

Taking stock

CBI education and skills
survey 2008

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Foreword

RICHARD LAMBERT | DIRECTOR-GENERAL | CBI



The UK faces significant challenges to remain competitive, particularly at this time of economic uncertainty. The UK's most valuable raw material is the skills of our people – young and old, those in work and those currently unemployed. We must develop those talents so individuals can contribute to, and

benefit from, our economic prosperity – and so that that firms can continue to thrive.

This survey is a stock-take of where employers see the UK's position on skills. There is no room for complacency. Over half of firms worry they may not be able to find enough skilled workers to meet their future needs. And they are concerned about the competency of those in low-skilled jobs: 40% worry about poor literacy and numeracy and just over half worry about IT skills. Our survey shows the cost of getting it wrong – poor basic skills lead to poorer customer service and lower productivity. But problems are not just confined to the basics – six in ten employers report shortages of people with the high-level science skills they need, especially at graduate level.

A skilled workforce and prosperous economy demands action from us all – employers, individuals and government. Firms are investing in employees' skills – over £33bn every year. Our survey shows the business benefits of this investment: improved productivity, more satisfied customers and higher staff morale. And it's clear that employees are committed to their development.

Investment by employers and employees must be supported by government action to deliver on its ambitions. Business is clear: the government's number one priority must be for young people to leave school literate and numerate – so that firms can give them the skills to succeed in the workplace. But it's critical too that young people develop softer employability skills (such as team working and problem-solving, underpinned by a positive attitude). Over three quarters of CEOs say they look for these skills when recruiting graduates. Employers are supporting the government's work in schools, colleges and universities: three quarters offer work experience, for example, but business recognises that it can do more.

We must all work together to ensure the UK maintains its position in the global economy, and we must strive to improve it. But we have much to be proud of, and a firm foundation on which to build a worldclass workforce with world-class productivity.

A handwritten signature in blue ink that reads "Richard Lambert". The signature is written in a cursive, slightly slanted style.

Foreword

JERRY JARVIS | MANAGING DIRECTOR | EDEXCEL



The Leitch review of skills, published well over one year ago, provided a wake-up call.

It showed that a third of UK adults do not hold a basic school-leaving qualification, and while the UK is producing 250,000 graduates every year, China and India are producing four million. The implications for our global economic competitiveness are clear.

With new structures set up in response to the Leitch review, the education and business worlds must now move forward together to address skills shortages and maintain our economic competitiveness and the quality of life it brings.

Edexcel is delighted to sponsor this CBI survey. We did so because we passionately believe in the link between education and the workplace. By understanding CBI members' views, all of us working in education and skills will be able to work as effectively as possible with the business community to help meet the workforce needs of employers and the individual aspirations of employees.

At Edexcel we have a proud heritage of working with employers and we develop our vocational qualifications – most famously our BTECs – in consultation with professional associations and businesses so that they develop the skills they want and need. Later this year, BTECs will celebrate their 25th anniversary – a major achievement for any qualification, and testament to their enduring appeal to learners and industry.

For some years, we have also been working with employers to develop their in-house training programmes so they can lead towards accredited qualifications that are absolutely relevant to their people and have real currency in their industry. Alternatively, we can offer endorsements to employers whose training schemes meet the rigorous standards expected of an awarding body.

But as well as tackling immediate issues in the workforce, we need to plan for the future. This year, the new Diploma will be introduced in schools and colleges following an unprecedented amount of employer involvement. As part of the mix of qualifications, the Diploma will have a serious role to play in making sure that school and college leavers have the kind of skills that the workplace demands.

I would like to thank the CBI for conducting this annual survey. I hope that it helps all of us with a stake in the UK's skills and education to identify opportunities and focus our energies on the challenges ahead.

A handwritten signature in blue ink that reads "Jerry Jarvis". The signature is fluid and cursive, with a long, sweeping underline for the name.

Summary

Our first Education and Skills Survey 2008 provides a comprehensive analysis of business' priorities for education and skills issues. The survey, completed by board-level executives, highlights the key education and skills issues that impact on business competitiveness performance. It covers a wide range of areas, including: leadership and management, basic skills, high-level science, technology, engineering and maths (STEM) skills, qualification reform and government funding for training.

Poor skills levels threaten business performance

At a time of some economic uncertainty, firms need to maximise performance and profitability and build for growth – with new products in new markets. To deliver these, a skilled workforce with effective leaders and managers is essential. But, worryingly, over half (53%) of firms are concerned that they may not be able to find sufficient skilled individuals to meet their future recruitment needs.

Nor are employers entirely happy about the competency levels of their current staff, with low-skill employees presenting a real concern – only a third (35%) of employers described their skill levels as good. CEOs were more confident about higher skilled staff, with two thirds (63%) describing their skills as good. But business leaders are not complacent and are investing heavily in skills and staff development: nine out of ten firms (89%) have training and development plans and these are usually apart of the firm's overall business strategy.

Getting the basics right remains a priority

Problems with basic skills continue to manifest themselves in the workplace – 20% of the current workforce lack either the literacy or numeracy skills expected of an 11 year-old. It is no surprise therefore that around 40% of employers are concerned about employees' basic skills. Poor basic skills has significant consequences for business with 40% reporting poor customer service and 34% lower productivity. As a result employers invest in remedial basic skills training – more than a quarter (27%) do so for literacy and for numeracy (23%). Over half (56%) of firms are concerned about the IT skills of their workforce and 69% invest in IT training, although fewer have concerns about the IT skills of school leavers (8%) or graduates (2%).

Apprenticeship reform necessary to better meet business needs

Apprenticeships could have a growing role to play in raising the skill levels of the UK workforce and more firms want to offer apprenticeship schemes. But reforms are necessary so that more young people and adults can benefit. At present, employer involvement in the apprenticeship schemes varies according to the size of the firm – three quarters of the largest firms are involved, but fewer SMEs feel able to commit: 40% say they have no intention to get involved.

Significant reform is needed to remove barriers discouraging employers from taking on apprentices. Around a quarter of firms cite their lack of in-house capacity as a barrier to increasing the numbers of apprentices (29%) and another quarter (24%) lack suitable applicants. A quarter of employers do not think the existing apprenticeship qualifications meet their skills needs, a fifth blamed the high cost of providing an apprenticeship programme or the unnecessary bureaucracy involved.

Employers demand graduates with relevant degrees and work experience

We need an ever more skilled workforce and graduates with the right skills are essential. For employers, the key is increasing the numbers of valuable science, technology, engineering and maths (STEM) graduates. Students also need to develop generic employability skills such as team-working, self-management and problem-solving skills.

At present senior executives tell us that around one third (32%) of jobs require degree-level skills or qualifications. But employers specify a particular degree discipline for only a third (30%) of graduate-level jobs – generic employability skills are the priority for most firms (86%).

STEM skills are valuable, but in short supply

STEM skills are vital for employers across the economy and in a variety of job roles – demand for these skills is expected to grow dramatically in the future. But worryingly, six out of ten (59%) employers are having difficulty recruiting enough STEM-skilled individuals to meet their needs. Of course, business recognises that young people have negative perceptions of STEM sectors, but a third (29%) of firms are concerned by the shortage of STEM graduates. Just as worryingly, two in five (42%) consider that STEM graduates they do get lack the right skills (eg lab or life science skills).

Larger firms are looking abroad to fill their STEM vacancies, with over a third (36%) recruiting from India and a quarter (24%) from China. This is a rational choice but cannot be a long-term solution for the UK as a whole. Employers are committed to playing their part by encouraging more young people to study STEM – and are actively involved in schools, offering a range of support from work experience to careers talks.

High quality leadership and management is vital to UK competitiveness

Effective leaders and managers are key to ensuring that a business drives forward a culture of continuous improvement. The good news is that nearly half (47%) of firms think their senior managers are effective, but there are worries about team leaders' and supervisors' skills levels with only a fifth (20%) of firms describing these as good.

Successful firms, however, recognise that 'satisfactory' is not good enough and are investing in leadership and management training as a priority – almost all (98%) companies are investing through in-house training, with two-thirds (65%) of firms providing external training such as MBAs for their senior management and two-thirds (65%) of employers training supervisors and team leaders on-the-job.

Languages are highly prized – from breaking the ice to building bridges

Foreign languages are growing in importance as UK firms increasingly operate in a global marketplace. Conversational skills are the key, whether to open doors or clinch a deal – 75% of firms want conversational ability, with only 25% requiring full fluency.

Unsurprisingly, European languages are the focus for current recruitment, with French and German the most popular languages. But four out of ten (43%) of employers who are interested in language skills need Mandarin/Cantonese speakers. Spanish is also a valuable language – opening doors in Latin America.

Qualifications must be reformed to meet business needs

Only a third (32%) of training offered by employers leads to a recognised qualification. Official measures of the UK skills profile are qualifications-based, so that a significant proportion of employer investment in skills – over £33bn annually – goes unrecognised. Where employers are offering qualifications their preference is for professional qualifications (83%), with two thirds (67%) of employers offering NVQs.

Employers provide staff with qualifications as an assurance of workforce competence (65%), but also because they are valued by employees (62%). Providing qualifications can improve employee morale, but costs and bureaucracy are the biggest barriers to offering qualifications-based training. Over a third (36%) of employers feel available qualifications lack relevance for their firms.

Qualifications must be reformed. Currently, Sector Skills Councils are overseeing reform of nationally recognised qualifications and new structures are being developed to recognise employer training within the qualifications system – with Flybe, McDonald's and Network Rail leading the way.

Government funding and assistance for training is key for many firms

Government support for skills development is important, especially for smaller firms. Structured programmes can help them navigate the skills system, find funding for training, locate good training providers and provide support for putting high quality processes in place.

Train to Gain is providing a valuable, tailored service to business. A third of employers (33%) said Train to Gain had

improved their performance and 38% believed the training had improved staff morale. But it is worrying that well over a third (38%) of respondents said Train to Gain had not impacted positively on their organisation. As Train to Gain expands, it should focus on bottom-line benefits for firms – learning from the success of the Small Firms Initiative and the Leadership and Management Programme.

Investors in People adds real value to firms – nearly three quarters (71%) feel that the scheme has had a positive impact on their business, and over half (52%) see improved staff morale. But small firms need help to attain the Standard – this should be the focus going forward.

Effective education-business links deliver for the firm and the community

Business has a role to play in helping to raise educational achievement. Employers are playing their part but more structured support is necessary to build the sustainable relationships that deliver benefits for students, schools and business.

Companies are engaged at all levels of the education system. Three quarters (75%) of firms offer work experience and half (49%) give lectures/talks or attend careers fairs. Most firms believe their work with education institutions enhances their reputation and their own employees' skills. Around a third of employers have links with colleges or universities. Over two thirds do so to increase recruitment of future employees, but universities are also seen as an important source of research and development for the business – just over half (55%) have such links.

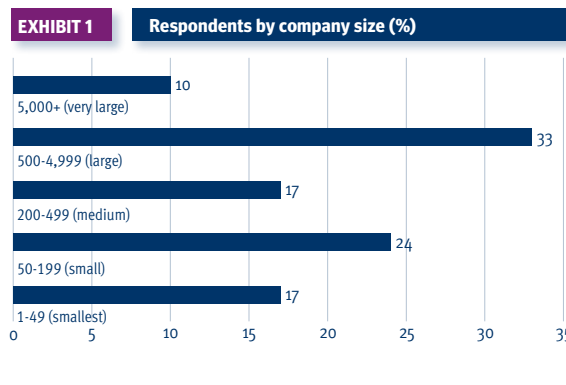
1 Respondents

This survey was conducted in November 2007. There were 735 respondents – a response rate of 7.6%. In total, our survey covers firms employing 1.7 million employees – 7% of the private sector workforce – across a wide range of sectors.

The survey was completed by board-level executives. In small or medium-sized firms, the respondent was typically the CEO or chairman, and in the largest firms it was usually the group HR director.

All sizes of firms participated...

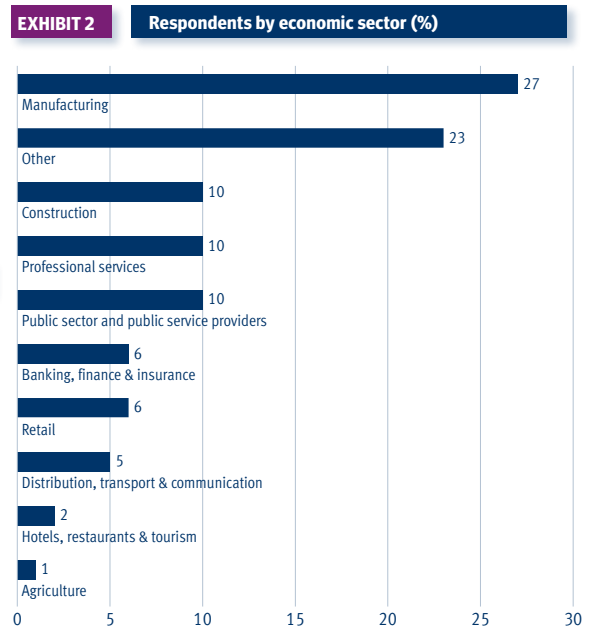
There was a good spread of responses across firms of all sizes (Exhibit 1) and most firms (58%) which participated employ fewer than 50 people. Around 10% were very large, employing over 5,000 staff; nationally these large firms (around 2,500 companies) employ 54% of the workforce, but the vast majority (99%) of UK firms employ less than 250 staff.¹



...and across all sectors

Companies from all sectors of the UK economy responded to the survey (Exhibit 2). Nearly a third (32%) of respondents came from the service sector (which now accounts for over half of GDP), over a quarter (27%) were manufacturing firms, which amounts to nearly 15% of GDP.² Ten percent of respondents were from the public sector, which accounts for a quarter (25%) of GDP.

The survey has been weighted using data from the Office of National Statistics to reflect the sectoral spread across the economy.



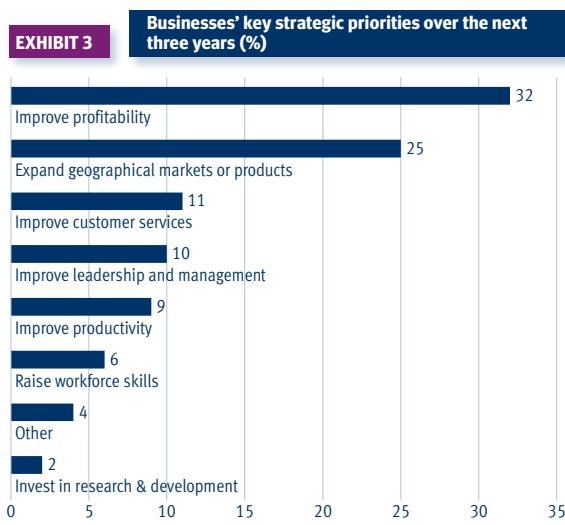
2 Improved profitability – the number one priority for business leaders

Key findings:

- A third (32%) of CEOs identified improving profitability as their key business priority – and recognise this requires dynamic and effective leaders and managers to drive the business forward
- Worryingly, over half (53%) of firms are concerned that they may not be able to find enough skilled staff to meet their future recruitment needs
- Businesses are thinking strategically on skills: nine out of ten firms (89%) have training and development plans and these are typically linked with firms' overall business strategy
- CEOs are concerned about the competencies of current staff, with low-skill employees presenting a real worry – only a third (35%) of employers described their overall skill levels as good with 63% just satisfactory, compared to two thirds (63%) who believe their high-skilled staff were good
- The vast majority of employees are committed to training – but not as much as employers would like.

Profitability is key – and people issues are at the heart of success

Profitability is the lifeblood of business and provides the source of future growth and expansion. Without it, a business will not survive in the long term. Successful UK firms are dynamic and ambitious – with diverse business models and strategies. So, unsurprisingly, improving profitability is the most regularly identified strategic priority for firms (Exhibit 3). And it is encouraging that CEOs are not looking merely to survive but to actively grow and enlarge their business – a quarter (25%) identified expanding



their product ranges or entering new markets as their key strategic priority over the next three years.

Chief executives identified investment in people as a priority. More than a quarter (27%) put people issues as their number one focus whether customer care, leadership and management or workforce skills. Improved customer care, which depends on employees' communication skills and commitment to first class service was the top priority for one in ten (11%) executives. Over half (53%) of leaders in public service provider firms identified improving the customer experience as the key aim for their organisation over the next three years.

Improving leadership and management is vital to business success – and one in ten firms (10%) put this as their number one priority. Achieving strategic goals, such as improving profitability and expanding markets or products, requires dynamic and effective leaders and managers to drive the business forward.

Public sector organisations are most likely to focus on this issue, with almost a quarter (23%) stating that raising leadership and management skills is their key priority. Construction firms, too, identified with this particularly strongly – a fifth (19%) of companies see this as their key strategic priority. These findings support the CBI/Pertemps Employment trends survey 2007 which shows that three quarters (73%) of employers identified raising leadership and management skills as their top priority for future training.

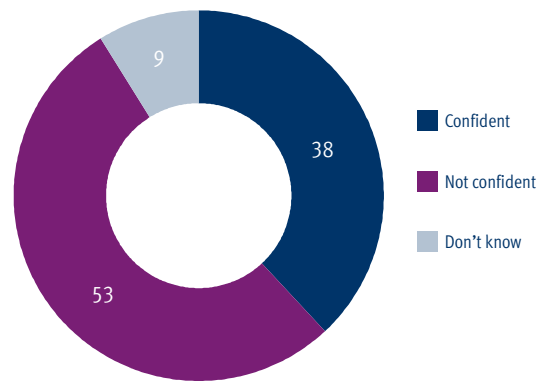
Business leaders recognise that improved skill and competency levels will help deliver their wider strategic aims – but for some (6%) raising workforce skills is their key priority. For successful firms, investing in employees' skills is a key component of prosperity. David Martin is Chief Executive of Arriva, one of the largest passenger transport services in Europe: *"We value our people as individuals, recognising their different talents, skill sets, abilities and cultures. We also recognise the strength that their combined contribution provides to our business and how developing and encouraging further learning can significantly boost that contribution. Any business that doesn't recognise skills or encourage development is missing out. Investing in people makes sound business sense, and a better workplace for all"*.

A small proportion (2%) of firms indicate their immediate strategic priority is to invest more in research and development. Unsurprisingly, these firms are large multi-nationals, primarily in science, technology and engineering sectors, for whom innovation is key to their success. Researching new ideas or products and successfully exploiting them commercially is what keeps them at the cutting edge, be it a cure for Alzheimer's or invisible computers – the embedded systems that run all machines from phones to fridges.

Will there be enough people with the right skills to meet future needs?

Employers are concerned about the future skills levels of the workforce (Exhibit 4). Over half (53%) fear they may not be able to find the skilled staff to meet their future recruitment needs, with the largest firms particularly concerned (62% said they lacked confidence). This is probably due the high numbers and range of skilled people

EXHIBIT 4 Employer confidence in their ability to access the skills required to meet future needs (%)



they will need to employ, making them particularly attuned to future problems in the labour market.

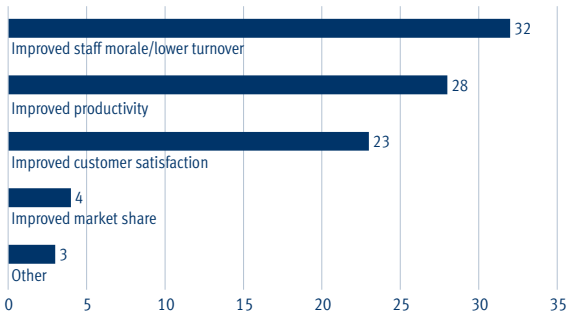
Employers in the banking, finance & insurance and professional services sectors are the most confident – with just over half (54% of banking firms and 51% of professional service firms) confident that they will be able to access the skills they need to meet their strategic goals. Firms in the energy & water sector were most likely (73%) to express doubts about the availability of sufficient skills in the future, a feeling shared by employers in the distribution, transport and communication sector (71%) and those in construction (69%).

Employers benefit from a strategic approach to training and development

Employers are doing their bit to deliver a skilled workforce – training to ensure staff have the skills to perform is part of the culture of the vast majority of firms. Nine out of ten (89%) companies have training and development plans for their business and three quarters (73%) link their training plans with their overall business strategies. Clearly employers are not training for training's sake nor to tick boxes, but are investing in the targeted training and development they and their employees need to meet strategic aims.

This strategic and tailored approach to training is paying dividends. Firms investing in employees' skills recognise

EXHIBIT 5 Main benefits from investing in employees' skills (%)



a wide range of benefits as a result. Nearly a third (32%) of firms saw real business benefits – for employees, for the business and for customers (Exhibit 5). Senior executives know that most employees value training and this improves employee morale and helps reduce staff turnover. Raising skills levels also resulted in improved productivity for 28% of firms and improved customer satisfaction for nearly a quarter (23%).

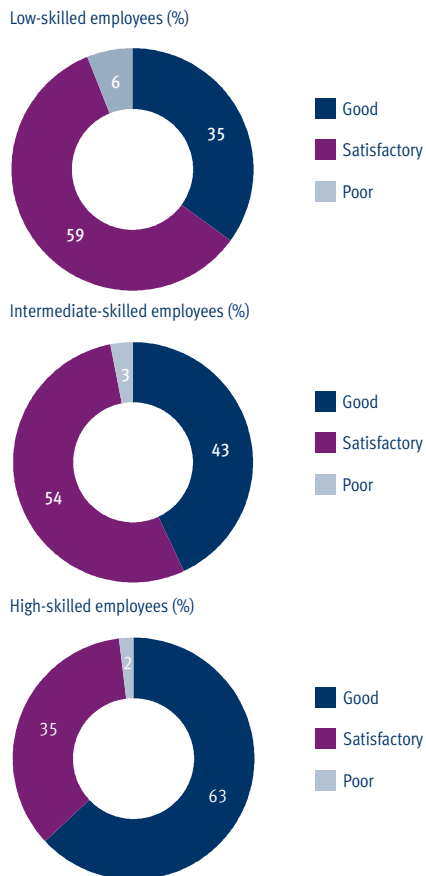
Employers concerned about low-skilled employees

Senior executives were most dissatisfied with the competency levels of employees in low skilled jobs – with only one third (35%) saying competence was good and well over half (59%) reporting only satisfactory performance (Exhibit 6). Poor basic skills of many workers is a huge problem in the UK: almost half of adults (17 million) have difficulty with numbers and one in seven (five million) are not functionally literate. This adds up to a significant problem in the workforce, impacting on productivity and performance. For example, one food manufacturer believed products were being stolen each week, costing thousands of pounds a year. In fact, poor numeracy skills were the problem: workers on the packing lines were required to pack 25kg boxes with smaller packs of varying weights to a 5% tolerance level. As the boxes came close to the 25kg limit, workers had to perform rapid addition and subtraction calculation to estimate whether they needed light or heavy packets to fill the box to the correct level. They knew they could not fall below the 5% level, or the box would be returned, so staff instead routinely overfilled boxes, effectively giving away free food.³

A lack of understanding of oral communication can also lead to problems. In a well-established logistics company, where many first-line supervisors are promoted from the unskilled front-line workforce, they can lack the communication skills needed to deal with team members. As one supervisor explains: *“Often the issue is not what orders the managers give, but how they give them”*. Put another way: *“Do you bark at someone or do you involve them and explain why they are doing something and coach them?”* Others report employees finding it difficult to speak up in team meetings to ask for help or further explanation.⁴

Without a good command of literacy and numeracy staff will not be able to take full advantage of the training their employer provides. Employees often develop sophisticated coping strategies to help disguise their weaknesses at work. For example, in a high-tech manufacturer, the HR

EXHIBIT 6 Employee competency levels (%)



department was confused when one long-serving female employee, whose performance had never been questioned, returned poor results on a general verbal and spatial skills test. It transpired she could not read and was dyslexic. Her coping strategy had involved taking the process cards home, where her husband had helped her commit them to memory. This practice had continued for 15 years – but when the problem came to light the firm helped her with appropriate training.⁵

Managers also develop strategies to get round problems – when addressing a group they know includes people with literacy problems, some report asking “*Who has forgotten their reading glasses today?*”, reading out instructions to ensure they have been understood, and avoid stigmatising those with poor literacy skills.

Employers are, however, happier with the competency levels of their intermediate-skilled staff – 43% described them as good and over half (54%) as satisfactory. But even staff at this level – including team leaders, supervisors and section managers – have difficulties with quite basic tasks such as writing appraisals. One employer complained: “*We’ve become so used to operatives having poor literacy skills that HR staff tend to do all the writing and scribing for them. Even when chargehands carry out appraisals with their team members, they come into the office afterwards and we type up their reports as their literacy skills are low too.*”⁶

Firms were happiest with their highly skilled staff – with nearly two thirds (63%) regarding their skill levels as good and a further 35% as satisfactory. But employers recognise that ‘satisfactory’ is not good enough to remain competitive in the global economy. Firms are investing heavily to raise the competencies of all their staff.

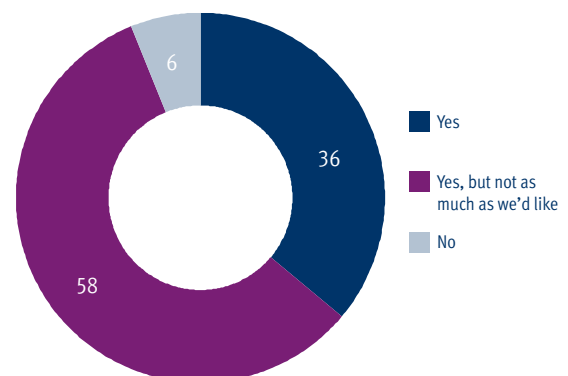
Employees are committed to training – but not as much as employers would like

The primary objective of training from the employer’s perspective is to raise business performance by having a competent workforce. But successful training – bringing benefits to both employer and employee – requires the full buy-in of both management and staff. Investment in training and development is of limited value if employees do not take advantage of the opportunities available and use the skills they have acquired in their jobs. It is therefore very positive that just 6% of business leaders feel their employees were not committed to training (Exhibit 7).

But the majority (58%) of senior executives believe their employees are motivated, there is room for improvement and for employees to reap even greater benefits from training. Larger firms are more concerned that their employees are not taking full advantage of the training available – almost two thirds (63%) of the largest firms express concern, compared with less than half (46%) of the smallest firms. This could be because chief executives in smaller firms are more aware of employees’ motivation and morale, having more direct relationships with them. Perhaps senior executives in larger firms just do not know how much staff value training – or perhaps employees in larger firms take their training opportunities for granted. Overall, only just over a third (36%) of employers are wholeheartedly convinced that employees fully engage with the training provided.

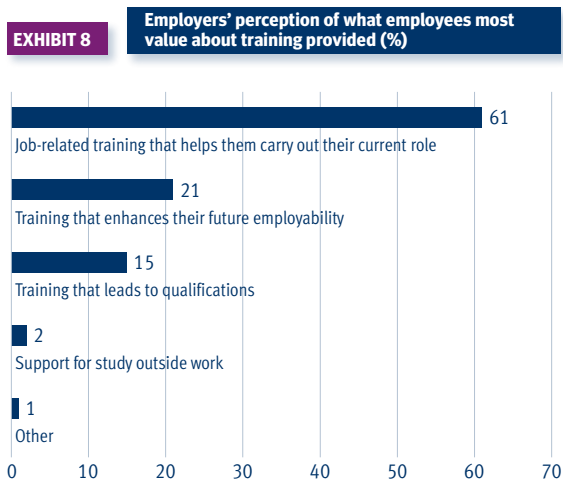
EXHIBIT 7

Employers who believe their employees are committed to their training and development (%)



While businesses benefit from training their staff, employees also gain substantially in a variety of ways. The majority (61%) of employers believe their staff value most highly job-related training to help them carry out their current role (Exhibit 8). Training that enhances their future employability is also valued, with a fifth (21%) of employers saying this is what their employees rate highest. Only 15% of employers thought their employees valued training that led to qualifications more than other forms of skills or development support.

The message is clear: investing in employees' skills delivers real business benefits. For Alan Wood, Chairman of Siemens, investing in skills and providing focused training is seen as essential to attracting and retaining the best employees. *"At Siemens we strive to attract, develop and retain a highly skilled and motivated workforce. We want Siemens to be the type of environment where people want to come to work rather than feel they have to work. I believe our people really appreciate the company's commitment to raising their skills and for the company it is a powerful differentiator in our competitive marketplace".*



“We believe firmly that the educational system should produce reliable basic material on which employers can build at their own expense to provide vocational skills. We find the educational system does not produce the reliable basic material. It is better to focus on core skills and provide them well than to poorly provide a wider set of skills.”

BRIAN KING,
MANAGING DIRECTOR, TRENT BARTON

3 Getting the basics right

Key findings

- Over a third of employers are concerned about employees' basic literacy and numeracy skills – 41% with employees' literacy skills and 39% with their numeracy skills
- For firms with basic skills concerns, the quality of written English – constructing properly spelt sentences with accurate grammar – was the major literacy concern (72%) and for numeracy, spotting errors and rogue numbers was the key shortcoming (68%)
- Poor basic skills among the workforce have significant consequences for business. Low levels of literacy and numeracy result in poor customer service (40%) and lower productivity (34%) – seriously affecting business performance
- To address this, employers are investing heavily in remedial training – more than a quarter (27%) do so for literacy and 23% for numeracy
- More than half (56%) of employers are concerned about the IT skills of their workforce, with 69% investing in IT training.

Poor basic skills damage individuals and business

Poor literacy and numeracy skills damage people's lives and their employment prospects. Those with poor basic skills are more likely to suffer higher unemployment and lower earnings, with social exclusion and poorer chances of career progression. They are also less likely to be fully effective in the workplace, damaging the competitiveness of UK firms. The UK workforce must have the skills to match the US and Japan and compete with growing challenges from China and India. But problems with the basics remain

in the workplace: 20% of the current workforce lacks either the literacy or numeracy skills expected of an 11 year-old.⁷

- Forty-one percent of employers are concerned about employees' basic literacy
- Thirty-nine percent of employers are concerned about basic numeracy.

A significant proportion of employers are concerned about employees' basic literacy (41%) and numeracy (39%) skills. And there is not just concern about the skills of the current workforce: the CBI/Pertemps Employment trends survey 2007 found that around half of employers are concerned about school leavers' basic skills and express concern with graduates' literacy and numeracy.

Some sectors are more concerned than others: the construction (52%) and distribution, transport & communication (58%) sectors have greater concern than banking & finance and professional services (24%). Clearly because the latter recruit high-calibre individuals and do not have as many low skilled jobs, they are unlikely to see such a large a basic skills deficit as other sectors. But it is a concern that even among a high performing sector, such as banking, finance & professional services, a fifth (20%) of these firms still raise concerns over the basic skills of their workforce.

Employers have different areas of concern about their employees' literacy and numeracy skills but it is clear that poor basic skills have an impact on the everyday tasks employees perform. Based on extensive member consultation, the 2006 CBI report *Working on the three Rs: Employers' priorities for functional skills in maths and English* defined what employers mean by functional literacy and numeracy.

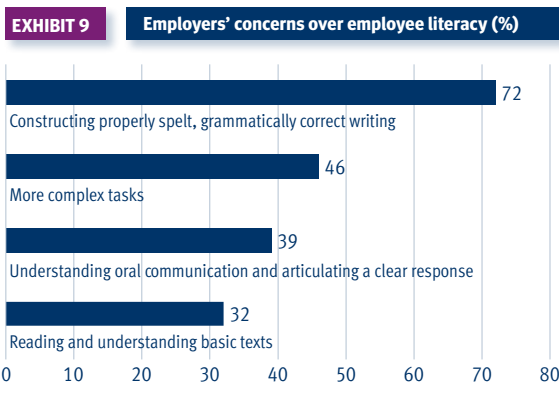
Employees should have the literacy skills to succeed in the workplace

To be functionally literate an individual must be able to:

- Read and understand basic texts drawing out relevant information
- Construct properly spelt, grammatically correct writing that is suitable for the audience
- Write with legible handwriting
- Understand oral communications and react appropriately
- Be sufficiently articulate to communicate orally.

Over two thirds of employers (72%) are concerned with the quality of written English (Exhibit 9). For many employees writing is difficult and many do not get much opportunity to practice their skills in their jobs. For example an international food processing firm highlighted in *Working on the three Rs* reports: “Someone may have worked here for years without having to write anything because the main emphasis is on verbal communications or ticking the boxes in tests, so it can challenge some people’s confidence when they have to put pen to paper”.⁸

Thirty percent believe basic understanding of written material is an issue and this is a necessary skill in most jobs. For example, on a construction site employees must be able to read vital instructions because: “Aside from the potential health and safety risk in the event that verbal or written safety instructions are not fully understood and followed, the major business impact of the perceived gap in functional literacy and numeracy is waste”.⁹



Oral communication skills are also critical, with 39% of employers aware their employees lack these vital skills. For example, a national logistics company reported that some employee’s inability to communicate verbally resulted in poor customer service: “Communication problems can be exacerbated by a lack of confidence among staff to speak up and ask questions. This in turn makes it difficult for managers to verify that their instructions have been understood and will be followed. Breakdowns of communication between first-line managers and their team members have an inevitable negative impact upon prompt, error-free distribution to customers”.¹⁰

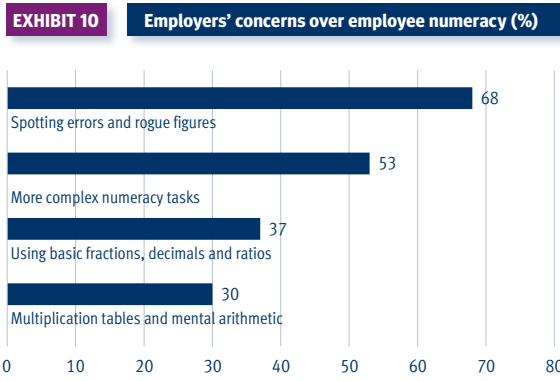
Finally, two fifths (41%) of employers surveyed believe their employees struggle with more complex literacy tasks, such as a detailed response to a customer’s complaint. For many businesses this is extremely important as it creates a poor impression with potential customers. For example, a small printing company was concerned that poor literacy would damage its corporate image if its employees cannot write correct formal English. “Because we are dealing with world-class organisations, we need to give a world-class impression of what we are. If we use text [message] layout in our emails to clients, I’m struggling with that. It’s not the impression we want to give”.¹¹

Employees should be able to tackle numeracy tasks with ease

To be functionally numerate an individual must have confidence with:

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

More than a third (39%) of senior executives express concerns over employees’ numeracy: over two thirds (68%) feel that spotting errors and rogue numbers is the most pressing problem (Exhibit 10). For example, a major fast food retailer shows how easily poor basic skills can lead to a loss of sales: “On the odd occasion, I have seen crew members completely thrown if a customer hands over



a one pound for a 99p item and the employee rings up £10 by mistake. When the till shows that £9.01 change is due, I have even seen that amount handed over, the crew member not realising that there is anything amiss". Just over half (53%) felt employees were unable to confidently tackle more complex numeracy such as conversions and using and applying formulae.¹²

Thirty-seven percent believe using fractions, decimals and ratios proved difficult for many of the workforce. A major catering company believes these skills are essential for the daily tasks its staff undertake. "Many staff are unable to carry out percentage calculations, which might need to be used for adding VAT, discounting perishable stock, or working out day-to-day profit margins", while understanding multiplication tables and mental arithmetic are of particular concern to a third (30%). The same firm explains: "Company management believes solid knowledge of multiplication tables to be the essential foundation for many other mathematical functions needed in business on a day-to-day basis. Because so many staff are unable to multiply or divide without resorting to technological help, there can be serious difficulties when on occasion the technology fails: for example, if the tills go down cashiers cannot manually work out the price to charge for multiple items".¹³

Poor basic skills have a significant impact on overall business performance

Poor basic workforce skills costs the economy £10bn a year and our survey shows chief executives believe this has significant consequences for business. The key consequences are poor customer service – 40% see this as a main concern (Exhibit 11). BUPA CEO Val Gooding

succinctly puts it: "If your people deliver a great service, your customers stay with you and will recommend you to more customers, but if employees haven't got the skills to deliver a good service you're not going to win customer confidence. People think customer service is just about being polite and caring, but you can't be polite and caring if you don't know how to do your job properly".

Lower productivity is also a key concern with a third (34%) of senior executives reporting this. But other concerns surface – lost sales being particularly prevalent in the retail and hospitality sectors and poor health & safety in the construction and agriculture sectors.

There are some important sectoral differences. Employers in the banking, finance & insurance (71%), distribution, transport & communication (60%) and professional services (64%) sectors all focus on the impact of poor basic skills on customer care (Exhibit 12, page 18). For these sectors business is often based on recurring or long-term contracts with firms and individuals. Ensuring their customers are satisfied with their experience and that a business's services meet customer expectations is therefore critical to the sustainability of their business.¹⁴

But in the manufacturing (47%) and public sectors (43%) lower productivity is the key concern. These sectors are driven by creating quality outputs within tight budget constraints. For others, loss of sales is a greater issue – such as in the hotels, restaurants & tourism or the retail sector due to the nature of their business.

In the agriculture (50%), energy and water (36%) and construction sectors (22%), poor basic skills can give rise to very real concern over health and safety issues. For

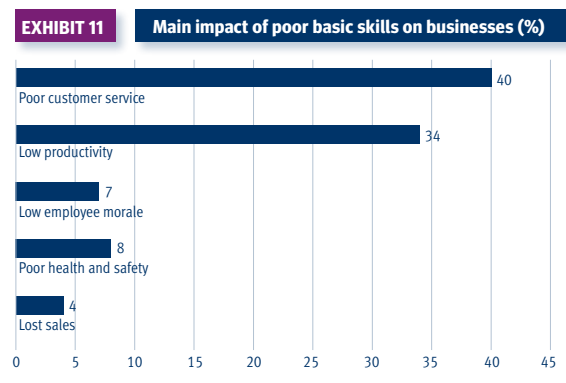


EXHIBIT 12 Main impact on businesses of poor basic skills (%)

Impact of poor customer service	%
Average	40
Banking, finance & insurance	71
Professional services	64
Distribution, transport & communications	60
Low productivity	
Average	34
Manufacturing	47
Public sector	43
Poor health & safety	
Average	8
Agriculture	50
Energy & water	36
Construction	22
Loss of sales	
Average	4
Hotels, restaurants & tourism	20
Retail	13

example, one construction firm operates a safety induction for every project, delivered as a video to maximise the level of information absorbed by employees. It reports *“Although many construction safety notices are portrayed as symbols and are therefore universally recognisable, there is also a set of safety rules posted at every site. It is vital that everyone working onsite understands this communication. It is also essential that verbal instructions about safety and other aspects of work are carefully listened to, understood and acted on”*.

Basic skills training is provided by firms

While employers accept they are responsible for job-specific training and developing employees’ skills to meet business needs, they do expect staff to have developed functional literacy and numeracy at the very least before leaving the education system. But it is clear that a large proportion of employers have to invest in remedial basic skills – a quarter (27%) doing so for literacy and 23% for numeracy.

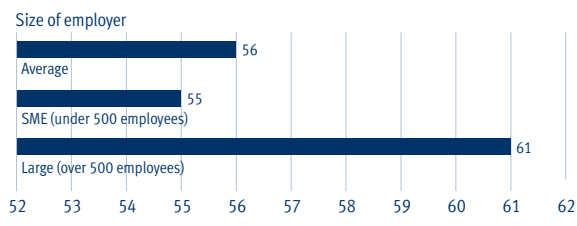
Not surprisingly, greater resources mean the largest employers provide more basic skills training than smaller firms with nearly half of firms providing literacy and numeracy training (49% and 42% respectively). In comparison, only a quarter of the smallest firms provide literacy and numeracy training (21%), lacking the economies of scale of larger firms. The Train to Gain scheme, strongly supported by the CBI, is playing a vital role in improving the basic skills of the workforce and supporting smaller firms in funding essential education.

IT skills among existing employees are often weak – employers are helping

Over half of CEOs (56%) are concerned about their existing employees’ IT skills (Exhibit 13). There is little variation by company size with the largest firms only marginally more concerned (61%) than their smaller colleagues. The use of IT in the workplace has developed very quickly so it is not surprising that so many of the existing workforce need support. This is above all a concern about the existing work force – employers are very satisfied with young people’s skills, with the CBI’s Employment trends survey showing 92% of employers are satisfied with school leavers’ IT skills and 98% satisfied with graduates’ IT skills.

As a result of these concerns, nearly three quarters (69%) of employers invest in IT training. This is particularly the case for the smallest firms, with 72% providing IT training.

EXHIBIT 13 Employers’ concerns over workforce IT skills (%)



4 Reform needed to encourage more employers to train apprentices

Key findings

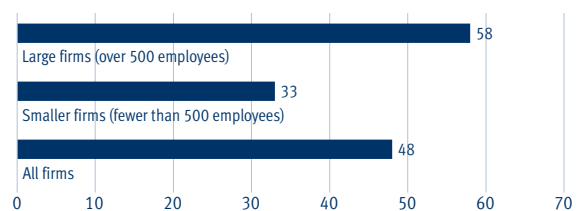
- Larger firms are most likely to provide apprentice schemes – over half (58%) do so compared to a third (33%) of smaller firms at present (Exhibit 14)
- Apprenticeships are more likely to be offered in sectors with a historical interest such as construction (74%), but new sectors such as hospitality would like to get involved in future
- A range of barriers will need to be overcome such as help in finding the right training facilities (29%), finding suitable applicant (24%), help with the costs (22%), and reducing bureaucracy (19%)

Apprenticeships could play an important role in raising the skill levels of the UK workforce. But change is necessary so that more young people and adults benefit from high quality apprenticeship training – and more businesses see value in taking on apprentices.

Currently around a quarter of a million people are training as apprentices each year – whether on a level 2 apprenticeship or a level 3 advanced apprenticeship – a significant increase since 2003 when there were only around 120,000. Where employers are running apprenticeships, quality and completion rates are high. Anecdotal evidence suggests that high quality, employer-provided apprenticeships regularly achieve completion rates above 90%. But at present completion rates remain disappointing at 53% – although this has risen from around 25% in 2002.

Our survey makes clear that employers would increase the number of apprenticeships they offer if there were greater support for in-house training, more suitable candidates applying, reform of qualifications to meet business skills needs and greater support with the costs and the bureaucracy of running a successful apprenticeship programme. Such reforms would ensure more employers

EXHIBIT 14 Level of employer involvement in apprenticeships (%)



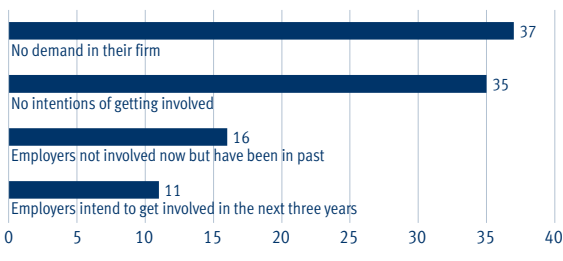
will see value in taking on apprentices and more young people joining the labour market for the first time will have high quality opportunities.

Many employers are involved in the scheme – but there is room for growth

Many employers have had involvement in the apprenticeship scheme – almost half (48%) are currently involved and a further one in six (16%) do not now but have in the past and 11% intend to get involved in the next three years (Exhibit 15, page 20). But a relatively high proportion (37%) see no demand for apprenticeships in their firm and a third (35%) expressed no intention to become involved in the scheme. SMEs were least likely to think they would get involved; two fifths of SMEs also had little intention of getting involved (40%) compared to a fifth of large employers (21%).

It is clear larger firms find it easier to manage apprentice programmes, with over half (58%) involved, but just a third of SMEs (33%). High levels of employer involvement are seen in primarily sectors with a strong history of apprenticeship training. The construction sector has traditionally had a strong apprentice brand and commitment to the apprenticeships and three quarters (74%) are involved. Firms in sectors such as energy and water (67%) and the

EXHIBIT 15 Companies' reasons for not being involved with apprenticeships (%)



manufacturing sector (52%) also participate. But those in sectors with less traditional enthusiasm for apprenticeships are becoming more involved, a third of employers in the hotel, restaurants and tourism (33%) sector intend to use apprenticeships in the next three years – at present only 8% of the hotels, restaurants & tourism sector do so.

Barriers need to be overcome to increase employer involvement

The government has set a target of doubling the number of apprentices to 500,000 a year by 2020. This ambition is laudable but our survey has highlighted barriers which deter employers from taking on more apprentices – such as a lack of in-house capacity, suitable candidates, qualifications (the apprenticeship framework) not meeting training their needs, high costs and bureaucracy (Exhibit 16). These barriers could be overcome by a co-ordinated effort by government, business and schools/colleges to ensure more young people with the ability and attitude to succeed are encouraged to take up an apprenticeship, that the framework meets business needs and to provide greater support for firms – particularly SMEs.

Finding the right training facilities is difficult, particularly for SMEs, with overall around a quarter (29%) of CEOs citing their lack of in-house capacity as a barrier to increasing the numbers of apprentices. Sector Skills Councils could play a key role in helping SMEs access training and mentoring support. Large employers can also help SMEs find high quality training providers by engaging in supply-chain collaborations.

A quarter of employers (24%) report being unable to find suitable candidates. This is not a question of low pay, poor quality provision or negative perception in a sector.

The sectors with most difficulties in attracting quality applicants are construction (33%), energy & water (45%) and manufacturing (35%) – all of whom pay well and provide excellent training schemes. Too often employers in these sectors report schools are unenthusiastic about letting employers in to promote the scheme to students through careers fairs and open evenings. Careers advisers and schools must do more to make sure all young people are aware of apprenticeship opportunities.

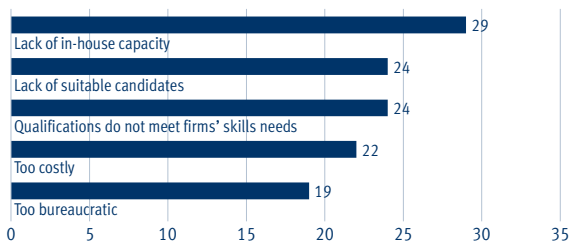
As part of the CBI's drive on qualification reform, we have been working with the Qualifications and Curriculum Authority to ensure more qualifications meet business needs – in particular that employers' in-house training is accredited as part of an apprenticeship. Too often qualifications do not meet a business's skills needs. Apprenticeship programmes are no exception, with a quarter (24%) of employers finding the apprenticeship programme at present lacks relevance to their business.

Apprenticeship frameworks must keep pace with rapid technological change. And too often the 'key skills' component frustrates employers; this literacy and numeracy component should be delivered in sector-specific contexts so apprentices see the value in mastering the basics and as a result succeed in completing their apprenticeship.

It is particularly difficult for SMEs to run an apprenticeship programme and they need greater business support. Nearly one in four (22%) employers believe that the costs involved in taking on an apprentice are too high. Innovative options could help improve this, such as greater funding for older apprentices and Group Training Associations.

Too often employers feel weighed down by bureaucracy. Interestingly, the larger firms have most problems: overall,

EXHIBIT 16 Barriers to employer involvement (%)



19% of employers are discouraged by the bureaucracy, but 81% of the largest employers (with 5,000 + employees) have concerns. This is likely to be because larger firms feel the full weight of the bureaucracy and even their sophisticated HR departments have problems. Reducing bureaucracy would attract more employers to take on apprentices: the LSC is developing 'a light touch tool' to reduce bureaucracy which is welcome but may not be enough.

Another way to support organisations is to help in the recruitment of young people to their programme. The government's new clearing house will help match recruits to employers and brokers from the Apprenticeship Service could help ensure employers navigate the system and help with approving employers' individual apprenticeship schemes.

“Schools should be made accountable for giving diverse career information – not everyone wants to go to university, or is even capable. There are some excellent routes to follow and well-respected qualifications to be gained through the work-based vocational system.”

STEVE STARLING

HR AND TRAINING MANAGER, JEB ENGINEERING DESIGN LTD

5 Wanted: graduates with good employability skills

Key findings

- A third (32%) of jobs currently require degree-level skills and qualifications – and this is likely to continue to rise in the future – but there is considerable variation between sectors
- Just 30% of graduate jobs demand a specific degree discipline – the wider employability skills that good graduates possess are their most valuable asset. Almost all (86%) CEOs rank this as the most important consideration when recruiting graduates
- Employers also look at degree subject (56%) and results (32%) when recruiting graduates
- Firms in science, technology, engineering and maths related sectors are considerably more likely to demand a specific degree discipline from graduate applicants.

Graduate level skills are in high demand by business. The Leitch review of skills set a target of 40% or more of the population holding a level 4 qualification (equivalent to a first degree) by 2020 – ambitious given that currently just 30% hold these qualifications. But for employers, quality, not quantity, of graduates is the primary concern – ensuring that they have developed the employability skills that all businesses need. Ensuring enough students are graduating with the degrees businesses want – notably in the STEM subjects – is also high on their agenda.

A third of jobs require graduate-level qualifications

Our survey found that a third (32%) of jobs currently require degree-level skills or qualifications. And this will rise as demand for individuals to fill jobs requiring higher level skills continues to increase: the CBI/Pertemps Employment trends survey 2007 found that over three-

quarters (78%) of firms expected demand for higher level skills to increase over the coming decade. Leitch’s emphasis on ensuring more individuals are qualified to degree level is therefore welcome – but growth in these higher skilled jobs is unlikely to be equally spread across all sectors of the economy.

The headline figures mask considerable variation between sectors (Exhibit 17). CEOs report that six in ten (60%) jobs in the professional services sector and almost half (48%) of public service jobs require degree-educated individuals. But in the hospitality, manufacturing and distribution, transport & communications industries, less than a fifth of jobs currently demand such skills.

With business demand for graduate level skills growing, it is vital that the HE sector continues to produce the highly skilled individuals increasingly demanded by employers – particularly with regard to the science, technology, engineering and maths (STEM) subjects which are so necessary for continued economic success.

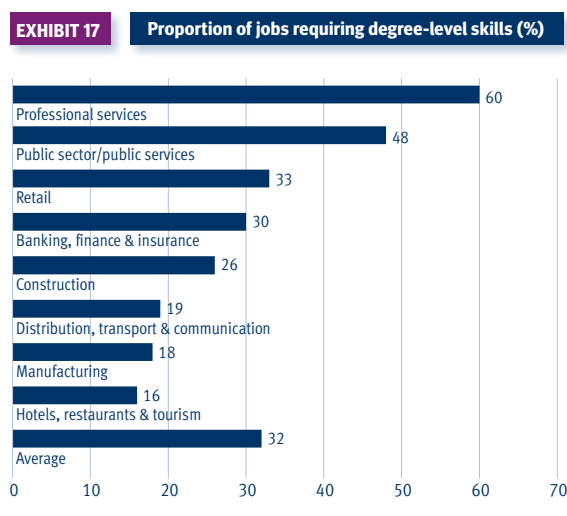
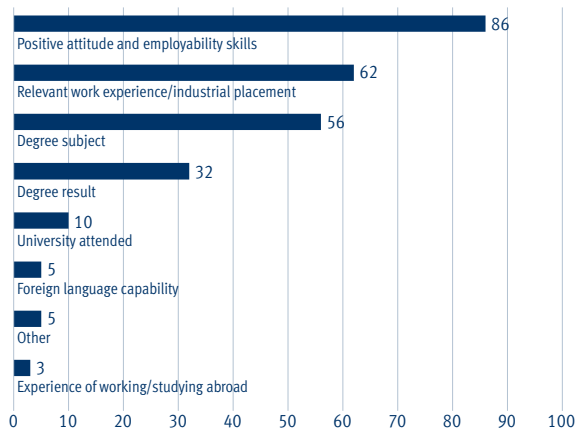


EXHIBIT 18 Three most important factors when recruiting graduates (%)

Employability skills are more valued than degree disciplines

Our survey found that only a third (30%) of jobs for new graduates require a specific degree discipline. It is clear that what employers look for in graduates is a positive attitude and the wider employability skills needed to succeed in the workplace.

CEOs were asked to select the top three factors they consider when recruiting graduates (Exhibit 18). Overwhelmingly (86%), board executives rank a positive attitude and employability skills at the top of their demands: these employability skills are identified in Exhibit 19.

Almost two thirds (62%) said relevant work experience or industry placement was valuable, while just over half (56%) of senior executives looked at the subject students had studied. Degree result was also important (32%) but senior executives appear to place less store by the university attended (10%) than students may imagine.

The message to students and universities is clear: while obtaining a good degree result is important, it must be achieved alongside the development of valuable softer skills to make the most of their opportunities after graduation.

Interestingly employers consider relevant work experience (62%) to be one of the top three most important factors when recruiting. Business wants to recruit people with commercial awareness and knowledge of their chosen career. CBI research¹⁵ has shown that high quality work experience can be an effective means of developing employability skills and ensuring students see the relevance of the skills and knowledge they acquire to the world of work – and provides a valuable insight to a career in the sector.

But despite the importance of these competencies, too many graduates lack adequate employability skills. The CBI/Pertemps Employment trends survey 2007 found that nearly half (48%) of employers are dissatisfied with graduates' business awareness, over a quarter (26%) with their literacy skills and 27% with their generic employability skills.

Improving graduates' employability skills need not be costly. Many universities produce highly employable graduates and many others are stepping up to the mark. Some are making changes to ensure students learn employability skills alongside their academic work. The Lambert review of business-university collaboration¹⁶ identified the role business plays in improving enterprise skills and commercial awareness by offering work placements to staff and students and by encouraging staff to have a

EXHIBIT 19 The employability framework

Self-management – readiness to accept responsibility, flexibility, time management, readiness to improve own performance

Teamworking – respecting others, co-operating, negotiating/persuading, contributing to discussions

Business and customer awareness – basic understanding of the key drivers for business success and the need to provide customer satisfaction

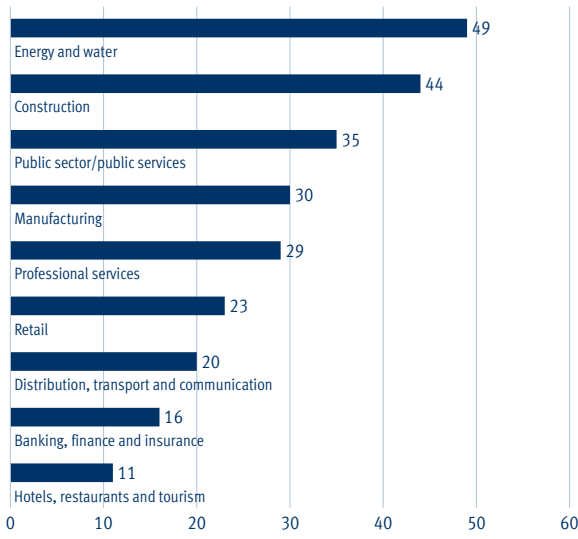
Problem solving – analysing facts and circumstances and applying creative thinking to develop appropriate solutions

Communication and literacy – application of literacy, ability to produce clear, structured written work and oral literacy, including listening and questioning

Application of numeracy – manipulation of numbers, general mathematical awareness and its application in practical contexts

Application of information technology – basic IT skills, including familiarity with word processing, spreadsheets, file management and use of internet search engines

EXHIBIT 20 Proportion of jobs requiring specific degree disciplines, by sector (%)



hands-on role in university courses and to train for new skills. Employers already provide work experience for students and more can be done to ensure employability skills play a more prominent role.

Perhaps surprisingly, only one in ten (10%) companies rank the university applicants attended in their top three priorities. Less surprisingly, firms in the professional services (23%) and banking, finance & insurance (15%) sectors in particular use this as an important factor when recruiting.

Foreign language capabilities (5%) or work/study experience abroad (3%) are only vitally important to a minority of companies. It is clear that while for some jobs language ability and an awareness and understanding of other countries is important, for most employers these are 'nice to have' qualities that will differentiate candidates, rather than essentials.

It is interesting that while only a third (32%) of jobs currently require a particular degree discipline, over half (56%) of employers still place great value on the subject of a candidate's degree. Unsurprisingly, firms in the construction sector (77%) and manufacturing (64%) were

most likely to consider candidates' degree subjects when recruiting, reflecting the vocational nature of these sectors (Exhibit 20).

Young people should be aware that the subjects they chose at university can have dramatic effects on their future earnings. A report by PricewaterhouseCoopers¹⁷ found that over a working life, the average graduate will earn around 23% more than their peers holding two or more 'A' levels. But this varies according to the subject of study – engineering, chemistry and physics graduates will earn 30% more than A level holders, in comparison with history graduates who earn only 13% more than those who did not attend university. Careers advice should focus on encouraging young people to choose subjects which will keep doors open and provide the maximum number of opportunities for them on graduation.

But many sectors do demand graduates with STEM degrees

While the vast majority of jobs do not require a specific degree subject, many sectors do typically require a specific degree (Exhibit 20) – and our survey shows that these are usually STEM-related. Sectors such as construction (44%) and energy & water (49%) require more specific degrees than the hospitality (11%) and distribution, transport & communications industries (20%) which focus more on employability skills than on particular subjects. Businesses that rely on employees' STEM skills are more likely to look for specific degree subjects when recruiting: over three quarters of construction companies (77%) and almost two thirds (65%) of manufacturers consider an applicant's degree subject to be a priority when recruiting graduates (compared to an average of 56%).

STEM degrees can open the door to higher salaries and better job prospects and high quality careers advice is essential. Young people should be made aware that these subjects can lead to well-paid careers not just in traditional STEM sectors. Physics and engineering graduates are in demand by financial services (starting salaries for investment banks are around £35,500) as well as engi-

neering (£22,750).¹⁸ Graduates with arts degrees will struggle to obtain jobs in these sectors and may qualify for less well-remunerated jobs such as retail (£22,000).¹⁹

Chemistry and physics graduates can expect to earn over their lifetime of approximately £185,000-£190,000 more than if they had left school with only two 'A' levels, compared with an average premium across all degree subjects of £129,000.²⁰ English and History graduates can expect a return of £100,000 over their lifetime. But businesses are concerned that there are too few STEM graduates and more must be done to encourage young people into these areas.

6 STEM skills are in short supply

Key findings

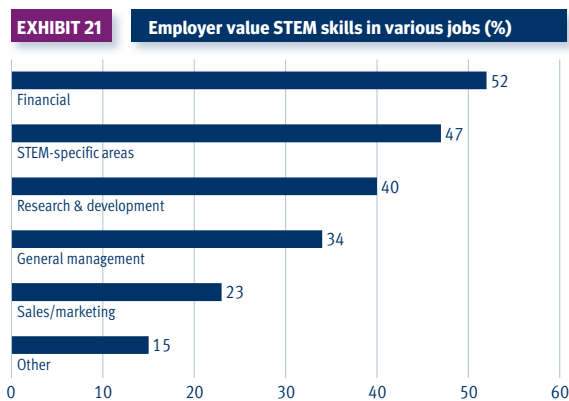
- Six out of ten (59%) employers are having difficulty recruiting STEM-skilled individuals – with some sectors suffering acute shortages. Experienced hires, graduates and technicians are in particularly short supply
- Large firms are thinking internationally when recruiting STEM-skilled employees – over a third (36%) are recruiting from India and a quarter (24%) from China
- Employers are committed to tackling young people’s perceptions of STEM careers head on – and are actively involved offering work experience, careers talks or teacher placements
- Eight out of ten (84%) firms are ‘going green’, with plans to minimise their carbon footprint.

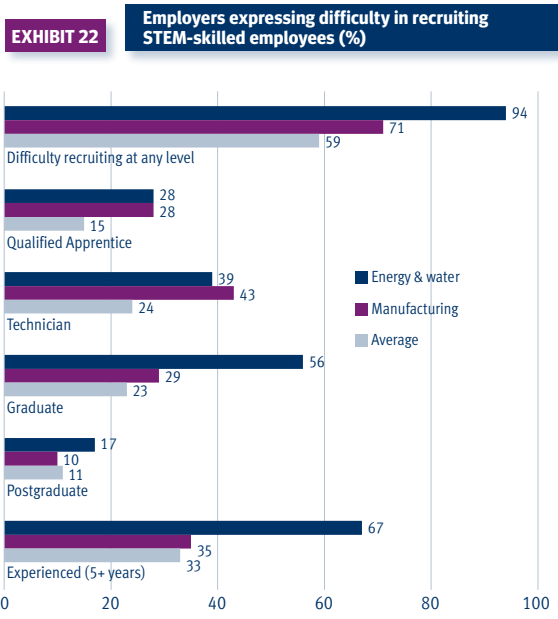
Science, technology, engineering and maths (STEM) skills are vital for employers across a broad range of sectors in the UK economy. The demand for highly numerate and analytical STEM-skilled individuals is expected to grow dramatically in the future as the UK continues to develop as a knowledge economy. By 2014 demand for science, engineering and technology-related occupations is expected to have expanded by 730,000 and net requirement for these jobs, taking into account those leaving the labour market, is predicted to rise to 2.4 million.²¹ In particular, between 2004 and 2014 demand for different occupations is expected to expand significantly, including nearly half a million (449,000) science and technical professionals and almost a million (958,000) teaching and research jobs.

Nine out of ten (92%) firms employ STEM-skilled people, valuing their problem-solving abilities across a range of jobs (Exhibit 21). For example, half (52%) of firms need highly numerate and analytical STEM-skilled people for financial positions in their firm.

Of the firms in STEM-focused sectors, unsurprisingly, nearly all (89%) energy & water companies, six out of ten (59%) construction firms and nearly half (48%) of manufacturers require specialised STEM-skilled staff. Firms in the banking, finance & insurance and professional services sectors also have a strong appetite for STEM skills – valuing the highly numerate, analytical and problem-solving skills of STEM graduates – with 94% of banking firms and 61% of professional services companies employing them in financial positions. STEM skills are of course vital for research and development – two fifths (40%) of employers across all sectors need STEM-skilled people to design and innovate new products and services.

But almost a quarter (23%) of firms also value these skills in sales or marketing roles and a third (34%) recruit these people into general management positions showing that by studying STEM subjects, young people are far from closing doors or narrowing their career options. Rather, they are developing skills which have wide application – and are in significant demand – across a variety of job roles in every sector of the economy.





Given the importance of these skills for the economy, it is a serious concern that well over half (59%) of businesses that employ STEM-skilled people are experiencing difficulty recruiting (Exhibit 22). Surprisingly, the smallest firms (fewer than 50 employees) are least likely to have difficulties – 46% had difficulties recruiting compared with 68% of larger firms. One likely reason why larger firms are experiencing particularly problems is due to the high number of recruits needed to fill their vacancies.

This is a concern not just for the present, but also for future innovative activities which will open up new business opportunities. According to the European Innovation Scoreboard, 26% of the innovation gap between the US and the EU is due to the lower share of university graduates in the EU's workforce.²² Unless the proportion of students taking STEM subjects increases, this innovation gap will widen.

Employers value STEM skills at all levels – from apprentices to post-graduates – but are experiencing most significant shortages when looking for people with at least five years' experience in the workplace – a third (33%) report a problem. Technicians and graduates are also in short supply. A quarter (24%) of firms express difficulty at recruiting technicians and the almost the same proportion (23%) of employers are finding it difficult to recruit enough graduates to meet their needs.

Firms in the energy & water and manufacturing sectors are experiencing particular difficulties in recruitment, in some areas being almost twice as likely to have problems than the average across sectors (Exhibit 22). Recruiting enough qualified apprentices and technicians is a major problem for both these sectors, with acute problems in graduate recruitment and finding experienced hires for energy & water. Manufacturers are experiencing particular shortages when looking for technicians (43% have difficulties), although graduates are also in short supply in the sector. There is a shortage of good candidates coming forward to fill apprenticeships in sectors such as manufacturing or energy and water, but construction firms (16%) and providers of public services (20%) are also reporting difficulties.

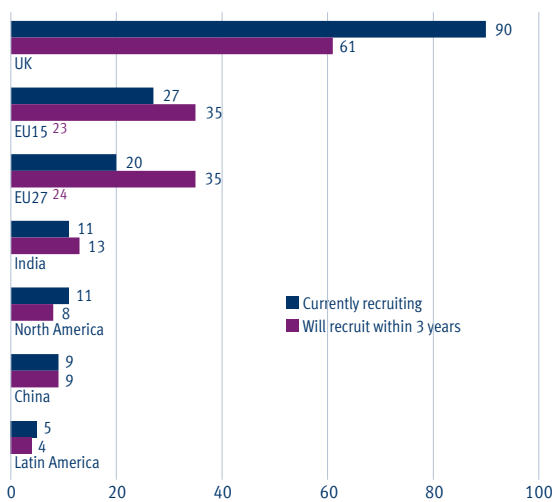
Larger firms are looking far and wide for STEM talent

Larger firms – particularly the very largest, with over 5,000 employees – are more prepared to look much further afield than smaller companies. Global firms have a strong appetite for STEM skills and have the infrastructure to recruit across international borders. Almost all (98%) of the largest firms are currently looking in the UK for STEM-skilled employees and are twice as likely to look to the expanded EU states – including Poland – than average: four in ten (42%) are looking in the EU27 compared with the average of 20%. Larger firms are also considerably more likely to be recruiting overseas for STEM-skilled employees:

- A third (36%) are recruiting from India (the average across all firms is 11%)
- A quarter (24%) go to China (the average is 9%)
- More than one in ten (13%) recruit from Latin America (the average is 5%).

CEOs are less certain about finding their future STEM-skilled employees in the UK (Exhibit 23, page 28). While the majority (61%) still consider they will be recruiting in the UK in future, they will increasingly be looking abroad to fill their STEM recruitment needs: around a third (35%) will look to Europe – whether east or west. Again, the largest firms (with over 5,000 employees) are most likely to be looking beyond the UK for their STEM-skilled employees –

EXHIBIT 23 Employers looking far and wide for STEM talent (%)



with half (49%) looking in western Europe and nearly six out of ten (58%) thinking about eastern Europe.

India is also seen as a potential source of STEM talent for one in ten (11%) firms of all sizes currently recruiting (Exhibit 23). But few expect to recruit more STEM-skilled employees from China: just under one in ten (9%) employers either recruit from China now or plan to do so within three years. The demand from the largest firms is again the strongest, but consistent with current trends – a quarter (24%) of businesses with over 5,000 employees envisage recruiting from China in the next three years and a third (31%) from India.

Europe and North & Central America combined produce approximately the same number of STEM graduates as Asia.²⁵ The relatively low expected demand from firms for Asian graduates may reflect concerns around the quality of supply. The loose definition of ‘graduate’ in China – where many of those studying for diplomas and other qualifications are counted as ‘graduates’ – may not help. Language may well be another key barrier and communication skills and problem solving styles are very different in West. McKinsey has also suggested that fewer than 10% of Chinese graduates and 10-25% of Indian graduates have suitable skills to work in multinational firms.²⁶ Anecdotal evidence from CBI member companies confirms these concerns. But it is likely that as Chinese and Indian university courses develop and the quality of their

graduates improves, UK recruitment of STEM-skilled staff from China and India will increase.

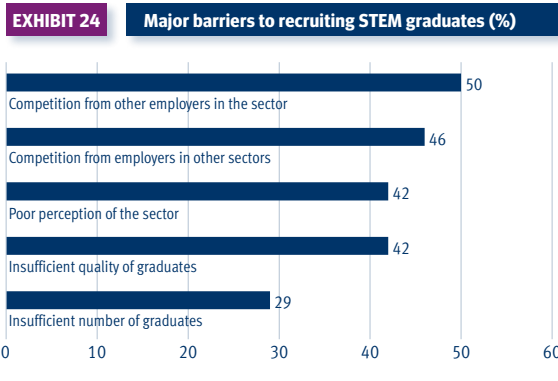
Fierce competition for talent contributes to recruitment difficulties

Senior executives believe their problems in recruiting STEM-skilled employees arise from a variety of sources, but around half attribute their problems to competition from firms in their industry (Exhibit 24). But some sectors blame the poor perception of their sector as a key factor – construction (49%), manufacturing (50%) and energy & water (71%). Sectors such as banking, finance & professional services did not blame a poor image (only around one in six employers do so), but they were far more likely (65% and 58% respectively) to blame competition from other employers in the same sector.

The low take-up of STEM subjects at university is clearly a great concern to employers. The number of physical sciences (physics and chemistry) students as a proportion of all undergraduates has fallen from 5.5% to 4.1% (from 13,800 to 12,900 – a 25% decrease) between 1996 and 2000.²⁷ In engineering and technology, there has been a 15% fall in the number of graduates (23,300 to 19,700) and as a proportion of all undergraduates, a decline from 9.3% to 6.3% (a 32% fall).

But there is some good news. In 2007, there was an encouraging rise in the number applying to study these subjects at university: maths has seen a 10% rise in applications since 2006, mechanical engineering an 8% rise, chemistry an 11% rise and physics a rise of 12%.²⁸ But the reasons for these increases are not clear. It could be that young people are beginning to realise that STEM degrees offer good opportunities on graduation but it is not certain whether these are sustained increases or just temporary rises.

Worryingly, employers are not just experiencing recruitment difficulties due to a shortage of graduates – although nearly a third (29%) did so (Exhibit 24). Two out of five (42%) employers believe the graduates that do apply for jobs lack the right skills. Employers in the banking, finance & insurance sector are less likely than average to be concerned with the quality (only 25% expressing concern) or quantity (15% were concerned) of STEM graduates – their relatively high salaries mean



they are able to recruit high-achieving graduates. But this means fewer graduates are available for other sectors, and employers in manufacturing and construction cannot recruit the quality of graduate they expect: 50% and 49% respectively have concerns about the quality of graduates. Anecdotal evidence indicates this may be because some degrees do not provide graduates with the skills they need – for example, some pharmaceutical companies complain that the biology graduates they employ have poor lab skills or have not taken options in necessary life sciences.

Rather than redistribute the existing supply of graduates to these important STEM sectors, it is essential to increase the number of young people with STEM degrees so all employers in every sector can access the skills they need for success, by persuading more students to move from arts and humanities to science subjects.

Business will encourage STEM skills – but the government must raise its game

Employers in STEM-related sectors are working to address concerns and increase supply – by offering work experience, attending careers fairs or giving talks in schools. Businesses in the energy & water sector are actively involved in promoting their industry – two thirds (67%) attend careers fairs and four out of five (78%) give lectures or talks, compared with half (49%) of all companies who engage with schools in these ways and eight out of ten (83%) companies in this sector provide work experience.

Despite recruitment problems, manufacturers – many of them SMEs – are less likely to engage with schools and colleges than firms in other sectors: only a quarter (26%)

attend careers fairs and only three out of ten (30%) give lectures or talks. Relatively low levels of involvement with the education sector are perhaps due to the fact that many manufacturing firms are concentrating on immediate profitability. More structured government support would help companies, especially smaller firms, focus their resources and form valuable partnerships with schools.

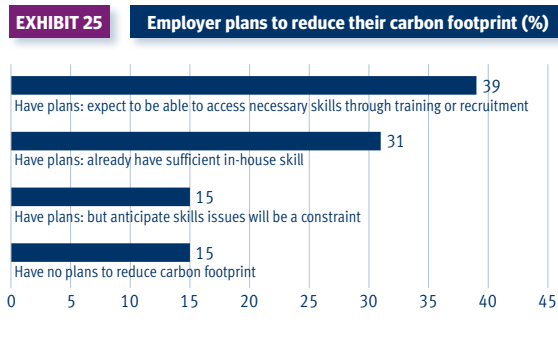
But of course business cannot solve these problems and the CBI has identified the key issues that must be overcome. It is vital that the government ensures that careers advice young people receive in school highlights the diverse, interesting and the well-paid careers available to those with STEM skills. Specialist teachers – physics graduates teaching physics – are a vital part of the equation. Non-specialist teachers often lack confidence and enthusiasm teaching outside their subject, which in turn impacts on students' experience and confidence in choosing to study a subject at A level or beyond. OFSTED has found that over 94% of the lessons taught by specialists are 'good' or 'excellent' compared with only 25% taught by non-experts.²⁹ Young people should also be taught a stretching curriculum (Triple Science GCSE represents the best preparation for A level study), in high quality, up-to-date labs where practical science can fire the imagination and create a passion for the subject.

Firms are going 'green' – and think they have the skills to make it happen

Part of the dramatic increase in the number of STEM-related jobs (2.4 million jobs by 2014) will come as the UK responds to the challenges of climate change. Jobs in green sectors are set to expand significantly. The government estimates there are currently 400,000 people employed in the environmental goods and services sector in the UK. The government is right to expect a rise. Ian Pearson, Minister for Science and Innovation has said: "There are over 17,000 companies in the UK that are already focusing on the environment. I expect the value of this £25bn industry to more than double within the next ten years, with employment growing by at least 100,000 over the same period".³⁰ Other governments recognise the scale of growth: the German government estimates that its renewable energy sector alone will employ 400,000 people by 2020.

The CBI's Climate Change Task Force³¹ estimates that if government agrees to an international framework to limit carbon emissions, the global market for climate change could be worth as much as \$1trillion in the first five years. New career opportunities in environment-related fields will emerge, a new generation of nuclear technicians will be required as the UK pushes ahead with a new nuclear build programme, and pharmaceutical innovation will require new skills to develop the products for changing climates. And it is not just opportunities in large corporations, but in SMEs too. Shell estimates that the market for climate change solutions for SMEs could be worth £3bn in 2010 in five key areas – commercial buildings, renewable electricity, renewable road transport fuels, domestic efficiency and housing.³²

With green issues rising up the political and business agenda, firms are increasingly looking to minimise their environmental impact. The good news is the majority of firms (84%) have plans to reduce their carbon footprint. And the larger the firm, the more likely plans are to be in place: 99% of the largest firms (over 5,000 employees) and 81% of large firms (500-4,999 employees) have developed policies. To realise these ambitions companies will need skilled staff, from technicians to project managers. Again, there is good news – almost a third (31%) of firms considering that they already have the in-house expertise to carry out their plans and a further 38% expecting to be able to access the necessary skills through training or development (Exhibit 25). But one in seven firms (14%) anticipate skills issues might undermine their green ambitions.



7 Effective leadership and management is vital

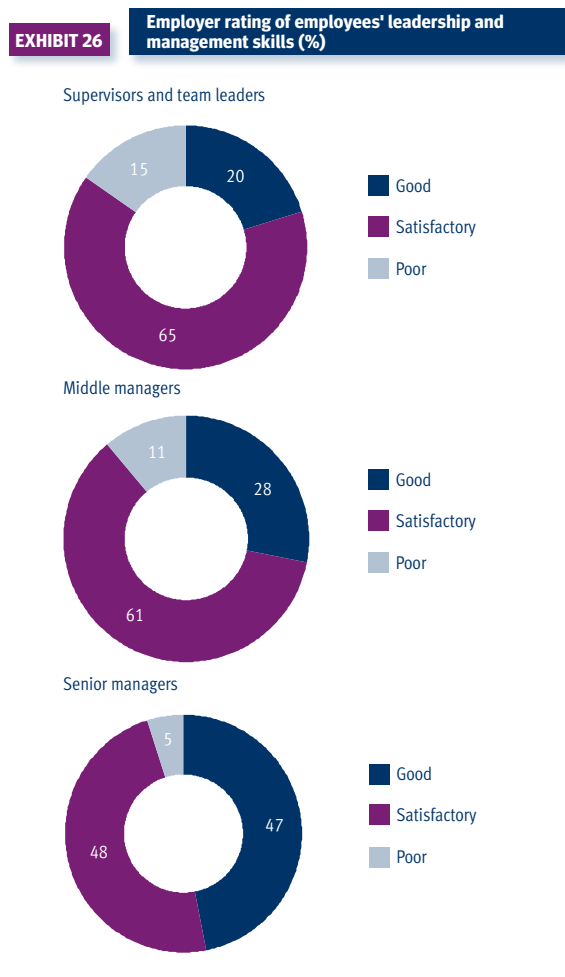
Key findings

- Nearly half (47%) of CEOs think their senior managers are effective, but there are concerns around team leaders' and supervisors' skills levels with one in seven (15%) describing these as poor
- Investing in leadership and management training is a priority – almost all (98%) firms are investing in leaders and managers through in-house training, with two thirds (65%) of firms providing external training such as MBAs for their senior management and two thirds (65%) of employers training supervisors/team leaders on-the-job.

Effective leaders are key to ensuring that a business has, and acts on, an effective strategic vision and a culture of continuous improvement. Managers are central to making sure strategic goals are achieved by effective management of budgets, resources and above all, people.

The UK is home to many world-class firms. But a series of reports³³ have pointed to leadership and management as an area of weakness. UK managers are less likely to have high level formal qualifications than their colleagues in competitor countries – 41% of managers hold less than a level 2 qualification (equivalent to A*-C grade GCSEs).³⁴ But this could be due to the broad definition of a 'manager' in the UK and problems with UK qualifications not reflecting employer needs.

While the UK's senior managers are generally effective, the Porter report³⁵ pointed to particular weaknesses with lower and middle management and relationships between management levels. Senior managers are disillusioned with their middle management tier and middle managers feel unsupported in their efforts. Many middle managers lack appropriate training, and research by the Hay Group reported that two thirds (68%) of business leaders felt their middle management tier was inadequately trained for their current roles.³⁶



The survey findings reinforce these messages – but show that UK firms are investing heavily to raise the skill levels of key staff.

Senior managers lead well, but there are concerns about team leaders

Firms are happiest with the leadership and management skills of their senior managers – with nearly half (47%) describing them as good and a further 48% describe them as satisfactory (Exhibit 26, page 31). Encouragingly, only 5% of firms described their senior management tier as poor.

Middle managers' skills were a cause of more concern – with just over a quarter (28%) of employers describing them as good, and six out of ten (61%) seeing them as satisfactory. And one in ten (11%) firms described their middle managers as having poor leadership and management skills.

Worryingly, supervisors' and team leaders' management skills were thought to be of greater concern than those of their more senior colleagues: although a fifth (20%) of CEOs describe them as good and over two thirds (65%) as satisfactory, 15% describe these skills as poor. Changing demographic patterns mean that more people are approaching retirement than are entering the workforce, which has significant implications for succession planning. It is vital that firms invest in developing their lower tiers of management as today's middle managers will form tomorrow's senior management team.

Generation Y (those born between 1978 and 2000), many of whom are supervisors and team leaders now, have different expectations of the workplace and of management.³⁷ A survey of 18-24 year-olds carried out in 2006 by the Institute of Leadership and Management found that 40% did not get on with their managers and 27% said they would leave their job because of poor management. The young people interviewed complained of top-down management techniques when they would prefer approachable and empowering managers. The report also found that some are promoted to management roles without proper training. Investing in training for supervisors and team leaders of any age can pay dividends in terms of efficiency – and can help nurture the talent of tomorrow's successful companies.

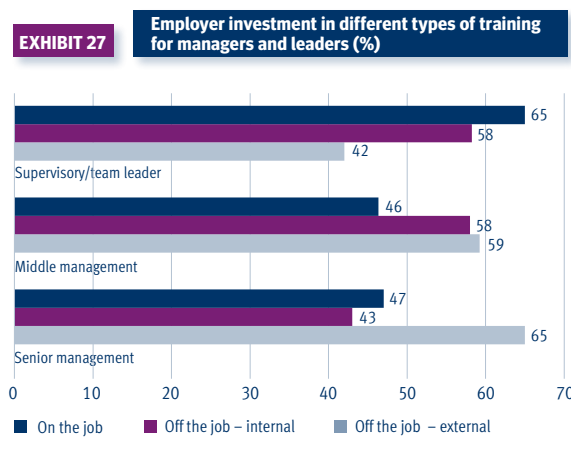
But employees' perceptions of management and leadership abilities vary according to their place in an organisation. The more senior people are, the more positive their view on leadership in their firm: a recent survey found that 89% of board directors think the leadership skills of managers they work most closely

with above them were good or excellent.³⁸ But other management tiers in the same organisation saw things differently: two thirds of senior managers or other directors thought the managers they worked directly with were good or excellent, compared with only 57% of middle managers and a third of junior managers.

Effective firms are committed to developing their managers

Front-line managers have a strong influence on the level of discretionary effort employers put into their jobs – thus having a significant effect on performance. The relationship an employee has with their line manager is the single most important factor affecting attitude and motivation.³⁹ Managers at all levels help provide the strategy and drive to deliver success by focusing individuals, teams and organisations on business goals. Effective UK firms are not complacent. They recognise that satisfactory is not good enough if they are to remain competitive and are investing heavily in developing these key staff in on- and off-the-job training. The good news is that the overwhelming majority of firms (98%) are investing in their leaders and managers at least at some level – with 95% of employers arranging training for supervisory staff or team leaders, 94% for middle managers and 91% for senior managers.

Off-the-job external training such as short courses, workshops or executive coaching/mentoring were seen as a priority for developing a company's senior management – two thirds (65%) of firms train their senior management



this way (Exhibit 27). Investing in senior managers has beneficial effects throughout the firm: once the leader has received beneficial training, they pass on key points to other staff and help drive a learning culture through an organisation. Six in ten (59%) firms develop their middle managers using external training providers – MBAs are a popular choice for this as they provide structured development and high-level networking opportunities.

For supervisors and team leaders, employers prioritise developing skills in a work context where the training can be immediately applied: two thirds (65%) invest in on-the-job training such as mentoring by a more senior colleague, which in turn helps develop the middle manager's skills. Supervisors and team leaders are less likely than their more senior colleagues to go on external training programmes (42% compared with 59% of middle managers).

Off-the-job internal training is valued by firms as it can be tailored to employees' needs and delivered by colleagues helping to build internal relationships. Well over half of supervisors, team leaders and middle managers are trained in this way. It is a less popular choice for senior managers as firms often lack in-house expertise to train and develop at this level and external training offers a chance to engage with new thinking on issues, personalised mentoring or networking.

Larger firms invest more heavily in off-the-job internal training as they have well-developed internal training courses that meet their needs – particularly for supervisors/team leaders and middle management tiers. Smaller firms, who lack such in-house expertise, have much to gain from a well chosen external training course.

8 Languages are highly prized – from breaking the ice to building bridges

Key findings

- Three quarters (75%) value conversational ability – and are not looking for true fluency, but half (48%) are currently recruiting some people specifically for their foreign language skills
- Very few (4%) senior executives think they have lost business as a result of inadequate foreign language skills – but the true figure could be as high as a quarter (26%) admit they do not know if opportunities have been missed
- European languages are the current focus for recruitment, although four out of ten (43%) employers are interested in Mandarin/Cantonese speakers as ambitious firms look to emerging markets
- Over a quarter (28%) of employers are looking for other languages, such as Urdu and Hindi, but bringing these skills in-house can only be a medium-term fix
- Learning English should be the long-term goal for migrants, but firms are supporting their migrant workers by employing those with Polish and eastern European languages.

Languages are growing in importance for business as UK firms operate in an increasingly global marketplace. Brazil, Russia, India and China are widely regarded as the emerging economic powerhouses – with Brazil and Russia the dominant suppliers of raw materials and China and India the leading global suppliers of manufactured goods and services.⁴⁰ If the UK is to remain a leading part of the global economy we need to not only operate effectively in our traditional markets but also with China and India.

CEOs place a premium on the ability to communicate in a foreign language but three quarters (75%) of senior executives say they are not necessarily looking for fluency of the kind that would enable their employees to negotiate

technicalities or contracts, but rather the ability to communicate and strike up conversations. Companies greatly value an employee's ability to break the ice and develop rapport with a potential customer in a foreign language. The message from our survey is clear – conversational ability in foreign languages is an important and sought-after skill. Of course, full fluency is also a valuable skill and half (48%) of firms are currently recruiting some staff specifically for their foreign language skills.

The UK has a high volume of trade with countries where English is not spoken as a first language – over 75% of our export trade in 2006. Having confidence in a foreign language helps deepen and ease cultural understanding and business access – particularly important in a country such as China. Understanding nuances in conversation, humour and even being able to play on words all contribute to building relationships. Reports from the CBI's Beijing office indicate that potential Chinese business partners (like those from other nations) value the considerable personal commitment that acquiring Mandarin – and understanding the country – demonstrates. This may well prove the clincher in a deal. UK firms are perhaps already at a disadvantage compared with European competitors such as the Scandinavians, Germans and Dutch who all have well-established Sinology institutes as well as providing wide opportunities in their education systems to study Mandarin or Cantonese.

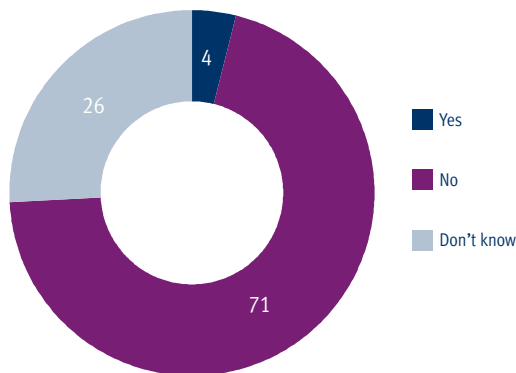
Is the UK missing out on opportunities abroad?

Firms who lack employees with appropriate foreign language skills could face significant and growing problems in developing their businesses internationally. On average, very few CEOs (4%) in our survey could be certain that they had lost business through inadequate foreign language skills (Exhibit 28). But the smallest firms

(1-49 employees) and manufacturers were most likely to have missed out on opportunities, with one in ten (10% and 11% respectively) reporting that poor language skills in their firm had resulted in losing business.

The true figure for the number of UK firms which have lost business through a lack of foreign language skills may well be considerably higher, as over a quarter (26%) of CEOs reported they did not know whether or not they had lost business. In addition, while UK businesses may not have actually lost sales or business, they may have missed opportunities to expand into new markets or regions because they lack the necessary skills.

EXHIBIT 28 Have you lost business as a result of inadequate foreign language skills? (%)



European languages are the top priority, but demand for Mandarin is growing

Of the firms recruiting employees specifically for their language skills, the majority were looking for European languages – with half looking for French and German speakers (Exhibit 29). Emphasis on European languages is not surprising given cultural and market similarities, historical links and geographical proximity. Projected data for 2007 shows that after the United States, the UK's largest export markets in goods were Germany and France with Germany and the US our largest partners for the import of goods to the UK.⁴¹

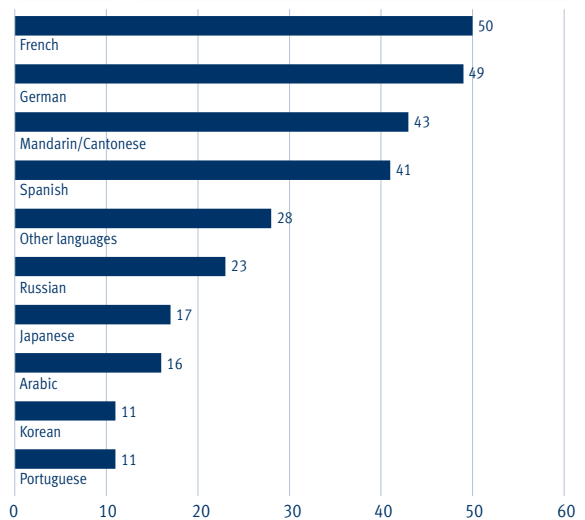
Dynamic UK firms are already looking to the growing economic powerhouses of Brazil, Russia, India and China, and are interested in languages that will help them access these markets and build relationships with potential

business partners. Four in ten (43%) CEOs are interested in recruiting staff who speak Mandarin or Cantonese – the languages that open doors to the vast potential markets among China's 1.3 billion inhabitants.

Significant numbers are actively pursuing other Far Eastern markets and are interested in recruiting staff speaking Japanese (17%) or Korean (11%). In Japan, with the deregulation of key business areas such as the financial sector and a need for greater foreign investment, the potential for close cooperation with firms has never been greater. Companies looking to set up or expand their operations in very different cultures are often welcome as they bring with them new management concepts which have great traction in the global marketplace. But UK firms will encounter a radically different work ethic – linguistic ability and cultural understanding will help smooth relationships and help British business people work more effectively with international colleagues.

Spanish is also valuable for employers as it opens up significant emerging markets in Latin America. Four out of ten (41%) employers actively looking for language-competent recruits prioritise Spanish. A third of the population of Latin America speaks Portuguese – Brazil is the most populous nation – and one in ten (11%) of firms are thinking about this resource-rich market.

EXHIBIT 29 Employer demand for foreign language skills (%)



German is another European language that eases access to markets in rapidly growing economies, particularly those of Eastern Europe. The ambitious countries that once fell behind the Iron Curtain and are now part of the expanded European Union have much to offer UK businesses – and could be more readily accessible, culturally and linguistically, than some of their BRIC peers.

Senior executives also see a need for Russian speakers – a quarter (23%) of employers are looking for employees with this language either now or in the future. Resource-rich Russia with its supplies of oil and natural gas has a growing appetite for consumer goods – and there are considerable market opportunities there in property development with the forthcoming Winter Olympics in Sochi in 2014.

There is also significant demand for Arabic speakers – with one in six (16%) firms either currently recruiting or planning to recruit shortly. Resource-rich Middle Eastern countries have much to offer – particularly for firms in the energy and financial services markets. An understanding of the Arab world's way of doing business – its dos and taboos (and how they are affected by age and gender) – is vital to building relationships in an environment where accepting coffee or shaking hands might make the difference between deal or no deal.

Learning English must remain the long-term goal for migrant workers

The impact of inward migration is also influencing employers' choice of language skills. Over a quarter (28%) of firms were interested in other languages – which included a small proportion of employers looking for Welsh and Dutch/Flemish. But the majority of employers looking for other languages prioritised Polish, other eastern European languages and Indian languages such as Urdu and Hindi. Some respondents commented that they currently use interpreters to communicate with their staff and wish to bring these skills in-house. The demand for these languages – of migrant workers and settled communities – shows that employers are committed to helping their staff understand the importance of supporting new employees with language needs in the workplace.

But bringing language skills in-house is only a medium-term fix to the problem of integrating new staff from settled communities and Eastern Europe. The long term goal should be that these workers learn English. Without it,

workers will have less opportunity to develop their careers and their ability to contribute to economic and social life will be constrained. And employers will not be able to make the most of their skills and talents. Employers are committed to supporting employees for whom English is not a first language – the CBI/Pertemps Employment trends survey 2007 showed a fifth (21%) of employers provide English language training or direct their employees to relevant courses. A further 16% help new staff with initial orientation and practical issues related to life in the UK.

CBI has worked with the TUC and the Department for Innovation, Universities and Skills (DIUS) to prepare a report on highlighting good employer practice. The report, *English language at work: work-based English for speakers of other languages*, highlights the business benefits of investing in employees' English language skills – from increased awareness of health & safety to improved customer service and greater productivity. The report is available from the CBI website – www.cbi.org.uk/pdf/englishatwork.pdf

The report found that companies saw a variety of benefits as a result of investing in English language skills. For example:

- Tesco helps welcome staff and customers of different faiths and cultures by providing employees with a religions and cultural toolkit which enables them to learn more about different cultures and faiths. It contains information on history, ethics, diet, prayer, dress and suggestions on how to support staff during festivals
- Fowler Welch Coolchain, the logistics firm, no longer uses expensive overseas recruitment, and perceptions of migrant staff have improved leading to greater cohesion in the company – for the first time a Polish driver has been elected by his peers to be their management representative
- The construction company Waagner Biro's building at Liverpool King's dock had a workforce where over 20 different languages were spoken. Its initiative led to improvements in health and safety and communication as well as helping migrant workers settle into the UK
- Bodycare Stores, the health and beauty retailer, saw staff turnover reduced by 40% – saving the firm £100,000 in a year investing in an English for Speakers of Other Languages (ESOL) and basic skills programme, which led to further vocational training.

9 Qualifications must be revised to meet business needs

Key findings

- Only around one third (32%) of employer training leads to recognised qualifications business values. Most firms prefer professional qualifications to basic skills qualifications
- Employers like qualifications which provide assurance that the workforce is competent, but they recognise that employees value qualifications – 62% see the value here. But meeting legal requirements (49%) and health & safety requirements are also valued (24%)
- Around two fifths (44%) of training is carried out externally, but almost all firms use external trainers to some extent
- Costs and difficulties in releasing employees during work hours were key barriers to employers providing qualifications based training – but over a third of employers (36%) said the content of available qualifications lacked relevance.

Employers recognise the importance of investing in the skills of their staff – spending £33bn a year on training.⁴² The amount UK employers spend on staff training as a proportion of payroll is the highest in the EU – 3.6% compared to 2.4% in France, 1.5% in Germany, and an EU-15 average of 2.3%.⁴³ But official measures of the UK skills profile are qualifications-based meaning that two thirds of employer training is not be measured in official statistics. A significant proportion of employer investment in skills goes unrecognised so that the skills and abilities of UK employees are likely to be underplayed in national measures and international league tables.

The priority for employers is a workforce with the skills and knowledge required to perform their role to the highest standards. As the qualifications currently on offer do not always deliver business needs, not surprisingly, our survey found that only a third (32%) of training offered by employers currently leads to recognised qualifications.

Large firms were the most likely to offer training leading to qualifications (62% of firms with 500-4,999 employees), but only a quarter (26%) of the very largest firms (over 5,000 employees) trained towards qualifications such firms have the capacity to develop their own branded company training programmes.

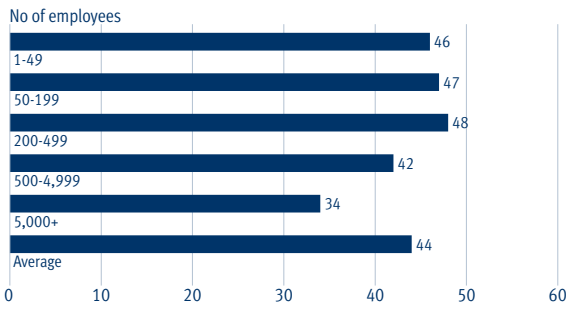
The government has set tough qualifications targets for 2011 and 2020, and qualifications must be reformed if these are to be met. A twin-track approach is being adopted to vocational qualifications reform, with Sector Skills Councils charged with overseeing reform of nationally recognised sectoral qualifications and the Qualifications and Curriculum Authority (QCA) working with CBI and individual firms to pilot schemes to recognise high quality employer training within the qualifications system. The end product must be a qualifications system that delivers the economically valuable skills that will boost productivity and competitiveness.

Most training is carried out within firms – but almost all use external providers, too

The vast majority of training and development in firms is carried out internally by a variety of people ranging from line managers to internal training specialists. But almost all (94%) firms use external trainers for at least some of their training: on average, around two fifths (44%) of employer training is carried out by external training providers (Exhibit 30, page 38).

Larger firms, many of whom have specialist in-house training and development teams, rely less on external provision of training – only 34% was estimated to have been delivered by external providers in the firms with over 5,000 employees. Tesco, a firm which employs around 280,000 in the UK, is committed to training in-house where possible. Tesco CEO Sir Terry Leahy comments: “We like our training to be on-the-job and delivered either by

EXHIBIT 30 Proportion of training delivered by external provider, by company size (%)



someone’s line manager, another colleague, or in some cases specially trained group coaches. For example, our Apprenticeship programme is delivered in our own stores by our own managers. This approach helps build a culture of training and helps everyone to understand that this is a central part of what we do and that we are all in it together. This includes me, as I train and give training on a regular basis too. It is also more cost-effective and more targeted”.

Qualifications add value if they are business relevant

Where employers were supporting staff to gain qualifications, over three quarters (83%) were offering professional qualifications (Exhibit 31). Not surprisingly, sectors such as banking, finance and insurance (93%) and professional services (89%) were most likely to train to professional standards. Professional qualifications are compulsory in some sectors – for example to comply with FSA requirements in the financial services industry – but other professional qualifications will have strong employer recognition and employee buy-in. For example, Chartered Institute of Professional Development qualifications are the ‘qualifications of choice’ for many HR professionals. But with professional qualifications not always officially recognised on the National Qualifications Framework, the contribution they make in upskilling the workforce is undervalued.

Nationally recognised vocational qualifications were also supported – NVQs were offered by two thirds (67%) of employers. Employers value the NVQ brand, but their business relevance varies across different sectors. NVQs were used by three quarters of construction firms (76%)

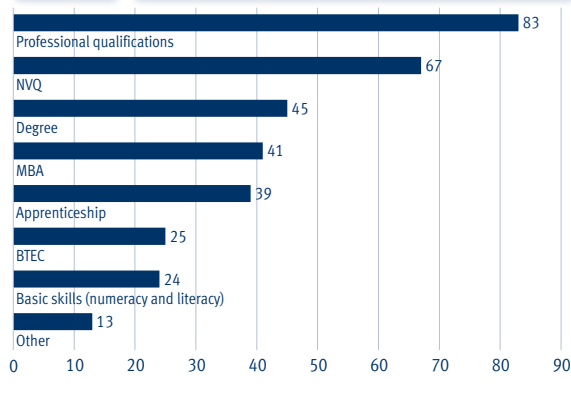
but were less common in hotels, restaurants & tourism (55%). Reform of the NVQ system to ensure a larger number of business relevant courses will improve employer take-up. NVQs are based on occupational standards but employers report that too often these standards do not fully reflect the competencies they need. Sector Skills Councils are tasked with reviewing national occupational standards and have a central role to play in reform.

A quarter (24%) of firms provide employees with basic skills qualifications in numeracy and literacy. Of the nearly four in ten employers who said they had difficulties with literacy and numeracy, almost two thirds (64%) were taking action by providing basic skills qualifications. Clearly employers are voluntarily investing in tackling deficits on basic skills. Business and government can work to build on this voluntary commitment through – for example through supporting the Skills Pledge.

The UK’s competitive edge will be secured on higher skills, and the survey found that 45% of firms offered support for employees wanting to take a degree. Support varies from helping with the cost of tuition to time-off for study. Higher level qualifications were primarily offered by larger firms – 58% of firms with over 5,000 employees do so.

More than four in ten employers (41%) offer staff MBAs, demonstrating the strength of this qualification’s brand. Employers make large financial investments in MBAs and management degrees for their staff. Full-time MBA courses are expensive – annual costs vary from £12,000 to £55,000 and courses take around 18 months to complete. It is estimated that a fifth of full-time MBA courses are

EXHIBIT 31 Qualifications offered by employers (%)



funded by employers and more will help employees with part-time study.

One quarter (25%) of firms reported that they offer BTEC qualifications and the BTEC brand represents an enduring vocational qualification. Awarding body Edexcel has developed BTEC qualifications in consultation with employers and Sector Skills Councils to align them to employers' needs and they can be used to accredit employer in-house training.

Employers use qualifications to measure competence, but key barriers remain

Many businesses are happy with the qualifications they use. They find academic and vocational qualifications develop workforce skills equally well and over half (56%) view academic and vocational qualifications as good. In addition, a significant proportion viewed them as satisfactory – 41% for academic and 42% for vocational qualifications. But while employers were satisfied with qualifications they used, the difficulty is in finding a qualification that meets their needs.

Employers primarily use qualifications as a measure of employee competence, but there are other drivers (Exhibit 32). Almost two thirds (65%) of employers see qualifications as a way of assuring workforce competence, while a third (33%) feel qualifications demonstrate expertise and abilities to external customers. A substantial investment in qualifications is made to meet professional or legal requirements (49%) or health and safety requirements (24%).

The piece of paper – the qualification – is valued by employees as it provides recognition of their skills and is transferable across different roles. Six out of ten (62%) employers offer qualifications because they are valued by employees. Employee morale is improved as staff feel supported and valued by their employers, improving staff retention and employee performance. The smallest employers (fewer than 50 employees) in the survey were most likely to provide qualifications because they were valued by employees (75%), rather than because they provided an assurance of workforce competence (49%). Small firms providing qualifications recognise that they lack the brand recognition of larger employers, and may well provide employees with recognised qualifications to assist their future career progression and mobility.



We asked senior executives to identify the key barriers to offering qualifications based training and not surprisingly, cost and practicality were the biggest barriers (Exhibit 33). Almost two thirds of employers (63%) could not afford to release employees during work hours – a particularly pertinent issue for smaller firms. In addition, over half of employers (53%) said formal qualifications were too costly and almost a fifth that the system was too bureaucratic (18%).

Significantly, over a third of employers (36%) felt the available qualifications lacked relevance for their firms, highlighting the need for the content of many qualifications to be much more business-relevant. A lack of relevant qualifications was a particular issue in the energy & water sector (56% of firms), professional services (43%) and agriculture (40%). Developing business-relevant qualifications



EXHIBIT 34 Employer awareness of different awarding bodies (%)

Awarding body	%
City & Guilds	99
Edexcel	71
OCR	44
AQA	40
EDI	21
Other	10

must remain a central plank of implementing the Leitch reforms.

Almost a third (31%) of employers said they held back offering more qualification-based training to their staff because they feared employees lack commitment to finish the course. Qualification courses require a time commitment and a willingness to go through formal methods of assessment. Individuals will often value the knowledge and skills provided by training courses, but may be reluctant to commit to official qualifications processes.

Employers were also asked about their knowledge of different qualification awarding bodies (Exhibit 34).

Qualifications must be reformed to meet business needs

The qualifications system must be reformed if it is to engage employers better and deliver the economically valuable skills that will boost competitiveness. The government's Leitch Implementation Plan published in summer 2007 set challenging qualifications targets for 2011 and 2020. But as our survey found, only a third of the training offered by employers currently leads to qualifications. Without the necessary reforms, employers stand no chance of delivering the millions of extra qualifications – four million by 2011 alone – that the government targets demand. Qualification reform, to focus on business needs and economically valuable skills, will ensure that meeting these targets genuinely improves the UK's skills profile.

The Leitch implementation plan set the following targets:

- Seventy-nine percent of adults qualified to full level 2 by 2011 (69% now)
- Fifty-six percent of adults qualified to full level 3 by 2011 (48% now)
- Thirty-six percent of adults qualified to level 4 by 2014 (29% now).

Sector Skills Councils (SSCs) have been tasked with overseeing reform of the current system of nationally recognised qualifications by 2010 – with the aim of producing qualifications that meet sector-specific skill needs. This would increase the proportion of employers providing training leading to nationally recognised vocational qualification. It is essential that qualifications reform remains the number one priority for SSCs and that they are not distracted by the re-licensing process which will run at the same time.

But a twin-track approach is needed to drive qualifications reform. The Qualifications and Curriculum Authority (QCA) has been working with employers to develop an accessible system for recognising high quality employer training within the qualifications system. Announcing the project at the CBI Skills Summit in September 2007, skills minister John Denham stated the aim of developing a new generation of employer-focused qualifications. Mr Denham said, *"This government recognises that the training that many organisations offer is of a very high standard. We want to end the outdated distinction between employers' training and public qualifications"*. The survey found firms are reporting difficulties in finding business relevant courses, and bringing employer training schemes into the qualifications system will help bridge that divide.

The QCA has developed two main approaches: either an employer becomes an awarding body to develop and award its own qualifications, or it works in tandem with an external awarding body. By December 2007, the QCA had made progress – Flybe, McDonald's and Network Rail were all recognised as awarding bodies to develop and award qualifications to their staff. Twenty-four other employers worked with external awarding bodies to get their training recognised on the qualifications framework.

The fundamental principle underlying a system for accrediting employer training must be that qualifications fit employer training needs, not vice-versa. Maintaining high quality standards will be essential, but this must be coupled with a degree of flexibility. For example, employer training should not necessarily have to conform to national occupational standards if robust industry or internal employer benchmarks already exist. Any system for employer accreditation must also involve a minimum of bureaucracy, with employers given a range of options and flexibility for the system to adapt to employer needs.

The development of the Qualifications and Credit Framework and the shift towards the unitisation of qualifications will provide flexibility that will benefit employers of all sizes. Businesses will be able to offer employees units of qualifications most relevant to their skills needs and employees will be able to accumulate units of learning over time. It will be particularly beneficial to smaller firms who may have been unable to afford the time and costs involved in a whole qualification, but who will now be able to opt for 'bite-sized chunks' of learning.

10 Target government support at business benefits of training

Key findings

- Train to Gain has had a positive effect on almost two thirds (62%) of firms, but the primary beneficiaries have been employees. Employers value support for the higher level skills which benefit them more directly
- The Small Firms Initiative's skills audits helped firms take a more strategic approach to training – 41% of firms enjoyed improved performance as a result. Aligning employee development with business strategy to improve business performance is essential and the Small Firms Initiative enabled firms to see the bottom line benefits
- The SME Leadership and Management Programme created a culture of learning in firms – with 42% reporting improved productivity. CEO engagement delivers a commitment which benefits firms and employees
- Investors in People has had a positive impact, adding real value for participating firms. Government should do more to support smaller firms to attain the Standard and its commitment should not waver.

Some employers need government support

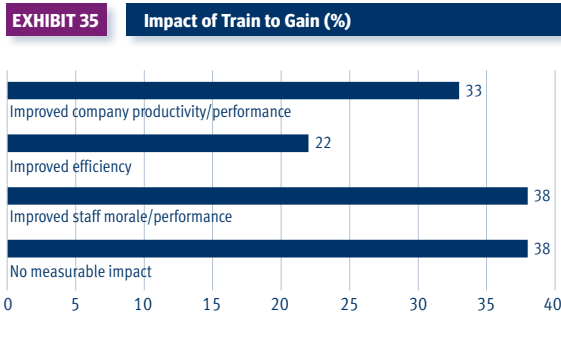
Government support for skills development is important to many businesses, particularly small and medium-sized firms. Structured programmes can help firms navigate the skills system, find funding for basic training, get advice on development and help them in their drive to create high quality processes. While some companies – particularly larger firms – do not need much help to access high quality training, others need help with funding, as well as guidance and advice on finding suitable training providers. Some – particularly SMEs – need advice on identifying their skills gaps and the training that will meet their business strategy.

A number of initiatives have been launched over recent years designed to help SMEs and we invited views in this survey on what had helped CEOs with their businesses. Employers were asked about the impact of four schemes designed to improve productivity: Train to Gain, the Small Firms Initiative, the Leadership and Management Programme and Investors in People (Exhibits 35-38).

The government is putting significant resources into its flagship initiative Train to Gain which is set to expand rapidly. The scheme has been working well but its future success depends on its responsiveness to business and its capacity to help firms become more strategic in their approach to training and development. Lessons can be learnt from the success of the Small Firms Initiative (SFI) and the Leadership and Management Programme, both of which played a very valuable role in convincing smaller firms of the business benefits of training through the positive impact on their bottom line. And many employers – whatever their size – have found the Investors in People standard a valuable tool for business improvement as it effectively links training and development with business strategy – and accredits the firm in ways it and its employees find motivating.

Train to Gain – valued by employers but employees are the main beneficiaries

Available across England since September 2006, Train to Gain provides employers with access to brokers who provide support in identifying a business's skills needs and advises on identifying suitable training providers. Through Train to Gain employers can access funding support for basic skills training – primarily for first, full level 2 qualifications. The service is demand-led, available courses being those which employers require to address their skills needs.



Train to Gain achieved positive results in its first year, involving over 50,000 employers with low levels of ‘dead-weight’. Almost three quarters (72%) of firms engaged were defined as ‘hard to reach’ – ie they were not IIP recognised nor had provided training leading to a qualification for their staff in the past year.⁴⁴ Our survey supported this positive experience: almost two thirds (62%) saw a positive impact on their firms with a third of senior executives (33%) saying Train to Gain had improved their performance, and rather more – 38% – believing the training had improved staff morale (Exhibit 35).

But it is worrying that well over a third (38%) of respondents said Train to Gain had not impacted positively on their organisation. A problem has been a lack of understanding of the full range of support available from Train to Gain – particularly in terms of brokerage services and assistance in developing skills solutions in line with business strategy. The brokerage service is the key interface with firms in terms of analysing skills needs and identifying funding provision. The majority (70%) said their experiences of brokers was good or mixed, but almost a third (30%) was less happy. The LSC’s own research on the brokerage system found a similar picture with a generally favourable employer view. The CBI supports LSC suggestions that a key area for improvement is the ability of brokers to translate the skills needs of the company into an effective action plan.

Of course, the focus of Train to Gain funding has been on basic-level skills where the return to employers is least quantifiable and the major benefits are felt by employees. This explains why many (38%) employers feel that Train to Gain has improved staff morale and performance. Employees value basic skills qualifications – they are often

the first official recognition that people have earned, especially if they had negative experiences at school which put them off learning. These confidence-boosting qualifications can be used as a foundation for further learning and training, improving employees’ career progression, earning potential and performance in the workplace. Given these findings, it is very welcome that with effect from 2008/09 employers will be able to access matched funding for level 3 training. Employer returns might be expected to be higher and this will help build commitment to the scheme.

But further action is required to make Train to Gain translate into an ongoing employer commitment to training – this will only happen if employers see their investment in training leading to a substantial difference to the bottom line. Lessons can be drawn from the success of other support schemes, such as the Small Firms Initiative and the Leadership and Management Programme. Our survey found that these two schemes delivered significant bottom-line benefits for those firms involved.

The Small Firms Initiative – delivering bottom-line benefits

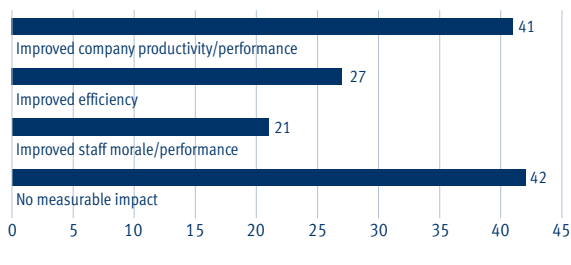
Introduced following CBI lobbying, the Small Firms Initiative – which ran between 2002 and 2006 – provided financial support worth £1,250 to enable the smallest firms (5-49 employees) to undertake an audit of their skills needs. This was to help them develop a skills strategy to improve business performance as part of their preparation for accreditation through the Investors in People Standard. The primary benefit of the SFI, however, was the detailed and tailored skill needs analysis it provided – and the link to business strategy.

The SFI enabled organisations to access one-to-one sessions with advisers, workshops and online support tools in order to assess skills gaps and weaknesses. Action plans were set up in line with the business strategy and an independent assessment used to indicate the business benefits to the firm – including increased productivity and profitability, and improved employee morale.

Our survey reinforces the success of the initiative (Exhibit 36, page 44). More than half (58%) of companies felt it had a positive impact. More than four in ten (41%) SFI firms enjoyed improved performance, compared with 30% of participants in Investors in People and a third (33%) of Train to Gain participants. More than a quarter of

EXHIBIT 36

Impact of the Small Firms Initiative (%)



respondents (27%) felt their efficiency had improved as a result of the scheme.

A fifth (21%) saw an improvement in staff morale, but this was not the biggest advantage, and it is important that firms see benefits in the bottom line if they are to remain committed to training. Investors in People participants are more likely to see employee morale improvements as the key benefit, rather than productivity improvements: this was reported by two fifths (41%) of SFI firms compared to less than a third (30%) of Investors in People participants.

The more detailed and formal evaluation of the initiative⁴⁵ supports our survey findings – showing that real bottom-line benefits lay at the heart of the SFI. The assessment found that almost half (48%) of SFI participants reported improved performance against competition, over half (55%) enjoyed improved customer satisfaction and over a third (37%) have a bigger market share.⁴⁶ The support provided through the £30m government scheme was key in engaging smaller firms in a more strategic approach to training and business development: nearly two thirds (62%) of employers indicated they would not have gone ahead without the support. Around three quarters of employers suggested that expectations of the initiative had been reached, while a further fifth said they had been exceeded.

The CBI believes this initiative should be revived. It successfully improved small firms' productivity, performance, efficiency and morale and incentivised them to place a strong emphasis on developing employees' skills to meet their companies' needs. The majority of UK businesses employ fewer than 50 staff and value help to identify and fill their skills gaps. A skills needs analysis that helps firms develop a training plan linked explicitly with a

business strategy must be an integral part of the Train to Gain brokerage offer. Supporting firms to develop a more strategic approach to training and promoting to them the bottom line benefits of doing so will deliver substantial improvements in small firms' productivity.

The Leadership and Management Programme – engaging CEOs with skills

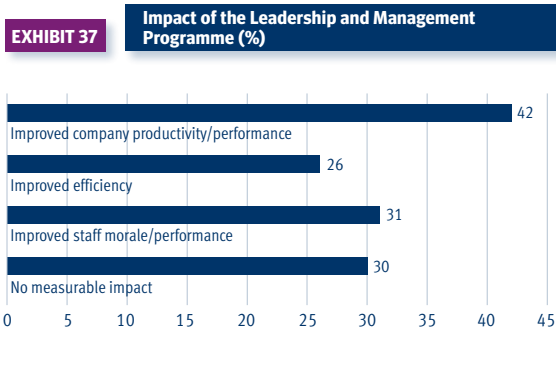
The SME Leadership and Management Programme provided a grant of up to £1,000 to support managing directors or other key directors of SMEs who wanted to improve their leadership and management skills.

Personal development did not need to result in a qualification, but could include mentoring, coaching or informal training. Over 17,000 SMEs joined the scheme, which ran from 2004 to 2006. In late 2007 it was rebranded under the Train to Gain brokerage service and funding will be increased from £4m to £30m over three years. This is a most welcome development but it is essential that brokers use the scheme to complement Train to Gain.

Training and developing the leader of an organisation, particularly a smaller enterprise, has dramatic effects throughout the whole firm. Managing directors or chief executives of smaller firms who have often grown their business from scratch without assistance have benefited from formalised support to help them grow their businesses. Once they see the value of training and development for themselves, they typically become really committed to creating a culture of learning. But they cannot afford to invest in training for training's sake: investment only follows where bottom-line benefits are clear.

The Leadership and Management Programme delivered those improvements. The survey shows the success and popularity of the scheme – well over two thirds (70%) of involved CEOs felt that the scheme had had a positive impact (Exhibit 37, page 45). But while a fifth (21%) of employers felt staff morale and performance had improved as a result of the programme, it is clear that it was designed to deliver 'hard' benefits as well – with performance improving in four tenths (42%) of companies and a quarter (26%) seeing improved efficiency.

Our survey findings support the formal evaluation of the programme.⁴⁷ The programme added real value to



firms – over three quarters (77%) of participants said the skills they had gained through the programme had led to changes in how they lead or manage their business. The evaluation also showed that over half of participants indicated their involvement in the programme had influenced – or was likely to influence – improved productivity (69%), profitability (59%) and sales (52%).

Investors in People adds value to firms – but small firms need support to achieve it

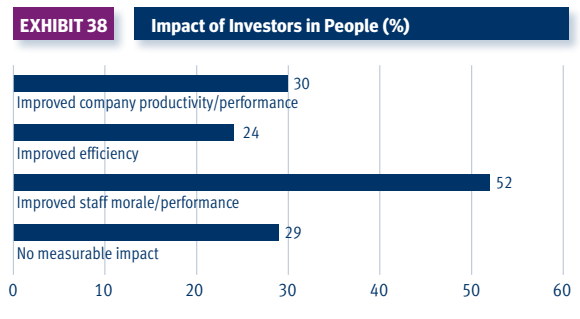
Most senior executives involved – irrespective of the size of their firm – find the Investors in People (IiP) scheme helpful. IiP is a well-established business development tool and with high brand recognition – valued by employers and employees. Its aim is to put staff development at the core of business development and give recognition to firms who have met the standard. The scheme is designed to assess businesses’ skills needs, identify future goals and help companies meet those aims. Organisations apply to be assessed against ten ‘best practice indicators’, and if the external assessors judge that the company’s practices and policies meet these objectives, the organisation is awarded Investors in People status. At present nearly 35,000 organisations are accredited: they employ nearly seven million workers, accounting for 23% of the UK workforce.⁴⁸

The standard’s success demonstrates the strength of the voluntary approach to training and must remain at the heart of the government’s strategy on raising skills (Exhibit 38). Half (51%) of firms in our survey had participated in Investors in People and were very positive about its benefits. Nearly three quarters (71%) felt that working

towards the IiP accreditation had a positive impact on their business. But the main benefits of achieving Investor in People status were in ‘softer’ areas – over half (52%) saw the key benefit as improvements in staff morale.

Improvements instituted in firms as a result of working towards IiP were less likely to result in ‘hard’ bottom-line benefits although a third (30%) of firms saw improved performance and nearly a quarter (24%) saw efficiency improvements. It is clear that employees value Investors in People as an effective way of driving cultural changes through organisations, helping all employees contribute more effectively to a shared goal. Christine Berry’s experience is typical. As the managing partner of Taylor Vintners law firm (employing 200 people) she reports that IiP has been an essential tool through which the firm has “...been able to effect some sweeping cultural changes and recognise, value and reward contributions of both lawyers and non-lawyers in the firm”. As a result of going through IiP, Taylor Vintners has introduced firm-wide training and development “...which engages all of us in achieving our aims as a business”. This approach to people through IiP also resulted in “...direct and tangible benefits” to the bottom line of the business.

Investors in People provides a particularly useful framework for businesses undergoing significant and rapid change. Ridgeons, a quickly expanding builders merchants, needed to formalise some of its HR practices to ensure consistency across the organisation. The firm clearly highly valued the external advisor who carried out the IiP audit – the Group Training Manager commented: “The most useful element for us was the external audit, which questioned staff very cleverly to gain information on how we were treating them. We could not have gained this by any of us talking to them. [The] feedback report and presen-



tation kicked us into action...I think having an external view from someone who was completely independent was the most beneficial aspect". Ridgeons also use IIP as a "...barometer of communication effectiveness", checking how staff are responding to changes and using the information to encourage employee buy-in to the company's vision of its future direction.

Improved employee engagement was clearly a central part of the Ridgeons experience of Investors in People. Paul Rogers, Group Director of New Ventures and Security, commented that the IIP process changed the way the firm approached staff appraisals: *"Our Individual Development Reviews used to be principally a training needs analysis. As a direct outcome of IIP we have introduced a Performance and Development Review which has addressed the necessity to include a two-way evaluation of performance as well as the way forward for the individual in relation to the company's long-term direction".*

The CBI believes that IIP continues to deliver business benefits for firms, and should not be seen merely as a tool for government policy. We strongly recommended that strategies to engage employers in the Standard should focus on smaller firms, which are often those in most need of support to formalise their HR practices and to understand the business benefits of training for their firm. This is where IIP delivers most value.

But IIP also offers larger firms a useful framework as well as stretch and challenge. Angela Williams, Group HR Director for leading property firm Land Securities, has just been through the new IIP Standard, achieving an 'outstanding' assessment. The firm employs around 1,800 people and its customer service centre handles 500,000 requests a year. Providing great customer service is a key business objective. Angela says that the rigorous assessment was in tune with what the way the business approaches skills – linking investment in learning and development with the business strategy: *"The IIP assessors looked at every aspect of the business plan and examined how the skills plan measured up".* Angela's previous experience of IIP in a large firm had been disappointing with too much emphasis on the portfolio of metrics-based evidence. The new structure mirrored the firm's push to look at employee development on an ongoing needs basis, rather than a tick box exercise with employees booked to attend courses irrespective of need just to meet targets for training days.

"We are a specialist, technical consultancy. We need soundly trained applied economics graduates, whom we can train up on the job. The subsequent training that we provide in-house is too specialised to be a recognised qualification. We are a small business, and need effective leaders, but it is much harder to assess what sort of training would be helpful".

RICHARD LEWNEY

MANAGING DIRECTOR, CAMBRIDGE ECONOMETRICS

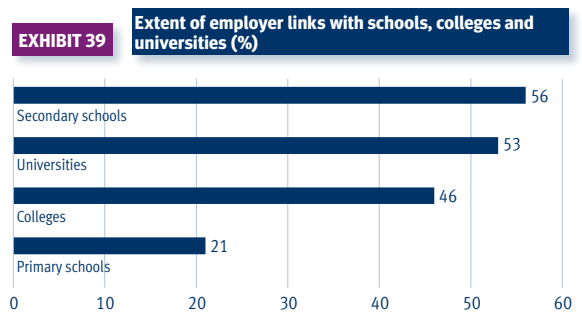
11 Education-business links benefit all involved

Key findings

- Education-business partnerships are widespread – 21% of employers are involved with primary schools, 56% with secondary schools, 46% with FE colleges and 53% have developed links with universities
- Employers are involved in the education system in a variety of ways – 75% provide work experience, 49% give talks to help young people understand the world of work and 36% have employees who act as governors or mentors
- Enhancing business reputation, showcasing their firm to young people and developing their existing employees' skills are all key reasons for employer involvement. But there is room to do more
- Employers use FE college training provision primarily to upskill their workforce, while university training is used to develop leaders and managers within the organisation
- College and university links are fairly widespread, but there are key barriers to further expansion – relevant training, lack of recognised business contacts, lack of general information on what training was available.

Business engagement in the education system should be a powerful tool in helping raise achievement through making clear the relevance to the workplace of the skills and knowledge developed by students and by ensuring more young people leave the education system with the skills needed for success in their working lives.

Our survey highlights that companies are collaborating at all levels of the education system – from primary schools through to universities – in a variety of ways and for a variety of reasons. The extent of involvement is widespread (Exhibit 39). There is clearly a huge degree of enthusiasm for working with educational institutions. These results highlight a strong foundation on which to build more and

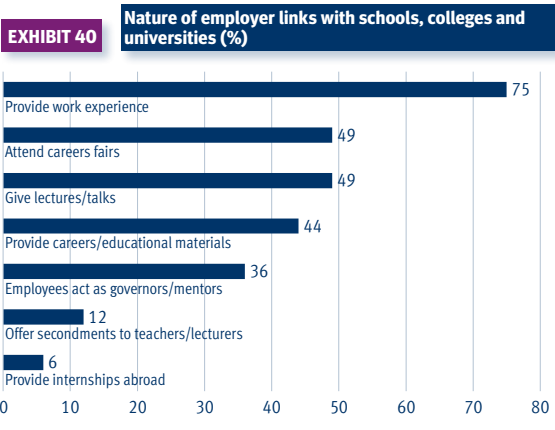


more effective links in ways that benefit businesses, young people, schools, colleges and universities. Employers give their time, resources and expertise to schools, colleges and universities in a wide variety of ways.

Businesses have a great deal to offer educational institutions – particularly schools – through direct involvement in students' learning and assisting in management, governance and leadership.

In terms of direct involvement in learning, the vast majority (75%) of employers provide work experience placements (Exhibit 40, page 48). This helps young people at all levels of the education system appreciate the need for employability skills (see Exhibit 19, page 23). At the heart is a positive attitude but IT, literacy, numeracy, teamworking, problem solving, self management and business and customer awareness are also important. One third of employers (33%) think work experience is a good way for young people to develop a positive attitude towards work.⁴⁹

The CBI has undertaken research into good practice in delivering work experience to students. Our report – *Time well spent* – found that although that the vast majority of young people enjoyed their time at work, most placements could be much more effective in developing valuable



employability skills. It is vital that schools and employers are more demanding of students, so they gain a better grasp of the challenges and opportunities of work. But equally, more must be demanded of employers to provide well-structured placements that focus on highlighting the importance of the skills needed to succeed in the workplace. And more must be demanded of schools to prepare students beforehand and help them absorb the lessons after their placements.

Half of employers also give lectures and talks to young people (49%) or attend careers fairs (49%) to help them understand the world of work. It is important that schools allow employers to promote opportunities in their company and sector – or a specific route, such as apprenticeships. Many young people also find it more inspiring to hear about potential career paths from adults who have been there and done it. Nearly half (44%) of firms even provide careers and educational materials to help schools give young people accurate and up-to-date information. A very small proportion of businesses (6%) are involved in organising student internships abroad.

A significant proportion of employers are also engaged in the strategic management of schools, colleges and universities. In particular, over a third (36%) report their employees get involved very directly by acting as governors or being trained as reading coaches for primary schools. Others help by providing staff to act as mentors – such as for the Young Enterprise scheme. More than one in ten (12%) provide secondments for teachers and lecturers which can be immensely useful in ensuring they have an up-to-date and in-depth understanding of the world of work.

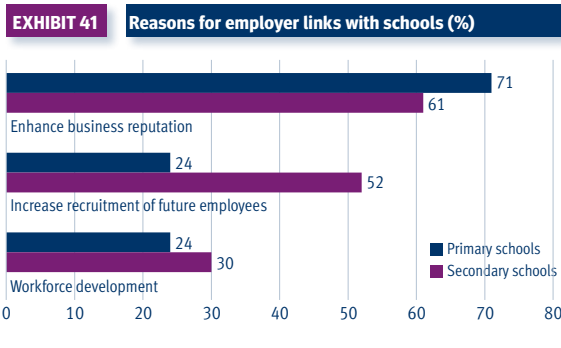
There are many initiatives at present aimed at encouraging business to become engaged with schools in these ways. For example, the Science and Engineering Ambassadors scheme encourages employees to mentor pupils, act as governors and mentors to school management, provide industrial placements for teachers and head teachers or deliver careers guidance. Anecdotal evidence suggests employers find the range of current activities confusing.

All benefit – but there is room for more partnership activity

Employers have varying reasons for developing partnerships with schools. For many senior executives, engaging in education-business partnerships brings business benefits – including staff development and enhancing the reputation of the company in the local area (Exhibit 41).

CEOs clearly see partnering with primary (71%) and secondary (61%) schools as an important means to enhance their reputation and as a way of putting something back into the local community. But they also see education links as useful in showcasing their company and their sector to students (24% for primary, 52% for secondary), in order to highlight the career opportunities available to young people and encourage them to study the subjects they will need (such as science) to succeed in their working lives.

Significant proportions (24% for primary schools, 30% with secondary schools) of firms also view partnerships with schools as an important means of improving the skills of their employees. Employees are often involved in acting as student mentors, helping pupils with reading, writing



and maths, acting as school governors or making presentations to students. All these activities can be effective in developing important skills that are transferable to their daily job.

There is a strong demand from many schools to develop links with business, but feedback from CBI members indicates too many schools just see businesses as a source for sponsorship and businesses find the plethora of existing initiatives too complex. Many employers, particularly SMEs, need better guidance on which activities would be most beneficial to the school and the pupils and what would be the most effective use of their time and resources. While not all employers will be able or willing to get involved with a school, a national support and advice framework, bringing together and offering advice on how employers can help schools, would be a valuable way to maximise the potential of business involvement.

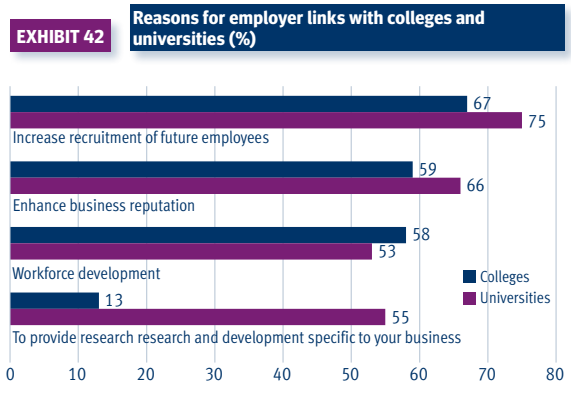
Business links with colleges and universities bring direct benefits

Nearly half (46%) of employers have developed links with an FE college, but the nature of involvement is very different than with schools, given that there are clearer direct business benefits in working with colleges as training providers for their existing staff (Exhibit 42). But the desire to enhance the firm's reputation remains a strong driver for many CEOs (59%).

Unsurprisingly, the main reasons for CEOs wanting to work with colleges are to tap into their pool of students as potential employees – two thirds (67%) cited this as a key motivator – and develop their existing workforce (58%).

Just 13% of CEOs have developed partnerships with colleges in order to improve their R&D activity. Given that FE colleges are more likely to specialise in skills below level 4 (degree equivalent) this is unsurprising, with employers seeing universities as a much more natural partner for this.

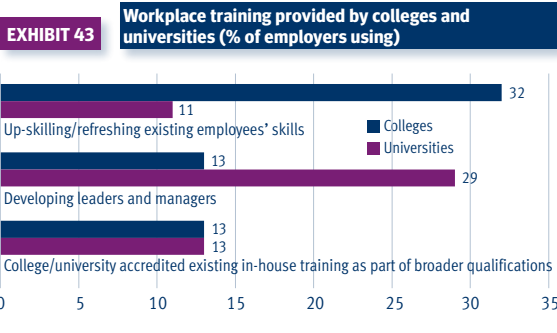
And looking into the types of training that employers look to colleges to provide (Exhibit 43, page 50), it is clear that they see most value in using the FE sector to upskill their existing employees – 84% of those employers using colleges for training cite this as a major reason. Far fewer firms (34%) use colleges to develop their leaders and managers, again reflecting how the majority of colleges focus on delivering vocational courses and qualifications at intermediate skill levels.



But there is a strong role for colleges in helping firms accredit their existing in-house training, with nearly two thirds (61%) using this service. Externally validating employees' skills is often highly valued by employers for a variety of reasons – assuring workforce competence, demonstrating expertise and abilities to external customers, and meeting legal, professional or health and safety requirements. Firms also recognise the value staff place on recognised qualifications, with benefits in terms of improved morale, retention and performance.

Employers value university collaboration for many reasons. The extent of business-university partnerships is also significant, with over half (53%) of firms having some links. And as with schools and colleges, the reasons for doing this are diverse (Exhibit 43). Businesses and universities can work together to ensure more graduates have the skills the employer needs, but working together to improve workforce skills is also on the increase. Business-university collaborations can benefit both institutions and companies. Employers require tailored, demand-led training to meet their needs, and education institutions often have the capacity and flexibility to provide them and benefit from access latest or innovative business knowledge. Many universities are seeking to become more business-facing, and have effective individual partnerships with companies which show what can be achieved in helping develop higher workforce skills – particularly leadership and management, and improved R&D performance.

Given employers' strong demand for staff with graduate skills, it is unsurprising that three quarters (75%) of CEOs see working with universities as a key route to attract potential employees. But two thirds (66%) also do so to enhance the reputation of their business.



Many employers also see universities as an excellent means of improving their R&D activity, with over half (55%) of firms involved with universities citing this as a key driver. Businesses need to keep ahead of the competition when developing new products, processes and services and usually cannot afford to cover the whole spectrum of relevant research in-house that might feed into innovation. Accessing skills and expertise, knowledge, intellectual property and research infrastructure from the UK's excellent university base can confer real competitive advantage, while spreading the cost and risk of going it alone. Universities can also provide an effective route for accessing the wider international knowledge base.

More than half (53%) of employers have worked with universities to improve their workforce's skills. Although when businesses work with colleges to develop their staff it is primarily for technical skills at lower and intermediate levels, employers generally see universities as a key partner in improving their leadership and management: 71% of employers using universities to develop their workforce do so for this reason – compared to just 28% citing upskilling the workforce as a key driver.

Remove barriers so partnerships can fulfil their potential

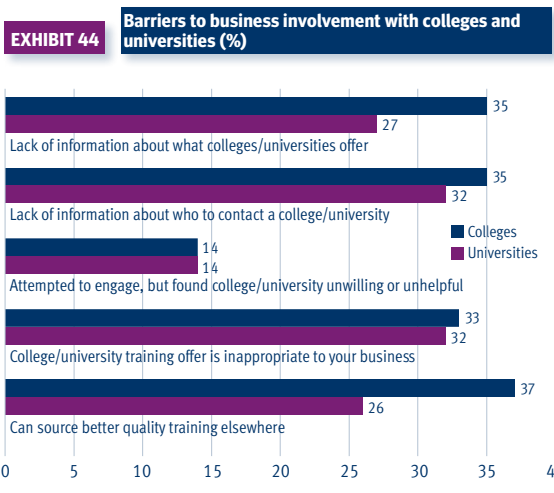
The proportion of employers engaged with colleges (46%) and universities (53%) is fairly high, but there is considerable room for expansion. The survey also revealed that respondents who did not have links said the barriers they faced restricted their ability to work effectively with colleges and universities (Exhibit 44).

Where firms look to colleges and universities to provide training, a significant proportion (37% with regard to colleges and 26% with universities) believe they can

source better provision elsewhere – such as private sector providers. The CBI/Pertemps Employment trends survey 2007 provides some valuable insight into this – on all aspects of provision – relevance, time and location of training, quality of trainer and overall responsiveness – apart from cost, employers rated private providers significantly higher than either FE colleges or universities.

But to ensure college and university engagement with business improves, universities and colleges must ensure employers are aware of the training they can offer: with around a third of CEOs cite lack of information over what the establishment offers (35% for colleges, 27% for universities) or who to contact (35% at colleges, 32% at universities) holding employers back from developing links. Worryingly, 14% said the college or university had actually been unhelpful when approached or unwilling to develop partnerships. Around a third of employers (33% for colleges, 32% for universities) said that existing university or college provision does not meet their needs. Although there is much good practice from colleges and universities developing training that employers value, more needs to be done to ensure that the spread of best practice.

Many colleges have embraced the changes required to make the most of the development of a demand-led skills system, with employers' needs at its heart, and deliver high quality training at a time and place to suit the business. With government funding of the Train to Gain programme to pass the £1bn mark in 2010/11, it is vital that more colleges improve their business engagement and



ensure that they are seen as credible, high quality training providers by the business community. The CBI is currently working with the Quality Improvement Agency (QIA) to identify good practice in business-college partnerships. Based on case studies the final report will draw out the key success criteria in establishing and sustaining effective business-college links.

There is also a huge untapped market for universities in attracting more employer investment on higher level skills training by removing the barriers highlighted by this report. It is estimated that the income the HE sector receives from employers for Continuing Professional Development (CPD)⁵⁰, was worth £335m in 2005/6 (around 6% of the potential revenue pool), with the remainder of business investment going to the private sector or undertaken in-house. Provision accessible to those individuals already in work will often be completely different to the traditional three-year full-time undergraduate courses with a need for more bite-sized, flexibly delivered training that fits around the needs of employer and employees. And of course there is a strong role for business to play in effectively articulating its skills needs.

If more universities are to work with companies on R&D, cultural change may well be required perhaps on both sides. CBI members have reported that where research and development projects cross departmental and university boundaries, smaller companies in particular find it difficult to liaise with universities – particularly if they cannot find the right contacts or are unable to sustain them. But while universities need to co-operate more effectively with business, co-operation is a two-way street. It is important to create real engagement and partnerships in which universities are open to working on the real needs of business and in which businesses better recognise how and where universities can help them.

Universities are increasingly seeing business as an important customer and are changing the way they operate to respond more quickly and effectively to commercial demands. One large university reports that where collaborations previously took up to six months to organise, the start-up time has been significantly reduced with experience. The firm and the university are now both reaping the benefits as they have better quality research and higher skilled staff as a result of the partnership.

Initiatives such as employer co-funding courses, Foundation Degrees and extending Train to Gain provision to higher level skills should be important routes in incentivising effective business-university partnerships. The CBI is also working with UUK and HEFCE to identify existing good practice in this area, highlighting what works and why.

Footnotes

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