



International
Labour
Office
Geneva

**Employment Sector
Employment Working Paper No. 1**

2008

**Challenging the myths about learning
and training in small and medium-
sized enterprises:
Implications for public policy**

David Ashton, Johnny Sung, Arwen Raddon and Trevor Riordan

Skills and
Employability
Department

Job Creation
and Enterprise
Development
Department

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First published 2008

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Ashton, David; Sung, Johnny; Raddon, Arwen; Riordan, Trevor

Challenging the myths about learning and training in small and medium-sized enterprises : Implications for public policy
Employment Sector working paper / David Ashton, Johnny Sung, Arwen Raddon and Trevor Riordan; International Labour Office. -
Geneva: ILO, 2008
65 p. (Employment Sector – Employment Working Paper No. 1; 2008)

ISBN 978-92-2-120555-5; 978-92-2-120556-2 (web pdf)
ISSN 1999-2939 (print); 1999-2947 (online)

International Labour Office; Employment Sector.

small enterprise / microenterprise / vocational training / in plant training / informal education / training needs / training policy / developed countries / developing countries

03.04.5

ILO Cataloguing in Publication Data

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Printed in Switzerland

Preface

The primary goal of the ILO is to achieve full and productive employment and decent work for all, including women and young people, a goal which has now been widely adopted by the international community. Working towards this goal is the fundamental aim of the ILO.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,¹ in the Employment Policy Convention, 1964 (No. 122),² and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Economic and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are those of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

¹ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

² In 1964, ILO Members adopted Convention No. 122 on employment policy which states that "With a view to stimulating economic growth and development, raising levels of living, meeting manpower requirements and overcoming unemployment and underemployment, each Member shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment". To date, 97 member States have ratified this Convention.

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

Workplace learning has become increasingly important during the last decade as an effective means of developing workforce knowledge and skills. Over recent years, in particular, the use of the workplace as a learning experience has been transformed due to the growth of the knowledge economy, the impact of new technology on productivity, and the growing use of high performance work practices that are transforming the ways in which work is organized.

Through its research on this subject, the ILO aims to assist its member States deal with the challenge of improving productivity and competitiveness, through the development of the knowledge and skills of their workforces. This paper aims to increase awareness of the importance of workplace learning, particularly in small and medium-sized enterprises, and explore ways in which public policy can be used to encourage organizations to make more effective use of the skills of their employees. The paper also deals with some of the interesting ‘myths’ surrounding workplace learning, particularly with regard to the perception of under-investment in learning and training in smaller enterprises. The Human Resources Development Recommendation, 2004 (No. 195) stresses that member States should “promote the expansion of workplace learning and training”, and provides the policy reference for this work.

The World Employment Report 1998/99, “Employability in the global economy: How training matters” focused on training policy and public training systems. Research in the Skills and Employability Department and the Job Creation and Enterprise Development Department has extended the review of the nature and extent of training undertaken in the workplace. The first stage of this work resulted in the ILO publication, “Supporting workplace learning for high performance working” (Ashton and Sung, 2002). This paper looks more closely at the issue of workplace learning in the context of small and medium-sized enterprises. It aims to challenge some of the “myths” that exist about learning and training in these types of enterprises. The paper draws examples primarily from policies and programmes in industrialized and transition countries. It also focuses on workplace learning for workers already in the workforce and does not cover apprenticeships or other training for young persons and labour-market entrants, nor does it cover learning by those that are self-employed.

This working paper has benefited enormously from the technical inputs and comments provided by the ILO’s Small Enterprise Programme (EMP/SEED) and, in particular, from the contributions of Karl-Oskar Olming and Simon White. This collaboration represents a genuine partnership between our two departments in completing this work. We would also like to thank the authors, David Ashton, Johnny Sung, Arwen Raddon and Trevor Riordan for their research. Trevor Riordan has led the ILO research on workplace learning for several years and also oversaw the development process of this paper. Jo-Ann Bakker was responsible for preparing the manuscript.

Christine Evans-Klock
Director
Skills and Employability Department

Michael Henriques
Director
Job Creation and Enterprise
Development Department

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Abbreviations

ABS	Asian Business Support
CBT	community-based training
CDTC	Community Development Technologies Center
DTI	Danish Technological Institute
EU	European Union
EYB	Expand Your Business Programme of the ILO
GOEs	Growth-Oriented Enterprises
ICTs	information and communications technologies
ILO	International Labour Organization
IT	information technology
KLASS	Knowledge and Learning in Advanced Supply Systems
LEs	large enterprises
MEs	medium-sized enterprises
MLEs	medium-sized and large enterprises
MOWE	The Month of the Women Entrepreneur
MSEs	micro and small enterprises
OECD	Organisation for Economic Co-operation and Development
SMEs	small and medium-sized enterprises
TQM	Total Quality Management
VET	vocational education and training
WEAs	Women Entrepreneur Associations
WEDI	Women's Economic Development Initiative
WEDGE	Women's Entrepreneurship Development and Gender Equality Project of the ILO

1. Introduction

This paper draws on the results of recent research on the process of learning and training research in small and medium-sized enterprises (SMEs) as a way of exploring some of the implications for policy-makers and their advisers.

What is of prime consideration here, relevant to policies and the skill levels found in small enterprises, is the perception of underinvestment in training. A lack of adequate formal training is frequently viewed as a “market failure” and thus as something that governments can legitimately take action to rectify. This is then done through various programmes designed to increase the level of formal training within small enterprises. The “underinvested” conclusion found in various research reports from around the globe that indicates with some regularity that the level of formal training that firms offer is directly related to their size: the smaller they are, the less formal training they provide. Because formal training is the one aspect of learning and training in companies that can be measured, it is widely used by economists to argue that the absence of it represents a lower level of investment in human capital by small enterprise owners. Given that human capital is also vital for ensuring economic growth and that small enterprises often provide the majority of jobs in the economy, the case for government intervention in this area becomes a very powerful one. However, the research findings presented here challenge this interpretation and the beliefs they sustain.

While small enterprises are major employers in developed and developing countries, spanning both formal and informal economies, they are particularly large in number in developing countries where the informal economy is significant in employment and GDP terms.

It should be noted that there is no universal or international definition applied to the size of enterprises. The criteria used to determine this definition (for example, turnover, number of employees, value of fixed assets, sector) vary across countries. When drawing from empirical data from different countries, we present data on skills development in micro, small, medium and large firms that use different size criteria and this criteria is noted whenever possible. However, for the purposes of this paper, the term “small enterprises” refers to private, non-agricultural firms that operate in the smaller end of the size spectrum. This includes the self-employed as well as firms that in some countries are defined as “micro-enterprises” and “small enterprises”. In general terms, this may be seen to include micro-enterprises with as many as 25 workers and small enterprises with up to 50 workers. In developing countries, these firms operate in the formal and informal economy, although the smaller the firm the more likely it is to be classified as “informal”. The terms “medium-sized enterprises” (MEs) and “large enterprises” (LEs) when used in this paper refer to private, non-agricultural firms in the larger end of the size spectrum. These firms typically operate in the formal economy (although they may still engage in informal transactions) and have a more complex management structure than small enterprises.

Because there is considerable confusion in the literature on small enterprises about what makes them distinctive, it is important to define the categories carefully (Trouve, 2001). Essentially, what we argue is that there are very real differences between small enterprises (i.e., including micro-enterprises), where learning and training is characterized by informality, and medium and large enterprises (MLEs), where learning and training are characterized by much greater formality.

Our aim with this paper is to dispel what we see as the myths that underpin much of the current approach to learning and training in small enterprises. Specifically, we look at four myths:

- Myth 1:** small enterprise owners systematically underinvest in training;
- Myth 2:** small enterprise owners fail to appreciate the value of learning and training;
- Myth 3:** informal learning is less valuable than formal training; and
- Myth 4:** this failure is best tackled through the use of government training schemes designed to help small enterprises invest more in formal training.

We argue that these myths rest on a shortcoming of previous research to differentiate between two very distinctive issues: the first is the differences in the skill levels that are characteristic of firms of different sizes. In Section 2, we examine the current knowledge on the factors that determine skill levels in small enterprises. If these factors can be identified, then they can be acted upon in a way that enhances skill levels. In this respect, we find that the factors that determine the levels of skill developed and utilized in small enterprises are usually the same as those for larger enterprises. This leads to the conclusion that there is nothing inherent in the nature of small companies that prompts them to maintain lower levels of skill or capability in their employees.

The second issue centres on formal versus informal training and why smaller companies tend to make less use of formal training than larger companies. We use a range of research findings that highlight the fact that the processes of learning and training take on different forms in MSEs from that typically found in MLEs. Section 3 explores this issue with regard to MSEs. The important distinction here is not between small enterprises and large enterprises, as is usually the case, but between MSEs on one hand and MLEs on the other. Moreover, in Section 4, we argue that it would be misleading to believe that the informal system of learning and training, which is characteristic of MSEs and which differentiates the learning and skills formation process from that of MLEs, is inferior. In this view, there is nothing to warrant governments trying to increase the use of formal training among MSEs.

By separating out these two very distinct issues, we come to some very interesting *and different* conclusions. We explore the policy implications of this discussion in Section 5.

Existing research evidence indicates that the factors responsible for making the experience of skills formation in MSEs different from that experienced and organized in MLEs are the same in all societies. Similarly, we believe that the underlying factors that affect the level of skills demanded by firms are the same in all societies. We use examples from a range of research, some undertaken by the authors (Sung, Raddon and Ashton, 2000; Ashton and Riordan, 1999) to illustrate these points.

There are, of course, a number of factors affecting the process of learning and training in small enterprises that we do not have the space to cover in this paper. For example, one of the most important factors is the impact of national culture. On the supply side, it makes a big difference through the impact of the systems of vocational education and training (VET) on the supply of educated/trained workers. For instance, the German apprenticeship system provides a supply of high-level intermediate skills to German small enterprises that are not available in developing countries with their more rudimentary VET infrastructure. This, in turn, increases the number of German companies that can operate in higher value-added markets. Nevertheless, when we look at the factors that determine the level of skills demanded by employers, they are the same in Thailand as they are in Germany.

Another way that national cultures affect enterprise-based learning and training is through the small enterprise infrastructure. For example, the market-led approach in the United Kingdom and the United States is very different from the sector-based approach

observed in Japan. In Anglo-Saxon countries, the tradition has been for governments not to interfere in the workings of the market. Thus small enterprises could only be given public funding if it was shown that markets were failing to deliver appropriate outcomes due to small enterprises failing to invest in training. In Japan, however, there has been a different approach. The Japanese government traditionally helped small enterprises as part of a sector-based industrial policy. This acted to support the government's relationship with the major industrial conglomerates, guiding them in areas such as production methods, communication, marketing, product development, human resource management, training and long-term financial matters. Given the demise of the sector-based approach in Japan and the end of these relationships with the conglomerates, the small enterprises were left exposed to the uncertain effects of market forces. The State recently modified this traditional framework by offering help to small enterprises to become "independent and self-sustaining" (METI, 2002). However, elements of the old framework remain that makes the Japanese approach different to that of the Anglo-Saxon countries.

The important point here is that we cannot understand the variance in government policies unless they are seen in terms of the wider history and context of national industrial policies. Because we do not have the space to deal with these variations in this paper, we have confined our attention to what we see as the more universal features of training and learning in small enterprises and the implications across systems.

Another proviso we want to make is that this paper does not attempt to provide a comprehensive treatment of all facets of small enterprise activity in the field of learning and training. This is partly due to the lack of extensive and detailed research, which restricted our treatment. We encountered this difficulty in two areas: the first is that of small enterprises and skills formation in the informal economy. Some authors looking at human resources in general have touched on this topic (for example, Nguyen and Bryant, 2004; Palmer, forthcoming), and we have addressed some of the policy issues it raises. However, we have not been able to provide in-depth analysis of such issues.

The second area posing constraints for our discussion and where further research is required is that of the institutional infrastructure needed for effective public intervention. This problem is particularly acute in developing societies. The lack of an effective vocational training system and of trained personnel to manage and implement government programmes designed to help small enterprises is not a topic we have been able to tackle here, although it is an urgent policy issue. Indeed, until such an infrastructure is in place, many of the policies associated with the "problems" of small enterprises cannot be addressed. This has been evident in South Africa, for example, where considerable resources have been devoted in the post-apartheid regime to build up an institutional framework that will facilitate more differentiated approaches to the problems of training, in general, and small enterprises, in particular.

Another area we chose not to explore is that of the self-employed. As this is a paper about small enterprises, we feel justified in keeping our focus on firms that employ people.

Finally, it is acknowledged that most of the countries covered in our review are industrialized or in transition. Very few examples have been drawn from developing countries.

Thus, in the limited space available in this paper, our discussion hones in on the findings from new research that highlights the areas where the process of learning and training in MSEs is different from that observed in MLEs and the implications of this for the delivery of public policy. Having made these important distinctions on skills formation between small enterprises and MLEs and highlighted the role of informal learning and training, we set this paper up to provide a starting point from which to consider the more localized issues confronting small enterprises.

2. What determines the levels of skill required in enterprises?

If we know what determines the levels of skill needed in companies, we will be in a better position to explore policy options that can increase those levels. Unfortunately, few studies tackle this problem directly, so we have to rely for much of our knowledge on research that approaches it indirectly. What we do know is that a company's business strategy and the type of product or service it produces are linked to the skills required to carry out those functions. In Canada, Betcherman et al. (1997) found that ability to compete in global markets was linked to higher skill levels in firms at any given level of costs. In the United Kingdom, Green et al. (2003) and Mason (2005) found a strong link between market strategies for high-specification products – for example, focusing on high-value-added or highly customized products/services – and high skill levels in the labour force. Also in the United Kingdom, Kitchin and Blackburn (2002) identified a link in small enterprises between the adoption of a strategic orientation to training and competing on non-price factors. This suggests that those companies competing on non-price factors are also operating in high-specification-product markets. However, this variable of high-specification/low-specification product strategies is difficult to operationalize in surveys, and few studies have investigated it.

A more indirect link has been found in studies that examined the impact of industry type. In these studies, as would be expected, companies in industries such as petroleum and advanced engineering have higher skill levels than those in textiles, hotels, catering and retail (Crouch et al., 1999; Felstead et al., 2002). At one level this is obvious, if the company is selling information technology (IT) products to major businesses or legal services to the general public, for example, they generally have to be staffed by graduates with the relevant knowledge and skills. However, if they are selling cleaning services or employing check-out staff or shelf-fillers, they can operate with staff who have only a basic education. This reinforces the suggestion that the levels of skill required by a company is closely linked to the type of product/service it sells or delivers.

Although there have been few studies on the determinants of skill levels, there has been a plethora of studies seeking to identify the factors that influence the level of training undertaken by companies. This is not surprising because this has been a major concern of governments. As the frequency and duration of training is linked to the skill levels of employees (firms with higher levels of skill typically having higher levels of training), we can take the frequency and duration of training as indicative of higher skill levels. Such studies have been conducted in a range of countries and their findings tend to point in the same direction: they all identify technological and workplace changes as the most important factors in creating the demand for training in enterprises. In Australia, for instance, this was acknowledged by the work of Smith and Hayton (1999) and subsequently by Ridoutt et al. (2002).

Of course, the term “workplace change” is broad and covers a number of separate items. However, subsequent studies have found that such change is generally triggered by two main forces, namely new technologies and products and organizational change (Smith et al., 2002). New technology can create a demand for training in two ways: through the requirement for new or modified skills within an existing production system, or through the business strategy, where technological change is introduced to stay ahead of the competition in dynamic markets. In the first instance, the impact on skills may be as small as one-off training interventions that are sufficient to embed new skills in the staff. In the second situation, however, the demand for new skills and learning may be more extensive and continuous (Kitchin and Blackburn, 2002). In the case of new production processes, the training implications can be very substantial because they may involve disseminating new skills throughout the organization (Smith and Hayton, 1999), as the following case study illustrates (Box 1).

Organizational change in both small and large companies has been found to have an all-pervasive impact on the demand for training. This is because changes such as downsizing, the introduction of new management, decentralization, team working, mergers, work design and so on are major and likely to affect large proportions of the labour force. Such changes frequently require all employees to acquire new skills or knowledge in order to adapt. All the studies we have cited previously acknowledge the importance of such organizational change as a primary driver of training, as did the Betcherman et al. (1998) study in Canada. The latter also attributed the introduction of new working/management practices – for example, high-performance working practices – as a factor contributing to organizational change. In a similar manner, Smith and Hayton (1999) reported that the introduction of Total Quality Management (TQM) programmes had a significant impact. In later work, Smith et al. (2002) identified a series of new management practices as one of the most important determinants of the degree of training undertaken by companies; these include TQM, team working and continuous improvement.

The important point about these findings is that they come from different countries, with researchers using different methodologies and operating independently of each other. This suggests that the major demand for training and enhanced learning in firms is a derived demand, or one that emanates from the core business strategy. Furthermore, these studies suggest that it is the product market or business strategy of the company and the way in which it is operationalized through the organization of production factors that are crucial in determining the levels of skill that companies need (Ashton and Sung, 2006). This is difficult to illustrate with quantitative research studies and is best approached through case studies. The following two case studies (Boxes 1 and 2) are used to explain the ways in which these factors influence the levels of skill that employers require.

Our first case study involves a mobile car-cleaning company providing services in a local market. The process of production requires low-skilled workers to clean cars on customers' premises. This is a very simple process of production, controlled by the owner and executed by employees with relatively low-level skills. However, even here the owner has sought to establish a competitive advantage through the quality of service his company delivers. This, in turn, demands additional skills from his employees, which he has taken pains to develop. We highlight the way in which this creates the demand for skills in Part 1 of the case study.

Case study 1. Low-value-added company – Mobile car cleaning (Part 1)

Box 1a:

The demand for skills in a local car-cleaning company

This company provides a mobile car-cleaning (valeting) service, although it has branched out into cleaning boats and trains. The owner trained as a mechanic for a motor trade after finishing high school and started the company when he spotted a gap in the market. He initially worked from home, finding customers by knocking on his neighbours' doors. After a year, he took on his first employee and now employs 30 full-time workers. The labour required is largely unskilled, and employees are recruited locally. Because it is unskilled work and needs little capital to set up, there is a constant problem of employees leaving to work independently and taking customers with them – a situation many small enterprises experience.

The owner has an office administrator, one part-time assistant and three senior staff who have been with him over the years, who are very experienced in valeting and customer care and whom he trusts to train new workers. Employees have their own van and are responsible for its upkeep. The mobile nature means each employee goes to customers' homes or offices to clean their cars.

The owner acquired his knowledge of management and business through experience but relies on his solicitor to advise on employment contracts. As well as managing the company, the owner constantly handles the customers, suppliers and staff problems. The owner makes all major decisions, although he is starting to delegate recruitment to the office manager. He finds that he has too much to handle and little or no time to reflect on his business.

The skills required to work in this company are fairly basic. The owner has to recruit at the lower end of the labour market to keep costs under control. As the task is to clean cars, employees can acquire the skills quickly. However, to ensure the quality and distinction of his service delivery, the owner set up a one-week training programme for new employees. This training is done on-the-job with a more senior and experienced person working alongside the new worker. The skills the employer looks for are the ability to sustain hard physical work, "common sense", a good work ethic and a willingness to help out. In addition, employees need to be good with people and building relationships with customers, taking charge of their work and taking care of company property, primarily the van that is assigned to them. To maintain the company image, the owner insists that the employees keep their vans clean and well equipped. The owner also looks for loyalty from his employees, but this is particularly hard when recruiting at the bottom of the market and when there are lots of other jobs that require less hard work and pay better.

The office administrator received training in office skills via a formal course and the local college sent a tutor to teach her IT skills while working on the job.

Given the business needs of this company and that the jobs remain the same, there is no demonstrable need for further training. Thus training is only conducted when there is an operational need, for example, when learning about the use of new chemicals. Any additional training would generate additional costs and reduce profit margins.

Source: Sung et al., 2000.

The quantitative studies previously cited also highlight the importance of changes in the business strategy and in the organization of production as factors responsible for generating new demands for skills. Part 2 of this car-cleaning case study demonstrates how this works in practice in a small company and what the barriers are to increasing skill levels in this type of business.

Case study 1. Low-value-added company – Mobile car cleaning (Part 2)

Box 1b:

Expanding the business and the demand for new skills

If the owner were content to keep the business at the current operating level, there would be no need for his workers to learn additional skills. However, he would like to expand his business into other regions of the country. He is aware that this would require new management skills on his part, but he is not sure where to get appropriate help and advice. He does not have a business plan because he is unsure how to put one together. Nor does he want to create one because he fears the bank may use it against him if he fails to meet his targets. And as he is already working a 12-hour day, he does not have the time to get business procedures in place.

The owner has relied on his own initiative to tackle his immediate worries, which entail maintaining customer satisfaction and keeping his staff motivated while improving efficiency. To reduce staff turnover and enhance their commitment to the company, the owner introduced a profit-sharing scheme, provided perks for the most loyal of his staff and increased the flow of business information to all workers. Although he thinks the workers are aware of the company's problems, he does not sense they are interested in helping to solve them. To increase efficiency, he tried to reorganize the production process by introducing new practices, such as team working. However, these initiatives floundered because he found it difficult to address the staff as a group and felt that he was "being put on trial". Adopting new work practices would have required the staff to learn new skills.

This is a company in which the owner can see the need to increase his skills but for a variety of reasons has not been able to do so. This scenario suggests areas where policy interventions could be effective.

Source: Sung et al., 2000.

The second case study focuses on a company producing transformers for an international market, which requires a higher level of skills among its labour force. It also illustrates the points made in the quantitative literature, namely that participation in global markets can generate demand for continuous organizational change through the operation of new management practices. In turn, this further increases the demand for learning, thereby enhancing skill levels. This case study provides the opportunity to trace, in a more precise manner, just how these broader market pressures (or variables, as identified in the quantitative literature) generate the demand for organizational and technical change, which generates the (derived) demand for higher-level skills.

Case study 2. High-value-added company – Manufacturing transformers

Box 2:

The demand for skills in a transformer manufacturer

As part of a larger group that operates in international markets, this Thai company makes transformers used in producing electricity. The company has 166 employees, consisting of nine managers, 29 supervisors and 128 operators. The technology involved is capital intensive. Unlike the car-cleaning company, this type of production system requires that the majority of manual workers have intermediate-level technical skills, while the supervisors and managers need to have higher education and proven management skills. The company needs to recruit only a few low-skilled workers having only a secondary education.

The need to compete in international markets required the company to achieve the ISO 9001 standard. This meant that employees had to acquire new skills in computing to manage the processes involved and led to their participation in courses on ISO maintenance system management as well as a course on manufacturing process control in accordance with the ISO 9000 standards.

The ever-increasing demands of customers, in terms of specification standards and product quality, stimulated a series of changes to the production process. This included more automation, which led to a decline in the number of staff but a demand for increased skills of remaining employees. One response to this has been for the company to enhance its stock of skills by recruiting more qualified staff and to increase its investment in training.

To maximize its gains from the automation, the company introduced organizational changes. New operating procedures were required to control the production process. This required the operators take part in a one-week course on operating reviews and a series of short in-company courses for them to acquire the skills required to implement the reviews effectively. These new procedures also required better communication skills among staff, which resulted in employees attending a course on telephone use. The introduction of the Internet led to another course on Internet auditing.

New materials were introduced to meet customer demands and further training was required to handle these. The demand for higher levels of quality in the company's products led to a three-day course on the quality processes of the company and a one-day course on the meaning of quality. Additional courses were introduced on data organization and the planning of maintenance costs and energy conservation.

The combination of technical and organizational change demanded even greater need for new skills among the supervisors. In addition to training courses on the quality system, they participated in courses on security, production planning and control, purchasing, the new quality-control tools, improving work efficiency, command and assignment techniques and TQM for management. These were mostly externally provided. Here the same drivers of training needs as for the operators were at work, except the supervisors were expected to develop more in-depth knowledge of the issues and acquire the knowledge and techniques required for management.

For the managers, there was extensive training in quality systems, safety, TQM and costing, most of which were formal courses provided externally. The company was especially keen to develop its managers' planning and general management skills.

Source: Ashton and Riordan, 1999.

These two case studies illustrate an obvious point about how the product market strategy, or the difference between selling cleaning services and selling transformers, demands very different skill levels. However, they also show how technological and organizational changes drive up the demand for skills as employers attempt to sustain or improve their position in a market. And they underscore how the demand for higher skills does not automatically mean that they are acquired, as in the case of the car-cleaning company.

One remaining issue that needs to be addressed in this section is whether the size of the enterprise matters in determining the impact of these factors on the skill levels of the enterprise. The evidence from studies of training frequencies and duration of formal training episodes suggest that it does. However, as we show in the next section, formal training of the type used in most of these studies tends to underestimate the level of learning and skill development that takes place in small enterprises. Indeed, recent work that attempts to capture some of this informal skill development, by extending the definition of what constitutes training, suggests that when informal learning is included, small firms invest just as much in “training” as larger firms do.

When we factor in the finding that the impact of technology and organizational change is just as significant in small firms as it is in large firms in generating higher levels of learning and training (Kitchin and Blackburn, 2002; Smith and Hayton, 1999; Ridoutt et al., 2002), we have a substantial body of evidence to support the contention that size *per se* has little impact on the *levels of skill* formation that takes place in enterprises. This finding is reflected in the work of Smith et al. (2002), who also found that when a range of training activities was included, size was not a significant factor in determining training levels.

There are of course a number of other factors that impact the levels of skill needed or achieved in different companies. Franchise arrangements can increase the skill levels in a business because the company granting the franchise requires certain standards to be met. Equally, the national system of vocational education and training can have an impact (Ashton and Green, 1996; Brown et al., 2001). For example, in comparison to other countries, the German apprenticeship system raises the level of skills in German enterprises. However, the point we want to make here is that within Germany, as well as in other countries, the factors that drive skill levels are the same in small enterprises as in MLEs. In general, small companies may exhibit lower levels of skill, but this is because more of them operate in low-value-added product markets and are less exposed to technological and organizational change. It is thus a myth that size has an “independent” effect that prompts small firms to underinvest in improving the skills of their labour force.

Recent research also shows that workers’ experience of learning a job task is very different in companies that require high-level skills from those that need minimal skills. Where the company only requires the employee to perform routine tasks, such as monitoring the quality of peas that pass along the assembly line or washing cars, then the quality of the learning is restricted to the performance of very limited tasks. These tasks make few demands on the cognitive capacities of employees. The job can be learned within a matter of minutes or hours and the employee is not expected to contribute to the performance of the company other than by performing a limited set of tasks.

Where companies demand higher levels of skill among their employees, learning takes on a very different form. The learning demanded of IT specialists, managers and technicians has to enable them to resolve complex technical and production problems, which requires the application of professional and scientific knowledge. They need to understand the details of the production process, the part they play in it, keep up to date with developments in relevant knowledge and share information with colleagues and others. Here preparatory learning for the job can take years, as in the case of the medical profession. Indeed, the demands of the job mean that further learning is essential throughout the individual’s career. Researchers such as Koike and Inoki (1990) conceptualize this process as “learning in breadth”. This learning involves a range of issues within an organization or profession and includes acquiring an in-depth understanding, such as the underpinning theoretical knowledge necessary to master the appropriate skills. Other researchers seeking to highlight the differences in these learning environments use the terms “restrictive” to denote learning opportunities in companies that offer unskilled work and “expansive” to denote opportunities in those that offer more challenging learning environments (Unwin and Fuller, 2004).

From a policy point of view, such academic labels are useful in that they help to emphasize the very different opportunities for learning and training that various workplaces offer. Some present little or no opportunity to develop intellectual capabilities, while others offer excellent opportunities for what is now referred to as “lifelong learning” (Ashton, 2004). However, the key message from this section is that the size of an establishment does not necessarily restrict the experience of learning and the opportunities offered. For example, think of a comparison between the general medical practitioner running a practice with four employees, on one hand, and an employee on an assembly line in a fast-food factory that employs more than a thousand employees. Which environment extends greater learning opportunities?

3. Learning and training in micro and small enterprises (MSEs)

If size is not a factor leading to an underinvestment in skills formation, why has this perception come about? The answer to this question is to be found in our failure to understand the distinctive features of learning and training in small companies.

Only recently have researchers started to reveal how different the process of skills formation is in MSEs from that which occurs in MLEs. In essence, learning and training in MSEs is characterized by the informality and the reluctance of owners and managers to use formal training courses. Given two companies, one large and the other small but both operating in the same product market with similar technology, the levels of skill required by employees will be the same. However, the manner in which these skills are acquired will be very different. In this section we concentrate on the experience of the MSEs to explain this.

To understand why the differences occur, we must first look at the business environment of the small enterprises and then at the characteristics of the relationships we find within them. We can then explore in greater detail how these factors generate a different kind of skills formation process.

3.1 The business environment of MSEs

Our everyday approach to thinking about business matters tends to be influenced by the perspective of larger organizations. In the large company, budgets and the daily interaction and relationships tend to be conditioned by what some have referred to as the “silo mentality” (Gemmell, 2003). Resources are allocated to departments and, while heads of these have to be concerned about the performance of their department, they do not have to worry from where the next week’s or month’s income will come. That is the realm of the finance department and the managing director/chief executive. Likewise, recruitment and skills formation issues are the domain of the human resources or personnel department. The main concern for individual department heads is meeting their own targets and keeping their particular section running smoothly.

However, the situation is different in the MSEs. For the owner of a micro-enterprise, the dominant concern is securing the income and financial resources necessary to continue the day-to-day operation. The small number of employees, between one and ten, means that there are no major managerial worries. Small enterprises with more than ten employees have this same immediate financial concern, but they also have to ensure the continuity of necessary skills within the company to sustain output. They have more managerial problems, but these can be handled in terms of everyday interpersonal relationships. In addition, and depending on the market within which they operate, they may have to be aware of the regulatory environment. The mentality of the entrepreneur is thus dominated

by these day-to-day issues of generating income and financial resources, of managing staff and complying with regulations.

The concern with the immediate day-to-day issues has long been recognized in the general literature, which has highlighted that smaller enterprises face relatively greater difficulties in accessing finance support and operating in an intensely competitive environment and often with small margins (OECD, 2000a). The problems confronting them in the immediate business environment is one of survival, performance and achieving growth. The daily problem is securing continuity of income, cash flow and customers to ensure that salaries and fixed costs are covered. This feature of the operation of small enterprises is further aggravated by their short “time horizons”. Most small enterprises do not have significant reserves to carry them through. This means that they encounter a constant series of threats, from customers who fail to pay their invoices on time, to increased competition of new firms, to local planners and legislators who may change regulations. Moreover, in the age of global competition, entry to the product market may no longer be restricted or protected by national boundaries. Small enterprises that function as subcontractors are often subject to global competition. In view of this, it is not surprising that small enterprises are characterized by a preoccupation with immediate concerns and the demands of the “here and now”.

This high level of uncertainty that owners of MSEs live with has provoked much theoretical debate (Westhead and Storey, 1997; Hill and Stewart, 2000). Westhead and Storey, in particular, introduced the idea that the relative attention between “internal” uncertainty and “external” uncertainty is the main factor conditioning and differentiating the behaviour of enterprises. They argue that the small size of small enterprises makes it relatively easy for the owners/managers to manage internal matters, such as communication, resolving organizational issues, setting up effective procedures, getting feedback and monitoring progress. However, being small also means that the organization is not able to control market factors. This leaves them subject to greater changes as a result of competition as well as the “external” uncertainty associated with such competition. Huang and Brown (1999) found that market/competition conditions presented, by far, the biggest problem to such enterprises in Australia (40.2 per cent of respondents compared with 15.3 per cent reporting problems concerning human resource management). In contrast, large enterprises, due to their larger size, complexity and greater ability to influence the market, are frequently preoccupied with the problems of getting their “internal” systems working smoothly among different constituent divisions, including maintaining their internal communication, monitoring, procedures and standards. It is in this sense that “internal” uncertainty is relatively greater in the case of larger enterprises and dominates the mentality of the manager in the larger enterprise.

The different relative weights attached to “internal” and “external” uncertainty helps to explain the much shorter time horizon in small enterprises than in larger enterprises. Storey (1994) argues that the inability to control external uncertainty means that smaller enterprises tend to concern themselves more with issues such as cash flow, meeting the immediate demand of regular customers and the day-to-day production/service issues. This leads small enterprises to resort to “short-termism” and strategies that are essentially reactive in nature (Hill and Stewart, 2000).

Such strategies have major implications for training and development issues in small enterprises. In the circumstances confronting small enterprises, systematic training and development are not a high priority for owners (Johnson, 1999). Indeed, for some they may be irrelevant. Sung et al. (2000) found that formal training and development were at times not only seen as irrelevant by employers, particularly in times of crisis and survival, but that employees, whose jobs were at risk, had little interest in training activities.

Storey (1994) further argues that external certainty creates two opposing forces within small enterprises when it comes to training and skills matters. On the one hand, external

uncertainty may push small enterprises to become more willing to adapt to change because they simply have no choice. Change could occur in technology, but it could also occur in other areas such as output (products and services) and organizational issues. In this case, training can be important. However, this could also be a double-edged sword in that such an environment will add to the pressure for short-termism because change may be just round the corner and long-term planning may be considered wasteful.

The other feature that characterizes relationships in small enterprises and which is directly linked with the size of these enterprises is the informality of relationships within the company. Micro-enterprises are very small organizations that generally revolve around relationships between employees and the owner. These are almost always informal in character. Once the number of employees has increased beyond ten, then, while it is still possible to handle relationships with a high degree of informality, there are increasing pressures to formalize relationships. Thus, even small enterprises tend to have different characteristics than micro-enterprises.

As these enterprises grow in size, we start to see the emergence of more formality, although this is still somewhat limited. However, as far as we can tell from existing research, the big break in terms of organizational characteristics takes place when organizations move beyond approximately 30–50 employees.⁵ In a micro-enterprise, relationships can be handled on the basis of informal understandings, much as they are within families. Indeed, in some cases, the enterprises are synonymous with the family. The owner/manager will be in a position to know all the staff. There is little need for formal rules or regulations because the employees can always check any unknown item with the owner/manager. Work roles are multifaceted in that each person, both employee and owner, will have to undertake a number of activities that, in a larger organization, would be the domain of specialist individuals. Skills are transferred and learning needs assessed in the course of everyday interaction without the need for formal procedures, providing that there is a relationship of trust and that the owner perceives workplace learning as important for the successful execution of the business strategy.⁶

As organizations grow and the numbers employed move from ten to twenty or thirty, it becomes increasingly difficult for the owner/manager to maintain personal relationships with all the staff. The assumptions and rules that underpinned relationships in the micro organization have to be made explicit and formalized to ensure that everyone understands them. After a point, managers no longer know everyone with sufficient detail and hence need to develop formal procedures. Atkinson and Meager (1994) note that, at this point, the delegation of general decision making increases and institutionalized practices replace ad hoc processes for recruitment, performance, negotiations, working practices, training and discipline. Later in Australia, Ridoutt et al. (2002) found that the size of organizations in their sample, which included small (they defined as 1-19 employees), medium (20-99) and large (100+), was positively related to what they called “formalization”, or the extent to which training opportunities are structured and evaluated and whether the organization has personnel responsible for training and is a registered training provider.

⁵ There can be no exact point at which this break occurs because the conditions that lead to the introduction of greater formality may differ between industries and countries. In developing societies and in certain types of industries, it may be possible to sustain the almost exclusive use of informal relationships to manage much larger numbers of people than in older industrial countries where wider institutional constraints require the introduction of formal rules and regulations, even in the management of small numbers of employees.

⁶ The way in which the owner/manager perceives skills formation is largely a function of the type of product market they are in. If, for example, the company produces low-value-added goods or services, then skills formation is less important than it is in more knowledge-intensive product markets.

This process of change has been observed by a number of writers who found that as organizational size increases, new management problems develop and are resolved through the use of formal procedures. These are discussed in more detail in Section 4, where we consider MLEs. The important point here is that this formality contrasts with the focus on the “here and now” and the informality of relationships that generate the distinctive features of training and learning in MSEs.

3.2 The distinctive learning and training needs of small enterprises

Two of the major features of skills formation in small enterprises are: 1) the reliance on informal processes of learning; and 2) the subsequent reluctance to use formal training courses. We deal first with the reluctance to use formal training courses, which is often perceived by smaller enterprises as a significant factor that pushes up operating costs.

The costs of formal training and development activities

Research from around the globe finds that small enterprises are characterized by very low levels of formal training. Generally speaking, the smaller the firm the less use they make of formal training courses. For example, research in the United Kingdom has shown that 36 per cent of firms with less than 25 employees provide off-the-job training for employees, compared to 79 per cent of firms with 25–49 employees and 92 per cent of firms with more than 200 employees (Skills Task Force, 2000). Similar patterns can be observed in all societies, whether they are of the older industrial type or developing economies.

One of the main reasons for this is that the cost of using formal training courses is much greater for small enterprises than it is for MLEs. This is because they encounter much higher marginal costs (Betcherman et al., 1997; Westhead and Storey, 1997). If a large firm provides a training programme for its office staff, such as in information technology, it may have hundreds of office workers to train and the cost of the course is offset against the total number of trainees. The marginal cost of putting an extra person through it is very small. For a small enterprise with ten employees and just one office worker, however, the whole cost of setting up and designing the course would have to be offset against one person. This can make the cost of formal training courses prohibitive.

Also, and of even greater importance, there is the cost of disruption involved in sending a person to a formal course. This is often a major factor in a micro-enterprise where, in order to send an office manager to a course, the owner may have to close down their office for the duration of that person’s training. The cost in terms of disruption and loss of business would be substantial. In the case of a manufacturing company, the loss of one out of three production workers for a few days is the equivalent of losing a third of the output of the enterprise, or in some cases not being able to operate at all. The costs of such disruption are frequently regarded by many owners/managers of small enterprises as far more serious than the actual cost of the course.

In addition, formal courses tend to be either too specialized or too general for the needs of small enterprises (Sung et al., 2000). This may sound contradictory and requires some explanation: formal courses may be too general in that they deal with general principles of, say, marketing, which may be very useful for staff in a marketing department. However, the small enterprise owner/manager requires help in establishing how they can expand the market in car cleaning, garments or driving instruction. Training courses that deal in general principles are seen as far too general and remote from what is needed, namely, specific advice and help to deal with very practical concerns.

On the other hand, formal courses may be too specialized in that they provide knowledge and skills in a particular work role, such as training needs analysis. In the case of a small staff of four or five employees, an elaborate training needs analysis is wasteful. It is often more effective if the owner/manager simply talks to each employee individually about their learning needs.

Many training courses assume that the person being trained is in a specialized work role. In one case study (Sung et al., 2000), the researchers found that while the courses offered in the bakery trade were geared to baking rather than business and were structured around more traditional methods of working, the baking industry had developed to become more entrepreneurial in order to survive. As such, business skills were seen as essential, not supplementary. Indeed, specialization is seldom the case in most small enterprises where the managers and many employees are multi-skilled and expected to work across a range of tasks.

In view of all of these considerations, the entrepreneurs in small enterprises often argue that training courses need to be tailored to their needs. The downside is that tailor-made training can be prohibitively expensive.

There is evidence that many owners of small enterprises are reluctant to send employees on training courses because they fear that, once employees have completed the course, they will leave. This is especially the case if the course leads to some form of recognized qualification (Coleman and Keep, 2001).

This is not to say that all formal training courses are irrelevant to small enterprises. In fact, one of the most important sources of knowledge about skills upgrading for small enterprises comes from the formal (and informal) training provided by equipment suppliers. As companies acquire new equipment, suppliers often organize formal training for those employees who are to use the equipment. Another important use of formal courses is in training the owners/managers of small enterprises about the regulatory requirements for their business. However, the use of such formal training is very restricted.

The real significance of formal training for small enterprises may well be more indirect. Formal training provides many entrepreneurs with the confidence and technical knowledge required to start their own business. Many owners of small enterprises first acquire their knowledge of the industry through their initial training. We saw in the previous section that the owner of the car-cleaning company trained as a mechanic in the motor industry before moving into car cleaning. In companies that operate in industries based on technical skills, such as the various branches of textiles and engineering, many of the entrepreneurs acquired the requisite technical knowledge during an earlier apprenticeship. For example, many of the owners of textile small enterprises in Hong Kong SAR, China, obtained their skills from the larger companies set up in Hong Kong in the 1960s and subsequently set up their own small business. In the field of engineering, many of those who set up as a small enterprise initially acquired their technical skills through the apprenticeship route. Likewise, in South Africa, some 73 per cent of those who became self-employed, or set up a micro or small business, did so because they had formal sector experience and saw an opportunity (Bird, 2002).

It is key to remember that the lack of formal training in small enterprises does not mean that learning is absent. In reality, a great deal of learning takes place, but it is essentially informal in nature (Brown et al., 2005; Doyle and Hughes, 2004; Hughes et al., 2002; Kitchin and Blackburn, 2002; Ridoutt et al., 2002; Sung et al., 2000). To understand the distinctive features of small enterprises in this respect, we need once again to consider the problem of people development from the perspective of the owners/managers of small enterprises.

In larger enterprises, managers and employees generally have specialized and well-defined work roles and their behaviour is often governed by formal procedures. When it comes to training, managers and/or employees will identify training needs that are then examined by training specialists who search for appropriate courses. If none are available, courses are designed specifically to develop the appropriate skills. These courses are usually off-the-job and very often in specialist training departments.

This is not the case in small enterprises where there are few formally defined roles and where specialized trainers are rarely employed. As well, small enterprises have no provision for attending formal courses within the enterprise. Indeed, most of them do not even formalize training prospects through instruments such as training budgets, training plans or training policies (Sung et al., 2000).

The fact that small enterprises send fewer staff on formal courses is sometimes thought to indicate that they have less concern for worker development because they use less skilled labour. As we have seen, the reality is more complex than this. First, not all small enterprises employ low-skilled labour. Many employ highly skilled labour, such as in medical and dental practices and specialist IT providers. The fact that there is a low level of skill development in some small enterprises is not itself a distinctive characteristic of their activities. Many larger organizations also employ low-skilled labour. Second, the absence of formal courses does not mean that the development of workers is necessarily neglected. What is distinctive about learning in small enterprises is not the absence of learning but rather the way in which skills are acquired and, more specifically, the extensive use of informal learning.

Some researchers have questioned the use of informal learning because it suggests that the training is unstructured (Tillaart et al., 1998a, 1998b). However, their observations of the learning process in MSEs revealed that while some informal learning is certainly unstructured, some is also structured. What these researchers see as the defining characteristics of learning in these enterprises is that it is incidental and occurs by using the ad hoc possibilities available within the normal daily work. Learning is thus a part of the usual daily work, and different methods are used in accordance with the demands of the workplace and experience of the worker. Sometimes this incidental learning will involve formal as well as informal methods; sometimes it is structured, and at other times unstructured.⁷

This suggests that the categories we use to discuss learning and training in large organizations fails to capture the realities of life in small enterprises. However, as the term “informal” is commonly employed in the literature, we stay with it while noting that at a more fundamental level this learning is rooted in the realities of the workplace and takes place incidentally in the process of producing goods and services.

In this context, informal learning plays a crucial role in small enterprises, both in transmitting job-specific skills and also in maintaining the culture and ongoing viability of the organization. Many researchers have noted the crucial role of this informal learning: in Australia, Hayton et al. (1996, p. 66) found that “training in small business is often subsumed under other activities that are not commonly recognized as training”. Field (1998) similarly notes that there are a number of practices in small businesses that may not be counted by the owners/managers as training but are important in transmitting skills and information. In the United Kingdom, Kitchin and Blackburn (2002), in their survey report of more than 1,000 businesses with fewer than 50 employees, note that:

⁷ This is part of a much wider debate in the literature on the nature of learning at work; see Ashton (2004) and Fuller et al. (2003).

Initially, respondents often claimed that they provided no training or were apologetic about the training they did provide because of its informal, on-the-job character. Such practices were often not defined initially as training as they were an integral part of customary working routines. These practices contrast sharply with more formal practices which were felt to be ‘proper training’ (Kitchin and Blackburn, 2002, p. ix).

In an ILO study in Thailand (Ashton and Riordan, 1999), employers reported that 80 per cent of learning among their operators was through informal means. It is not surprising that the primary means for acquiring skills in small enterprises is through working with other employees. There are a variety of ways in which companies with some commitment to skills development and organizational success have developed the informal approach, some of which are detailed in Box 3a.

**Box 3a:
Ways of learning in small enterprises**

1. Working alongside a skilled employee for a period of time, observing their activities and then gradually taking over the job, with the skilled worker providing advice and guidance, until such time as the new worker is considered proficient. This is variously referred to as “sitting-by-Nellie” in the United Kingdom; “over-the-shoulder” learning in South Africa; or hands-on training elsewhere. The senior worker usually continues to monitor the trainee and further training is given if they fail to meet the standard of competency required by the owner/manager.
2. Working through learning packages and experimenting through trial and error until the new skills are acquired.
3. Using one worker who trains in a new skill and passes on, or cascades, the skills down to their colleagues, a variant of the “key worker” approach used by many large enterprises. This is sometimes used when new equipment is introduced and the person sent to install it trains one employee, who then trains their colleagues. This can be an important means to achieve improvements in product quality.
4. Rotating workers between jobs to ensure that they are multi-skilled and can then step in and take over a colleague’s job in their absence.
5. Designating one employee to whom the others can go to for advice; in some cases these are designated as informal mentors.
6. Using informal seminars where more skilled workers, suppliers or outside specialists provide advice, information or instruction to groups of employees in the workplace.

The use of “key workers” is not just confined to formal sector enterprises. In rural China, for example, ILO staff observed this approach and then built upon it for a regional project (Box 3b).

Box 3b:
Community-based training (CBT) model for Chinese farmers

An ILO survey in 1998, designed to examine the problems in the rural labour force, revealed that job creation and farmers' micro-enterprise, income-generating activities were often restricted because of a shortage of capital and a lack of technical skills, particularly in areas calling for non-traditional skills. They also lacked innovative ideas, business and marketing skills as well as management and bookkeeping knowledge. The findings were supported by responses from farmers in Gansu and Jiangxi provinces who were interviewed by ILO project staff. During the interviews, the farmers stated that if they were able to generate an adequate income locally, they would not move to urban areas.

In response to these issues, the ILO introduced its community-based training (CBT) model for a trial period. Initial follow-up of pilot training programmes in Xingtang county, Hebei province, produced indications that the CBT model had been a success. A key feature of the Chinese version of CBT was the use of "key workers" from within or from nearby districts to train other workers. Farmers were happy with the outcome of CBT training activities, and government officers considered it effective. The CBT was initially adapted to local conditions and requirements during the pilot training programmes; China's Institute for Labour Studies conducted further action research in Min county in Gansu province. This work culminated in the development of a unique Chinese version of CBT.

Source: ILO, 1999b.

Research from the employees' perspective that the European Centre for Development of Vocational Training conducted in Europe indicates that the methods used vary between sectors (Tillaart et al., 1998a, 1998b). In the printing and car repair industries, the most common form of incidental learning entailed employees solving problems themselves and with colleagues. In the print industry, this was done specifically by asking for help from an experienced colleague, direct employee participation and working with the boss. In the car repair industry, this involved learning through job rotation and learning alongside the boss or an experienced mechanic.

The focus on incidental learning helps root the process of learning in the everyday realities of the workplace. However, we must also remember that the effectiveness of the methods may depend in part on the role and experience of the employee. For instance, an apprentice in one case study found that learning from an experienced worker was most effective. This is understandable given the apprentice's low level of knowledge. However, for the foreman, who already knew the trade, learning by asking for help or advice from suppliers was a good method, presumably because this was an important source of new knowledge (Tillaart et al., 1998a). These informal or incidental methods may be more important in micro-enterprises where formal training is less frequently available, for the reasons we have discussed.

From the employee's perspective, the effectiveness of the incidental learning that takes place in micro-enterprises also varies from one industry to another, depending on the characteristics of the work situation and the previous experience of the employee (Tillaart et al., 1998a, 1998b). In the print industry, employees found that learning by using handbooks, solving problems with colleagues, asking for advice from an experienced colleague and direct employee participation were the most effective. Whereas in the car repair industry, the most effective ways of learning were by doing non-routine repairs, working with a growing degree of difficulty, asking for help from an experienced mechanic and through explanations given by experts.

As for ineffective ways of learning, these also varied considerably between industries. For example, in the print industry, learning by involvement in management and from the experiences of clients/users of products was seen as ineffective. In the car repair industry,

the use of handbooks and manuals and learning from suppliers' instructions were seen as the most ineffective.

A study in India revealed that informal learning among auto mechanics enabled them to develop high levels of innovation as they struggled with the limited facilities and tools that were available (Barber, 2004). These mechanics were also found to develop high levels of tacit knowledge skills, or a "mechanic's feel". These skills were essential to the success of most of the jobs in the garage. This type of informal apprenticeship exists in many parts of South Asia and is known as the "urstartd-shagir" (master-trainee) system. The relation between master and trainee is quite different from that in formal sector training systems. Nevertheless, its unstructured, flexible and hands-on character has made it very useful in developing workplace skills over many years (ILO, 1998).

Apart from these activities, which can be designated as informal training, small enterprises also undertake other activities that contribute significantly to the process of skills formation but which may not be perceived as such by the owners/managers. These include participating in staff meetings and project briefings, contributions to project work and association with other organizations. Staff meetings are an important means through which information on the business and its current performance is transmitted to employees, as are informal meetings in micro-enterprises. At such meetings, work-related problems may be discussed and possible solutions suggested. Of course, not all owners/managers are willing to share all of the information they possess, particularly financial information. But such meetings and day-to-day contacts are a crucial means for employees to learn about the state of the business and the solutions to business problems. These are just some of the many ways in which skills are transmitted informally within the organization (Ashton and Riordan, 1999; Sung et al., 2000).

There are two main advantages to using this informal system.

First, it enables the process of learning to be confined to those skills that are essential for individual and organizational performance. Larger enterprises always grapple with the problem that much of the information/knowledge and many of the skills learned in formal courses are not subsequently developed in or transferred to the workplace. This may be because the course occurred too early or too late for the workers to practise their skills; because many of the skills transmitted were not relevant for the job; or because line managers did not allow the necessary time to practise the skills in the workplace and what is not used is lost. Formal courses almost always present this problem of "transfer", which is not an issue for small enterprises. In small enterprises, informal training in the workplace means that workers learn when and what they need to know.

This is not to deny that there are potential disadvantages involved in relying largely on informal learning, such as employees picking up bad as well as good habits. For that reason, employers often use experienced and "responsible" workers to undertake informal training. This type of informal training can also be of varying quality. It may be confined to merely showing the worker how to do a job or it may be used to encourage reflection on what has been learned and how that learning may be of wider benefit to the company and individual. Informal skills acquisition is neither good nor bad in itself; like formal training, it depends on how it is used.

The second advantage of informal learning in small enterprises is that it provides an important means of transmitting the company ethos and culture. Many small enterprise owners/managers have problems with supervision, as they cannot be everywhere at once. In these instances, they need to build the loyalty and commitment of employees to ensure that the work is performed correctly and that employees take ownership of the job, as in both the previous case studies. In some instances, owners of small enterprises find that one way to counter the lack of career development opportunities, almost inevitably associated with small enterprises, is to exploit the advantage of the informality of the organization to make

it a pleasant place to work and so build up the commitment of the staff to the company. Indeed, it is only in recent years that research has discovered the significance of informal learning in large enterprises, with researchers in a wide range of countries now investigating workplace learning (Felstead et al., 2004; Engeström, 2001; Eraut et al., 2000).

While informal learning is ideally suited to the requirements of small enterprises, there are other disadvantages, particularly from the point of view of the employee. First, because learning is specific to the enterprise, only practical skills tend to be acquired. There is usually little or no provision for off-the-job reflection or training in theoretical principles that underpin these specific activities (Barber, 2004). This means that employees are denied the opportunity to acquire skills in depth, plus the intellectual skills that this requires. Allied to this, the learning tends to be only partial. For example, a person learning skills in a small enterprise that is a subcontractor to a larger assembly plant in the motor industry may find their learning restricted to a narrow range of items produced by the company. Barber (2004) found that the mechanics he studied in India had difficulty in adapting to new technology. This type of learning and training is not accredited in terms of formal qualifications, so is potentially less transferable to different kinds of enterprises or larger organizations. These skills thus do not carry a premium in the labour market if the employee wishes to move to another employer.

Given owner's concerns that employees will leave if they receive formal training and given the small size of these enterprises where there is little possibility of increasing the employees' skills by moving up within the company, informal training has its place and appeal. In developing countries, informal learning, for instance, provides individuals who have limited formal education an opportunity to acquire marketable skills (ibid.). A good example of this informal learning was observed in Nepal in the early 1990s (Riordan, 1992) when a skilled but illiterate mechanic who operated a motorcycle repair workshop in Kathmandu became very well known for his skills in repairing Japanese motorcycles. He became so well known, in fact, that young men from India would go to learn from him, under the *urstaad-shahgir* informal apprenticeship system. Japanese motorcycles were just starting to become popular in India at that time, but there was no formal training available in their repair. So, despite his lack of formal education, the illiterate Nepalese mechanic became an important source of local skills development.

As for the content of training in small enterprises, Kitchin and Blackburn (2002) found that for all types of employees, established and new recruits, there were discernable similarities in the type of knowledge they valued. All ranked working methods, health and safety and product knowledge highly. This supports the work of Tillaart et al. (1998a) that concluded the content of most training in small enterprises is concerned with day-to-day operational issues necessary to ensure that employees perform their jobs competently and safely.

Formal training in small enterprises

As we have already noted, formal training is not ignored altogether in small enterprises. In the car repair industry, Tillaart et al. (1998a) found that formal courses were offered by manufacturers to transmit specialized knowledge on new products to mechanics. In the Netherlands, the owners of micro-enterprises in the car industry received knowledge of new technological developments and management from a sector innovation and training centre. Indeed, for owners of many small enterprises, formal courses and networks provide an important source of new information on developments in the industry. In the Netherlands, for instance, owners in the print industry participate in independent networks through which they visit each other and discuss and evaluate each other's business and their management practices (Tillaart et al., 1998b). Other research has shown that of the

professions – for example, accounting, dental and legal, those in small practices frequently update their knowledge by participating in conferences and seminars (Brown et al., 2005).

The ILO runs the Expand Your Business Programme (EYB) in association with public and private sector training providers in developing countries around the world. EYB is an integrated business training and support package for small enterprises that have growth objectives in mind. These small enterprises that have growth potential are called Growth-Oriented Enterprises (GOEs). The EYB programme is “integrated” because it provides a number of interventions that are important to the growth and expansion of businesses. These are training and non-training interventions. The target group is composed of growth-oriented entrepreneurs of small enterprises. The growth orientation is the main selection criteria and growth indicators need to be considered to identify the target group (for example, changes in asset base, turnover).

In the United Kingdom, Kitchin and Blackburn (2002) found that nearly half the small enterprises in their sample (48 per cent) had used at least one external training provider in the previous year. These were usually sought when the owner could not access the relevant knowledge internally. However, seeking formal national vocational qualifications was not seen as important in small enterprises, with only 10 per cent reporting they had a staff member working to obtain such a qualification. On the other hand, 35.3 per cent of small enterprise owners surveyed reported that they had used courses off their premises, away from the workplace during working hours, although they much preferred in-house training. Courses outside the workplace were used more for established staff who had been employed with the firm for a number of years.

Owners preferred the use of external courses for their own training as they thought that in-house training would be ineffective because they already saw themselves as the most knowledgeable person within the enterprise. However, owners frequently sought to develop their knowledge of the market and innovations through their own informal networks or through trade associations. In this sense, the owners’ informal networks of colleagues in their community or acquaintances in the local chamber of commerce or trade association formed their “training department”. They were more likely to look to these trusted sources for help with their business problems than to consult official agencies (Sung et al., 2000).

Other features of the training process in small enterprises

There is more to the training function than just the process of learning. In all organizations, skill needs have to be identified, performance formally or informally assessed against standards, the process of learning has to be monitored and, if necessary, corrective action taken. Here again, however, the process in small enterprises is different from larger organizations. Ridoutt et al. (2002) argue that size may influence the organization of training, including the extent to which reliance is placed on external providers and the degree to which the whole process is formalized. But it is important to be aware of the more informal manner in which these functions are carried out in small enterprises.

In small enterprises, assessing skill needs or training needs analysis is done in a number of ways, with “observation” being the most commonly used method. Employers and managers often work in close contact with employees, and in the process, they can observe how jobs are executed. Where they notice deviations from set standards of work practices, corrective action can be implemented. This may well be in the form of a brief discussion with the employee or, if appropriate, training can be provided. If relationships are more formal, then counselling may be provided and/or disciplinary action taken.

Other methods of assessing skills in small enterprises are through customer complaints, poor product quality, failure to complete work within the standard time and failure to achieve sales targets. In the hospitality sector, inspections by franchisers are sometimes carried out to monitor performance and further training provided if problems are identified. In other instances, the introduction of new equipment or techniques will make it clear that training is required.

Evaluation is another area in which observation is the most common method used due to the close interpersonal relations found in small enterprises. Kitchin and Blackburn (2002) note that most of the owners/managers in their sample were able to observe the impact of any training on the performance of the individual concerned, either in the way they performed the job or in the output of work. Where individuals performed the job more competently and safely, employers defined the training as a success. Interestingly, none of the employers in their case studies attempted to evaluate any direct “bottom-line effect” as a consequence of training. However, the majority of business owners were in no doubt that training improved worker performance. When asked about the benefits of training, one employer stated:

Internal training is immediately apparent. The outputs are the people who are working with us. Being a small company, there aren't any hiding places ... Internal training is very apparent, very hands-on, very apparent to everybody. External training, I suppose you could say is not easy to judge (ibid., p. 39).

Thus, while most employers claimed not to evaluate training in a formal manner, the same employers did make some assessment of the usefulness of particular training events. The focus of the evaluation by the owners was on the impact of training on the job, for which they saw a direct benefit in terms of improved performance. For them, the link between training and performance improvement was self-evident. They did not look for any longer-term link between training and business performance.

As has been outlined here, learning and training in MSEs is not lacking but occurs in a less formalized manner due to a range of factors. In particular, we refer to the informality of work processes and relationships, which makes it workable due to the small size of the enterprise. This allows a direct relationship between owner/manager and employees, with less formalized methods of identifying and delivering training needs.

As noted, there are both advantages and disadvantages to the informal approach. However, it is misleading to conclude that informality means a lack of investment in skills development. Instead, as highlighted, the level of skills required for the day-to-day processes and production are the key drivers of skills development and investment. This now brings us to examine learning and training in MLEs, which this takes place in quite a different way from that in MSEs.

4. Learning and training in medium-sized and large enterprises (MLEs)

As companies grow from small to medium size with more than 50 employees, they become subject to a number of processes of change that fundamentally transform the context within which learning and training take place. We therefore start this section by outlining the impact of such growth on the organization of the business. This is a crucial period in the lifecycle of the company because, once it has been passed through, very different conditions are created for the process of skills formation. This makes learning and training very different in the MLEs to that observed and experienced in the MSEs.

A growing body of literature on the lifecycle of a company has demonstrated a certain degree of predictability in its growth as it moves through certain stages (Adizes, 1989). For

example, Rutherford et al. (2003) found that training problems were highest in the high-growth lifecycle of small enterprises. In a study of marketing in eight firms in the United Kingdom and the United States, Hill et al. (2002) observed that in the early stages owners/managers concentrated on producing good quality products and keen pricing. The main problems they faced were funding for new equipment, premises and staffing levels. These problems eventually led to crisis, which the companies resolved before resuming growth. As they moved from being small to medium size, these companies experienced a lack of general management skills – one of the factors that they identified as leading to crisis (ibid.).

We saw something of this in the previous section. As firms grow in size from micro or small to medium-sized and large enterprises, both owners/managers and employees have to adapt to very different circumstances and relationships. Not only do relationships become more formal, but they are increasingly conditioned by the internal structure of the organization. Where the owner once focused on negotiating with the forces of the (external) market as a small enterprise, they now faced the problems of managing a large number of employees. As they become established medium-sized firms, only the leaders of the organization are now concerned directly with the problems of the market. For the employees, their experience of the day-to-day relationships in the workplace is largely insulated from the demands of the market.

These are major changes, so it is not surprising that as organizations grow in size, employees and especially owners/managers encounter major problems of adjustment. We start this section by examining some of these problems.

When small enterprises are being set up, the primary problems many owners/managers encounter are practical business issues. In this second phase, when the small enterprise is established and the numbers of staff employed have increased from say ten to 50, the owner contends with a new situation. It is no longer possible for one person to know all the staff personally and to cope with the number of day-to-day decisions that have to be made. At some point, systems and procedures have to be introduced. Departments have to be created, procedures formalized and rules established about who can make what decisions. Increasingly, as the work of the owner becomes that of coordinating the work of managers and/or teams, the problem of managing internal uncertainty emerges. In this second phase, the owner may also have the additional problem of handling more abstract business concepts, such as cash flow, industrial relations and organizational design, many of which may be totally new to them.

Implementing such a growth strategy, coupled with the increased staffing levels, demands a more structured approach to management, in general, and human resource management, in particular. As we shall see in this section, expansion into the medium-sized enterprise category is associated with the introduction of specialized staff, such as accountants, production managers, personnel managers and trainers. Moreover, some of these firms may have to deal with union organizing drives during the growth period. Thus, the owners/managers now have to confront the need to address employee interests in a more formal manner, perhaps for the first time in their career.

If we return to the case of the car-cleaning company mentioned in Section 2, the owner is starting to enter this transition. With thirty staff, he can just keep on top of everything without the use of formal procedures. However, he is working twelve hours a day, still making all the decisions and has no time to reflect on his position, which suggests that he is operating at his limit.

Typically, while many owners of small enterprises may have acquired technical skills from an apprenticeship (Bird, 2002) or had experience with a larger employer, they have little prior training in the full range of business skills. Instead, they pick these up through experience as they build up their business (Johnson, 1999). This was indeed the case with

the owner of the car-cleaning company. He had prior technical skills but no business experience. His experience of marketing developed through his “knocking on doors” when he first set up the business. He had never formulated a business plan and was apprehensive about doing so. His knowledge of finance was limited to that obtained from his practical experience, while his knowledge of personnel matters had been gleaned from his solicitor, who provided advice on contracts. He is now at the stage where the skills developed to manage people in one-to-one and small group situations are no longer appropriate. The use of personal experience and informal relationships as the basis for the management of the company has reached its limit. In short, at this transitional stage, owners/managers are encountering the problems of modern management for which they have little training and which take many of them beyond the limits of their existing skills and expertise.

In these circumstances, many owners/managers feel at a loss about where to turn for help (Sung et al., 2000). Some seek out programmes such as ISO 9000 to acquire knowledge of procedures and business planning. Others go to local business people or networks for help. Of course, not all entrepreneurs are so inexperienced when they set up their first business. Much depends on the broader web of relationships within which their business is located. Some may have previous experience as managers in larger organizations. These are more typically found in rapidly growing small enterprises that focus more on product innovation and marketing, quality and strategic thinking (Johnson, 1999).

The gap in knowledge and experience between these two types of entrepreneur is significant. The owner of the car-cleaning company is perhaps more representative of the majority of owners of small enterprises. Here the training need is considerable. Furthermore, it cannot be assumed that all small enterprise owners/managers want to grow their business. The desire to expand may be one of the features that distinguish between an entrepreneur and someone who simply owns and manages a small enterprise.

For those companies that successfully make this transition, relationships take on a very different form and have crucial implications for the process of learning. At some point, systems and procedures have to be introduced, departments created, procedures formalized and rules established about who makes decisions. The work of the owner becomes that of coordinating the work of managers, and the problems of managing internal uncertainty emerges. This process is explored in more detail in Ashton et al. (2005) where the analysis indicates that three different processes transform relationships within medium-sized companies and are responsible for generating distinctive contexts for the process of skills formation. This brings the process of skills formation within medium-sized businesses far closer to that found in large firms and makes it very different from that experienced in MSEs.

4.1 Institutionalizing skills formation in MLEs

There are three processes responsible for transforming skills formation in MLEs:

1. differentiating functions;
2. formalizing relationships; and
3. delegating authority.

Differentiating functions

As firms grow in size, it becomes more and more difficult for the owner/manager to conduct all the business by themselves. Consequently, the functions are divided among the staff. Gradually, specialist staff emerge or are appointed to take responsibility for designated areas of the organization. As the owner/manager is unable to handle all these

matters with the increase in the number of employees, they have to start employing specialists in finance, production, sales and personnel. This process impacts on learning and training in a number of ways: it frequently results in the appointment of specialized trainers and in the establishment of separate training departments. This is symptomatic of the fact that learning is increasingly differentiated from other activities and treated as a separate activity, namely, “training”. Learning is no longer seen as incidental to everyday work activities but becomes something that is carried out in a formal programme or in a separate training department.

We can observe how this process operates through the results of quantitative studies. Table 1, highlighting research results from Singapore, shows how enterprises with workforces increasing beyond 50 employees undergo what might be termed a “step change” in organizational characteristics, particularly with regard to some of their training activities. This data illustrates the emergence of specialist functions and training personnel. For example, the percentage of organizations with a training department increases from less than 10 per cent in small enterprises to 23 per cent in medium-sized enterprises (MEs) and then to over two-thirds in large enterprises (LEs) with over 250 employees. Likewise, the training budget has to make increasing provision for specialist trainers, which is reflected in the observation that whereas only 14.4 per cent of MEs make such provision, it is found in some 60 per cent of the LEs. Surveys in the United Kingdom and elsewhere have produced similar results.

Table 1: Employers in Singapore establishing specialist training departments, by employee size (per cent)

	Employees		
	MSEs <50	MEs 50–249	LEs >250
Training department*	9.1	22.6	67.5
Training specialists**	7.4	14.5	59.7

* enterprises that use their own training department (%)

** enterprises that employ internal trainers (%)s

Source: Sung and Ashton, 2001.

Examining the various training activities that companies fund provides further evidence of the ways in which the training department or function becomes further differentiated or specialized. This is illustrated in Table 2, which shows that where small enterprises have a training budget, the funds are largely used for purchasing external courses. In MSEs, training budgets are used to fund more activities beyond external courses, with a minority of resources spent on books, technologies and outside consultants. For large firms, the vast majority with a training budget fund all three sets of items.

Table 2: Expenditure in the training budget in Singaporean enterprises, by employee size (per cent)

	Employees		
	MSEs <50	MEs 50–249	LEs >250
Fixed costs	10.2	22.1	44.2
External courses	39.4	93.9	81.8
Books, technology, etc.	21.2	35.8	68.8
Outside consultants	17.5	34.3	71.4

Source: Sung and Ashton, 2001.

As a general rule, the larger the enterprise, the more differentiated are its activities in the field of learning and training. These become areas of specialist activity located in separate departments within the company.

In larger enterprises with specialist roles, the knowledge and skills required for training can no longer be picked up so effectively on the job. As the training function becomes integrated in the business strategy of the organization, training managers in larger small enterprises have to manage a relatively complex process, often requiring their own specialist training. This involves both theoretical knowledge of the type alluded to previously, together with the practical skills of delivering and supporting learning.

Trainers and human resource development practitioners cultivate expertise in pedagogy; they have to master theories of learning and learn how to use them to maximize the impact of classroom instruction. They have to develop expertise in other methods of delivery, including coaching, mentoring, action learning and structured on-the-job and computer-based training. All this is a far cry from the “sitting-by-Nellie” approach that characterizes learning in the micro-enterprise.

Formalizing relationships

We have seen how, as firms grow in size, it becomes increasingly difficult for the owner/manager to maintain personal relationships with all staff and to make all the decisions about the type of training undertaken, how it is delivered, who receives it and so on. The assumptions and customs that governed the informal relationships in the micro organization now have to be made explicit and formalized so that they are known by all staff and can be used to inform the decision-making process. Formalization, therefore, leads to explicit systems and plans that make it easier to communicate to a larger workforce, as well as facilitating delegation of the various functions. Numerous researchers have discussed this process of formalization because it affects the broader field of human resource management, but little attention has been paid to its impact on skills formation.⁸ In the field of learning and training, we can observe the manifestation of this process in a number of areas; this includes in the emergence and use of written training plans, the identification of training needs, the use of formal qualifications and the evaluation of the effectiveness of training.

Formalizing training plans

In small enterprises, the organization of training is still very much in the hands of the owner/manager. The idea of having a formal, written training plan specifying the range of training activities undertaken, including those entitled to receive training, the priorities that determine what type of training is to be delivered and how such training is to be evaluated, is unusual. The “plan” exists only in the mind of the owner. Our research found that only 20 per cent of companies with fewer than ten employees and 21 per cent of those with 11 to 50 employees had a formal training plan. However, once the size of the establishment increased from 50 to 99 employees, the proportion of companies with a training plan more than doubled to 47 per cent and increasing to 60 per cent of companies with more than 100 employees (Sung et al., 2000). For the very large companies, training plans are the norm. Surveys of the training situation in a range of countries reveal a similar pattern.

⁸ See, for example, Kotey and Sheridan (2004) and Nguyen and Bryant (2004).

Analyzing training needs

We see a similar process when it comes to analyzing training needs. As we have discussed, in small enterprises this activity is usually the domain of the owner/manager who decides who needs what training. However, with the growth in size, this process becomes formalized. With a staff of more than 50 or 100, it is no longer possible for the “boss” to identify the training needs of all employees in the course of their everyday interaction with them. Training needs analysis becomes formalized as a separate and specialized activity with its own expertise, usually embodied in the specialist knowledge of the trainer. In larger organizations, the process becomes systematized and “objective” in appearance, involving a series of steps between the initial identification of training needs and their translation into a formal training course.

Table 3 illustrates one aspect of this analysis, namely the techniques used to identify the training needs. This shows that as companies grow in size they make more use of methods such as performance appraisal and do so in a far more formal manner. In addition, much more use is made of the business plan analysis. Here we can also see that the medium-sized firms are at a mid-point, starting to take on the characteristics of the large enterprises.

Table 3: Aspects of training activities in Singapore – Proportions of practice adopted, (per cent)

	Employees		
	MSEs <50	MEs 50–249	LEs >250
Training needs analysis			
Using business plan analysis	22.0	36.6	74.0
Using training audit	6.4	17.4	42.9
Using performance appraisal	29.6	55.3	83.1
Meeting employees' requests	48.3	62.9	80.5
Training designed explicitly to support strategic business objectives	32.4	55.3	88.3
Most employees receive a minimum of 5 days training per year	9.0	17.7	41.6

Note: These figures are generally significant at the 5 per cent level, unless otherwise stated.

Source: Sung and Ashton, 2001.

Formalizing the delivery of knowledge and skills

One of the most common ways of delivering formal knowledge and skills is through support to attain educational qualifications. These are used more frequently at the higher occupational levels, such as managers, accountants, personnel specialists and technical staff – functions that are more dependent on the use and application of theory. Because MEs and LEs have more such staff, they make greater use of formal qualifications to train employees than small enterprises, as Table 4 demonstrates. For the very large companies, training plans are the norm. While training surveys in a range of countries reveal similar patterns, ILO research on small enterprises reveals that Thai companies found formal, off-the-job training programmes rarely met their needs (Ashton and Riordan, 1999).

Table 4: Employers providing training for qualifications, by size of enterprise and occupational group (per cent)

Occupational group	Employees		
	MSEs <50	MEs 50–249	LEs >250
Managerial/professional	24.8	40.3	62.3
Non-manual/white collar	27.8	45.5	64.9
Manual	16.1	28.3	48.1

Source: Sung and Ashton, 2001.

The situation was the same in the United Kingdom in 2002, where 48 per cent of employers with 5-24 employees offered training leading to a formal qualification. This figure increases to 60 per cent for firms with 25–99 employees; 74 per cent for those with 100–199; and to 80 per cent for those with 200–499 employees (IFF, 2002).

Formalizing the cost of training

With informal on-the-job learning in MSEs, it is difficult to separate out how much time is devoted by the experienced worker and the learner to the process of learning, as opposed to production or the delivery of the service in which they are simultaneously engaged. However, once training is taken away from the workplace and delivered in a specialist course, the situation is very different. It then becomes much easier to identify and cost the time of the trainer and the trainee and the capital costs of specialist training facilities. As the process of learning becomes more formalized in MLEs, it is also easier to measure the full costs of development activities.

Formalizing evaluations

The process of formalization also occurs in the area of evaluation. In MLEs, it is no longer possible for the owner to personally check, by informal observation, the impact of training on workplace skills and performance. Thus, formal processes are developed to measure effectiveness. This also has received its own theoretical underpinning with Kirkpatrick's (1967) three levels of analysis: the impact of training is now assessed through "objective" measures of the performance of:

1. the individual;
2. the group or department; and
3. the organization as a whole.

More recently, other evaluating techniques such as cost-benefit analysis (borrowed from economic analysis) also have been used.

As the owner/chief executive is no longer directly involved in the operational process, they now need to be convinced of the value of training. Thus it becomes even more important to establish the success of training courses. This is not only in terms of improving the performance of the individual worker but also in showing impact on bottom-line accounting and profit. Again, this encourages the formalization of procedures and practices.

Delegating authority

The third area in which change takes place with the growth in size of the organization is in the delegation of authority. In small enterprises, the owner/manager can retain control

over all major decision making. As the organization grows beyond 30–50 employees, it becomes increasingly difficult to manage (control) behaviour through personal interaction. Internal relationships now have to be explicitly managed, and the authority to do so has to be delegated. Research by both Matlay (2002) and Sadler-Smith and Lean (2004) found that in small enterprises, the primary responsibility for decisions on human resource development lay with owners. Matlay found that in small enterprises, more than 90 per cent of owners/managers made the main decisions with regard to human resources, whereas in 26 per cent of medium-sized firms, this became the responsibility of the personnel manager.

We can observe the manifestation of this through the delegation of explicit budgets for training. In the United Kingdom, the percentage of organizations with a training budget doubles as workforce increases, from one to four employees where the figure is 19 per cent, to 40 per cent for those in the 5-24 band, and then jumps to 64 per cent in the 25–99 employee band; thereafter it increases incrementally with each size band until it reaches 91 per cent for those with more than 200 employees (IFF, 2002). Similarly, Sung et al. (2000) found that only 7 per cent of small enterprises trained staff to carry out training, while 70 per cent of the large organizations did so.

There is evidence to suggest that the three processes of differentiation, formalization and delegation may well be universal. For example, with regard to formalization, we have data from the United Kingdom and Singapore as well as two Australian studies, Hayton et al. (1996) and Ridoutt et al. (2002). These studies found that the number of employees working at the site was positively related to the degree of formalization: the larger the organization, the more formal and structured the training provision.

Taken together, we can see how these three processes of change dramatically transform the context within which the process of learning and training take place. We have moved from a situation in which the process of learning occurred in the context of a personal one-to-one relationship between the employee and the owner, to one in which, in large organizations, separate institutions deal with training. Moreover, this is increasingly supported by major infrastructure in the form of specialist staff with a range of different techniques, methodologies and technologies at their command.

We now turn to a brief examination of the consequences of these changes on the management and experience of learning and training in MLEs.

4.2 Consequences of formalizing and specializing the training function

As enterprises continue to grow in size, the differentiation of functions and specialization of roles results in more opportunities for learning different skills, which increasingly take place in specialized training premises or classrooms away from the workplace. The formalization of relationships and practices means that much of the learning takes place in a more systematic and structured manner, while the delegation of responsibility means that many staff, in addition to formal trainers, are trained in the techniques of teaching and coaching.

More opportunities for formal learning

As noted, the growth of opportunities for formal learning and training is one major consequence of the increasing specialization and formalization of activities in MLEs. Here we use two examples to illustrate this: in Singapore, the proportion of employers providing five or more days of training (formal) per year increases dramatically with size. While only 9 per cent of small enterprises there reported this provision in 2000, the same practice was

used in 17.7 per cent of MEs and 41.6 per cent of LEs. Similarly, as shown in Table 5, larger employers in the United Kingdom provide off-the-job training more frequently than smaller employers. However, care should be taken when interpreting Table 5, below, as well as Table 6, as neither of these tables comment on the volume or quality of the training provided within the firms in each size category. For instance, while 93 per cent of firms with 500 or more workers may provide off-the-job training in the United Kingdom, it is unclear in the following table how many workers in these firms were provided with such training.

Table 5: Employers in the United Kingdom providing off-the-job training, by size in 2002 (per cent)

Number of employees	Days per year
5-24	57
25-99	79
100-199	89
200-499	92
500+	93

Source: IFF, 2002, p. 47.

For the individual employee, this leads to important differences in the opportunity to access learning at their work location. Table 6 illustrates the impact that the size of the enterprise has on the chances of an employee in the United Kingdom receiving different types of learning opportunities, ranging from basic literacy to information technology. These findings no doubt reflect the greater resources and availability of specialized staff in larger enterprises, which are also in a better position to handle the disruption that such training can cause.

Table 6: Employers offering learning opportunities, by employee size (per cent)

Type of learning	Employees				
	5-24	25-99	100-199	200-499	500+
IT	45	61	79	82	89
Working with others	44	55	62	70	82
Problem solving	35	43	52	60	71
Basic numeracy	12	17	25	33	49
Basic literacy	11	17	26	33	50

Source: adapted from IFF, 2002, p. 20.

Interestingly, available data also shows that those smaller enterprises that do train not only offer it to the same proportion of their staff as larger enterprises but also provide the same amount of formal training (IFF, 2002; Ridoutt et al., 2002). Thus, when we measure the proportion of staff engaged in off-the-job training, we find that size has no effect on the proportion of the labour force receiving training.

Similarly, once employees were in receipt of training, the duration of it is almost the same, irrespective of the size of the enterprise. Indeed, in the United Kingdom survey, the smaller employers provided slightly longer periods of training per employee trained than their larger counterparts (IFF, 2002).

On-the-job training

While we might expect to see a shift towards more use of formal training courses as a consequence of the formalization process, there is substantial evidence that on-the-job training continues to be a vital source of training and development. Indeed, in the United Kingdom, larger employers appear to make more extensive use of this than smaller employers.⁹ The 2002 UK Learning and Training at Work Survey (IFF, 2002) revealed that on-the-job training was used by 47 per cent of firms with less than five employees, 79 per cent of firms with between five and 24 employees, and over 94 per cent of firms with more than 100 employees.

In Australia, Ridoutt et al. (2002) found that 99 per cent of employers in the two sectors they surveyed conducted on-the-job training. International research, coordinated by the Centre for Labour Market Studies between 1999 and 2001 in a number of countries, ranging from Singapore and the United Kingdom to Bahrain, Barbados, Cyprus, Greece, and Thailand, found that on-the-job training was used more frequently than any other form of training. Moreover, trainers tended to regard this form of training as the most effective of all methods.

One of the characteristics of on-the-job training is that it can vary tremendously from one organization to another. In some companies, this can mean no more than a new recruit being taught the basic tasks associated with the job by an experienced worker. However, informal on-the-job training can be used to refer to a range of learning activities, such as:

- training by line manager;
- training by experienced staff;
- training by training officer;
- training by equipment suppliers;
- computer-based training packages;
- training by consultants and private sector company staff.

We can gain more insight into the use of on-the-job training from the following two ILO case studies (Boxes 4 and 5), which reveal quite different but relatively sophisticated approaches.

**Box 4:
On-the-job training – “Value engineering”**

This South African steel foundry produces high quality goods for the international market. On-the-job training is very demanding, involving shop-floor learning in informal group sessions – an activity that the company calls “value engineering”. This is similar to the Japanese concept of “quality circles”. Work teams meet regularly, discuss and analyze shop-floor production situations and follow up by devising and executing shop-floor training and production solutions for quality and quantity improvements. This is all done on an informal basis.

Source: Ashton and Riordan, 1999.

⁹ Here we have to be careful because there is some evidence that smaller employers are likely to define what they see as training in a narrower manner to those responding to surveys in larger enterprises (Kitchin and Blackburn, 2002).

Box 5:
On-the-job training – Using senior staff

This Korean medium-sized supplier within the automobile industry uses the term “informal on-the-job training” to refer to the instruction provided by senior employees to their junior colleagues. This is provided as and when it is required. However, the company does not leave the transmission of information and the teaching process to chance. Instead, it provides training in both technical and teaching skills for those responsible for delivering on-the-job training.

Source: Ashton and Riordan, 1999.

For the majority of medium-sized companies in the ILO study (Ashton and Riordan, 1999), on-the-job training meant instruction by supervisors to their subordinates or by one experienced worker to a new recruit. However, few of those responsible for on-the-job training were provided with any training in instructional techniques. The Korean firm cited in Box 5 is the exception rather than the rule, both in terms of training those expected to provide training and in having a formally structured approach to on-the-job training.

Formalizing informal learning and training in MLEs

Another consequence of the formalization of learning is that a wide range of activities with a learning content, which would take place informally in small enterprises, are now designated as formal methods of training in MLEs. Here we refer to mentoring, coaching, job rotation, staff and team meetings, visits to other sites and attending conferences and seminars. In addition, many companies start to use formal systems for evaluating and learning from unusual events, incidents and problems encountered within the workplace.

Research tells us that as the size of a company increases, so too does the range of methods of training and learning used. But when we observe such results from quantitative surveys, we have to remind ourselves that the reality is usually more complex. As we saw with the MSEs, the conditions in which the company operates can have a significant impact on the kind of learning and training available, and this still also applies for MLEs.

Case study data, such as that from the ILO research (ibid.), suggests that those companies with stable markets, relatively fixed organizational structures and technologies, and utilizing unskilled and semi-skilled labour make less use of these techniques. Those making more use of them are companies with knowledge-intensive technologies or delivering complex intellectual services, operating in fast-changing markets and using high proportions of technical, professional and scientific staff. We turn to two companies in Thailand to illustrate this.

In a Thai rice-processing company, a typical employee’s job is to load and off-load sacks of rice. There is little need here for a coach to explain over time the “ins and outs” of the job or for the employees to attend seminars to update themselves on the knowledge necessary to perform their jobs effectively. As the tasks are all the same, there is no point in rotating jobs and, as knowledge about the production process is largely the province of the management, there is little point in having staff meetings to disseminate information.

This contrasts dramatically with another Thai company selling high-specification safety glass in international markets and using ISO quality standards. The product is subject to frequent changes from technological improvements. In this case, the need for continuous learning among workers is much greater. The company uses workshops to discuss periodic improvements in the production process and seminars to disseminate new knowledge among supervisors. Experienced workers are used as mentors and trained in instructional techniques to ensure that new employees are trained to the highest standards. The company also uses key workers to train colleagues in new technologies. In addition, they use formal

training courses to keep all staff abreast of new technical developments and health and safety issues.

Removing training from the enterprise

With greater formalization and specialization of training, the delivery of instruction and the process of learning become increasingly separated from the workplace. This can be an advantage for transmitting some knowledge, such as theoretical learning and specialized IT skills, which may be more effectively delivered in the context of a specialized training centre or classroom (Green et al., 2001).

However, removing training from the workplace also creates problems when the skills have to be transferred from the classroom back to the workplace. There is a danger that many of the skills learned in the classroom may be lost or unused in the workplace. To be effective, classroom (and web-based) learning needs to be supported and reinforced in the workplace by supervisors and colleagues. To do this, they need to understand how to support the process of learning.

Removing the training from the workplace and creating separate training departments with specialist staff also means that there is a danger, as in all bureaucracies, that the training department's own interests start to dominate the learning and training agenda. Training can become divorced from the realities of the business. This can take a number of forms: the training department can become inward looking, over-concerned with the delivery rather than content of programmes or concentrating on what is easy to do rather than what is needed for the effective operation of the company. Of course, this can happen in any department within a large organization where departmental goals displace organizational goals.

To avoid this problem, a special training strategy may be required to ensure that the delivery of training remains tightly geared to the overall business strategy. We see the consequences of this among growing enterprises, with an increase in the use of the business strategy or plan to shape the company's approach to training. For example, in Singapore, while only 32 per cent of MSEs designed their training to support business objectives, 55.5 per cent of MEs undertook this exercise. In large enterprises, this was the norm, with 88.3 per cent of companies designing training to support strategic objectives.

Experience of learning and training in MLEs

Given the very different conditions created by these processes in MLEs, it is not surprising that individual employees experience learning and training in a different way to those in small enterprises. Learning is no longer something that is an incidental part of everyday experiences but becomes separated from the day-to-day work relationships. It is now institutionalized in the form of formal courses, often delivered in separate classrooms, structured using techniques of training needs analysis and followed by formal systems of evaluation. Courses are used to deliver a variety of objectives: to learn the job tasks; to learn team working and communication skills; to instil commitment to the firm; and to use new technology (Felstead et al., 1997). All this is in addition to the transmission of knowledge about the firm during induction training and the legal requirements, such as health and safety precautions.

In this context, it is not surprising that from the individual's perspective, learning equates with the use of formal courses. For both employees and managers in these MLEs,

learning becomes synonymous with training.¹⁰ That is, it is seen as confined to activities in a physically separate area, such as the classroom or training centre. There, away from the workplace, it is experienced as a different entity, separate from the daily activities involved in the production process and structured in ways that are believed to enhance the process of learning. For employees, this provides more opportunities to broaden their learning and skill capacity and, in some cases, to obtain external certification of their skills. There is a wealth of research that documents the ways in which the opportunities for formal certification of learning increase in these larger firms.

This form of learning as synonymous with formal courses echoes the experience of policy-makers and academics, who learn in this way. It thus reinforces the tendency among policy-makers, academics and others who work in large organizations to equate formal qualifications and courses with human capital. However, this perception hinders our understanding of skills formation in MSEs precisely because the frames of reference developed to understand skills issues in LEs may be appropriate when looking at MEs but are inappropriate to the realities of the process in MSEs.

4.3 Managing the process of skills formation in MLEs

The three processes of differentiation, formalization and delegation affect all types of companies; thus they help us to understand why the problem of managing internal uncertainty should dominate in MLEs (Storey, 1994). Yet training is only a small function within the overall organization. If we multiply this by the number of other departments in the MLE, then the internal uncertainty becomes substantial. As a result, more attention and resources are devoted to managing internal uncertainty through the use of formalized systems. As such, MEs become increasingly like LEs in terms of their characteristics.

In the field of training, the complexity of this process of management takes different forms, in part depending on the type of product market the company is engaged in and the level of skills required for the production process. This takes us back to the points made in Section 2 about the importance of the product market and business strategy in determining the level of skills used by companies. Put simply, the complexity of the learning and training process in a company producing, say, pre-packed sandwiches, is far lower than that in a company producing complex information technology solutions for multinational corporations. To demonstrate this point, we use two case studies from the ILO survey of small enterprises (Ashton and Riordan, 1999).

The first case study (Box 6) is from an accounting firm in Korea that offers high-value-added intellectual services and illustrates the range of activities that have to be managed and the levels at which that has to be done. The study also shows the impact of the processes of differentiation, specialization and delegation.

¹⁰ So strong has this tendency become that researchers trying to examine the full range of activities where learning takes place have to continually stress to respondents that they are not just interested in formal courses; see Kitchin and Blackburn (2002).

Box 6:

Managing a complex learning process – An accounting firm in Korea

The firm is part of an international company delivering financial and business services in the field of tax audits, accounting and business consulting. It has 297 employees, of which 260 are professionals. The training department identifies training needs at the levels of the individual, the firm and the department and manages these as part of a coherent strategy.

At the individual level, professional employees are encouraged to identify their own needs, guided by their professional standards. Each member of the company is entitled to ask for training, a request that is considered by either the training supervisor or the training department. As the company's main asset is the knowledge and skill of the workers, it is seen as crucial that it invests heavily in this aspect of training.

At the level of the firm, training needs are identified in the context of the overall business plan. Skills required over the next five years are identified and mapped against those currently available in the organization, providing the basis for planning training provision at the firm level.

At the department level, the company reviews the introduction and progression of new working methods and practices and then prepares a training plan to facilitate their implementation.

In terms of evaluation, the management requires reports on the effectiveness of training interventions. Foreign language training is assessed through the use of formal tests. In addition, it uses informal methods and makes extensive use of employee surveys to identify the effectiveness of individual training. There is no overall evaluation of the impact of training on company profits. However, there is agreement that it has improved the capacity and performance of individual members of the company and their use of time, thereby contributing to the overall performance of the company.

Source: Ashton and Riordan, 1999.

As the next case study of a Tanzanian wheat milling company shows (Box 7), businesses in which these processes of specialization and formalization are less developed encounter fewer management problems. This company produces low-value-added goods and is less dependent on the knowledge of its employees. As a result, there are fewer learning and training opportunities, which require only minimal management.

Box 7:

Managing a less complex process – A wheat milling company in Tanzania

This milling company has 313 employees, of which two-thirds are general workers. At the individual level, requests for training come from employees and managers. These are usually confined to job-specific skills necessary for production and to reduce errors and waste.

At the departmental and group levels, there is no analysis of the company's training needs. There is a business plan but this has no human resource component and is not used to identify training needs. The company is legally obliged to conform to wheat flour health and safety standards, and there is a general feeling that it needs to motivate employees. This influences the decisions made by the general manager about what training takes place, and supervisors then organize any training. There is a human resources department, but the staff have no responsibility for the management of training; they merely process applications for training, maintain personnel records and communicate management's decisions to employees.

This is a company where there is little in the way of technological innovations. In this context, the main reason for training is the day-to-day requirements of efficient production. With little investment in training, there is no need for much formal evaluation. Supervisors evaluate the effectiveness of training informally, based on feedback from employees and their own observations. They judge whether or not the employee's performance improves and whether there are noticeable increases in quality and reductions in errors and waste.

Source: Ashton and Riordan, 1999.

These two cases are useful in developing an understanding of the process of managing workplace learning and training. Again, we can see clearly how the need for specialist management of training and its evaluation is not simply a function of the size of the organization but is intimately related to the type of work the company does, the market it serves, the skills of employees and changes in working practices.

In this section, we have looked further at the processes of formalization and specialization within the context of the MLEs. These processes occur as the enterprise grows and a need is recognized for more systematic and planned approaches to the organization, delivery and process of learning and training. As far as we can tell, with the knowledge currently available, these processes appear to be universal. We can observe the same characteristics in almost all countries for which we have data. Of course, this does not deny the existence of strong cultural differences in the ways in which small enterprises are organized; a point we elaborate on in Section 5.

There is, however, one word of warning that concerns the nature of the relationship between size, specialization and the formalization of the learning process: the quantitative data tend to give the impression of an invariant relationship, that as size increases, enterprises automatically introduce more formal training. However, the relationship we are talking of here is one of statistical probability. In reality, some firms can grow to a substantial size while retaining the characteristics of a micro-enterprise, while others may make extensive use of formal procedures.

Indeed, Ridoutt et al. (2002) in Australia found that many small enterprises had the characteristics of large ones. In the chemical and oil industries, for instance, many sites have millions of dollars invested but only have a staff of twenty permanent workers. This was also the case in cement and glass manufacturing, where companies may have few employees on site but behave like a large organization in terms of management and decision making (ibid.). Clearly, size is just one factor that influences the formalization of relationships. Others are connected with the type of industry and, as we noted previously, the type of product market and associated business strategy of the company.

In the following section we outline some of the policy implications of the issues raised so far.

5. Public policy for stimulating the demand for and delivery of skills development in small enterprises

In this section, our aim is to draw out the lessons for public policy from the research findings we have discussed. We present a number of different policy interventions. These examples of good interventions have had a more pragmatic origin but serve to illustrate how effective policy can be implemented on the basis of some of the principles highlighted in the foregoing analysis.

In the first section of this report we cited four myths that underpin current approaches to learning and training in small enterprises. The evidence presented in the previous sections has discredited these myths and laid a foundation for a consideration of the role of public policy.

The first myth considered in this report was that small enterprise owners systematically underinvest in training. Section 2 has shown that firm size has little impact on the level of skills that companies demand of their employees. Instead, what is important is the type of product or service they deliver to the market and the type of market they are in. This determines the amount of learning and training that is required. In this sense, skills

are a derived demand. Thus, skills are determined by demand and to increase skill levels in firms of any size it is crucial to improve their use of technology and their business processes. As any help improves their business performance, it automatically generates an increase in the demand for skills and the learning and training required to deliver these skills. These factors affect small enterprises just as much as MLEs. The only difference here is that more of the small enterprises are engaged in low-value-added product markets and lack the resources to move into higher value-added product markets.

The second myth addressed was that small enterprise owners fail to appreciate the value of learning and training. Section 3 highlighted the importance of the business environment and its influence on the decisions made within small enterprises concerning their business needs and the process of learning and skills development. While training per se may be of little importance to them, again depending on the characteristics of the product market, informal training appears to have greater significance.

The third myth found to affect current approaches to skills development in small enterprises is that informal learning is less valuable than formal training. The evidence presented has shown that there is no inherent difference in the value of informal as opposed to formal training or learning. Some informal training is of poor quality and poorly organized, but so is some formal training. While it might be hard to measure the impact of informal training, formal training does little better, with much of it being measured by “happy sheets”. Informal learning can be used to develop the highest level of skills.

The fourth myth addressed in this paper is that the failure of small enterprises to develop skills is best tackled through the use of government training schemes designed to help small enterprises invest more in formal training. This myth creates a focus for the remainder of this section. It highlights the important role that public policy can play in stimulating the demand for skills development as well as the ways in which opportunities for training and learning can be provided. It suggests that governments can do more than provide training programmes themselves or fund others to do so. Instead, they can create a policy framework that is more conducive to small enterprises investing in skills development and enhance the opportunities for small enterprises to engage market-driven approaches to skills development.

Government programmes should recognize the important role of informal learning in small enterprises. While formal training programmes are less frequently adopted in small enterprises, public policies can be used to enhance the role of informal learning in business growth and productivity improvements. Thus, the policy challenge here is to help small enterprises access skills development opportunities that are tailored to their specific requirements.

Skills development within private enterprises has been found to contribute to firm growth. The challenge is to help small firms identify when to introduce new, more formalized systems of management and skills development. In public policy terms, the challenge is for governments to stimulate the demand for skills development and enhance the provision of learning and training programmes at a time when the firm can benefit most. The precise point in a company’s growth at which this external help may be needed varies in accordance with the type of product or service they are creating and the level of regulation required by the political authorities. The establishment of formal procedures for learning and training, and particularly the appointment of a training or human resources specialist, provides the company with the skills necessary to access and make use of the full range of government programmes. These can assist them in setting up formal procedures for training needs analysis, formal evaluation, new management practices and so on. Such companies then become integrated into the system of public provision.

In the remainder of this section we identify the roles public policy can play in stimulating the demand for skills development in small enterprises and in enhancing the

delivery of skills development in small enterprises. A series of brief case studies are drawn on to illustrate these roles.

5.1 Using public policy to stimulate the demand for skills development

Public policy can be used to stimulate the demand for skills development in small enterprises in two broad ways. The first is through programmes designed to help small enterprises access new markets. Our first example is a programme known as “Winning through Flexibility” – the ADAPT programme in the European Union (EU). While the programme covers a number of areas related to organizational flexibility, we focus on the use of “organizational coaching” as an innovative way of combining non-traditional approaches to training to enhance learning and organizational development on a number of levels. The programme uses consultants (or coaches) to help introduce high-performance working practices and elements of knowledge management that are designed to enhance performance and flexibility.

The company involved is Technotrex, an Italian small enterprise that produces metal and plastic gaskets used in various industries, such as the manufacturing of plants, food and medicine. One of the key characteristics of the production process is the use of separate technologies and production departments for two different product markets – metal and plastic gaskets. The metal gasket market is stable and well established, with a fairly standard product and small-scale orders, while the plastic gasket market is a new and growing market, involving large-scale orders and a high level of competition in terms of price, delivery time and quality. Technotrex has some difficulty in managing these two diverse markets and dealing with customer demand for large orders in ever-shorter delivery times.

As the case study in Box 8 explains, when Technotrex opted to take part in the ADAPT programme, the company wanted to use a flexible approach to harmonize the two separate production departments. The project aimed to explore ways in which these key objectives could be achieved. It did not start with training programmes but with implementing organizational change. From this flowed a whole series of training needs, the satisfaction of which led to higher levels of skill being developed among its labour force.

Box 8:
The ADAPT intervention at Technotrex, Italy

The ADAPT project involved a number of steps within each of the two departments, including:

- the integration of the two departments in terms of employees and processes;
- the introduction of job rotation for some “versatile staff” who would be able to work in a number of areas according to need; and
- the introduction of more flexible working hours according to the needs of both the workflow and employees.

Once these areas for development were identified, a small team was formed to propose solutions. The team included the two department heads and operators from the two assembly lines. In addition, findings were discussed during the life of the project with two working parties from each of the departments.

The “organizational coaching” focused on three main areas:

1. The development of an understanding and orientation towards new ways of organizing work. This involved team meetings to discuss experiences of job rotation, staff versatility and flexible working hour patterns. It also involved training in how to improve production through an examination of the relationship between customer and supplier.
2. Coaches supported the analysis and diagnosis stages of the project by advising teams on methods of introducing these new ways of working. For example, there was coaching in: the use of problem solving and team work; how to plan and manage internal training projects; methods of process analysis; and how to develop an internal trainer. Importantly, the coaches’ role was both a “catalyst” for learning and a “point of reference”.
3. Coaches sought to foster the motivation and participation of all those who would be touched by the initiatives. This was recognized as particularly important because acceptance of change and individual involvement would be essential to the successful implementation of the proposed initiatives. In particular, coaching was used to focus on “behaviour ... fears, habits and wishes” and the knowledge and skills of employees (Leita et al., 2000, p. 88). This level of coaching involved the use of surveys both to gather employees’ opinions and to examine differences within the two departments. The findings of these surveys were then discussed at one of the team meetings. The coaches also used assisted team working, visits to different working areas and non-traditional training methods to help employees build a personal understanding of the change process.

Each of the departments was engaged in team-based analysis of the production processes, focusing on “stages, material and information flows, actors’ roles and competence”. This led to team presentations, which enhanced knowledge sharing and an understanding of the overall production process, team work and participation.

These numerous activities helped to identify a group of employees willing to participate in in-house training for job rotation. At this level, the organizational coaching involved facilitating and monitoring the learning and training processes and working to formalize training procedures.

Source: Leita et al., 2000.

The Technotrex project was successful. The solution to the business problems meant that important changes were brought about in working practices through a broadening of the skills and competencies of the employees. Job rotation led to the increased flexibility and versatility of those employees who had opted to participate, while the company also respected the preferences of individual employees who could choose whether or not to participate in the pilot programme. A key development was the establishment of an in-house trainer who provided technical expertise and advice and helped to establish a learning

environment. This is an example of the company reaching such a size that it needed to differentiate the training function.

This case usefully highlights the importance of focusing on business problems rather than trying to sell “training” programmes, and to tailor advice to the specific problems confronting an enterprise. The illustrated programme provides a solution to a specific business problem: how to implement changes necessary to sustain access to global markets. It focuses on the immediate needs of the small enterprise by providing outside consultancy advice. This facility is generally not available to small enterprises, which lack the resources that larger companies can utilize to access external help in these matters. Consultants enable a company to enhance its business performance by creating greater flexibility in the labour force, tapping into their tacit knowledge and using the skills of the labour force to make improvements to the product and/or service the company delivers. This in turn raises the skill levels of the labour force.

The tailoring of advice and help to the specific requirements of the enterprise, our second core training or learning principle, was done through the use of consultant coaches working with the management to analyse and diagnose any problems the small enterprise experienced. During this process, the coaches gain contextual and business information about the enterprise and work with the management and employees on potential solutions. Of crucial importance here is the ability of the consultant to obtain the confidence of the owner, manager and employees.

The authors of the case study are aware of these benefits in the scheme, arguing that it provides “lighter solutions which would weigh less on the internal organization” (Leita et al., 2000, p. 10). This is particularly important for small enterprises experiencing problems replacing staff and that lack the time and the means to involve employees in the organization and offer incentives to employees. Leita et al. (2000, p. 10) argue that “it is possible for this method to help people grow and at the same time favour the development of ‘intrinsic’ motivation and the capacity for autonomous learning”. The company did not have to face the cost and disruption of sending employees on a formal training course. Indeed, it is highly unlikely that any formal course could have achieved these business objectives because the success of the intervention depended largely on the extensive use of high-quality informal learning and a tailored approach.

The second way public policy can be used to stimulate the demand for skills development in small enterprises is through the use of supply chains. Many small enterprises are components of a wider production or service chain.

Within the supply chain, business performance and required skill levels become an obvious mutual interest. Larger organizations have self-interest to help smaller organizations so that, together, they operate to achieve mutual goals. However, the degree of mutual dependence varies in accordance with factors such as the industrial sector and the nationality of the purchasing company.

Usually, the lead company in the supply chain will specify minimum standards that the product or service will have to reach. Yet the help provided by these larger companies to their suppliers varies considerably. For example, in Anglo-Saxon countries, lead (and larger) firms are less likely than their Japanese counterparts to provide help and guidance to smaller suppliers on how best to reach the required standards. In Japan, both public policy measures and the long-term relationship between manufacturers and suppliers have encouraged larger manufacturers to provide more training and advice to their suppliers. Thus, Toyota in the United Kingdom helped improve the productivity of its suppliers by some 500 per cent over a five-year period (EMPTA, 2000 cited in Brown et al., 2004). In Finland, Nokia sought to establish a similar relationship with its suppliers. In the Oulu region of Finland, Nokia’s training managers have monthly meetings with the company’s small enterprise suppliers to review projects and examine business plans. Subcontractors

are also invited to the company's seminars and training conferences (Pyke, 2000). As mentioned in the previous sections, attendance at such events can provide a vital source of information and learning for small enterprises. Interestingly, in the Netherlands, the Venlo Innovation Centre aims to move small enterprise suppliers from only delivering to the lead firm's specifications to developing their own products as well. This involves them moving from being simple subcontractors producing from customer-supplied drawings to having their own design and marketing capabilities. In the United Kingdom, the Government launched the Motor Industry Forum as a means of helping small enterprise suppliers in the automobile industry upgrade the quality of their products and improve their performance.

The emphasis here is on improving the product, but the process of getting there involves the small enterprises to upgrade their approaches to people management and learning at work.

One useful example of such an approach is the Knowledge and Learning in Advanced Supply Systems (KLASS) project in the European automotive and aerospace supply systems (Box 9). The aim is to support small enterprises through inter-company, computer-mediated, learning networks. These focus on immediate performance improvements and longer-term business objectives. Such networks seek to support the development of new capabilities in small enterprises, including the capacity to exploit the Internet and e-commerce and to help small enterprises focus on longer-term strategic objectives.

Box 9:

Individual and organizational learning – The KLASS project

Based in the automobile industry in the United Kingdom, this project focused on the component supply system. The partners included manufacturing and distribution companies, research institutions, a further education college and numerous universities. Economic innovation was to be stimulated through innovative learning in a variety of contexts and making extensive use of information technology. The learning networks used were of two types: the first was process-oriented and consisted of workplace teams of managers and workers, which were linked through the network to their main customer. The purpose of the teams was to identify new problems and develop solutions. The second learning network consisted of senior managers of the small enterprises, which were linked as buyers or suppliers. The focus for this group was to identify the scale of the threats they faced in their industry and the skills required to meet the increasingly demanding quality, cost and delivery standards of customers.

In both cases, extensive use was made of the internet, and experienced professional engineers, learning-support specialists, university tutors and mentors provided learning support. The first type of network identified key individuals as change agents within their company who kept in touch with each other through a computer-based conferencing system. Over time, the emphasis shifted from learning within the company to collaborative learning across the network. This network was built around the UK Society for Motor Manufacturers and Traders Industry Forum.

The second type of network started with a diagnostic workshop for owners/managers to identify problems within their own companies, followed by more workshops and computer-based conferencing to identify solutions. This network drew on the work of the British Open Learning Development Unit. Both networks involved forging links with colleges and, once established, formed close links with each other.

Source: Brown et al., 2001.

The networks described in Box 9 were effectively seeking to establish new forms of organizational and inter-organizational learning and knowledge management across supply chains. They supported process innovations as well as individual learning and involved employees in the process of knowledge creation. As this learning was grounded in improving the manufacturing process, it contributed towards improvements in efficiency.

The overall competitiveness of the small enterprises was also improved in that they were able to operate more effectively within the supply chain (Brown et al., 2001).

Lately, the ILO has been developing a value chain approach. Such approach allows to start analysis and upgrading at any level of supply/production chain. The focus of most of the ILO activities in this area is mainly on the clusters of SMEs in developing countries still to be plugged into the global chains, rather than on international brands that are approaching value chains using the supply chain approach. The ILO experience in a number of developing countries, combined with the summary of the state-of-the-art research in the area of value chain analysis and upgrading, is reflected in a number of the ILO tools, such as: *The ILO Guide on Value Chain Analysis and Upgrading*; *The Guide to Local Value Chain Development*; *Value Chain Development for Decent Work: Training of Trainers Guide*; and *Gender Sensitive Value Chain Analysis*, and so forth.

The ILO, among a wide range of other international development agencies, is aware of the need to improve the business environment for private sector development, including the development of more and better jobs in small enterprises. To this end, it has developed a series of tools and resources that can be used to assess the business environment and the impact it has on employment in small enterprises:

- *The promotion of sustainable enterprises*, Report VI, International Labour Conference, 96th Session (ILO, 2007b);
- ILO Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189);
- a training manual to raise stakeholders' awareness about the importance of the policy and legal environment for small enterprises;
- an assessment guide on how to map and assess the policy and legal environment in a given country and explore the impact on small enterprise employment patterns;
- a small enterprise survey kit that explains how surveys of small enterprise owners and managers can be used to assess the factors behind their decisions on employment, job quality and investments.

5.2 Using public policy to enhance the development of skills in small enterprises

We turn our attention to the roles of public policy in enhancing the delivery of skills development in small enterprises. As we saw in Section 3, owners/managers can be suspicious of government programmes, and they tend instead to look to their colleagues or business associates for help and advice. One of the most effective ways of delivering help to this group is by supporting the various types of networks in which small enterprises are involved. This can be a far more cost-effective means of providing help than promoting specialized programmes.

Government can use its resources to:

- help establish clusters;
- encourage the formation of networks;
- build the capacity of trade, industry or local associations such as a chamber of commerce to provide advice and guidance to small enterprises; and
- establish intermediary agencies to encourage cooperation among small enterprises in a specific area.

The aim of group-based mechanisms is to serve as a major source of solutions to particular business problems. The learning and training of employees is the means by which the solutions are implemented. Very often they act as a catalyst to bring small enterprise owners/managers into collaborative networks and connect them to supporting institutions

and services. In this way, institutional support for local small enterprises is consolidated, providing the basis for further collaboration to enhance the competitiveness of the group as a whole. As competitiveness improves, skill levels rise.

Networking

Networking and mentoring can be important means for small enterprises to access knowledge, resources, advice and learning opportunities, through both informal and formal means. Formal and informal networks can encompass government-driven small enterprise networking schemes, chambers of commerce, lawyers and accountants, supplier and customer networks, family and friends. Being part of such a network can lead to increasing sales, employment and the development of new products (Rosenfeld, 1996) as well as the creation of new areas of business and cooperation with other small enterprises (Sung et al., 2000). They can improve individual performance, facilitate career development and increase the visibility of entrepreneurs (Schor, 1997), providing social and community links for small enterprise owners. They can also provide a vital source for the development of learning and training opportunities, both facilitating access to learning resources and to information about the kinds of learning opportunities open to small enterprises. In addition, collaboration on marketing and bulk buying can prove particularly cost-effective for networks of small enterprises (Gaskill, 2001). As well, networks can act as representatives for small enterprises in a wide range of areas, playing an important role in working for equitable access to resources and learning opportunities.

Clusters

Clusters of small enterprises can be used to enhance the productivity rate, innovation and competitive performance of firms (OECD, 2000b). They can also be used to enhance social and environmental standards among SMEs (ILO, 2007a, p. 16). Companies can specialize in functions that are complementary within a cluster. They can share information, use joint marketing and purchasing power and share benefits from new technologies and other forms of collaboration. Foremost of these, from our perspective, is the ability to transfer knowledge, to share the costs of any formal training and to build up a stock of skilled labour in the locality.

Some governments avoid the cluster approach as an explicit policy intervention. This is because a cluster policy can be regarded as “picking winners”. However, in recent years even governments fully committed to reliance on the market for solutions are starting to support high-tech small enterprises, suggesting that the previous reluctance to pick winners is being modified. In general, clusters are seen as a legitimate device to overcome various forms of market failure, such as lack of market intelligence, lack of managerial know-how and the risk-averse nature of capital investment for innovative ideas.

Public policy that “stimulates” clusters is often very useful to facilitate new start-ups. For example, the Garment Industry Development Corporation in New York was established to provide vocational training for workers and management and to raise management’s awareness of new practices, new technologies, joint marketing potential and an employee referral system (Pyke, 2000). Another example is the electronics cluster in Scotland, which is now supported by the Electronics Industry Forum. This initiative brought together government and business representatives to identify how the cluster can be strengthened and moved into higher value-added forms of production (ibid.). Policies to support clusters have also been developed in Austria, Finland, Germany, the Netherlands, Singapore, and so on (OECD, 2000b).

A policy of establishing clusters is likely to be more attractive in smaller economies, which cannot hope to establish competitive operations across a full range of activities and which see the approach as a means of securing access to world markets.

Employers' organizations and other business associations

Another source of help for owners/managers is through business associations (i.e. employers' organizations, chambers of commerce, and so forth). Government funds can be effectively used in a public/private partnership to build up the capacity of local business associations to deliver assistance to small enterprises. Some small enterprises may already be members of employers' or trade associations or a chamber of commerce, which may be a source of information and advice. However, one of the problems with this type of business association is that they are frequently small in size and do not have the capacity to deliver sustained and tailor-made advice to individual small enterprises. This is less of a problem in countries where there is a strong tradition of supporting organized business. For example, in Denmark and Germany, the local organizations have more and better-informed capabilities in this area.

Through their membership in these associations, small enterprises are already making a contribution towards the cost of providing the information. Government help would come in the form of a subsidy. However, this could be justified as a public good if it was perceived as a way to build up the institutional capacity of these organizations to help local small enterprises respond to world markets. In Italy, Pyke (2000) observed that small firms are well served by organized trade associations, such as the National Association of Artisans, which provides training and consultancy services to small firms.

The ILO's Expand Your Business programme (EYB) uses skills development as a strategy for business growth by developing and implementing a strategic business growth strategy and strengthening the business and its core functions. It supports national business associations, chambers of commerce, management institutes and other organizations, as well as EYB trainers to deliver the EYB programme with all its components effectively and independently, in a commercial manner.

The ILO has also developed specific tools aimed at strengthening the capacity of employers' organizations and small business associations to better serve their members and increase their representation. Examples of these are:

- *Managing small business associations trainers' manual;*
- *Reaching out to SMEs: An electronic toolkit for employers' organizations;* and
- *The effective employers' organization* (a series of hands-on manuals).

Horizontal networks

Another source of help for the owners of small enterprises is for the government to establish intermediary agencies that encourage small cooperating groups, or small clusters of small enterprises of 3 to 15 firms, to engage in joint activities such as marketing and product development. This can be done in association with technical institutes or training groups and in areas that the Organisation for Economic Co-operation and Development (OECD) identifies as "market failures" (OECD, 2000b). Such groups then help owners/managers to access supporting institutions, including training specialists, universities or firms with specialist knowledge.

The following case study illustrates how one Danish small enterprise was able to achieve significant benefits from participation in a small network. Scan Globe A/S has 56 employees and produces high-quality globes in 28 languages and in a range of sizes, colours and styles for a worldwide market. The market is unstable and thus the workload and the need for workers can change from month to month. Scan Globe recently tried to achieve some stability by focusing on a core workforce and more flexible forms of production.

In the mid 1990s, Scan Globe joined a network organized by a worker's educational association, along with two other companies also seeking to develop more flexible workforces. The Danish Technological Institute (DTI) was involved in the network in an attempt to strengthen the link between training and the organization of work. The management of the three enterprises met regularly with employee representatives to address the shared problems of employee job satisfaction, the reorganization of work, flexible production and efficiency. At the start of the project, the Workers' Educational Association (AOF) and DTI were commissioned to design a scheme through which working practices could be reorganized. In particular, there was a need for a better link between training and job design.

EU funds (via the MOVE project) were used to provide both extensive training and consultants. This meets our criteria of providing business solutions that are tailored to the requirements of the company. Even though a number of steps were involved in the project, we focus here on two specific aspects:

1. the use of video production as a means of creating dialogue and employee participation in the change process, and
2. the use of job rotation. The case study (Box 10) also highlights the extensive use of informal or incidental learning and its link to organizational development.

Box 10:
**Using videos to promote organizational change and worker participation
at Scan Globe A/S (Denmark)**

Employees of Scan Globe and the two other enterprises who attended the EU-funded training courses (via the MOVE project) participated in a one-week session that involved making videos to address issues in their respective organizations. This activity involved presenting both the problems they found in their current working conditions in their respective enterprises and the potential solutions that could improve both the enterprise as a whole and their own working situation. While the participants were responsible for the content of the videos (identifying problems and solutions, script-writing, interviewing), professional videographers were on hand to help produce the video. This activity was designed to encourage employees to think about how their work could be better organized. This was seen as particularly important for hourly-paid employees who were not accustomed to having a voice in the running of the enterprise. In addition, the participants were encouraged to develop skills in team working, support, cooperation and communication, as well as using new methods of working. The medium of film and involving participants in acting were particularly useful in encouraging openness among workers and developing constructive criticism of working practices.

The videos dealt with issues that were either common to all three enterprises or specific problems within an enterprise. For example, one group made a video on where waste occurs in the production process. Group discussions were then used to identify how the issues raised could be tackled. The suggestions made by the employees were implemented following the training programme, with the results later being examined and evaluated.

Through a range of activities that fostered cooperation, openness, team effort, responsibility and problem solving, the workers were involved in setting the agenda for change. They were engaged to think together with the management about how to restructure their jobs so as to ensure performance, efficiency and job satisfaction. In the process, the employees gained many skills and were awarded qualifications for the training in which they took part. And Scan Globe, for instance, gained a more flexible and empowered workforce.

Source: Banke and Norskov, 2006.

The DTI was also the centre of a much larger network formed in Denmark between 1988 and 1993. The programme drew on the Italian experience of networks to make use of "network brokers" to facilitate the creation and operation of networks. It reached out to

5,000 enterprises from a targeted 10,000 to 12,000 companies. Some 75 per cent of the company owners/managers who participated thought that the network had raised their ability to compete, and 90 per cent said they would continue the networking practice when the subsidy ended. A number of other countries subsequently drew directly on this experience (UNIDO, 2001).

Support for intermediary skills development agencies and programmes

Another way that governments have helped raise skill levels is by tackling the problem of supporting individual small enterprises through government agencies. In the United Kingdom, the Government has done this by establishing and funding the Small Firms Business Service, which provides advice for small enterprises across a range of issues. Of course, in the drive to support small enterprises, there is a tendency for many governments to proliferate the number of agencies. Thus in the United Kingdom, support for training in small firms is also available through the publicly-funded Sector Skills Councils and local Learning Skills Councils as well as through local authority organizations. The result of this proliferation can be counterproductive because the owner of an individual small enterprise can end up facing a bewildering variety of organizations that are all competing to offer services. They will be effective for introducing change into the company and thereby raising skill levels, if, when they are established, they rely on the principles we pointed out previously – that such organizations should tailor advice to the business needs of the small enterprise and that they take care to gain the confidence of the individual small enterprise owners.

In addition to providing specific agencies, governments can provide help to small enterprises by subsidizing courses in those areas where a common need can be identified. As we earlier noted, these include health and safety and other legal requirements, basic administrative skills and learning how to access and prepare for international and national standards, such as ISO or national training and development standards like the UK Investors in People, which has been adopted in a number of countries. Evidence from the ILO study of small enterprises in Thailand (Ashton and Riordan, 1999) and other research (Blunch and Castro, 2005) suggests there is a considerable spur to increased investment in training for those companies that seek international standards, such as ISO 9000/9001.

Denmark's national “job rotation scheme”, introduced in 1992, provides state funding to enable employees to be released from their work to attend training courses. The funding covers the replacement of an employee with someone who has been unemployed long term, but who is sufficiently skilled or trained and able to fulfil that role with some training support. This scheme has been successful in freeing up employees to attend training, particularly long-term programmes, by ensuring no disruption to the operation of the enterprise, which is a central concern to owners/managers of small enterprises (EMFEC, 1998; Sung et al., 2000). At the same time, the scheme also provides experience, training and opportunities to the long-term unemployed, enhancing their skills and confidence and increasing their chances of re-entering the labour market. Of course, we cannot assume that it will be possible to substitute all job roles and all levels of employees, particularly at the management level. However, it is evident that this kind of scheme has been very successful in freeing up lower-level employees for training programmes. Importantly, it is these very employees who are traditionally least likely to receive off-the-job training.

Another example is the United Kingdom Government’s Train to Gain Programme. This programme provides low-skilled workers in small enterprises with training that leads to a formal vocational qualification. This programme is directed at employees with qualifications below Level 2 of the national qualifications framework. This scheme is innovative in its recognition of the problems of disruption that formal training can create for small enterprises. It seeks to address this in two ways:

1. by asking employers to identify basic and vocational skills gaps that affect their productivity, training provision is then tailored to the requirements of the employer and employee, with an emphasis on work-based delivery and provision using the national competence-based framework; and
2. by compensating the employers for the absence of employees who undertake training leading to qualifications, it covers the costs of disruption. In this way, the programme reimburses employers for the cost of releasing employees during normal working hours, with extra support for small businesses. This approach provides for the individual assessment of employees' skills and enables training plans to be tailored to their individual training needs (Hillage et al., 2005).

Public policies and programmes can change the balance of risks that small enterprise owners/managers encounter in making decisions about supporting formal training. In particular, these kinds of schemes address one of the central concerns of small enterprise owners/managers - the disruption to production. As suggested, this can be done by guaranteeing a replacement employee with the same level of skills, by compensating the employer for the absence of employees, or by tailoring the training, using a competence-based system, to the specific demands of the workplace.

5.3 Public policy interventions to enhance equity

We have seen the importance of networks in assisting the learning process of small enterprise owners/managers and their ability to develop their business. These networks are vital for the flow of information and resources necessary to make informed business decisions. They are sometimes referred to as forms of social capital in that they facilitate access to social knowledge, as opposed to the human capital possessed by the individual. However, access to such networks can prove problematic for small enterprise owners/managers from certain social groups, including ethnic minorities, women and those working in the informal economy. Some of the key issues affecting equity in the use of public policy to stimulate the demand for and delivery of skills development in small enterprises are outlined below.

Ethnic minorities

While members of ethnic minority groups may have strong links within their own communities, they may have difficulty in accessing networks within the wider community. Nevertheless, research has shown that it is wrong to see all ethnic minority business owners as relying on their own community networks. Contrary to some views of ethnic minority businesses, Marger (2001), for example, found that the majority of small enterprise owners with ethnic minority origin operate within the “mainstream” economy, with only 10 per cent relying on a co-ethnic clientele; and with the majority having a diverse employee base.

The growth of ethnic enterprise in areas such as IT and the high-tech sectors in the United States has also seen a shift towards ethnic minority small firms catering to a wider customer base, taking on skilled employees of diverse ethnicities and developing more high-skilled enterprises (Chaganti et al., 2003). The small enterprise owners from a range of ethnic groups in southern California were frustrated by the locality or co-ethnic focus of their enterprise and expressed an interest to expand into wider markets (CDTC, 2000). Indeed, a presence in international markets and exports is linked to employment growth and sales performance in these small enterprises. Importantly, Leung (2001) notes that in Germany, ethnic Chinese-owned high-tech small enterprises make use of co-ethnic networks nationally and transnationally but also operate in the mainstream and high-skilled economies. Rather than being held back by a focus on serving the co-ethnic community, these entrepreneurs are making use of their social and human capital to create dynamic small businesses that compete in a global market.

However, when it comes to business support services and government initiatives such as business links, networks and training programmes, a low proportion of ethnic minority small enterprise owners make use of such resources (Barrett et al., 2001; Brenner et al., 2000; CEC, 2003; Husband and Jerrard, 2001; Marger, 2001). Furthermore, government policy has only a marginal impact on such enterprises (Barrett et al., 2001). Since small enterprise support and advisory programmes are a key source of information and learning, there is an interest to increase the involvement of ethnic minorities and their participation may be vital to the success of ethnic minority firms. In southern California, researchers found that where the owner was involved in business networks, professional associations, seminars and workshops, there was significant employment growth and increase in sales revenue. As well, sales performance was found to have strong links with business assistance, with the most important areas of assistance being business and strategic planning, human resources, training and succession planning (CDTC, 2000).

Many of the concerns and needs of ethnic minority small enterprises will be the same as those of small enterprises generally. For example, Hispanic/Latino small enterprise owners in the Community Development Technologies Center (CDTC) study highlighted a need for providing training and information on management, technologies, finance, sales and advertising. These small business owners were concerned that they were being left out of business networks and opportunities for expansion, despite their growing presence in the area (ibid.).

There can be language, religious and gender issues that impact small enterprise support and an awareness of them can improve service delivery. Crick and Chaudhry (1995, 1996) advise that providing information in a range of languages could be beneficial to the take-up of government and agency initiatives for small enterprises. They found that some Asian small business managers in the West Midlands region of the United Kingdom were suspicious of groups and bodies outside of the ethnic community. The authors suggest that such anxiety can be reduced by providing talks and business advice in locations in the local community.

Cooperation and partnership between government and agencies aiming to provide training opportunities and resources to ethnic minority enterprises, on the one hand, and groups representing ethnic minority business, on the other hand, can be vital towards ensuring access to information and resources and in building understanding and trust between institutions and different communities. Indeed, Brenner et al. (2000) argue that rather than creating new development and support programmes for ethnic minority small enterprises, it is more effective to make use of the existing networks within many ethnic minority communities in order to share information and to gain a better understanding of the policy and development needs of these enterprises. For this to be successful, however, there must be simultaneous development of partnership between government bodies and the relevant cultural community, with a focus on building trust and an effective means of distributing resources.

A number of training, business support and employment programmes have been established in different countries to promote small enterprise participation and development among different ethnic groups, both as owners/employers and as employees. The following case study (Box 11) details a regional scheme supported through government funding in the United Kingdom.

**Box 11:
The Phoenix Fund**

In the United Kingdom, the Government's Phoenix Fund supports small enterprise and entrepreneurship schemes aimed at creating opportunities and regeneration in disadvantaged areas. One such scheme is the Asian Business Support (ABS) programme run by Nazir Associates, a privately-owned consultancy firm that focuses on small enterprises in the Birmingham area and a regeneration strategy in the region.

The ABS programme offers business support and training to small enterprises. Its consultants provide multilingual support, advice and training in a range of areas, including human resources issues, diversity and organization development and business and marketing plans. As well as ABS, the company offers a Halal loan fund, which facilitates borrowing for Muslim small enterprise owners/developers in the West Midlands and ensures that both borrower and lender share the profits and losses of financing in accordance with Islamic beliefs.

Source: Nazir Associates, 2006.

Gender and networks

Members of ethnic minority business communities are, of course, not the only group who have difficulty in accessing networks. There is some evidence that women running or thinking of starting small enterprises can experience a lack of confidence. As Martin (2001b) suggests, because women can experience extreme difficulty in gaining funding and support from their families, this is perhaps not surprising. As such, networks can provide essential support for women embarking on or developing small enterprises.

The difficulty of women accessing networks is exacerbated by their limited access to workplace learning. Studies in the United States found that while only 14 per cent of young males received formal company training, the rate for women was substantially lower at only 8 per cent. Similar studies in the United Kingdom showed that young women, in particular, were much less likely to receive employer-funded training than men (ILO, 1998).

While this is a contentious and under-researched area, there is evidence of gender differences in women's and men's perceptions of, approach to and requirements from networking and mentoring. For example, women have been found to be more open to networking and more likely to form allegiances with other enterprises than men. This is explained in a number of ways: some research has found evidence of negative perceptions among men of networking, with other enterprises seen as competitors or with men being less likely to look outside of themselves or their enterprises to solve problems because this could be seen as a weakness (Gaskill, 2001; Martin, 2001b). Research on entrepreneurs in Bangladesh found that 64 per cent of men, compared to 43 per cent of women, stated that they had developed the skills necessary to run their business on their own, while 41.5 per cent of women, compared to 13.5 per cent of men, had gained technical knowledge from their family (Karim, 2001).

The following example (Box 12) of a state network in the United States highlights the importance of larger networks in promoting women's business and equitable access to learning, training and finance.

Box 12:

Women's Economic Development Initiative (WEDI), Connecticut, USA

WEDI was set up by the Connecticut State Government's Permanent Commission on the Status of Women to promote the economic development of women. The initiative operates at all levels, ranging from working with school children to enterprises and organizations. The initiative involves forming a coalition among advocates, legislators and leaders in government and the business community. A wide range of activities are organized, including networking opportunities, training and development programmes, research, complaints assistance, legislation monitoring and public discussions and conferences. Specific activities for small enterprises have included: conducting a survey of women business owners in 2001 in conjunction with the Connecticut Chapter of the National Association of Women Business Owners; developing a WEDI video entitled "*Starting and growing a small business – Choices for success*"; and distribution of a resource guide to public libraries, technical schools and colleges. In addition, WEDI sponsors an annual Women Entrepreneurs' Day. More than 100 women attend the event, which provides opportunity to network and access information about financing, training programmes and state procurement. The event involves talks from policy-makers and group discussion among women business owners and State representatives.

Source: PCSW, 2001, 2006.

The WEDI case illustrates that wider networks of representation – those not specifically focused on women in small enterprises but women's development generally – can represent the diversity of women's concerns both within and outside of small enterprises. They not only investigate areas specifically related to female entrepreneurs but are involved in policies, promoting equity and linking women and girls with resources on different aspects of business, child care, health, technologies and legislation.

In New Zealand, where 85 per cent of businesses employ five or fewer people, women involved in networks were found to be more likely to grow their business than other female and male small enterprise owners (McGregor and Tweed, 2002). These "networked" women were also more likely to have a mentor.

In developing countries, initiatives to support women's enterprise can be a vital source of information in a range of areas that impact on women's daily lives and can significantly enhance their ability to successfully develop their own small enterprise. Facilitating the building of networks among women entrepreneurs is one of the objectives of the ILO's Women's Entrepreneurship Development and Gender Equality (WEDGE) programme.

By facilitating trade fairs, WEDGE has helped Women Entrepreneur Associations (WEAs) to expand their membership base and build up networks of women entrepreneurs. In the Amhara district of Ethiopia the local WEAs were not succeeding in attracting local businesswomen to become members. With WEDGE support, the Chairperson organized a trade fair in the regional capital Bahir Dar just prior to Christmas. It was an enormous success for all the WEA members who participated and resulted in the local association expanding from 70 to over 200 members virtually over night. Other local branches followed suit and by 2006 the regional WEA had in excess of 3,000 members. WEDGE has also developed a training tool aimed at building the governance and organizational capacity of WEAs.

In Ethiopia, Uganda, the United Republic of Tanzania, and Zambia, the WEDGE programme has financed and helped organize the Month of the Women Entrepreneur (MOWE). It comprises a series of promotional events over the period of one month – trade fairs; fashion shows; marching through the centre of town, and so forth. On each occasion it has obtained significant political and media interest and, importantly, has brought women entrepreneurs with and without disabilities together to form durable networks. In each of

the four countries it has now become an annual event. In 2008, Ethiopia will be holding its fourth such event.

In the following example from South Africa (Box 13), we see that such initiatives provide women with access to training and advice related to their enterprise and with an outlet to sell their products as well as social and health care support and advice. Again, this more holistic approach means that such initiatives can have a wider social and economic impact, ultimately improving the quality of women's lives.

Box 13:
Thusanang Development Project, South Africa

The Thusanang training and development project has been operating for more than 20 years. It is a non-profit organization, relying on donations, that provides skills training and job creation programmes for rural women in the Free State and North West provinces and aims to promote self-sufficiency. Thusanang has received Education Africa Premier awards for its contribution to rural development. Areas of training range from developing crafts skills and self-sufficiency to business planning that enables these women to set up their own small enterprises. In addition, Thusanang provides business links and support for a number of craft groups and provides an outlet for these small enterprises' products through mail order, their web site and their stall at a craft market in Johannesburg.

Health problems and, more particularly, the AIDS situation, are having a significant impact on the working population of South Africa, especially women. Thusanang seeks to ensure the success of the programme by dealing with such issues. They provide social and health support in terms of building awareness about HIV and AIDS and offering counseling, basic health care information and confidence-building activities.

Source: Thusanang, 2006.

Gender and informal versus formal networking

Among small enterprise owners and owner/managers in general, there is some evidence of preference for local and informal networks over formalized and institutionalized networks (Gaskill, 2001; Sung et al., 2000). However, there also appear to be some important issues around differential access to and use of informal and formal networks among women and men.

Some of the evidence indicates that male entrepreneurs are more likely to be members of formal associations and to attend formal meetings of such associations. An ILO study in Bangladesh, Philippines, Tunisia and Zimbabwe (Nichols Marcucci, 2001), for example, found that while the majority of women and men were not members of associations, four times as many men were members compared to women. These formal associations included employer's organizations, chambers of commerce and small business associations. Similarly, a study of 40 small enterprises in the United Kingdom showed that while both men and women may not see formally organized networks as relevant, men are more likely to attend meetings anyway; women may experience access barriers in terms of lack of time due to combining networking with their family responsibilities and attitudes (Martin, 2001b). As well, while official networks and clubs were regarded by men as vital ways of finding new business, women found the formal networks less useful and not for "people like us" (ibid., p. 293). Not only were meetings organized in the early morning, when women with caring responsibilities could not attend, but women found the atmosphere "felt wrong" and was male dominated, being run along the lines of a "typical old-boys network" (ibid., p. 293). Instead, women drew on a range of informal networks with customers, suppliers, friends and family when a problem arose.

The use of informal networks emerged in an ILO project in Cambodia. Due to their lacking literacy and numeracy, many women experienced difficulties in developing basic business plans for income-generating activities. The ILO project set up literacy/numeracy classes. The relationships formed in these classes developed further into informal networks where the women discussed their projects and supported each other. The informal networks continued long after the literacy classes were completed (Riordan and Cummings, 1995).

While women are clearly forming their own informal networks, it is important that formal networks are both accessible for women and represent women in small enterprises. The use of information and communications technologies (ICTs) is one way in which access may be enhanced for those women (and men) who are not able to attend meetings, as well as providing an effective means of accessing information at any time. Of course, differential access to ICTs means that this is not a straightforward answer. Because women constitute the majority of the world's poor, they may face further barriers to accessing such opportunities due to a lack of access to new technologies (Mitter, 2000). In addition, while ICTs may enhance access in terms of time, for some people they do not remove the power relations inherent in networks. As previously noted from a study in the United Kingdom, women felt excluded by what appeared to be "old-boy networks" and found that meetings were scheduled at times designed around traditional male schedules (Martin, 2001b, p. 293). It is evident that flexibility and timing issues as well as the traditional relations and perceptions underpinning many formal networks and associations need to be addressed. Again, learning and training could be vital in this respect, in terms of training for women in setting up networks of their own and in challenging the traditional gender relations that are inherent in some networks.

Networking in the informal economy

Informal networks are also a feature of developing countries. As the work of Barasa and Kaabwe (2001) explained, the diverse character of the informal sector requires that different needs be met. In this sense it is appropriate to consider it as highly segmented. For some owners/managers, the needs can be for entrepreneurial skills, whereas many others require better production skills. In addition, there are the requirements of the trainees and other employees within this sector to be considered. Barasa's and Kaabwe's research suggests that the use of pre-employment vocational courses as a means of enhancing the technical and managerial skills of the labour force is certainly inadequate. This is because so few workers in this sector receive any training from the formal sector, the majority being trained within the informal economy. In their research, only 12.5 per cent of people surveyed had any formal pre-employment training; the vast majority (71.57 per cent) of the sample were trained within the informal sector.

One response would be to treat the informal sector as an alternative mode of vocational training to the formal sector (idem.). This has a certain appeal, but there are problems with the approach. The most important is that one of the aims of policy must be to encourage movement out of the informal sector and into the formal sector of the economy, otherwise the basic revenues of the state are at risk. This is particularly important in Africa where the capacity of the state to deliver effective training programmes is already at risk in many countries. Ideally, programmes aimed at the informal sector should build in a component that seeks to enhance the training capacity of the state to assist such enterprises, while also supporting the distinctive cultural features of learning in the local context. One such programme is the Voucher Training System in Kenya, as the following case study describes (Box 14).

Box 14:

The Micro and Small Enterprise Voucher Training Programme in Kenya

The aims of the programme are two-fold. The first is to provide access to skills training and appropriate technology for small enterprises and to facilitate technological innovation in the sector. The second aim of the programme is to improve the operational and managerial capacity of the institutions and programmes that support the sector's development.

The programme recognizes that the market for training is segmented. Thus, there are three separate targets: the first are the owners and workers in micro-enterprises that employ from one to ten workers, where the aim is to improve and upgrade their skills and managerial capabilities. The second are small firms with 11-49 employees, where the aim is to help product development and diversification. The third is to improve access of small enterprises to sources of credit supply. Here the programme is assisting 50 of the 300 small enterprise sector associations in Kenya to form credit and savings cooperatives.

Corresponding to these aims, there are three separate voucher systems:

1. the Voucher Training Programme for skills upgrading for small enterprises;
2. the Technology and Business Development Voucher Programme to assist product development and diversification; and
3. the Micro-Finance Voucher Programme to assist with setting up the credit and savings cooperatives.

The vouchers are used to provide access to subsidized training delivered through a selected group of service providers, including both public and private organizations. The programme involves a needs analysis of the sector to ensure that the vouchers are generating a demand-led response from the service providers. In addition, the clients are required to pay a symbolic fee to ensure that they place value on the service being provided. This fee increases in line with the frequency with which clients use the service. The programmes are monitored and a quality assurance mechanism is built into the delivery.

Evaluation studies have suggested that the scheme has achieved good results. Some 2,000 small enterprise owners/workers have been trained, 905 assisted in product design and 50 small enterprise sector associations formed. Tracer studies of the technology voucher scheme indicated that, compared with a control group, participants in the scheme increased assets and sales volumes, diversified their products and increased employment. The scheme as a whole also encouraged craft workers and private sector businesses to adapt their training programmes to the needs of the small enterprise sector.

Source: Gichera, 2001.

Another approach was developed in South Africa with the Basic Employment and Skills Training Programme. This aimed to bring employment and training opportunities to people in the disadvantaged informal sector. For example, one project was designed to enable young people to build their own house and so acquire construction skills. A government grant encourages the active participation of young people in building their own home. While this is underway, additional modules are provided to impart the skills required for running a small enterprise. This project was also used as a first step in assisting the development of training providers. The same basic ideas have been adapted in other areas, such as home-based livestock production and brick making (Bird, 2001).

5.4 Conclusions

We started this paper by looking at some of the myths that surround our understanding of training in small enterprises from a policy-maker's perspective. By focusing on the process of learning and skills formation in small enterprises, we were able to refine our understanding of the problems involving the formulation and implementation of policy. In particular, we identified two separate issues that are frequently compounded in the policy debate:

1. the problem of what determines the level of skills used in small enterprises; and
2. the problem of why small enterprises use informal learning rather than formal training as the basis for skills formation.

With regard to the first problem, we found that small enterprises were little different from large enterprises. With regard to the second, we found that MSEs were very different from MLEs.

We think that this analysis has helped provide new perspectives on the policy issues we started with. It did not lead to "the one best way" to deliver training to small enterprises, but it did lead us to highlight a number of principles that should guide the formulation of policy. In particular, we saw that there is a need to tackle the issue of improving learning and training in MSEs indirectly by tackling the business problems confronting owners/managers, by stimulating informal learning and by supporting the networks through which many owners of small enterprises enhance their knowledge of business and business processes. In the previous section, we provided examples of successful programmes and policies that have embedded these "learning points". Inevitably, we have focused on employers' problems because they are the ones who control the process; but we have been acutely aware that the employees' interests are in some respects different. Here we have considered some of the public policy issues stemming from the ideals of equity.

There are, as initially stated, a range of other problems and issues that we have not covered within this short paper or that lay outside of our remit to focus on learning and training in small enterprises. For example, an important focus is the problem of building capacity in developing countries to deliver national programmes or the most effective ways to structure informal or incidental learning. The omission is in part because there is relatively little research in this area.

What we hope to have achieved is an understanding that, in order to resolve some of the immediate policy issues, it is important to step back and ask more fundamental questions about the process of skills formation. Doing this creates a better position in which to look at the problems from a more detached perspective and provides answers to some of the underlying issues confronting those who want to raise skill levels in the labour force. Identifying the underlying issues leads to better insight into why some policy interventions have been more successful than others. Such principles or insights can then be used to help shape future policy interventions in specific national and cultural contexts.

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