

Impact case study (REF3b)

Institution: Durham University
Unit of Assessment: 19
Title of case study: Policy Mechanism for Skills Development in Small Business: The Growth & Innovation Fund (GIF)
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>The UK lags behind many countries with respect to training and skills development, especially among smaller firms. Challenging conventional wisdom, research at Durham University Business School (DUBS) helped to shape a major new government policy designed to address this problem – the £50m per year Growth & Innovation Fund (GIF) pilot. Introduced in 2011, this is a competitive funding mechanism to encourage firms, especially small firms, to work together to facilitate skills development. The initial impact is upon the <i>form of GIF</i> as a policy mechanism, where firms are invited to bid collectively for matched funding to support activities to deliver training to networks. The subsequent impact is that of <i>GIF in operation</i> – where it has both reach in the substantial number of UK businesses affected, and significance as a new approach to solving a longstanding problem in skills deficiency among smaller firms. More specifically, it shaped government policy, including the form of delivery of training to the public and to businesses.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>DUBS has a long established specialist research interest in policy approaches to small business. Indeed, the Small Business Centre (today known as the Centre for Entrepreneurship) was established at DUBS by Gibb in 1971, and he worked extensively on these issues and continues to do so as an emeritus professor. The important role of networks in training and small firm development was a major theme developed in Reference 1. This pointed out the potential of partnerships with other firms for ‘reducing the transactions costs and levelling the playing field for small business development’ (p. 25) adding that ‘the importance of this approach for the supply side of small business education and training are considerable’ (p. 25). It argued that ‘official competencies and standards that provide frameworks for training need to be related more closely to the context of business and the contextual conditions under which SMEs [small and medium enterprises] and their networks learn’ (p. 26). Subsequent work (Reference 2) argued for subtle and voluntary approaches to the formation of SME networks, and against prevailing top-down development of such structures. The GIF that finally emerged incorporated a bottom-up approach to skills training in line with Reference 2.</p> <p>This legacy of work on policy approaches to training in small business meant that when Lord Leitch’s 2006 <i>Review of Skills</i> was published – a national report which recommended that the UK should urgently and dramatically raise achievements at all levels of skills – Professor Stone (a member of the Small Business Centre) was able to present appropriate proposals to the Sector Skills Development Agency (SSDA), a body superseded in 2008 by the UK Commission for Employment & Skills (UKCES). He proposed investigating the effectiveness of interventions in comparator countries which were designed to increase small employer investment in skill formation, and to identify policy mechanisms relevant to the UK. The SSDA subsequently commissioned Stone to conduct the research (Reference 3), the findings of which were distinctive in emphasising the value of demand-side and collective aspects of training specifically in relation to smaller firms – i.e. those that Leitch showed lagged most in training performance.</p> <p>Reference 3 included an investigation of international policy experience, based upon an extensive review of data and published literature, supplemented by primary sources, including interviews, and analysed specific policy mechanisms to enhance small-firm training-engagement. The research covered: training behaviour and market failure or other obstacles specifically affecting small firms; the potential scope for government intervention; and an assessment of the effectiveness of different policy measures, paying particular account to policy constraints in the UK. This research into policy approaches – the first such study to be systematically focused upon small firms – showed that measures aimed at individual firms, such as tax incentives, direct subsidies, job rotation schemes, statutory training rights etc., have efficiency and cost disadvantages (including high overheads), while more collaborative approaches, such as levy funds and employer networks, can offset obstacles to training. It especially emphasised the potential benefits of employer-network solutions. In particular, it argued that ‘operating a flexible fund that supports the establishment (and experimentation with) such initiatives [referring to networks] is an effective way</p>

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of encouraging partnership working that draws together firms in order to address the market failures that restrict training activities by individual firms acting in isolation (pp. 36-7). It also drew attention to: 'Canada's *Workplace Skills Initiative*... [which] provides resources to help partnerships explore innovative ideas for workplace development in small firms through forming new local and sectoral networks drawing together training providers and enterprises, including larger firms' (p. 35). Reference 3 thus provided underpinning theoretical and empirical support for the subsequent research and consultation programme which was undertaken by UKCES as the basis for the new policy. In line with Reference 3, this programme focused on collective approaches to training in small businesses (the 'Employers Collective Measures' programme, launched in mid-2008). Thus, DUBS research shaped and influenced the form of the GIF in a number of ways. It:

- (1) Identified the importance of networks in training and small firm development
- (2) Identified options needed for the GIF to be relevant to small businesses
- (3) Informed policy-makers of the empirical evidence and experience of other countries – especially Canada, which had already implemented measures to address similar issues; and
- (4) Critically informed the process of determining the detailed characteristics of GIF.

Gibb worked at DUBS from 1965 until 2000, where he remains an emeritus professor. His contribution to entrepreneurship research was formally recognised by the award of an OBE (2009) for "service to the small business community" and by a Queen's Lifetime Achievement Award for Enterprise Promotion (2009). In 2012 he was also awarded the first European Entrepreneurship Award by the Sten K. Johnson Centre for Entrepreneurship at Lund University in Sweden, for his "pioneering work within entrepreneurship education". Stone was appointed in 2003 and is currently in post at DUBS. Braidford was a researcher at DUBS 2003-07.

3. References to the research (indicative maximum of six references)

1. Gibb A.A. (1997), 'Small Firms' Training and Competitiveness: Building upon the small business as a learning organisation', *International Small Business Journal*, 15:3, 13-29 (ABS 3*, cited by 531 – Google Scholar). <http://dx.doi.org/10.1177/0266242697153001>
2. Gibb A.A. (2000), 'SME Policy, Academic Research and the Growth of Ignorance, Mythical Concepts, Myths, Assumptions and Confusions', *International Small Business Journal*, 18:3, 13-35 (ABS 3* cited by 226 – Google Scholar). <http://dx.doi.org/10.1177/0266242600183001>
3. Stone I. & Braidford P. (2008) '*Engaging Small Employers in Continuing Training: An International Review of Policies and Initiatives*', Research Report 30, Sector Skills Development Agency, Wath-on-Deerne, March (ISBN 978-1-906597-01-06), 120pp (project contract £26,000)
http://webarchive.nationalarchives.gov.uk/+http://www.ukces.org.uk/pdf/Report_30.pdf

Evidence for this reference being 2* or above: (1) it was peer-reviewed through the SSDA/UKCES National Expert Panel academic network; (2) an updated version was commissioned by the OECD and, following their peer review process, was published in 2013
http://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report_Stone.pdf.

4. Details of the impact (indicative maximum 750 words)

Pathway to impact on GIF characteristics

DUBS research was influential, in large part, because of Stone's central involvement in the GIF policy development process, working with UKCES officers as Visiting Research Fellow. As is explained by testimony from assistant director of UKCES, UKCES's role was 'to advise government on collective policy levers that might enhance employer investment in skills' (See Testimonial 1). Stone was appointed Fellow at UKCES in 2008(-2011), specifically to work on the GIF policy, because of his previous research (Reference 3) and his ability to apply Gibb's research. He was thus himself a *principal pathway* through which DUBS research had impact. Specifically, this 'hands-on' role included: the provision of research advice and expert briefings, undertaking more detailed investigations on practical issues of implementation arising out of the work, participation in consultation events, and co-authorship of the policy report to the Minister at the Department of Business, Innovation & Skills, setting out and justifying the design of the GIF itself.

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This included, for example, the setting of funding criteria and the design of a pilot scheme. (Stanfield C, Sloan J, Cox A & Stone I, *Review of Employer Collective Measures: Final Report*, Evidence Report 10, November 2009, UKCES, Wath-on-Deerne and London, iv + 67pp, for the Minister at the Department of Business, Innovation & Skills. Available at <http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-10-employer-collective-measures-final-report.pdf>). This report summarised the policy research programme and synthesises a large body of evidence – including citing Reference 3. It presents an analysis of the policy options and concludes that the focus of policy should be employer networks developed via a competitive fund on a pilot basis, while also recognising the potential for certain other mechanisms to be used in specific circumstances or for future consideration. The principal recommendations of the report were subsequently adopted in Government policy in the form of the GIF. Stone's contribution to this report was to ensure that it incorporated DUBS research on this topic. According to the then Director of Research and Policy at UKCES:

GIF was strongly evidence-led and was underpinned by an extensive research and policy analysis programme on “collective measures” to ensure effective investments. Professor Stone played a sustained, influential and pivotal role in both the development and, unusually, implementation of GIF/*Best Market Solutions*, through his initial research and on-going engagement with the policy and its delivery. [His] impact has been considerable, both indirectly (on staff thinking) and directly (on the form and content of the policy). This was a function both of his research work and his on-going support and follow through (See Testimonial 2).

This pathway role is demonstrated through two of Stone's activities as UKCES Visiting Fellow. First, he visited Canada and undertook interviews and further detailed research into how the Federal Government implemented its network solution to the problem, on the basis of which he influenced the detail of implementation relating to GIF [UKCES internal working paper, '*Canada's Workforce Skills Initiative*', 6 June 2009]. Second, he undertook additional research (via interviews) into how skills networks could be formulated to conform to constraints posed by other government initiatives, notably the existing Business Collaborative Networks framework and Simplification Agenda (Evidence 1). UKCES also subsequently contracted Professor Stone to prepare a paper summarising his 2008 Report (Reference 3) – which it published specifically to disseminate his findings to policy-makers during the period when the policy recommendations were under discussion in government (see OECD report mentioned in references to research: <http://www.oecd.org/cfe/leed/Skills%20Workshop%20Background%20report%20Stone.pdf>)

Impact on GIF characteristics

DUBS research influenced the nature of GIF itself – specifically, the adoption of an employer network model ('more and better employer networks'- see also References 1 and 2) based on the 'employer ownership' principle, as opposed to traditional top-down government training support programmes. GIF has an allocated budget of £50m per year from 2012-13, leveraging annually a further £50m in matched private resources [<http://www.ukces.org.uk/gif/>]. Durham research was integral in the design of this competitive funding mechanism to encourage firms, especially small firms, to work together to facilitate skills development. Employers form training networks funded by the government via a competitive process with matching contributions from employers. In a variant of the Canadian approach, GIF also involves a piloting system to facilitate 'policy learning' and to fine-tune funding criteria in light of evolving experience.

The respective merits of a variety of models were systematically assessed in the policy development process led by UKCES on behalf of government – including networks, levies and occupational licensing, and more 'individualistic' solutions around accounting standards and Investors in People. In spite of the fact that Stone's research – and that of the broader research programme conducted as part of the policy review – showed the advantages of network solutions over the alternatives, particularly for small firms, the UKCES CEO hesitated to sanction this novel recommendation to the Minister. As email correspondence (Evidence 2) confirms, it was only following an internal document prepared specifically for the Directors by Professor Stone, making the case largely on the basis of his original research findings, that official sanction was forthcoming for what became the central feature of GIF. UKCES director for this project stated in testimony:

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Stone's internal 'report's findings had a shaping influence upon the design of our research programme, and ultimately on the policy adopted. The central ideas, relating to the use of business networks to overcome barriers to training (especially among smaller businesses), and the practical means by which such a system could be delivered, both identified and discussed in his initial research, were key themes in the final policy' (Testimonial 1).

DUBS research thus ensured that UK policy was appropriately informed in terms of conceptual empirical research, which might not have been the case otherwise. This led to important impacts on the policy actually adopted. Thus DUBS research:

- Ensured that the policy emphasised the employer network model;
- Identified particular mechanisms to implement this model (the notion of a competitive fund, operated initially on a pilot basis), and showed how they might be practically incorporated into policy – in particular, how they could be deployed given the constraints of the government's Business Collaborative Networks framework and Simplification Agenda;
- Was active in influencing the policy outcome so that less suitable policy alternatives (most notably occupational licensing, changes to accounting standards and liP variants), were downgraded as policy options.

As Strategy & Research Director, UKES suggests, '[Stone] was engaged, then, from research to policy to funding. His contribution was certainly impactful and unusual, in its direct, sustained and detailed contribution to skills policy and delivery' (Testimonial 2).

Impact of GIF itself

Since 2011, the GIF has been delivering benefits in terms of training and creating a better-skilled workforce. The UK Government has so far invested £111m in 124 projects with 36 different organisations. This sum has been matched by £103m of employer investment (Evidence 3). The impact of the policy can already be seen in the quantity of training and funds provided under GIF awards (details also available at GIF website). An example of impact in terms of actual skills development is the Renewable Training Network (RTN), a £1.2m project with over 600 member firms for provision of 2,000 new 'transition' training positions by end-2013. Testimony 3, from RTN, confirms the effectiveness of the model, particularly with respect to encouraging training in the many SMEs among its membership. Final data on training numbers are not yet publicly available, but the Head of RTN confirms that 'in spite of the depressed economic climate... we are making significant progress in delivering the target numbers agreed with the government' (testimonial 3) and that, on the basis of experience during the pilot, RTN will continue operating (and indeed will grow) the network beyond the GIF funding period.

Other interesting 1st round investments funded as GIF pilots include: the Hospitality Guild (by People First, aiming to have 300 SMEs among its members and to broker 500 new apprenticeships by 2014); SME Gold Standard Skills (by Cogent, to recruit 1000 SMEs into its network by 2017, with each spending £100 more per employee); Talent Bank (by EU Skills, committed to support 400 new energy sector apprenticeships and 400 highly skilled technicians by 2014); and Group Training Association (by Skills Active, aiming to increase the number of sport and leisure apprentices among small businesses, from 11,000 to 18,000 per year) (Evidence 4).

5. Sources to corroborate the impact (indicative maximum of 10 references)

Evidence

1. Email corroboration regarding Stone's role in the policy development process.
2. Email exchanges with Strategy & Research Director, UKCES corroborating influence on final decision on networks.
3. Webpage printout, '[UKCES, Investment Portfolio, GIF Round One Investments.](#)'
4. Webpage printout, '[GIF round one investments](#)'

Testimonials

1. Senior Policy Officer, UKCES; Head of Collective Measures Programme.
2. Strategy & Research Director, UKCES.
3. Head of Renewable Training Network.