

The business benefits of investing in people – does workforce development pay back?

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by

Paul Field

UK Research Partnership Ltd
19 Shaftesbury Road
Earlsdon
Coventry
CV5 6FL

Tel: 024 7671 7123
Fax: 024 7671 7122
email: paulfield@ukrp.co.uk

Contents

1.	Introduction	1
1.1.	Methodology	1
1.2.	Structure of this report	1
2.	Main findings	1
2.1.	Engaging employers in WfD	3
2.2.	Methodological problems	4
2.3.	A WfD-business improvement model	5
3.	Lessons learned	6
	Appendix 1 – Sources	8

1. Introduction

This report summarises the main findings of a small research project looking at what is known about the business benefits of investing in workforce development (WfD). The main objective was to gather, assess and report on local and other (including national and international) evidence of the business benefits associated with company investments in workforce development. WfD is defined here as everything from IIP recognition, through to management development programmes (including owner-manager support and training), modern apprenticeships and other workforce skills training.

The ultimate purpose of the study has been to inform and support the local LSC's marketing and promotion of WfD services and products. This has meant that much of the information gleaned during the course of this work has been 'drip-fed' to the local LSC as it came on stream, providing a series of research updates and case studies as required, some of which have been published in promotional formats. This report pulls all of this material together and provides, in addition, a brief commentary on the methodological and policy issues associated with establishing links between WfD activities and measures of business performance.

1.1. Methodology

We approached the study by carrying out:

- *Secondary research* – a review of existing UK research and other materials showing (or testing) the business benefits stemming from companies' investments in WfD (including measures of 'bottom line' improvements in performance, case studies, etc.).
- *Fieldwork interviews* – with local business support agencies delivering/supporting business customers accessing WfD services or products to assess their MI records and related archives of evidence.
- *Case studies* – in-depth interviews with senior managers from six local firms that have a history of involvement in workforce training of some sort (delivered by local agencies).

1.2. Structure of this report

Section 2 summarises what has emerged from our review of recent research into the business benefits and impacts of WfD activities. We go on to outline some of the problems that researchers argue are inherent in trying to trace links between workforce training and measures of business performance in general, and conclude by suggesting a 'model' that helps to draw elements of this rather complex story together.

Section 3 highlights the main lessons learned and makes some suggestions about further work.

2. Main findings

The table below summarises the main findings taken from relevant recent research. We have classified the recorded impacts of WfD under a series of main headings and listed the studies or sources that contain references to these sorts of impacts in the final column. We also offer further comments, making the links with other aspects of WfD activity and impacts. Appendix 1 lists the sources referred to in the table by reference number.

Table 1 – Main findings

Reported impacts and effects of WfD activities (training and development of employees at all levels)	Comments	Sources (by reference number)
Improved workforce skills and qualifications – fewer internal skills gaps	Associated with companies' ability to move their products/services further up market towards higher value added activities	1, 2, 3
Productivity gains	Linked to increased workforce confidence and competence, higher work rates, fewer errors and less stoppage time	4, 5, 6, 7, 8, 9, 10, 11, 12, 13
Increased efficiency	See above	2, 14
More self-directed working (individually and in teams)	Linked to increased workforce confidence and competence. Less supervision required and therefore lower management costs	2, 15, 16
Cost savings	Widespread benefit associated with reduced unit costs, less downtime, fewer accidents at work, lower training costs linked to e-training and less absenteeism	4, 15, 17, 18
Improved staff morale, motivation and commitment	Underpins many of the gains listed elsewhere	2, 4, 14, 18, 20, 21
Decreased staff turnover/higher retention	Linked to morale and motivation	2, 14, 22, 23
Less absenteeism	Linked to morale and motivation	2, 23
Growing self-confidence	Underpins many of the gains listed elsewhere	2, 23
More adaptable/flexible workforce	Linked to the growing range of skills available to each individual, greater commitment to the workplace and better knowledge of work processes and roles	2, 18, 24
Improved health and safety/fewer H&S incidents	Resulting from better understanding of risks, greater commitment to quality	4
Improved cash flow	Linked to firms' capacity to adopt ICT systems, linked to staff training in ICT and knowledge of e-business techniques	8, 18

Reported impacts and effects of WfD activities (training and development of employees at all levels)	Comments	Sources (by reference number)
Better internal communications	Reflects cultural change at senior management level	2, 14, 16, 18
Greater customer satisfaction	Linked to improved customer services, better quality and positive company (and therefore brand) images	2, 14, 19, 20, 21, 25
Improved image/presence and profile in the marketplace	Linked to growing customer satisfaction	14
Increased sales	Linked to growing customer satisfaction	10
Improved profits and profitability	Linked to growing sales, lower costs and improved productivity	10, 12, 19, 21, 27
Accelerated business growth (including employment)	A result of increased sales and market presence	26, 28, 29
Improved workforce employability and mobility	Linked to improved workforce skills and qualifications – can be seen as a disbenefit by some employers who fear trained staff being poached	1, 9
More management confidence in the workforce	Influences future investment decisions	15
Overall improvements in business performance		14, 29, 30

It should be clear from this brief overview that the various aspects of business benefits listed in the left-hand column are *interrelated* rather than discrete. ‘Soft’ gains in workforce confidence, for example, are often associated with real improvements in skills through training, and these factors can combine to change people’s attitudes and motivations towards their work in quite dramatic ways. *Behavioural* changes of this sort are thought to be far more potent in their effects on business performance in the long term, and more likely than what might appear to be more straightforward, quick-fix productivity gains, say, or increases in sales.

The literature is full of examples of ‘distance travelled’ by individual employees and their employers as they pursue the learning journey. This suggests that the link between ‘learning’ and ‘business performance’ is, in many cases, neither very direct nor very quick. And it is precisely this that makes it difficult to engage reluctant employers (and employees) in workforce development.

2.1. Engaging employers in WfD

Another strand of evidence in our review casts some light on the vexed question of employer engagement in WfD, and in particular what works:

- The interim evaluation of the first six Employer Training Pilots (ETPs), involving over 3,000 employers and 14,000 learners, shows that the best approach to engaging employers is to actively seek them out, either through specific and targeted marketing

(e.g. telemarketing), networking (e.g. through employer 'affinity groups') or working through union learning representatives. Initial interest must be followed up rapidly, clearly and by a team of brokers with the right skills and resources. The offer of free and flexible training has proved attractive, as has the wage compensation element in some circumstances.¹

- The pilot Small Firm Development Account also offered financial assistance of up to 50% of training costs (up to a maximum of £150 per employee) in a company training plan. This proved to be a key factor in attracting small businesses.²
- The presence of trade unions in a workplace influences whether or not an organisation undertakes training for its employees, as does 'positive change' (restructuring for growth, new production processes or new products).³
- There are significant links between management qualifications and 'establishment aspirations' which lead to a demand for a better skilled workforce.⁴

Overall, what seems to work best is an active, targeted sales pitch aimed at senior managers (with experience of learning themselves) and employee representatives, backed up by a skilled and knowledgeable team of learning brokers. The training offer has to be relevant, cost effective (including financial incentives) and flexible.

2.2. Methodological problems

This review of the evidence has revealed a number of methodological problems with the attempts made by academic and other researchers to tease out the links between WfD and business performance.⁵ They include:

- Lack of consistent definitions of what counts as workforce training and development, which means that the results of different studies are difficult to compare and almost impossible to combine.
- Difficulty isolating the unique effects of WfD activities on business performance from amongst the host of other possible influences which researchers have no control over, especially in the short term. There is said to be 'a paucity of rigorous evidence'.⁶
- Typically small sample sizes.
- A danger that 'good news' stories about business benefits may be self-selecting and, in some cases, the result of self-fulfilling prophecies.
- The need for more longitudinal and panel-data methodologies rather than 'snapshot' studies.
- Lack of reliability in the self-reported benefits of WfD (employers and employees), especially where data have been gathered using telephone interviews.
- Problems with defining and sticking to satisfactory measures of training 'inputs' (e.g. annual spend on training and/or training spend per employee) and of linking these to reliable measures of business performance 'outputs' (e.g. profit growth). 'Soft' measures of training inputs (e.g. the content and style of learning) and intermediate

¹ *Employer Training Pilots: first year evaluation*, J Hillage and H Mitchell, IES, DfES RBX20-03, December 2003.

² *Evaluation of the pilot Small Firm Development Account*, A Hirst, M Lefauchaux and S Rinne, CPC, DfES, RB 466, August 2003.

³ *Employer voice and training at work: analysis of case studies and Workplace Employee Relations Survey (WERS) 1998*, H Rainbird, et al, Dti, September 2003.

⁴ *Managerial qualifications and organisational performance: an analysis of ESS 1999*, D Bosworth, R Davies and R Wilson, IER, DfES RBX 05-02, June 2002.

⁵ Amongst the most critical reviews of such evidence, we would cite, in particular, *Review of the evidence on the rate of return to employers of investment in training and employer training measures*, by E Keep, K Mayhew and M Corney, Dti, December 2002. Westhead and Storey are also critical of previous research in their review of the literature entitled *Investment in training and small firm growth and survival* (1997).

⁶ See, for example, *Review of research and evaluation on Investors in People*, A Clayton, DfES, Labour Market Trends, Vol 110, No.1, January 2002.

indicators of impacts (e.g. staff morale and confidence) put some of the links in the chain in place but are more difficult to pin down in rigorous and replicable studies. There is a tendency, as result, to rely on anecdotal rather than statistically defensible or 'harder' evidence.

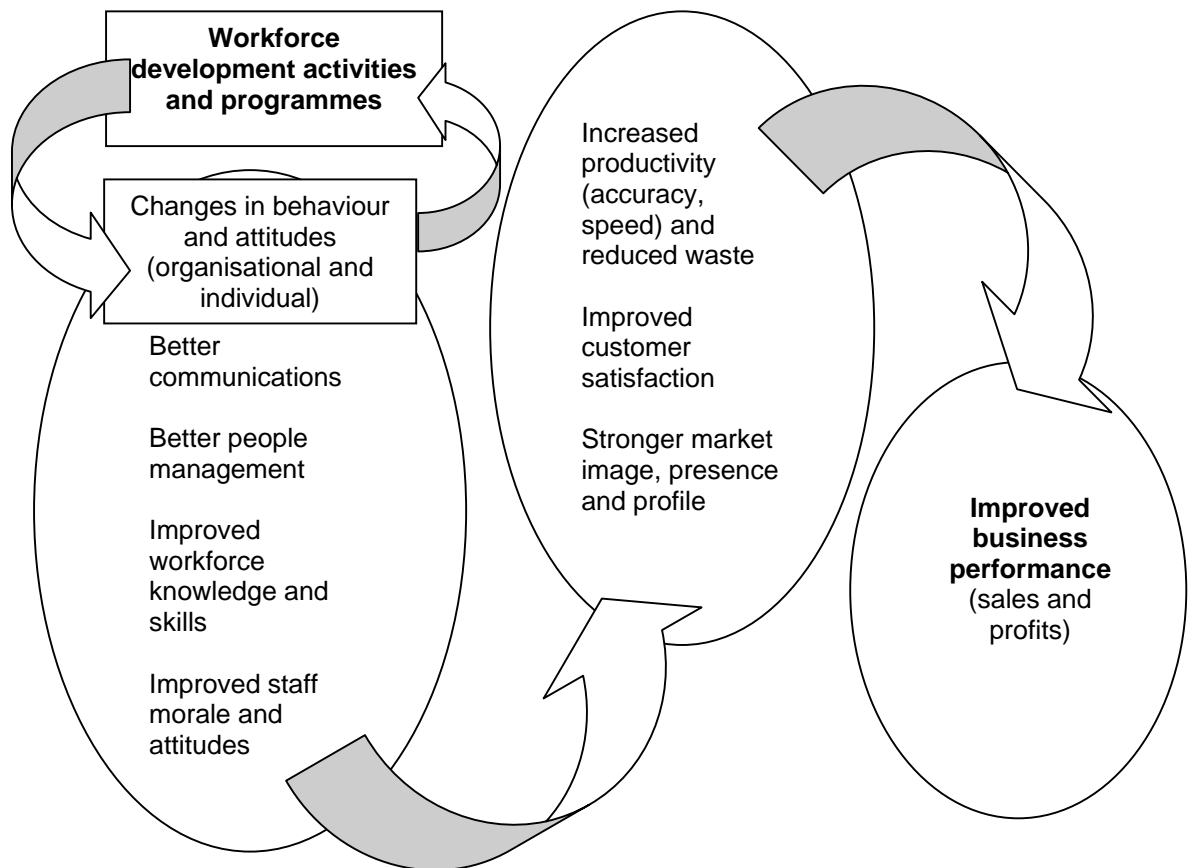
2.3. A WfD-business improvement model

Despite these problems, we think it is possible to draw out some of the essential links shown by research to make up a strong workforce development-business improvement 'chain' (also referred to by some as a 'service-profit chain').⁷ The Figure overleaf shows that:

- Starting in the top left-hand corner of the model, we can see that the commitment to WfD within any organisation is both the result of and a stimulus to changes in the behaviour of the people involved – starting, crucially, with senior management, but building also on the attitudes and motivation of employees. Where the commitment to *positive change* is shared by management and workforce, the commitment to *training* is also likely to be strong.
- Training programmes change the people involved and the systems they use to relate to each other, notably their communications. The change process that training kick-starts is likely to surface not only in improved workforce knowledge and skills, but also in different, more positive views of the workplace and the job.
- These changes in attitudes, knowledge and understanding, skills and behaviours will translate into other business benefits in the medium to long term – notably, into productivity gains and improved customer satisfaction. And these changes can secure a new place and prominence for the business in its target markets.
- Assuming that everything else remains equal (especially in the macro-economic environment), then improved sales and larger market share are both possible and likely outcomes. Add to these positive benefits increased productivity and lower costs, and bottom line improvements are bound to follow – that is, in profits and profitability.

⁷ The term 'service-profit chain' was coined by the Service Management Interest Group at Harvard Business School, and the 'chain effect' was first suggested by Tamkin, et al (IES) in their work on the business impacts of IIP in central London in 1999/2000.

Figure 1 – The wfd-business improvement and service-profit chain



3. Lessons learned

This brief overview and analysis of the available evidence on the link between WfD investments and business performance suggests that:

- The management information and other knowledge of impacts that is held by local training and business support service providers is generally patchy. There are some good examples of case study materials being collected, some customer satisfaction feedback and a small amount of business impact evidence, but these instances are few and far between.

Using the model outlined earlier, more systematic work needs to be done locally to trace the *chain of links* that exist between workforce training and improved business performance. This work should be *longitudinal* in nature and based on the *panel-data* method. Measures of training inputs should be standardised and consistent, including information about the *content and style of delivery*. Indicators of impacts should include *intermediate* measures, such as gains in employee confidence and attitudinal/behavioural changes.

- More thought and effort needs to go into the direct, specific and targeted marketing of WfD to 'hard to reach' employers. General awareness raising has a limited role to play. Much more effort should be put into devising – and backing up – training offers that meet the criteria for success reported earlier (see section 2.1). Recent experience in Coventry and Warwickshire, of Business Link 'selling' basic skills training to local SMEs, provides some useful pointers.

The argument here is that we need to see certain sections of the employer community as, in effect, *hard to reach* and to apply to these people what has been learned in the worlds of adult guidance, say, or community education about how to connect with excluded groups. Word of mouth, working through trusted intermediaries and direct referral to tried and tested service providers seem to work very well in these spheres. Something like this should be applied more deliberately, perhaps, to the effort to engage reluctant employers in workforce development.

Appendix 1 – Sources

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22	<i>Exploring local areas, skills and unemployment: employer case studies</i> , T Hogarth, C Hasluck, D Devins, C Jacobs and S Johnson, IER & PRI, DfES RBX0303, March 2003
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31	<i>Review of the evidence on the rate of return to employers of investment in training and employer training measures</i> , E Keep, K Mayhew and M Corney, Dti, December 2002