualifications, while the performance of most of the other countries is very similar – with the possible exception of France and New Zealand, which lag somewhat in this respect. With regard to intermediate skills, all the countries studied, with the single exception of Australia, have a larger proportion of the adult population qualified to intermediate level than the UK; New Zealand, especially so.

The OECD has recently undertaken a study (2005) which attempts to provide a picture of adult learning participation across OECD countries, including the role of firms in workplace training. The report recognises the differences in definition of adult learning and measurement of participation in learning and the problems this causes for cross-country comparisons, but notes that, nonetheless, country rankings with respect to participation rates remain broadly similar across different surveys. Scandinavian countries – including Denmark and Finland - consistently rank higher than the UK.

Structural conditions, institutional arrangements, and policy approaches naturally vary from one country to another and the context of policy and practice needs to be recognised in assessing the relevance for the UK of specific approaches. Country-by-country accounts of the characteristics of the wider systems for developing skills can be readily accessed through, in particular, Sung et al., (2006) (covering Australia, Canada, France, The Netherlands and New Zealand) and the OECD (2005), which deals with policy frameworks (Table 5.1) and key country approaches to adult learning (covering Canada, Denmark, Finland, and The Netherlands). These frameworks are borne in mind, where relevant, in considering the relevance to the UK of particular approaches identified.

### 4.4 CONCEPTS AND DEFINITIONS

Training can take place through the vocational education and training (VET) system, that embraces apprenticeships and traineeships, as well as other forms of nationally recognised (accredited) training. The concept also incorporates other formal structured training not recognised, or accredited, by the VET system, as well as informal training. Structured or formal training activities follow a predetermined plan – normally under instruction and monitored and recorded by a training provider (Dawe, 2003). In contrast to formal training, informal training activities are instigated by the individual (for example, self-training through studying manuals), or occur as the need arises (for example, vendor sessions or mentoring). There are many different types of providers employers can use to fulfil the training needs of their staff – including employer organisations themselves.

**Adult learners** are those aged 25-64 who engage in learning activities. Because people pursuing apprenticeships and traineeships are usually outside this age range, these aspects
of training are referred to within the category of ‘initial vocational training’, rather than continuing vocational training (CVT), which is the main focus of this research. CVT includes training that is designed and managed by the enterprise itself or by another organisation, as well as other planned periods of training, instruction or practical experience using tools of work, planned learning through job rotation/exchanges, self-learning (on-line or by correspondence), computer-based programmes through a learning centre, and attendance at conferences, lectures etc specifically designed for CVT.

While small firms are typically regarded, for the purposes of this project, as those with fewer than 50 employees (and micro-firms those with fewer than ten), definitions vary by country and between the studies and policies referred to, and it is common for a lower threshold to be used (e.g. a maximum of 25 employees). Many of the initiatives referred to in the report relate to small and medium-sized enterprises (SMEs), which are typically those with up to 250 employees; special attention is thus given in the study to detailing the extent to which such policies filter down to the smaller of these firms.

Interventions to encourage more training among those who are already employed include a number of different approaches, usually classified according to labels such as ‘supply-side’ and ‘demand-side’ and by whether they are ‘employer-oriented’ or ‘individual/worker-oriented’. There is a danger of confusion between supply and demand concepts. Measures aimed at employers are fairly unambiguously ‘demand-side’ interventions and those focused on workers do effectively operate on the supply-side of the labour market. However, the process of providing individuals with financial or other incentives to develop their human capital can also be regarded as a demand-side activity from the perspective of their taking advantage of opportunities for training and education – i.e. the stimulation of the demand for training.

In this sense, instruments and incentives focused upon the demand-side can be taken to include support for employed individuals to seek out and take advantage of opportunities to engage in learning. These take the form of:

- grants, loans, individual learning accounts, vouchers, tax allowances and income support
- information, including that on expected returns to training investments
- statutory rights to education and training leave from work
- assessment or recognition of informal or prior learning.

Incentives and instruments that serve to raise employer demand for training include financial incentives and subsidies that cover or offset the costs associated with organising/providing training for employees. Other forms of intervention that seek to encourage employer investment in training include:

- support for formal arrangements (such as networking and pooling) that lower the cost of training for firms
- legal obligations such as statutory minimum levels of training and training levies where the money is lost if minimum levels of employee training are not achieved
- job cover arrangements for workers absent while attending training; and
- exhortation (e.g. via moral incentives such as appeal to social responsibility).

Some initiatives operate largely on the supply side – such as improvement of the quality and lowering of the cost of training provision through better organisation of the VET system or the development of more flexible/convenient programmes. Intermediaries (including sectoral organisations) that work with employers to help develop training plans and put employers in touch with training providers responsive to employer needs, can be seen as operating on both the supply and demand side. This is also the case with respect to actions by social
partners (i.e. broader networks consisting of government, employer and employee representatives, and education/training providers) to both negotiate a higher level of training in the workplace, while also working to influence positively the quality and relevance of what is on offer from the VET system.
5. REVIEW OF FINDINGS

This section of the report brings together the findings relating to both country studies, which consider the ‘system’ aspects (section 6.1) and specific ‘individual’ interventions (6.2) in order to draw conclusions on forms of policy intervention that might appropriately increase the engagement of small firms in training. It draws attention to initiatives that can be regarded as representing good practice. While the majority of the interventions explored are ‘demand-side’, aimed at employers, a range of related instruments designed to encourage individuals within firms to undertake training are also referred to. One or two key supply side issues (including management training provision and e-learning) are covered also - policy action in these fields is merited because of the important interactions with the demand-side.

In reviewing how small firms are incorporated into engagement policies, this review has inevitably been hampered by the fact that many initiatives/interventions have simply not been subject to evaluation. Of the instruments investigated as part of the large-scale EIM/SEOR study (2005), only one in three were found to have been evaluated, and then often not in a particularly rigorous manner. There is a surprising lack of comprehensive evaluations of either levy schemes or fiscal incentives.

5.1 COUNTRY STUDIES

Comments relating to specific countries can be followed up by referring to the Country Studies themselves, which appear in alphabetical order in section 6.1.

While the reported findings contain numerous points of relevance to UK policy formation, assessments of policy significance are signalled by the use of the word ‘policy’ in bold throughout this section.

5.1.1 POLICY CONTEXT

The country studies confirm that national approaches to developing employer investment in training in general are heavily influenced by the economic and social structures, and that attempts to engage small firms in the training process are similarly conditioned and thus have always to be seen in this context. Thus, the policy context – including the degree of involvement of the social partners and the political support and cooperation of the relevant ministry or ministries – is a key factor in the success of engaging small businesses.

However, the review shows that the incidence of training among small firms is not necessarily linked to the extent of national policy focus upon such firms. Some of the better performances in respect of small firm engagement (based upon standard measures) is found among countries that simply have a good record of training per se. In fact, the proportion of relevant policy measures that are specifically focused upon small firms is relatively limited in all countries studied (with the possible exception of France). Recent systematic figures for 15 EU countries are provided in the detailed review undertaken by EIM/SEOR (2005). These show that, of demand-side instruments and incentives targeted upon employers, 65% were for employers of all sizes, and just one in eight (13%) were solely for SMEs (rising to one in five if those focused upon SMEs, but not actually excluding larger firms, are counted). Much lower proportions were focused upon ‘small firms’.

5.1.2 SECTORAL APPROACHES

A sectoral approach to training is one of the key methods chosen by a number of countries in this study: Australia, New Zealand and Canada to a large extent, and France and the Netherlands to a more limited degree. Australia and New Zealand, in particular, have embraced the engagement of small businesses due to the paucity of large firms in many sectors and/or geographical regions – a contrast to the sometimes disproportionate influence
of the small number of large firms in lobbying and policy influence observed in some countries by Sung et al. (2006).

The preferred system for engagement in the Antipodes and Canada is a focus on face-to-face personal contact, through site visits to owner-managers (which both gains buy-in to the sectoral training bodies and allows the formulation of training plans), help with red tape and general advice and support about training availability. In Australia and New Zealand, this is accompanied by a highly unitised, competence-based system, which gives the sectoral bodies a substantial amount of freedom to design bespoke qualifications and facilitates flexibility in their delivery. This has led to a number of qualifications and routes expressly designed to appeal to small business.

The renewed focus on the sectoral approach since the early 2000s in New Zealand seems to have paid dividends, with a substantial increase in the number of small firms engaged. To the extent that the engagement system is now firmly in place and widely accepted, new policies are focused upon investigating supply-side issues more thoroughly. This experience is not found elsewhere, however. Many countries have struggled to develop demand-side measures that have effectively engaged small firms, leading some to mainly concentrate upon encouraging an employer response through improvements on the supply-side – e.g. Australia (until recently) and the Netherlands.

A sectoral approach also facilitates a more formal, systematised route to the accreditation of prior experience and learning, which is not used to a great extent in the UK (Lillis and Stott, 2006), but has benefits in being a relatively cheap and easy way for on-the-job training in small firms to be recognised. Sectoral bodies can specify relatively easily the key competences required, and either link them to a unitised qualifications framework (as in Australia and New Zealand) or opt for a looser, portfolio approach (as in the Netherlands and France), where the employee records both formally and informally acquired competences in a ‘passport’ (similar to the UK construction industry’s CSCS card scheme, but standardised across a wider range of sectors).

While the sectoral training bodies in Australia and New Zealand are (largely) funded by business, the Netherlands and France both operate a training levy, based on a proportion of employers’ wage bills, which effectively compels subscribing firms to undertake some training. In France, for example, businesses must prepare a training plan and demonstrate expenditure on training, or pay any shortfall in the levy amount to the state. Such systems have probably (there is insufficient evidence to put it more strongly than that) led to training being higher in those two countries than it otherwise would have been, and provided help in the competition for workers for firms offering better training packages. Systems based on compulsory levies are not without problems – Quebec’s levy may have led to firms simply finding training which fitted the criteria for purposes of claiming against the levy requirements. However, elements of this compulsory sectoral approach undoubtedly have benefits: the very process of drawing up a training plan is important in the creation of a training culture, and is one means of drawing in smaller firms, whose owners often ignore such aspects in their management.

Training is an important part of wage negotiations, and collective agreements commonly contain provisions for competence development, often at a sectoral level. French employers’ associations and trade unions also negotiate sectoral and multi-sectoral agreements at a national level, specifying provisions for vocational training, the right to be trained, study leave, and the financing of such activity - including, according to Ok and Tergeist (2003), the determination of (differential) levies applied to SMEs.

Distinct from a national or provincial sectoral approach, Ireland has adopted a successful policy based more on clusters, promoting networks of SMEs which design and implement their own training, co-funded by the state. This is a less labour-intensive method than the site visit approach adopted elsewhere, and devolves a substantial amount of responsibility to firms to plan and choose training.
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In all of the countries mentioned above, the sectoral approach to vocational training is set within a wider system of measures to stimulate lifelong learning. This is most noticeable in relation to France, where the levy’s influence is supplemented by other measures, such as financial support to smaller firms to replace workers that are absent because of training. Similarly, in Ireland, the White Paper on Adult Training gave rise to a comprehensive set of measures that set training in a pro-active policy context (with the related benefits of publicity campaigns) as well as creating a favourable context for single measures. New Zealand’s Tertiary Education Commission oversees how training fits into a more general adult education package, delimiting responsibilities and areas of demarcation for various different providers and organisations.

5.1.3 COLLECTIVE AGREEMENTS

The Dutch system – collective agreements and sectoral funds, combined with purchasing of training by businesses and relatively little outreach to small firms – can be seen as a halfway house between the nominally market-based system of the UK and the social systems prevalent in Scandinavia. The latter tend to eschew specific small firm or sectoral policies in favour of a more blanket promotion of training activity to all firms, generally working through social partnerships and collective agreements, and emphasising training as part of a balanced process of organisational improvement and raising the quality of working life. Strong employee representatives (in the form of works councils or unions) play a progressive role with respect to training. Research shows that labour relations and institutional framework permitting structured involvement (at different levels) of employee representatives and social partners may be a means of overcoming deficiencies of access and provision, not just for smaller firms, but also disadvantaged groups, such as less qualified workers (Ok and Tergeist, 2003).

Participation by works councils, where they have the legal rights to influence training plans and strategies, are associated with higher employer engagement, although legal thresholds mean these often do not operate in relation to small firms. For example, in Finland, works councils have a statutory right to be involved in company training plans specifying training for different categories of staff, but firms with fewer than 30 workers are not required to appoint such councils.

However, this type of system should not be singled out as unique to the particular countries. While the UK does not have legislated employee bodies, nor a history of social partnership (as recognised by OECD, 2005), countries are tending to converge with respect to the role of social partners (Winterton, 2006). Other countries have adopted elements of this system: Canada, for example, through its recent innovative Workplace Skills Initiative, is promoting a ‘bottom-up’ focus of encouraging training through and in the workplace by inviting bids from (often sectorally-based) partnerships concentrating on up-skilling at the enterprise level. Developments in the UK have, in effect, brought about a situation where partnership working is becoming the norm for policy formation, raising the possibility that consensual and cooperative action will extend in the coming years.

The question remains, though, whether the stylised Scandinavian system - raising the level of training in SMEs through blanket training promotion, rather than specific small firm policies – would be useful in the UK. The system relies considerably on the Nordic background context - social partnerships, high government spending, individual rights to training and collective agreements mean that all firms are engaged, and training is widespread and pervasive. However, while Nordic small firms engage in a greater degree of training activity than elsewhere, they still do not train to the same intensity as their larger counterparts, suggesting that there is still a place for small firm engagement strategies, even in this highly funded, highly proactive system. In countries where policy gives rise to relatively low state investment in training, such as the UK, it would follow that funding would need to be more carefully targeted at small businesses, confirming what appears to be recognised by the Leitch Review.
Certainly, it is important not to see the issue as one resolved simply through high spending by government. In Denmark, high state expenditure upon training and education clearly helps to produce a context that encourages training by small firms - which is accordingly high by international standards (and measures). The Netherlands and Norway, however, are examples of countries which also achieve high incidences of small employer engagement in training, but where employers largely fund training of their workforce.

The Dutch and Norwegian experience leads, once again, to the conclusion that some aspects of the system of social partnership working and collective agreements have proven useful in engaging small businesses in particular. Even though many small workplaces are outside systems of social dialogue in a formal sense, social influences are found to extend to these ‘harder to reach’ workplaces through their effects on the prevailing culture (including more equitable access to learning opportunities), the activities of sectoral bodies (including the administering of training funds) and better supply of information on training. The collective agreements in force in the Netherlands that led to sectoral training funds (covering 40% of the workforce) have also given rise to employee rights to an individual training plan and personal training budget (OECD, 2005). Some of the most comprehensive arrangements for the encouragement of CVT have emerged through such mechanisms in France, especially the 2003 cross-sector agreement to further lifelong learning, which guaranteed individuals the right to training (\textit{doit individuel à la formation}) (Méhaut, 2005).

5.1.4 INTEGRATING EMPLOYMENT AND SKILLS SYSTEMS

It is also worth noting that, in most countries, there is relatively little convergence between vocational training and employability systems – i.e. between those training policies which focus on engaging SMEs and those which concentrate on the unemployed or low skilled. Experience suggests that, even in relation to job rotation - which is designed to combine the virtues of encouraging CVT and training/giving work opportunities to unemployed people - giving too much emphasis on the latter can conflict with the achievement of either objective. The research shows that targeting is amenable to addressing both vocational training and employability, but that it is not widely used in practice in the countries investigated. Indeed, the political priority often given to assisting the unemployed and low skilled workers, often means that small firms are squeezed out of consideration (e.g. Denmark). Our \textit{policy} conclusion from the research is that more might be done to combine the two goals – and the Leitch proposals regarding the Skills Pledge for low skilled workers, combined with the idea of compensation for associated small firm costs and the emphasis in responsibilities of Train to Gain brokers towards small employers, are consistent with this notion.

5.2 REVIEW OF SPECIFIC INTERVENTIONS

5.2.1 OUTLOOK CHANGE AMONG SMEs

National Skill Forum consultations indicated that making ‘the business case for training’ is an important outstanding task in terms of developing interest in skills formation among under-investing enterprises, including small firms. It refers to the need for empirical evidence that demonstrates the extent to which (and ways in which) skill formation is linked to business performance. However, a number of the countries examined for this study have not opted for this somewhat narrow approach. Instead, they seek to encourage engagement in training as part of a broader attempt to improve competitiveness through strengthening workplaces and improving work experience. The objective is to change the outlook of small firms more generally towards a more holistic appreciation of the performance advantages of organisational development, and the integral place of training within this process. These concepts do offer a means of outlook change, similar (though perhaps more expansive) to that discussed in the UK regarding high performance work practices. While they are found to be relevant to most small firms, high-skill/high tech firms relate more readily to the
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concepts involved, and find it easier to engage with the programmes than those firms relying upon low skilled workers and routine processes.

Scandinavian countries have piloted approaches to training that combine a solid business case (such as raising productivity) with elements of promoting a better work-life balance for employees, as part of an attempt to motivate and develop human capital. Finland’s programme (6.1.4) for developing the workplace, called (following recent revisions) the New Workplace Development Programme, provides grant funding for workplace development analysis and project planning, learning networks, and dissemination of lessons. Areas for projects include the organisation of work, work processes, cooperation and interaction within the work community, external networking, leadership and human resource management, wage and working time systems, and the working environment. Training plays an important part of this, but is placed in its organisational context with emphasis upon both its quality and equality of access to learning opportunities. The programme focuses upon SMEs, which receive some two-thirds of the funding available for development and networking projects. The Well-being at Work Programme, which is embedded within the broader workforce development framework along with the National Productivity Programme, reinforces the importance of skills acquisition to improvements in workforce wellbeing.

Finland is also pursuing integrative strategies relating to innovation, through a national innovation system that is accorded high policy priority (6.1.4). A prominent feature is the focus upon SMEs. As part of this, it has deliberately reformed and upgraded secondary education-level VET institutes to degree level bodies. Finland’s network of regional polytechnics represent an important initiative as vehicles for integrating SMEs into the innovation system – including even small firms only marginally involved in R&D - with skills upgrading as just one element of this process. Taking account of the different conditions relating to smaller enterprises, the polytechnics provide expert help specifically for smaller firms through close direct interactions (e.g. involving workplace-based student projects), appropriate adult education and training inputs, and participation in regional clusters that bring together local businesses and other sources of expertise and resources. This initiative represents another means by which training for SMEs is not only catered for, but set within both a wider and dynamic context linked to firm development.

Similar policy approaches, both with respect to workplace development and innovation, can be observed in Norway (6.1.8), linked to its so-called Competence Reform, which is oriented very much towards SMEs. There is growing concern in Norway to move beyond simply increasing the supply of skills to focus more on how they can be used in terms of innovation and value creation. Hence, the interest in linking human capital/knowledge assets to future earnings prospects and business value, and in approaching the quality of working life as a driver of training changes - including the increased emphasis given to the quality of training and fairer distribution of access to it within workplaces.

Another aspect of organisational improvement, especially prominent within the Scandinavian countries, is the involvement of the workforce in decisions. In Finland (6.1.4), statutory measures have long required that firms prepare a training plan annually and submit it to the joint enterprise committee (although this tends to exclude firms with fewer than 30 employees, which do not have to set up a works council). The training plan is central to the French system (6.1.5); employers are required to identify training measures and consult with works councils or, for the smallest firms, employee representatives. In these (and other) countries, widening the range of stakeholders involved in the process of decision-taking regarding training is found to be an important device for engaging employees, even if - as in France – the last word on practical action is effectively left with the employer.

There are various other initiatives to promote interest in training, including competitions and award systems that focus upon enterprises that represent good practice, and giving these suitable publicity within the business community. A successful variant is a scheme for awarding Employer of Choice certificates, developed in Manitoba, Canada (6.1.2). While
similar to *Investors in People*, this is distinct in the way it has been oriented exclusively towards small employers. SMEs selected for the programme must open up their enterprise to scrutiny and radical reform of human resource structures, processes and strategies, and to implement (with funded specialist guidance) a culture of learning. A somewhat more novel approach to changing outlook is claimed by the *Minho Industrial Association of Braga* in Portugal (6.2.13), which attempts to embed specialist management functions in the enterprise through communicating the necessary actions to the owner-manager indirectly. For example, if a supervisor attends a training event, they are regarded as a change agent, who, with appropriate assistance, can instigate change by influencing the owner with respect to training activity more generally.

### 5.2.2 INFORMATION AND GUIDANCE MECHANISMS

This section relates to dissemination of advice and support to owner-managers of small business on the availability, eligibility and suitability of training relevant to their situation. Most countries have given attention to the quality and mode of delivery of information about education and training opportunities. While the workplace is generally an appropriate place for delivering guidance to workers pertaining to training opportunities, this especially applies in relation to the employees of small firms, who tend to be less routinely exposed to such information compared with their counterparts in larger companies. In the UK, for example, the valuable work done by union learning reps tends to apply more to larger workplaces than small ones, that typically do not have a union presence.

The key issue for engaging small firms would appear to be that of embodying capacity for human resource development actually within the firms, either through on-going dialogue and regular interactions through agents or brokers, or alternatively (for the more substantial small firms), officers within them that are appointed/given responsibility for human resource issues. This is certainly the most common approach deployed in various countries – and it chimes with *Train to Gain* brokers’ role within the UK policy context. The National Skills Forum has stressed that they need be credible, in terms of linking their work on skills with broader aspects of business strategy, and that they should include within their responsibilities helping to build appropriate capacity within small firms, so that any boost to training activity becomes sustainable over time.

Approaches used in other countries vary. The Netherlands is reported to operate a scheme to systematically plan training routes for individuals, via ‘personal development plans’ (OECD 2005), while New Zealand operates a sectorally-based system of this kind, through Industry Training Officers (see 6.1.7). Sung *et al.* (2006) describe how South Africa’s 1% national training levy, which embraces many micro firms, positively encourages the development of such roles. Part of the levy can only be claimed back by enterprises if they have appointed a Skills Development Facilitator. This can be an externally-appointed consultant, or someone assigned the duty within the firm; the role for them being to develop and put in practice an annual skills plan and to keep the enterprise informed of developments relating to accreditation, available courses etc.

Sector Councils in Canada have identified the need for outreach activities to small employers, to deliver information and advice to small businesses relating to HR, including skills (6.1.2). ‘Training conversations’ are being brought to employers’ workplaces - for example, in the plastics industry (a sector dominated by small firms) by training advisors as part of an extensive programme of contact visits to learn about employers’ business and skills requirements, show them how to access web services, and establish ongoing relationships. An average of 6-7 visits is found by some sector councils to be needed, making this a resource-intensive exercise.

Research in Canada shows how HR services and programmes can help SMEs to gain competitive advantage - reflected in the benefits realised by small firms through outsourcing such activities to professional employer organisations (Klass *et al.*, 2003; Klaas, 2005).
Where HR services consist of both transactional and strategic elements, it has been shown that firms using a PEO reported significantly higher levels of satisfaction with HR outcomes, as well as overall savings of managerial time. Provincial and federal government projects, in partnership with employers' and professionals' associations, have been launched to give small businesses access to such services – an integral part of the role of some such services being to advise on training issues (6.1.2).

National Skills Foundation consultations revealed strong support for embodying staff development expertise in businesses in the form of staff training officers with the skills to identify and recommend ways, via a training plan, to address training needs within the organisation. Their policy conclusions derived in part from positive experiences with pilot schemes for firms with under 50 employees. It is argued that such an initiative would sustain the development of training capacity after the Train to Gain skills brokers have moved on. The notion contained within the Leitch Report, of skills brokers acting as trusted advisers of SMEs and facilitating tailored provision of training, is supported – although there are concerns about the brokers' genuine understanding of business, which will affect their influence with employers and their overall effectiveness. Due emphasis needs to be given to capacity-building in firms, and to aligning business advisory services to those of skills brokers, in light of the necessity of embedding training within the business plan.

5.2.3 TRAINING RELEVANT TO SME WORKPLACES

* This topic is covered in three separate sections, covering standard design issues relating to CVT for employees (this section), management training provision (5.2.4), and e-learning (5.2.5).

The design of training and qualifications is recognised as an important factor in the engagement of small firms in training activity. There is general consensus that training needs to be targeted on real needs and specific working environments. Success is unlikely where it is supply driven or where it is not accompanied by complementary measures, including change management, flexible working structures etc. In particular, learning through daily work is widely regarded as more effective than traditional – disembodied – training, even where the latter is conducted in the workplace. What is undertaken by way of training, needs to be located within a larger framework that integrates formal, informal and non-formal learning within a human resource policy that is part of the overall development strategy for the business.

Compared to larger firms, the needs of small firms differ with respect to content, structure and flexibility (including subject coverage, timing and form of delivery etc.). Flexible delivery systems are identified in the National Skills Forum report to be a key mechanism for engaging small firms - specifically the need for unit-based, 'bite-sized' qualifications more compatible with the workplace. Hence, the NSF views the new Qualification and Credit Framework for the UK as likely to be attractive to small employers in creating shorter, unit-based qualifications – especially as these ‘chunks’ of learning can be packaged together in a flexible way. It is thought that such training will prove attractive also to employees, in offering personalised, portable learning.

Initiatives designed to develop skills among small firms tend to acknowledge the nature of the preference function of such enterprises and thus the importance of distinguishing between skill development and formal qualifications. The findings of this study suggests that some increase in the amount of formal training can be achieved through addressing market failures and providing a sufficient level of financial support and other forms of encouragement - particularly in targeted areas, such as high-tech sectors. However, much of the increased training that is sought by small firms is not of that kind, and schemes that are permissive rather than restrictive in their conditions are often found to be successful in engaging small (and especially micro) employers. Initiatives such as those found in Belgium - training vouchers (6.2.3) and Vlamivorm incentives (6.2.2) – are highly relevant in this...
context. One pitfall that must be avoided is the creation of schemes which artificially produce training results. For example, while Québec's levy system (6.1.2) is associated with a significantly greater level of formal training among those SMEs that actively take advantage of the system, it has been suggested that this reflects the fact that firms find or categorise training which fits the eligibility criteria for claiming, rather than reflecting real increases in formal learning.

Numerous initiatives were uncovered during the study that seek, through partnership approaches, to bring together stakeholders (including training providers) to explore ways of targeting training in a manner that is appropriate to small firm needs. As an example, the System for Lifelong Learning Project, piloted in the Gnosjö region in Sweden (6.2.19), explicitly integrates skills-upgrading within a continuous learning framework, but is centrally oriented towards developing skills, with less regard for formal qualifications.

While it is widely accepted that there is value in having an effective system for accrediting non-formal and informal training, care must be taken with any attempt to recognise formal and non-formal learning because the documentation of skills and creation of portfolios and other meaningful evidence inevitably takes time. To the extent that this falls on the employer – as is more likely, the smaller the firm - there will be an inevitable discouraging effect. Both Australia and New Zealand are examples of countries that have, nonetheless, made substantial progress towards this goal. New Zealand’s qualifications framework (6.1.7) facilitates the bespoke design of qualifications, explicitly allowing the mixing and matching of various course units to make up the required standard, which can be tailored towards small businesses or sector-specific knowledge. Industry Qualifications are generally composed of a range of generic and specific units – for example, the commercial road transport certificate includes maintaining personal presentation and communication skills alongside credits for knowledge of traffic law and executing manoeuvres in a vehicle. Small firms have welcomed the framework for the flexibility of its content and duration, emphasis on small units of assessment, and relevance to different sectors.

5.2.4 MANAGEMENT TRAINING PROVISION

Survey-based and other research suggests that the most effective implementations of management training are relatively long-term and based around networks of small enterprise owner-managers engaging in projects grounded in their own businesses. According to a recent Expert Group report on this issue in relation to Ireland (EGFSN, 2006), SME owner-managers preferred mentoring and longer-term business development programmes, with intensive training/support sessions at intervals over a period of months or years. One-day workshops are a second policy route, but they should be highly focused on specific topics, and based around the experience of (and preferably led by) fellow entrepreneurs. Engagement of owner-managers in management training is promoted, especially, through the use of action learning, where the learner studies and critically reflects on their own actions and experiences. This is recognised (e.g. Clarke et al., 2006) to be appropriate to SMEs, as most learning and knowledge is contextualised to the small firm environment and ‘subjective’, in line with the known preferred process of informal and on-the-job learning. Embedding this reflective learning within social and business networks is considered to enhance its effectiveness.

While there is little support for direct public funding of such provision (on the grounds that the benefits should accrue to the owner-manager), the role for intervention is a contentious issue. EGFSN (2006) advocate stimulating demand for management training, at both sector and firm level, through developing diagnostic toolkits and disseminating information on training and its benefits. In fact, studies fail to show unambiguously that the impact of formal/external management training provides a positive lasting impact, causing Storey (2004) to suggest that small business owners’ reluctance to use formal management training is rational, and that in the absence of clear evidence on benefits, attempts at awareness-
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raising, etc. are unlikely to yield any increase in the uptake of management training by SMEs.

Successful examples of management training initiatives, drawn from the experiences found in other countries, indeed tend to consist of critical self-reflection and learning from the experiences of others in a similar position to themselves. They also stress the unequivocal benefits for the participant’s business post-training, including:

- gaining access to a larger firm’s supply chain or network (e.g. Hungary’s Sub-supplier Programme (6.2.10) and the Belgian Strategic Plan Kempen (6.2.4);
- developing management skills at the same time as encouraging networking within a cluster (e.g. Ireland’s FAS Development Cluster (6.2.2);
- solving actual business challenges using experienced mentors (e.g. the Dutch Stichting Ondernemersklankbord initiative - outlined in 6.1.9), or certificate-based training focusing on the manager’s own business (e.g. the Finnish specialist management training scheme - discussed in 6.1.4);
- achieving business insights, such as in France’s novel Re-Créer programme, where entrepreneurs who have gone through a crisis pass lessons from their experience to others (see Section 6.1.5).

5.2.5 **E-LEARNING**

E-learning delivery potentially offers fresh opportunities to engage time-poor SME owner-managers and their employees in training. While offering greater flexibility, lower costs and logistical advantages for dispersed learners, it can also be more up-to-date than traditional courses, and facilitates networking within the supply chain (Paulsen and Vieira, 2006). Key to achieving engagement is found to be that of convincing owner-managers the business gains outweigh the disadvantages.

Like owner-management training in general, e-learning needs to be rooted in actual work practices and contextualised to the owner’s workplace and experience - preferably involving networking with other SME owner-managers (Moon et al., 2005). E-learning’s benefits over traditional courses are: the contextualisation of ‘standard’ learning to different work situations; self-reflection via tutor support and blogs; online synchronous and asynchronous conferencing and messaging applications that offer peer and/or tutor support at times suited to the learner, within and away from the workplace; the provision of narratives to generate discussion and encourage critical reflection, either text-based or multimedia (e.g. video podcasts). However, such packages are less relevant as stand-alone tools than as supplements to a traditional training course (which tend not to attract owner-managers); face-to-face contact is usually necessary for building suitable learning networks and ‘action sets’, and thus reduce drop-out rates; and certification is unlikely to be a strong motivator for a time-poor manager to contribute enough to get the most out of the course. While tutors can facilitate contributions through providing encouragement, this is a costly and difficult role to fill. An initiative which made good use of the positive principles is the German scheme, Blended Learning in Project Management, which, through innovative design, harnessed the technology in such a way that it fitted closely both the study preferences and work-related requirements of busy SME managers and achieved high completion rates (for details, see 6.2.9).

The EU-funded Engaging Networks for Sustainable eLearning project reflects the need to ground e-learning in everyday business practices (Ponti and Hodgson, 2006). ENSeL focused on SME management skills, emphasising the benefits from social, collaborative learning and networking between owner-managers. The programme used a mixture of online (access to learning resources and networking via email, conferencing, etc.) and face-to-face elements, contextualised to a specific work setting. Social interaction, promoted by a facilitator, is at the heart of the process - as exemplified by one of the most successful e-
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learning projects, Lingua-in-City in Germany. This uses supervisors at the firm as facilitators to cascade knowledge to new (in this case, migrant) workers, emphasising the trust relationships and social networks of workplace learning and interaction (6.2.8).

Sectoral dimensions affect receptivity to e-learning; hence the difficulties encountered by some attempts to establish virtual communities of practice. Tourism businesses in parts of Austria, being small and geographically dispersed, are suitable for an online network to informally share good practice (Petter et al., 2007). However, the degree of market competition between them inhibited collaborative online learning through social software, and owners considered that gains from exchanging experiences were outbalanced by giving away ‘inside knowledge’. The more successful online communities in the project were characterised by synergy and complementarity (e.g. those between accommodation owners and local food speciality providers), and proved more useful from a marketing than a learning perspective, although some learning did also take place. Thus, one way to engage small business in e-learning might be to bundle the learning aspects together with other online activities as a complementary package of services, rather than concentrate purely on an e-learning platform. In such a scenario, the most valuable learning would be based on generic SME management issues which cut across sectoral specifics.

There is clearly a strong case for rejecting the one-size-fits all model for engaging SMEs via e-learning. Stewart and Anderson (2006) demonstrate that SME owner-managers relate to e-learning in different ways, according to their level of digital literacy and the degree of formality embodied in their training, and that these vary between, for example, traditional engineering firms and e-commerce professionals. Some firms use formal e-learning to meet legislative requirements; others focus upon informal e-learning (e.g. the use of search engines to retrieve information), which tends to be driven by problem-solving and personal interest on the part of the employee (and is common in firms and sectors where work organisation is non-hierarchical and employees have more autonomy (Attwell, 2005)). Therefore, to exploit the potential for engaging SMEs of using networking and social collaboration for e-learning purposes, programmes either need to be broad enough to accommodate all approaches and preferences, or targeted at a single group. A good example of a sector-specific e-learning programme tailored to the needs of employers and employees is Canada’s Automotive Repair and Service Council’s Interactive Distance Learning initiative (6.2.4).

This review of research and experience identifies a number of challenges for e-learning platforms aimed at SMEs; all of which have been found to be difficult to solve within the framework of conventional methods. First, how they can be made to mimic more closely the workplace’s ‘natural’ learning processes, which are infrequent, episodic and cross-disciplinary, highly contextualised to a specific time, place and usage. Frequently, e-learning is simply a ‘traditional’ training course implemented online, being context-free, subject-based and driven by instructors to a strict timetable, and one route to greater engagement is through conforming more closely with social learning processes of workplaces. Secondly, how they can recognise informal e-learning’s exchange value. Currently, informal learning tends to be slotting it into existing qualifications frameworks, but this restricts the status of informal learning vis-à-vis its formal counterpart compared to a system that recognises a greater diversity of learning - particularly that driven by the learner rather than outside requirements (via e-portfolio evidence) (Attwell, 2006). Thirdly, how they might be made more suitable for, and thus more fully utilised by, the poorly qualified lower-status employees within the firm.

5.2.6 FISCAL INCENTIVES AND SUBSIDIES

While most countries permit firms to offset training costs against profits in their tax returns, a number go further, allowing firms to deduct more than the training costs incurred (OECD, 2005). This extra deduction ranges from 10% to 50%, although the practice in different countries varies with respect to including internal training costs. The Netherlands is one of
the countries that has operated such a system, at one time allowing deductions of 120% for training expenditures (6.1.9).

Profit tax deduction schemes have particular advantages. They are easy to apply, inexpensive to administer, allow employers to decide who would be trained and in what way, and shift the incentive balance for employers from recruitment to training - thus operating to reduce aggregate under-provision. Against these considerations, disadvantages include high deadweight losses (that is, subsidising training activity that would happen regardless of the tax incentive). Commonly, also, they are found to have less impact upon small firms than larger ones - because of the higher administrative burden of accessing the tax deduction and other obstacles associated with providing training in a small firm context (not least, the problems involved in releasing staff for training purposes). Tax incentives are also frequently observed to be associated with inequities in training as between low and higher skilled workers, since employers generally find that focusing upon the higher skilled workers provides higher returns to spending on training.

The design of schemes is obviously important in encouraging smaller firms to participate in training (and to do so in socially desirable ways, such as training low skilled employees). Design of schemes can also minimise deadweight losses. There are a number of examples of systems that seek to achieve both. The Netherlands (6.1.9), for example, experimented during 1998-2004 with a system offering a general extra deduction for firms on training expenditures from their taxable profits and an additional deduction of training expenditures for firms spending less than a specified amount on worker training. In targeting firms with low absolute levels of training expenditure, the tax incentive both automatically focused upon small firms while also minimising deadweight losses. Extra incentives for small firms can be justified in part by the additional costs of filing for the tax deduction (OECD, 2005).

A particularly interesting attempt at targeting training support through the tax system is found in Malta (6.2.12). Eligibility for tax deduction focuses upon established full-time employees in particular sectors. The rate of reimbursement is higher for small firms than for larger enterprises, and respectively higher if the training provided is of a generic nature - and thus potentially aids transferability - rather than being specific to the employee's present workplace. Again, France's (6.1.5) long-running training tax credit supports SMEs (targeted by a turnover ceiling) that have, year after year, invested in vocational training beyond the statutory obligation, with a higher tax credit for firms with fewer than 50 employees. In being related to the previous year's training, the device was devised as an incentive for increasing training expenditure, thus in the process restricting the deadweight element. The Flemish government’s Vlamivorm project (6.2.2), offering a firm a reduction of property tax equivalent to its spending on worker training, also achieved good results without undue waste in the form of deadweight through being focused upon firms in sectors with a poor training record. It also achieved very high participation of micro firms through supporting internally-organised informal as well as externally-provided formal training.

There may be costs that arise because of the complexities in designing such a tax incentive. The Dutch scheme referred to above, for example, was abandoned in 2004 – although reportedly for mainly fiscal reasons. More generally, precise targeting, such as through a continuum of differential rates based on firm size, leads to lower deadweight, but also higher administration costs both for tax authorities and employer applicants. The problem is that, where measures are more hedged with restrictions, forms become more burdensome, with discouraging effects on small employers. It is also salutary to note past research on the Netherlands (cited in EIM/SEOR, 2005) indicating that some of the country’s tax exemption schemes were hardly known about by the decision-taker, and that the typical (and often external) book-keeper of a small enterprise was found simply to apply for the exemption without it having any impact upon the training of the workforce.
Engaging Small Employers in Continuing Training

Eligibility criteria for subsidies might be expected to be more elaborate than is the case with respect to tax concessions. SMEs are frequently a target for such measures. France’s *Engagement de développement de la formation* (6.1.5) provides a public subsidy of 35-70% of training costs, with an additional 10% for special groups of employees. The programme is effectively focused upon small firms: 90% of beneficiaries have fewer than 50 employees. Evaluations suggest that investment in training rose significantly in enterprises assisted and that both qualified and unqualified workers were receiving training. Voucher schemes also demonstrate the benefit of targeting, which have operated successfully in Flanders and Wallonia, Belgium (6.2.3). These schemes were deliberately designed to be non-bureaucratic, flexible and rapid-to-use – through use of on-line systems. Vouchers purchased by employers attract matching government subsidy, up to a maximum, to be used to purchase training from accredited providers. Respectively targeted upon and confined to SMEs, the Flemish and Wallonian schemes are found to be successful in reaching small and micro firms, partly through encouraging providers to offer courses suitable to their needs - especially firm- or job-specific rather than general training.

Typically, subsidy support schemes are only weakly linked to productivity/business performance, whereas a closer connection between the two might be regarded as desirable. Efforts are made in some cases to restrict subsidies to training activities that are linked to business strategy – such as was done explicitly in Ireland’s Training Support Scheme (6.1.6). Further, SME training support for R&D projects in Flanders (6.2.5) offers an example of how staff development subsidies can be used to support highly specific, innovation-oriented projects. Such training is distinct from routine training – even that of a high level – since it is justified for public expenditure on grounds of the strategic importance of the project to the small enterprise.

Research by de Kok et al. (EIM/SEOR, 2005) suggests that fiscal and other financial incentives need to be substantial in order to engage small firms compared to larger firms, given the need for them to adequately compensate for the actual expenses, including the indirect costs (especially lost production time). Financial incentives alone were found to have little impact on smaller firms in South Korea (6.2.15) during the 1990s, despite the fact that re-imbursement of training was set at up to three times the outlay on fees for SMEs, compared to that applying to larger firms (which was close to the actual costs). While giving small firms/SMEs particular advantage in such schemes might unfairly discriminate against larger organisations, a counter-argument is that employees of small enterprises are themselves otherwise at a disadvantage in terms of receiving such support, given their low levels of CVT. However, a policy of higher incentives will undoubtedly bring the risk of greater deadweight costs, and therefore being relatively generous in terms of tax deductions for additional training by small firms, as has been tried in several countries, should accompany increased levels of tax concession. The experiences of other countries with respect to targeting such subsidies should also be borne in mind. These findings are potentially informative in the context of the National Skills Forum recommendations that supported the use of such instruments, but were wary of the associated problems of deadweight, bureaucracy, and the difficulty in using them to influence the type of training.

5.2.7 PAY-BACK CLAUSES

Contract arrangements are sometimes made to permit employers to recover at least part of the investment they have made towards training staff members in the event that they leave voluntarily soon afterwards. Through reducing the risks involved, this encourages employers to support training. While such arrangements are found enshrined in law in only one or two countries, it is much more common in individual contracts and collective agreements. In Germany, research suggests, such arrangements are applied in around 15% of firms (Ok and Tergeist, 2003) and a much higher proportion in Switzerland (van Driel and James, 2004). In the light of their sensitivity to poaching and common inability to match the wage rates offered by large firms, such a device - perhaps through the support of an intermediary
body to assist with procedures and enforcement arrangements – is potentially useful for small firms. They could apply, for example, to situations where there are joint contributions from employers as well as employees, such as ILAs. However, no example of such a targeted approach has been uncovered by the study and the policy conclusion of the NSF would appear to be a sensible one: namely that pay-back clauses might discourage employees from taking training, and indeed that training itself helps to prevent loss of staff through poaching because of its effect on staff loyalty and performance. In general, the evidence of the study is in favour of the view that poaching is better addressed by other means, including cooperation between companies within an area or industry.

5.2.8 TRAINING LEVIES

Training levies fall within the broader category of tax-based schemes for supporting firms’ investment in training, since they involve making firms finance training through paying an additional tax - either by 'train-or-pay' schemes or statutory training levies from which grants for training are made. 'Train-or-pay' regimes require employers to invest a particular amount (a share of payroll) on training, or pay a tax based on the shortfall; training levies, on the other hand, involve employer contributions to a common fund, from which training costs are met on the basis of criteria set either nationally, or by a sectoral body administering the fund. Such schemes spread the load for funding training among employers and address the problem of poaching (enterprises attempting to take advantage of training by others through using higher wages to attract skilled workers from other firms) by requiring all firms to contribute training expenditures. As de Kok et al. note: ‘In essence it involves a reshuffling of money from companies with small investments in training to companies with larger investments and therefore counterbalances market failure (e.g. limits ‘free riders’)’ (EIM/SEOR, 2005; p58). Levies have been criticised, however, for their relatively high deadweight element (EIM/SEOR, 2005), while they can also encourage inefficient and inappropriate training, and favour large employers with a well-established HR function (Ok and Tergeist, 2003).

The value of levy schemes generally is not only seen in their capacity to raise and maintain a high degree of employer-based training through self-financing, but also because of the considerable scope they offer for facilitating training among small firms through giving grants targeted on particular groups, including smaller firms (OECD, 2005; Ok and Tergeist, 2003). In particular, fund authorities administering resources raised by levies have the power to mutualise some of the funds collected through the levy and determine priorities for their use with respect to type of training, target groups or employers – including micro and small firms – as well as providing collective support to those firms that exceed their target level and wish to reclaim the surplus (Sung et al., 2006). Moreover, the deadweight element in the use of funds is reduced if firms currently doing little training are targeted - whether these are firms from particular sectors or those of a particular size - and focusing support on such firms is relatively easy to achieve.

Since levies are a relatively low-cost measure for governments, it is not surprising that they are in widespread use. The review by de Kok and others (EIM/SEOR, 2005) found levies accounted for 10 of the 94 demand-oriented instruments for fostering training of the employed in the 15 EU countries investigated - including Belgium, France (6.1.5), Spain (6.2.16), Italy (6.2.11) and Québec in Canada (6.1.2.) that operate compulsory national systems, while both Australia (6.1.1) and South Korea (6.2.15) have previously operated such schemes. In some countries, levy schemes have developed relating to particular sectors, rather than the whole economy, through agreements between social partners. Denmark’s Labour Market Training fund (6.1.3), founded upon levies supplemented by government money, includes adults among its targets for CVT, especially those with low qualifications. The Netherlands’ (6.1.9) sectoral training funds cover 40% of the workforce. The levy, which varies from one industry to another, is overall relatively low (averaging 0.5% of wage bill), meaning that employers and employees also contribute to CVT.
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The francophone schemes, which have been given the most attention in discussions of the potential of levies more generally, are perhaps not the best examples to draw upon in considering the potential for such instruments to assist small firms in the UK. The long-standing levies in both France (6.1.5) and Québec (6.1.2) are both compulsory, based upon statutory arrangements, rather than agreement. Moreover, in practice, they relate only weakly to small firms, and other instruments have been developed specifically for the assistance of such firms. Indeed, because they do not benefit from it, the levy in France is regarded by many of the smallest firms simply as a tax, in spite of the fact that their rate (as a percentage of payroll), is already much lower than for larger firms. The main instruments for small firms are separate ones from the levy, and government assistance for training costs includes providing for staff cover for workers in such firms who are absent through training. Québec’s levy scheme actually exempts most firms with 10-15 employees from the 1% contribution. There is limited meaningful access to the levy fund for such firms, which are offered instead a targeted tax credit. Detailed paperwork relating to the levy has been criticised (as in France) for discouraging eligible small firms; those that do engage in training are found to be three times more likely than those in the rest of Canada to provide formal training, although it is commonly argued that this is a distortion resulting from the need to satisfy levy requirements.

Evidence relating to Australia’s short-lived 1990s experiment with the Training Guarantee Levy (6.1.1) suggests that, while it led to an increase in private sector spending of over 50% on training, this effect was less in evidence among SMEs (Ok and Tergeist, 2003). There is some evidence that public opposition to the scheme related more to its administrative costs than the principle of a levy or its level (1% rising to 1.6%). In light of recent re-examination of the experience, there has, in fact, been a call for its reintroduction. Tellingly, this is accompanied by a plea for substantial support for small firms (e.g. for the development of training plans) so as to properly exploit the opportunities for higher investment in training.

It is not difficult, in fact, to find positive examples of the use of levy-based funding to positively engage small firms in training activity. There are a number of different approaches in existence, most of which have been discussed in this report. One especially interesting approach is that adopted in Spain (6.2.16), where special arrangements operate to encourage firms with fewer than 100 employees to cooperate in relation to training. By requiring sectoral or territorial groups of small firms to submit joint plans, the scheme stimulates the creation of joint training programmes and cost reductions in programme delivery through economies of scale. Some of the bids for funds (e.g. auto-repair shops) have been from groups made up of virtually all the enterprises in a sector. South Korea (6.2.15) uses funds derived from a pay-roll tax to finance training provision through larger firms that organise training for smaller partner firms, as well as through numerous other networks of enterprises.

Joint funds for training plans, recently introduced in Italy (6.2.11), offer yet another demonstration of how levies (in this case from compulsory unemployment insurance contribution) can be used to provide targeted support to small and micro businesses. Administered by the social partners, a significant part of this fund is devoted to support preparation of training plans in firms with fewer than 15 employees, and the training of individual staff within such businesses (via the issue of vouchers). For larger firms, eligibility for training support focuses upon employee characteristics (older workers, low qualified etc.). Belgium’s scheme is based on a relatively small levy, determined by collective agreement at 0.25% of payroll. This supports a fund that operates according to sectoral arrangements, but includes a specified minimum to be spent on ‘at risk groups’, which are defined to include SMEs (Ok and Tergeist, 2003).

The Leitch Review and National Skills Forum each take a similar policy line in relation to levies: they favour them where they are appropriate to the sector’s labour market conditions and the majority of firms are supportive. The experience of other countries in using levies as a tool for raising training activity, shows that this approach – appropriately designed – can
make a positive contribution to the engagement of small employers in training. This international review’s findings suggests that, administered through collective/sectoral bodies, levy-based funds can influence the level and type of training undertaken by small enterprises and even the very approach to training of such organisations. As well, they can be used to address the need to train less qualified workers. It should be stressed that realising the full effect of levies is also dependent upon broader structures of advice and support.

5.2.9 TRAINING LEAVE

Whether by statutory right for employees or collective agreements, training leave is a direct - if not particularly straightforward - means of encouraging CVT, and such instruments can be targeted upon small businesses. The schemes mainly cover re-instatement rights (i.e. after training has ended) and full or partial compensation for forgone earnings of the employee (or employer, if wages continue to be paid by the enterprise). Eligibility criteria in existing schemes vary substantially (qualifying period working for present employer, duration and timing of leave, accumulation of leave time, etc.) and the arrangements inevitably involve negotiation and agreement between the employee and employer, assisted by safeguards for the different parties (such as the type of training that may be pursued – e.g. general vs firm-specific).

Most government-supported training or study leave schemes are designed to support learning among disadvantaged groups, rather than being focused upon small firms. Thus, people who are unemployed, or at risk of becoming unemployed, are targeted by such initiatives in Sweden (OECD, 2005), while in Denmark the priority system for public funding fits to the employee’s level of education/training (6.1.3). Spain (6.2.16) and South Korea (6.2.15) fund such leave through employer (and employee) contributions to a special training fund. Similarly, in the Netherlands (6.1.9), such leave is funded through special sectoral training and development funds (based on collective agreements involving the social partners), although it has been observed that small firms tend not to benefit as much as larger ones from this arrangement. By contrast, in Portugal (6.2.13) the employer is expected to bear the cost of compulsory training leave. While this is likely to make an impact on small firm engagement - since small firms are not exempted from the training requirement – the effects will be modest, since the leave that has to be granted, as agreed by the social partners, amounts to just 20 hours per year. Of several schemes giving employees paid or unpaid leave to attend training courses, the majority (including those in France, Finland and Sweden) do not discriminate in terms of the size of enterprise in which the employees are working. Belgium (6.2.6) is notable for operating an initiative which offers differential terms and conditions that acknowledge the greater difficulty for small firms in releasing staff for training - albeit one that merely widens the eligibility to employees working less than full-time hours.

Overall, take-up of training leave schemes is not high – less than 2% in most countries. The agreement of the employer is of course central to this process. In South Korea, for example, this is granted only in exceptional circumstances and the number of workers actually receiving training leave is in consequence tiny. A key aspect of this decision is the means by which the leave costs – and not just the training fees, but also the wages of the absent employee and costs of any replacement staff – are met. France (6.1.5) is notable among countries reviewed for designing an integrated system that now provides a general right to training (droit de formation), training leave for individuals (congé individuel de formation), integration of these into the training plans of enterprises, and substantial funding of the costs through joint training funds. At the same time, in targeted schemes for firms with fewer than 50 workers, assistance is provided to replace a worker who is on leave undertaking approved training (aide au remplacement d’un salarié en formation). In fact, Denmark, Sweden and Norway achieve higher rates of leave take-up, including among smaller firms, not because of targeting of small firms, but due to the fact that the framework for support is financially more generous and because institutions and social norms encourage employers
to allow leave to take place. Denmark’s (6.1.3) expansion of its levy-based fund in the 1990s purposely coincided with collective agreements to provide adult employees with the right to one week’s training per year.

An initiative based upon time leave accounts (similar to the Netherlands’ Leave Saving Scheme, where employees can set aside up to 10% of their gross annual wage in a savings account, qualifying for tax relief on the sum set by (OECD, 2005)), would encourage training among employees of small enterprises were it supported more generously – such as being granted a higher rate of tax relief compared with larger firms. Voucher schemes to subsidise the training costs of employees have been experimented with in a number of countries, including Belgium (6.2.3) (and notably, also, Austria (OECD, 2005)), but these tend to be differentiated according to the employee characteristics (especially the low skilled), rather than by size of firm. While employees of small firms in general are currently disadvantaged in relation to training, most targeted schemes focus upon the category of worker, rather than that of his/her workplace.

Giving a statutory right to study leave sends an appropriate message, but leaves a policy problem to be solved if resources are not made available to support it. The proposed ‘Skills Pledge’ - a specific promise that every eligible employee would be helped to gain basic skills and a level 2 qualification (with tuition costs paid by Government) – is in tune with the UK’s voluntarist policy approach to such matters. However, to move to a statutory entitlement to workplace training - suggested by Leitch, were the Pledge not to prove sufficiently effective - would not be inconsistent with practice in many countries. Experience of those countries indicates that, consistent with the Leitch perspective, in such circumstances the position of smaller employers may need to be explicitly recognised, by providing them with compensation for the time allowances at work. The National Skills Forum is generally against wage compensation for staff absent through training on the grounds that this cost is less important than the difficulty of providing cover, including the expense of training a substitute employee. The significance the NSF gives to this obstacle to small firm engagement in training is not in conflict with evidence uncovered for this report. Indeed, the following section describes the mixed results of attempts to overcome such difficulties through job-rotation initiatives.

5.2.10 JOB-ROTATION SCHEMES

Job-rotation potentially offers a solution to the problem of worker absence for training. It supports CVT through addressing the need to replace the workers absent for training purposes and meeting the cost of the replacement worker. Such schemes are often seen as having the virtue of both meeting the training needs of firms and aiding unemployed persons. Originating in Denmark (6.1.3), they are now widely in use in a number of countries.

Experience, however, shows that not all such schemes are practically helpful to small firms: Denmark’s schemes, for example, are relevant mainly to larger SMEs. However, job-rotation projects in Germany (6.2.7) have been found to play a significant role with respect to smaller enterprises, including micro-firms. While it has been suggested that the rate of pay for substitute workers may be a factor influencing success, it is certainly the case that schemes in Germany are well-funded, thus facilitating a substantial support infrastructure purposely orientated to the needs of small firms of particular sectors, where replacement workers can be properly prepared in advance of taking up the position. It is also important to recognise that the scheme is used mostly for replacement of skilled workers and managers rather than the unskilled, and that careful selection of substitutes is key to success. In other words, matching employer needs is important, as not all unemployed people are suitable for such programmes, especially where small firms are involved.

The recent National Skills Forum report does not discuss the use of job-rotation schemes. This may be because the UK’s experimentation with such schemes has yielded somewhat mixed results. Yet, the NSF report recognises that the main problem with releasing staff is
not the wage element so much as the difficulty of providing cover, and the cost of training a substitute employee. This is precisely what job-rotation is designed to address. Policy experience from Germany suggests that such an approach may be of considerable value in helping even the smallest firms to train their workers, especially for some sectors and localities.

5.2.11 POOLING RESOURCES AND NETWORKS

The contrast between large and small firms in terms of the opportunities and facilities for training are very substantial, including advantages of economies of scale, specialised human resource management personnel, information, etc. Pooling of resources for training is commonly found in different countries. It is especially important because it addresses many of the obstacles to training confronting individual small firms, and is particularly common in sectors that have a large number of such firms. The use of collective funds, based upon levies or contributions, is one example of pooling resources, as for example in Spain (6.2.16), where small firms submit joint bids on either a sectoral or geographical basis for levy funds to cover costs of common training programmes.

Another way to draw in smaller firms is through using sector-focused training facilities operated by industry associations. These are found to address the economies of scale and information issues, and examples include North Carolina Hosiery Association’s Hosiery Technology Centre (6.2.20), identified by OECD (2005), which offers courses suitable to smaller firms. Joint action by business associations working with colleges and groups of enterprises is also facilitated by programmes such as Canada’s Workplace Skills Initiative (6.1.2). This provides resources to help partnerships explore innovative ideas for workplace development in small firms/SMEs through forming new local and sectoral networks that draw together training providers and enterprises, including larger firms. Policy initiatives to encourage more such activity in the UK could build on (and help make sustainable) the work of Train to Gain skills brokers. Finding a practical means of expanding the network-based activities described in this section would constitute one of the most effective means available for engaging small firms, not least because such initiatives necessarily focus on practical aspects of training, focused directly upon market performance. It is important, however, with respect to network collaborations that are not built around the driving influence of a large firm, to stress that such models have to be focused, structured and supported in ways that allow the skill formation objectives to be realised.

There are a number of pooling schemes which make use of the facilities of larger firms for design and delivery of a variety of training programmes to supply chain partners, including small suppliers. One example consists of the Austrian-Canadian automobile manufacturer Magna Steyr (6.2.1), which organises training for its suppliers, motivated to do so by the quality and other production gains this offers. The Sub-supplier Programme in Hungary (6.2.8) was a successful EU PHARE project, where large firms operated a similar scheme in a number of target sectors (including automobiles and electronics), and engagement by SMEs was encouraged by the prospect of access to the supply chain, once the requisite accreditations had been achieved. Other examples include, prominently, the growing programme of training consortia of South Korea (6.2.15), where collaboration between government, chambers of commerce and the private sector has resulted in companies like Sanyo and Volvo (supported by funds from a payroll tax) developing joint training centres for the benefit of their supplier enterprises, many of which are small firms. Alongside the training consortia centred upon a large company are those made up of groups of around 50 SMEs, that similarly work through consortia-appointed training managers who liaise with local training institutions to ensure the needs of members are met. Gains have been made in terms of the relevance and quality of training, while economies of scale reduce the cost of courses (for which firms receive support via the levy). Training consortia are found to have helped smaller firms to shift from reliance upon pre-service to in-service training, and from
supply-oriented public institution training to demand-oriented in-plant/on-the-job training that is more cost-effective.

A similar idea is at the heart of a scheme, known as SPK, established through PLATO in Kempen, Belgium (6.2.4), in which substantial enterprises are funded to provide an intensive counselling programme for owner-managers of local firms with 3-100 employees. Managers are made available to act as mentors providing individual coaching alongside structured seminar programmes and activities, with human resource management one of the areas of focus. Evaluation results suggest impressive and sustained results in terms of business performance and network building.

In a system now being replicated in other parts of Sweden, a partnership initiative in the country’s Gnosjö region has been developed that utilises the network approach (6.2.19). Under pressure from globalisation to restructure the local SME sub-contractor base serving larger firms, the region has developed learning networks for targeted purposes, utilising knowledge existing within companies as well as that from external sources. The core network consists of the local industrial development centre (IUC), four companies and their sub-contractors, two universities, and a trade union. Several learning networks have been established, each addressing specific areas in which skills and knowledge need to be developed.

A similar initiative exists in Australia. The Skill Ecosystem (6.1.1) adopts a holistic and novel approach to skills development, researching and organising demonstration projects focusing upon the implications for skills of evolving workplaces. Its distinctiveness lies in considering the whole ‘ecosystem’ in which firms operate: training is viewed within a complex web of interactions associated with sectoral responses to a changing market environment. Drivers of business productivity and growth in different sectors are considered in aligning skills formation strategies with business goals. The project is not specifically for SMEs, although in some of the sectors - including some hi-tech skill-intensive ones – such firms are strongly represented. Although the initiative (launched in 2002) has been hampered by having to operate through traditional structures and mechanisms, it offers a practical conceptual framework for addressing training and skills issues within firms and sectors. It gives rise to better information on skills needs, allowing more accurate matching of skill demand and supply within a defined sectoral context through making the VET system an ‘innovation partner’. While the approach has proved successful with respect to firms, including small enterprises, in high-tech sectors, its wider applicability is yet to be discovered. Such approaches, however, do not sit comfortably with global training targets, differentiated by one-size-fits-all models.

The UK has examples of successful consortia that engage in supporting their members, including training of SME suppliers – e.g. the Farnborough Aerospace consortium. A similar system has operated informally in the case of Nissan, based upon the geographically clustered supply chain in the North East, in particular through a training organisation (ASSA). The relationship between firms can undoubtedly provide the context for action on training and where, as is typically the case, these linkages involve small firms, there is a powerful case for seeking to utilise the resources of larger ones. It has been demonstrated that large firms can play a role in facilitating training and establishing standards. While both large and small firms benefit from the resulting boost to efficiency, quality etc., the fact that participating in such training helps to secure a small firm’s market position with the larger company, constitutes a powerful incentive for them to engage. Moreover, evidence from overseas shows that facilitating the clustering of firms is generally a means of knowledge exchange and collaboration, further involving or impacting upon skills formation.

Operating a flexible fund that supports the establishment (and experimentation with) such initiatives is an effective way of encouraging partnership working that draws together firms in order to address the market failures that restrict training activities by individual firms acting in isolation. The National Skills Forum report recognises that SME networks and training
associations offer **policy** opportunities for sharing best practice in training. NSF suggests that such arrangements might be encouraged by Chambers of Commerce and Business Link, allied to flagship businesses and colleges – some of whom have successfully created their own networks and liaise with local small businesses through business development units that raise awareness and provide information. Going by the evidence from overseas, this may be a particularly worthwhile route to explore with respect to engaging small firms in training, and one which has other benefits based on the associated networking and knowledge exchange.
6. EVIDENCE AND DATA

6.1 COUNTRY STUDIES

6.1.1 AUSTRALIA

BROAD SYSTEM

Australia operates a system where – reflecting tradition and culture - there are few regulations imposed upon employers with respect to training activities; employers take such action as they consider appropriate in the light of their perceived business needs (Smith and Billett, 2006). The short-lived Training Guarantee Scheme (considered below), imposed upon reluctant employers, was a notable exception. The country has a well-established system for VET that has been subject to periodic review and ongoing development. Recent reviews of VET, such as the Skilling Australia report, produced by the Department of Education Science and Training (DEST, 2005), describe a range of objectives, issues and policies that correspond quite closely to those occurring in the UK.¹

DEST is responsible for setting national objectives for the provision of vocational training, working closely with State Training Authorities (STAs), which plan and purchase training in their territory, register trainers (now according to national, rather than state-based, standards, to address the inherited fragmentation of the training system and improve cohesion) and accredit courses. In 2004, 10 Industry Skills Councils (ISCs) were established, to increase flexibility and responsiveness. Their main objective is to identify common cross-industry skills units of competency, leading to both rationalization and more flexible qualifications, which can be customised according to the business's need. The User Choice reforms, introduced in the late 1990s and regularly refined, are intended, in part, to mark the final break from time-based to purely competency-based training, including the explicit recognition of common competencies across some or all sectors (e.g. 'employability skills'), breaking down siloed industry packages. The ultimate aim of User Choice is to increase the responsiveness of the training system to client needs, by encouraging a more direct relationship between clients and providers through funding being paid directly to employers, allowing them the choice of both provider and mode of training.

This research and strategy aids in the development of Industry Training Packages (ITPs), a set of nationally endorsed standards and qualifications used to recognise and assess the skills and knowledge needed in particular industries. When put into practice, these commonly lead to more structured national training and often contain both an element of management training for SMEs and an explicit means of recognising prior learning. Industries covered by ITPs account for over 80% of the workforce. The emphasis is clearly on demand-led training, although there are concerns about the accuracy of intelligence gathered (particularly from employer organisations) and the lack of focus on stimulating demand for new skills.

The Institute for Trade Skills Excellence, established in 2005 (ACCI, 2005), is a federally funded, industry-led, body that aims to increase dialogue between industry and registered training organisations in order to enhance their performance in meeting employers’ needs and improve employer confidence in the national training system. The Institute is intended to be proactive in promoting trade skills excellence and raising the status and value of trades skills training, especially in trade areas experiencing skill shortages. It identifies and rewards excellence by providing industry recognition of good practice amongst registered training organisations, endorsing the trade qualifications issued to ‘Australian Apprentices’, sponsoring teaching excellence awards and undertaking targeted promotional activities. The

¹ Further details of recent reviews of policy can be found at: www.dest.gov.au/sectors/training_skills/policy_issues_reviews.
Apprentice scheme is both larger and more wide-ranging than the UK system, and generally well-regarded.

Training is delivered through Registered Training Organisations (RTOs), which must meet Australian Quality Training Framework standards to receive a licence to operate. Publicly-funded provision is delivered through around 70 Technical and Further Education (TAFE) institutions, similar to UK FE colleges, while there are around 3,000 private sector RTOs, mostly small (fewer than 20 staff), only delivering training in a single state or territory and operating within a highly competitive market-driven framework, which seems to aid those RTOs which position themselves strategically. Only RTOs can issue nationally recognised qualifications (i.e. those in the Australian Qualifications Framework) and deliver accredited training and assessment.

Some 13% of the working age population, currently engage annually in formal vocational education and training. This includes around 400,000 on apprentice schemes, which have been heavily promoted during the past decade, leading to the annual intake more than doubling – this promotion would be worth more detailed examination, as would school-based and mid-career apprenticeships. All young people are also encouraged to take vocational subjects at school, and local group training organisations (see below) run road-shows to help pupils choose a suitable subject.

Some observers have noted the scale and significance of a ‘burgeoning informal system comprising short courses, advisory and mentoring services and workplaces learning’ which runs parallel, if not complementary, to the formal VET system of accredited courses and qualifications (Kearns, 2002). In general terms, the Australian federal government defines policy goals and provides funding, while state/territory governments have responsibility for interpreting strategic policy and managing delivery. Historically, Australian VET policy has been centrally concerned to match supply to demand and considerable effort has been expended in attempting to map businesses’ skills needs. Although it is recognised that the nature of demand continues to evolve, this strategy remains fundamental at both federal and state levels.

Small businesses’ perceptions of the VET system are mixed; although some aspects of the system are generally well-regarded, there is also broad agreement that there is considerable room for improvement - two-thirds of Australian businesses currently do not provide structured training for their employees (Dawe and Nguyen, 2007).

The recently published National Industry Skills Report represents a substantive attempt to understand the changing conditions that will affect the demand for skills in the future. It is intended to be the basis for proactive development of VET policy, and is worthy of continued attention from UK policymakers as its recommendations are implemented. In particular, the report highlights the growing complexity of skills needs and policies given the diversity of employment relationships, work practices and the pace of change driven by new technology and globalisation – for example, the growing need to recognise both foreign qualifications and prior learning; developing more clear-cut career pathways to improve recruitment and retention among a broader range of groups; increasing the use of on-the-job delivery and other flexible mechanisms, for the benefit of both firms and casual, seasonal and part-time workers. In line with the individual-centred approach of User Choice, funding arrangements have also been shifted from direct funding of provision towards greater use of incentives to employers to support apprenticeship training (which, it has been claimed, benefits private providers at the expense of TAFE).

**ENGAGING SMALL FIRMS**

According to data from the Australian Bureau of Statistics, the Australian SME base is broadly similar to the UK in terms of sectoral composition and proportions in different sizebands. The educational system and qualification rates are also similar to the UK, and SMEs face similar skill shortages and gaps (Sheldon and Thornthwaite, 2005). There has
been an ongoing effort to engage with businesses in order to identify the demand for skills, through the Industry Skills Councils and the Institute for Trade Skills Excellence. However, although these organisations are clearly active in defining standards and developing training packages, the extent and depth of their direct involvement with SMEs is less apparent. The majority of consultation that takes place is through peak (lead) bodies and direct communication with individual businesses tends to be achieved passively through the organisations’ websites.

Yet Australia is very aware of the problem of small firm engagement in training, since arguably more research has been conducted on the subject in Australia than in any other country. According to Kearns (2002), traditional barriers continue to influence participation by small businesses in formal training, which ‘remains low and patchy’, with firms continuing to prefer provision that is ‘practical, relevant, convenient, low cost and delivered just-in-time’. This situation, he argues, undermines the longer-term developmental activity of building an enterprise culture that fosters innovation and adaptation to changing conditions is neglected. Kearns has been a leading voice in favour of ‘new directions for policy’, such as the development of a holistic approach integrating business-specific training with lifelong learning and personal development, creating a comprehensive national framework for learning, skill and enterprises directed at firm, individual and community levels. Actual business imperatives, he argues, should be the ‘gateway’ to training development at all three levels, with segmentation according to business size and type, integrating knowledge and enterprise strategies. To some extent, such ideas have been reflected in subsequent development of the VET system (see below).

While surveys show that opening up TAFE to competition from private providers helped to improve the service to employers (markedly in some cases), small firms still report particular difficulty accessing training that is tailored to their needs (Allen Consulting Group, 2006). Recent research by Callan and Ashworth (2004) explored in some detail the relationship between SMEs and the VET system and concluded that effective partnerships involve having a flexible attitude, being in a similar location, and having skilled and motivated staff. Barriers to successful partnerships are identified as institutional procedures, structures and accountability mechanisms. The report proposes a partnership model for VET, based around the recognition of competitive business realities through customised and flexible programmes, and a target of initial ‘break even’ outcomes for training providers. Finding and developing a core group of staff to establish and manage the partnership is key, followed up by promotion of (financial and non-financial) benefits and constant evaluation and feedback. Research by Dawe and Nguyen (2007) (covering the UK as well as Australia) stresses that small businesses will pay for education and training, provided ‘they see value in it’, and that lowering the cost of formal training through financial incentives alone is not sufficient. Their findings, are generalised, rather than confined solely to the Australian context, and have been outlined above (section 3.2).

KEY POLICY INITIATIVES

The Industry Training Strategies Programme (ITSP) funds projects that help employers to more fully understand nationally endorsed training packages. It has a particular emphasis on increasing pathways for Australian Apprentices. Its multi-stranded package provides advice and support for businesses to find solutions for training and recruitment needs and dissemination of information on the apprenticeship system. Education and Training advisors work through employers’ organisations to increase understanding of the training framework, visiting employers, holding meetings and issuing newsletters to ‘translate’ the training system to employers.

Group training organisations were first developed in the early 1970s as a response by some employer associations to recurring skill shortages. Funded by the employer members, they organise placement of apprentices into small workshops that could not afford to bear the risk of employing indentured apprentices in their own right. There are now approximately
200 group training organisations in operation across Australia, accounting for about 10% of all apprentices and trainees, with a greater proportion (17%) among 'traditional apprentices'. GTOs will attempt to relocate an apprentice with an alternative employer within the group if the initial placement fails for some reason (lack of contracts etc.), handle some administrative tasks on behalf of employers (e.g. payroll systems) and provide advice and support. According to the Chief Executive Officer of a GTO in New South Wales, such organisations have been successful at engaging a greater number of employers to take on an apprentice, particularly smaller ones unable to bear the costs by themselves, as well as improving support (both practical and pastoral) to young people wishing to become an apprentice.

Buchanan and Evesson (2004) argue that the defining feature of group training organisations is that they are employers, who appreciate the advantages the employment role can bring to the training experience: better coordinated and better quality skill development and improved protection of apprentices and trainees. According to Macdonald et al. (2004), group training is highly adaptive and responsive to policy and commercial environments. They suggest that employers mostly use group training to avoid some of the costs of directly hiring apprentices and trainees and that group training raises the total level of training investment by employers.

One of the obstacles to introducing a similar scheme in the UK may be that, unlike in Australia, apprentices do not necessarily have to be employed to receive funding. Apprentices at Level 2 can still receive an EMA, so there is no reason for learning providers to engage employers, and employer involvement is low in some apprenticeship programmes. Thus, there is little incentive for employers to form a GTO, unless more pressure is put on providers to make a greater effort to engage employers.

There are a number of specific training initiatives which, while not specifically targeted at small businesses, may be of more benefit relative to large organisations:

**Mid-career workers.** The Australian Government will support individual workers aged 30 years or more to upgrade their skills through an apprenticeship in a trade occupation in high demand. Starting in July 2007, payments will be made to either the employer or the apprentice (depending on award arrangements) and will be set at A$7,800 per annum in the first year and A$5,200 per annum in the second. This is expected to prove useful to small businesses seeking to upskill their existing workforce at a reduced cost.

**Mature-age Priority Training** is designed to encourage and support training and skills development at Certificate III level or above for 35 to 64 year olds. As with the mid-career training, this will reduce the direct and indirect costs of businesses seeking to upskill their workforce, and increase the supply of new recruits eligible for subsidised training. A range of initiatives are included within the programme. For example, New South Wales 'will improve the outcomes for mature age students by: increasing the number of on-the-job training programmes, using blended modes of delivery, focusing on workplace learning and skills development and achievement, promoting recognition of prior learning, facilitating pathways to higher level training, and using online tools to assist mature age workers with no formal qualifications to assess existing skills'.

**Prove It!** - Recognition of prior learning, a weakness in the UK system, is an increasingly important element of Australian VET policy, and useful in reducing both direct and opportunity costs of training for small businesses. **Prove It!** is a web-based application designed to assist students and workers apply for recognition of existing skills that will count towards a qualification. The initiative is intended to make the process of recognising prior learning more accessible and efficient. It can be easily customised and has already been developed for a number of qualifications targeting workers in skills shortage areas including child care workers, drug and alcohol workers and nursing assistants (aged care). Further qualifications in disability and mental health work and the manufacturing and engineering
sectors are currently being developed. This technique is also useful in sectors with rapid technological change, such as the printing industry, discussed in more detail below.  

**Australian Technical Colleges** - The *Skilling Australian Workforce* Act made provision for the establishment of 24 Australian Technical Colleges, with 7,500 student places. These institutions will compete more or less directly with TAFE institutes and also secondary schools. In practice, the Australian Government is funding colleges in areas where there are skills needs, a high youth population and a strong industry base. These colleges cater for Years 11/12 students who wish to study for their Year 12 certificate and start an apprenticeship whilst still at school (Australian School-based Apprenticeship). The Colleges support students through both academic and trade training; with mentoring, career advice and business and employability skills. Courses are all developed with industry input to ensure that the training offered will be relevant to local needs.

**SECTOR-SPECIFIC INITIATIVES**

**PRINTING**

The Australian printing industry has been experiencing skill shortages for some time, particularly in the ‘non-traditional’ areas which are steadily growing in importance with the rapid pace of technological change, and because of the reluctance of many young people to consider a career in the industry in the first place (Callan, 2007). Several different training strategies have been adopted to recruit more apprentices, centring on a greater degree of on-the-job training (partly due to the use of the latest technology, which training institutions have not yet installed); shorter block release periods for smaller businesses; more workplace support for learners and, eventually, more workplace assessment. The overwhelming majority of printing businesses have fewer than 20 employees, and face the greatest difficulties in training – most of the initiatives outlined below are thus based on the training needs of these small firms, rather than the few larger businesses in the sector.

An example of this strategy in practice is RMIT University’s International Centre of Graphic Technology, where around 40% of traineeships are in the workplace. The level of workplace training is negotiated with each company on the basis of competencies achieved and to be attained; the mix of workplace assessors and trained staff; and the numbers of trainees per firm. The critical part of the strategy is finding the right mix of on- and off-the-job training, so that it is viable in both financial and operational terms. Workplace assessors linked to RMIT provide ‘statements of attainment’ to firms, which facilitate the development of a qualifications framework to link pay to skills, and construct a more planned approach to training.

Alongside this, there needs to be a co-ordinated campaign to improve the negative image of the printing industry among young people; an attempt to engage a greater number of pupils in school-based printing apprenticeships; and the continuation or re-introduction of pre-vocational training to supply partially-trained recruits. The latter two proposals would involve local small businesses in the training, and hopefully increase the supply of potential apprentices for them. This prepares recruits for both the shock of the industry (noise, long hours etc.) as well as the benefits (good salaries and career prospects). Employers also advocate an intensive skills programme when the employee starts work, to make them more immediately useful. Due to deadlines and the small size of most printers, the preference would be to outsource this form of induction.

In addition, employers desire an overhaul of training, citing the ageing technology and teachers in most institutions, and the concentration on traditional printing methods, rather than the new workflow-based digital techniques.

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2 See also: [www.proveit.edu.au](http://www.proveit.edu.au)

3 Website: [www.australiantechnicalcolleges.gov.au](http://www.australiantechnicalcolleges.gov.au)
SKILLS ECOSYSTEM

Since 2002, the Australian Government has funded the Skills Ecosystem national project to research how changes such as industry restructuring, intensified economic competition, new forms of business and industry organisation holistically impact on the type of skills employers require to be successful (NSW DET/ANTA, 2004). This approach, which has particular relevance to the SME sector, encourages a focus upon the relationship between work and skill formation through engaging with industry, employer and employee groups and the research community. Demonstration projects facilitate the planning of education, training and skills formation in different industries and regions. Importantly, skill issues are considered alongside the drivers of business productivity and growth (e.g. use of advanced technology, the model of service delivery, work organisation and the design of jobs).

Three of the nine Ecosystem demonstration projects have been in sectors where small businesses are already more amenable to training than average – i.e. high-tech growth sectors, with noticeable levels of networking and clustering. In many ways, these Ecosystem pilots explored ways for training providers to make inroads into, and work alongside, existing networks and clusters, rather than constructing their own training networks, with the explicit aim to make the VET system an ‘innovation partner’. It is now intended to take this learning experience and apply it to other sectors, constructing ‘desirable ecosystems’ in industries where small businesses historically undertake lower levels of training.

Preliminary evidence suggests that the skills ecosystem approach supports high value-added, skill intensive forms of industry development; aligns skill formation strategies with business goals; encourages change in behaviour of enterprises, workers and training organisations; provides sustainable solutions to persistent skill shortages; and helps avoid ‘skills wastage’. However, an interim report on the initiative in 2005 referred to the high level of complexity of the approach limiting, in some cases, the degree of ‘buy-in’ from partners. In particular, the concepts behind the scheme were difficult to grasp, especially in the limited time available. Some projects ended up as ‘bolt-ons’ to existing arrangements, while others simply fell in line with industry development agendas or used very traditional training engagement methods, because of the short time period to which they were restricted.

A recent study by SKOPE (Payne, 2007) notes that the pilot projects have not really grappled with issues of job design, employment conditions or career ladders.

The analysis by SKOPE points out that the key shortcoming of the Ecosystem approach is its reliance on voluntary involvement by businesses wishing to expand their skill-base. In fact, many firms in the deregulated markets of Australia (as in the UK) can compete effectively through low-skill, low-cost models, and tend to be resistant to an upskilling process not necessarily bringing them an advantage. Thus, while individual pilots may have had some success, there is a question over the general applicability of this approach. SKOPE also notes that, given the similarity between the NHS Skills Escalator and Changing Workforce Programme and the Ecosystem approach, a comparative analysis would be interesting.

One of the successful Ecosystem projects, United Water (SA) Water Innovation Network (WIN), aimed to make the VET system more involved with water skills and, in particular, innovation activities in public and private research centres – traditionally an area in which they did not engage to a great extent. The team worked through ‘agents provocateurs’ and ‘civic entrepreneurs’ - organisations with an agenda to create new networks through which TAFE providers could operate. They aimed to identify key communities of interest and personnel, map provision of R&D and related activities, pilot workshops in commercialisation and identify the ways in which the VET system could best contribute, both within the network and further afield, beyond its traditional ‘labour skilling’ role.

A further two demonstration projects sought to address structural issues in sectors and individual businesses through skill development. The most interesting of these, from the UK
point of view, was the Queensland Aged Care Skill Ecosystem Project, which trialled new methods and models to drive quality improvement and overcome skill shortages, although it was based in very large organisations rather than SMEs. The full project report can be found at: skillecosystem.net/data/files/general/Final_report2.pdf.

The final demonstration project of interest aimed to address a wide range of potential skills problems in defence support sectors (i.e. equipment maintenance) in the sparsely populated Northern Territory, covering skill gaps in the workforce, inadequate supply of skills, demographic change, and retention and recruitment issues. Focusing especially on SMEs, strategies included labour sharing, using the skills of partners of defence service personnel, offering contractors support with skill development and marketing across the country to attract skilled workers.

SKOPE concludes that, despite its shortcomings, the Ecosystem approach has some value in moving English provision beyond simple supply measures, and provides a new conceptual framework in which to consider skills issues. First, it could open up a debate on employer responsibilities for vocational training, and how much the state should direct and pay for the process of upskilling the workforce. The Ecosystem approach would focus more attention on the specific needs of firms and sectors, particularly on more skill-intensive means of production. Second, it would aid in moving beyond one-size-fits-all targets. The current English system involves: (a) the LSC setting targets related to employer demand, which is, in reality, more complex and contradictory than the system can necessarily cope with; and (b) independently setting targets for the proportion of the population educated to a given NVQ level – a ‘more is better’ approach, rather than one which takes account of the practical uses of training which translate into economic growth. The Ecosystem approach explicitly refers to how employer skills needs fit into business and economic development, creating better information to allow more accurate matching of skill demand and supply within a defined context.

FOOTNOTE ON THE EMPLOYER LEVY

Research by Hall et al. (2002) throws useful light on the issue of levies. The Australian Training Guarantee Levy was originally introduced in 1990, requiring all employers with a payroll of at least AU$200K (equivalent to £125-150,000 today) to spend 1% of their payroll on employment-related training, raised to 1.5% in July 1992. However, the scheme proved to be unpopular with employers, and was suspended in 1994 (and abandoned in 1996). There were also allegations of fraud and ineffectiveness, although the official evaluation showed that training expenditure increased by over 50% across the private sector, and that around half of employers indicated that the scheme had ‘increased the status’ of training. In addition, the unpopularity of the scheme appears to have decreased over time, and the main complaint became the cost of administration, rather than the principles behind the levy or its level.

In principle, therefore, the scheme appeared to have merit. However, problems did exist on the operational side, with employers not wishing to change their training culture in line with increased expenditure. In particular, the need to spend a quantified amount each year meant that some employers rapidly exhausted all available avenues for structured training, while smaller employers had difficulty in identifying training needs in the first place, lacking both the experience and inclination to do so. Moreover, jobs were often not redesigned to match the upskilling which was taking place, and (arguably at least partly because of this) there were fears of poaching of more highly skilled staff by other (usually larger) employers.

Since the abandonment of the levy, Hall et al. (2002) note that Australia performs weakly in comparison with similar countries in terms training expenditures, and the proportion funded by employers as opposed to individuals. They argue that the levy should be reintroduced in a modified form. The old system often seemed to simply be promoting training for training’s sake, as opposed to a more directed policy aiming for a high quality, high skills training system, within which employers can make best use of both new and existing skills – if
necessary, by redesigning jobs, work practices and organisations. By implication, in order to achieve this aim, the burden would fall more heavily on small than larger businesses to rethink their strategies and organisation (in order to accommodate and properly remunerate more highly skilled workers) and, indeed, to develop a training plan in the first place. Any attempt to reintroduce the levy would thus have to be accompanied by substantial support and assistance directed at small businesses in order to properly exploit the greater expenditure on training.

DISTINCTIVE FEATURES OF THE AUSTRALIAN SYSTEM

Australia’s VET system is close to the UK’s in its underlying structure and principles, albeit with a greater degree of responsibility for planning and purchasing training devolved to states and territories. The system is broadly market-based and demand-led, with employers receiving funding which allows them the choice of provision, alongside a specialised apprenticeship system for young people. Future developments are centred on providing the individual with greater choice, and improving the flexibility of methods of training. To that end, Australia has moved further towards competency-based training packages than the UK, and has made recognition of prior (informal) learning a higher priority. In engaging small businesses, it has made some headway in promoting cluster and group initiatives, but these remain relatively small-scale and targeted at atypical small businesses. A very recent measure supporting mid-career workers to upgrade their skills through an apprenticeship in a trade occupation in high demand is expected to prove useful to small businesses seeking to upskill their existing workforce. Re-examination of the country’s experience with a training levy suggests that their may be benefits to its re-introduction, provided certain lessons are learned with respect to the context within which the higher training expenditure takes place, specifically the need for support and assistance for small firms.
6.1.2 CANADA

BACKGROUND

In common with Australia, the USA and the UK, Canadian enterprises do not have a legal obligation to train. Additionally, like the UK, it deploys a sector approach to organising and encouraging training, allowing flexibility within its federal structure for provinces to adopt their own specific approaches to the problem of engaging small employers. Canada is also interesting in the context of this study, in that it has an active research programme and policy debate on the issue of small firm engagement. The country served as the pilot country study for this project (Stone, 2007), a focused version of which is given here.

Like other advanced countries, an increasing proportion of Canada’s future workforce for the next 10-15 years is already working, and immigration will shortly become the source of all net growth in the labour force (CCL, 2007). Yet just 29% of adult workers participate in job-related education and training (below that in the UK, 34%, and US, 44%) (OECD, 2005; Saunders, 2007). Almost one-third of Canadian workers report unmet training needs relating to their job (CCL, 2007). In 2003, Canadian organisations spent 1.5% of overall payroll on training, compared to 2.3% in the USA. Professional and technical training make up most training investment; basic skills training receives only 2.2% of spending (Cooney and Parker, 2005); over 50% of workers with university credentials participated in formal job-related training in 2002, but only 18% of workers with just secondary education (CCL, 2007). Employee training is not a high priority, private sector managers rank the need to improve it 18th out of 39 issues in 2002 (Gagnon et al., 2005, CCL, 2007). In 2003, just over half (51%) of working adult education and training participants were supported financially by their employer, compared to two-thirds in the USA (van Walraven, 2005).

In the light of the gap in recent productivity growth with the USA, and given the link between skills and productivity, much policy attention is given to this issue in Canada (Gagnon et al., 2005). How to overcome the problem of insufficient employer investment in training is central to this - especially in relation to smaller firms. Workplace training is highly concentrated in larger firms: those with over 500 employees have a participation rate (formal training) of 37%, compared to 25% (20-99 employees) and 18.5% (fewer than 20 workers) (CCL, 2007; 2002 figures). On a standardised basis, the likelihood of an employee participating in employer-sponsored formal training is twice as high in firms of over 100 employees than in those with fewer (Lin and Tremblay, 2003).

BROAD SYSTEM

SECTOR COUNCILS

The lead bodies concerned with VET in Canada are the Sector Councils (SCs), which are led by a partnership of representatives from business, labour, education, professional groups and government, and work to identify and address current and anticipated human resource and skills and learning challenges, and implement long-term human resources planning and development strategies for their respective sectors. SCs first emerged in the 1980s relating to the steel trades, electrical and electronic manufacturing, and automotive repair. Government-private sector cooperation through sector councils was perceived as a means of addressing the human resource needs of sectors in the context of the Labour Force Development Strategy (LFDS). In 1993, the Sector Council Program was launched, representing a decisive federal government commitment to the sector council concept, and expanding the LFDS to include funding for additional sectoral activities, such as national occupational standards and skills upgrading.

There are presently 30 Canadian Sector Councils, overseen by Industry Canada. They are similar in some respects to the UK’s SSCs, but are more limited in their functions. They have evolved somewhat from the earlier councils, which were primarily responses to industrial decline and the need to restructure for global competitiveness. The new councils...
focus upon developing a training culture and national training standards. The Alliance of Sector Councils (TASC) is the umbrella organisation for SCs, the core concerns of which are to achieve: better understanding and planning of labour market trends and issues in industry sectors; cooperation among key sectoral players on workplace skills issues; collaboration with the learning system to ensure it is responsive to industry needs; more efficient sectoral labour markets; and improved productivity of sector workforce.

Approaching 50% of the workforce is covered by the Sector Councils, the (mostly private) sectors which they comprise have been chosen not so much for their strategic importance as for the demand for such a body. The SCs do not concern themselves much with issues of leadership, and do not actually deliver training, which is regarded as a provincial matter; they focus their activity especially upon recognition of overseas qualifications and competency frameworks. Large companies generally appear to have become formally involved – recognising that, although they have their own training arrangements, engaging in wider aspects of the labour market is in their interests. There are signs that some of the councils are developing their activities so as to take specific account of the smaller firm element within the sector (see below).

The structure of sector councils below federal level is uneven. Sector Councils are found in four Provinces (Manitoba, Québec, Nova Scotia and Prince Edward Island). Manitoba, for instance has 13 local SCs, whose activities cover strategic HR planning, coordinating training projects (sectoral and cross-sectoral) and development activities, training upgrades for existing workers, cost-shared funding for innovative training, Essential Skills training, and PLAR solutions; PEI has some 8 councils, and Québec 16. Tourism is the only sector where there is an equivalent council body in each of the provinces. Typically, but especially in Québec, provincial sectoral policies are based upon agreements between the workforce development bodies, employers and social partners, including unions.

Criticisms have been raised regarding the functioning of the Sector Councils in various parts of Canada. Their small size and lack of funding for implementation, combined with the lack of inter-communications at the regional, provincial and local levels, is seen as limiting their influence – leaving aside the broader systemic issue of the lack of connection between the work of the SCs and Human Resources & Social Development Canada (HRSDC) (both national objectives and regional initiatives), which has posed further problems. As Sung et al. (2006) point out, Canada experiences problems that occur in ‘two-tier’ systems, namely the tension between provincial councils that attempt to respond to the needs and concerns of their employers, and federal councils that tend to respond to the political priorities of the federal government. Thus, British Columbia is exploring the formation of Sectoral Consortia to undertake work similar to that by SCs nationally, but focused more specifically upon the structural conditions in the province and properly coordinated to avoid overlap and duplication. Because unions play a significant role within the Sector Councils in Canada, the Construction Sector Council is regarded as representing unionized construction; in reality, the majority of the employers in BC are non-unionised. Here, as elsewhere, the employers on the Sector Council Board are not necessarily regarded as representing the full range of employers.

**WORKPLACE SKILLS INITIATIVE**

The Government’s Workplace Skills Strategy has been developed specifically to help build a labour market that is flexible and efficient, to raise skill levels, and to respond to the needs of employers to make workplaces more productive and innovative. Reorganisation within the HRSDC saw the creation in 2004 of the Workplace Skills Branch – in recognition of the fact that policy was tending to neglect workplaces and the people working in them. A large consultation and research exercise (including an international literature review), gave rise to a number of outcomes, including the establishment of the Workplace Partners Panel (WPP), formed to stimulate and support a new, industry-led dialogue on labour market and skills
issues, and ensure that business and labour, as well as regional and sectoral perspectives, influence the workplace skills agenda.

The **Workforce Skills Initiative** (WSI), launched in 2005, was introduced to meet employer needs relating to HR and skills issues. It provides a fund (C$78m over five-years) available to organisations outside government for projects specifically relating to workplaces. The fund is not specifically confined to SMEs, but this is the main target group for WSI themes covering workforce development and integration, sectoral upskilling models, improved HR practices, and income support for upskilling.

Within the framework of these core areas, projects have been developed that support adoption and sharing of improved HR practices, demonstrate new and innovative approaches to workplace skills development, pilot innovative approaches to promoting partnerships and networks, and pilot new skills identification, recognition and utilization of skills (with proposals that more specifically target older workers and low-skilled newcomers to Canada given more prominence in the 2007 second call for proposals). The originators of the proposal must cover 25% of the cost; projects must be partnership-based, demonstrating strong partnership roles in project execution.

Essentially, WSI offers financial resources to help partnerships to try out new approaches in the workplace, differing from other schemes in that it has to be focused upon *individuals who are already employed*, while most government schemes target the unemployed. The initiative is more about testing ideas than implementing them: the WSI encourages innovation, including trying an established idea in a different context (or sector). Current projects address a range of workplace HR and skills issues (for details, see Stone, 2007). Involvement of business associations are prominent; employers apparently find it easier to partner with these than with competitors. A number of projects seek to develop and test tools and models for use in workplace settings, derived from working with groups of SMEs. Many are concerned explicitly to link skill formation activity with business financial and productivity performance. WSI strengths are that it encourages partnership working, engages small firms, and identifies practical solutions to skills issues in workplace situations. For example, the Manitoba Food Processors’ Association leads a scheme, involving 140 small firms, to develop and test a workplace training assessment tool that integrates HR development with employee performance and business objectives. The WSI will be evaluated for overall impact.

**SME ENGAGEMENT**

There is great awareness among Sector Councils of the need for outreach activities to employers, and for delivering information and advice relating to HR for small businesses. In particular, there is acknowledgement of the time needed to develop working relations with small employers in order to demonstrate the SC’s value to them. The latter is a prominent feature of the very extensive country-wide consultations undertaken in 2004 to determine how skills issues might be addressed (Mennie and Bell, 2005). *The Conference Board of Canada* (Gagnon *et al.*, 2005) has argued the desirability of bringing ‘training conversations’ to employers’ workplaces. Its proposal was based around the notion that training advisors would initiate an extensive programme of contact visits to employers to learn about their business and skills requirements. The Advisors, who could be from Sector Councils, Business Development Centres or Service Canada offices, would provide guidance to employers on how to identify and assess their firms’ skills gaps and learning needs, directing them to online skills assessment tools, informing them of government training programs and

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4 Other elements of the WSS are Essential Skills and Workplace Literacy Initiative, the Sectoral Partnerships Initiative, Trades and Apprenticeship Strategy and the Foreign Credential Recognition Program. For more details, see Stone, 2007
financial incentives available, and offering suggestions for developing and implementing a customised training strategy based on the best practice of other employers. Such an approach would save employers’ time, as they would not have to search for information themselves, and prompt the use of several of the Sector Council programmes. It would also provide employers with a continuous point of contact through the training continuum.

The Canadian Plastics Sector Council has been working along the lines identified above. This sector consists mainly of small firms (50 or fewer employees), the owners of which are reluctant to devote time to the issues of training. The CPSC has developed an extensive ‘stakeholder outreach programme’ where, working with training partners, a team is engaged in direct visits to employers (and other stakeholders) to raise awareness. This is regarded as a successful initiative: firms visited are shown how to use the web services and many are reported to have themselves made subsequent contact; something that was almost unknown following email/postal communications. It remains difficult, however, to engage firms more formally (e.g. as members of the Board), given the large distances involved.

The problem of engagement appears to have been tackled differently by particular Sector Councils. The Canadian Tourism Human Resource Council has had to work hard to encourage tourist businesses to take a career development approach. Working through partners, including provincial counterparts, they have undertaken an extensive programme of visits. The President of the CTHRC reported that it appears ‘to take around seven visits before a reasonable understanding of the support that is on offer is achieved’. The recently formed Human Resource Council for the Voluntary and Non-Profit Sector is currently piloting a scheme in Calgary, involving working through a college to engage with managers. Through regular meetings with those enrolled on a relevant course, facilitated through Mount Royal College, common skills and training issues are discussed and best practice delivery methods explored. Apart from in Québec, where there is a recognised structure (i.e. government-sponsored networks) that helps identify and communicate with the relevant establishments, little by way of even basic information exists on this sector, and accessing the individual operators through the community college network is regarded as a feasible approach.

Another very new SC is Contact Centre Canada, that has struggled with planning activities because of the absence of statistical information, reflecting its cross-sectoral footprint, the diversity of units in terms of size, and the extent to which its clients are in-house functions of larger organisations. Again, a major approach to engaging the small businesses within this sector has been through site visits, found to be successful in overcoming the problem of SMEs not having the time to provide information in response to postal or email requests, as well as bringing the organisations in touch with trainers and educators.

HR support for small firms. There is a strong view, throughout the provinces and territories of Canada, and found in a variety of bodies, from employers’ association to support agencies and SCs, that HR functions have become much more important over the past decade or so and merit more specific provision of assistance to help small firms (i.e. those of insufficient size to have a formal HR function) to access such specialist support. Various methods have been suggested, from dealing with the informational problem (by compiling a list of HR professionals and mediators), to subsidising such services, to setting up specialist centres to provide this service. The functions where support is needed include those relating to recruitment, retention and lay-offs, systematic evaluation of competences and training needs, learning plans, and projections of skills requirements.

The Employers’ Council in Newfoundland and Labrador has been exploring the establishment of a central body that would perform the HR function (at regional or local/community levels) for smaller employers who cannot afford dedicated HR staff. This body would be responsible for such things as hiring, supervising, laying off and firing. The coordinating body would oversee workplace conditions and safety. It is also envisaged that it could be a useful model to enable the completion of on-site components of apprenticeship
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training – many small employers not being able to provide the range of experience required - and also elements of training plans. Recognising the importance of this, the federal government announced the provision of modest funding over 2005-08 to assist SMEs with HR issues. This project, carried out in conjunction with the Ontario Human Resources Professionals Association, includes online instruction programmes designed specifically for non-HR professionals.

E-learning. Sector Councils play a key role in providing timely and cost-effective training. One example is the Canadian Automotive Repair and Service Council’s Interactive Distance Learning (IDL) programme (Watt, 2005). IDL is subscription-based televised broadcasting system that provides instructor-led interactive technical automotive training and non-technical business skills training. Businesses using IDL training report that it is cost effective relative to other training programmes: users noted that if they did not subscribe to IDL, they would not be sending people to training—as it is otherwise too costly and takes too much time away from work. By using IDL rather than off-site learning, the business gains 6-8 hours of productive time per employee/per course. The IDL training courses are developed with the industry and service shops in mind. A technician in a small independent garage in a remote area gains as much as one from a large urban multi-bay service outlet.

PROVINCIAL POLICIES AND INITIATIVES

As in most countries, employers may deduct training expenses from business taxes and employees have available similar tax credits, as well as there being a number of co-financed savings vehicles (learning accounts) to stimulate individual investments in education and training. Financial incentives are neither widespread nor especially generous (OECD, 2004), although the level of federal support was improved in 2006 by the announcement of new incentives to encourage apprenticeships and to support apprentices in their training. Special concessions relating to SME training are to be found at provincial level – although many incentive schemes tend to focus on encouraging employers to hire unemployed individuals so they can gain valuable work experience (e.g. Alberta’s Training on the Job and Nova Scotia’s Energy Training Program for Students (Gagnon et al., 2005).

Through its workforce development body, Emploi Québec, operates a training levy similar to that in France\(^5\). Under 1995 legislation, businesses (and public organisations) with payrolls over $250,000 were required to demonstrate that they spend 1% of annual payroll on approved training. Otherwise, they must pay that amount (or the shortfall) into a provincial fund. This fund provides training grants to applicant companies that meet the 1% rule, and thus are used for employee training, re-training, entry training etc. in line with the overall provincial training plan. Some of these funds are disbursed through the sectoral apparatus, and there has been some use of them to assist SMEs - such as funding applied research on managing employer-sponsored training (OECD, 2004). It should be recognised that while the national average spend on training by employers is higher, at 1.5% of payroll, that figure is pulled up by the higher levels of spending by larger organisations.

Critics have argued that the detailed paperwork needed as proof that businesses have invested in training acts as a disincentive, particularly for small firms, many of which are said to prefer to pay the 1% tax rather than fill out the forms. Evidence on this is mixed. In support, a survey by the Canadian Federation of Independent Business shows that 26% of Québec small businesses offer no training, compared with 9% elsewhere in Canada generally. Yet, official figures show that 68% of eligible companies claim their training activities. Moreover, Statistics Canada’s Adult Education & Training Survey found that

\(^{5}\) Unlike the situation in France, however, firms are not required, only encouraged, to prepare a training plan.
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employer-supported job-related training in Quebec increased by 66% between 1997 (i.e. prior to the tax) and 2002, while the remaining nine provinces show smaller increases (between 0.04% and 39%) during this period - suggesting a positive link, as found in Australia, between the tax and increased employer-supported training.

While recent streamlining of employer documentation processes might be expected to result in an increased number of participant employers, the raising of the wage bill threshold to $1 million (£500K) has significantly reduced the number of small organisations whose decisions might be affected by the levy. For firms not subject to the levy, encouragement to provide training relies upon a tax credit covering various training activities, including apprenticeships, for which the province offers more generous support than is available elsewhere.

Although Québec SMEs are less likely to provide training than those elsewhere in Canada, firms that do offer training are three times more likely to provide formal training. The shift from informal to formal learning can be beneficial where industry is demanding more skilled and formally qualified workers with proven experience. On the other hand, it is recognised that such mobility is more frequently from small to larger organisations, to the possible detriment of the former. Moreover, it is commonly argued that the levy’s effect is more apparent than real: that employers are simply formalising their training ‘on the books’ to show they meet spending targets, without actually increasing the amount of training. Indeed, the range of activities that can be set against the levy is wide, raising the possibility of claiming for activities/facilities which are part of ‘normal operations’ (Sung et al., 2006), and almost certainly favouring larger firms whose training options and activities are more diverse than smaller ones.

Manitoba has been experimenting with more voluntarist policies to encourage workforce training in its SME sector. In 2004, in conjunction with the Winnipeg Chamber and Canadian Manufacturers and Exporters (CME), it launched an Employer of Choice award. While open to firms in all sectors it is targeted at SMEs – almost all the initial participating firms had fewer than 100 employees. Advisory committees are established and consultants appointed by the employers from an approved list maintained by the CME, which is also responsible for the agreements and funding of the advice. The scheme is derived from the UK’s Investors in People model, although especially oriented to Manitoba’s small firms’ sector. Employers must be willing to open up their business to scrutiny and radical reform of its structures and processes. Specific action plans in areas relating to HR processes and strategies are developed for each firm, which bear the cost of implementation, and commit themselves to creating a culture of learning within the organisation, leading to the award of the Employer of Choice certificate. Feedback on the scheme is reportedly ‘very positive’ and the number of SMEs interested in participating has risen steadily. The has influenced the initiative, which is a less costly initiative appropriate to small firms.

Such initiatives improve firms’ ability to attract and retain workers, but investment in staff is still needed and many employers are not convinced of the business case for doing so. The Province has therefore experimented with making information available on calculating returns on investment in training. Through provincial sector councils, the government provides actual Return on Investment assessments as a service to employers, using a modified ‘Kirkpatrick model’. Not all sector councils provide this service as it is resource intensive.

Manitoba has also, in the past, given a tax refund for employers providing training to their employees. Although it was a politically contentious issue and the programme was abandoned, experience suggested it was an effective instrument for encouraging training and its re-instatement is currently being debated. However, rather than a general rebate on taxes, provincial government preference is for a targeted tax. The previous scheme had a minimum payroll floor for eligibility ($300,000) that actually excluded many micro firms. Current proposals favour incentives targeted at smaller firms, plus other priorities (such as particular types of training, e.g. Essential Skills, locally strategic sectors, immigrants and
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aboriginals). It is recognised that the scheme’s administration needs to be simple, rather than bureaucratic, and that industry HR consultants (rather than project officers) should be used for assessing eligibility for a credit/refund, given their ability to advise on as well as validate training plans.

British Columbia’s **Small Business Training Partnerships** programme has been established to encourage small businesses to form partnerships for purposes of identifying and addressing common training needs and goals. Funding for this activity covers up to 50% of the costs of developing, organising and delivering short-term training for existing employees (OECD, 2004).

**DEBATE OVER POLICY**

Work undertaken for the Conference Board of Canada (Gagnon et al., 2005) on changing employers’ attitude towards training recommended that government consider (largely voluntarist) measures - such as a tax credit system, a training fund and champion representing SMEs to take a leadership role in preparing a national action plan. A recent paper by the Canadian Council on Learning (CCL, 2007) goes further, suggesting that targeted approaches should be considered in using training levies and mandatory training initiatives – pointing out that compulsory levies may help in financing specific training measures, developing sectoral or inter-sectoral agreements, and programmes tailored closely to the needs of SMEs. It suggests that tax credits to encourage investment in training might be scaled to provide an enhanced incentive for SMEs.

The Conference Board of Canada recently investigated *What More Can Sector Councils Do?* (Bloom et al., 2005). Among the areas identified for future action is the development of a specific strategy for SMEs, specifically through the following:

- build and promote SME-specific tools, services and programmes within Sector Councils, drawing out the work of the SCs already engaged in this area;
- design of an SME portal and pathway initiative linking up SMEs with sectors and with other agencies and stakeholders (e.g. Canadian Federation of Independent Business);
- develop programmes to enhance leadership skills of SME owners and employers to improve their capacity to manage employees and to evolve from business starters to mature business operators;
- provide owners completing such a course with an SME Business Leadership Credential to recognise their achievement and capacity;
- recognise informal learning as important in that it relates closely to SMEs and is the form of learning often preferred by such firms.

A special role for Sector Councils in relation to SMEs is also suggested in the conclusions to case study research into skills upgrading initiatives in Canada (Brisbois and Saunders, 2005). The study actually focuses upon initiatives involving unique partnerships that include large organisations, and stresses the value of flexible and customisable assessment tools and programmes tailored to the needs of individuals in the context of their specific organisation, so that the gap between the worker’s skill level and that needed for a specific job can be identified and then effectively addressed. It is specifically acknowledged that small employers would be unlikely to have either the time or the resources to develop skills-upgrading assessment tools or programmes for their workforce. Although Sector Councils can extend their role in pooling resources to mitigate these problems, it is recognised that there is still the major problem of the direct costs of delivering the training (specifically the cost of adult educators, which were identified as crucial to the success of the case study initiatives), and those associated with releasing workers to allow them to undertake the training.
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Collaboration is also a theme to emerge from a recent high-level forum on *Employer Investment in Workplace Learning* in Ottawa (Saunders, 2007). Ideas for action included: championing/lobbying for investment in workplace learning; unions making investment in training a priority in collective bargaining; training partnerships (at all levels) exchanging information on promising initiatives and best practice; and governments acting in various ways to support the process, including exploring new or enhanced incentives for employers and workers to participate in learning activities. The specific new suggestion of potential importance in terms of SME training was a development of the role of Sector Councils as vehicles for useful collaboration on learning initiatives among employers, labour groups and training providers – namely, the encouragement of training partnerships between vertically linked firms, with the larger companies helping their smaller suppliers to develop their employee skills, and thus improve their capacity as suppliers.

**DISTINCTIVE FEATURES OF THE CANADIAN SYSTEM**

In common with Australia and New Zealand, Canada has essentially adopted a sector-based approach to training at a national level, with the Skills Councils being a partnership of government, business and labour representatives. However, these Councils are smaller and more limited in function than their UK counterparts, in particular lacking funding for implementation of programmes. Furthermore, some provinces have formed their own SCs in addition to the national bodies. Small firm engagement, financial incentives and responsibility for delivery of training are devolved to a large extent to the provinces and territories, although there have been some more proactive sectoral programmes of face-to-face contact with training advisors through site visits to business owners. This provincial autonomy has facilitated small-scale experimental and pilot initiatives, and promoted differing approaches to skills formation – for example, while the typical approach is voluntarist, Quebec has opted for a compulsory levy. There has also been an explicit recognition in policy that, since much training takes place on-the-job, greater effort should be made to encourage this and ensure that it is high quality; thus, the Workplace Skills Initiative provides funds to partnerships for upskilling projects based in workplaces. Canada is also somewhat unusual in terms of the large volume of research and debate undertaken in support of small business skills policy.
6.1.3 **DENMARK**

**BACKGROUND**

Denmark’s well-developed and resourced adult education and training system provides a favourable environment for upgrading the skills and competences of adult workers – as perhaps would be expected in a country where public spending on education and training as a whole amounts to 8.3% of GDP, compared to the OECD average of 5.3% (Munch et al., 2004). High levels of employer commitment to training (reflected in willingness to contribute a substantial training levy) are achieved through a combination of government financing and, what Smith and Billett (2006; p6) describe as, ‘the role of the social partners in engineering consensus at the firm level on the importance of training’.

Denmark has the highest level of government expenditures on training (as a share of GDP) in the OECD; public expenditure on training of adults is almost 0.9% of GDP compared to an average of below 0.2% (OECD, 2004). While over three-quarters of this spending is on unemployed adults and those ‘at risk’, Denmark’s public spending on training for employed adults is still proportionately higher than any other country (i.e. roughly twice that of the next highest, Belgium) (Nestler and Kailis, 2002). However, employers both contribute to and receive support (overall in roughly equal proportions) from a public training fund - the *Labour Market Training Fund*, based upon a levy of 3.5% of wage costs - the presence of which affects total spending on training, and can lead to the extent of the state’s contribution being exaggerated. Even taking this into account, however, it remains the case that a comparatively high proportion of public resources is devoted to training.

It is not surprising, therefore, that Danish training participation rates and intensity of worker training - at 54% of the workforce and over 20 hours per year - are, respectively, the highest and second-highest (next to Sweden) in the OECD (CVTS2 data). Importantly, from the perspective of this study, Denmark also registers the narrowest gap (after the Netherlands) between small and large enterprises with respect to training participation. Firms with fewer than 50 employees record a participation rate of 48%, compared with just 56% for those with more than 1,000 employees. Moreover, a high proportion (71%) of small enterprises were found in a survey to conduct assessments of worker training needs (OECD, 2004). This outcome seems to reflect the fact that the overall system relating to training both encourages and permits small firms to engage in CVT to a greater degree than in other countries, since Denmark offers little by way of support targeted specifically upon small employers. Apart from the sheer generosity of the system, that promotes a higher level of education and training in general, crucial elements that contribute to the country’s relative success in engaging small firms are the measures to encourage individual employees to pursue training.

**ADULT VOCATIONAL TRAINING SYSTEM**

Adult vocational training in Denmark is substantially financed by the government, including payment of the wages of those attending training in programmes, mainly delivered through specialist institutions. Denmark has traditionally had a strong apprenticeship system focused upon skilled trades, supported by government regulation and financing, but its VET system has, over recent decades, become more diverse, incorporating work introduction courses for young people and the unemployed, and training for semi-skilled and skilled workers. This is still financed by the government, but regulated through the joint government, union and employer committees (Smith and Billett, 2006). Most of the direct and indirect costs associated with this leave are paid for by government, including provision of income to individuals while in training. Employees must have three years in employment on the previous five years, and can take up to one year's education/training leave over a five year period (more if they are low qualified). The main schemes are:

- **Education of adult trainees** - a programme introduced in 1999 that provides employers with a subsidy to cover wage costs for training unskilled persons over 25
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... year of age, where the training leads to a craft skill and involves attendance at vocational school.

- **State educational support scheme for adults** – launched in 2001, this is a subsidy scheme for employees and the unemployed of 25-60 years of age who wish to pursue an educational programme at any level, compensating for loss of income or work. Duration is up to 80 weeks for primary or secondary level and 52 weeks for tertiary level, and up to 6 weeks for the unemployed. Some 14,000 persons received subsidies in 2003, virtually all of whom were employed.

- **VEU Allowance** is a specific fund for employees/the unemployed with low qualifications levels that has existed since 2001. This substantial scheme imposes no limit on duration for those above 25 years of age, and provides a subsidy to cover loss of income or work due to attending courses as well as travel and other costs.

- **Tax deductions** - as elsewhere, Danish firms can also deduct investments in education and training from their tax obligations.

Much of the CVT offered by Danish employers is firm-specific and provided through the largely public adult vocational training system. Joint regulation is a central feature of the system, operating from the firm level upwards, with training provisions normally incorporated within the collective agreements forged between unions and employers. The country’s VET system has been reformed and modernised over the past decade or so, with continuing education and vocational training among adults regarded as an important component of its strategy for lifelong learning. A key feature of the system is the AMU centres, offering mainly short (4-6 week) modules/certificated programmes for the employed and unemployed. The Ministry of Education has delegated responsibility for matching VET programmes to labour market needs to the social partners and the specialised vocational institutions. In a decentralised structure, the social partners operate through three main bodies (the Vocation Education Training Council, national trade committees, and local training committees) to influence training programme curricula in each of the 58 sectors in line with local labour market conditions and needs (Munch et al., 2004).

Labour market training through the AMU centres was made free of charge in 1997, at the same time as legislation provided for individuals in jobs to receive financial support from the state for training during working hours. However, Denmark recently has experimented with the so-called ‘taxi-meter’ system, whereby some charge is made in an attempt to make the system more competitive, in encouraging ‘consumers’ to choose among providers, who are paid according to the number of students they attract.

**SMALL FIRM ENGAGEMENT**

The measures outlined above apply to all businesses. Danish policy initiatives tend not to discriminate in favour of small firms, instead opting for a high level of training provision across the full spectrum of employers.

**SECTORAL LEVY**

In the 1970s the social partners initially established special funds to enlarge the scope for vocational training in firms. The scheme was expanded by collective agreement in 1991, coinciding with - and specifically linked to - agreements on the right of employees to participate in CVT (e.g. the right to a one-week training period per annum, which now embraces a significant proportion of Danish employees). While some of these levy-derived funds are used for apprenticeships and traineeships for young people (the AER scheme), the **Labour Market Training Fund (AUF)** targets adults (especially those with low qualifications). Employers thus have the right to call upon the AUF when their employees participate in CVT.
Denmark’s system is similar to that of the Netherlands: levies upon employers vary sectorally; they are set by collective agreement and supplemented by government grants. Around one-third of the workforce in Denmark is covered by these arrangements (Ok and Tergeist, 2003), although it is interesting to observe that the number of public sector employees is double that of private sector ones (OECD, 2004). While the importance given to training reflects both government funding and active involvement of social partners, it is also embodied in the salary systems of some sectors (e.g. the metals sector), where skills and competences related to specific job functions are agreed by joint work committees; thus vocational training and other forms of competence development play a central role in the qualifications-based payments system (OECD, 2005).

**TRAINING AND JOB-ROTATION**

Job-rotation is frequently seen as a particularly suitable tool in terms of supporting small enterprises, since such firms are often unable to release workers for training. Job-rotation schemes were initially developed in Denmark, as a successful mechanism for staff development and skills-upgrading through allowing employees the time off work to undergo their training activities. While the wage-earner is absent from the workplace attending a course or training event (through the activation scheme that allows paid leave of up to one year’s duration), an unemployed person, appropriately supported, is given the opportunity of employment, covering for the absent employee (or employees, since up to four workers can be released for training for each replacement worker that can be funded). The employer – with the support of a personnel consultant - develops a training plan for the employed worker(s), along with special training arrangements for the unemployed person who is to act as a substitute. The firm then obtains funding from various government agencies to cover the cost of employing the jobless person (up to 12 months at an allowance or wage similar to the unemployment benefit).

Denmark’s experience is instructive in a number of respects. The large number of job-rotation projects in Denmark is linked to the 1989 and 1993 ‘right to training/education’ legislation, allowing employees one year’s training in every five. Such leave thus became integrated into the Danish labour market legislation, and employers had to find a way of responding to this requirement. Job-rotation in Denmark, however, is apparently more relevant to medium and large than small enterprises. Evaluation research showed that the average firm size was actually around 100; medium-sized firms finding the system especially effective for supporting group-based personnel development courses (Kruhoffer, 2002). There is evidence that it does not especially benefit low-qualified workers, either in terms of those receiving training and the substitute workers themselves (LEED, 2002). Public support for the mechanism has traditionally derived mainly from its role in addressing high unemployment, and some of the schemes developed have had a cross-border dimension, based upon the sectoral need for a qualified labour force and differences in the level of unemployment between neighbouring regions (e.g. Copenhagen and Malmo). Job-rotation schemes have proved more difficult to operate in recent years when unemployment has been low, with fewer firms participating. It is noticeable that, in conditions of tighter labour markets, an equally strong motivation for employer involvement in the schemes recently has been the cooperation firms receive in recruiting motivated individuals.

Job-rotation has undoubtedly assisted Denmark in achieving its high training achievement levels. In the 1990s, the substitute workers accounted for up to 1.3% of the Danish workforce – and the schemes have an excellent record in terms of creation of permanent jobs for the replacement workers (around 75%). Indeed, its success prompted its introduction in other European countries – including some schemes in the UK - formalised through the European ADAPT programme. The evidence shows that they have not, however, been used extensively by small firms. No analysis of the cause of this situation has been uncovered, although such schemes are known to be highly sensitive to a number of factors, including administrative processes. Indeed, job-rotation schemes have been
reported to work well for small firms (including micro-firms) in other countries, especially Germany and Finland, and also in specific sectors in France.

BROAD INTEGRATION OF TRAINING

Adult vocational training in Denmark is thus highly integrated in that it addresses the needs of new workers and the unemployed, as well as those of existing workers. Inequalities of access to training in Denmark still exist (measured by the proportion of workers with tertiary education as opposed to those with less than upper-secondary education who receive training) but – similar to other Nordic countries – these are among the lowest in terms of international league tables (e.g. 1999 CVT Survey, henceforth CVTS2). It should also be noted that, like a number of other countries included within this study, Denmark has recognised the potential value of high performance work systems and innovative work practices for encouraging training, and the introduction of new technologies and continuous training are firmly laid down as areas where works councils have participation rights (Ok and Tergeist, 2003). The supportive environment to training that exists in Denmark – operating through a variety of influences – has produced a context where small firms engage in CVT to a greater extent than more or less anywhere else, yet without particular attention being paid to the special needs of small firms. The cultural setting, however, is highly specific (e.g. with respect to the role of social partners) and the performance has not been achieved without considerable expense and involvement by government.

DISTINCTIVE FEATURES OF DANISH SYSTEM

Danish policy tends not to single out small business for favourable treatment, opting instead for initiatives to raise the quantity and quality of training across all sizes of business. Firms are obliged to pay a training levy, which in part contributes to the extremely high level of participation in training compared with other OECD countries. Training is usually government-financed (via the levy), delivered through public sector institutions, and regulated through joint committees of government, union and employers, with collective agreements usually specifying a quantity of training. Training supply is similarly determined through social partnerships, including at a local level, in order to match it more accurately with demand; while previously this was entirely government-funded, there is now an element of competition between (mainly public sector) suppliers implemented through a small charge being made directly to businesses. There is substantial support for training leave for employees and job rotation schemes (which does not seem to operate effectively to engage small firms), and integration of the training systems for those both in and out of work.
6.1.4 **FINLAND**

**BACKGROUND**

OECD comparisons place Finland near the top of the range in measures of continuous education and training. In 2002, 55% of Finns aged 25-64 took part in some adult education or training—averaging of 8 days' duration (Hytti et al., 2004). On average, firms spend around 5% of their payroll on training; OECD data, based upon CVTS2, places Finland on a par with the UK in terms of participation rate in CVT, but noticeably above the UK in terms of intensity of training (hours per worker); among European countries it lags behind only Denmark and Sweden (OECD, 2004). Interestingly, in spite of this performance, Finland, like Norway, has not especially adopted policies on employer training *per se* (Smith and Billett, 2006). A recent review of instruments and incentives shows that most support is for study leave targeted upon employees; and that which is focused upon firms has relatively wide objectives, for example, to do with workplace development (Hytti et al., 2004). The country adopted lifelong learning objectives well before they became a matter of widespread interest and is recognised for its well-developed culture of learning and for an education and training infrastructure that is well-adapted to meet the needs of working life through its broadly formulated approach that extends beyond lifelong learning.

**BROAD SYSTEM**

The Ministry of Labour promotes improved work productivity and occupational competence through training, specifically targeting older and low skilled workers as a means of keeping them in employment. Major reforms were carried out in the 1990s to increase the responsiveness to labour market demands of education and training providers and structures, including the creation of a system of polytechnic institutes to offer more practical vocational and occupational training (particularly management education and technology development) as part of a broader attempt to foster regional development and support SMEs. During the 1990s and early 2000s there were also a number of inter-ministerial programmes developed aimed at developing workplaces:

- The Workplace Development Programme
- The National Productivity Programme
- The Well-being at Work Programme.

These have subsequently been modified and rationalised; the *New Workplace Development Programme (NWDP)* has (since 2004) been the umbrella for a range of activities and projects previously undertaken separately through the other two programmes (see below).

Works councils, which are embedded into the system, have participation rights in company training plans and other matters. Research shows that joint agreements on training – whether with works councils or trade unions – are an important differentiator of the extent of employer-sponsored training (Ok and Tergeist, 2003). In recent years, emphasis within official policy upon training of *employed* persons has increased, based upon the notion that this will reduce the need for labour market expenditures on training and providing benefits to the unemployed. Hytti *et al.* (2004) identify nine instruments or incentives that encourage training among the employed population. Some are focused upon individuals (e.g. study leave) and others support employers, in particular through the innovative projects aimed at developing the workplace.

**SME ENGAGEMENT**

SMEs are prominent in the concerns of policy-makers, even though the incentives and instruments used to encourage training, do not explicitly discriminate in their favour. The
Ministry of Trade & Industry has defined a strategy for developing services for SMEs, while the industry departments of the 15 regional Employment and Economic Development Centres (T&E Centres) draw up plans and organise training services for smaller firms – the 70,000 staff training days implemented each year are mostly for firms with fewer than 10 employees (OECD, 2004). While participation in employer-sponsored training in Finland is noticeably lower in firms with fewer than 50 employees (38% according to CVTS2) than enterprises with 500 or more (68%), small firm employees are nonetheless more likely to receive training than all European countries apart from Denmark, Sweden and the Netherlands (OECD, 2004). This reflects less the use of any specific measures favouring such firms than the social, cultural and political conditions that make for a generally high commitment to training that leads to smaller firms being more involved in such activity.

A distinctive feature of Finland’s approach to skills derives from its specific competitive strategy. The country’s industrial relations model (high union density, centralised bargaining, tripartite machinery, and consultation structures and procedures), give rise to conditions whereby cooperation is essential to competitiveness (Payne, 2004). Finland thus shares with other Nordic countries a long-standing interest in workplace development, and its contribution to improving organisational performance. Hence, the inception of the original workplace-oriented programme in 1996, focused upon work organisation, job design and people management. In this model, employers’ demand for, and utilisation of, skills are part of the ‘high road’ strategies for achieving economic competitiveness (Payne, 2004). At the same time, also like other Scandinavian nations, Finland has ‘an embedded social sentiment that views the development of workers as being socially desirable and not simply in the interests of employers alone’ (Smith and Billett, 2006; p8).

ANNUAL TRAINING PLANS

Like other countries with statutory works councils, Finland supports the notion that well-functioning labour-management institutions at enterprise level can be the key to building high-skill enterprises through effective work organisation. Thus, participation rights for such councils cover areas such as introduction of new technologies and continuous training. The Finnish Co-determination Act – in force for over 25 years – requires companies to submit annual training plans to the joint enterprise committee and to negotiate ‘reasons, effects and possible alternatives’ with employee representatives. The plan has to provide details by staff category, and is required to include the particular needs of older workers. Further, through a national collective agreement, co-determination in the selection of workers is intended to lead to the choice of training which promotes a co-operative outlook among workers and management (Ok and Tergeist, 2003). It should be noted that this measure is of direct relevance to firms of 30 employees and above; below that threshold, businesses in Finland are not required to set up a works council.

WORKPLACE DEVELOPMENT

The Workplace Development Programme (aka TYKE; see www.tykes.fi/english.html) ran as an innovative national government programme from 1996 to 2003, and was subsequently extended, with modifications, to 2009 (as the NWDP). During the past decade a shift in the emphasis has occurred, away from a prime focus on technology, towards work organisation and human resources development - TYKE-NWDP is important within this context. It aims at accelerating working life development through improvements in learning networks and methods as well as by encouraging cooperation between researchers and research institutes, workplace parties, social partners and governmental agencies and institutions, both national and regional. It is based upon the notion that firms can achieve competitiveness by engaging in a complex learning process through long-term multi-dimensional interaction and networking. Generating new innovative solutions for working life is considered to arise out of close cooperation and interaction between workplaces, researchers, consultants, public authorities and social partners.
The New Workplace Development Programme promotes the modes of operation of firms and other organisations to achieve simultaneous enhancement of productivity and the quality of working life (referred to as ‘qualitatively sustainable productivity growth’). Indeed, the National Productivity Programme, launched in 1996 as a partnership of government, union, employers and municipal organisations led by the Ministry of Labour, has been incorporated within the NWDP (partly as a means of opening up more extensive financing options for the productivity programme). Improvements in performance under the NWDP cover productivity, products/service quality, customer services and operations in general; improvements in the quality of working life relates to employees’ opportunities for development, their ability to exert an influence over their work, well-being at work, and cooperation and trust within the organisation. Emphasis is placed upon training in its organisational development context, especially in terms of quality and equality of access. The NWDP focuses especially upon SMEs (who receive around two-thirds of the funding), in providing expert support and funding for development projects in workplaces. Development activity supported by the programme are necessarily based upon cooperation between the management and staff of the workplaces themselves, who must commit themselves to the project goals, jointly planning and implementing the project.

It is somewhat early to assess how the new programme has worked – and specifically how it has managed to integrate the key elements of the three contributing strands. The NWDP projects typically focus on areas such as: the organisation of work; work processes; cooperation and interaction within the work community; external networking; leadership and human resource management; wage and working time systems; and working environment. Workplaces obtain grant funding for basic analysis, support for workplace development projects and wider learning networks, and dissemination of experiences and lessons. Coordinated by the Ministry of Labour, yet including partners from unions and employers’ organisations, the total official funding over 1996-2003 was €45m, with a further contribution by employers of €70m. One programme goal is to enhance the innovation environment of workplaces through promoting cooperation between workplaces and R&D units, supporting doctoral dissertations and research connected with project activity. Promotion of ‘the third task’ (i.e. the utilisation of new knowledge and expertise) of universities and polytechnics is given special attention.

At the end of a development project, management, staff and the expert who worked on the project each assess the project’s outcomes. Evaluation in 2003 revealed sustainable results at the company level, while learning networks had also been enhanced between different institutions related to innovation and workplace development (Arnkil, 2004). Over 1,300 workplaces had engaged in projects, mainly in manufacturing and construction sectors (Hytti et al., 2004; Alasoini, 2003). Survey respondents considered the NWDP to have enhanced significantly the production and dissemination of knowledge and competence and strengthening the structures of working life development. Positive outcomes were recorded for impact on productivity (66% of respondents), and for ‘opportunities for staff to develop their skills’ (74%). Although Payne (2004) has questioned the usefulness of findings from the (self-) evaluations, his investigations of impact relate to projects within municipal services organisations, involving routinised low skill jobs, rather than firms with high-skill value-added strategies, with more potential for realising the objectives of the NWDP.

The Well-Being at Work Programme, operated during 2000-03 as a partnership of the Ministries of Trade and Industry, Labour, Health, and Social Affairs and other stakeholders, was subsequently extended (to 2007) under the NWDP. Changes in the external environment and their implications for working life – including the need for new skills and constant learning – were an important motivation for the programme, as well as the need to confront high stress levels in the workplace, the tendency of Finns to retire at a relatively early age and the adaption to the workplace of young adults. Particular attention was to be paid to psychological welfare as the programme sought to: provide information and
disseminate good practice; utilise existing, and initiate new, research; support development projects; and monitor content of legislation from workplace perspectives.

The programme was open to all types of employee and workplace, but the overall funds were limited. Altogether, in the initial three years, 173 development projects were funded (involving 35,000 employees in seminars and workshops) and a programme of research projects initiated. Interest in the programme was more in evidence among municipal and service sector organisations, with fewer applications from industry and SMEs than expected. Evaluation shows that the level of political support for the programme, together with full agreement between ministries and labour organisations over its value, were important underpinnings of its achievement of increasing awareness of well-being at work (see Annex in Hytti et al., 2004). The programme is regarded as having extended the concept of well-being at work, placing emphasis upon the ‘team spirit’ of work communities and on people’s capacity to cope with demands from a psychological perspective. It is recognised that well-being at work is the result of a combination of factors, including supervisory and management practices and interaction, the transfer of tacit knowledge, people’s control over their own work, the organisation of work, working time arrangements, etc. The acquisition by workforce members of new skills are implicit to the process. Evaluators suggest that the one-year duration of the individual projects is too short, given the radical nature of the content and the long-term implications of the changes identified.

INNOVATION SYSTEM, REGIONAL POLYTECHNICS AND SMEs

The dramatic structural shifts Finns experienced in the 1990s prompted creative debate about priorities and mechanisms for future development. Building a distinctive national innovation system has been given high priority, and policy has sought to coordinate the activities of different agencies that interact crucially in this sphere, including R&D, higher education, technical training and funding (Curtain, 2004). A prominent feature of Finland’s national innovation system is the focus upon services to SMEs. This principally comes from the network of regional T&E Centres, established in the late 1990s to supply business support services, including a diverse range of consultation, advice and finance. A further, and important, aspect of the emerging system is the network of polytechnics, which has been formed through upgrading secondary education-level VET institutes into degree level bodies of an international standard. Polytechnics represent an important initiative as vehicles for integrating SMEs into the innovation system, with skills upgrading as just one element of this process.

Some 215 such vocational schools and colleges have been amalgamated to form 29 polytechnics charged with actively engaging in the development of working life and producing relevant new knowledge. As Curtain (2004) describes, these new institutions - with their very practical emphasis in undertaking applied research - are complementing universities, providing an alternative route into higher education and are deliberately structured so as to strengthen regional development and play a central role in supporting SME operations. In respect to R&D, they are charged with supporting both new hi-tech SMEs and the more traditional small enterprises that have not normally engaged in R&D. Taking account of the different conditions relating to smaller enterprises, the polytechnics provide expert help specifically for smaller firms through close direct interactions (e.g. involving workplace-based student projects), appropriate adult education and training inputs, and participation in regional clusters that bring together local businesses and other sources of expertise and resources.

SPECIALIST MANAGEMENT TRAINING

Training in a diverse range of management topics is carried out through a modular competence-based system, incorporating distance and e-learning as well as formal lectures. Organised through the Ministry of Education/National Board of Education, the emphasis of the programme is highly practical, being based on the implementation of a business plan
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devised by the participant. The key factor which is cited in the scheme’s success is the fact that competency in each area is demonstrated through management development projects carried out in the participant’s own business (including those of HRM and their own continuous management development). The national programme is operated by institutions at the regional level, and is of substantial duration, typically lasting 18-24 months and awarded on the basis of examination. For a thorough description of the qualification and modules, see www.entredu.com/tiedostot/FINLAND.pdf.

DISTINCTIVE FEATURES OF FINNISH SYSTEM

Finland’s small firm training policy is mostly focused on employees (e.g. through study leave), rather than engaging (or training) owners of businesses; in particular, older and low-skilled workers are targeted, to improve employability. Company works councils are substantially more important than in the UK, and have a right to be involved in training plans. Finnish policy, in general, emphasises enterprise development and organisational change, giving training policy a highly workplace-oriented focus, alongside a ‘social contract’ aspect that stresses that human capital development is socially desirable in and of itself, rather than just a means to an end for an employer. As such, while SMEs are not explicitly targeted, workers in small firms still have high participation rates due to this blanket policy of encouraging VET. The innovative New Workplace Development Programme extends this training and organisational focus to cover work-life balance and its interaction with productivity, incorporating concepts such as quality in its broadest sense, work-related stress, sustainability and co-operative working. Grants are available to workplaces for development and networking projects. The emphasis on quality and upskilling is also exemplified by the amalgamation of over 200 vocational (mostly secondary level) educational institutions into 29 tertiary-level polytechnics, undertaking (alongside practical training) applied research on aspects of both R&D and working life in general, with a particular focus on SMEs and regional networks and clusters.
6.1.5 FRANCE

BROAD SYSTEM

France’s present training system emerged in the wake of the civil disturbances of 1968, and were enshrined in law in 1971. As a system, it reflects collective agreements at national and branch level, and statutory regulations that have given legal form to these agreements. It is centred upon the statutory obligation for firms to fund CVT for employees, achieved through a levy. While this still operates today, the system has been reformed recently to accommodate the changing context – including the declining relevance (since the 1970s) of the internal labour market model, recognition of the importance of small firms, the emergence of e-learning, and the need for greater individualisation (e.g. career paths for the labour market in an era of more labour mobility), sharing of costs, etc. (Méhaut, 2005). The agreement of 2003 reformed the system, increasing the degree of individualisation, and differentiating more substantially the levy according to size of firm (in contrast to other levies on employers, relating to health, industrial accident and unemployment insurance, which remain undifferentiated in that respect).

Prior to 1971, CVT had increasingly been taken over by the state educational system and only the larger companies undertook such training. The revised system has successfully drawn employers’ associations and trade unions into central involvement with training, which is now subject to collective bargaining arrangements (as well as extensive works council participation at firm level). The training levy, and the employer’s discretion in using it, restored the firm to the central position, and encouraged systematic engagement of training departments/officers with a growing network of training providers. Responsibilities regarding CVT are now in the hands, not of the state, but of the social partners, who sit on joint advisory boards for establishing technical and occupational diplomas and certificates, including vocational degrees (Winterton, 2006), and also play a major role in the collection and administration of levies. Decentralisations in 1983 and 1993 have expanded the role of regional authorities in formulating and coordinating policies on apprenticeships and CVT; the process of fully transferring, from the central government to the regions, the activities of the Association Nationale pour la formation professionelle des adultes – including the design and implementation of training plans within enterprises and professional bodies - is soon to be completed (Jallade et al., 2004). Giving sectoral organisations access to more funds (and power over their disbursement) has strengthened their position, while the role for individual employee initiative and choice has been enhanced through new rights to training.

Formal training courses, since the 2003 agreement, have lost their former pre-eminence: the concept of training has been widened to encompass e-learning, distance learning and supervised on-the-job training, as elements within a framework emphasising continuous maintenance of competences via various routes, supported by the introduction of individual training and education passports (recording formal and informal training, including that in the workplace), validation of knowledge and know-how gained from experience, and ‘reskilling periods’ for those in danger of losing their jobs through skill obsolescence/ technological change. Thus, workers over the age of 50 and/or those regarded as a priority at industry level can claim their right to training, with the costs borne by the industry-level organisation (Méhaut, 2005).

ENCOURAGING TRAINING BY EMPLOYERS

France has, for over three decades, operated a statutory training levy. Because of the way it is organised, the levy is a key feature of the country’s sectoral approach to skills development. The levy is applicable to all firms, including the self-employed, but has been increasingly differentiated by business size in an effort to address the needs of smaller firms. This ‘train or pay’ system is designed to encourage firms to develop a training plan, undertake various training activities, including contributing funding to initial vocational training (e.g. apprenticeships), providing support for employees made redundant and personal
training leave for employees (Sung et al., 2006). The state also contributes to funding the latter through an arrangement with COPACIF, the body responsible for overseeing personal training leave in conjunction with sectoral authorities. The essence of the system is that employers are required to demonstrate that a certain proportion of the wage bill has gone towards training.

Originally, private companies with fewer than ten employees, the self-employed and public organisations were exempt, but, since 1991, the obligation has been extended to these groups. Micro firms (those with <10 employees), however, needed to outlay less in the original specification (just 0.15% on funding a training plan and youth training), compared with larger companies, and the standard proportion for those with 10 or more employees (1.6%) was in 2005 reduced to 1.05% for firms with 10-19 workers. Recently, however, the rate for micro-firms was actually increased to 0.55% - reflecting the wish of craft enterprises (articulated through the UPA, which represents craft worker and very small firms) to improve their position with respect to training (Méhaut, 2005). These levies are paid directly to sectoral organisations, and the priorities at sectoral level - such as training of older workers or unskilled groups - must be complied with if firms seek financial support from the mutual funds.

The public sector has been incorporated into the scheme on the basis of a series of collective agreements (rather than legal obligation), committing them to a 3.8% contribution to training. For the self-employed/independent worker there is a special levy of 0.15%. Firms that fall short in terms of their proportions of spending on approved training-related activities (e.g. 0.9% on a training plan for the existing workforce, and 0.7% on other activities6, and 0.1% to individual training leave) pay the amount of the shortfall either as a tax to the government or contribution to the mutual fund for training in their sector. The requirement overall is not especially onerous in that the average actually spent on training by businesses is around 3% - although that average is very much inflated by the spending of the larger firms. Moreover, many small firms accept that such an approach is preferable to one of raising wages to overcome problems of recruitment arising out of a lack of training investment (Sung et al., 2006).

Since 1925, French firms have been obliged to pay an apprenticeship tax (0.5% of pay roll), but this levy – which is now separate from the CVT levy introduced in 1971 and devoted generally to IVT (40% to apprenticeship training, the rest to finance other training institutions) (Smith and Billett, 2006). All firms (apart from those employing apprentices) pay this ‘apprenticeship tax’. The apprentice tax credit, for those with apprentices, is currently fixed at €1,600 (or €2,200 for handicapped or special programme apprentices).

Apart from large firms (that tend to manage the funds themselves), collection and utilisation of the levy takes place through sectoral (sometimes multi-sectoral) bodies. These collection agencies (pre-existing as unions or employers’ associations or newly established for the purpose) are administered and managed by the social partners involved. (A similar situation applies with respect to the ‘apprenticeship tax’.) The 97 joint collection agencies (Organismes Paritaire Collecteur Agréé or OPCA) are able to pursue additional training resources from regional, national or EU sources, as well as provide support (e.g. information to employers and individuals) and strategic leadership. Importantly, from the perspective of this study, they have the power to mutualise some of the funds realised from the levy and determine priorities for their use with respect to particular kinds of training, target groups or employers – including micro and small firms – as well as providing collectively support to those firms that exceed their target level and wish to reclaim the surplus. They thus constitute a collective effort at the development of a training culture within a sector (or multi-

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6 This consists of mainly non-apprentice ‘alternance’ or sandwich courses for job seekers over 26 or training for young people seeking to enter the labour market.
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sector group), especially with respect to facilitating the pooling of resources and sharing the costs of training programmes.

The company training plan is a crucial pillar of the system. Employers are required to identify a series of training measures, on which the works councils (or employee representatives) need to be consulted. Indeed, the social partners are involved in the CVT system at all levels: they negotiate the general framework at national and sectoral level, adapting that framework at sector level (as and where they are able) in terms of allocating funds, etc. In fact, the employers have tended to be more influential in terms of policy than the unions, which largely confine themselves to matters of the quantity of training and who has access to it. Firms are liable to a fine of 50% of their required investment in continuous education and training if they do not consult the works council or workforce representatives (where – as in most small businesses – such councils do not exist) on the training plan. However, they do not have to act on the advice received from work councils/representatives, and there are various other flaws in the system (e.g. asymmetric information between managers and workers).

ENCOURAGING INDIVIDUAL TRAINING

Since 2004, a new ‘right to training’ (droit de formation) has been established as part of a lifelong learning strategy, whereby every employee can claim 20 hours of training for each year worked for the employer. Employers cover the costs of the training, including payment for work time (if undertaken during working hours) or an allowance if outside working hours. Since it often would make sense for the training to be undertaken earlier rather than later, the law allows employers and employees to negotiate the maximum claim (of 6 years, or 120 hours) to be used immediately. Workers wishing to use this right discuss their proposals with the employer. The training must enhance their competences in a career development context, be consistent with sectoral training priorities (especially since the funding body is likely to be a sectoral organisation), and at least partially occur outside working hours. If agreement is reached, employers cover direct training costs, and pay employees half their normal wage for training undertaken in their own time. This element of cost-sharing is new and the system offers a third option alongside (employer-determined) training plans and (individually-determined) training leave; it is, as described by Méhaut, (2005), an individual right subject to collectively agreed rules. It raises a host of practical issues: such as when the training is taken, how entitlement might be accumulated, and the transferability of the right to training (and funding) between workplaces (Sung et al., 2006).

Individual training leave (congé individuel de formation) is resourced through a special joint fund into which part of the employer levy is paid. Workers are free to choose the programme they wish to attend, to be pursued during working hours, up to a maximum of one year (1,200 hours). The trainee’s wages are subsidised to the level of 80-90% and accredited bodies (OPACIFs) determine which applications are accepted (Ok and Tergeist, 2003). The employer may not refuse if the proportion of employees taking leave is smaller than 0.5% of his/her staff. It is unclear what this implies for employers with fewer than 20 workers; however, a scheme has existed since 1991 to assist firms with fewer than 50 employees in replacing (non-apprentice) employees on long-term training leave (Aide au remplacement d’un salarié en formation - see below).

ENGAGING SMEs IN TRAINING

Many French training initiatives, therefore, tend to apply to all businesses, but discriminate in favour of SMEs by applying different criteria and conditions or subsidies to encourage their involvement – for example, the lower rates of levies applicable to small firms and subsidies to cover the cost of temporary replacements for workers on training leave. This seems to have been effective. For example, Sung et al. (2006) argue that the collective, sectoral approach encouraged by levies has been particularly beneficial for smaller firms, with many opting to invest far higher levels than are legally defined, as an alternative means of attracting recruits to that of competing on wages. In addition, they suggest that the right to
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training ‘incorporates an agreement that employers fund a period of training, an incentive for employees to remain with the company, and also one encouraging employers to invest in higher skills over the long term’ (p.85).

However, there are also financial incentives which are aimed more directly at SMEs. The training tax credit (credit d’impôt formation), a repeatedly extended measure from 1994, at least partially addressed the deadweight loss issue surrounding schemes guaranteeing training leave and other training rights (OECD, 2005). This tax deduction scheme benefits enterprises that have, year after year, invested in vocational training (including providing internships) beyond the statutory obligation. It was aimed at SMEs (targeted via a turnover ceiling of around £5m and share capital limits from any sector). The tax credit varies from 25-35% (35% for firms with fewer than 50 employees). It applies to the positive or negative difference between training expenditure in excess of the legal requirement for the current year and the excess amount for the previous year. Similarly, it amounts to €450 for each intern in excess of the number of interns in the previous year. If the tax credit is greater than the tax due, the excess amount is immediately reimbursed (subject to the cap of €150,000 per enterprise). The tax credit, because it was related to the previous year’s training, was devised as an incentive for increasing training expenditure, thus in the process restricting the deadweight element.

Government resources (including ESF sources) are provided to support OPCA activity in line with the objectives of branche agreements made with local social partners. The programme Engagement de Développement de la Formation (Engagement for Training Development or EDDF), launched in 1994, was designed to increase employee skill levels, recognise qualifications, introduce innovative certification and strengthen job creation, either at a sectoral or regionally-defined level. Public subsidy amounts to 35-70% of training costs, with an additional 10% for special groups. The programme is focused upon SMEs: 90% of the beneficiaries of the programme have fewer than 50 employees (although this includes subsidiaries of larger enterprises) (Pukkinen et al., 2001). Evaluations undertaken in the late 1990s suggested that investment in training in the 3,500 enterprises assisted by the funding increased significantly and that, notably, the process had resulted in both qualified and unqualified workers receiving training. Evaluation of the experience of food sector firms in the Loire showed that performance of the firms had benefited (two-thirds reported an improvement in turnover and employment as a result), and that the scheme had resulted in an ongoing change in commitment to training. Reasons for firms not applying to the programme included the complicated applications process, poor relationships with the sectoral organisation, and limited coordination between the funding authorities and the firms themselves (reported in Jallade et al., 2004).

Another instrument used in France to help SMEs engage in training is the Aide au remplacement d’un salarié en formation that provides assistance to replace a worker participating in training of at least 120 hours. Introduced in 1991, it is a scheme for SMEs of fewer than 50 workers, where the replacement employee is recruited from outside of the enterprise – either a temporary employment agency or via a secondment from an employers’ association. Under the scheme, the employer pays the salary of the employee undergoing training, while the government pays that of the replacement employee. Government pays (2004 figures) a rate of €475 per month for up to the equivalent of 169 training hours towards the replacement costs. Only approved training during working hours through an external training provider is permissible; it must be planned within the enterprise’s training plan or taken through the individual's leave entitlement. No evaluation results are available; but because of the high overall cost of leave schemes, and constraints on public spending, only around 20,000 of the 40,000 who apply each year are approved (Méhaut, 2005).

OTHER INITIATIVES

Group Initiatives. A number of job-rotation schemes have been used as a means of pooling resources for training and to overcome problems of indivisibilities and economies of
scale. The **groupement d'employeurs (employers' association)** initiative refers to a group of (usually small and micro) businesses set up to employ workers on a ‘timeshare’ basis. The arrangement also helps certain sectors (construction, hotels and catering, and certain service sectors) to overcome skilled manpower recruitment problems and meet needs for seasonal and part-time workers. It provides small firms with employees possessing skills that they do not have the means to hire permanently in-house. Employers' association employees can therefore work on a single employment contract and enjoy a stable, secure working environment.

More generally, experimentation with job-rotation schemes has occurred in France over the years. In the 1990s, the auto-repair trade began operating such a scheme across the sector (initiated by ANFA, a sectoral body responsible for administering educational funds and training provision) (Kruhoff, 2002). This is an industry dominated by small firms with an increasing demand for training to keep up with technological change and specific problems in releasing staff for training.

**Management training.** The **Re-Créer Programme** does not lead to a qualification, but takes the form of monthly workshops led by entrepreneurs who have weathered some form of ‘crisis’ in their businesses. Each workshop has around 8-10 participants, each paying €50, to discuss and share practical business advice, targeted on highly specific concerns. These workshops are supplemented with more straightforward but similarly practical sessions disseminating information on management issues, rooted in members' experiences. A similar training programme from the same organisation makes use of entrepreneurs who have declared bankruptcy. [see www.re-creer.com for more details, or for a case study, http://www.sos-entreprise.eu/ceemes/webfile/show/543].

**Advisory mechanisms.** French practices were also singled out recently in a European training seminar for sharing good practice (ETF, 2005), including the establishment of specific agents ('midwives') whose job is ‘to stimulate both the supply and demand sides of learning and bridge education and training systems, the labour market and SMEs’. These have apparently been successful in stimulating training for lower-skilled workers, while similar initiatives by social partners' organisations such as CODIFOR (the French professional association of training institutions, working in close association with employers’ associations), provide a comprehensive mediating role targeted upon small firms, ranging from needs analysis to implementation and subsequent follow-up (EFT, 2005). Such an approach represents an alternative to those that facilitate access to learning networks organised at a regional or sectoral level, as exemplified by the Irish Skillnets initiative (see below).

**ASSESSMENT OF OUTCOMES**

Internationally, France scores relatively highly for company-funded CVT (around two-thirds of expenditure in 2000 on CVT and apprenticeships came from public and private employers); however, spending is proportionately low for small firms (1.64% and 1.95% in the 10-19 and 20-49 size groups respectively, compared to an overall average of 3.14% of the wage bill (Méhaut, 2005; 2001 figures). In terms of the proportion of enterprises with 10-49 employees offering training, at 70% (according to CVTS2) France occupies a mid-table position among established EU members, and is behind the higher performers within Europe (Scandinavian countries, plus the UK and Netherlands, generally 10 percentage points higher); while staff participation rates in those companies (34%) are noticeably even further behind the leaders (in terms of number of hours training per participant there is no obvious difference).

The levy system is considered to have stimulated awareness of the importance of continuing training among firms, helped to develop a competitive CVT industry (with a variety of training providers - public, private and nfp), and facilitated the increased involvement of social partners in the management of the training system (Jallade et al., 2004). However, even
after years of operation, participation in CVT within France is not particularly high by international standards, and access to training continues to be skewed towards the better-educated, professional groups and employees of large rather than small firms (LEED, 2002). Training, it has been observed, is often not organised to closely fit the strategic needs of the enterprise, so much as a reward or perk (Smith and Billett, 2006).

While 50% or more of employees in larger businesses receive training, the participation of small firms (under 20 employees) is considerably smaller (less than 9% according to EIM/SEOR, 2005). Small firms continue to spend proportionately less in general - and less on formal training - that their larger counterparts. Recent studies on access to training in enterprises of fewer than 10 employees show that only one-third used at least one day of training over the past three years, the average duration of training is very short (average of two days per year) and the training rarely leads to qualifications (except where alternating work/study contracts or apprenticeships are involved) (Cedefop, trainingvillage website 2005; Jallade et al., 2004). A modest increase over time in participation among small businesses has been reported (EIM/SEOR, 2005) – and there are indications that some SMEs have used this increased investment in the levy as an aid to recruitment (Sung et al., 2006) - but there is some evidence of steady reduction in the length of training courses and evaluation shows that many small (especially micro) firms simply pay their contribution to the collection bodies, and do not apply for the subsidy - thus treating the levy as a tax obligation.

Collective agreements within some of the sectors have seen the contribution to collective bodies rise over time; including that made by the smaller companies, which rose over the 1990s from 1.5 to 1.7% of pay roll. The increasing levies paid by small firms are paid directly to collection agencies, further strengthening the sectoral influence over training expenditure. This development clearly opens up the possibility, through the mutualised funds deposited into Fonds d'Assurance Formation, for providing pooled resources for micro and small firm training programmes. However, Sung et al. (2006), quoting Bentabet et al. (2002), suggest that this element is relatively small, since such funds are only set aside after company claims have been met.

It is too early to gauge the impact of recent changes to the system, including to the structure of levies relating to different enterprise size groups. France's training levies and social partner governance of training funds reflects the more consensual and more regulated labour relations pertaining to the country, compared to the adversarial and market-driven system in the UK (Canada and Australia), where employer prerogatives are more in evidence (Ok and Tergeist, 2003). That said, consensus is not found everywhere, making for poorly integrated policies in some cases (EFT, 2005). Overall, however, the systems have been shown to spread the load for funding of training, thus helping to combat the free-rider problem, while also providing a framework for pursuit of broader (sectoral) skill formation priorities and addressing inequities in access. Problems encountered include the difficulty of determining an appropriate basis for the level of contribution (especially with respect to training need and size of firm), distortions in the type of training, and continuing obstacles to small firm training that causes many to lose their contributions (Ok and Tergeist, 2003). In common with Australia's experience, the levy has successfully stimulated spending on training, but not especially in relation to SMEs (Ok and Tergeist, 2003). Given the considerable financial support that is targeted upon SMEs in the French system, it is instructive to observe the limited impact with respect to training in smaller firms – the outcome, perhaps, of a weak relationship between the key institutional actors and small firms, and the lack of practical relevance of some of the programmes given the circumstances of micro and small enterprises. The typical small firm's preference for informal over formal training is a case in point.

**DISTINCTIVE FEATURES OF FRENCH SYSTEM**

The majority of training engagement activity carried out by the state at a national level is based around financial incentives and compulsion. Social partners are largely responsible
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for collection and administration of levies, as well as many other aspects of CVT, working through advisory boards for the relevant Ministries and NGOs. The state maintains responsibility for service providers, with increasing devolution of policy to regions (e.g. the organisation responsible for firm and individual training plans now operates at regional level). The learning framework has moved towards downplaying formal qualifications in favour of a portfolio approach, with the individual recording a variety of competencies acquired formally or informally in their ‘training passport’. Workers now also have both a right to 20 hours training per year of employment, with costs (and a share of normal wages) paid by the employer, and a separate right to training leave, with wage costs subsidised by the state. The key plank of financial compulsion is the training levy – firms must demonstrate that they have spent a certain proportion of their wage bill (variable according to number of employees) on defined training activities, including the compulsory drafting of a company training plan, with obligatory input from the works council. The firm must pay any shortfall in training expenditure directly to either the government or their sector’s mutual training fund. SME engagement in France at a national level is largely accomplished through differential rates for levies and the forced collective approach to training which the levies encourage – SMEs effectively must train to a high standard in order to compete for workers. There are also other specific SME-focused financial incentives (training tax credits, subsidies for training courses and for replacements for employees on training leave), but other initiatives (such as job rotation and training ‘midwives’) tend to be fairly small-scale and/or localised. The considerable policy effort made in France to engage smaller firms in training might have been expected to yield a less ambiguous picture of effect, leading to suggestions that the targeted measures have not been particularly consistent with the needs of small and micro businesses.
6.1.6 **IRELAND**

**BROAD SYSTEM**

Within Ireland’s voluntarist approach, instruments and incentives are used to promote training of existing employees, increasingly framed within a lifelong learning strategy and forward thinking. Hence, the establishment of a national forum for monitoring trends and issues in the workplace (*Forum on the Workplace in the Future*), that seeks specifically to identify and support actions to change the workforce in line with the needs of the knowledge economy. Among the measures emphasised are information campaigns to alert and connect adults to learning opportunities, including vocational training, quality guidelines and subsidies to provide individuals with opportunities to return to learning (Milicevic *et al.*, 2004).

Ireland operates an employer subsidy competency development project (initiated in 2003) that supports employers (of all sizes) in accessing training, including the design, promotion and delivery of programmes focused upon particular sectors or occupational groups. Highlighted here are two other projects that assist employers to train their workers: (1) a successful large-scale project based upon employer subsidy; and (2) a scheme that mobilises and supports groups of enterprises to develop strategic approaches to training through a network formula. Small firms are found to benefit significantly from both schemes.

**SME ENGAGEMENT**

From 1990-2003, the *Training Support Scheme (TSS)*, administered by the National Training Agency (FAS), operated specifically to encourage and promote training in SMEs. Firms from manufacturing, internationally traded services and physical distribution were eligible for support for purchasing training in the market, covering the full range of skills, from operative to management, in 8 priority areas – strategic planning, marketing and languages, management, productivity, information systems, quality/service, technology and finance. Regionally administered grants were offered to eligible firms able to demonstrate that the training was linked to a FAS-approved business plan. Shortly after the scheme began, to prevent larger firms receiving the bulk of the available funding, the overall share of subsidies to training costs (i.e. costs/fees, not wages) were both lowered and distribution changed in order to favour smaller firms. Thus, firms with fewer than 50 employees could receive up to 65% of the costs, firms employing 51-200 received up to 40% and firms employing 500+ received just 25%.

In late 1999, 31,000 employees received training through the scheme which was used by 4% of the SME population. In every year, over 80% of the total budget was allocated to firms with fewer than 50 employees, and more than six out of every ten such firms indicated that without TSS they would have undertaken either no training or less than they actually achieved. The deadweight element was found (in a study by O'Donnell and Lyons, 1995) to rise sharply and quite systematically with firm size, since the larger the firm the greater chance TSS was a subsidy for training that would be undertaken in any case. The scheme was evaluated to have enhanced demand-led training, and proved popular among small firms, but the average duration of training funded amounted to only 4 days. It was also found that the weakness of management skills was itself a problem in terms of identifying the training needs of employees. Although the scheme was expensive to administer - contributing to the tendency for TSS to run short of funds each year — it is unclear why a scheme that was widely regarded as representing good practice was replaced in 2003 by a new instrument, the *Competency Development Programme* (EIM/SEOR, 2005). Under the new CDP, the FAS is more directly involved in supervising the process, and firms wishing to participate in the programme now need to conduct a Training Needs Analysis that links to their business plan. Unlike TSS, the CDP is explicitly targeted on employees as opposed to firms, giving priority to training in transferable skills and employees in low skilled occupations (possibly with a sectoral focus), neither of which will necessarily be an effective route towards employer engagement.
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One specific aspect of the National Training Agency's programmes is the FAS Development Cluster. This pilot programme for small businesses with technically skilled owner-managers lacking management skills, works through clustering. Around a dozen companies in each region are grouped together, and a panel of trainers are made available to cover a variety of management topics. An initial audit of each firm's extant management capacity is followed by both one-to-one training and evening and weekend courses once common needs have been identified; each company has 19 days' access to the trainers in total over twelve months. The programme's success is attributed to the combination of networking and 'hands-on' learning.

NETWORK APPROACH

The Skillnets Training Networks Programme was designed to mobilise and support groups of enterprises to strategically address their joint training requirements through establishing networks (for outline details, see www.skillnets.com). Skillnets facilitates an enterprise-led approach to training and development through supporting the development of flexible and effective training delivery methods specifically for enterprises that previously had difficulty in accessing or benefiting from training. In each training network, companies come together to decide what training they need (covering managers and owners as well as other staff), and how it can be effectively delivered. Ireland has no statutory provisions for works council or union involvement in such matters, but this scheme has offered an opportunity for social partners to assist in developing the VET. The Board of Skillnets Ltd includes representatives of small business and industry employers' associations and the Chambers of Commerce, as well as those from the Congress of Trade Unions and education and training providers.

A Skillnets Network is a group of companies working together to provide training for their companies. The scheme mobilises enterprises through networking techniques; provides funding to networks (50-75% of the costs); promotes a genuine enterprise-led outlook with respect to how to develop, recognise and certify learning and qualifications, including developing systems of accreditation for prior learning. The key difference in the Skillnets approach is that companies have total decision-making power and can customise training to their specific needs. Skillnets does not specify the type or scope of training - its role is to support the networks with resources and expertise.

Skillnets consists of two main elements:

- the Training Networks Programme, which was piloted in 1999-2002 and, on the basis of successful results, was subsequently extended (most recently to 2010);
- ACCEL (Accelerating in-Company Skills), a new strand launched in 2005, the purpose of which is to identify those enterprises most in need of vocational advancement and support them with grants of up to 75% of costs.

The Skillnets approach has been found particularly appropriate for SMEs that frequently lack the time, expertise or money to develop training customised to their specific needs and directly relevant to their size and industry sector. Although not excluding larger firms (those with over 250 employees can receive up to 50% of training costs), ACCEL targets mainly SMEs. Around 85% of participants in the Training Networks Programme in 2002-05 employed less than 50 people, and around two-fifths were micro firms with fewer than 10 employees.

Many of the networks are sector-based (e.g. Design Ireland Skillnet). Other networks consist of companies getting together to bring training into their area and make it accessible to the local industry. During the period 1999-2005, web sources indicate there were some 55 networks in operation, incorporating over 6,000 companies (ranging from plastics to software), and providing training for 35,000 employees. The Department of Enterprise, Trade & Employment currently provides around two-thirds of the €24m in grants to networks, with a further €13m provided by the participant firms themselves. The scheme, on the basis
of its success, has been extended to 2010, and its budget increased to €55m for the five year period.

Evaluators report that all the training networks are enterprise-led and that a significant development of interest in training in participating companies has resulted, with many intending to invest more human resources in the future. Nearly four-fifths of the courses developed through the Skillnets initiative are customised to meet Network member requirements. Many models of best practice from participating companies have emerged. It is argued that the Skillnets approach is an effective means of addressing workplace learning. Important lessons include:

(1) training networks require strong facilitated support (both internal and external);

(2) once they are engaged, enterprises are in an excellent position to both determine and satisfy their own training needs (Nuzum, n.d.).

DISTINCTIVE FEATURES OF IRISH SYSTEM

Ireland, like the UK, operates a highly voluntarist training regime, concentrating on disseminating information and encouraging the uptake of training opportunities, alongside subsidies for employers to access training, including the support of programmes focused on clusters or occupational groups. Until 2004, the National Training Agency was explicitly committed to the promotion of training in SMEs through the Training Support Scheme, but this has now been abandoned in favour of a focus on individuals, promoting training in transferable skills and to low-skilled workers, regardless of firm size. Instead, the main SME engagement programme in Ireland is currently Skillnets, based around establishing training networks, either geographical or sectoral (or both), which serve to achieve economies of scale in purchasing training and disseminate good practice within the network. The networks are equally funded by the state and the companies involved, and training is intended to be heavily enterprise-led, with the companies in the network involved in all aspects of design, delivery and evaluation of training programmes. This is one of the largest and most advanced clustering programmes among the countries studied, with around 150 networks currently established.
6.1.7 NEW ZEALAND

BROAD SYSTEM

The basic approach that New Zealand has adopted to training is similar in many ways to that of the UK. The overall body responsible for all forms of higher and further education is the Tertiary Education Commission (TEC), but vocational training is mostly handled by the Industry Training Organisations (ITOs), roughly analogous to Sectors Skills Councils, established in 1992 under the Industry Training Act and funded by training levies on firms. The Act outlined three main functions for the ITOs related to their particular sector:

- Setting skill standards.
- Developing qualifications and training delivery arrangements, including monitoring and evaluation.
- Providing leadership on skills and training, through the identification of current and future skills needs and developing strategic training plans.

ITOs are owned by the industry or industries covered, and do not deliver any training themselves, instead working through a wide range of providers. The Industry Training Federation encompasses all ITOs, represents their needs to government and works with a variety of agencies and sector groups to improve the policies relating to vocational training in general. As such, the ITF funds research, formally collaborates with government agencies, performs lobbying and advocacy work and promotes good practice. At an enterprise level, the ITO assists employers by providing packages of training, doing the paperwork and the detailed planning (as far as possible), advising on the correct qualifications for the business and visiting the organisation twice a year to check on the quality of training being provided. To the extent that it is possible, training is carried out and assessed on the job.

One of the differences between ITOs and SSCs, at an organisational level, is that ITOs are not restricted to a single sector or group of related sectors. Those which concentrate on one sector tend to be more highly specialised than in the UK (e.g. hairdressing or journalism). On the other hand, in some cases, there seems to be little logic behind the groupings of those ITOs which cover more than one sector – for example, ETITO includes electro-technology, security, telecoms and ambulance service; Competenz includes food & beverage processing, engineering, refrigeration, heating, air conditioning, locksmithing, fire alarms & protection systems. However, this should not be exaggerated: most ITOs do follow a pattern similar to the UK in covering a cluster of related sectors, tailored to the strengths of the national economy (e.g. a greater emphasis on primary production, such as agriculture, fishing and forestry).

There are now 40 ITOs, and in 2006 around 35,000 certificates were awarded to Industry Trainees (TEC, 2007a). In total, 34,800 employers participate in an ITO, just over a quarter of all enterprises with employees. Participation involves: a commitment to a formal training agreement for each employee; provision of structured on-the-job training and access to off-the-job training; facilitation of access to assessment of training (including the possibility of workplaces becoming assessment centres); ensuring training meets national standards; and enabling trainees to achieve portable national qualifications. The 40 ITO’s total budget for 2006 was NZ$225 (~£71m), of which 27% derived from businesses. The majority of sectors are now covered by at least one ITO, although coverage is weakest in the business services

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7 The information in this section is largely drawn from the Industry Training Federation website, www.itf.org.nz and the individual ITO websites, together with those of the ITF and TEC, and sources contained in the References section at the end of the report.
sectors – finance and insurance, health, education and film/TV sectors, for example, have no ITO representation at all.

Participation in workplace learning has grown rapidly in recent years (since 2000, twice as fast as those in provider-based learning), mostly due to increased amounts of government funding and the introduction of Modern Apprenticeships, aimed at Young People and modelled on the UK apprenticeship scheme (TEC 2007a). The introduction of the National Certificate of Educational Achievement has also facilitated higher levels of vocational training by enabling more flexible learning – e.g. undertaking units at more than one institution to contribute to the same qualification. One of the initiatives which contributes credits to the NCEA is the Gateway Programme, where school pupils can gain experience in local businesses, tailored to an individual learning programme. New Zealand also has a National Certificate in Employment Skills, which is a combined record of competency in basic literacy, numeracy and ICT, alongside a range of soft skills, such as teamwork, problem-solving, self-management and ‘workplace skills’ (health & safety, timeliness etc.).

The majority (around two-thirds) of Industry Training is delivered at Levels 3 and 4 of the national qualifications framework (TEC, 2007a). Level 3 is roughly equivalent to NVQ level 2, while level 4 is probably slightly below a UK level 3 – the New Zealand framework has 10 levels compared to the UK’s 5, making exact comparisons difficult. The area covered by UK NVQ3 qualifications is approximately covered by New Zealand levels 4-6, with 7-10 representing degree-equivalent and higher competencies. Industry Qualifications are generally composed of a range of generic and specific units – for example, the commercial road transport certificate includes maintaining personal presentation and communication skills alongside credits for knowledge of traffic law and executing manoeuvres in a vehicle.

The recently announced Tertiary Education Strategy 2007-12 (TEC, 2007b) does not make significant changes to the role of ITOs, opting instead to strengthen their role in leading on skills matters and setting qualifications to reflect industry’s requirements. This reflects their success in meeting demand targets, and moves the focus towards improving outcomes i.e. the quality of qualifications and the impact of training on employers and learners. There is currently a substantial amount of research being undertaken internally by ITOs on how best to fulfil their leadership role, which will be worth revisiting once the recommendations have been put into practice over the next few years.

**ENGAGEMENT WITH SMALL BUSINESS**

As in other areas of New Zealand governance, the ITF emphasises the foundation of its policies in solid research. Funded by the ITF, and based on both a comprehensive literature review and a survey of New Zealand businesses, Fraser (2005) investigates the reasons behind the relatively lower levels of participation in training by small firms, and ways to improve the participation rates working through the ITOs. The Tertiary Education Commission also carried out a very similar study, based around action research with three ITOs (TEC, 2005). The findings of these two studies are combined in this section.

The most successful engagement of micro businesses was achieved by the Aviation, Tourism and Travel ITO, which attempted to address training needs in the hostelling sector. With non-standard training across a large number of small establishments, no specific qualifications and geographically dispersed businesses, engaging each business individually was problematic. Therefore, the ITO developed a pre-planned package of training, delivered in a short timescale, off-the-job, which contributed half the credits needed for a national qualification in tourism, focusing on customer service aspects. This removed the need for detailed planning of training by employers, and was broad enough to cover most businesses’ requirements, while also contributing to the achievement of a qualification. Nonetheless, the

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8 In New Zealand, ‘small’ firms have fewer than 5 employees, which would be micro-businesses by UK definitions, which will be used for the rest of this section
scheme still ran into the difficulty of opportunity costs, with some employers finding it difficult to release staff to attend the course – a challenge for which the New Zealand studies failed to identify a definitive solution.

The studies also found that micro businesses were less likely to be able to identify the relevant ITO for their sector than larger businesses, and so were less likely to see any benefits which may accrue to their business from the ITO system. To tackle this, several ITOs have embarked on major publicity campaigns, although the results proved disappointing – while businesses responded to the Retail ITO’s advertising, relatively few of those who made requests for information either attended an open evening or signed up to participate. The conclusion reached by this ITO was that the only way to engage small retail businesses was to carry out personal visits to the workplace, which is both costly and time-consuming. The Apparel and Textile ITO tried a variation of this approach, piloting on-site assessment and training of an introductory machinist programme using external trainers/assessors who worked in-house with the small business for six weeks. While this proved successful in one business at the larger end of the SME scale, the other pilot, in a micro business, failed due to an unwillingness to give up production time and poor retention of trainees. Nonetheless, the initial enthusiasm of both pilot businesses was encouraging, and attributed to the free provision of the tutor (the most important point), bespoke training programmes with a defined training plan, and the combination of formal and informal training.

However, these relative failures may be partly explained by the sectors involved, where price competition tends to outweigh competition in less tangible factors. The research indicates that resources could be more effectively employed by targeting micro businesses which compete on product quality and customer service, as they are more likely to be responsive and to dedicate time towards training. Other factors are also important, apart from size: in sectors with a history of apprenticeships, or where a licence is required or desirable to do business, micro businesses are easier to reach and more open to the possibility of training. Equally, owners who have previously received training are also more open to engagement, while new businesses (trading for less than a year) tend to be relatively unreceptive. Sectors where a significant proportion of the workforce is employed on a part-time basis, with only a small proportion of workers able to make a career in that sector (e.g. retail) also tend to be less willing to engage.

Regardless of the characteristics of the individual business, however, the most effective approach remained face-to-face interaction, which was regarded as ‘necessary’ by all ITOs surveyed to engage with micro-businesses. Written material sent to micro businesses often goes unread. Dedicating time and personal support, following up on initial contacts and other engagement work to give the business owners a sense of ownership are key aspects of this interaction. This is reflected in the way ITOs structure their offerings. In sectors with a majority of micro businesses (e.g. hairdressing), services are highly flexible, very much geared towards personal visits from ITO personnel, and tend to include a higher level of management training initiatives, as owner-managers already possess the necessary vocational skills but typically lack planning and other business development skills. In such sectors, restricting training offerings to a small number of qualifications also aids engagement. In more diverse sectors, successful strategies to reach micro businesses include: emphasising the support that can be given on the administrative or pastoral fronts; clustering micro businesses together; and providing a line of credit to fund training.

**ACCREDITATION OF PRIOR LEARNING**

With much learning in micro businesses being informal, recognising and rewarding that training is a useful engagement tool, involving relatively little expense or opportunity cost for the employer, compared with formal qualifications, day release etc. In the UK, this method of gaining or working towards qualifications is fairly limited (Lillis and Stott, 2006), with
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awards in construction and childcare probably being the most extensive, and geared towards gaining a ‘whole’ qualification, rather than credit towards units on existing qualifications.

In New Zealand, many ITOs have integrated APL into their qualifications more thoroughly and using a formalised system, known as Recognition of Current Competency (RCC), which can either contribute towards an entire qualification or specified units thereof. For example, the hairdressing ITO, spurred on partly by the number of practitioners lacking registered qualifications, has recently relaunched its Qualification by Experience scheme, with an ‘amnesty’ for applicants for the first three months of the relaunch, allowing them to waive the application fee.

The process is similar for most ITOs, involving the applicant compiling a portfolio of evidence. A technical expert who has had a close working relationship with the applicant (preferably their immediate supervisor) verifies that the applicant has the appropriate skills and experience, supported by documentation wherever possible (e.g. logbooks, attestations from managers, clients and peers). Once this is submitted, the applicant undergoes an assessment interview, covering knowledge of their work area, examples of their experience and, in some cases, a practical test.

MANAGEMENT CAPACITY TRAINING

New Zealand’s small business policy post-1998 heavily emphasised the role of training in management capability as a means of improving performance in SMEs. However, there have been questions raised about the effectiveness both of this specific programme, and, by implication, the effectiveness of evaluation practices relating to such training programmes in general. Massey (2004) uses evidence from an independent evaluation of the BIZ training programme and a survey of New Zealand SMEs to highlight deficiencies in both government-sponsored and in-house training programmes. In general, she finds:

(a) only a relatively small amount of empirical evidence that government training programmes actually make any difference to firm-level performance indicators;

(b) a lack of robust evaluation of training programmes, beyond simple questionnaires on how satisfied participants were with the (free) training – this is characterised as ‘monitoring’ rather than a more detailed assessment of impact; and

(c) many businesses tend to spend relatively little on training, and do not undertake thorough training needs analyses or post-training performance reviews.

Moreover, based on similar conclusions from studies elsewhere, these broad stylised facts seem to be generally applicable, rather than simply confined to New Zealand. Her key recommendation is to ensure that SMEs see training as part of a long-term staff development strategy, rather than a short-term response to functional needs. This is recognised to be difficult, but can possibly be achieved by persuading business owners that such a short-term outlook is, essentially, a waste of the resources invested in training.

The successor to the BIZ training programme is the Enterprise Training Programme, launched in 2003 with the same aim - to improve management capability among SME owners. Additional aims included improving SMEs’ perception of the value of training and (by contracting the service to commercial providers) raising the quality of private sector management training, to reduce and eventually eliminate the need for publicly-funded training. ETP is based around capability assessments – once a small business owner has applied for management training, the regional provider assesses their management skills needs and directs them towards appropriate training, either within or outside the government-funded ETP programme. This is thought to be effective in reducing the search costs of individuals wishing to train. These assessments are followed up with action plans, which lead to attendance at workshops and courses and/or business coaching. Workshops and courses are delivered on a regional basis, with topics varying according to regional sectoral makeup and identified business needs. Following the training, there is scope for a
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one-hour visit from a business coach, for the owner to fully develop a business plan to use their enhanced skills. Distance and online learning are also available, as well as one-to-one training visits for very remote areas. Around 12-15,000 businesses (roughly 4% of the SME base) receive basic management training annually.

Initially, it failed to address the main criticism outlined above, in that there was no comprehensive performance management system which permitted assessments of the impact of training within SMEs. New contracts with service providers now take this into account, although there is currently no evaluation assessing this new situation. They also find that there is little evidence that an advanced management training programme would be of use to SME owners, and that the courses most demanded by SMEs (usually marketing) were not necessarily what the owners actually needed to develop their businesses most effectively. On the whole, the approach taken to engaging with small businesses seems to have been relatively effective, and could fairly readily be transposed to the UK and adapted for a variety of different training topics. 9

ATECH AND WORKSHOP MANAGEMENT

The Motor ITO (MITO) has recently launched ATech, the advanced technician qualification. On the New Zealand Qualifications Framework, automotive technicians are qualified to level 4, roughly equivalent to a UK NVQ level 3; ATech is intended to move these technicians on to a level 5 qualification (somewhere between NVQ levels 3 and 4). Aimed at increasing knowledge of leading edge technology among automotive businesses, through both dissemination of automotive technology advancements and teaching the technicians to be able to pass on this knowledge to others within their own firm. ATech takes around twelve months to complete, on a part-time basis, and combines on- and off-the-job training, the latter being largely theoretical. While the rhetoric of the TEC strategy emphasises quality over quantity, this is one of the relatively few current initiatives from ITOs which aims to stretch already-qualified technicians through adding extra value in a growth/high-tech area (i.e. the increasing complexity of automotive electronics), and is being heavily promoted as such.

In a similar vein, MITO has also launched National Certificate in First Line Management, designed mainly for highly skilled technicians wishing to move into a supervisory position, but also suitable for administrative staff in small automotive businesses. The New Zealand qualifications framework facilitates the bespoke design of qualifications such as this by encouraging the mixing and matching of various units from courses to make up the required standard, which can then be tailored towards small businesses or sector-specific knowledge.

This emphasis on unitisation and, in particular, relatively small units of assessment, also seems to garner a positive response from small businesses, as it encourages flexibility and facilitates the employee learning at their own pace, rather than to a set timetable. It also means a short course in a single topic can appeal to more than one sector by contributing towards sector-specific qualifications – for example, the one-day Greet NZ customer service course has been packaged by the Hospitality ITO, but this generic training can be applicable to a wide range of sectors and qualifications.

COMPETITIVE MANUFACTURING INITIATIVE

As part of a drive to improve quality and productivity levels in New Zealand manufacturing, a cross-ITO initiative was launched to increase knowledge and usage of a variety of quality techniques, including the design of specific certificates in competitive manufacturing ranging from entry-level to top management suitability. The eight ITOs involved in the collaboration cover much of the manufacturing sector, and aim to disseminate techniques through a

9 The full evaluation can be found at www.med.govt.nz/upload/35257/etp.pdf
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cascade process, training selected employees who then act as coaches and mentors for the rest of the workforce. Companies undertake a Competitive Manufacturing Assessment at the start of the programme. The identified strengths and weaknesses contribute to the choice of units of competency which suit the individual needs of the business, including small enterprises. The Certificate in Competitive Manufacturing is taken in teams, which learn the principles of quality improvement by working on projects in the workplace.

DISTINCTIVE FEATURES OF THE NEW ZEALAND SYSTEM

The broad outline of the New Zealand system is very similar to the UK, with the lead role for Industry Training Organisations roughly analogous to Sector Skills Councils in their leadership on sectoral skills issues. Around a quarter of companies engage with an ITO, which involves delivering a formal training plan and committing to high quality training for employees. Training is based around a flexible system of competencies, both generic and sector-specific, which can be combined to form a wide variety of qualifications. Studying thus tends to be unit-based rather than time-based, and uses a combination of formal and informal, on-the-job and off-the-job methods, facilitating access by small firms. Having largely met demand targets, the focus of the training system is currently shifting towards supply issues, such as improving the quality of training and learning outcomes - for example, adding value to a standard technical qualification by bolting on additional, incremental optional units in new technology, a small commitment with the potential for great improvements in value-added, which would appeal to a small business. Most ITOs have attempted small firm engagement, with varying degrees of success. Several have used the flexibility of the unit-based system to design specific qualifications targeted to SME skill needs, while virtually all have opted for the more time-consuming (but generally successful) route of site visits, personal contact and emphasis on the role the ITO can play in planning training. A similar route is taken to engage owners in management training courses, using independent audits of management skills in individual businesses, rather than delivering courses based the owner’s own assessment of their needs. Like Australia, New Zealand is more heavily promoting (and systematising) accreditation of prior learning than the UK, using a portfolio approach and feeding into nationally recognised qualifications.
6.1.8 NORWAY

BACKGROUND

Norway has a strong tradition of tripartite governance, built around consensus, and the social partners play a central role in policy-making and implementation with respect to vocational education and training. The development of workers is culturally embedded and regarded by both employers and employees as socially desirable (Smith and Billett, 2006). This system has helped to create one of the most highly-educated and skilled workforces in the world, meeting the growing demand for medium and high-skill workers as demand for low-skill ones contracts steadily. However, productivity performance across manufacturing and non-financial services over recent years is described as ‘mediocre’ (Payne, 2005), a feature frequently ascribed to the effects of government ownership and labour market rigidities.

In common with other Nordic countries, total public expenditure on education and training in Norway is, as a percentage of GDP, among the highest in the world (7.5%) (Lipinska et al., 2007). Also like its neighbours, employers in Norway devote high levels of expenditure to worker training. Average spending on training (in terms of share of the wage bill) was 1.7% in 1999, with 86% of enterprises offering continuing training according to the 1999 CVT2 survey. Moreover, the same survey shows that the rate of participation in training is also near the top of the international league table, averaging 53%. While this is fairly well balanced as between males and females, it is – as commonly found elsewhere - skewed in favour of the more skilled workers. Some two-thirds of high-skilled workers participated in informal job-related training (seminars, conferences etc) and a further 18% underwent formal training (OECD, 2004).

Norway’s impressive overall training performance in comparison with other countries is reflected in high training levels within the SME sector, although 1999 CVTS2 figures show that this is less the case with respect to firms with less than 10 employees. SMEs record training levels that, in international terms, are relatively high alongside those of larger firms. Some 84% of firms with 10-49 employees offer training, compared to 96% (50-249) and 100% (250+), while the respective figures for the percentage of employees who are compensated for training are 81% for small and 96% for larger firms. In terms of participation in training, however, the percentage figure is actually higher among firms with 10-49 employees: 54% compared to 51% for medium-sized firms, and comfortably above the average of 40% for small firms in the EU as a whole (CVTS2). However, the number of hours training per year received by participants in small firms is only two-thirds the level of that in large ones.

BROAD SYSTEM

Some 85% of worker training in Norway is paid for by employers and organised in close cooperation with the social partners; it is especially focused upon CVT, rather than more formal courses. While the fact that training occurs in working hours is an encouragement for workers voluntarily to undertake such activity, there is evidence that many employers insist upon it.

Although Norway is characterised by Smith and Billett (2006) as a country without a particular policy with regard to employer training, two recent developments focused upon individual employees have sought to boost CVT in Norway. First, 1999 legislation provided tax exemption for enterprise training expenditures; the deduction of all fees (plus travel, book and materials expenditures) relating to study lasting for up to 20 months, available to full-time employees who have been with the firm for one year. Part-time workers receive support on a pro-rata basis. The training has to be related to the employee’s competence to undertake the same or another job at the same firm (or actually be organised by the employer). Consideration was given to increasing the incentive to above the 100%
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deduction to further increase the level of training, but this was rejected because, among other considerations, it would be costly, as well as making it practically difficult to target particular groups (OECD, 2003).

Second, the right of employees to study leave was granted in 2001. Employees who have been working for at least three years – two years for the present employer – were given the right to a leave of absence from the workplace for up to three years to engage in work-related education and training. Pay during the period of leave was left to negotiation between the employer and employee; and under specific conditions (such as major internal reorganisation), the employer can refuse such leave. The value of the provision has been undermined somewhat by the failure of the government and social partners to agree on how to support the arrangement financially.

While recognising that this situation restricted worker take-up, the government was reluctant to support it from public funds, since - given the already high training levels - the marginal training benefits were likely to be limited. Modification of the State Educational Loan Fund – through which financial assistance for adult education and training has recently been boosted - has had disappointing results in terms of encouraging individuals to undertake non-employer-sponsored training (OECD, 2004). This is particularly important, given that only 7% of the employed participate in ‘formal further education’ each year, while some 60% participate in non-formal training. While an effective system exists for validating non-formal and informal learning in relation to education (and effectively permits those sectors with highly segmented labour markets to make better use of informal competences), for enterprises in general, the development of such a capacity has only commenced in the past few years (Skule, 2005).

SME ENGAGEMENT

In general, engagement of SMEs in training within Norway is encouraged by individual projects aimed at the sector; there are no institutions with a remit to raise the level of training carried out by SMEs. Initiatives aimed at SMEs tend to concentrate on particular areas of interest, rather than stimulating the demand for training per se, and mostly succeed in further engaging those who already deliver high levels of training, rather than addressing ‘hard to reach’ employers, such as smaller retailers or personal services firms.

The major exception is the Competence Reform scheme. This was designed to decisively advance the lifelong learning agenda in Norway, which included innovative schemes for developing new training formats and services that were targeted so as to be of particular significance for small firms. It was introduced during 2000-03, through close cooperation between the Ministry of Education & Research, the social partners and education providers. It implied significant changes in respect to continuing education and training, embracing statutory rights to leave of absence for secondary (and, for adults born before 1978, upper secondary) education and training. It also provided (through the complementary Realcompetanse Project) for non-formal learning to be assessed for entry into secondary or higher education (or simply for the individual’s own use as an actor within the labour market). Responsibility for implementation of the reform was assigned to VOX, the Norwegian Institute for Adult Learning (formed in 2001 through the merger of three national institutes concerned with adult and distance learning). VOX was placed at the centre of the development of adult education, both within and outside working life. Its brief was to undertake research, disseminate knowledge, and build networks between different organisations.

Conceptualised as part of the Competence Reform was the notion of the workplace as a learning arena; the base for further development of education and CVT (Payne, 2005). Through a Competence Building Programme, VOX was tasked with developing the market for training through funding innovative projects. Around Kr350m had been allocated by 2004, in response to project bids from enterprises, consortia and associations of firms, trade
unions, municipalities etc. Some 600 projects had been approved, aimed at developing appropriate training programmes for small firms and to increase the capacity of the latter to access such courses in the market. Evaluation at the end of 2003 showed that, in spite of the major difficulty arising out of the lack of public funding available to those wishing to take advantage of the right to educational leave, as a result of the spending, some 50,000 workers had received some form of training that was regarded as relevant and of high quality. A significant proportion of those undergoing the training indicated that their appetite for such activity had been enhanced by the experience. However, evaluation also revealed resistance on the part of employees – especially those with less education – to ‘going back to school’ – part of the wider problem of training bias in favour of the more qualified worker.

Conclusions regarding the attempt to develop the workplace as a site of learning were mixed. Some of the projects yielded useful results. The Federation of Manufacturing Industries, for example, developed a computer-based documentation tool for assessing prior experiential learning. Easy and convenient to use, it was considered valuable by both employee and employer and was instrumental in developing training programmes with local colleges tailored to the firm's needs and integrated into the work process. However, while this joint activity yielded a tool to assist in training needs assessment within small firms, these were the kind of small businesses – in terms of their product markets, supportive management and union attitudes, and employees with motivation for training – that are more easily engaged in training strategies. Sectors mainly populated by ‘hard to reach’ firms with low skill requirements and poorly educated workers – retail, hotels, transport – were largely absent among applicants. The projects have improved training services within Norway, including many that are better adapted to the needs of small firms. Moreover, the networks created have improved collaboration between enterprises, training providers and workers. However, one of the lessons is that best practice emerging from such projects needs to be properly disseminated, and that finding needs to be sufficiently long-term to allow the practices to become properly embedded in the CVT landscape (Payne, 2005).

**LEADERSHIP AND MANAGEMENT – THE FRAM PROGRAMME**

The development of skills is long-established as a strategic priority area for the Norwegian Regional & Development Fund (SND), which operated national programmes aimed at improving the competence of manufacturing and service sector small firm owner-managers.

- The BIT programme, initiated in 1997, aimed to increase IT skills in small firms, and enhance their use of e-commerce

- The FRAM (‘Forward’) programme, also originating in the 1990s, was introduced to develop strategic management skills in small firms with an emphasis upon innovation, knowledge management, networking and internationalisation. Targeted upon firms with 5-30 employees, under FRAM, 10-12 companies work together in six two-day regional workshops spread over 15 months. In these, the owner-manager and other key employees acquire theoretical knowledge, exchange experience, and network with other FRAM companies. In parallel with the workshops, the enterprises receive expert guidance from approved FRAM advisors (120 in total) in how to respond to relevant opportunities and challenges. The scheme reimburses 75% of costs, with the firms paying the rest. In addition to meeting a number of qualitative targets, a SND evaluation (2002) found that 80% of the several thousand participating companies raised their profitability by at least the equivalent of 5% of turnover during a 15-month period. FRAM has evolved over time and responsibility for its operation (like that of BIT) is now in the hands of a new government agency, *Innovation Norway*, which replaced the SND in 2004. Several thousands of firms have been involved in each of these programmes; small firms who have been through BIT are also encouraged to link up through a BIT networking system, where they share knowledge, experiences and good practice information.
RE-DEFINING DRIVERS OF SKILLS IN THE WORKPLACE

An important development in the Norwegian agenda regarding workforce skills has emerged in recent years, which has been linked to the experiences associated with the Competence Reform (Payne, 2005, citing Ministerial comments in KUF, 2004). There is growing concern to go beyond simply increasing the supply of skills per se, to focusing more on how they can be used in terms of innovation and value creation (hence the interest in linking human capital/knowledge assets, via accounting systems such as the Danish Intellectual Capital Statements, to future earnings prospects and business value).

In Norway’s economic and social system, achieving better business outcomes via wage cutting and increased work intensity is widely rejected. Its system, characterised by long established tripartite decision-making and social partnership, regulated labour markets etc., is actually more accommodating to longer-term workplace development. Thus business strategies emphasising innovation and high value-added niche production – and commonly associated with creative forms of ‘people management’, job design and effective work organisation – are widely seen as the way forward. It is no coincidence that Norway has experimented with workplace development and innovation programmes, over an extended period. Clearly, workplace development of skills goes hand-in-hand with such an approach, since employee learning is intrinsic to flatter management structures and extended worker autonomy. Quality of working life is now a key focus, and driver of training changes, and with it comes a shift in emphasis in terms of the quality and distribution of access to training within workplaces.

It is frequently argued that well-functioning labour-management institutions at enterprise level help in building a high-skill, high-trust climate, facilitating the adoption of new working practices that motivate people and foster creativity, thus enhancing the effectiveness of work organisation. Moreover, those firms with innovative work practices are found to have a higher than average training incidence (Arnal et al., 2001; Ok and Tergeist, 2003).

DISTINCTIVE FEATURES OF THE NORWEGIAN SYSTEM

As in other Scandinavian countries, the Norwegian training system involves a range of social partners, accompanied by high levels of expenditure and participation. This sets the context for a system in which training is generally paid for by employers and mainly takes place on-the-job. Training expenditure is tax-exempt, and employees have the right to a leave of absence of up to three years for work-related training, although wages during this period are up for negotiation, not guaranteed, due to the lack of state financial support. There are few large-scale SME engagement projects, with only two programmes standing out as having a focus on small firms. VOX worked through consortia to develop appropriate training programmes in light of the ongoing lack of public subsidy for study leave (e.g. a computer-aided assessment of prior learning), leading to ongoing training networks, albeit mostly amongst those firms which were already highly engaged with the training system. FRAM, on the other hand, was based on networking from the start, for firms with 5-30 employees, albeit again amongst easier to engage businesses (business services, technology sectors etc.). However, the generally high level of training activity does mean that the harder-to-engage small firms do undertake more training than in other countries.
6.1.9 THE NETHERLANDS

BACKGROUND

The Dutch system has been described as a hybrid of the state regulated social dialogue (Rijnlands) model and free market voluntarism as represented by the ‘Anglo-Saxon’ model (Winterton, 2006). There is intensive consultation and negotiation between the social partners and government that has, since the 1980s, increasingly covered post-initial education and training and labour market issues, overtly as part of an effort to support the development of knowledge-based activity. As part of this, in 2005, the government published its action plan Learning and Working 2005-07, seeking commitment of partners to the main strands of the programme, ‘work-based learning’, ‘learning-working desk’ and ‘remove obstacles, promote and innovate’.

A large part of employer-sponsored training in the Netherlands is left to the market supplemented by collective labour agreements (CAOs) with social partners (Maes, 2004). For instance, the use of such clauses in collective agreements and individual contracts, stipulating that a worker leaving an employer within a specified period after a specific training period should repay (usually part of) the training costs, are a widespread device used in the Netherlands. While Holland has one of the highest levels of government expenditure upon training (as a proportion of GDP), this is mostly devoted to unemployed workers and those at risk. In fact, it plays only an indirect role in CVT, encouraging investment in human capital through fiscal incentives to both employers and employees (including permitting individuals to deduct from taxes training costs of up to €1,500, and experimenting with individual learning accounts). It has also promoted informal learning in the workplace – theoretically of interest to small firms – through its Accredited Prior Learning (APL) scheme established in 2001. The social partners have arguably played a more decisive role in the establishment of the influential levy systems in many sectors (discussed below).

In terms of performance, the Netherlands has relatively high rates of employee training, although it lags behind the Nordic countries. The active role of the social partners helps to keep the workforce training levels high, most of which is financed through sector training funds. Special assistance is provided for smaller firms, although the Netherlands is noticeable for the narrowness of differences in employer-sponsored training by size of enterprise. For firms with 10-49 employees, training participation averages 36%, compared to just 42% in firms with over 1,000 employees. The closeness of these figures (revealed in CVTS2) is rivalled only by those of Denmark (OECD, 2004).

BROAD SYSTEM

The Dutch VET system has been administered through a social partnership of government, training providers and businesses since the 1980s, and tripartite committees regulate its operation. Through the tripartite approach, most collective agreements specify a range of training provisions relating to CVT in general and to target groups. The main mechanism for achieving this is the system of sectoral training funds (OGO Fondsen), managed by collective bodies with employer and union representation (Smith and Billett, 2006; de Kok et al., 2004). The funds embrace all employees covered by a collective labour agreement that provide for such sectoral provision – around 40% of people in employment fall within one of the funds. The funds are based upon average contribution rates by enterprises of 0.5% of the wage bill (OECD, 2004); levies vary by sector, ranging from 0.1% to 0.7% of gross wages. As the levy percentages suggest, employers themselves pay the larger part of total spending on CVT; funds based on the levies play a somewhat limited role, resulting in individuals also contributing (Smith and Billett, 2006).

The funds permit expenditure of €600m per year, two-thirds of which goes to additional training for the employed, apprenticeships and employment projects. The way in which they are allocated varies from fund to fund. Distribution of these resources is either by fixed subsidy per training day or vouchers (OECD, 2004); they can either be awarded in the form
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of: (1) a overall total of training days for the sector for which individual employers bid; (2) individual leave to be taken at the employee’s discretion; and (3) funding of up to 50% towards cost of training programmes contained within training plans (Smith and Billett, 2006). Evaluation suggests that, as elsewhere, such funds have difficulty in reaching firms with fewer than 50 employees, and that administration costs can be high. It has been estimated that an average of only 40% of the funds are allocated directly to training.

**Regulation Training Impulse (Regeling scholings impuls)** is a subsidy scheme by the Ministry of Economic Affairs and SENTER to develop group training activity substantially supported by sectoral training funds (European Trend Chart, 2004). With a budget of €30 million over 2001-05, the project was designed to stimulate innovative training projects designed to take existing employees to a higher level of vocational qualification. It focused upon groups of employers and employers’ associations within particular sectors, mainly those where SMEs accounted for 70% of the firms. Up to 70% of the project costs (including the direct wages costs of the personnel concerned to a maximum of 1,750 hours p.a.) are met through the scheme. To be eligible, training programmes had to be innovative and serve as an example to other branches of the same industry.

**TARGETED TAX DEDUCTION SCHEME**

In 1998 the Netherlands implemented a system of three tax deductions for firms investing in work-related training: (1) a general extra deduction for all firms on training expenditures from their taxable profits (firms were allowed to deduct 120% of training costs from turnover); (2) an additional deduction of training expenditures for firms spending less than a specified amount on worker training; and (3) training costs relating to employees of 40 years or older attracted an additional deduction of 40% (Leuven and Oosterbeek, 2004). The first deduction was meant to stimulate training participation in general, the second was specifically targeted to assist worker training in SMEs - introduced in response to empirical evidence that training rates increase with firm size. This targeted measure amounted to an additional reduction of training cost, and effectively equivalent to 40% on the first €27,000 of costs. Tax was deductible on up to a maximum of €113,000 training costs, including contributions to industry-wide training funds and all formal training (both external and in-house) (Kok et al., 2004). Since the scheme targeted firms with low absolute training expenditure, it both automatically focused upon small firms and involved relatively little by way of deadweight losses (OECD, 2005).

The advantages of such schemes are that they are relatively easy to set-up and cheap to administer; they are also demand-led (employers choose who is to be trained and how) and tend to shift the balance between recruitment of skills and workforce training in favour of the latter. Evaluation of the incentives showed that, while the scheme was widely used, the budget of over €300m did not appear to stimulate the overall level of training significantly (Leuven and Oosterbeek, 2004). Thus, the problem of deadweight losses for the scheme as a whole (all firm sizes) was a factor in the Dutch decision to terminate the scheme in 2004 (OECD, 2005), although fiscal pressures were also a consideration.

**MANAGEMENT DEVELOPMENT TRAINING**

An SME management development project **Stichting Ondernemersklankbord** has proven to be successful in engagement through using a combination of ex-entrepreneurs, managers and general consultants to advise businesses. In total, there is a pool of around 250 such volunteers, in 22 regional teams. Since it is primarily funded by the Ministry of Economic Affairs, the Chamber and larger firms, businesses which seek support pay only a nominal fee of €75. Businesses are directed towards the organisation by local Chambers, banks, accountants etc., and are matched with a consultant, who visits the business around 4-5 times over the course of several months, dispensing practical support and advice on the
management of the business. Around 2,500 SMEs per year use the service nationwide, of which 90% have fewer than 10 employees.\textsuperscript{10}

Dutch initiatives of this kind that focus specifically upon developing HR management skills include the \textit{Employability-advisers pilot}, established in 2002 with the aim of providing strategic HRM advice to 16,000 SMEs (a Ministry of Economic Affairs initiative in conjunction with a semi-governmental organisation (Syntens). A similarly focused management training initiative more specifically concerned with improving the quality of HRM in innovative SMEs - also delivered through Syntens - is the \textit{Profit from Human Knowledge Programme}. The subsidy goes to the provider, rather than the employer. The programme, launched in 2003, is organised around thematic meetings and workshops, coaching and advice provision by professional HRM managers and exchange of experience (for more details see de Kok \textit{et al.}, 2004).

\textbf{RECOGNITION OF ACQUIRED COMPETENCES}

Recognising the importance of practical experience and informal training practices to skill formation in small firms, the Netherlands is one of a number of countries to have developed a means of measuring and thus formally recognising the skills and competences thus acquired (Observatory of European SMEs, 2003). \textit{EVC (Erkenning Verworven Competenties)} operates through an information centre, established to develop the process and provide employees and employers with information regarding recognition of acquired competencies. It aims to increase employers’ willingness to invest in strategic human resource development, and to encourage employees to take a greater role in developing their own skills and ‘employability’. The measure is run by the Ministry of Economic Affairs in cooperation with other ministries and CINOP, a private organisation.

\textbf{DISTINCTIVE FEATURES OF THE DUTCH SYSTEM}

The Dutch system is a cross between social partnership and voluntarist approaches, with market-based purchasing of training by employers supplemented by collective labour agreements – for example, specifying that the worker should remain with the employer for a defined length of time following training or pay back some of the costs. Training participation is high, although lower than the Nordic countries. The collective agreements promote CVT through sectoral training funds (which cover 40% of employees, mostly in medium and large firms), managed by a partnership of employers and unions, and attracting small contributions from employers (0.1-0.7% of the wage bill), meaning that they can generally only part-fund training expenditure. Innovative training programmes can also attract some government subsidy. However, state expenditure is largely directed towards upskilling unemployed workers, with encouragement for CVT based on experiments with fiscal incentives (both for employers and individuals, and targeted at SMEs) and the introduction of accreditation of prior learning.

\textsuperscript{10} For more details, see \url{www.onder nemersklankbord.nl}
6.2 REVIEW OF SPECIFIC INTERVENTIONS

The previous section explored selected countries in some detail with respect to their training systems and how these specifically relate to SMEs. This section identifies 20 initiatives that currently operate (or have recently been tried) in different countries, without providing a broader policy context for those interventions. The purpose is to identify the kinds of initiatives being used, and to record any findings regarding their impact, lessons etc. These are found to be instructive as case studies, as well as contributing to the concluding discussion regarding the effectiveness of different approaches to workforce skilling in smaller firms. It should be noted that some instruments referred to may contribute to the engagement of small employers in training activity in a number of ways, and thus are not presented below under generic headings.

6.2.1 TRAINING WITHIN SUPPLY CHAIN – MAGNA STEYR, AUSTRIA

This is an example of the supply chain training programmes that constitute one form of resource pooling. It is focused upon an Austrian-Canadian automotive firm, Magna Steyr, that organises training for its suppliers, including many SMEs (OECD, 2005). Such a sector is well-suited to this approach, since the supply chain is usually extensive and incorporates numerous local SMEs. The large manufacturer is motivated by self-interest to engage in such activity, since the quality of suppliers’ work contributes to that of the final product. The company, which undertakes R&D as well as manufacturing cars for a number of major vehicle producers, has an elaborate system, including links with outside provider organisations, for undertaking firm specific and general training at a range of levels. (For more details see [http://consejomexicano.org.mx/documents/books/adultlearning.pdf](http://consejomexicano.org.mx/documents/books/adultlearning.pdf))

6.2.2 VLAMIVORM FISCAL INCENTIVES, BELGIUM

The Flemish regional government developed a fiscal incentive (Vlamivorm; an abbreviation for ‘more investment in human capital is needed’) (EIM/SEOR, 2005). It was meant as an interim measure (operating for a number of years from 1999) to stimulate the efforts of employers to train their workers and of workers in undertaking such activity. It essentially consisted of a reduction of property tax equivalent to the spending that was undertaken by the firm on its employees. Vlamivorm was open to firms with a stable workforce who had recently expanded their training expenditure and were from specific sectors, i.e. those with a poor record of training - including manufacturing, construction, transport, cleaning firms, and ICT-related companies. Applications from over 4,000 firms were approved – 73% with below 10 employees and a further 11% with 10-100 workers. The 15% of larger firms absorbed a disproportionate share of the available budget (€52m), but the average number of training hours spent by small firms (43) as a result of the scheme was greater than for the larger firms by 40%. Smaller firms were found to utilise more internal rather than externally-provided training. Deadweight loss was estimated to be relatively small (as a result of the requirement that expenditure upon training had been rising prior to application). The scheme experienced administrative problems and was terminated because some participants were ineligible within the terms of the project and thus contravened EU regulations. It nonetheless stands as an innovative attempt to boost training in targeted sectors, which effectively engaged micro and small firms.

6.2.3 TRAINING VOUCHER SCHEME, BELGIUM

This is another initiative by the Flemish regional government that is designed to stimulate training among employees (for description, see EIM/SEOR, 2005). This scheme, introduced in 2002 and based on experiments undertaken in the 1990s, operates not for employees to purchase education and training as individuals in the market, but as a subsidy for employers - especially SMEs. Recognising that such firms find traditional incentives both bureaucratic and slow, this tool is designed for flexible and rapid use. Every voucher that is purchased by
employers is subsidised by the government; each €15 voucher purchased attracts a similar amount from the public purse, making it worth €30. The combined value of vouchers can then be used to finance training (to a maximum of 200 vouchers or €6000) purchased from accredited providers. Vouchers can only be used for direct costs charged by the provider – no support is given to cover associated firm costs, which have to be borne by the employer. Applications are on-line, and a company (Sodexho) checks eligibility and establishes the firm’s virtual portfolio of vouchers.

While in the Flemish scheme, the maximum amount of subsidy per firm meant that the vouchers system was taken up mainly by SMEs, a similar scheme operating in Wallonia was more tightly targeted upon small firms (i.e. the self-employed and firms with fewer than 50 employees). Evaluation evidence suggests that the voucher system has encouraged suppliers to offer courses suitable for smaller businesses, and that the scheme has some success in actually engaging small firms – in Wallonia firms with fewer than 10 employees are the principal users of the scheme (OECD, 2004). Around half of the courses are for languages (and a further 25% for informatics), and only a relatively small proportion of those benefiting from the scheme appear to have been older or unskilled workers (Guridi and Amondarain, 2003). The scheme has also been criticised for resulting in company- or job-specific training, rather than for general training, and initial evaluation suggests that deadweight loss may be a problem. Overall the voucher schemes have been positively evaluated in terms of low cost administrative procedures and opening up a wide range of courses to firms. The accreditation system has been found to function effectively in ensuring the quality of those courses. The Flemish government, in 2003, introduced a complementary scheme of vouchers for employees, operated on a similar shared-cost basis (Cox, 2003); and vouchers have been free for the low-skilled since 2004 (European Commission, 2005).

6.2.4 LARGE MENTOR FIRMS - STRATEGIC PLAN KEMPE, BELGIUM

SPK is a PLATO business development programme targeted at owner-managers in smaller firms (van Cleef and Dryselius, 2001). The intensive counselling programme was developed for Kempen, a region in north east Belgium, and has operated since 1988. Large companies (i.e. with over 300 employees) counsel small firms (3-100 employees) in all aspects of management. The large mentor companies each make one or two managers available on a part-time basis, funded by SPK, to undertake intensive training in general management, covering personnel policy, financing and marketing. The selected small firms are divided into groups of 10-15 owner-managers to work with the two manager trainers. Over the two year programme, the group engages in collective sessions, individual coaching, seminars (e.g. by invited specialists) and informal activities (e.g. company visits), through which management know-how is communicated from the personnel of large firms to managers of small ones. A range of commercial opportunities is also observed to arise from the network interactions. Selection of group participants is undertaken to ensure that competitors are not in the same group. Individual counselling includes recruitment and HR issues.

By 2001, the PLATO concept has spread to a number of other EU countries. Evaluation (Catholic University of Brussels) of the Kempen network showed that over 800 SMEs had been engaged, working with 150 counsellors and 55 large companies (led by Janssen Pharmaceutica) with a network of 300 other specialists who had contributed to seminars and other activities (with over 4,000 firms and 250 large companies involved in PLATO projects elsewhere in Belgium). The SMEs involved were found to have achieved an average turnover increase over the two year programme of 15-20%, while employment had increased by 20%, with growth observed to continue after completion of the programme. A follow-up study after five years of 200 participants (reported in van Cleef and Dryselius, 2001) showed that the number of jobs had increased by 1,400, with half of respondents ascribing the gains entirely to the programme, including the ongoing networks formed through it. The large
companies point to the fact that the experience has improved their understanding of small businesses and thus their ability to engage commercially with such firms.

6.2.5 TRAINING FOR R&D PROJECT SUPPORT, BELGIUM

This Flanders initiative is interesting for the way it supports R&D partly through targeted training. It focuses upon SME projects that require solving a technical or scientific problem in order to fully realise a commercially viable innovation (European Trend Chart, 2004). While general training is not eligible for support, even if it is of a high level, specific training, focused upon the R&D project itself, is included. While the core of the project focuses upon providing such support as is necessary to advance the innovation, acquisition of specific skills by staff involved in the process is integrated within the subsidy package. The resulting highly targeted episodes of ongoing workforce training are potentially of great strategic importance at the firm level, and represents a contrasting form of CVT to that which focuses upon routine updating of skills or upgrading those staff with low skills.

6.2.6 EDUCATIONAL LEAVE SCHEME, BELGIUM

Throughout Europe, there are several schemes giving employees paid or unpaid leave to attend training courses. The majority of these schemes (e.g. those in France, Finland and Sweden) do not discriminate by size of business; only Belgium operates an initiative which offers differential terms and conditions which acknowledge the greater difficulty for small firms in releasing staff for training – although, even then, the concession is relatively limited in scale.

Belgium’s educational leave scheme stipulates that employees are entitled to up to 100 hours leave for training purposes, with their employers’ consent. The employer continues to pay an allowance equivalent to the employee’s normal salary, subject to an index-linked upper limit. Half of this allowance (along with associated social and related contributions) can be reclaimed from the Ministry of Employment and Labour. In firms with over 50 employees, these stipulations apply only to full-time staff – i.e. the full complement of hours specified by the collective agreement for that particular sector. For small firms, however, the leave arrangements also apply to employees who work a minimum of 51% of the hours specified in the agreement, widening eligibility for the programme in these businesses and encouraging a greater number of employees to take advantage of the educational leave.11

6.2.7 JOB-ROTATION, GERMANY

While job-rotation in Denmark has been utilised mainly by firms above the smaller size brackets (especially firms with 100 or more employees, who find the system especially helpful for group-based personnel development courses, and as an aid to recruitment), it is interesting to find that in a number of countries the tool has been effectively used to support very small firms seeking to release individual workers for training purposes (Kruhoffer, 2002). Germany is a particularly good example of this: figures suggest 45-66% of the employers participating in job-rotation schemes have fewer than 50 employees; in North Rhine Westphalia, a full quarter of participant firms have fewer than 10 workers (Kruhoffer, 2002; Siebert, 2002). One explanation for the difference may be that substitute workers in Denmark are paid the rate for the job, whereas in Germany they tend to receive only unemployment benefit rates (occasionally topped up somewhat by employers); a further

possible explanation could be the difference in the amount spent on project management, which in Germany is generally high (e.g. a quarter of the total project budget in Bremen), permitting a very considerable support infrastructure based upon piloting, testing and eventually mainstreaming the initiative particularly with smaller firms in mind.

The job-rotation initiative is organised on a regional basis and varies in its organisational structure, sectoral focus and implementation. There is an Association of Job-rotation Projects, that works to ensure network learning from experiences and has worked to improve the legal framework for such initiatives. In Bremen, the focus of the scheme is on small firms in the metal processing, electrical heating and air-conditioning sectors (Schick, 2002); generally, manufacturing and processing industries tend to be over-represented, and IT and electronic data processing under-represented (Siebert, 2002). In Berlin, one scheme focused upon small craft industries where there was a specific need for training to facilitate succession within the firm. Job-rotation has been found to be applicable to a wide range of employers (in terms of both size and sector), although special arrangements need to be made for industries subject to seasonal variation in demand (e.g. construction), or an uneven business cycle (printing) (Siebert, 2002).

Those joining the scheme are given several weeks initial training. Informal learning then takes place in the workplace as preparation for taking over from the absent worker(s). Many participant firms also regard the scheme as a convenient means of ‘trialling’ a potential recruit. Given the small average size of participating firms, fully one-half of the projects involve the release of just one worker; thus, one substitute worker is sufficient for most projects (e.g. 80% in North Rhine-Westphalia). Job-rotation projects cover typically short training bouts, so 30% are with the firm for under a month and just 25% for over 12 weeks). Hence the recognition that schemes need to be flexible and avoid imposing significant administrative effort or expenditure on host employers (typically, well below half the costs are met by the employers). Local employers’ associations were initially sceptical, but experience showed that the scheme worked – especially where job-rotation organisers choose the replacement pool carefully from among those out of work. Rates of continuation among substitutes are high; indeed, some studies show that the smallest firms are more likely than the larger firms to formally take on the substitute worker. It has been found that job-rotation helps to activate potential jobs, especially in micro-enterprises.

While local schemes are undoubtedly helped by the availability of unemployed individuals with relevant skills, the effort made to carefully prepare the substitutes in workplace processes beforehand (much more intensive than the traditional ‘workplace experience’ schemes) is regarded as an important factor in the success of job-rotation. An added benefit of the schemes is that they have a strong component of guidance and advice, especially with respect to planning continuing training. (This point is also recognised in neighbouring Austria, where the tools and methods of strategic personnel development, including company based qualification needs assessment, have been introduced into many small firms through their involvement with job-rotation projects (Feiler, 2002)). Bremen has since sought to extend its job-rotation scheme into other sectors, including wood processing and caring/nursing occupations. It should be noted that, predictably, continuing training activity associated with job-rotation focused upon the more skilled workers and management; typically less than 15% are unskilled.

**6.2.8 E-LEARNING - LINGUA-IN-CITY, GERMANY**

The *Lingua-in-City* e-learning program was targeted at migrant workers in Germany, with a particular focus on those employed in small businesses. It aimed to increase migrants’ access to vocational education in general, and in particular improve communication skills, with curricula tailored to particular occupations or sectors of employment. The scheme emphasised co-operative working with businesses in order to analyse their demand for both communication and vocational skills, ultimately aiming to set up a network incorporating
businesses with high levels of migrant workers alongside VET organisations, city councils etc. The actual training was initially based on cascade principles. Instead of direct engagement of migrant workers, the training was delivered to their managers – in the case of small businesses, usually the owner – with only migrants who had been in Germany for some time taking the course themselves, in order to act as a mentor to their co-workers. The learning could then be passed on in the workplace (or elsewhere) to the actual workers. There is also potential for other groups to act as facilitators to pass on the learning – e.g. migrant organisations, local educational establishments, council employees – or for migrant workers, if confident enough, to undertake the training on their own.

The course consisted of six modules, covering work organisation and relationships, dealing with conflict, reliability etc., each of which contained four parts – introduction; language/behaviour differences; acceptable norms; and application to work practices. These were worked through using scenarios developed for specific industries, which more experienced facilitators could add to, if desired. All materials were available electronically, on CD-ROM and/or online, with the intention that facilitators would use them to present the training to the migrant employees, and in order to make them adaptable to specific circumstances by facilitators.

6.2.9 BLENDED E-LEARNING IN PROJECT MANAGEMENT, GERMANY.

Delivered by 21 Learnline AG in Germany, this course aimed for a different approach to e-learning. Their main concern was to reduce the drop-out rate from e-courses, which they speculated was caused, at least in part, by the need for participants to read long chunks of text on screen, which was both dull and not conducive to typical SME learning styles. Therefore, the design team reversed the usual principles of e-learning – rather than reading the theory prior to doing exercises, participants went straight to doing exercises from the start, and only looked at the theory when (or if) they had difficulties. They claim to have a 95% completion rate, with their success largely ascribed to this technique.

The course focused on project management in SMEs, which was thought to be an ideal testing ground for practical e-learning, both because of the variety of learning necessary and the fact that project managers tend to be extremely busy on a day-to-day basis. The first attempt, to teach purely through e-learning, failed to produce motivation among participants, leading to an initial face-to-face workshop to lead participants through the process and motivate them to finish the course. In the subsequent four weeks, learners undertake 12 hours of e-learning. The role of the ‘telecoach’ (i.e. online facilitator) is crucial in this period – they monitor and encourage trainees, and answer any questions. At the end of four weeks, participants reassemble for a 2-day workshop, which focuses on behavioural aspects of project management, using case studies, group-work and role play (including a computer simulation of an actual project) rather than lectures. This demonstrates how e-learning can be more successful in a blended programme than standalone – facts, techniques, tools and procedures can be taught online, supplemented by face-to-face work on attitudes, behaviour and problem-solving.

Recommendations which emerge from the project include:

- The continued use of paper documents – around half of learners preferred to read the theory on a printout than on screen, and many wanted a certificate at the end of the project.

- Each student should get personalised (not automated) contact from the facilitator at least once a week, as well as rapid responses to any questions.

- While most trainees would find 3 hours per week in which to undertake the learning, but around a quarter did 10% in the first week and 90% in the final week, reducing their usefulness. E-learning sessions should be between 45 minutes and two hours in duration, to maximise their effectiveness.
6.2.10 SUB-SUPPLIER PROGRAMME, HUNGARY

Funded by the EU Phare programme, this project (currently in abeyance for financial reasons, but with consideration being given to a re-launch) aimed to stimulate demand for management development by giving SMEs the goal of becoming part of a larger supply chain, once appropriate accreditations have been gained. This proved highly popular, with the training being taken up by around 1,500 SMEs employing 110,000 people (about 14% of the total manufacturing workforce). The main target sectors were automotive, electronics, textiles and rubber & plastics.

6.2.11 JOINT FUNDS FOR TRAINING PLANS, ITALY

Introduced in 2004, this scheme allows business to opt in to a training fund, financed from a small percentage (0.3 per cent) of their compulsory unemployment insurance (details given here are from European Commission, 2005). The ten joint funds, mostly targeted at small and micro businesses, finance training plans on a variety of scales, from national and sectoral down to plans for those individual businesses which contribute to the fund. The Joint Funds are operated by ‘social partners’ such as the Chambers of Commerce, employers’ associations and trade unions, monitored by the Ministry of Labour. Of the €96m injected into the funds by the Ministry in 2004, around €50m was earmarked for training plans for individual businesses and action to meet specific training requests from individuals (which can, presumably, arise from a business’s prepared training plan as well as the individual acting on their own account). Vouchers are issued in response to these individual requests to cover the cost of training (it is unclear which elements of cost these cover).

Training is available to all businesses with fewer than 15 employees, as well as staff in larger ones who meet certain conditions. Since these conditions appear to include workers on part-time, fixed-term or flexible contracts, those aged 45 and those with only compulsory schooling, the Funds can potentially be accessed by a significant number of larger businesses, but the focus remains on the small and micro end of the scale.

Funds include those geared towards workers and managers in particular sectors, and several covering more generic skills training for workers and managers - owners can choose which they wish to join. Available data indicates that around one-third of Italian enterprises have signed up to a fund.

These Funds are the successor to a similar ESF-funded programme running from 2001-03, which proved sufficiently successful for the government to take over the funding arrangements. During this earlier programme, 3,900 training plans were drawn up, covering over 9,000 businesses employing 160,000 workers. Just over 30,000 employees requested training vouchers, and 60% of these completed their subsequent training programme.

6.2.12 TAX REIMBURSEMENT OF TRAINING COSTS, MALTA

An interesting example of targeted training assistance is an innovative scheme, administered by the Employment and Training Corporation, that operates under Malta’s Business Promotion Act (2001) (European Trend Chart, 2004). Eligibility criteria for partial reimbursement of training costs distinguishes between different types of enterprise, employee, nature of training, the training provider and the costs involved. Qualifying organisations are those engaged in one or more activities from a number of sectors targeted within the Act, including pharmaceuticals, plastics, biotechnology, electrical and electronic equipment. Reimbursement is available for training costs associated with new full-time employees as well as those who have been with the enterprise for at least three years. The rate of reimbursement is higher for SMEs than for larger enterprises and, also respectively higher if the training provided is of a generic nature, and thus aids transferability, rather than being specific to the employee’s present workplace.
6.2.13 NUMERICAL TRAINING TARGETS, PORTUGAL

Within the social dialogue framework of the Economic and Social Council, a national tripartite agreement was concluded seeking to raise training investment through establishing numerical targets. The objective of this 2001 agreement was to develop an integrated approach to education, training and employment. Part of this involves incorporating and suitably structuring the existing measures, such as national certification, into the new framework; but it also sets out the arrangements for continuing training, granting new rights and a minimum amount of training for every Portuguese worker (individual right to 20 hours per year and at least 10% of workers provided with training each year) (OECD, 2003). The minimum figure of 20 hours per year (from 2003) was set to increase to 35 hours by 2006. A crucial feature of this new arrangement is that it applies to SMEs.

6.2.14 DEVELOPING INTEGRATED TRAINING PLANS, PORTUGAL

A good practice activity, identified by the OECD (2003), is the Minho Industrial Association of Braga, Portugal. The association’s main activity is to provide advice to companies concerning technologies, trends and achieving competitiveness. As the association’s service has developed, an increasingly important element focuses upon the integration of training within overall strategy as part of improving the quality of management in firms, including both small and larger firms. Based upon a recognition of the importance of embedding individual training decisions into the management of the company, participants are treated not so much as individuals taking a course for their personal career development, but as key conduits for change in their organisations. Thus, where the person attending is a manager or supervisor, rather than the entrepreneur/owner-manager, the focus is upon communicating needed actions to the head of the enterprise, who is the best proponent for training actions for their employees. Skills developed in sessions include those of diagnostic analysis of organisational and technological capacity (including human capital resources), practical methods of linking training programmes to strategies for competitiveness, and administering a CRVC (Recognition, Validation and Certification of Competences) in collaboration with other bodies, to ensure cumulative building of occupational skills.

6.2.15 TRAINING CONSORTIA, SOUTH KOREA

South Korea is noteworthy for its novel experiment in using resources mobilised via a payroll tax to fund training consortia (TCs). Financial incentives alone were found to have little impact on smaller firms – even following 1995 reforms that resulted in re-imbursement of training at a much higher rate for SMEs than larger firms (from 100 to 270% of fees paid, compared to 90-120%) (Lee, 2006). Training grants to enterprises through the Employment Insurance Fund (funded in turn by a payroll tax on enterprises) for in-house and external training (including fees etc. and wage support for workers undergoing training) consistently had a low take-up by small and micro firms, benefiting mainly larger enterprises.

In collaborations between the private sector, government and chambers – piloted in 2001-02 and subsequently rolled out nationally - South Korea tackles this problem through supporting training consortia, including many sector-based ones that deliberately involve key large enterprises, but also regional consortia (Ra, 2005; OECD, 2005). Typically TCs involve some 50 SMEs. Under the guidance of an operating committee of stakeholders, (usually) two training managers are appointed, who survey training needs of members firms through interviews and job analysis; prioritise training needs in relation to individual workers; and identify the most suitable training institution. The training managers regularly liaise with the training institution (which might be a large company within the consortium ) to ensure that the programmes, materials, facilities etc. are suitable, and closely monitor/evaluate the process and outcomes, providing feedback on an ongoing basis to improve quality. Large firms involved in TCs include Daewoo, Samsung, Volvo, Yuhan and Hyundai. These major
companies are supported to operate a training centre that specifically caters for their suppliers, sub-contractors and distributors.

The scheme addresses some of the negative features inherent in levy schemes. Large enterprises receive grants for organising and delivering training for workers from partner organisations, thus reducing the administrative costs normally incurred by small firms, while the small firms still receive direct support for fees. Apart from the possibility of technological spillovers facilitated by the network activity, TCs are shown by evaluations to have encouraged participation in training activities among the partner organisations and improved the quality of training delivery - with positive gains in productive efficiency on a sector-wide basis. In the project involving Samsung Heavy Industries 92% of partner enterprises participated, and 98% were reported to have completed their course (Ra, 2005).

This approach to encouraging training within smaller firms is now very extensive within South Korea. Ministry of Labour figures indicate that there were 60 training consortia in operation throughout the country in 2006, training 90,000 workers. Indeed, the government announced additional resources for a planned expansion to 110 consortia training 170,000 workers by 2010. Lee’s detailed analysis (2006) shows that the number of TC enterprises receiving training has increased dramatically in comparison with the national average – as has the proportion of such enterprises receiving training rebates. TCs are seen as having helped to shift smaller firms from reliance upon pre-service to in-service training, and from that directed towards supply-oriented public institution training to demand-oriented in-plant/on-the-job training that is more cost-effective. High proportions of SMEs surveyed report better job performance (81%) and higher machine utilisation (87%), and lower maintenance and repair costs (67%) and poaching rates (60%). It is also observed that the training market in general has developed in ways that are more relevant to the needs of smaller firms.

The government recently announced a pilot programme of increased subsidy for those TCs using mainly e-learning systems; also within their general orientation towards supporting smaller businesses to increase training activity, an increase in the number of SME workplaces to be supported to establish themselves as Learning Organisations (including the cost of consultants, establishing a knowledge-sharing system etc.), although this is more likely to impact upon larger SMEs.

6.2.16 LEVY SYSTEM AND POOLING, SPAIN

Following the Franco era, social partners were drawn into playing a wider role as part of the political stabilisation process. Social policies have been shaped by various bi- and tripartite pacts, including the Tripartite Foundation for Training for Employment (previously FORCEM), though which the continuous training system has strong involvement of the social partners in administration of training funds derived from a levy system (OECD, 2003). The levy amounts to 0.7% of payroll (0.6% employer share, plus 0.1% from the employee), and is supplemented by ESF moneys. Businesses and other organisations, including cooperatives, labour organisations and bipartite foundations, may request financial assistance, while individuals can apply for Individual Training Permits. Unlike in France, levy support for training leave is not given a separate part of the budget. Overall, roughly half of the Fund is devoted to CVT for employed workers, although with unemployment falling, more of the levy is expected to be devoted to this activity.

Firms need to submit training plans to the Ministry of Labour & Social Affairs to draw upon these funds, and the evaluation of the firm’s worker-representatives (to whom the applications must go initially) plays a role in the decision of the training grant fund administration (Ok and Tergeist, 2003). The plans mainly stress improvement of company/sectoral productivity, although the sectoral peer agencies that set the framework for managing the plans also define personal promotion and competence development as important goals. The position taken by union representatives has sometimes caused conflict.
with those of employers, over the relative weight of ‘social’ objectives (such as access of lesser skilled groups to training) and whether training is in work time, as opposed to that given to productivity improvements and training in the workers’ own time. Usually, however, a compromise is reached that has the benefit of having union support, and thus helps motivate the workforce to become involved.

In practice, grants do not closely reflect enterprise payments into the fund, thus allowing redistribution of funds towards jointly defined priorities. This arrangement made especially interesting given the provisions incorporated into the system relating to smaller firms. Enterprises with fewer than 100 workers wishing to submit a plan must do so jointly with other enterprises – either a sectoral grouping or territorial-based group. By inserting this provision the government has deliberately stimulated joint action towards planning of training, specifically the creation of joint training programmes and pooling of resources, allowing possible economies of scale. Joint bids, in fact, are an important feature of the systems operation – half of the 1000 bids for grants in the metal sector in 2001 were from groups, while virtually all enterprises in some sectors, such as auto-repairshops, are of this kind (Ok and Tergeist, 2003).

6.2.17 FREE YEAR’ REFORM, SWEDEN

Sweden has, since 1994, given employees a statutory right to take time off for education purposes. While no salary is paid, the law has important symbolic value in stressing the importance of education and lifelong learning. In this vein, a recent pilot project, subsequently up-scaled to a national project in 2005 was launched, the Free Year Reform. The purpose of the measure was to allow an ordinary employee to take a year off (receiving 85% of salary) to be replaced by someone in danger of becoming long-term unemployed. The evidence suggest that this is an effective way of assisting employees to take leave – for training/education? – it is not an effective means of assisting people in danger of becoming unemployed, since the replacements tend to be relatively strong in labour market terms.12

6.2.18 LOCAL LEARNING CENTRE, LINDESBURG, SWEDEN

It is recognised widely that, to support workplace skills formation, greater cooperation is needed between training institutions and firms. Masugnen (the Blast Furnace) is a learning centre established in a former mining and metal industry municipality that is held up by the OECD (2003) as an example of the model where contact between firms and training organisers ‘before, concurrently and after’ (p202) gives rise to more effective training activities. It was formed to meet the need for flexible and varied provision of adult education and training, frequently targeting the specific needs of a local economy nowadays made up of a diverse range of SMEs and public sector organisations. Such clients are able to pursue staff skills updating and training without major disruptions to production; IT-supported learning is an important source of the Centre’s flexibility. Mobilising local knowledge and competence resources and the development of local learning networks are also deliberately pursued.

6.2.19 SKILLS NETWORKS LINKED TO LIFELONG LEARNING, SWEDEN

The Gnosjö region in Sweden has an initiative (established c2002) that explicitly integrates skills-upgrading within an continuous learning framework. Called the System for Lifelong Learning Project, it is a partnership between four municipalities, including also a bank, employers, the County Employment Board and the Swedish Institute for Working Life (see OECD, 2002, and http://www.iuc.gnosjoregionen.nu). The project is centrally oriented

12 For more details, see: http://www.ifau.se/swe/pdf2004/r04-06.pdf.
towards developing skills rather than formal qualifications, and, through IUC (*Industriellt Utvecklingscentrum i Gnosjöregionen*), establishes skills targets linked to the regional growth strategy and associated skills requirements (see chapter by Brulin in Fricke and Totterdill (eds) 2004). Staff working in small R&D companies have taught each other how to organise innovation and product development processes. Additionally, it has brought management, unions and employees together in discussion forums to discuss joint learning.

Gnosjö, in Småland, is an area with a strong SME base, many of which are sub-contractors to big Swedish companies. Local firms are experiencing structural problems arising out of supply management changes by large companies, and consequently are under pressure to upgrade their quality systems, expand use of IT to produce components in co-operation with other suppliers, and improve communications with customers. The strategy of the project is to develop regional learning networks for targeted purposes, utilising knowledge existing within companies as well as that from external sources. Several learning networks have been established, each addressing a specific area: marketing, quality, purchasing, competence development, product development, supplier networking, working environment and work organisation. The core network consists of the local industrial development centre (IUC), four companies and their sub-contractors, two universities, and a trade union. The intention is to involve an increasing number of regional sub-contractors in the learning networks to reach 50-100 companies, mainly SMEs. The potential of the Gnosjö model has been recognised in other parts of Sweden, where similar network projects have been started up.¹³

6.2.20 SECTORAL TRAINING - HOISERY TECHNOLOGY CENTRE, USA

Set up by the Carolina Hosiery Association (CHA) in 1990, the HTC was a response to both competition from low wage overseas production and the poorly educated workers typically attracted to a career in hosiery manufacture. By raising the skill level of the workforce, the CHA sought to increase the technological intensity of the industry and the workforce’s problem-solving capability, thus both raising quality and lowering costs. To this end, the HTC focused on transferring technological skills and knowledge to both new entrants and more experienced employees. A key innovation claimed by this programme was its wide range of stakeholders - going beyond the cluster of hosiery firms found in Carolina, and effectively engaging firms of all sizes. This partnership included HTC, the community colleges of North Carolina, the regional trade association, suppliers and the state government. The HTC itself was hosted within the community college system, with training carried out on machinery installed in the colleges themselves. The proximity of the firms to the colleges facilitated a regular but flexible schedule for training, enabling greater involvement via day release of employees for training, and ensuring that off-the-job learning could alternate with on-the-job. (*OECD Employment Outlook 2004*; see chapter 4).

¹³ For more details, see EU ADAPT report http://ec.europa.eu/employment_social/equal/data/document/TFG1consol-en.rtf
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APPENDIX 1

NATIONAL SKILLS FORUM RECOMMENDATIONS

1. ENGAGEMENT - THE BUSINESS CASE FOR TRAINING
This area was considered an important outstanding task, in that it was a key requirement for developing interest in skills formation within under-investing enterprises.

2. INFORMATION AND GUIDANCE DELIVERY MECHANISMS
The report recommended appointment of a staff training officer in small businesses to take on the role of ‘learning champion’. These should possess the skills to identify and recommend ways, via a training plan, to address training needs within the organisation (as in the 1990s TEC ‘Skills for Small Businesses’ scheme, and also the Small Firm Development Account piloted among small firms in the East Midlands, where 50% of costs for design and implementing a training plan were covered). Such an initiative might be linked to Train to Gain, as a means of sustaining the development of training capacity after the skills brokers have moved on.

A positive attitude existed towards skills brokers, acting as trusted advisers of small firms regarding choice of courses and facilitating tailored provision of training. However, concerns were expressed with regard to their effectiveness (i.e. dependent upon the broker’s understanding of business), significant deadweight effects (as indicated by evaluations of Employer Training Pilots), and the emphasis upon throughput of training rather than capacity-building in firms. Aligning business advisory services to those of skills brokers was felt necessary to the embedding of training within the business plan.

3. TRAINING RELEVANT TO SME WORKPLACE
Flexible delivery systems were considered a key mechanism for engaging small firms, specifically the need for unit-based, bite-sized qualifications more compatible with the workplace. Hence it was felt that the new Qualification and Credit Framework would be attractive to small employers in creating shorter, unit-based qualifications – especially as these ‘chunks’ of learning can be packaged together in a flexible way - and attractive also to employees in offering personalised, portable learning.

4. FUNDING AND SUPPORT MECHANISMS
Training levies were supported where they were developed voluntarily within a sector - partly on the basis that they would reduce the fear of poaching. They were considered especially useful in sectors where workers change jobs frequently, including those with many self-employed people (construction, film industry), but should be adopted only in sectors where the majority of firms were supportive. On the negative side, the bureaucratic and ‘blunt’ nature of levy systems were identified, as were concerns that small firms are unable to gain as much from such systems as larger ones. Overall, the recommendation was that government should promote levies (even through legislation) to facilitate their establishment, but only where clear employer demand exists.
5. **TAX-BASED INSTRUMENTS AND INCENTIVES**

Incentives (tax credits, vouchers or simple deductions) attracted positive support, alongside suggestions that such mechanisms may have a higher return on expenditure than Train to Gain. Against these, however, were set considerations such as deadweight, bureaucracy, and difficulty in influencing the type of training being reimbursed/subsidised. Overall, NSF argued that further research is needed into the practicalities and implications of tax incentives, including its role in relation to employer contributions to Learner Accounts.

Little support was forthcoming, however, for some financial measures/actions. Not recommended were: (1) *wage compensation for staff release*, on grounds that the main problem with releasing staff was not the wage element so much as the difficulty of providing cover, and the cost of training a substitute employee; (2) *training loans for small businesses*, because of firms’ general reluctance to access such instruments and because convincing firms of the need for training, rather than the cost, was considered to be of greater importance; and (3) *payback clauses*, which were considered potentially to discourage employees from pursuing training options, while training itself was perceived as helping to prevent loss of staff through poaching etc. because of its effect on staff loyalty and performance. The poaching issue was better addressed, it was concluded, by bringing together companies within an area or industry (through such initiatives as Skills Academies).

6. **POOLING RESOURCES AND NETWORKS**

It is recognised that the relationship between firms can provide the context for action on training that naturally encompasses small firms and utilises the influence and resources of larger ones. There is thus a case for exploiting firm linkages, e.g. *supply chains* of particular sectors, where large firms can play a role in facilitating training and establishing standards. Such developments could provide an incentive for small employers to train their workers (in the form of securing their market position with the larger firm), with both large and small firms benefiting from the resulting boost to efficiency, quality etc. Similarly, meeting the needs of *local clusters* of firms could be achieved through taking training to employers of different sizes on industrial estates and business parks, as demonstrated by earlier local pilots of the TECs. Such training could be arranged around the ‘edges of the working day’ to reduce costs for both employee and employer.

The report recognised that *SME networks and training associations* also pool resources on a local basis, offering opportunities for sharing best practice in training. This, it was suggested, might be encouraged by Chambers of Commerce and Business Link, allied to flagship businesses and colleges – some of whom have successfully created their own networks and liaise with local small businesses through business development units that raise awareness and provide information. There was some support for using the concept to consolidate the work of brokers over the longer term.

General support was also suggested for the forming of *collective training funds*, especially where organised through such means as the Learner Accounts that simplify the management of funding streams from both government and individuals, constitute a secure source for employer investment in workforce training, and indeed are particularly suited to SMEs in terms of the control they can exert over the funds and simplicity of use.

7. **LEADERSHIP AND MANAGEMENT TRAINING FOR SMES**

The type of training developed through the Leadership and Management Development Programme was strongly supported, based on observations of its positive effects upon productivity and (subsequent) attitude of participants towards training. Extension of the life of the programme, and indeed (as suggested in the Leitch Report) reducing the size
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threshold to firms of 10 employees, was supported, as was the notion of extending such training to all levels of staff, in order to facilitate devolved responsibility. Again, it was considered that sustainability of Train to Gain would be advanced through embedding leadership and management training within the programme.
APPENDIX 2

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This report is a summary of a research report carried out by Ian Stone and Paul Braidford, Enterprise and Skills Research Group, St Chads College/Durham Business School, Durham University on behalf of the Sector Skills Development Agency.

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