

# Briefing Paper

## TRAINING AND SMALL COMPANIES: SOME SCOTTISH EVIDENCE

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### Introduction: Small Firms in the Economy

Written off by the Bolton Report in 1971 as being in "terminal decline" small companies have subsequently enjoyed considerable changes in fortune. The valuable patronage of a Conservative Government has been extended to a small firm sector which represents to the Government a means of industrial regeneration, employment growth and a vehicle for promoting independence, individualism and dynamism. In short, the very essence of the "enterprise culture" would be found and reproduced in a thriving small firm sector.

This endorsement is reflected in the progress of small companies over the past decade. Unfortunately, an accurate figure for the actual number of firms is hard to calculate; size criteria vary, though a number of studies make use of 50 employees as a cut-off point to distinguish small from medium-scale concerns and will be used in the present paper. Quantifying "employees" can also prove difficult, as self-employed sales people and drivers may be included as members of the employed workforce. Nevertheless, an estimate of six million employed in small firms has been given (Rainnie 1989:2) and the Business Line survey (June 1988) calculated that there were 750,000 independent businesses in Britain employing fewer than 50 people (Hakim 1989:32). Of these, more than one-third had been created in the years 1982-88 (Hakim 1989:34). Net growth appears to have been sustained throughout the 1980s. It has been calculated that the number of surviving businesses grew by 10% between 1980 and 1985 (Rainnie 1989:2). Between 1980 and 1988 VAT registrations for companies grew by 17%. According to Mayes and Moir, the majority of these new enterprises are likely to be small. Self-employment grew by 60% over the same period (1989:15).

To complement the Government's ideological backing, small firms also enjoy substantial practical support from the same source. Indirectly, small organisations are exempted from the provisions of certain employment regulations, in order not to deter employers in these companies from taking on staff. Part-time employment is especially common in smaller concerns, and these employees require to serve longer periods in order to become eligible for employment protection. Exempting under-21 year old employees from Wage Council regulations is expected to benefit the many small employers found in Wage Council industries. The education system now also contributes actively to the encouragement of an enterprise culture through school-based work-preparation programmes such as the Technical and Vocational Education Initiative (TVEI) for 14 to 18 year olds, one aim of which is to emphasise "initiative, motivation, enterprise and other areas of personal development" in young people. This programme is mirrored by the Higher Education Initiative designed to inject the same values into undergraduate studies.

Direct government encouragement of small firms is provided by an Enterprise Allowance Scheme introduced to stimulate self employment during a period of limited employment opportunities. The Enterprise Initiative and Small Firms Service provide advice for small and medium-sized concerns, whilst at local levels, financial and practical support is offered through Enterprise and Development Agencies. The Government has also introduced a scheme providing guaranteed loans to small businesses. In 1988-89 almost £65 million was offered in a total of 2291 loans.

Most importantly, the Training and Enterprise Councils (TECs) established in England and Wales and Local Enterprise Companies (LECs) in Scotland

aim as a significant part of their responsibilities to "promote the development of small businesses at the local level" (White Paper, Employment for the 1990s, December 1988:60). Eventually, TECs and LECs are expected to assume responsibility for most support services available to small and newly-established companies (Employment Gazette March 1989:112).

These various support agencies might be regarded as especially necessary owing to the high risks faced by small companies. In particular they experience a high mortality rate in their early years. It has been estimated that more than 60% of small firms fail within the first three years, adversely affecting the employment of staff, as well as owners, leading Daniel to comment that:

A striking feature of the characteristics of the unemployed was how disproportionately they were drawn from small establishments.

(Daniel 1985; quoted in Rainnie 1989:2).

Currently high interest rates combined with business rating changes are likely to increase the numbers of small firm failures.

A second major problem concerns growth. Many small independent organisation fail to develop, possibly because they do not possess the necessary management skills required to overcome the financial, market and human resource difficulties faced by many small employers contemplating expansion. (Mayes and Moir 1989:26-31; Education and Training for Small Businesses 1986: 13-18; Guardian, October 25 1989).

Considerable research activity has been directed at identifying small firm characteristics which would signal potential and capacity for growth and hence, "targeting" for assistance: as yet, however, no firm conclusions have been drawn (Hakim 1989; Mayes and Moir 1989; Turok and Richardson 1989). A static company could limit employment security for existing employees in terms of its high vulnerability to failure and would provide few openings for new recruits; opportunities for personal advancement in static companies would also be severely restricted. The reality of the threats posed to employees by employment insecurity is demonstrated in a recent survey indicating that more small companies expected to lose labour than those anticipating an expansion in the first quarter of 1990 (Financial

Times 22 May 1990).

#### The Small Firm in Scotland

Data for small firm activity in Scotland has been somewhat limited, providing fertile ground for allegations of lack of native initiative and a preference for "paternalistic, well-meaning bureaucracy". Moreover, this preference for "dependence" has "retarded our economic growth and national self-confidence". What is needed for Scottish society is a good does of "entrepreneurship, innovation and enterprise" (M Rifkind, 1987, quoted in Scottish Business Insider, March 1990).

The extent to which these allegations contain any real substance has been considered by Ashcroft and his colleagues in their comparative study of regional VAT registrations, in which Scotland trailed in 11th place out of 12 for the period 1980-86. This weak performance was distributed fairly uniformly throughout Scotland. Nevertheless, the authors found no evidence of a relationship between low rates of small firm formation and a "dependency culture". Rather, the pattern could be explained by a number of influences, which include: low levels of wealth as demonstrated by home ownership, under-representation in education, managerial and professional skills and by an unfavourable plant structure in which small plants are somewhat under-represented in the Scottish economy (Ashcroft et al: 1989).

Further recent findings demonstrate that the employment effects of Scottish new firm formation have been less than those found for the UK as a whole: an estimated 21,400 jobs might have been generated by 1986 if the UK employment effect of small firm formation were to be applied to Scotland (Standing Commission on the Scottish Economy, Final Report, November 1989:28).

#### Training and the Small Firm

In light of the above, training becomes a vital issue for small firms in Scotland. In particular, owners and managers need to acquire managerial skills which supplement their entrepreneurial abilities. For small firm employees, training is important in order to optimise work performance and to extend work capability. In the event of firm failure, these skills should be transferable to other employment contexts, thereby minimising

risks of subsequent sustained unemployment.

A study<sup>1</sup> was conducted in 1989 to examine the training arrangements of companies located in Scotland. 106 companies, employing in excess of 80,000 people in Scotland, replied to the survey, a response rate of 21%. The sample was disaggregated into three size categories by employee, as shown in Table 1.

Table 1 Size Classification of the Companies

	Frequency	% of sample
Less than 50 employees (small)	37	35
50-499 employees (medium)	37	35
500+ employees (large)	30	28
No Reply	2	2

N=106

Disaggregation permits closer examination of the training and developmental practices of small companies and the opportunity to compare these with the activities of larger concerns.

#### Managerial Skills

For small firms to consolidate and grow in stable fashion requires managerial as well as entrepreneurial abilities. Most commentators agree that managerial capabilities can be enhanced through training and development (Handy et al, 1988; Constable and McCormick 1987). An important part of the present enquiry was to establish the levels and directions of management development and training provided by Scottish-based companies.

Respondents were asked to designate the amounts of training expenditure allocated to these activities. Table 2 shows the proportions of companies for each size category stating zero expenditure on management training.

Table 2: Respondents Reporting ZERO Training Allocations to Managers

	Per cent	
Small	42	(N=26)
Medium	15	(N=26)
Large	5	(N=19)

The table shows that nearly half of small

companies replying to this question were unable to specify any allocation of training expenditure to their management. One interpretation of this is that small companies simply do not disaggregate their expenditures, though the question did ask for approximate rather than detailed allocations.

Our doubts are strengthened, however, by the modest proportion (15%) of small companies reporting that expenditure on management training had increased over the previous twelve months, in contrast with the 46% and 69% of medium and larger companies who reported increases. Further, only 15% of small companies had intentions to increase expenditure over the next year compared with 38% of medium and 56% of large companies.

Management development is often pursued through gaining higher management qualifications. Almost all (96%) large companies and 73% of medium ones make some contribution, financial and/or in terms of time, for managers to gain professional qualifications, whilst a half of small companies make no contribution whatsoever. This figure increases to 70% of small companies making no contribution for managers studying for the premium management qualification, the MBA (compared with 59% of medium and 28% of large companies).

It could be argued that with the majority of MBA students coming from large organisations, and much of the MBA syllabus relevant to corporate requirements, such a qualification is not appropriate for the needs of smaller concerns. Equally, it could be considered that the time and expense required to gain such qualification, whether through part-time or distance study, again mitigates against smaller employer participation. In such cases, it might be anticipated that shorter courses would find more favour among smaller organisations. However, when asked about short course participation, a similar pattern emerges: two-thirds of small company respondents replied that internally provided short courses were never offered by their companies (compared with "never" responses of 27% in medium companies and 5% in large). Externally provided short courses fared somewhat better, though not one small company respondent reported their provision on a regular basis (compared with 24% and 33%, medium and large, respectively). Nevertheless, more than one-third (39%) of small companies reported never using external course providers at all (9% medium; 6% small).

### Training for Employees

Small firms have been characterised as a "sector notoriously resistant to training" (Guardian, 27 June 1988). The present survey does little to dispel such notions. The majority of senior trainers in the 37 small companies were senior members of the management/ownership team, but two-thirds of them lacked any qualification relevant to training or personnel management. The multiple responsibilities of these managers are confirmed by the finding that 84% spent less than one-tenth of their time on training issues, and as training in small companies tends to be both "in-house" and specific to company needs, it suggests very little concentrated attention paid to employee training by small firm employers.

Unlike larger companies, smaller concerns tend not to have an identifiable budget for training (82% did not, compared with 44% and 21% for medium and large companies). An indication of the limits of small firm expenditure on training can be gauged from the finding that virtually all the companies spent less than £5000 per annum on training activities. This might not be considered a problem because of low-cost Government and local initiative training support available to small companies. However, our findings show that they are less likely than larger firms to participate in governmental schemes. Only 39% participate in the Youth Training Scheme (YTS), which contrasts with the 69% of medium companies and 67% of larger companies who claim to participate. Reasons given by small firms for non-participation include the inappropriateness of YTS (25% of non-participant replies), scheme not required (25%) and small size of company (20%). Interestingly, when asked to give main reasons for participation, a much higher proportion of small participating companies than larger concerns cited "cost-effective approach to recruitment" as the principal reason (67% of small; 28% of medium; 19% of large). Large companies were far more likely to cite "social concern" as a prime reason for their participation. Use of the Government backed Employment Training (ET) was found in only two of the 37 small companies. Almost all non-participants in ET had also not been involved in earlier Government schemes for adults.

### Concluding Comments

Details of the composition of the 12 LECs designated for lowland Scotland have been

published in Scottish Business Insider (May 1990). Each LEC will assume responsibility for economic development and industrial training within its designated area. As anticipated, most board members are senior representatives of large and prestigious concerns with substantial connections with the local economy. Few small companies are directly represented on the boards, yet small companies are expected to be the mainspring of economic growth. Whilst substantial assistance has been available to stimulate small firm formation, it is questionable whether these companies can flourish without further and continuing support in the form of employee training and in particular, provision for management development. Whilst training opportunities currently exist for small companies, the extent to which they take advantage of them is limited.

The survey shows that few small companies undertake the managerial training which might endorse entrepreneurial flair with stable organisational growth. Further, the survey reveals that only a small number of these companies are preparing to increase expenditure on management development during the current year.

Also of concern is the lack of attention given to employee training. At a time when skill shortages are already apparent in Scotland (Hyman and Boyle 1989; Hyman and Bell 1989), and the implications of demographic change are well recognised, when qualified talent is hard to attract and with graduate emigration from Scotland commonplace, further strains on the Scottish economy are imminent in terms of the free labour market post 1992. Despite these growing pressures, resources being placed in training by small companies are not high. Government schemes are apparently not seen as relevant and in consequence are used less by small companies than larger ones.

With LECs assuming responsibility for co-ordinating training for small companies, there are clearly major issues which each LEC needs to examine. First, how will small company training needs be identified, and once identified, how can small firms be persuaded to make use of training facilities? What arrangements can be made to assure optimum participation and maximum benefits?

Second, the Government offers a range of low-cost training programmes which many small firms are failing to use, often because companies see them

as irrelevant to their needs. Can these schemes be made more attractive to small employers without detracting from their prime purpose of quality training provision?

Third, if small firms only undertake intermittent training, how can they be convinced of the need to train on the continuing and regular basis which most commentators recommend for the needs of a dynamic economy typified by rapid change in products, markets and technologies? Finally, will small company employers and owners recognise the value of training to themselves and will LECs be sufficiently sensitive to the needs of small employers to be able to overcome the ideological and practical constraints which have contributed to their poor management training record?

#### Notes

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