

KNOWN UNKNOWNNS

The demand for higher level skills from businesses

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Foreword

Skills are essential to unlocking the potential of the UK's population – increased skill levels will result in greater productivity and the creation of wealth and social justice. As a nation we face a formidable challenge because our skills base is poor by international standards. A radical increase in the skills of the UK workforce is required to prevent us falling further behind our international competitors. This is perhaps the briefest synopsis of the Leitch Review of Skills that you are ever likely to read.

Yet to assert that skills are important is the easy bit; identifying why, where and how they are important is much more challenging. If the case for skills is so compelling, why do we have so much ground to make up to achieve Lord Leitch's ambition that 40% of us will be qualified to Level 4 by 2020?

Given that 70% of the 2020 labour market has already left compulsory education, the focus across all sectors is increasingly on the need to up-skill those already in employment. In policy terms, there is an expectation that providers of higher level skills, including HEIs, will grow their capacity to engage with employers - and businesses in particular - to deliver skills and training.

It is at this point that the debate typically polarises. One side tells us that there is a healthy *demand* for higher level skills from businesses but they are dissatisfied with the *supply* (both content and delivery) offered by HEIs. While usually accepting the supply of skills is in need of reform, the other side contests either that businesses are not interested in higher level skills, or they are unwilling to invest on the scale envisaged by policymakers. The more determined the debate, the more entrenched the respective positions have a habit of becoming.

This report seeks to explore the space between these two poles, by developing a better understanding of the demand for higher level skills. As the Rumsfeldian title suggests, this is currently a 'known unknown' but understanding what businesses currently and potentially require from providers of higher level skills is essential if the debate is to move forward.

In keeping with CFE's values of promoting independent thinking and collaborative action, the paper doesn't finish with a tidy set of conclusions for the reader to take away. What it does provide are a series of practical insights and challenges that each of us from our different constituencies need to take away, reflect on and then action.

Finally, whilst this is a study of businesses in the East Midlands, the messages and questions posed are relevant both nationally and to my colleagues in other regions.

Enjoy the report and I look forward to forward to receiving your comments.



Professor John Coyne
Vice Chancellor University of Derby, Chairman of CFE, and Chairman of East Midlands
University Association

1 Introduction

“As we know, there are known knowns. There are things we know we know. We also know there are known unknowns. That is to say, we know there are some things we do not know. But there are also unknown unknowns, the ones we don't know we don't know.”

Donald Rumsfeld, Former U.S. Secretary of Defense

- 1.1 This much-maligned quote from Donald Rumsfeld may appear to be a strange source from which to derive inspiration for a report on higher level skills - it had the dubious honour of earning the Plain English Campaign's annual Foot in Mouth award in 2002. Yet 'known unknowns' (or things we know we don't know) is a surprisingly helpful way of thinking about the demand for higher level skills from businesses. More of this later.
- 1.2 The Leitch Review of Skills, published in December 2006 reported that the UK's skills base was weak by international standards and was a major obstacle to productivity, growth and social justice.¹ Despite a growth in the proportion of the UK population qualified at higher skill levels (Level 4 and above²) many of our global competitors were identified as progressing further and faster.
- 1.3 The Leitch recommendation that 40% of the population aged 19 to State Pension age should be qualified³ to Level 4 or above by 2020 represents a significant challenge - in 2005 the figure was around 28%. The Review gave a clear indication of where this growth should come from:

“Growth of this order is unlikely to be achievable by trying to expand further the current model of HE. There are limits in capacity, and also limits to how far the current HE model can fully meet the expectations of the greater volume of employers and employees who would need to be attracted. Further improvements in the UK's high skills base must come from workforce development and increased employer engagement.”⁴
- 1.4 The focus on employer engagement is understandable – we know that 70% of the 2020 workforce has already left compulsory education.⁵ While Further Education colleges and other training providers have a role to play in meeting the Leitch challenge, it is Higher Education Institutions (HEIs) that will shoulder most of the responsibility for delivering this significant increase in higher level skills.

¹ Leitch Review of Skills (2006), *Prosperity for all in the global economy - world class skills*, HM Treasury

² [The National Qualifications Framework \(NOF\)](#) sets out the 8 levels against which a qualification can be recognised in England, Wales and Northern Ireland.

³ In Leitch, qualifications are accepted as being an imperfect but necessary measure of skills.

⁴ Leitch Review of Skills (2006), op. cit

⁵ Leitch Review of Skills (2006), op. cit

- 1.5 At both a national and regional level, public policy tends to focus on the need to reform the supply of higher level skills. We agree that this is a necessary process; HEIs will increasingly need to develop high quality provision that is relevant to the needs of business and can be delivered in a flexible way.
- 1.6 At the same time, we also believe that this process must be informed by a more sophisticated understanding of the extent and nature of the demand for higher level skills, which, to return to the title of our report, is very much a *known unknown* at present. It was this central proposition that led us to commission this report with support from the East Midlands Universities Association (EMUA). The findings we present are drawn from a review of the relevant policy literature and a telephone survey of 438 businesses in the region.
- 1.7 We approached this project in classic market research terms: a customer (HEIs in the East Midlands) wants to deliver more products and services to a particular market (businesses in the East Midlands). To do this successfully, HEIs must first develop a clear idea of what the market looks like, what its needs are and how these needs are likely to develop in the future. From an HEI perspective, the bottom line question is: *what is the current and potential market for our services?*
- 1.8 On this basis, the project set out to fulfil three primary research objectives:
 - To identify the extent of demand for higher level skills from businesses in the East Midlands;
 - To assess the nature of this demand;
 - To establish the market share of providers delivering higher level skills to businesses in the region.
- 1.9 While this report provides a ‘snapshot’ of the demand from private sector businesses in a single region - the East Midlands - we believe our findings can be used to inform the thinking of policymakers at a national, as well as a regional level. It is our contribution to the ongoing debate between the higher education sector, government and business around the most effective way to improve the supply of, and increase the demand for, higher level skills.
- 1.10 The report is structured as follows: a summary of the key findings from our research is presented in **Chapter 2**, in **Chapter 3** we assess the broader policy context and **Chapter 4** summarises the method used to undertake the research. In **Chapter 5** we summarise the extent of demand for higher level skills from businesses in the East Midlands. **Chapter 6** provides a more in depth analysis of businesses that told us they had undertaken higher level skills training in the preceding 12 months and **Chapter 7** presents our findings on the businesses that had not. To conclude, **Chapter 8** outlines the key lessons from our research and the important questions we believe it generates.

2 Key Findings

2.1 To move the debate forward, our aim is to develop a better understanding of the businesses that *do* invest in higher level skills training as well as those that *do not*. As a starting point, some of the key findings from our research are outlined below:

Businesses that do...

2.2 In total, **39%** of the businesses we surveyed *had* undertaken higher level skills training in the preceding 12 months. Our research also tells us that:

- The majority of these businesses used HEIs to deliver the training and it is the post-1992 HEIs that have the most significant share of the *overall* market;
- While HEIs dominate the market for more traditional academic qualifications, the professional and vocational markets are hotly contested with other provider types;
- Businesses expect higher level skills training to result in a qualification. In choosing a provider, this is a more important factor than the method, location or cost of training;
- Most businesses tend to meet the full cost of higher level skills training and when they buy from HEIs, they are more likely to buy locally;
- Employers that undertake higher level skills training tend to do so because it forms part of their wider business and/or human resource strategy;
- A resounding 85% reported that higher level skills training had had a positive impact on their business.

Businesses that do not...

2.3 The remaining **61%** of businesses that we surveyed **had not** undertaken higher level skills training in the preceding 12 months. When asked why:

- The most frequent response was that they saw no benefit to their business by doing so;
- Only a small number of businesses cited financial costs or lack of awareness as a barrier to undertaking higher level skills training;
- Although around a third of these businesses (34%) indicated that they may undertake higher level skills training in the future, the majority (59% discounting the 7% of don't knows) reported that they were 'unlikely' or 'definitely not' inclined to do so during the next 12 months.

Snapshot of demand in the East Midlands

2.4 Drawing on these key findings, figure 1 illustrates how the market for higher level skills training in the East Midlands can be segmented.

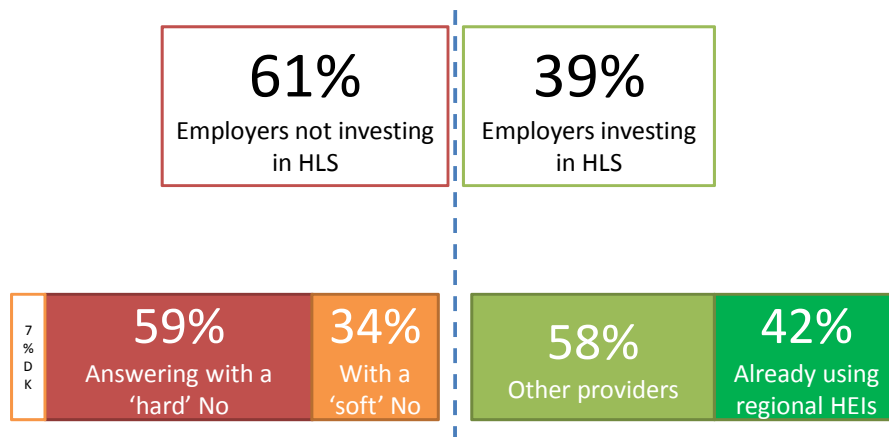


Figure 1: Market demand for higher level skills in the East Midlands

2.5 Of the 39% of businesses that do invest in higher level skills, 42% use HEIs based in the East Midlands and 58% use other providers. However, the ‘other provider’ category includes HEIs based *outside* the region, so if we add their 14% market share to the 42% held by regional institutions, 56% of these businesses undertake higher level skills with an HEI of some description.⁶

2.6 Of the 61% of businesses that do not invest in higher level skills, we have characterised these as ‘soft’ nos and ‘hard’ nos. The ‘soft’ nos represent businesses that have not undertaken higher level skills in the preceding 12 months but indicated that they would ‘definitely’ or ‘maybe’ do so in the next 12 months.

2.7 The rump of ‘hard’ nos represent businesses that have not undertaken higher level skills in the past 12 months and reported that they were ‘unlikely’ or ‘definitely not’ inclined to do so in the next 12 months.

2.8 We will return to these findings again in Chapter 8, to assess the implications of this market segmentation for individual HEIs and policymakers, although as this brief summary illustrates, we are already beginning to move away from the realms of the *unknown* towards the *known*.

⁶ In some earlier versions of *Known Unknowns*, the market share of HEIs and other providers was incorrectly reported as 47% and 53% respectively.

3 Policy Context

- 3.1 This section provides an overview of the national and regional policy context in which our research was undertaken. We consider the implications of the Leitch Review of Skills for the HE sector as well as more recent policy developments and explore the skills landscape in the East Midlands, where our research was focused.

National context

- 3.2 The Government's two White Papers on skills, as well as other recent reviews, have highlighted the growing importance of Higher Education's contribution to skills and productivity.
- 3.3 For example, the Leitch Review interim report identified the relatively high economic returns to HE level qualifications;⁷ the Department of Trade and Industry (DTI) underlined a strong link between skills and innovation⁸ and the Treasury-commissioned Cox review of creativity in business promoted the role of inter-disciplinary HE in improving creativity in business.⁹ These links were formalised by changes to the machinery of government in 2007 that placed innovation, universities and skills in the same departmental camp.
- 3.4 One of the first acts of the fledgling Department for Innovation, Universities and Skills (DIUS) was to produce the Leitch Review implementation plan that warned:

“the UK needs to foster greater and more sustained engagement between universities, colleges and employers in training, skill development and innovation. This implies a culture change in HE as well as FE.”¹⁰

- 3.5 The plan indicated that all HEIs need to grow their capacity to engage on a large scale with employers to deliver skills and training. It made clear that these activities should share equal status with research and academic activities - areas where many HEIs have already fostered good working relationships with employers. Bill Rammell, the former Minister for Higher Education told the Innovation, Universities and Skills Select Committee in December 2007 that he did not want a distinction to be drawn between “*research intensive*” and “*business facing*” universities.¹¹
- 3.6 In recently published strategy papers on higher level skills, DIUS proposes a “key role” for HEIs in employer engagement at a regional and local level:

⁷ Leitch Review of Skills (2006) *Skills in the UK: The long-term challenge*, Interim Report, HM Treasury

⁸ Tether B, Mina A, Consoli D & Gagliardi D, (2005) *A literature review on skills and innovation. How does successful innovation impact on the demand for skills and how do skills drive innovation?* DTI

⁹ HM Treasury (2005) *Cox Review of Creativity in Business: building on the UK's strengths*, HMSO 2005.

¹⁰ DIUS (2007) *World Class Skills: Implementing the Leitch Review of Skills in England*, CM 7181 HMSO

¹¹ [Attwood, R. \(2007\) HEFCE unveils 'high-risk' plan, THES, 7 December 2007](#)

“We want to see universities working with RDAs, SSCs and local employers to develop the higher level skills that a particular business needs in a particular sector in a particular place.”¹²

“We want to increase the opportunities for the new university campuses and higher education centres in more of the communities which would benefit and are willing to mobilise local partners, energy and resources behind them.”¹³

3.7 A recent report by the Higher Education Policy Institute¹⁴ identified two distinct reasons why national policy is focused on increasing the engagement of employers with higher education:

- *Better skills planning*: if the courses offered by HEIs can be better aligned with the needs of employers it might be thought that productivity will improve.
- *Cheap growth*: if employers can be persuaded to contribute financially there is the prospect of increasing the pool of highly qualified people at a reduced cost to the exchequer.

3.8 Yet from an HEI perspective, investing more resource in what can be broadly described as workforce development means investing less in something else – there is an opportunity cost to all market development activities.

3.9 As relatively autonomous institutions, not all HEIs need or want to engage with employers to deliver workforce training. The following extract from Universities UK’s submission to the Lambert Review of Business and University Collaboration expands on this point and is worth quoting at length:

“What policy makers and others outside the system also commonly overlook is the enormous variety of HEIs in the UK, each with very different characters and traditions that can be reflected in their mission, governance and leadership. This diversity of HEIs includes...new universities, formed after 1992 from Polytechnics, usually with a strong vocational focus to their programmes and a concentration on applied research and consultancy rather than pure or strategic research and often with a long tradition of working in collaboration with business”¹⁵

3.10 This brings us back to the ongoing debate between the higher education sector, government and business that we referred to in our introduction. One side of the debate tells us that businesses are not investing sufficiently in higher level skills. In December 2007, Lord Triesman (then Parliamentary Under-Secretary of State at DIUS) told the House of Lords that:

¹² DIUS (2008), *Higher Education at Work – High Skills: High Value*, April 2008. http://www.dius.gov.uk/consultations/documents/Higher_Education_at_Work.pdf.

¹³ DIUS (2008), *A new ‘University Challenge’: Unlocking Britain’s Talent*. <http://www.dius.gov.uk/policy/documents/university-challenge.pdf>

¹⁴ Sastry T & Bekhradnia B (2007) *Higher Education, Skills and Employer Engagement*, Higher Education Policy Institute

¹⁵ Universities UK (2003) *Submission to the Lambert Review of Business-University Collaboration*. The report identifies three other HEI typologies: pre-1992 universities (usually with a strong research focus), general colleges (similar in some aspects to new universities but operating mainly in the FE sector) and specialist institutions (agriculture, music etc.). This is useful contextual information.

“The House and those way beyond it will have to accept that the employers in this country will have to change. The economy of this country has no option but that employers change...We do not have the option, given the number of people in the workforce without the kinds of skills we need over the coming periods, or, indeed, the skills we need today. There is no option other than that there is a fundamental lifting of the level of skills. The role of employers has to be that they increase whatever they have done historically.”¹⁶

- 3.11 On the other side, we hear that businesses are either not interested in higher level skills or are not investing because the supply side does not meet their needs effectively. Although it is notoriously difficult to accurately pinpoint the level of employer investment in higher level skills, there is general agreement that the market share of the HE sector is low:

“The market for employer expenditure on training that HE could potentially compete for is difficult to estimate but is likely to be worth around £5 billion. Currently it is estimated that the HE sector secures no more than £300 million of this potential revenue pool”.¹⁷

- 3.12 In this context, the scale of the challenge thrown down by Leitch and taken up by the Government is daunting. By 2020, 40% of all adults are expected to hold a Level 4 qualification - in 2006 the figure was around 28%. As figure 2 illustrates, significant progress needs to be made at all qualification levels.

	Working Age '000s	Level 4+ %	Level 3 %	Level 2 %
UK (2006)	36,652	28.2%	19.4%	22.0%
England (2006)	30,709	28.1%	19.2%	22.1%

Figure 2: Employment levels of working age population. Adapted from Labour Force Survey 2006

- 3.13 Historically, 18 to 21 year olds have been the main consumers of Level 4 qualifications (usually through full time undergraduate programmes) but demographic trends suggest this group will steadily decline from 2010. We also know from the Leitch Review¹⁸ that 70% of the 2020 workforce is already beyond the age of compulsory education. It is clear that the increase in participation required to meet the 40% target will come largely from individuals that are already in employment.
- 3.14 The grant letter from DIUS outlining higher education funding for 2008-09, published in January 2008 emphasised the continuing importance of employer engagement as:

¹⁶ [Lords Hansard: Edited verbatim report of proceedings in the House of Lords, 3rd December 2007](#)

¹⁷ King, M. (2007) *Workforce Development: How much engagement do employers have with higher education?* CIHE

¹⁸ Leitch Review of Skills (2006) *op.cit.*

“Providers will need a growing appreciation of the needs of employers, and the general employability skills that are increasingly wanted in the workplace; to provide and adapt courses swiftly in response to demand; to offer provision tailored to individual businesses; and make it accessible in ways that suit employers and students”¹⁹

3.15 HEFCE’s employer engagement strategy is specifically focused on learning and teaching rather than research or technology transfer and currently includes support for:

- involvement of HE with the sector skills agenda, regional skills infrastructure and Train to Gain brokerage;
- co-funding of HE provision between Government and employers;
- measures to support greater flexibility in provision;
- quality assurance approaches for customised and workplace learning;
- supporting increasing employer and workforce needs for continuing professional development at higher levels;
- the costs associated with workplace learning;
- a greater contribution of e-learning and technology approaches.²⁰

3.16 The second point here is particularly significant. The grant letter confirmed that £105 million has been earmarked to support higher education places co-funded by employers during the period 2008-2011. In policy terms, there is a clear expectation that employers will make a greater financial contribution to the up-skilling of their workforce. Yet it is far from clear that employers will pay for provision they have hitherto exhibited little interest in purchasing. HEFCE admit that this is a high risk strategy:

“We are trying to do two things at once: build a platform of capacity within higher education to support a programme of accelerated growth in employer co-funded provision from 2010-11 onwards at the same time as testing whether a market exists, the nature and scale of potential demand, and the most effective provider approaches to growing and supplying that market”²¹

Regional context

3.17 In many respects, the Leitch challenge is more daunting for the East Midlands than other regions. The regional labour market is characterised by a low wage, low skill equilibrium where high employment rates are to an extent maintained by a concentration of low pay low skill jobs.²²

¹⁹ DIUS (2008) [Letter outlining higher education funding for 2008-09](#)

²⁰ *ibid*

²¹ THES, 7 December 2007 *op. cit.*

²² ESP (2007) *Employment, Skills and Productivity Partnership Plan*, Regional Skills Partnership

“Increasing the demand for higher-level skills from employers and individuals in the region is a significant challenge.”

- 3.18 Workforce skills in the East Midlands require improvement at all levels. The proportion of employees with no qualifications at all is comparatively high compared to the UK average. The region is also below the national average for higher level qualifications with one of the lowest proportions of its workforce educated to Level 4 in the UK (25% compared to a national average of 29%).
- 3.19 Furthermore, HEIs in the East Midlands are more likely than universities in the rest of the UK to have a sizeable intake from the ‘traditional’ market for Level 4 qualifications – the 18-21 age group.²³ The Regional Economic Strategy (RES) warns that if the East Midlands focuses too narrowly on increasing the skills base of young people entering employment it will continue to suffer from skills shortages in the working age population.²⁴
- 3.20 As a region, a comparatively small number of enterprises deliver the kind of high value added products and services that typically require higher level skills. Employment in knowledge intensive sectors (sectors that employ more than 40% of graduates in their workforce) is below the national average and is dominated by the public sector. One of the key challenges for the region is to increase employer demand for higher-level skills from businesses in *the private sector*.²⁵
- 3.21 The East Midlands Development Agency has identified a number of priority actions in its latest Regional Economic Strategy to increase the demand for, and improve the supply of, higher level skills. In line with national policy developments, the emphasis is placed primarily on supply side reform, including a commitment to:

*“prioritise resources in order to further develop the education and training infrastructure, capacity and quality assurance in order to deliver the skills demanded by employers in a growing economy”*²⁶

- 3.22 A range of ‘priority actions’ are outlined including:

- ensuring courses are aligned to an ongoing assessment of skills needs;
- ensuring that the design and delivery of vocational based learning is fit for purpose, delivering programmes that are up to date, use industry relevant technologies and a mix of learning techniques to improve flexibility of learning options;

²³ The RES cites research conducted by the Institute for Employment Studies. It found that the East Midlands region had more first degree students aged 20 or under in 2003 (62.8%) compared to the other English regions and the devolved national regions. The UK average was 57.4% (IES, 2004).

²⁴ EMDA (2006) *A Flourishing Region: Regional Economic Strategy*, East Midlands Development Agency

²⁵ ESP (2007) *op.cit.*

²⁶ EMDA (2006) *op.cit.*

- developing a specific programme of activity aimed at matching the type and supply of future higher level skills in further and higher education institutions to the needs of business; and
- supporting HEIs to increase the flexibility of their offer so more people already in the workforce have an opportunity to gain higher level skills.

3.23 The Employment, Skills and Productivity Partnership (ESP) in the East Midlands is responsible for co-ordinating funding and strategy of those public bodies involved in the planning and delivery of employment and skills.²⁷ The ESP has formed a task-and-finish group, lead by Government Office for the East Midlands, to develop a regional action plan for higher level skills. It has identified the need to:

- review products and services currently available in the region;
- develop and implement a higher level skills dimension to the existing brokerage service;
- aid HEIs to engage with employers and SSCs to enable the latter to be able to influence the design and delivery of provision, thereby reflecting regional business needs;
- partner with social enterprises to reach out to adults in deprived areas to inform them about the benefits of higher level skills; and
- support HEIs and FE colleges in readiness for the anticipated rise in workplace learning.

Summary

3.24 At both a national and regional level, the demand for higher level skills is viewed primarily through a supply-side lens. As we covered in Skills in Context 2.0,²⁸ policymakers often assume that employer demand for skills (particularly at higher levels) will materialise by increasing the capacity and capability of the supply side.

3.25 As we alluded to in our introduction – we believe that supply side reform is an important and necessary process, but one that must be informed by a more sophisticated understanding of the extent and nature of employer demand.

3.26 It is also important to have realistic expectations. Even with a healthy combination of supply and demand (whatever that looks like) businesses will only invest in higher level skills if there is a clear business case for doing so:

“We should accept that, for some businesses, profitability and market position are derived quite rationally from a decision not to invest in the workforce, either current or

²⁷ Members include: Association of Colleges, EMDA, EMUA, Government Office for the East Midlands, Jobcentre Plus, LSC and local authorities.

²⁸ [Davis, M & Kewin, J \(2007\) Skills in Context 2.0, CFE](#)

future, and in producing low value products. Again, this is not to present an argument that businesses shouldn't invest, or even that they should not invest more, only to question what levels of investment are appropriate for particular businesses and to emphasise that the proper utilisation of skills can only come through understanding the business context in which they are situated."²⁹

3.27 In the sections that follow, we outline the findings from our research that can provide the foundation for developing such an understanding.

²⁹ *ibid*

4 Research method

- 4.1 Our research set out to assess the extent and nature of demand for higher level skills from businesses in the East Midlands and to identify the market share of higher level skills providers.
- 4.2 Our first task was to formulate a definition of 'higher level skills' that was suitably comprehensive and could encompass a broad range of training and development activities, but still be understood by those outside the education sector. In consultation with colleagues at EMUA and HEFCE (and informed by our preliminary literature review) the following definition was developed:

Higher Level Skills

Training and development which is all or just elements of a degree, post graduate certificate, diploma, masters or doctorate. Equally, it can be studying for an equivalent level professional qualification, perhaps through an industry or trade body, for example, accountancy or law.

These higher level skills can be acquired through long, short or distance learning without necessarily leading to a qualification and can be offered in part or in full by universities, further education colleges, private providers and in-house training facilities.

Figure 3: Definition of higher level skills used in the research

- 4.3 The survey focused on employers that:
 - are based in the East Midlands
 - operate in the private sector
 - employ 25 or more staff
- 4.4 Public sector and third sector organisations (social entrepreneurships and voluntary and community organisations) were excluded, leaving VAT registered, private enterprises. The decision to focus on the private sector is in line with regional economic priorities:

*"We are quite clear, it is businesses that create and generate wealth and they will make the difference to the economic success of the East Midlands."*³⁰

³⁰ EMDA (2006) *op.cit.*

- 4.5 Companies employing less than 25 staff were also excluded from the survey for two key reasons. First, although these businesses form the bulk of the business stock, it is businesses that employ *more* than 25 staff that account for 74% of the region's private sector workforce (1,058,975 employees).
- 4.6 Second, evidence suggests that a significant proportion of micro and small employers do not provide any training for their staff, let alone at higher levels. The National Employer Skills Survey 2005 identified that companies employing less than 25 staff were much less likely to invest in general training compared to those employing 25 or more.
- "Size is a key determinant of likelihood to train: half of the smallest establishments with fewer than 5 employees and just over a fifth of those with 5-24 employees had not provided any training in the previous 12 months. In contrast, well over nine-tenths of establishments with 25 or more staff had trained some of their employees over the previous 12 months."³¹*
- 4.7 As of March 2007, there were 4,915 businesses that matched all three criteria. Quotas were set to ensure that our survey sample reflected the distribution of these businesses by county, broad industry group and business size. Using a structured questionnaire, the survey was conducted with the individual within each business identified as having overall responsibility for skills and training (e.g. CEO/Director, senior manager, HR Manager). All interviews were conducted by telephone during October and November 2007.
- 4.8 Respondents were asked an initial screening question to identify if the business had undertaken staff training at any level during the preceding 12 months.³² From a total of 472 responses, only 7% (34) reported that no internal or external training had been undertaken during this period. The remaining 438 respondents were then asked a battery of questions specifically related to higher level skills.
- 4.9 The analysis that follows is based on the responses provided by this sample of 438 businesses, which represents 9% of the 4,915 employers in our population of interest (outlined in paragraph 4.3).

³¹ LSC (2007) *National Employer Skills Survey 2005: Main Report*

³² Respondents were asked, "Over the past 12 months have you or your staff undertaken any training or development that was delivered by an external organisation or by internal staff?"

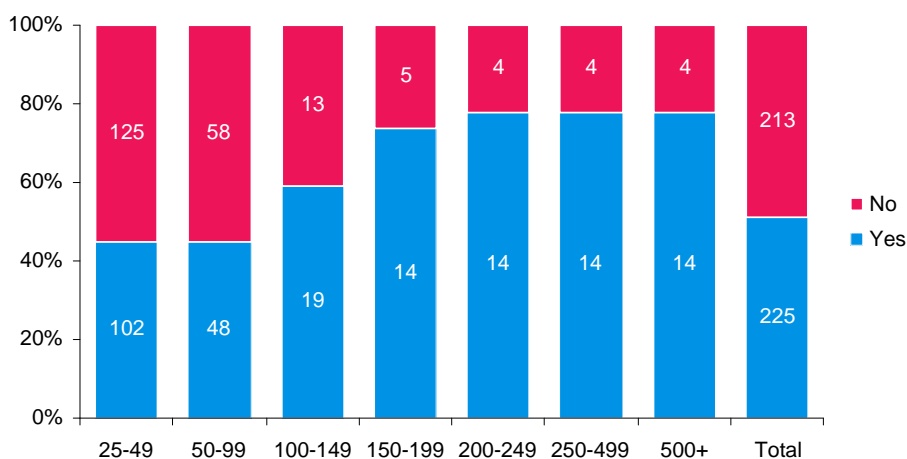
5 The extent of demand

5.1 In this section we present our findings relating to the extent of existing demand for higher level skills training in the region.

Extent of training in higher level skills: original results

5.2 The responses to the initial screening question indicated that only 7% (34) of businesses had not undertaken any internal or external training in the preceding 12 months. The remaining 93% of businesses that *had* undertaken some form of general skills training were then asked if they had undertaken any *higher level skills* training during the same period.

5.3 The original results to this question make for interesting reading. As figure 4 illustrates, 51% (225) responded 'Yes' and 49% (213) responded 'No'.



Base 438

Figure 4: Undertaken higher level skills training by business size (original results)

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

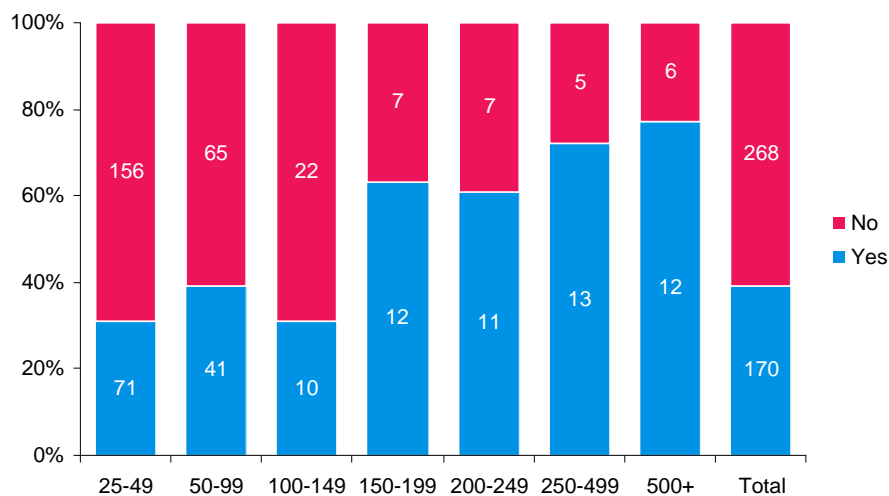
- Where the training was undertaken
- The name of the course
- What, if any, qualification it resulted in

5.5 After this analysis it became clear that 55 of the 225 businesses that reported they had undertaken higher level skills training, had not. The majority had *actually* studied for a qualification at Level 3, or had undertaken training that 'felt like' it was at a higher level.

- 5.6 This is a significant finding and can be used to inform future research in this area. It is clear that the concept of higher level skills eludes clear definition and the qualification levels in the National Qualifications Framework do not resonate with employers. At the outset of the research we attempted to develop a definition that was sufficiently broad to encompass the wide range of training and development activities that could potentially fall within the higher level skills umbrella.
- 5.7 This definition (outlined in Chapter 4) was read out to respondents in full. Whilst helpful in correcting the popular misconception that higher level skills can only be acquired through degree-level undergraduate study, it could still be refined further. For example, 'vocational' qualifications are not specifically included in our definition, but were subsequently cited by a significant number of respondents.

Extent of training in higher level skills: revised results

- 5.8 By filtering out these 55 cases we are presented with a more robust picture of the extent of demand for higher level skills in the East Midlands. As figure 5 illustrates, higher level skills training had actually been undertaken in 39% (170) of the businesses surveyed. We can also see that the take-up of higher level skills training increases in line with business size.



Base 438

Figure 5: Undertaken higher level skills training by business size (revised results)

6 The nature of demand: businesses that train in HLS

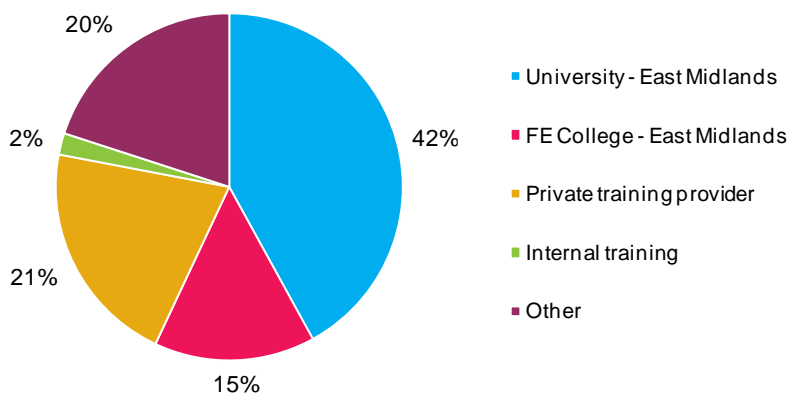
6.1 In this section we explore the *nature* of demand from the 39% (170) of businesses surveyed that are existing consumers of higher level skills training. We begin by examining the market share of the various providers of higher level skills in the region which acts as a useful barometer of employer demand. We will then explore the more specific training preferences of employers, how they fund higher level skills training and their motivations for undertaking these activities.

Market share of higher level skills providers

6.2 For the purposes of this study, we divided providers of higher level skills into five categories:

- Universities in the East Midlands (EMUA member institutions);
- Further Education colleges in the East Midlands;
- Universities and FE colleges from outside the region and industry bodies (termed as 'Other');
- Private training providers;
- Internal training.

6.3 As figure 6 highlights, universities in the East Midlands have the highest share (42%) of the existing market for delivering higher level skills in the region.



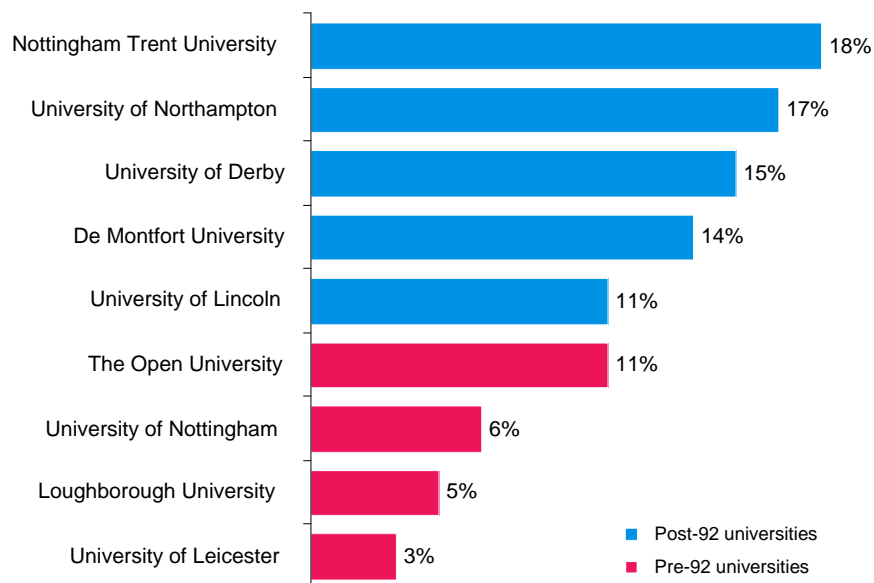
Base 153

Figure 6: Market share by provider type

- 6.4 The pre-eminence of regional universities is a good news story for EMUA members. In the East Midlands, our research shows that HEIs are the main deliverers of higher level skills and have a firm foundation on which to develop their market share. Private providers (including both work based learning providers in receipt of public funding and entirely commercial concerns) have cornered a significant minority of the market but still enjoy less than half the penetration of regional HEIs.
- 6.5 The 15% of higher level skills training delivered by FE colleges is close to the 14% of higher education it is estimated that FE colleges deliver on a national basis. Although included in the 'other' category, HEIs from outside the region accounted for 14% of the total market share. Most were situated on the fringes of the region (e.g. Birmingham University and Sheffield Hallam). A mere 2% of employers used their own internal training resources to provide higher level skills training.

Market share of individual HEIs

- 6.6 The data can be interrogated further to identify the market share of individual universities in the East Midlands, see figure 7 below. Predictably perhaps, it is the post-1992 universities that dominate the employer market for higher level skills.



Base 65

Figure 7: Market share by East Midlands HEI

Training preferences of businesses

Qualifications

6.7 Significantly, existing consumers of higher level skills exhibited a strong preference for training that resulted in a qualification. If we take the 39% of employers that had undertaken higher level skills training in the past 12 months (and exclude 18 'don't know' responses) 98% reported that that the training they undertook resulted in a formal qualification.

6.8 This may appear high, but perhaps reflects our focus on businesses employing more than 25 staff. According to *Workforce Training in England 2006*³³ (see figure 8) the proportion of businesses undertaking training that results in a formal qualification (at any level) rises in line with employee size, peaking at 85% with businesses in the 500+ band.

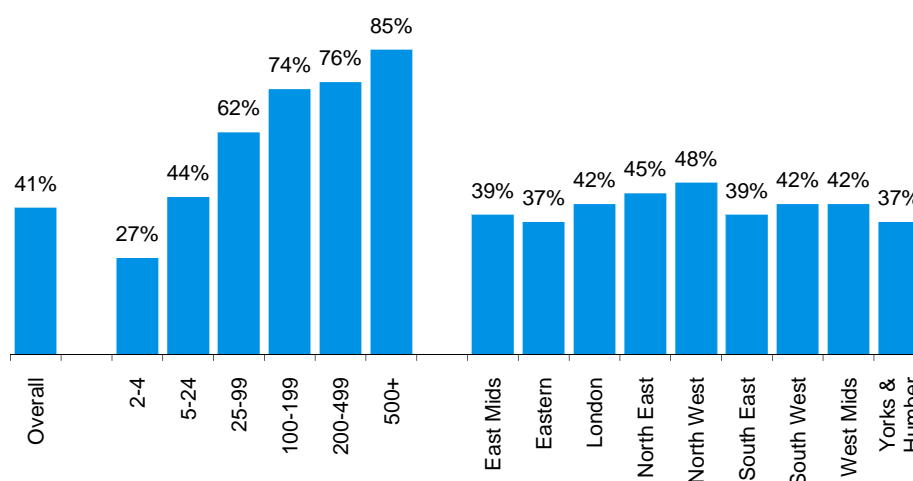


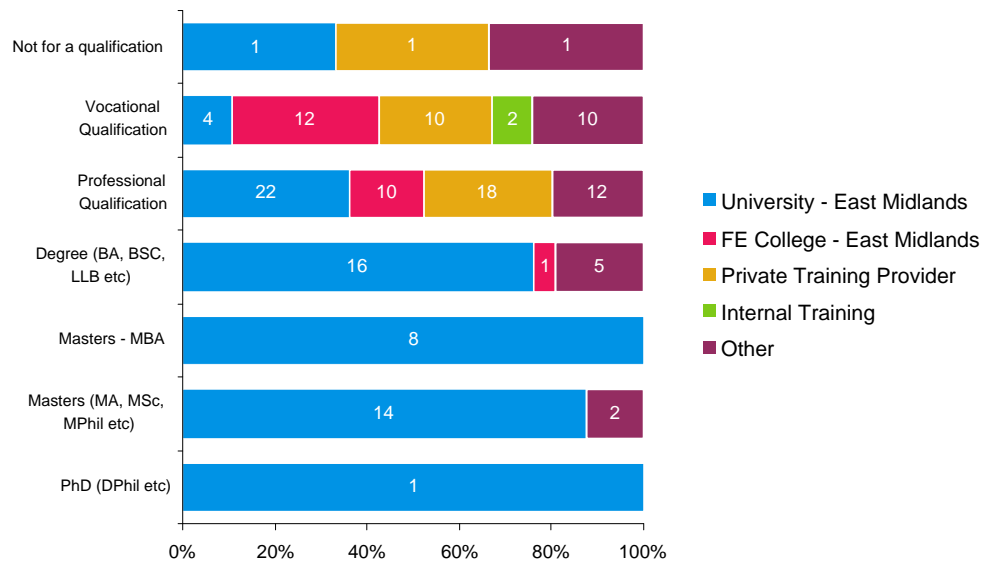
Figure 8: Proportion of training (at all levels) leading to a qualification. Adapted from 'Workforce Training in England 2006'

6.9 As figure 9 illustrates, the more 'traditional' academic qualifications are clearly the preserve of EMUA member institutions. In terms of undergraduate degrees, 16 of the 22 were delivered by universities based in the East Midlands. EMUA institutions provided all of the eight MBA qualifications which employees were taking or had undertaken in the last 12 months. They also were the preferred source for other Masters degrees, such as MSc and MA qualifications, delivering 14 of the 16 qualifications.

6.10 The market for professional qualifications was more competitive, with EMUA institutions delivering 35% of the total. FE colleges based in the region, provided a further 16%. Of the remaining 49%, private training providers had 28%, universities, FE colleges and industry bodies, outside of the East

³³ Winterbotham, M. & Carter, K. (2006) *Workforce Training in England 2006*, RR848, DfES.

Midlands had 19% and employers that provided qualifications in-house accounted for 2%.



Base 150

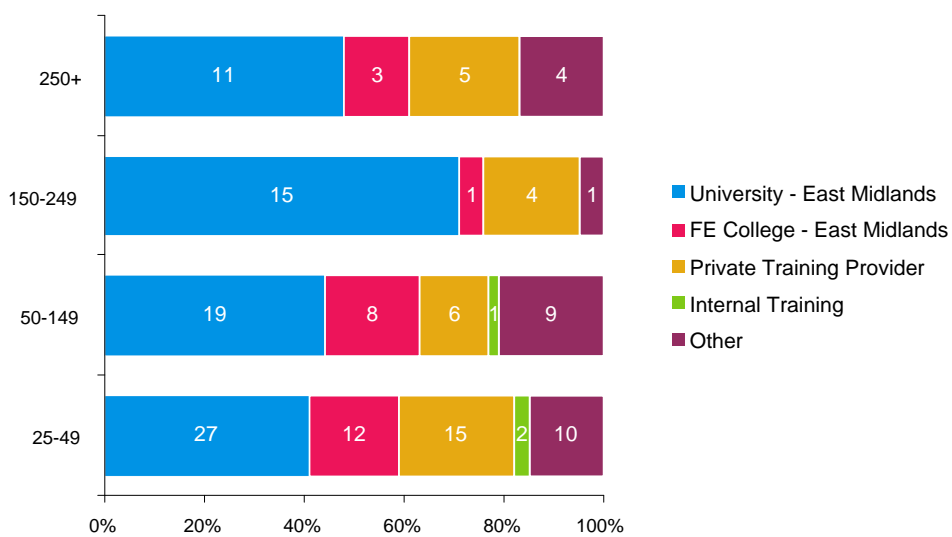
Figure 9: Qualification by provider type

- 6.11 Unsurprisingly perhaps, EMUA HEIs have a much lower market share (11%) of the vocational qualification market. In contrast, FE colleges in the region deliver 32% of all vocational qualifications. Only three employers that we surveyed reported that they or their employees had worked towards a foundation degree during the preceding 12 months. This chimes with recent research that estimates less than half a percent of the entry to HE has resulted from employer funded foundation degrees.³⁴
- 6.12 As expected, the market share of East Midlands HEIs increases (and decreases for FE colleges in the region) as one moves through the vocational, professional and academic qualification categories used in our research. The professional and vocational markets appear to be the most competitive, with all four external provider groups vying for market share.

Business size

- 6.13 Our findings show that small enterprises (employing 25-49 staff) are less likely to use universities in the East Midlands to deliver higher level skills than medium (50-249) or large enterprises (250+). As figure 10 shows, businesses employing between 150 and 249 staff are the group most likely to use HEIs.

³⁴ Sastry T & Bekhradnia B (2007), *op.cit*

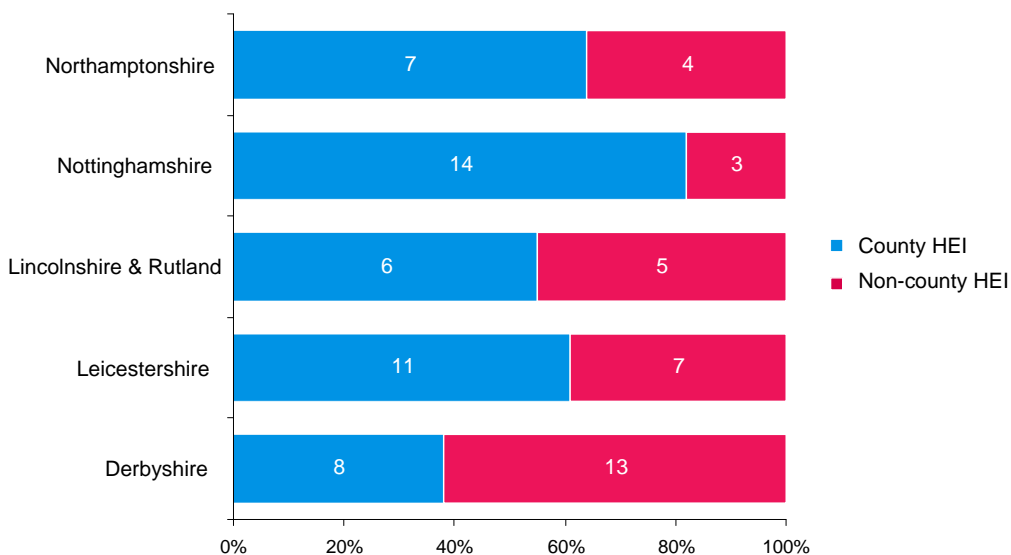


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Figure 10: Business size by provider type

Location

6.14 In developing a strategy to increase market share, it is important for HEIs to have a clear sense of where their business customers are based, and their ‘travel to learn patterns’. Figure 11 illustrates the proportion of businesses that use an HEI based in their own county to deliver higher level skills. As we can see, businesses in Nottinghamshire are the most likely to use universities based within their own county and businesses in Derbyshire are least likely to do so.

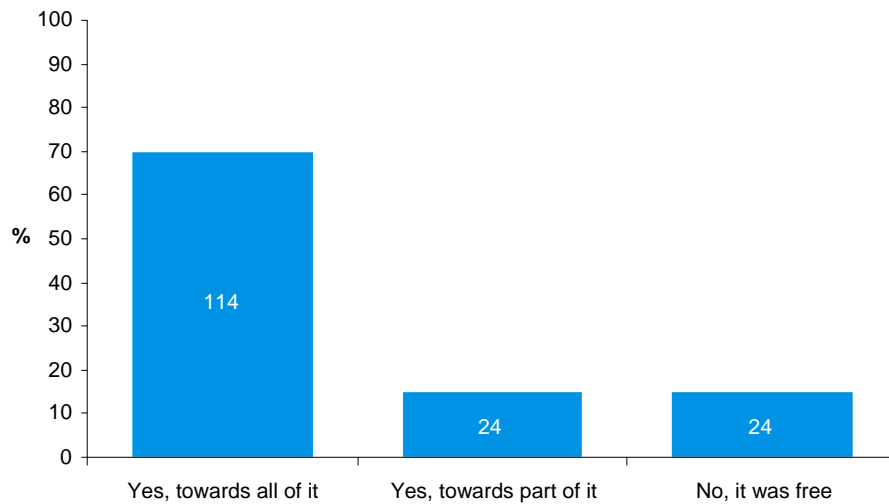


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Figure 11: Business location by HEI location

Funding of higher level skills training

6.15 Lack of funding is often cited as one of the key barriers that prevent businesses from undertaking higher level skills training. As figure 12 shows, our survey found that 70% of businesses actually met the full cost of their higher level skills training.



Base 162

Figure 12: Financial contribution made towards training

6.16 The proportion of businesses that pay the full cost of their training may at first appear high. However, a study commissioned by the DfES in 2006, reported that 50% of employers in the East Midlands that had purchased training (at all levels) had met the cost in full.³⁵ Research into the training habits of SMEs in Nottinghamshire found that 60% of companies bore the full financial cost of external training, (again, at all skills levels).³⁶

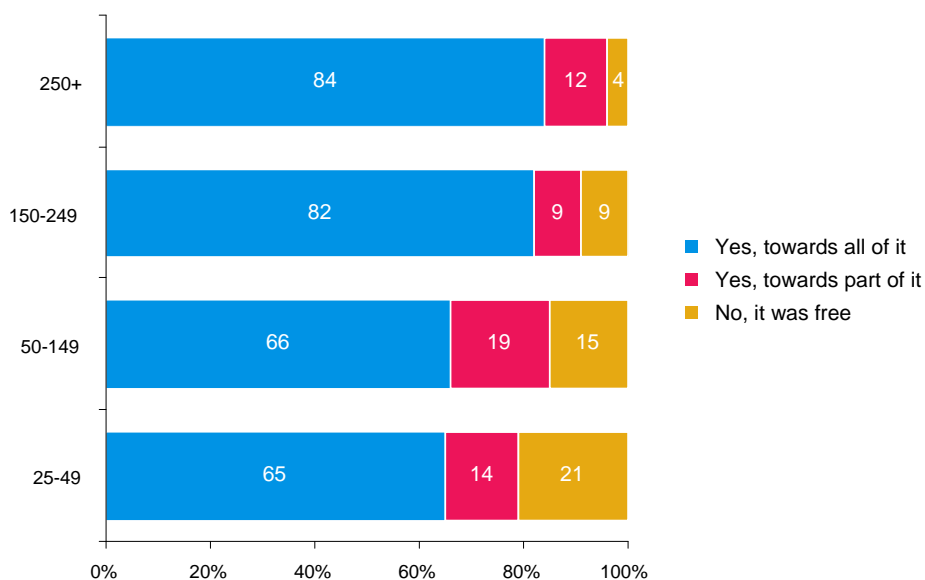
6.17 Employer perceptions are important here. It is likely that some businesses reported that they had met the full cost of their higher level skills training because they paid the fee charged to them at the point of delivery. For training undertaken with providers in the private sector this is likely to be the case. For qualification-bearing courses delivered by HEIs it is equally likely a *partial*, rather than a *full* financial contribution to the actual cost of the training has been made (e.g. by paying an employee's tuition fees).

6.18 It is equally likely that some businesses will have *underestimated* the overall cost of training to their business. While payment of course fees might in their view constitute meeting the 'full cost' of training, this does not include the costs incurred for things like study materials, specialist equipment and study leave.

³⁵ Winterbotham, M. & Carter, K. (2006) *op.cit.*

³⁶ Byrne, J., et al., (2002). *Barriers to Training in Small and Medium Sized Enterprises*, Nottingham Research Observatory Ltd & Centre for Growing Businesses, Nottingham Trent University

6.19 When we analyse the financial contribution made by business size (see figure 13) we can observe a steady increase in the level of self-funding in line with the increase in employee numbers. In part, this may reflect the level of support for small businesses provided by national and European Union public funding programmes; enterprises employing 25-49 staff were certainly in receipt of the highest proportion of training that was provided free of charge.



Base 162

Figure 13: Business size by financial contribution

Reasons for training

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

6.21 As figure 14 shows, human resource issues such as improved retention, increased staff motivation and staff reward was the most frequently cited reason (36%). A significant proportion of businesses (34%), undertook higher level skills training to achieve goals embedded in their business strategy such as increased sales, productivity and profitability. Most businesses appear to invest in higher level skills training *primarily* for strategic reasons and not as a response to shorter term developments in customer behaviour or the labour market.

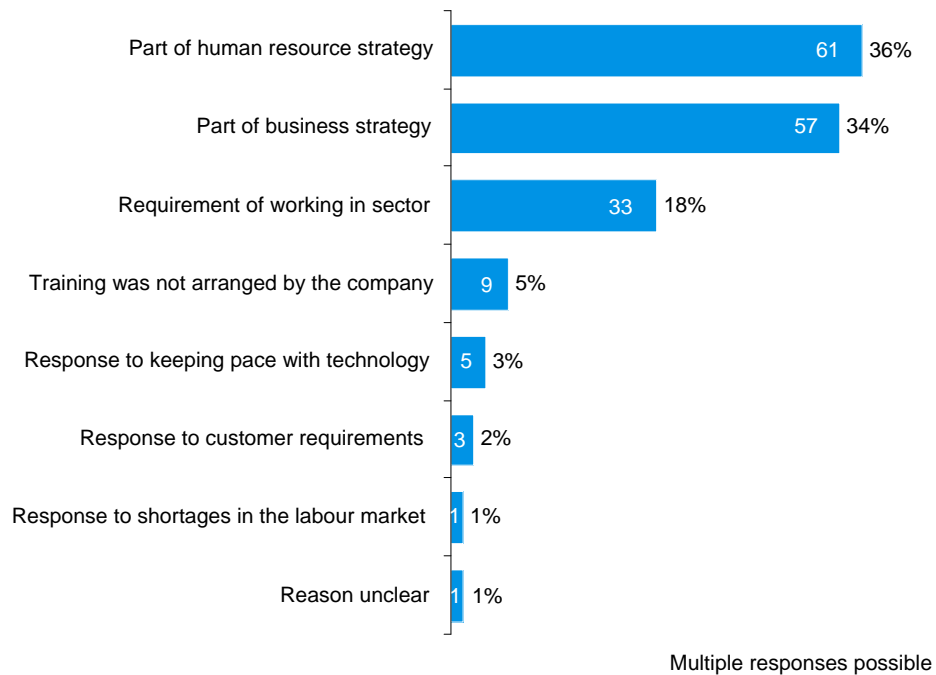


Figure 14: Reasons for training

6.22 We then asked respondents to rate (on a scale of 1-10 with 1 lowest and 10 highest) the importance of five key issues when reflecting on the process of choosing a provider of higher level skills. We have already observed the preference of employers for higher level skills training that leads to a qualification; significantly this was rated as the most important of all five factors by employers (see figure 15).

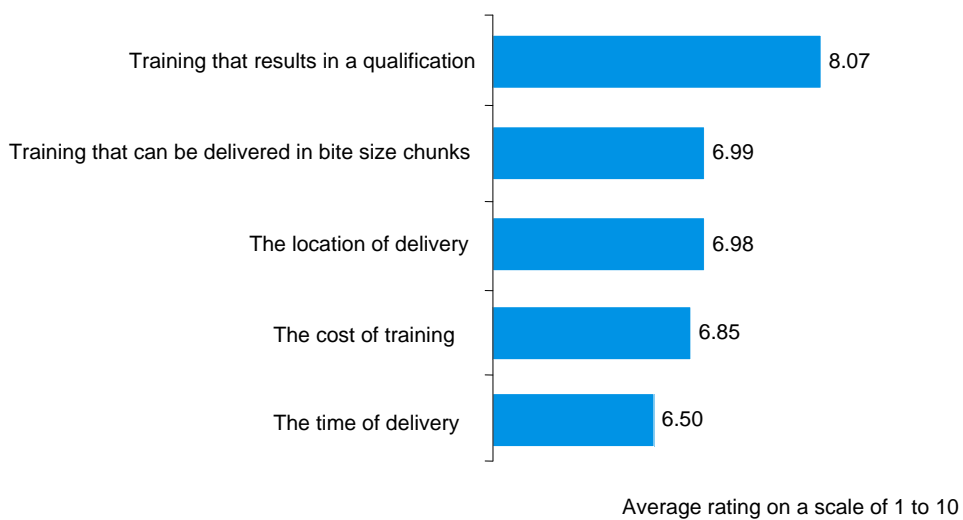
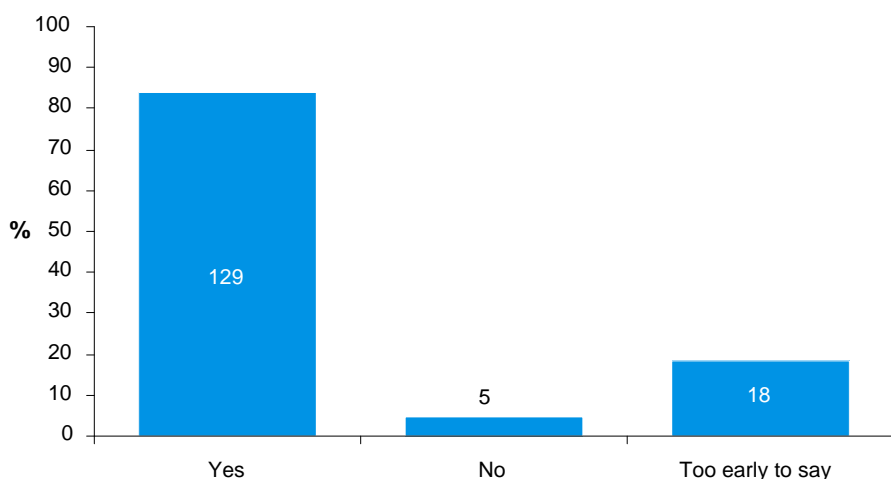


Figure 15: Importance of factors in choosing a training provider

6.23 There was little difference in the preferences of businesses that used HEIs to deliver training and those that used other provider types. In fact, businesses that used non-HEI providers expressed a slightly stronger preference for training that resulted in a qualification (8.10 compared to 8.03).

The impact of training

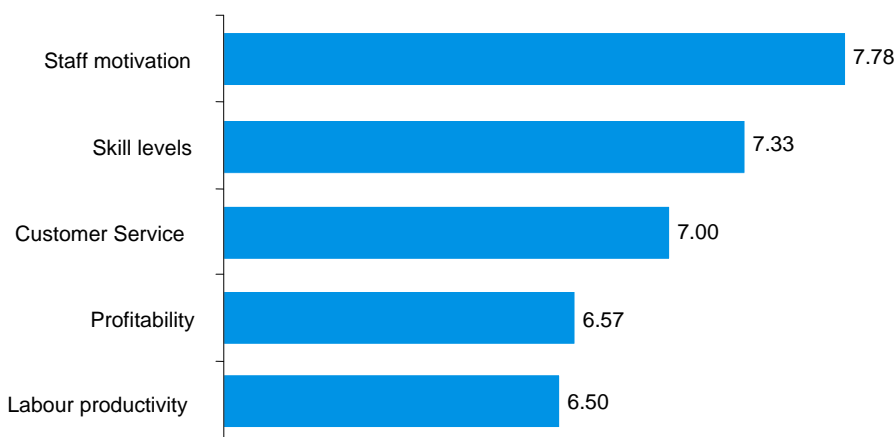
6.24 As figure 16 illustrates, in the vast majority (85%) of cases, higher level skills training was reported as having a positive business impact.



Base 152

Figure 16: Has the HLS training had a positive impact on your business?

6.25 All respondents that answered 'yes' were then asked to rate the impact of the training on 5 key areas of the business. On a scale of 1 (lowest impact) to 10 (highest impact), staff motivation was the area where the most positive impact was reported.



Average rating on a scale of 1 to 10

Figure 17: Impact of HLS on key areas of business

Summary

6.26 Several key messages can be drawn from our findings relating to the nature of demand for higher level skills:

- The majority of businesses that undertake higher level skills training do so with HEIs, and it is the post-1992 HEIs that have the most significant share of this market;
- While HEIs dominate the market for more traditional academic qualifications, the professional and vocational markets are hotly contested with other provider types;
- Most businesses expect higher level skills training to result in a qualification. In choosing a provider, this is a more important factor than the method, location or cost of training;
- Most businesses tend to meet the full cost of higher level skills training and when they buy from HEIs, they are more likely to buy locally;
- Businesses that undertake higher level skills training tend to do so because it forms part of their wider business and/or human resource strategy, and the vast majority report a positive impact on their business.

7 The nature of demand: businesses that do not train in HLS

7.1 In the previous section we explored the nature of demand from the 39% of businesses surveyed that are existing consumers of higher level skills training. In this section we focus on the remaining 61% (213 businesses) that *had not* undertaken such training in the preceding 12 months to establish:

- Why they had not undertaken higher level skills training
- The likelihood of them doing so in the future and the form that this training might take

Reasons for not undertaking higher level skills training

7.2 Strikingly, almost 40% of businesses (so 40% of the 61%) told us that they had not undertaken higher level skills training as they saw no benefit to their business by doing so – see figure 18. It is worth remembering that these businesses had invested in *general* skills during the preceding 12 months and so have acquired the ‘habit’ of training.

7.3 In part, this can be explained by the relatively low number of businesses in the East Midlands that have adopted a business strategy to produce the sort of high value goods and services that typically require higher level skills. This underlines the fact that some businesses are unlikely to ever invest in higher level skills unless there is a fundamental change to the business model they have adopted, and in many cases adopted very successfully.

7.4 Significantly, only 6% of businesses told us they had not undertaken higher level skills training due to financial costs. This suggests that policy interventions aimed at making higher level skills more financially attractive will have a limited impact unless there is a corresponding increase in the number of businesses that move toward a higher value added business model.

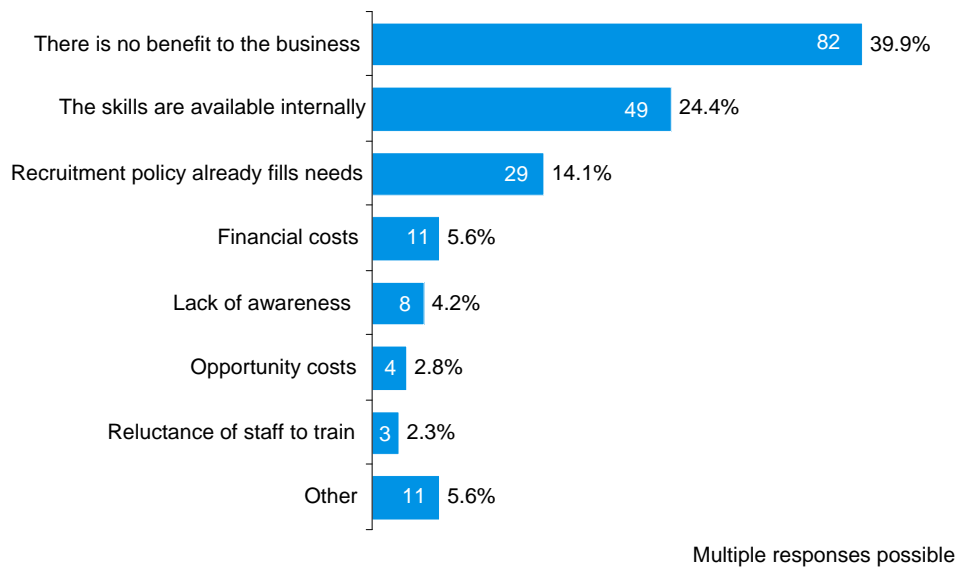


Figure 18: Reasons for not undertaking higher level skills training

Likelihood of undertaking Higher Level Skills in next 12 months

7.5 When asked about their future intentions, 34% of businesses that had not undertaken higher level skills training reported that they would ‘definitely’ or ‘maybe’ do so at some point in the next 12 months (see figure 19 below).

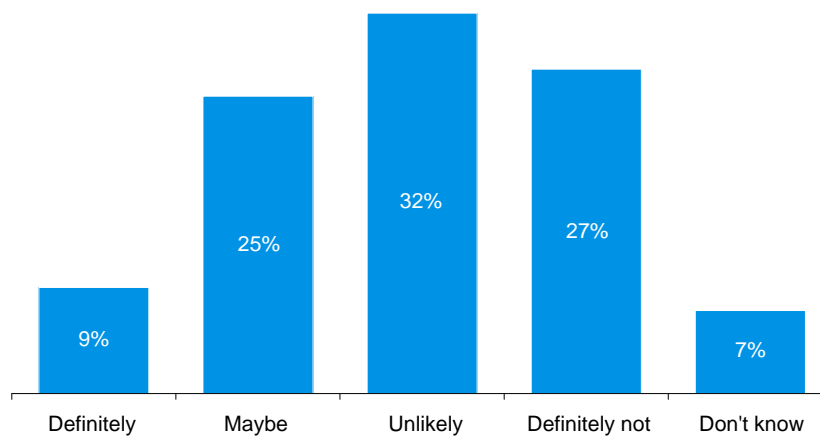


Figure 19: Likelihood of undertaking higher level skills training in the next 12 months

7.6 The 34% (72 employers) that indicated a potential interest in higher level skills in the next 12 months were then asked a battery of questions about their future training intentions. Although the number of responses to these questions were small, they provide some useful insights into the future preferences of employers and provide a foundation for further study in this area.

- 7.7 Almost one third (23) were unable to specify a provider or provider type that would be most likely to deliver the training. Of the remaining 49 respondents that could, only 13 expressed a preference for an EMUA institution. The majority (26) were most likely to use a private training provider or one from outside the East Midlands. When asked about the type of training they were likely to undertake, professional and vocational qualifications accounted for 46 of the 55 responses.
- 7.8 The remaining 59% of businesses (discounting the 7% of 'don't knows') are likely to be a tough group for HEIs in the region to penetrate; they had not undertaken higher level skills in the past 12 months and reported that they were 'unlikely' or 'definitely not' inclined to do so during the next 12 months.

Summary

- 7.9 We know that the majority of businesses in our survey had not undertaken higher level skills training in the preceding 12 months. When asked why:
- The most frequent response was that they saw no benefit to their business by doing so. We know that the businesses that *had* undertaken higher level skills had done so as part of their wider business strategy; it is clear that the same is true for the businesses that had not.
 - Only a small number of businesses cited financial costs as a barrier to undertaking higher level skills. We identified earlier that most business that do train at this level tend to meet the full cost. Taken together, this suggests that policy interventions aimed at making higher level skills more financially attractive to businesses will – in isolation – have only a limited impact. As we will explore in Chapter 8, the Government's policy of co-funding employer places might actually have a *negative* impact.
 - Although around a third of these businesses (34%) indicated that they may undertake higher level skills training in the future, the majority (59% discounting the 7% of don't knows) reported that they were 'unlikely' or 'definitely not' inclined to do so during the next 12 months.

8 Key lessons

- 8.1 So does the demand for higher level skills remain a series of *known unknowns*? While not quite a *known known* it is our hope that we have been able to develop a more sophisticated understanding of the extent and nature of demand from businesses. The key lessons we feel can be drawn from our research for HEIs, policymakers and future research are outlined in more detail below.

For HEIs

- 8.2 It is important to accept that not all HEIs want or need to engage with businesses to deliver training. Universities are relatively autonomous institutions that trade on the strength of their inherent assets – the extent of their engagement with businesses should be considered in this context. The extract from Universities UK’s submission to the Lambert Review cited earlier bears repeating:

“What policy makers and others outside the system also commonly overlook is the enormous variety of HEIs in the UK, each with very different characters and traditions that can be reflected in their mission, governance and leadership.”

- 8.3 Earlier in the report, we identified each HEI’s share of the higher level skills training market in the East Midlands. This reflects the reality that HEIs - like businesses - play to their strengths and for the most part have adopted a business model that reflects this. It is also important to consider the opportunity cost of developing new markets for workforce skills. With finite resources available, time spent by an HEI engaging with businesses to deliver training is time not spent on technology transfer, research or consultancy. It is fair to say that Russell Group Universities have relatively less incentive to develop their training activities than many post-1992 institutions but again, this reflects the inherent diversity of the sector.
- 8.4 As a starting point, HEIs that are serious about developing a presence in the training market must first understand their position within it. An individual market assessment of the type we have developed through this research would provide a useful baseline and a foundation on which to build.
- 8.5 Our research indicates that the businesses that do invest in higher level skills do so as part of an overall strategy and so HEIs should be unapologetic about targeting these businesses. There is a need to move away from a presumption that businesses of all sizes, sectors and aspirations are potential customers for higher education; in short, businesses will only invest in higher level skills if there is a clear business case for doing so. Like any business, universities need to segment and target those parts of the market that are most likely to yield a positive return.

For policy makers

8.6 For policymakers, the good news is that HEIs cater for around half of the businesses that invest in higher level skills. But how much of this market is 'new' business and how much is 'repeat' business? At this point, it might be useful to return to the market segmentation diagram we presented earlier in the report.

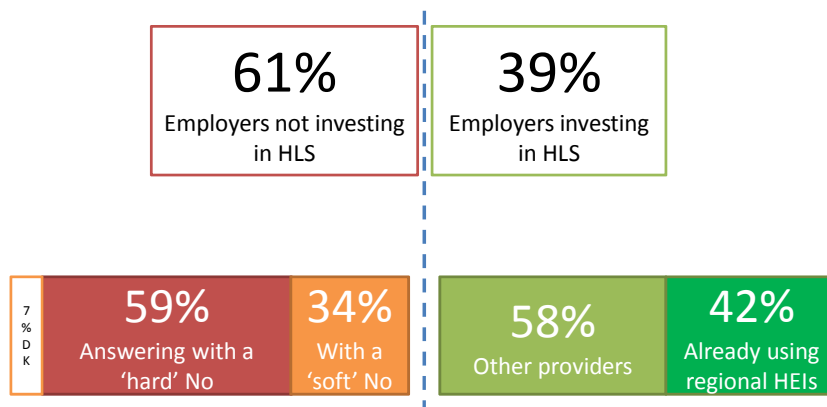


Figure 20: Market demand for higher level skills in the East Midlands

8.7 In policy terms this is an important question – to achieve Leitch’s 40% Level 4 target only ‘new’ business counts, as the target relates to *first* full Level 4 attainment. If HEIs are dealing largely with repeat business, perhaps from organisations with a highly skilled workforce wanting more of the same, this will not make a dent in the Government’s target.

8.8 This may (at least in part) account for the Government’s plans to withdraw funding for students studying for qualifications at a level they have already attained. These proposals on equivalent or lower qualifications (ELQs) have been vigorously opposed by the HE sector. A debate in the House of Lords in December 2007 heard arguments that the ELQ policy would hinder the Government’s targets on skills, and would disproportionately affect those groups (employed, older and part time learners) required to achieve the 40% participation target.³⁷

8.9 Despite this opposition, the Government has mounted a robust defence of the policy. Secretary of State John Denham believes the move is crucial to widening participation and refocusing resources on those that do not traditionally access higher education:

“We recently made another difficult choice: to prioritise taxpayers’ support for students who have never been to university over those wanting to do a second degree. And we, through HEFCE, will work with affected institutions as they adapt...as a country, we simply cannot afford to have a Higher Education sector that is focused only on school and college leavers. As Sandy Leitch’s report made clear, 70% of the

³⁷ Lords Hansard: Edited verbatim report of proceedings in the House of Lords, 3rd December 2007

workforce in 2020 has already left school. And many of them need university level education".³⁸

- 8.10 It is also important to understand the scale of demand, as we know that many businesses do not systematically collect and collate data on training activities. While our research highlights the number of *employers* that procure higher level skills training, it is still unclear how many *employees* actually benefit from the training. If the businesses working with HEIs have a healthy number of employees that are likely to undertake higher level skills training, it is possible that the Leitch target could be achieved by mining this existing market. If only a handful of employees within each business are likely to do so, the net will have to be cast more widely.
- 8.11 Additional research is required to understand the penetration required to achieve the Leitch target. The higher level skills offer to businesses in the green categories (those that do) will necessarily be very different to those in the orange and red categories (those that do not).
- 8.12 Our research tells us that businesses that *do* invest in higher level skills *really* invest. On balance they pay, they pay for qualifications and they know the reasons for buying and the anticipated returns. These do not fit the caricature of businesses not interested in qualifications - in a mature market each agent knows the rules and by reason of their trade has chosen to accept them. There is little evidence of market failure here.
- 8.13 We must accept that for many of those that *do not* invest, this is the result of a similarly mature decision making process. The majority of these businesses reported that they had not undertaken higher level skills training because they saw no benefit to their business in doing so. We are not necessarily talking about owners of dark, satanic mills here; all these businesses had undertaken *some* training during the preceding 12 months. The training 'habit' was therefore well developed, but this did not translate to investing in skills at higher levels.
- 8.14 The reality is that these businesses will only start to undertake higher level skills training if there is a change to the market context in which they think about their business strategies. In other words, the 'hard' nos can only be tackled as part of a wider economic development strategy, in which HEIs play a role alongside a much wider cast of characters.
- 8.15 Yet the policy response is often to assume that these businesses are all 'soft' nos that *would* invest, if only higher level skills were easier to find (e.g. through the extension of Train to Gain) or could be made more financially attractive. Our research does not support this view - as reasons for not undertaking higher level skills training, financial costs and lack of awareness were only cited by a small minority of businesses.

³⁸ [Speech to Universities UK Conference 13/9/07](#)

- 8.16 Viewing all businesses through the same lens runs the risk of making deadweight interventions, offering inducements to those businesses that already invest, or ineffective ones to those businesses where it just doesn't make sense to do so. We identified earlier that the Government has earmarked £105 million to support higher education places co-funded by employers during the period 2008-2011. In policy terms, there is a clear expectation that businesses will make a greater financial contribution to the up-skilling of their workforce.
- 8.17 There is a risk that this policy could actually act as a disincentive to greater financial investment. Businesses that already invest will be expected to pay more as the state pays less, and businesses that do not invest are even less likely to do so as the cost of training increases.
- 8.18 Making impassioned pleas to invest is also likely to have little more than a marginal impact. As Prof. Ewart Keep comments:
- "Attempts to correct market failure through the promotion of the benefits of training have seemed to generate relatively limited effect."*³⁹
- 8.19 Looking again at our market segmentation diagram, another question presents itself: is it the aim of policy to grow the market share of HEIs or to grow the overall size of the higher level skills market? If it is the former, this can be done by competing with HEIs and providers in the 'other' category. If it is the latter, this means tackling the 'soft' nos, and depending on the size of this market, attempting to penetrate the 'hard' nos.
- 8.20 It may be helpful to conclude with a commercial analogy. If a mobile phone provider wanted to expand their reach into the 3G market, which of these market segments would they target?
- *The group that undertakes higher level skills with HEIs:* they have a mobile phone that is already 3G enabled and they are existing customers;
 - *The group that undertakes higher level skills with other providers:* they also have a mobile phone and 3G but they have a contract with a competitor;
 - *The 'soft' nos:* they have a mobile phone but don't have 3G, although they may consider it in the future;
 - *The 'hard' nos:* this group do not have a mobile phone and have no plans to buy one in the near future.
- 8.21 We contended in our introduction that supply side reform must be informed by a more sophisticated understanding of the extent and nature of the *demand* for higher level skills. It is this sort of market segmentation, informed by a broader programme of market research, that both HEIs and policymakers can use as the foundation to develop such an understanding.

³⁹ Keep, E (2006) *Market Failure in Skills*, SSDA Catalyst Issue 1

Future research

8.22 Finally, we have identified a number of key learning points related to the research *process* that we hope can inform future research in this area.

- A real difficulty in conducting research into higher level skills is that it is not a term or a concept that resonates particularly loudly outside of educational circles. Only a select group are familiar with the levels used in the National Qualifications Framework and it was our experience that this group includes very few businesses. While the definition that we developed with colleagues at HEFCE and EMUA was comprehensive, it could still undergo further refinement. For example, no mention is made of the word ‘vocational’ that was subsequently used to describe much of the training undertaken by respondents. It is significant that 55 of the 225 businesses that initially indicated they had undertaken higher level skills training had actually trained at a lower level. Any future *measurement* of higher level skills should account for this and accept that the research findings will be closely linked to the definition that is used.
- We also know that very few businesses keep detailed data on training and even fewer distinguish between ‘general’ and ‘higher level’ skills training. As we covered earlier, this also makes it difficult to identify the true extent of demand in terms of hard employee numbers. This should also remind us that demand is a dynamic concept and is always likely to elude very precise measurement.
- Our research was conducted on a regional basis. While non-regional HEIs account for 14% of the higher level skills market in the East Midlands, regional HEIs are also likely to have a similar market share in other regions. A purely regional assessment of market share is always likely to underplay the success of HEIs with a predominantly national (rather than regional) customer base.

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