Improving employer engagement with skills and training in Greater Lincolnshire

I. Literature Review

This Literature Review sets out to answer two key questions:

1. What do we know about what motivates employers to invest in their employees' skills and what the barriers to such investment are?
2. What behavioural approaches might be effective in encouraging employers to take a 'first step' toward skills investment by booking a meeting with the Specialist Skills Advisor service in Lincolnshire?

The importance of skills and training

Recently there has been an increase in governments across the world adopting policies which are designed to encourage companies (especially small and medium sized enterprises) to invest in training for their staff.[i] Research has shown many countries (including the UK) face the challenge of private companies (and SMEs in particular[ii]) not investing adequately in the skills of their workforce.[iii,iv] Insufficient investment in the skills of people already in the workforce impacts the performance of individual businesses (for example reducing profitability).[v] However, it also has an impact at a broader macroeconomic level (such as damaging particular industries' ability to compete with overseas competitors[vi]). Insufficient investment in skills has also been widely cited as one of the potential drivers of the UK's 'productivity puzzle', the striking stagnation of UK productivity in recent years compared to other advanced economies.[vii]

In recent years UK policy has moved toward encouraging greater employer ownership of, and investment in, the skills system. For example, the Employer Ownership of Skills pilot's match-funded bids from private companies who wished to re-design vocational training routes.[viii] Likewise, the UK Government is moving toward a model in which public funding for the training of apprentices is routed through employers who exercise choice about which training provider to fund. This is in contrast to the current model which is provider-led.[ix] The goal of this shift is to ensure that skills investment delivers genuine value to employers.

In addition, in a period of continued restraint on public spending, it is unlikely that there will be a large increase in public investment in skills. Therefore, there is also an emerging

consensus that employers will need to play a greater role in the skills system directly. The Government set out a plan in their 2010 strategy document *Skills for Sustainable Growth* to put greater responsibility on businesses both in shaping the skills system and in investing in skills.[x]

Encouraging greater employer investment in skills is a policy priority across all types of business. However, the position of small and medium sized enterprises (SMEs), defined in the UK as companies with less than 250 employees, is particularly interesting for several reasons:

1. SMEs are a large part of the UK economy, making up 99.9% of all employers in the UK, 60% of employment and 47% of private sector turnover.[xi] In addition, the vast majority of companies (96%) are actually micro businesses with less than 10 employees.[xii]
2. The research that has been done to date suggests that insufficient investment in skills is a more acute challenge in SMEs than in larger employers, with 36% of UK small firms provide no training at all for their employees.[xiii] Moreover, employers with more than 100 workers are twice as likely to invest in training as those with less than five employees and 50% of small firms see no need for further training of their workforce.[xiv]
3. SMEs in the UK contribute significantly less proportionally to national Gross Value Added (GVA) than their counterparts in other EU countries. SMEs contribute 52% of the total Value Added by enterprises in the UK, the third lowest figure in the EU.[xv] This is interesting because research has shown that higher workplace skills are linked to improved productivity, i.e. higher GVA contribution.[xvi]

What is behind (small and medium sized) firms' reluctance to train?

In this section we explore what is known about why employers do not invest in skills and training. In the final section we will then consider how these barriers might be overcome using interventions which draw on behavioural science.

Before discussing barriers to investment further, it is worth noting that most reports and papers in this area are based on surveys and qualitative studies of employers. We know that such self-reported evidence is not always an accurate guide to the drivers of behaviour. For example, when asked in surveys, adult learners often cite situational barriers (like location of the college or insufficient time) as the reason they do not engage with adult learning.[xvii] However, this may be because these reasons are more concrete and easier for people to identify. Some researchers argue that dispositional barriers (related to people's self-identity as a learner, their confidence and their belief in the value of

learning) are likely to have the largest impact on learner engagement and persistence but we understand these barriers least because they are not easy to measure in surveys.[xviii] Some have argued that this gap between real and perceived barriers is also present amongst employers when thinking about skills investment decisions.[xix]

However, bearing this in mind, Government research from 2015 provides a summary of the views of companies. The four most commonly mentioned obstacles to investing in training amongst 33,000 employers that claimed would have liked to provide more training are:[xx]

- 52% lack of funds for training,
- 49% unable to spare more staff time,
- 14% hard to find time to organise training,
- 5% lack of appropriate training/qualifications.

In addition, this survey asked companies who did not provide training and did not want to do so, why this was the case. Amongst the 20,000 companies surveyed in this group, the top reasons given were:[xxi]

- 68% all staff are fully proficient / no need for training,
- 7% training not considered a priority,
- 7% no money available for training,
- 5% no training available in relevant subject area.

These findings are echoed by the results of an employer survey run by GLLEP in 2014.[xxii] It found that only around one in six employers (17%) believed they had skills deficiencies in their workforce, though this varied significantly by business size (as larger firms are more likely to have at least some staff with development needs). Around half of businesses say they faced no significant barriers to identifying suitable training. Amongst those who did face challenges, the most commonly cited barriers were being unable to spare staff time (53%), the cost of training (45%) and the availability of training provision locally (44%).

Alongside these headline findings, the literature lists a range of other factors that drive company managers and HR teams to choose not to invest in training and development. In adult learning, one commonly used framework categorises the barriers preventing adult learners from participating and persisting in education as falling in one of three groups: situational, institutional and dispositional.[xxiii] Situational barriers are those which relate to a person's individual circumstances and how learning may or may not fit into their daily life. Institutional barriers are those related to the way adult learning is organised or structured. Dispositional barriers are about an individual's attitudes or beliefs about the importance of learning and their view of themselves as a learner.

While not an exact equivalence, the literature on employer investment in skills appears to also highlight barriers that fall roughly into three similar categories. There are institutional

barriers which relate to wider factors beyond an employer's control; for example the presence of a low-skills equilibrium across a sector or a difficulty accessing commercial finance to invest in skills. There are dispositional or belief-based barriers which relate to employers beliefs about the value or necessity of skills investment. Finally, there are situational barriers which relate to how skills investment can be practically delivered and implemented day-to-day.

These survey findings discussed above, though only based on self-reported data, suggest that the problem of insufficient investment is driven by two distinct cohorts of employers facing distinct barriers. One cohort face dispositional barriers, they do not believe that they need to invest in skills or training for their staff. The UKCES survey outlined above suggests that around 25% of companies had not invested in training and did not plan to do so.[xxiv] The second cohort face situational barriers, they appear to understand that they should invest more but face a range of organisational or logistical challenges to turning this belief into action. The UKCES survey suggests that 42% of businesses either want to begin investing in training, or do not believe they invest enough.[xxv]

In the next section we discuss these barriers in turn, focussing mainly on dispositional and situational barriers which are within the control of individual firms.

Institutional barriers to investment

Firms frequently cite institutional or economic barriers to investing in training their staff. Addressing these issues is challenging for policymakers as they often require more structural or wide-ranging policy responses (for example to macroeconomic or financial policy). Commonly cited barriers are:

1. **Low skills equilibrium** – The low level of skills among employees is the result of an equilibrium caused by a vicious cycle. First, employers have limited demand for skills which leads to product market strategies that emphasise low specification products or services. This pattern is replicated in most employers in an industry or sector. Consequently, no employer invests in skills and therefore employees themselves become discouraged from taking up learning opportunities and actively using the enhanced skills.[xxvi] In this situation, low investment in skills is usually a profitable business strategy.
2. **The difficulty of accessing financing** – Banks and other financial institutions do not tend to lend to businesses who want to invest in training because of the unclear future returns, while finding other funding opportunities to cover these costs is usually difficult for firms.[xxvii]
3. **Lack of access to economies of scale** – Smaller companies will inevitably face larger costs per head to invest in training compared to larger companies.[xxviii]

4. **Difficulty accessing tailored training** – Many companies have very specific skills needs and have difficulty finding the appropriate provider in their area.[xxix]

Dispositional barriers to investment

In our categorisation, dispositional barriers to investment in training relate to employers beliefs about the value skills investment. Many employers do not seem to believe that such investment will actually drive increased profitability for a range of reasons. These include concerns about spillover effects within an industry, a belief that their staff are already as competent as they need to be or a specific belief about the value of externally-provided, formal training.

Lack of belief in the value of skills investment

One factor which is often cited is a lack of awareness amongst employers about benefits of skills development.[xxx] A survey from 2015 found that 68% of those firms who did not provide training claimed that they did not do so because all staff were fully proficient and/or they needed no training.[xxxi] This suggests that the need to invest in training in order to keep up with national or overseas competitors is not clear for many businesses.

In addition, employers are sometimes concerned that any increased profit gained from investment in skills will be absorbed by increased wage costs. As employees become more efficient, they are concerned that this will lead to higher wage demands which might erode any potential financial benefits of increased productivity.[xxxii]

Fear of poaching

Many employers cite concerns that investment in training will result in other firms 'poaching' staff once they have been trained. Instead of investing in training to develop the skills of their own employees, companies might choose to "free ride" on their counterparts' efforts and recruit a pre-trained workforce from them. While this barrier is often cited, research suggests that the perceived risk of poaching is higher than the actual risk of this happening.[xxxiii]

Poaching is perceived as a problem by companies for two reasons. First, there is the immediate challenge of coping with the loss of a member of staff and needing to rectify the gap in immediate capacity. Second, companies are also concerned with other potential broader spillover effects. Through organising training for their own employees companies also increase the pool of trained workers available in the given sector. As trained employees fluctuate between companies in the industry, competitors can pick from the larger pool of skilled workers instead of training their own. If 'poached' employees move to competitor companies, this will have the effect over time of eliminating the comparative

advantage of the firm that originally trained them. Moreover, companies might be concerned that if poached, trained staff would share their knowledge about the supply, quality and cost of training at the firm with their new employer.[xxxiv]

Opposition to formal training

Research suggests that smaller firms see formal skills and training programmes as less appropriate for their needs than those of larger companies.[xxxv] [xxxvi] This opposition to more formalised types of workplace training has been interestingly connected by some research to the impact of a manager's own education.[xxxvii] Managers with fewer formal qualifications themselves are more likely to consider training less important than those with more formal qualifications. Researchers in this study suggest that this could be driven by the fact that these managers associate training with the formal education they themselves lack.[xxxviii] [xxxix] Another reason they may undervalue formal training is a fear of exposing deficiencies in their knowledge.[xl]

Lack of staff desire to complete training

Some employers refer to their employees' aversion to attending training as a reason why they do not invest in skills. Lack of employee demand, however, could also be caused by the way training opportunities are presented and marketed or by employers simply underestimating their employees' desire for development.[xli]

Situational barriers to investment

The final set of barriers are situational; they relate to the challenges of practically organising and delivering skills investment. A major challenge is that investment in training is an up-front expense with the aspiration of a longer-term pay off. Behavioural science has established that such decisions are difficult to take as they fly in the face of our intrinsic preference for immediate payoffs rather than delayed rewards, even when these rewards are much larger.[xlii] This is an additional challenge in skills investment given the relative complexity of the decision. Given this complexity, it is not surprising that employers, who do not have large amounts of time to invest in decisions about training, face choice overload and end up not acting. The large amount of fragmented and difficult to access information about what is available means they prioritise the most important information and back it with their own beliefs as shortcuts. Moreover, short-termism and risk aversion may also lead them to focus more on the immediate costs and potential downsides of organising training than the longer-term benefits.

Immediate financial cost

The most cited barrier to training at the moment is the perceived up-front cost, which contrasts with uncertain and distant future benefits. This barrier is particularly important when employers are, or perceive themselves to be, under pressure to deliver in the short term.[xliii] The impact of financial concerns on decisions about skills investment can be seen by looking at how participation rates vary when training is publicly provided or funded. When training is subsidised by government, participation rates are often significantly higher.[xliv] [xlv] However, policy experts often warn about the need to design such policies carefully to minimise the so-called 'deadweight' costs which can be involved; with government funding provision that employers would have funded themselves in the absence of government support. [xlvi] For example, a UKCES review of employer collective measures emphasises the importance of reducing deadweight and focussing on 'hard to reach' employers as one of four core principle which should underpin policies in this area. [xlvii]

Disruption to work patterns and lost working time

Alongside the direct costs of training, indirect costs in both time and money are often cited. Several reports mention[xlviii] managers' day-to-day needs and small companies' focus on "short-term, survival issues"[xlix] resulting in considerable perceived opportunity costs of organising and sourcing the provision of training.

A frequently mentioned concern amongst employers is the disruptive effect that training can have on work patterns. Small firms in particular are likely to find it difficult to be able to manage the disruption of offering employees time off to attend training (whether on the job or external).[l]

Poor understanding of available skills provision

One factor which is often cited is a lack of awareness amongst employers about what training opportunities are available.[li] The skills system in the UK is complex, with many providers, many types of provision and a huge array of potential qualifications. Recognition of this complexity has recently led the Government to propose simplifying parts of the post-16 professional and technical education landscape by reducing the variety of qualifications available and creating more generic 'routes' for key sectors. Given this complexity, it is unsurprising that a survey with 13,000 UK firms conducted before the economic downturn in 2008 showed that 46% of them considered lack of knowledge about training as a barrier. Furthermore, on average 22% of firms with less than 250 employees were *not very confident* or *not at all confident* in knowing who they should approach for

further information. This share is as much as 31% amongst micro businesses (with 2-4 employees).[lii]

What convinces firms to invest in training?

There are numerous international examples of government programmes addressing the issue of lacking skills training in companies. In these examples, governments often adopt one of two major approaches to communicate the benefits of training to businesses (especially SMEs).[liii] First, they make 'the business case for training'. Second, they emphasise training's role in organisational development by highlighting how it can improve employee satisfaction, productivity and engagement. Sometimes a government programme uses both arguments to stress how investing in training can be advantageous for businesses. Indeed, companies seemed to be most susceptible to an approach which emphasised how organisational and employee development are an essential part of a competitive business plan. A report by UKCES drawing together learning from overseas found that encouraging skills investment as a driver of innovation and improved quality was a successful and effective advertising approach.[liv]

Tackling knowledge gaps

However, evidence shows that lack of knowledge about the benefits of training, inability to navigate training options and insufficient financial resources pose at least as significant a barrier to training investment as employer attitudes. Several government policies either build on some form of financial support or target SMEs' lack of information through creating regional collaborations.[lv] Moreover, skills brokerage services (if managed and delivered in an appropriate way) are generally found to be an effective way to create sustainable organisational development capacity in firms. They do this by helping firms to identify their training needs and brokering a connection to a training provider who can help.[lvi] While direct subsidies can have a potentially positive effect on investment in training, they run the risk of disproportionately influencing larger companies more than smaller ones and also often suffer from very high deadweight costs.[lvii]

Honest and authoritative messengers

Reports describing effective government policies also highlight two key elements which make communication with employers more effective and convincing.

First, the messenger providing information matters a lot. Messages conveyed by trusted and authoritative parties such as the local Chamber of Commerce, Federation of Small Businesses or Investors in People are seen as more trustworthy.[lviii] In addition, other

research emphasises the effectiveness of a personal approach by a *"recognised, local face."*[lix]

Second, qualitative international research shows that employers appreciate getting honest and practical information about how other firms have practically benefited from training and how this has changed day-to-day practice.[lx] In particular, it is frequently mentioned that employers find information more convincing when it combines two components. First, it is upfront and honest in recognising that while investment in training is a net benefit this does not mean that there are no short-term costs involved.[lxi] Second, it makes the case for this up-front investment as part of a credible and well-evidenced business strategy to pursue increased profitability.[lxii]

Behavioural approaches to support employer skills engagement

Below we set out a range of behavioural factors which may be driving resistance amongst employers to invest in training. In each case we identify the behavioural factor, explain why we believe it may be influencing employer decision-making and present findings about how it could be addressed. In some cases this evidence is from a related policy area, in other cases we have set out evidence about how a similar challenge has been overcome in a different context.

Reduce hassle costs

One of the most consistent findings in behavioural science is the significant effect that relatively small reductions in the friction costs associated with some behaviour can have. Even small barriers to a process can significantly decrease the chance that an action is taken. In an early project, BIT increased taxpayer responses by four percentage points (an equivalent of 20 per cent) by redrafting the reminder letter so that the included link pointed directly to the online form which people needed to complete, instead of a webpage containing a link to the form.[lxiii] These barriers are not always obvious, yet identifying and reducing them can be one of the simplest ways to encourage behaviours.

Many SMEs report that the different transaction costs associated with identifying and finding the appropriate training are high and that managers haven't got enough time to take care of the preparations. As a result, reducing any small frictions to make the process smoother for busy managers is likely to have an impact. The advanced brokerage service being established by the GLLEP seeks to do this. By providing support to navigate the complex skills provider market, it aims to simplify the process of identifying appropriate training or skills gap solutions. Material advertising the service should embed similar principles, seeking to ensure that the application process is as smooth as possible. For

example, in any physical advertising the link to the application form should be short and easy to type.

Consider when costs and benefits are felt

The heightened sensitivity to even small up-front costs discussed above can be explained by a notion in behavioural science called 'present bias'.[lxiv] Costs and benefits in the present, which may be minor compared to the potential gains or consequences, loom so large that they can systematically shift our behaviour. For example, trials in the U.S. have shown that reducing relatively minor frictions in applying for college (for example streamlining the application process, which is more complex than the process in the UK) can significantly increase both application and acceptance rates.[lxv]

Alongside the disproportionate effectiveness of reducing small frictions, present bias can also explain why people make decisions that might seem to be economically irrational when the costs and benefits are accrued at different times. For example, young people might opt to enter the workforce too soon because the benefits of study are ambiguous, distributed into the future and difficult to imagine, whereas the opportunity for immediate financial gain from employment is highly salient.[lxvi]

This shape of investment pay-off (up-front costs against longer-term payoffs) also exists for skills investment. We therefore suggest that present bias may also partially underpin the challenge in encouraging employers to invest in skills. Finding time to think about the issue, identifying potential skills gaps, identifying potential training providers and organising the logistics of delivering training all take time. As we noted in our previous section, employers are acutely aware of these costs and they tend to consider advertising unconvincing when it tries to gloss over or downplay these upfront costs. These costs are weighed against a distant, potentially ambiguous, gain. Interventions which seek to encourage employers to invest in skills need to consider how to address this imbalance. This could be done either by delaying or eliminating up-front costs (for example as the advisor- brokerage service does by simplifying the process of identifying solutions to skills gaps, training needs and providers) or by bringing forward future gains or making these more salient.

Chunk complex decisions into more manageable parts

People often find it difficult to simultaneously weigh up and compare across many different dimensions. For example, choosing a new job requires comparing a variety of roles across a variety of different factors which different people will view as more or less important to them (e.g. salary, security, commuting distance, flexibility, etc.). In situations where

people are asked to make such decisions, they tend to fall back on more instinctive 'gut' decisions.[lxvii] 'Chunking' is a psychological technique where this complexity is broken down into smaller chunks. This enables people to make complex decisions in a 'step by step' way, rather than having to hold all of the different dimensions in their head at the same time.

As we noted earlier, the complexity of decisions around skills investments is a barrier highlighted by many employers. Chunking these decisions is likely to be an effective way of supporting employers to make these decisions, weighing up the relative importance for them of different drivers of skills investment. While this is unlikely to have an application in encouraging firms to express an interest in increasing their skills investment, it is a way in which the brokerage service being established by the GLLEP could support employers in their decision-making.

Consider whether messages should highlight potential losses or gains

People generally dislike losses more than they like equivalent gains (that is, I feel the pain of losing £10 more than gain of receiving £10).[lxviii] This finding has implications for the way the costs and benefits of an action are communicated. One of the most prevalent barriers to investment in training is the lack of information about the benefits and costs. Therefore, in this context, a loss-framed message would highlight to employers that risks of not investing in skills, such as lagging behind their competition. This could be contrasted with a gain-framed message, highlighting the benefits of such investment.

While a naive application of loss-aversion would suggest the use of loss-framed message, this is challenged by evidence in other fields. For example, this principle has been applied in health marketing to explore whether loss-framed messages (e.g. if you do not attend your screening appointment you may lose the chance to detect any risks to your health when they are at an earlier, more treatable stage) or gain-framed messages (e.g. attending your screening appointment will give you a better chance of ensuring that any risks to your health are detected when they are at an earlier, more treatable, stage). Interestingly, in this case the best evidence suggests that loss-framed messages are more effective for promoting illness prevention behaviours (e.g. quitting smoking).[lxix] However, gain-framed messages are more effective in promoting illness detection behaviours (e.g. attending lung health checks).[lxx] [lxxi] [lxxii]

These findings are a good illustration about why it is important to test different approaches to identify their impact on the desired behaviour. We therefore propose that both loss- and gain-framed messages are tested as part of this trial.

Highlight positive social norms

Social norms are the values, actions and expectations of a particular society or group. A very powerful approach to changing behaviour is informing people that the majority of others like them already perform some desired behaviour. This known as providing information about a 'descriptive social norm'. This is often effective for one of two (related) reasons. First, the way people behave is strongly influenced by the behaviour of others around them. In an early BIT project, working with HMRC, including social norms in tax reminder letters (informing debtors that '9 out of 10 people pay their tax on time') significantly increased payment rates.[lxxiii] Similar interventions have proven to be effective in other policy areas as well, such as energy conservation,[lxxiv] charitable giving in wills,[lxxv] or in recycling and reducing contamination.[lxxvi]

In addition, people often have false beliefs about the general social norm for particular behaviours. For example, most people believe the average UK adult saves less for their retirement than they do, eats more sugar than they do and exercises less than they do.[lxxvii] According to the Greater Lincolnshire 2014 Employer Survey, in 2014 some 70% of employers in Lincolnshire invested in some form of on-the-job or off-the-job training over the past 12 months. However, we do not know whether employers are aware of the prevalence of this behaviour in their competitors.

Evoke reciprocity

Reciprocity is the feeling of wanting to 'return the favour' to someone if they have done something for you. The powerfulness of reciprocity as a behavioural driver has been frequently underlined in the work of researchers, such as Robert Cialdini who included reciprocity as one of his 'Six principles of influence'.[lxxviii] For example, attempting to increase the proportion of job seekers attending jobs fairs (where the appointments were booked by their work coach), BIT joined up with job centres to personalise the text reminders sent out. Job seekers who received messages that featured a reciprocity-inspired behavioural insight ('I have booked you a place, good luck') were 2.7 times more likely to show up.[lxxix]

This notion of reciprocity could be applied in two ways in this context. First, advertising for the new advanced brokerage service could emphasise the time and investment which the GLLEP has put into establishing the service. Second, messages could emphasise the contribution which employees' make to a business and frame skills investment as a way to 'pay this back'.

Carefully consider the messenger

Our reaction to information often depends a lot on the messenger who is delivering it. In some cases, or for some people, authoritative messengers can be effective (for example health information delivered by a GP). In others, a more relatable messenger from a similar background can be more effective (for example, lifestyle advice from an ex-smoker who has recently quit). An initiative in Nottingham is run by and for people from African/Caribbean and South Asian backgrounds with drug and alcohol problems and provides appropriate peer support to address substance misuse problems in their communities.[lxxx] Another example can be found in recycling behaviour. An approach where people who consistently recycled advocated recycling among their neighbours proved to be more successful compared to other interventions.[lxxxi] Similarly, trials in Australia, the Netherlands and the UK have shown that we are much more likely to take up cancer screenings when told to do so by GPs than by other authorities such as government, for example.[lxxxii]

As highlighted earlier in this report, the importance of who publicises training and training programs is highlighted across several studies and reports.[lxxxiii,lxxxiv] Most evidence suggests that in this context firms value messages delivered either by local, well-known faces, or by credible, authoritative parties such as the local Federation of Small Business or Chamber of Commerce. This trial presents an interesting opportunity to test the relative efficacy of each of these messengers directly against each other.

Start with smaller, more manageable steps

The *foot-in-the-door technique* utilises our desire for consistency with our past behaviour to encourage us to take a particular action. When asked to comply with a small request, people are later more willing to comply with larger and more costly requests.[lxxxv] For example, those who signed a petition supporting a cause were more likely later to also donate to that cause.[lxxxvi]

In the context of skills investment this could be particularly powerful. There are many steps which employers need to take before finally making a decision about whether to invest in training for their staff; for example, identifying potential skills gaps, considering recruitment options, finding training providers, planning how the training will be delivered. Testing the use of these earlier steps as an intentional 'foot in the door' and a first step on the route to employers investing in training has the potential to be an effective approach. For example, asking employers to have a meeting with the skills advisor brokerage service will operate as a 'foot in the door' with the goal of seeing improved investment in skills and training.

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