BRIEFING PAPER 1

THE EMPLOYMENT AND TRAINING IMPLICATIONS OF THE SINGLE EUROPEAN MARKET

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Introduction

Integration into a wider European economy has been an on-going process since the UK first joined the European Community (EC). Although '1992' has a particular salience, representing as it does the date for the completion of the Single European Market (SEM), the Scottish and UK economies have already greatly expanded their trade links with the EC. The UK's imports from the EC rose from 43 per cent of total imports in 1979 to 52 per cent in 1988. The corresponding figures for exports to the EC are 42 per cent and 50 per cent. Within this, it is estimated that over 55 per cent of Scotland's exports currently go to the EC.

This paper tries to assess the impact of the completion of the SEM on employment and training in Scotland. In making this asessment we draw on a range of existing studies in an attempt to evaluate broader economic impacts and training implications flowing directly from the SEM. In addition, just under 250 employers drawn from a range of sectors, size bands and locations were interviewed to obtain their views on these issues.

Existing Assessments of SEM Impacts

The economic impacts of the SEM are expected to be substantial with Cecchini (1988), in a report to the Commission of the European Communities (CEC), estimating a gain of between 4.3 and 6.4 per cent of EC GDP. Baldwin argues that this is an underestimate as it only measures the static impacts and ignores the potential dynamic effects of the internal market. There are, however, some dissenting voices, the most notable being Rajan (1990). He argues any gains will be modest with winners only emerging at the expense of losers. A large EC wide survey by Nerb (1988) found firms expected a reduction in costs and an increase in sales following the completion of the SEM. A large majority of respondents saw the opportunities presented by the SEM outweighing the threats, with UK firms being above average in their optimism.

The CEC (1989) expects the SEM will lead to a restructuring of competitively weak manufacturing industries (e.g. computers, office, medical and telecommunications equipment) with a subsequent improvement in their market position. Restructuring and efficiency gains are also expected in industries where intra-EC trade at present is limited (e.g. pharmaceuticals, boilermaking, railway equipment and drinks). Potentially sensitive service industries are seen to be financial services, transport, telecommunications and business services.

The potential impact of the SEM on the Scottish economy is a cause for some concern given Scotland's peripheral location. However, this does not mean that opportunities do not exist for Scottish firms in the SEM although the extent to which these are exploited will clearly depend on the preparations made by industrialists (see, for example, Ernst and Young, 1990). In this respect, a range of surveys demonstrate only moderate levels of preparedness in Scottish firms although a large majority are optimistic about their prospects in the SEM (see, for example, KPMG Peat Marwick McLintock, 1989, and Scott, et al.,1989). Scottish firms' expectations of the impact of the SEM appear broadly in line with other firms in the UK although the evidence on their relative preparedness is unclear.

Much of the attention on training needs arising from the SEM focuses on language skills (see, for example, Duncan and Johnstone, 1989, and Scullard, 1989). These are thought to be especially important for Scottish firms looking to be successful in continental markets. Other training needs identified by a survey of firms in Central region (Scott, et al., 1989) were an understanding of new rules and regulations and technical training. For all these types of training a majority of firms expected to have to seek advice from an external body.

Survey of Scottish Employers

The previous section reviewed some existing studies to shed light on the potential impact of the SEM on the Scottish economy, labour market and employer training demands. This survey revealed conflicts of view on the

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consequences of the SEM and an apparently low level of awareness and preparedness on the part of employers. As much of the evidence was drawn from UK-wide studies we carried out a survey of just under 250 Scottish employing units in July and August 1990. The employers interviewed encompassed a spread of sectors and sizes, but were concentrated in the Glasgow conurbation, Lothian, Grampian and Tayside. Full details of the sample of organisations are given in Appendix 1.

Of the 248 employers interviewed 58 per cent sold no goods or services to the EC. However, the picture varied dramatically between sectors. Only a third of manufacturing establishments had no EC exposure compared to over 70 per cent in the service sector. Establishment size also appeared to influence exporting. Over three quarters of the smallest employers (under 50 employees) had no market in the EC. However, this was the case for only 42 per cent of larger (500-plus employees) organisation. Due to these trade ties, in broad terms, we would expect manufacturing and large establishments to be more conscious of the impacts of the SEM and to articulate training needs arising from them.

Expected Employment Impacts

Generally, the establishments surveyed were optimistic about the impact of the SEM on their turnover and employment levels, as the summary in Table 1 shows. Just over a quarter expected turnover to increase and only 4 per cent expected a fall. Similarly, 1 in 5 expected employment to rise and 6 per cent projected a fall. Relatively modest percentages said they were unable to estimate the likely impact of the SEM on turnover and employment.

Table 2 demonstrates some variability in expectations of the SEM's impact on employment across sectors. Manufacturing establishments were more bullish about employment levels than service sector establishments (25 per cent as against 17 per cent in traditional services and 15 per cent in modern services), although higher percentages also anticipated falls in employment. Clearly, manufacturing establishments were more conscious of the potential for change associated with the SEM. Significant percentages of construction organisations anticipated opportunities and threats on the side of employment (19 and 13 per cent respectively), although the number of construction firms interviewed was relatively small making generalisation dangerous. The smallest and the medium-sized establishments (100-249 employees) were particularly optimistic on employment growth (30 per cent expecting an increase), although no consistent pattern of responses by size of establishment was detectable.

Training Needs Arising from the SEM

This section deals with the training needs employers associated with the implementation of the SEM. Table 3 shows that although 40 per cent of the establishments interviewed had identified training needs associated with the SEM, a quarter felt there were none and 23 per cent said no assessment had yet been made. Nearly 1 in 10 were currently involved in assessing prospective training needs. Not surprisingly, a higher percentage of manufacturing firms had already identified an SEM training need compared to the service sectors. However, even in manufacturing a quarter saw no training needs and 21 per cent still had not begun to evaluate the situation. This confirms the relatively high degree of complacency evident in the findings of earlier studies. What is more disturbing, however, is that the date for the implementation of the SEM has drawn closer since the studies described earlier were carried out.

We suggested previously that trade ties to the EC could be associated with a greater awareness of SEM-related training needs. Table 4 goes some way to confirming this expectation. It shows that organisations with trading links are much more likely to have identified training needs. The key feature is that a relatively high percentage of organisations with no market in the EC had failed to carry out any assessment of training needs.

Continuing the analysis to consider the responses of employers of different sizes, Table 5 suggests that the smaller establishments were the least well prepared in their assessments of the training implications of the SEM. Whereas nearly 50 per cent of the larger establishments had already identified specific training needs the percentages for the smaller establishments range from 28 to 39. Again, this probably reflects the lower exposure of the smaller establishments to EC markets.

Establishments saying they had identified, or were currently assessing, training needs associated with the implementation of the SEM were then asked an open-ended question on the specific nature of these needs. Table 6 shows that language skills was the dominant response (mentioned by 68 per cent of employers) across the sample as a whole. The tightening of quality standards was also reflected, in all sectors except 'modern' services. Managerial training was given prominence in around one-in-ten service sector establishments. European law was also mentioned by a small group (6 per cent) of organisations. Of the organisations placing emphasis on languages, 60 per cent cited French as the most important and 27 per cent German. Spanish and Italian were mentioned by only 8 per cent of the employers.

Table 7 presents a similar analysis by size of establishment. The language training need dominates each individual size band, but is considered the key training requirement by higher percentages of the larger establishments. An interesting point is that training in quality assurance is cited by greater percentages of the smaller (under 100 employees) and largest (500 or more employees) organisations. Management training is mentioned as an SEM-related training need by modest percentages of the small and medium sized organisations. There is a pattern of response in this table which suggests that, with the exception of language training, the most immediate demands for SEM-related training are likely to come from the smaller establishments. It is important for training providers to recognise this.

In an attempt to obtain some relative weighting of the importance of different types of training, as well as employers' view on the level of language skills required, a set of directed questions was asked on:

- detailed language skills

- simple language skills

- EC 'culture' and institutions

- EC business practices

Employers were simply asked to state the importance of each of the above on a scale of 'very important - important - not important'. Table 8 summarises their responses.

On the one hand the responses do shed further light on SEM training priorities, but on the other they present a confusing picture. There is a clear preference for simple language skills over detailed command of the language. Whereas around half of the employers say detailed language skills are important three quarters value the simpler, conversational skills. If employers are correct in their judgement this has important implications for the kinds of language teaching being developed. The most important need emerging is training in EC business practices - assessed as 'very important' by 45 per cent of respondents. This ties in with the earlier findings on training needs in quality assurance and European law. The confusing aspect is that in this set of directed questions as opposed to the open-ended approach adopted earlier, language training is downgraded in the emphasis it receives, although it is still clearly highly valued. It is possible that, in the absence of prompting, gaining familiarity with business practices is not seen as a training issue by many employers, but rather something gained by experience or bought in from specialist firms.

Conclusions

Our survey of the literature on the potential economic impacts of the SEM revealed an array of forecasts. What is clear is that the impacts will not be uniform across industries and, consequently, across regions. Even within industries, the overall impact will depend significantly on the preparations and responsiveness of the individual firms making up the industry.

A series of specific training needs consequent upon the SEM were identified in talking to employers. Language skills were clearly seen as critically important, although it is interesting to note the preference for fairly simple skills. It may be that the demand for simple language provision will be met effectively on a short-course basis, although an assessment of this was beyond the scope of our study.

There was a strong demand for training in EC 'business practices'.In a broad-brush survey it is not possible to fill in the detail here. However, we surmise that it relates to quality standards, commercial law, and contractual arrangements, as well as the more informal rules and regulations which influence access to and successful competition within any market. These will, of course, differ from one EC country to another. Training in these areas is a much more complex service than, say, the provision of simple language skills.

Overall the survey of employers undertaken specifically for this study suggested that they were optimistic on the employment consequences of the SEM. At the same time, the most disturbing finding was that they were making only limited preparations on the training side:

- around a third had not completed an assessment of training needs.

- almost a quarter felt there were no training implications for them.

Even restricting consideration to these organisations with 25 per cent or more of their markets in the EC, around a quarter had not completed an assessment of training needs and a further quarter felt there were no training needs associated with the completion of the SEM.

These figures are indicative of a high degree of complacency and it will be interesting to see whether this is consistent with maintaining Scotland's successful trading record with the EC. It also raises questions as to whether organisations currently operating only in a Scottish market will be able to maintain their current position when faced with greater competition from other EC economies.

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Appendix 1: Details of the Employer Survey

The survey was carried out between July and August 1990. All the interviews were conducted by telephone after an initial contact by letter. A total of 400 organisations were approached for an interview giving an overall co-operation rate of 62 per cent. To ensure relatively large sample sizes in specific localities the interviewing was restricted to the four most populous regions in Scotland. These regions account for over eighty per cent of employment in Scotland (Scottish Office, 1990). Along with locality, the size (employment levels) and activity of the organisation were taken into account when selecting the sample. The aim being to cover a wide spread of sectors and sizes. The details of this spread are set out in Tables A.1 and A.2 below.

Table 1 Expected Impact of SEM on Turnover and Employment (Percentages)

EXPECTED CHANGE	TURNOVER	EMPLOYMENT
Rise	27	20
Fall	4	6
No change	56	62
Don't know	14	13

Table 2: Impact of SEM on Employment, by Sector (Percentages)

	PRIMARY	MANUFACTURING	CONSTRUCTION	TRADITIONAL SERVICES	MODERN SERVICES
Rise	14	25	19	17	15
Fall	0	8	13	5	2
No change	43	57	63	66	68
Don't know	43	10	6	12	15
SAMPLE SIZE	7	107	16	58	60

Note: 'Traditional' services include transport, communications, distribution, hotels and catering; 'modern' services include all other service industries.

Table 3: Assessment of Training Needs Arising from SEM, by Sector (Percentages)

TRAINING NEEDS ASSESSMENT	PRIMARY	MANU-FACTURING	CONSTR-UCTION	TRADITIONAL SERVICES	MODERN SERVICES	ALL
Training needs identified	29	46	31	35	37	40
Still assessing	29	8	0	14	7	9
No training needs	29	24	13	29	22	24
Not been assessed	14	21	56	19	25	23
Don't know	0	1	0	3	10	4
SAMPLE SIZE	7	107	16	58	60	248

Table 4: Assessment of Training Needs by Percentage of Establishment's Market in EC (Percentages)

TRAINING NEEDS ASSESSMENT	PERCENTAGE OF MARKET IN EC			
	ZERO	UNDER 10	10 - 25	25 PLUS
Training need identified	29	56	55	48
Still assessing	9	12	8	15
No training need	22	24	26	26
Not been assessed	34	6	11	11
Don't know	6	3	0	0
SAMPLE SIZE	136	34	38	27

Table 5: Assessment of Training Needs Arising from SEM, by Size (Percentages)

TRAINING NEEDS IDENTIFIED	NO. OF EMPLOYEES				
	1 - 49	50 - 99	100 - 249	250 - 499	500+
Training needs identified	39	28	33	49	47
Still assessing	12	13	10	3	8
No training needs	21	21	33	15	27
Not been assessed	25	33	23	27	15
Don't know	4	5	2	6	3
SAMPLE SIZE	52	39	61	33	60

Table 6: Main SEM Training Needs Identified, by Sector (Percentages)

MAIN SEM TRAINING NEED	PRIMARY/ CONSTRUCTION	MANU-FACTURING	TRADITIONAL SERVICES	MODERN SERVICES	ALL
Languages	78	70	57	73	68
Quality	11	11	11	4	9
European Law	0	7	4	8	6
Management	0	4	11	8	6
Miscellaneous	11	9	18	8	11
SAMPLE SIZE	9	57	28	26	120

Table 7: Main SEM Training Needs Identified, by Size (Percentages)

MAIN SEM TRAINING NEED	NO. OF EMPLOYEES				
	1 - 49	50 - 99	100 - 249	250 - 499	500+
Languages	65	50	73	77	78
Quality	15	13	0	6	13
European Law	4	13	8	6	0
Management	8	6	8	6	0
Miscellaneous	8	19	11	6	9
SAMPLE SIZE	26	16	26	17	32

Table 8: Importance of Specified Forms of Training (Percentages)

	VERY IMPORTANT	IMPORTANT	NOT IMPORTANT
Detailed language skills	15	37	49
Simple language skills	23	52	25
EC "culture"/institutions	18	50	32
EC business practices	45	30	25

Table A.1: Interviews Completed by Size and Region

NO. OF EMPLOYEES	GRAMPIAN	LOTHIAN	STRATHCLYDE	TAYSIDE	TOTAL
1 - 49	8	15	25	2	50
50 - 99	6	5	22	6	39
100 - 249	13	10	26	12	61
250 - 499	5	9	17	2	33
500	8	9	36	7	60
TOTAL	40	48	126	29	243

Note: Although 248 organisatons were interviewed 3 were unable to define their size and 2 proved to be based outwith the 4 identified regions.

Table A.2: Interviews Completed by Size and Sector

SIZE	PRIMARY, MANUFACTURING & CONSTRUCTION	TRADITIONAL SERVICES	MODERN SERVICES
1 - 49	15	20	17
50 - 99	15	14	10
100 - 249	35	14	12
250 - 499	24	4	5
500	41	6	13
TOTAL	130	58	57