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Small firms and the failure of skills policy: adopting an institutional perspective

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Abstract

Both skills and small firms have been increasingly prominent in policy agendas across the world in recent years. Skills are now seen as being crucial to economic prosperity, yet evidence consistently shows much lower levels of training, on average, in small firms than in larger businesses. Policy makers in various countries have sought to address this perceived problem and to stimulate skills development in small firms, but have attempted to do so in different ways and with varying degrees of success. It is this divergence in national skills policies, as well as its causes and implications for skill formation in small firms, that this paper seeks to illuminate. In doing so, it adopts an 'institutional' perspective that advances current understanding of how and why skills policies adopted in different countries appear to have varying effects on small firms. Through employing this institutional analysis, the paper promotes an awareness of how historical, social and economic forces in the 'corporatist' systems, found for example in Germany and Scandinavia, tend to provide a more supportive context for skills development in small firms than the liberal free market systems found elsewhere in the world, such as in the USA, Canada and the UK – which is highlighted as an illustrative case in this paper.

Introduction

The central importance of skills to individual, organisational and national competitiveness has become an established orthodoxy in recent years. Faced with intensifying global competition and the expansion of the 'knowledge economy', governments are increasingly turning to skills as their "lever of choice" (Keep and Mayhew, 2010: 566). Small businesses occupy a central niche in this narrative.

In most countries, small firms (generally defined as those employing fewer than 50 people) employ around half of the private sector workforce. They have thus begun to occupy a position of considerable significance with regard to national economic policies. In the UK for example, as elsewhere in the world, small firms are routinely described as being of core importance, an "engine of growth" to stimulate recovery in the wake of recession (Cabinet Office, 2013). In order to facilitate this process, governments have emphasised the importance of helping small firms to develop the skills they require, so that they might prosper on the world stage and, hence, deliver on the promise of a more competitive national economy (e.g. DBIS, 2013a). This may seem a plausible enough aim. However, as this paper will argue, the way in which it has been advanced by successive British governments – and, as we shall see, others around the world who have pursued a similar 'free market' approach – has been characterised by two main problems.

First, there has been a misunderstanding of the ways in which skills are normally developed within small firms. For example, an expanding corpus of academic research demonstrates the heightened importance of informal, situated learning within small

businesses (see Bishop, 2012). This sits uneasily with policies that regularly equate skills and learning with structured qualifications and formal training. Understanding of this issue is now quite well established within academic circles, but appears only gradually to be filtering into policy formation processes. Indeed, this has been an issue for many governments around the world, particularly those who – like the UK – have pursued a liberal free market approach to skills policy that privileges the position of formal, structured approaches to learning (Ashton 2004).

The second problem relates to the issue of skills demand and utilisation. As Payne and Keep (2011) point out, governments adopting the free market system have consistently proven reluctant to address the concern that there is little demand for high-skill approaches among employers. Even where policy-makers *have* recognised demand as a problem, their suggested solutions have mainly been focused on exhortations for employers to adopt high-skill work practices such as ‘high performance work systems’. Yet the relevance and appeal of such practices to the less formal context of the small firm is questionable.

The paper begins by expanding on these problems – using the UK as an illustrative example of how such problems are perpetuated with free market systems – before seeking to identify possible solutions. It explores these solutions by considering the policy lessons to be learned from elsewhere in the world – particularly parts of Northern Europe, where a more ‘corporatist’ approach persists, and where policies that seek to embed (informal) learning and skills within work processes appear to have had some success. Ultimately however, it is argued that simple ‘policy borrowing’ can at best

produce only marginal results due to the historical, cultural and institutional structures that differ from country to country. These broader structures lend meaning and value to particular policies for both skills and small firms, thus constituting a key factor in their success or failure. For example, policies that situate the embeddedness of skill demand and formation within the fabric of work organisation are fairly common within corporatist systems, but have seemingly found a less receptive environment in free market contexts.

It is in the integration of this *institutional* perspective with the analysis of skills policy and small firms that the paper extends current understanding. Only through such an appreciation of institutional context can we understand how corporatist approaches seem to offer greater scope for promoting skill creation and use in small firms. Policy makers in liberal free market economies therefore need to eschew simplistic policy borrowing and engage in a process more akin to ‘policy *learning*’ (e.g. Stone, 2001), which recognises the importance of these institutional structures in shaping the impact of policy.

Skill formation in the small business context

Our knowledge of how skills are developed in the small business has expanded considerably over the last two decades. This knowledge base has its origins in survey evidence that consistently reveals much lower levels of formal training provision in small firms than in medium-sized and large ones. Small firms are also, on average, significantly more likely to report no formal training provision and significantly less likely to have

internal systems (such as training plans and budgets) for the monitoring and provision of training (e.g. UKCES 2010b, 2012).

Broadly speaking, this pattern is repeated across the world. While it can be difficult to compare data between different countries due to varying methods of monitoring and reporting, evidence from economies as diverse as Australia (e.g. Kotey and Folker, 2007), Korea (e.g. Kim and Yoon, 2008), Turkey (e.g. World Bank, 2007), China (e.g. Cunningham and Rowley, 2010) and the USA (e.g. Shepherd et al., 2011) consistently shows a strong correlation between firm size and incidence of formal training. Similarly, in an analysis covering 99 developing countries, Almeida and Aterido (2010: 4) find “robust evidence of a large and statistically significant positive correlation between firm size and the investment in job training.” There is of course some variation within this overall picture. For example, small firms in Germany and Austria are much more likely to engage with particular *kinds* of training – especially apprenticeships – than are their counterparts in the UK or the USA (OECD, 2009), and this is a theme to which we will return later in the paper. Generally though, it does seem that the small firm training ‘problem’ is in broad terms a global one.

However, we should note that data regarding the incidence of training has two important flaws when it comes to reporting on learning and development in small firms. Firstly, it masks considerable variety within the ostensibly homogeneous ‘small firm’ category. For example, Stone and Braidford (2008) point out that training is more prevalent in businesses (both large and small) that:

1. Are in certain sectors, such as “business and professional services” and “other services” (2008: 3). DBIS (2013b: 57) suggests that small firms in construction and manufacturing are also more likely to provide training than firms in other sectors (e.g. transport, retail and distribution).
2. Employ high proportions of professional, technical and / or managerial staff.

Additionally, it seems that strategic outlook is an important factor. Stone and Braidford (2008) note that small businesses that are subject to or initiate changes in technology, production or organisation are more likely to provide training for employees than those that are more static. Similarly, small firms that are growing and / or growth-oriented seem to display higher levels of training participation than those that are not (e.g. Jayawarna and MacPherson, 2006; Barrett and Mayson, 2007). Also, firms that operate according to a product market strategy that emphasises innovation, flexibility and specialisation are significantly more likely to provide training – and to a higher proportion of their staff – than those that rely mainly on cost reduction, bulk output and product standardisation (UKCES, 2014: 166). It seems clear therefore that small firms’ relationship to formal training is not entirely uniform. In spite of their common features (flat hierarchies, relatively limited resources, etc.) they are not a homogeneous group when it comes to training.

The second – and in the context of this paper, more pertinent – problem with surveys of training participation is that they fail to account for the *informal* learning processes that appear to play a particularly significant role within small firms (problems of generalisation notwithstanding). Holden et al. for example, argue that:

‘[L]earning activity may well be taking place [within small firms] but of a character and nature that does not sit comfortably with any commonly understood definition of formal training, i.e. mainly off-the-job and provided by external sources.’ (2006: 435)

This observation is echoed and elaborated upon in many other studies (e.g. Dawe and Nguyen, 2007; Ashton et al., 2008; Kitching, 2008), with Hill and Stewart (2000: 109) finding that human resource development in small and medium enterprises (SMEs) “mirrors the characteristics of SMEs themselves – both SMEs and their HRD activities are essentially informal, reactive and short-term in outlook.” What such evidence tells us is that, in the absence of the structure and capacity to engage in the same levels of formal training as those found among larger firms, small firms tend to rely more on informal processes to develop skills (e.g. learning by doing, by trial-and-error, or by tapping into peer networks). Thus, not only do we need to avoid the problematic assumption that generally lower levels of training in small firms mean that less learning is happening; we also need to acknowledge that the comparatively resource-scarce, unstructured small firm environment has a tendency to make a reliance on informal modes of skill formation more rational and perhaps more appropriate (Ashton et al., 2008).

Of course, as Bishop (2012) points out, this is not to say that formal training is irrelevant to small businesses. As noted above for example, firms in some business sectors are more likely to benefit from formal training than firms in others. Rather, the crucial point is that the prevailing informality of management processes and structures

within small firms inevitably forces us to question the applicability of established 'best practice' models of skill formation and human resource development that are promoted in much of the policy and practitioner literature (Johnson and Devins 2008; Kitching, 2008; Nolan and Garavan, 2012). Such models are invariably based on assumptions of formalised 'large firm' structures, resources, hierarchies and processes that are rarely present in the small firm. Yet, as the next section seeks to show, these models are still accepted and assumed by policy makers in some countries – particularly the UK – with at best uncertain results.

Skills policy and small firms

Ashton (2004) distinguishes between three main paradigms of skills policy:

1. The *corporatist model* (e.g. pursued by governments in Germany, Denmark and much of central / northern Europe) where a history of tripartite regulation between employers, employee unions / associations and the state ensures that the production and utilisation of skills is driven at least in part by wider societal goals;
2. The *developmental state model* (e.g. Singapore and South Korea), where there is more directive government control (or 'command') over skills policy based on a comprehensive industrial strategy;
3. The *liberal free market model* (e.g. the UK, Canada and the USA) where skills are seen as a private commodity or good to be freely traded by individuals and firms.

As Ashton observes, the UK represents a prime example of the liberal free market approach. For this reason it is used as a focusing lens in the following discussion to illustrate the trajectory that skills policies characteristically take – and the problems they face – in countries that have adopted such an approach.

Given its pursuit of a free market model, it is perhaps unsurprising that the story of UK skills policy in recent years has, for the most part, been one of increasing marketisation. As we shall see, successive British governments have driven this process, seeking to construct a system where skills can be represented as measurable and marketable private commodities. This approach rests on and perpetuates the view that qualifications and formal training can and should be used as proxies for skills and learning; skills must after all be accredited and quantified if individuals hope to demonstrate clearly to employers that they are a more capable and appealing prospect than their labour market competitors. In light of the discussion in the previous section, this emphasis on formality might raise questions about the relevance and appeal of such a narrative for small firms. It is also a logic that is writ large throughout government policy in free market systems such as the UK.

To take one example, the British coalition government's strategy document, 'Skills for Sustainable Growth' (DBIS, 2010a) states that:

'employers and citizens must take greater responsibility for ensuring their own skills needs are met... Under our new system, learners will select training and qualifications valued by

business, and available through a broad range of autonomous providers who will attract learners depending on the quality of their offer.’ (DBIS, 2010a: Foreword)

Strikingly similar assertions can be found in a number of other influential policy documents spanning the last two decades, including the reports on ‘Rigour and Responsiveness in Skills’ (DfE and DBIS, 2013), ‘The Value of Skills’ (UKCES, 2010a), the previous government’s ‘Leitch Review of Skills’ (Leitch, 2006) and the White Paper ‘Skills: Getting on in business, getting on at work’ (DfES / DTI / DWP, 2005). In all of these documents, skills are explicitly equated with qualifications, and learning with formal training or education (a phenomenon that seems even more pronounced in the practical implementation of policy at the local level – see for example Mazonod, 2014). Processes of informal, on-the-job learning – seemingly so important in small firms – are rarely mentioned and never discussed in any meaningful detail. This narrative has birthed a series of flagship policy initiatives aimed mainly at increasing the supply of skills through enabling greater investment in formal training and qualifications (e.g. the increased funding of apprenticeships under the coalition government, and the now defunct ‘Train to Gain’ initiative under the previous administration). Notably, it is also a narrative that is clearly in evidence in other free market systems; Eberts (2010) for example discusses the US government’s market-based approach as embodied in ‘Individual Training Accounts’ that channelled public funding, in the form of vouchers, to individuals for the purposes of participation in formal training.

This approach, in emphasising ‘training’ and formality, appears to neglect the particular learning environment of the small firm. Indeed, small firms have been largely – though not entirely – absent from government skills policies in free market systems. For example, the Leitch Review in the UK (Leitch, 2006) advocated the extension of Train to Gain to small businesses, but did not engage with the issue of informal skill formation or consider how Train to Gain might need to be adapted in order to meet the needs of small firms. The ‘Skills for Sustainable Growth’ white paper (DBIS: 2010b) did dedicate a brief section to small firms. However, it did little more than note some of the common barriers to formal training in small and medium enterprises (SMEs), such as a lack of resources and training infrastructure, and state that some Level 2 workplace training in small firms would be co-funded by government. Some attention has also fallen upon ‘Group Training Associations’ (collective, employer-led collaborations) as a means of alleviating financial barriers to training and helping small firms to achieve economies of scale (e.g. DBIS, 2010b). This all exemplifies an approach – common within free market systems – that privileges ‘training’ over more embedded and less formal modes of learning, and also assumes that there is (or will be) a *demand* for such training. The discussion now turns to a critical analysis of this approach.

Skills policy and the liberal free market approach: neglecting small firms

The available evidence suggests that small firms rarely engage with government skills initiatives in the UK. For example, the 2009 Employer Skills Survey (UKCES 2010b) found that small firms were significantly less likely to be aware of apprenticeship schemes,

Train to Gain, the 'Skills Pledge' and National Skills Academies than were larger firms. Research by the Federation of Small Businesses (FSB, 2009) also found low awareness of Train to Gain among small firms and a lack of coverage of micro-firms (those with fewer than 10 employees). In a similar vein, Matlay (2004) found that a negligible proportion of small firms used Business Links and NVQs (National Vocational Qualifications), and only around 10% used Modern Apprenticeships.

The reasons for this lack of engagement have been explored in various studies. For example, Devins et al. (2005) note that government agencies – and the policies they produce – tend to be viewed as culturally remote by small firms who therefore treat them with either indifference or antipathy. Aside from these general perception problems, various writers have pointed to a more fundamental issue with the nature of skills policies adopted by various British governments over the last 20 years or so. As noted above, the favoured approach has been to use policy levers to alleviate barriers to training in small firms, for example by providing access to finance or economies of scale in order to overcome resource scarcity. However, as noted by Coetzer and Perry (2008), this enduring emphasis on training as the exclusive conduit for learning grates with the less formal environment of the small firm, where learning is more often seen as embedded in normal work activities. For example, Edwards (2010) casts a critical eye upon the Leitch Review (2006), arguing that the qualifications-based view of skill formation it espouses “cuts against the grain of small-firm perspectives, and it runs the risk of distancing such firms from the training agenda by proposing models which they see as foreign.” (Edwards, 2010: 14). Keep (2008) raises similar concerns about the Train

to Gain initiative. Such an approach to skills policy does little to engage with the relative informality that characterises skill formation processes particularly in small firms. It is thus perhaps not surprising that the initiatives emerging from this narrative appear to have had such limited success in engaging the small firm sector.

In addition to this, there is the problem of raising skills demand and utilisation among small firms. Keep (2009) argues that the demand for skills among UK employers in general is relatively low due to the nature of the competitive strategies they tend to employ. As he points out, while the broadly neoliberal approach to economic policy adopted by governments in the UK (and elsewhere, e.g. North America, Australia) lays businesses bare to competitive market forces, it does little to ensure that their response is to compete on the basis of skill rather than cost. In the rare instances where British governments *have* recognised employer demand for skills as a potential problem, the proposed solutions have invariably revolved around encouraging employers to adopt 'high performance work practices' (or HPWPs, e.g. formal employee involvement in decision-making, the strategic integration of skill formation into work processes, job rotation, etc.; see for example DBIS, 2010b and UKCES 2009). As Payne and Keep (2011) point out however, such exhortation to voluntary action still does not address the deep-seated problems of demand resulting from the dominance of competitive strategies that focus on short-term profit and cost-minimisation rather than longer-term investment in skills. More importantly, as HPWPs are commonly characterised by formal management systems requiring significant and sustained investment, we might question how relevant or appropriate they are to the small firm context. As Payne and Keep observe, "How

SMEs might be helped... to navigate their way through a quite complex process of designing and implementing such systems remains unclear.” (2011: 18).

So it is argued here that government skills policies in liberal free market systems, as exemplified in the UK, have conventionally been constructed in ways that come into tension with the less formal, more flexible context of the small business. The following sections ask if, in seeking solutions to this problem, there is anything to learn from skills policies adopted within different systems in other countries.

Learning from international experience: improving small firm engagement with training and development

As Sung et al. (2006) observe, the problem of enhancing skills in small firms is one that has occupied academics and policy-makers across the world. This challenge has prompted a recent international growth in policy research, which has focussed mainly on the ways in which training and development can be priced, presented and delivered in order to appeal to small firms.

Dawe and Nguyen (2007) summarise the key trends in this research, highlighting for example the evidence demonstrating need to engage small firms by reducing the costs of training, or by recognising forms of learning that sit more comfortably with the small firm context (e.g. that are less focused on formal, off-the-job training, and more focussed on experiential work-based learning). Numerous other studies have echoed this view, highlighting the observed business benefits of a more small firm-friendly approach to skills policy; an approach that is typically described as encompassing

informal learning (e.g. Conference Board of Canada, 2009) and flexible, modularised training that allows small firms to access tailored provision that meets their own specific needs. In respect of this latter point, Stone (2010) points to developments within the New Zealand skills sector, where the national qualifications framework facilitates:

‘the bespoke design of qualifications, allowing mixing and matching of course units tailored towards small businesses or sector-specific knowledge. Industry qualifications can consist of both generic and specific units – e.g. the commercial road transport certificate includes maintaining personal presentation and communication skills alongside credits for knowledge of traffic law and executing vehicle maneuvers. Small firms have welcomed the framework for flexibility of content, emphasis on small units of assessment, and relevance to different sectors.’ (Stone, 2010: 16)

Other policies seen to have had positive impact include those that promote the use of collaborative arrangements to achieve the economies of scale that enable small firms to overcome their resource constraints. For example, Stone and Braidford (2008) point to the successful adoption in Japan and South Korea of schemes that utilise larger firms as ‘training hubs’ for the smaller firms in their supply chains. These appear to have had some success in increasing levels of participation in training within those firms. Choi (2011) further elaborates on the Korean context, highlighting the creation of publicly funded ‘Joint Vocational Training Consortiums’, which allow small firms to co-ordinate with larger firms, employer associations or universities to utilise their training facilities. Collaborative arrangements of a similar type do exist already in some parts of the UK,

for example in the case of Group Training Associations. However, as noted by the Commission of Inquiry into the Role of Group Training Associations (CIRGTA, 2012), these are comparatively limited in their activities and currently have relatively little presence outside the north of England.

Another policy adopted in some countries relates to the possibility of improving skills utilisation by delivering training initiatives alongside programmes that are designed to re-shape work practices at the firm level. This has been a particular feature of skills policy in parts of Northern Europe and Scandinavia. For example, the European Commission (2012) highlights initiatives in both Denmark and Finland aimed at adjusting organisational work schedules in order to provide dedicated time and space for employee training. In extending this drive towards 'work improvement programmes', the government of Finland created the 'Workforce Development Programme' (FWDP), which ran between 1996 and 2011. This programme – which channelled around two thirds of its overall funding specifically towards small firms (Harju and Stenholm, 2005) – engaged consultants and academics in advising firms on various areas of workplace practice such as employee involvement, teamworking processes, job rotation and informal on-the-job learning. The explicit aim was to enhance the supply of skills, while also promoting competitive strategies that would require and utilise those skills. This tailored, flexible approach that focused on informal learning as well as training seemed to appeal to small businesses (Stone and Braidford, 2008), and the programme appears to have had some success; participating firms reported high levels of satisfaction in

official evaluations (Payne, 2004), and Alasoini (2006: 45) observes that 61% reported an increase in the “opportunity to use competence and skills”.

Thus, there may be some instructive lessons for the UK to learn from overseas in terms of how skills policies can be constructed and delivered in ways that engage and benefit small firms – and which incorporate notions of informal learning. However, as the next section will argue, governments need to be wary of simple policy borrowing; ingrained institutional, cultural and economic differences between countries render such policy cherry-picking highly problematic.

Learning from international experience: thinking ‘institutionally’

As Busemeyer and Trampusch (2012) point out, academic researchers have increasingly drawn attention to the embeddedness of skill formation processes in broader social, political and economic structures. “The development and availability of skills”, they observe, is “strongly conditioned by and reflected in the institutional context of political economies, both historically and in the contemporary period.” (Busemeyer and Trampusch, 2012: 3). Different countries present very different social, cultural, economic and political contexts that condition the applicability and utility of particular skills policies. So, a policy that works in Scandinavia (or, for that matter, Korea, New Zealand or anywhere else) may not necessarily work in the same way, or even at all, in the UK or the USA. This argument is at the heart of the ‘policy learning’ approach (e.g. Stone, 2001) and is also made by Ashton (2004) in his distinction (outlined above) between corporatist systems, where social partnership arrangements shape training and

development regimes; liberal free market systems, where skill formation is devolved largely to market forces; and 'developmental state' systems, where the government adopts a more directive role in stimulating the supply of and demand for skills.

Pursuing this line of analysis, Stone and Braidford (2008) discuss the effects upon small firms of the broadly corporatist system present in some Scandinavian and Northern European countries. They argue that social partnership arrangements (encompassing for example works councils and sector skills bodies as well as employers), are important in generating a structure and culture over time where small firms are incentivised – even obliged – to prioritise the long-term skills needs of their entire industry over their own short-term requirements. And, even though small firms often technically sit outside such formal systems of collective dialogue:

'social influences are found to extend to these [small] workplaces through their effects on the prevailing culture... the activities of sectoral bodies... and better supply of information on training. [For example,] [t]he collective arrangements in force in the Netherlands that led to sectoral training funds... have also given rise to employee rights to an individual training plan and personal budget.' (Stone and Braidford, 2008: 18)

Similarly they note that, in Finland, a pervasive and long-standing culture of co-operation and dialogue between workers and employers has combined with an endemic view of skills as a public good rather than an individual commodity; this creates a situation where high-skills approaches to competition are promoted among small firms. In this context, policy initiatives such as the Finnish Workforce Development Programme

(discussed above) have found a fertile and receptive environment for employee involvement in the re-shaping of workplace practices – an environment that the free market approach does little to promote.

Focussing particularly on apprenticeship training, Evans and Bosch (2012) identify a similar pattern in Germany, where corporatist institutional arrangements (e.g. a culture of employer / employee co-operation, government protection of skilled worker status) have promoted a situation where small employers see training as much in terms of civic duty or “social obligation” as profitable investment (Evans and Bosch, 2012: 15). While this situation may slowly be changing (Thelen and Busemeyer, 2012) the evidence suggests that small firms in Germany still broadly adhere to the ‘training beyond need’ model, and that the corporatist system on which the model is based still endures. For example, Evans and Bosch (2012) point out that, while the formal structures of works council engagement in company training matters have gradually declined in recent years, there is still a strong culture of social partnership. They argue that this has helped to bolster the provision of apprenticeships in small firms, and point to the example of an apprenticeship fund, set up by large employers in the chemical industry, that was used by 150 SMEs.

As Ashton (2004) points out, the situation is different in the liberal free market system of the UK, the USA and elsewhere, where such institutional supports and pressures are largely absent. Employer / employee relationships are characterised more by conflict and distance than partnership and there is not the same level of statutory protection for employee involvement in decision-making. The result is a situation where

employers – particularly smaller employers with fewer resources – have relatively little incentive to train beyond their immediate need. It is perhaps unsurprising therefore that small firms in Germany are around five times more likely to employ apprentices than their counterparts in the UK (and the USA) despite renewed and significant investment in apprenticeships by the British coalition government (DBIS / SFA / NAS, 2012; OECD, 2009). As Keep and James (2011) argue, this institutional difference between free market and corporatist systems:

‘is a key reason why we find it so hard to learn from overseas apprenticeship systems: they are built upon conceptions of skill and occupational identity, and forms of work organisation and job design that are more or less wholly absent here.’ (2011: 61)

So, where corporatist-style institutional arrangements support the long-term investment in broad, industry-relevant skills beyond those immediately required by the employer, apprenticeships can still flourish within small firms. However, where institutions essentially devolve skill formation to the marketplace, small businesses become less likely to invest in apprenticeships – or at least in ‘conventional’ apprenticeships that focus on occupational rather than firm-specific skills (see Fuller and Unwin, 2011). In a similar vein, as Choi (2011) observes, the sector-based employer collaborations between small firms and larger corporations frequently observed in Korea (discussed above) are built on endemic cultural values concerning the importance of inter-organisational collective responsibility and endeavour; values that are

characteristically far less prominent within free market systems. Thus, what constitutes a relatively successful policy in one institutional context can have a very different impact in another.

Conclusions

Academic research from across the world has routinely highlighted the importance of informal learning within small firms (e.g. learning by doing or by networking). Consequently, national skills systems that rely heavily on formal training and qualifications as proxies for learning and skills are seen as problematic as they run counter to the less structured, more resource-poor context of the small firm. Yet this is essentially the system that is commonly promoted under the free market approach to skills adopted in the UK, USA and a number of other countries. Under an increasing drive towards the marketization of the skills system, skills are explicitly seen as private commodities that need to be quantifiable if they are to be effectively marketable. The result has been a raft of policies aimed at promoting greater participation in formal training and development; it is perhaps unsurprising that such policies have enjoyed rather limited success in penetrating the small firm sector, where research has consistently revealed a broad tendency towards less formal modes of learning.

In this respect, there are some potentially useful lessons to be learned from other countries. For example, the existing small business literature points to supply-side measures such as delivering more training specifically within the workplace, and arranging qualifications frameworks in order to facilitate greater modularisation and

flexibility. Such initiatives seem to have proven relatively popular among small firms in some countries.

However, such measures, even if introduced in full within liberal free market systems, would be likely to have only a partial effect in terms of genuinely enhancing the skills base among small firms. This is due to the deeper institutional differences between the free market system and the more corporatist systems that prevail in some countries – particularly those in Northern Europe and Scandinavia where the institutional environment provides greater support for government policies that aim to address the small firm training ‘problem’. For example, the established structures of employee involvement in organisational decision-making and the widespread social partnership arrangements in Germany, Finland and elsewhere help to ensure that small firms are incentivised to implement competitive strategies that demand high levels of skill, that they are receptive to the integration of informal learning into workplace practices (e.g. through workplace improvement programmes), and that they perceive a need to train beyond their own immediate needs. Hence, for example, the much higher rates of apprenticeship provision normally observed among small firms in Germany and northern Europe.

It is in adding this institutional perspective to existing analyses of learning and development in small firms that we can seek to advance current understanding. Hitherto, the literature has tended to focus on looking for ways in which formal training can be made more attractive to small businesses. This is certainly an important task, but until we understand how wider historical, economic, social and cultural forces shape the

small firm's attitude towards skills in general and training more specifically, such processes of policy reform can have only a limited impact. Policy makers in liberal free market systems will simply continue in their largely unsuccessful attempts to engage a reluctant small business sector in increased levels of formal training.

Thus, If governments in countries that have followed the free market path are genuinely committed to raising the skills base through learning and development in small firms, they will need to go beyond simple policy borrowing and instead pursue a 'policy learning' approach that embeds specific policies in the broader institutional contexts that impute them with meaning. In particular, the corporatist approach, which appears to provide a more fruitful system of incentives and supports for skill development in small businesses, could provide an instructive template for reform. However, this would require a far-reaching programme of institutional change to support skills policies – as suggested for example by Keep and Mayhew (2010), who advocate (among other things) the establishment of new, more participative forms of corporate governance and “fresh approaches to industrial relations and employee 'voice', wage setting and income distribution” (2010: 574). If this nettle is not grasped, there is little reason to expect that small firms in liberal free market systems will see any substantial incentive to deliver the high skill (rather than low cost) economy that their governments desire. Academic research can assist this process of reform, firstly by illuminating the ways in which skill-intensive forms of work organisation (such as high performance work systems) can be better integrated into the less structured environment of the small firm, and secondly by considering how – if at all – the

necessary institutional change can be affected within a prevailing context that is embedded in a free market narrative.

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