

RESEARCH BRIEF

Training and business survival during recession

November 2008

The economic downturn is causing concern about a potential decline in training by business and an emphasis on the importance of maintaining training levels through the recession.

This research brief reviews the nature of the concerns being expressed; the arguments for continued investment in staff development during recessionary periods; and the evidence on the effects that training may have on businesses' survival and growth during both recessionary periods and 'normal' economic conditions.

Context and Current Concerns

There is a generally held view that training budgets are 'one of the first to go' in a recession.

An on-line poll of 120 learning and development managers, as long ago as June 2008, found that 44% expected cuts in their training budgets over the next 12 months, while 54% expected budgets to remain stable and just 2% expected an increase¹.

More recently, and reliably, the British Chambers of Commerce Quarterly Economic survey of 5,000 Businesses found that, in Quarter 3 2008:

- intentions to invest in training among manufacturing firms fell three points to their lowest level since 2003, while
- intentions to invest in training among service industries plunged 10 point to +4%, a record low since Quarter 2 1997, the earliest period for which figures are available².

Skills policy-makers, HR managers, businessmen and unions are all arguing that the translation of such negative expectations or intentions into actual training budget cuts would be perverse - counter-productive for individual businesses and damaging to British economy.

Sir Chris Humphries, Chief Executive of the UK Commission for Employment and Skills, argues that *"too often in the past there has been a tendency for businesses to cut back on investing in*

¹ Charlton, John. Training budget cuts predicted by learning and development managers, in *Personnel Today*, July 2008.

² British Chamber of Commerce, *Quarterly Economic Survey*, Q3 2008. Available from <http://www.britishchambers.org.uk/6798219246983319010/quarterly-economic-survey.html>

*training as soon as a recession begins, but all the research suggests that this is not the best thing to do*³.

In an open letter to the national newspapers, the CBI, TUC and top business leaders declare that *"now is precisely the time to keep investing in the skills and talents of our people. It is the people we employ who will get us through. When markets are shrinking and order books falling, it is their commitment, productivity and ability to add value that will keep us competitive"*⁴.

And a survey of HR professionals by IMC (UK) Learning Ltd finds that:

- 88% believe that properly planned staff training can play a major role in addressing the challenges created by an economic slowdown;
- 83% feel that staff training is just as important during recession as when times are good; and
- 80% agree that cutting training budgets during a recessionary period causes more problems than it solves.⁵

So how do employers adjust their training strategies during recessionary periods?

Employers responses to recession

Conventional theory is that employers cut back on training during periods of recession both to save money and because they are less likely to be recruiting new staff and apprentices who have initial training needs. Economic pressure means that they have to resort to short-term solutions that can leave them without the skilled people required for when economic conditions pick up.

This, no doubt, is true for some. But in reality responses are much more varied. Falling demand or rising competition during recession also leads companies into new markets or to change business strategies in ways that result in new training needs. Falling order-books and increased 'slack' can reduce the cost to employers of releasing normally busy staff for training.

The Honda Plant in Swindon is being cited as an example of good practice in this respect. Faced with falling demand, Honda recently had a choice between making 1,300 people redundant or closing for two months retaining all 4,800 staff on basic pay. To retain its skills-base, it opted for the latter, using the break in production as an opportunity to train employees in Business Improvement Techniques and other skills.

In Autumn 1992, Alan Felstead and Francis Green⁶ interviewed 157 mostly small and medium-sized employers to understand how their training strategies and patterns changed during the 1990-1992 recession. They found that 43% of respondents claimed to have increased their

³ *Small Business Survival Skills: Training is Key*, Interview with Chris Humphreys, Financedaily.com, available from <http://www.financedaily.co.uk/finance/SmallBusinessCreditCrunch>

⁴ Times online – 2nd November 2008.

⁵ *Staff training during an economic downturn - opportunities and threats*, survey by IMC (UK) Learning Ltd, Nov 2008.

⁶ Felstead, A, & Green, F. "Training during recession" in *Work, Employment & Society*, Vol 8 No 2, June 1994.

training activities in the last two years, while 27% reported no change, and 25% reported cut-backs in training.

They found considerable diversity in approaches to training taken by different employers. Some employers increased training investment as part of a competitive strategy based on raising quality, sometimes accompanied by the introduction of measures such as BS5750 or ISO9000 to ensure consistency of products and services. Others invested in Customer Care training to hold onto existing customers or trained to cut waste. Employers operating in declining product markets were still found to be maintaining a commitment to training and even to be hardening their training budgets, due to training being considered vital to compete. They had to train to keep in line with industry-specific or economy-wide regulations and identified their own 'training floors' below which it was simply unsafe or unwise to go.

Other strategies included: refocusing training effort on individuals with the greatest impact on company performance; closing central training departments and relocating responsibility with production units; and cutting training in line with reduced recruitment, falling staffing levels and as falling labour turnover reduced internal progression opportunities with the associated training needs.

The message from this work therefore is that companies' competitive or survival strategies during times of recession vary considerably, as do the training needs that fall out of them.

Data Trends

The Felstead and Green study also examined Labour Force Survey (LFS) data on the prevalence of training across the working population, comparing levels at the start of 1990, before the recession really started to bite, to those at start of 1992 when unemployment was reaching its peak. They found that the proportion of employees of working age who reported having received job-related training in the four weeks before the survey had fallen, but only from 15.4% to 14.5%. Across the country as a whole, the number of people receiving job-related training dropped 318,000, but most of this was attributable to the drop in the number of people in employment. The number of apprentices fell by 11%, from 352,000 to 312,000, but again, this fall was roughly proportionate to the overall drop in employment levels.

"Considering the severity of the recession", they concluded, "the fall in the proportion of employees receiving training has only been a small one". Training expenditure may not be as vulnerable to fluctuations in the business cycle as is sometimes assumed.

Coming back to the present, the latest LFS data, for Quarter 3 2008, shows 9.6% of the South West's working population undertook job-related training in the last four weeks. This was down from 11.1% in the previous quarter, but it is also the exact same figure as was reported in Quarter 3 2007, when the economy was booming. The likely explanation is that Quarter 3 includes the summer months of July, August and September when training levels always tend to be lower.

Informal discussion with the LSC suggests that, as of November 2008, Train to Gain delivery volumes were continuing to progress towards targets. Declines in new commitments to train were

⁷ Ibid, p 200.

being reported in some vulnerable sectors, such as the residential house building and repair and maintenance sub-sectors of construction. Volumes in others sectors such as care or the public sector were continuing to grow.

Employment effects of recession tend to lag behind falls in demand and production, due to employers like Honda seeking to hang onto skilled staff. It is likely that the impact of the current economic downturn on training, whether this repeats past patterns or differs this time around, has yet to feed into the data.

The Impact of Training on Survival and Growth

“Businesses must resist the temptation to slash training to cut costs. Why? Because businesses that don’t invest in talent are two and a half times more likely to fail, whereas those that carry on training will recover more quickly”.

(John Denham speech to the CBI, October 24 2008)

The figures in this quote by John Denham have also been used in recent speeches by the General Secretary of the TUC amongst others. They come from the report, Training and Establishment Survival, by Collier, Green and Kim. The authors traced 1,479 employers who took part in the 1998 Workplace Employment Relations Survey to establish whether they were still operating in 2004 or had closed down. The surviving employers were then re-interviewed about their training policies and practices.

The report found that 15% of establishments had closed between 1998 and 2004, although closure rates varied considerably by sector, from 33% of establishments in manufacturing to 2.5% in Public Administration. 24% of establishments were found to be ‘non-training’, in the sense that they provided no off-the-job training.

A ‘substantial association’ was found to exist between training and establishment closure, with 27% of non-training establishments closing between 1998 and 2004 and only 11% of training establishments closing. These two figures provide the basis for the popular quote.

Once other variables that influence survival, such as establishment size, age and sector, were controlled for, the probability of closure was reduced to 9%. But nonetheless, the key finding, that there remained a strong association between training and survival was found to be true across establishments in nearly all sectors, of all ages, sizes and types.

The study also focused on the period 1998 to 2004, when economic conditions, according to the Governor of the Bank of England, were ‘NICE’ - Non-inflationary Consistent Expansion. It also focused only on establishment survival.

In a different study⁸, University of Cambridge researchers examined the relationship between investment in formal training and both the survival and growth of 1,600 independent SMEs in the manufacturing and business sectors. They looked at two periods: 1987-1990 when conditions were NICE, and 1990-1995 when economic conditions were, at least initially, nasty.

⁸ Cosh, A, Duncan, J, Hughes, A (1998), "DfEE Research Report No. 36", *Investment in Training and Small Firm Growth and Survival: An Empirical Analysis for the UK 1987-95*, DfEE/HMSO, London.

They found that for the 1987–1990 period, investment in both management training and training in general were positively correlated with growth in employment and sales growth. A link was also found between training and raised profitability in this period, but only for larger firms.

Their findings for 1990-1995 were rather less positive. A 'generally positive' relationship between training and employment growth was found over this period among companies that were training in 1991, at the height of the recession, but this was not statistically significant. Nor was a statistically significant link found between investment in management training or training as a whole and growth in sales growth or profitability.

Also disappointing, and at odds with the more recent Felstead & Green study, was the finding that training was found to have little impact on the probability of survival in either period, except for businesses with between 10 and 20 employees. The researchers concluded that *“although it was possible to identify a relationship between training and growth performance in the period 1987-1990 it was not possible to identify consistent impacts of training in 1991 on performance in the five year period after that date. This may reflect the severity of the recession in the early 1990’s...”*

A few years later the same research team followed up the businesses surveyed in 1991 to examine the impact that consistency and intensity training practices may have had on employment growth from 1987-1995. This time they also examined the wider human resource practices of the participating businesses. Impacts on survival, turnover and profitability were not examined, just employment growth.

Consistent with the previous study, *“a strong significant impact of training on employment growth was found for ‘persistent’ trainers, i.e. firms training in both 1991 and 1997.”* Businesses that were not training in 1991 but were found to be training in 1997 also experienced generally greater employment growth than non-trainers between 1987-1995⁹.

Interestingly, the study also found:

- that the scale or intensity of training, measured by training costs as a percentage of sales, had a significant and positive impact on employment growth; but
- *‘the effect of training on growth was found to be significant only for those trainers that were using human resource practices such as total quality management, quality circles, job rotation and performance-related pay’*¹⁰.

It’s not just training that matters

The proposition that it is not training *per se* that makes the difference, but the way which people’s skills are developed and deployed by employers, is extremely important, and is supported by other studies.

⁹ Cosh, A, Hughes, A, and Weeks, M. (2000). “DfEE Research Brief No. 245”. *The relationship between training and employment growth in small and medium-sized enterprises*, Centre for Business Research and Dept of Applied Economics, University of Cambridge, Nottingham: DfEE Publications.

¹⁰ Ibid.

A study of sixty-seven small UK manufacturing firms by Patterson et al in 1997¹¹ found that 19 per cent of the variation in these companies' profits was explained by their human resource management practices. Another study with medium-sized companies found no direct link between training and performance, but that combinations of management attitudes and HR practice were positively linked to firm performance¹².

The problem is that finding a positive relationship between training and survival or growth does not equate to finding that investment in training leads to greater profitability, turnover or survival chances.

*"Small firms that provide training", David Storey suggests, "may not be a random sample of small firms; they may be more motivated, aggressive, dynamic, and it is these qualities, rather than the training per se, which generates 'better' performance. The fact that these qualities happen to be correlated with training provision is spurious, and it would be entirely wrong to assume it was the training which caused enhanced performance when it was more basic qualities such as motivation and dynamism"*¹³.

Keep et al, examining low-wage employment in the UK, point to jobs such as those found in food-manufacturing, *"where cheap labour and shortage of capital to invest in automation sees workers taking items off one belt and placing them on an adjacent conveyor system all day long"*. While it *"may be a statement of the blindingly obvious"*, they suggest, training individuals in these sorts of role is highly unlikely to have any impact on profitability, employment, growth or survival unless training is accompanied by an examination of *"work organisation, job design, how employment relationships are managed and conditions are achieved whereby employee motivation, commitment, and discretionary effort are maximised"*¹⁴.

Conclusions

There is a fair body of work that demonstrates the existence of a significant relationship between training and businesses' survival and growth. However, the causality of the link is neither simple nor direct. It is complex and is known to be stronger when training is 'bundled' together with a range of other progressive management and HR practices.

¹¹ Patterson, M G , West, M A., Lawthom, R and Nickel, S. (1997) 'Impact of People Management Practices on Business Performance', *Issues in People Management*, No. 22. London: Institute of Personnel and Development. Cited in Storey, David J, *Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries*, The International Journal of Human Resource Management, 2002, <http://www.informaworld.com/smpp/title~content=t713702518>

¹² Storey, D J (2002) 'Education, Training and Development Policies and Practices in Medium and Small Sized Enterprises in the UK: Do They Really Influence Firm Performance?', *Omega*, 30:249–64. Cited in David J. Storey, *Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries*, The International Journal of Human Resource Management, 2002, <http://www.informaworld.com/smpp/title~content=t713702518>

¹³ Storey, David J, *Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries*, The International Journal of Human Resource Management, 2002, <http://www.informaworld.com/smpp/title~content=t713702518>

¹⁴ Keep, E, Mayhew, K & Payne, J. *From Skills revolution to productivity miracle – not as easy as it sounds?* Oxford Review of Economic Policy, Vol. 22, No. 4, 2006.

David Storey of the Warwick Business School suggests avoiding “*confident assertions*” and that we should be wary of “*blustering, obfuscating the results of research, or baldly asserting the presence of (such) a link*”¹⁵ between training and business survival or growth. Life is complex, particularly for small businesses in times of recession.

The evidence does however suggest that training is a key component of a great many business strategies for adaptation or survival in recessionary conditions, as well as for growth in better times. But it is only one component. An effective strategy must also encompass considerations of products, market positioning, modes of production, capital investment, labour needs, work organisation and the skills required by employees to contribute fully to the chosen strategy. As Nigel Jump, the RDA’s Chief Economist, has argued, during recession effort needs to be focused on boosting “*efficiency and productivity, supporting the skills and innovation that encourage entrepreneurship and investment in new technologies and processes*”¹⁶.

The danger of asserting that more training necessarily improves an organisation’s chances of survival or its growth is that this ignores the importance of training being located within this wider business strategy. It can result in reductionist, target-driven policies which, Keep et al argue, bear little real relationship to employer demand¹⁷.

An interesting finding in *Training and Establishment Survival*, the report quoted by John Denham, was that “*there was no association between the intensity of training and establishment closure*”. This suggests that “*among training establishments, the amount of training may be close to the optimal amount*” and that “*attempts to influence businesses through persuasion and advice should be concentrated on... non-training establishments*”, rather than persuading those who are already training to do more.¹⁸

The integration of Skills Brokers into wider broker teams, the increasing flexibility of Train to Gain, and growing funding for non-accredited learning all suggest that government is listening to business and increasingly understands that ‘battleship building’ will not be the most helpful approach for business during recessionary times. In recession, supporting businesses to adapt to changed circumstances and to implement the strategies they develop for growth or survival should be the focus of policy, and this requires flexibility. If this approach feels like letting ‘skills’ slip, we should remember that it is of course people, and hopefully all people within an enlightened enterprise, who will consider what can be improved, what they could do differently or better, who will develop and deliver these strategies, and who remain the key to their employer’s success.

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¹⁵ Storey, David J, op cit, p 125.

¹⁶ Jump, Nigel F, Economics Review Issue 14, South West RDA, November 2008. Available from <http://www.southwestrda.org.uk/region/economy/economics-review.shtm>

¹⁷ Op cit, p 552.

¹⁸ Collier et al, op cit, p. 9.

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