

## **SKOPE Issues Paper 34**

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### **The use of independent training providers in vocational education and training – wider considerations for employers and policy makers**

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#### **Summary**

Against a background of falling employer investment in education and training the Government has supported the growth of independent training providers (ITPs) in the hope that this will drive up employer engagement in formal vocational education and training (VET) schemes. The case for doing so is, on the face of it, persuasive but when account is taken of the variable impact that outsourcing VET can have on organisations it becomes clear that this is dependent on how well it is managed. The factors that affect the success with which organisations engage ITPs appear to be poorly understood but this short paper highlights some of the associated areas that need to be looked at more closely to inform the development of best practice and public policy.

#### **Introduction**

The employer benefits arising from the direct participation of employees in learning at work are clear: apart from developing the requisite skills and abilities to be productive, both task discretion and organisational participation are significantly related to better quality training (Inanc *et al*, 2015). Yet over the last 20 years the amount that UK employers have invested in the education and training of their employees has been falling (HM Treasury & BIS, 2015, UKCES, 2014b). Many have relied on the Government remaining wedded to an industrial policy of funding investment in skills supply, which has been pursued not only to meet employer demand but in the belief that this will drive up productivity, stimulate further economic growth and improve international competitiveness (Keep and Mayhew, 2014a, 2014b).

The challenge for the Government's qualifications-based approach to skills development is to ensure that national qualifications remain aligned to the needs of employers, no more so than in the intermediate skills area of apprenticeships, the Government's flagship VET scheme. Current efforts to ensure that the content, standards and assessment of apprenticeships are rigorous and relevant to the needs of employers continue to follow the Richard (2012) recommendations through "Trailblazer" activity and related developments. Despite these efforts, it remains difficult to raise employer engagement in the formal schemes, prompting the Government and CBI to back the establishment, this year, of the "5% Club"<sup>1</sup> as an organisation that employers should aspire to belong to.

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<sup>1</sup> 5% refers to the percentage of a company's overall headcount on an apprenticeship, sponsored student and/or graduate programme. Further details are at: <http://www.5percentclub.org.uk>

The Government has become increasingly determined that employers (in particular) and individuals should share more of the funding burden as pressure on budgets has increased. However, given that demand is weak to begin with, it follows that Government efforts to stimulate employer engagement through changes to funding policy are problematic. Previous efforts to shift the apprenticeship funding burden onto employers have involved progressive funding restrictions, according to age criteria and by limiting eligibility to those seeking to gain their first full qualifications at that level. Whilst focused effort to get more low achieving school leavers into skilled employment is laudable, it is inevitable that some employers have simply elected to train from this funded cohort rather than take up the strain within the wider working-age population, with negative consequences for the up-skilling and re-skilling of older workers. Nonetheless, the Government is clear on the need for further reform in order to meet its target of an additional 3 million apprentices within the current Parliament, in response to the predicted demand for another 3.6 million medium-skilled jobs by 2022 (HM Treasury & BIS, 2015). Its proposal to introduce a large employer apprenticeship levy from 2017 (HM Treasury & BIS, 2015) is already raising serious concerns (for example, CBI, 2015) but the Chancellor's Autumn Statement (HM Treasury, 2015) made clear that the Government is committed to its implementation and provided further detail. The apprenticeship levy will be set at 0.5% of an employer's payroll, with an allowance of £15,000, meaning that all employers with a payroll of £3,000,000 or more will be affected. The intention is that employers that pay the levy (along with those that do not pay) and who commit to apprenticeships will be able to access government funding. Whilst this might go some way towards rebalancing the funding burden, it remains to be seen how much this will provide a stimulus for more apprenticeships amongst employers. Moreover, it will be interesting to see how the provider market responds to changing employer demand.

Whilst overall employer investment in skills development has been falling, there has been continued growth in the sector of Independent Training Providers (ITPs). This has been against a national backdrop of increased outsourcing of services, which Jenster et al (2005) suggest was prompted, at least in part, by the privatization of many organisations in the UK's public sector from the 1980s. More generally, they suggest that the popularity of management concepts that focus attention on areas such as core competencies (Prahalad & Hamel, 1990), "virtual organisations" (for example, Hedberg *et al*, 1997), supply chain management (Porter, 1980) and the Value Chain (Porter, 1985) have also been influential in encouraging organisations to consider outsourcing options.

More specifically, there has been notable growth in the use of ITPs within the area of VET to the extent that 62% (946) of the 1525 FE and skills training providers in receipt of public funding in England are now private and these account for around 63% of off-the-job apprenticeship training (Chankseliani and James Relly, 2015). Increased access to Government VET funding over recent years has been the key driver of their growth. Current SFA funding regulations encourage ITPs to apply for direct funding in addition to enabling them to pursue indirect funding, available through permissible sub-contracting arrangements with funded employers. This has allowed a range of ITPs to enter the market from specialist training providers geared to specific schemes through to training arms or wholly-owned training subsidiaries of larger organisations, some of whom have established client bases. This

marketisation of training provision has had the effect of creating strong competition to public sector providers, such as FE colleges, who themselves have responded by adopting more commercial approaches but this is beyond the scope of this paper.

The Government approach to ITPs goes further than merely enabling access to funding; it has made clear that it sees ITPs as its proxy in stimulating employer engagement in formal programmes and guiding them through the system. The Government approach to using ITPs also gives tacit recognition to the fact that some employers find formal apprenticeship schemes hard to engage with; a point that was reinforced recently by the Chief Inspector of Ofsted in relation to SMEs (Wilshaw, 2015). In reflecting on the fact that 60% of funding will go to ITPs in 2015-16, Nick Boles, the Minister for Skills told delegates at the AoC National Conference that “I salute the outstanding work of some of the private training providers who have raised standards and enabled companies of all shapes and sizes to take advantage of apprenticeships” (Boles, 2015). Whilst he then went on to set FE colleges a target of increasing the proportion of apprenticeships they deliver to two thirds by 2019-20 he also made clear that he would not take an interventionist approach to support this. This suggests that ITPs will continue to be a key feature of the VET landscape for the foreseeable future, although it remains to be seen how the balance will shift between ITPs and FE college provision.

In common with employers and public-sector organisations, the SFA hold all of those ITPs in receipt of funding for skills to both outcomes (that is, satisfactory completion rates and, more particularly, *timely* completion rates) and quality standards (determined through Ofsted’s inspection regime, using the Common Inspection Framework as its yardstick). Government might presuppose that as long as these essential criteria are met, that ITPs are a sound investment and that they contribute to driving up skills achievements across a wide range of sectors. However, the extent to which this should be regarded as a success must take into consideration, *inter alia*, the impact on an organisation’s performance of using a third party (in this context, the ITP) to deliver training; an essential component of any employer’s HRD strategy. The consequent effect on its relationship with its employees and other stakeholders and the resultant impact on organisational performance may have at least as great an impact at organisational level than the achievement of the intended skills training yet this seems to have received little attention in research work.

## **Inter-relational dynamics between employers and ITPs**

Employer use of ITPs is often referred to as outsourcing but it is worth examining this more closely. Perry (97) defines outsourcing as turning over to another organisation’s employees tasks that were previously performed by one’s own employees. However, this term does not fully capture instances where an ITP might (commonly) be used to provide or support a formal VET programme, such as an apprenticeship, that was not formerly undertaken by the employer. In such cases, the ITP may be used to supplant less formal in-house training. This is an important distinction because the introduction of a new scheme run by an ITP brings additional challenges, as discussed later.

When the wider HR function is outsourced, the key drivers are usually decreased costs or improved quality of service delivery (Torrington *et al*, 2014). However, in the

UK VET context there are often additional factors. Many employers, particularly SMEs, will lack the expertise to train and administer the VET schemes that Government is urging them to engage in. Funding regulations are complex and subject to change which, when set alongside the rigours of Ofsted inspections, may lead employers to outsource the training or provide non-accredited training instead, thereby avoiding significant transaction costs and reputational risk.

It might be argued that by outsourcing VET the organisation can concentrate on its core business rather than dissipate its efforts. Chaudhuri and Bartlett (2014) found that advocates of this approach point out the advantages of reduced costs and improved effectiveness and that there is evidence of the efficiencies achieved in training delivery being associated with correspondingly positive employee satisfaction and loyalty (Galanaki *et al*, 2008). However, they also report that others suggest that outsourcing undermines core values and the control of HRD, which can lead to lower employee morale (Cooke *et al*, 2006). Cultural dissonance inadvertently created by the use of an ITP could be particularly disruptive in organisations that seek to maintain a strong ethos, based on particular values and attitudes. Tsui *et al* (1997) found that where employers invested in high quality training, it is reciprocated with higher levels of commitment. However, where employers do not monitor quality and relevance then reduced employee commitment can result.

It clearly cannot be taken for granted that outsourcing VET to an ITP will lead to high quality delivery. Galanaki *et al* (2008) found that outsourced training is most affected by the overall availability of training services in the external market. In reality, employers may be tempted to limit their transaction costs by extending contracts with pre-existing providers to cover new schemes, even though the provider may not have the most suitable expertise in that area of VET. Those employers who are approached by ITPs offering to run their training for them may have limited experience or expertise in assessing both the suitability of the scheme (that is, one that adds real value to existing in-house provision) or the quality of the training package on offer. The adverse attention given to the retailing apprenticeship scheme provided by Elmfield Training to Morrisons supermarket employees (for example, Henwood, 2015) highlights some of the challenges in getting this right, although this case has also raised wider questions as to whether an (approved) apprenticeship framework is the most appropriate intervention in this sector. Even if an appropriate scheme is outsourced, Shaw & Fairhurst (1997) suggest that maintaining service quality in outsourced training was one of the greatest problems encountered by client firms. Johnson *et al* (2014) also warn against underestimating long-term costs of opportunism by external contractors, which can be manifest over time in reduced standards or by extracting higher prices. It is particularly difficult to ensure that ITPs provide the requisite support to weaker members of any programme since this requires additional time and resources that they might be reluctant to commit if an “acceptable” success rate can be achieved otherwise. The temptation for ITPs, over time, might be to move towards more standardised approaches, thereby improving the efficiency of their delivery model.

Chaudhuri and Bartlett (2014) examined how training outsourcing affected employee commitment and found that supervisory support towards outsourced training was the strongest predictor of organisational commitment, confirming the findings of Ahmed and Bakar (2003) and Bartlett (2001). Support from supervisors, both in practical

terms and in shaping attitudes, is critical to trainee progress and is most effective where they are fully integrated with the scheme, such as in a workplace assessor role. This can only happen where there is deliberate integration between the programme and the organisation's operational activities and requires a preparedness to accept further overheads such as investment in the training of supervisors. Whilst a simpler solution is to delegate the majority of programmed activities to the ITP, including workplace assessment activities, it risks divorcing supervisors from the core function of developing their staff. This lack of ownership can lead to them instead focusing on operational activities and regarding the ITP's developmental activities as intrusive upon them, which may result in degraded support to the trainees. This might manifest itself by supervisors being reluctant to allow trainees adequate time for off-the-job training or by making it difficult for ITPs to conduct workplace activities. Chaudhuri and Bartlett (2014) further show that higher commitment levels are also associated with employee perceptions of quality, usefulness, relevance and customisation of outsourced training. These further reinforce the need to select a scheme that is right for the employees (not just one for which funding can be obtained) and to involve other employees, including supervisors and managers, in ensuring that it is tailored to their specific needs. In relation to this, Noe & Wilk (1993) and Shore & Wayne (2003) note the strong relationship between active encouragement from top management and senior staff and increased training and commitment. In sum, it is clear that it requires commitment and leadership at all levels to make outsourced programmes work effectively.

## **Partnerships - a better approach?**

This discussion has so far highlighted the need for employers to engage proactively in the use of ITPs, it takes a rather employer-centric view of a two-way relationship. At its best, this relationship can become an effective partnership and employers have a vested interest in achieving this. Dhillon (2013) conceptualised partnerships as existing along a continuum of (weak to strong) characteristics that included trust, networks, norms and values, and motivations. These underline the importance of moving from a tight contractual relationship to one that is based on mutual trust, shared values, open communication at all levels and commitment to achieving mutually beneficial outcomes. He emphasised the role of key individuals, especially senior managers, in leading, managing and sustaining successful partnerships through their active personal engagement and further noted the importance of collaborative leadership. Kauser (2004) examined the influence of behavioural and organisational characteristics on the success of international strategic alliances and, whilst at a higher level, found that similar characteristics were influential on performance: commitment, trust, coordination, interdependence and communication.

Regrettably, shortfalls in managing outsourced VET effectively are prevalent: SFA Funding Guidance regarding sub-contracting (SFA, 2014) states that there are continued examples of ineffective sub-contracting practice. It notes that these are particularly prevalent where the subcontracted provision has been whole programmes, or where learning has taken place at a distance from the funded provider. This suggests that in such cases the employers have failed to integrate the activities of their contracted ITPs into their wider business activities and managers have taken a "hands-off" approach, with inadvertently negative consequences. Whilst the intention of outsourcing the provision in the first place may have been to

reduce the management burden and allow it to focus on operational activities, the findings discussed above suggest strongly that this approach is at best sub-optimal and at worst detrimental to organisational performance. There is no avoiding the conclusion that any outsourcing requires effort to make it work effectively and this needs to be maintained over time to develop contractual relationships into effective partnerships.

## Conclusions and further work

It is clear from this short review that the Government-fuelled growth of ITPs can offer employers real benefits in terms of expertise, easier access to funding and other reduced transaction costs in running VET programmes. How well they compare to provision offered by GFE Colleges and other providers has not been considered here. However, the decision to use ITPs should not be taken lightly and getting a strong fit in terms of provider and scheme is essential for an employer programme to be successful. Of equal importance is close engagement with the ITP at all levels of management, from supervisor to senior management to develop an effective partnership. Alongside this, employers also need to ensure that they engage their own workforce and overcome any obstacles that may constrain the development of effective partnership working.

It would be very useful to draw these inferences into a framework of High Performing Working and Training practices, building on the more generic High Performing Working practices identified by UKCES (UKCES, 2014a, 6) but more research is needed to understand and develop these in the context of creating effective partnerships for the delivery of VET. Employers should be under no illusions that effective partnering cannot be achieved without dedicating significant time and effort to this activity, with inevitable trade-offs elsewhere. However, if it can be demonstrated that this results in net gains in productivity then this would provide the best possible stimulus to further and more effective employer engagement and as such merits close attention by employers and policy makers alike. The intended apprenticeship levy will most likely encourage more employers to use ITPs, making it a pressing matter to better understand how this is best approached.

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