**Apprenticeships in SMEs: the Key Debates**

**Informing the debate**

I thought I would provide a survey of the key academic literature that has been established in the area of High Growth SMEs and Apprenticeships in order to better inform the debate from a data-driven evidence-based perspective. The book "Entrepreneurship and the New Firm" (1982) authored by Professor David Storey argues that large firms create the majority of new jobs as well as being responsible for the majority of job losses. Reviewing the evidence for the justification of a growing small business sector he concludes that although small manufacturing firms produce an increasing proportion of the total manufacturing output this is infact due to a decline in the demand for the products of large firms rather than an increase in the demand for the products of small firms. In addition and more importantly the majority of new firms disappear within a few years of being newly established and the vast majority do not infact demonstrate a high level of growth.

**New firms versus old**

The important distinction is between Old and New firms. New firms make little contribution to job creation in the short-term and only a very small per centage of small firms provide anything like a significant number of new jobs and apprenticeship opportunities. Prosperous regions moreover are more responsive to favourable conditions for new firm formation and thus apprenticeship creation than less prosperous regions. The policies designed to assist new and small firms therefore are likely to be most successful in more prosperous regions. Storey argues that there has been a tendency to uncritically accept the potential impact of apprenticeship policies in the hope that they will provide sustained benefits and that small firms will create new jobs and sustained wealth creation. This is, he argues, an overly euphoric view of the potential of rapidly expanding small businesses. Should we therefore concentrate our efforts at apprenticeship creation amongst the well-heads the larger prime manufacturing businesses in the supply chain instead of positively discriminating in favour of the small business sector?

**The Job Creation process**

In a second book entitled "Job Generation and Labour Market Change" (1987) David Storey and Steven Johnson challenge the notion that small is necessarily beautiful. Smaller fast growing companies are not necessarily always associated with dynamism and a more creative environment. They challenge the assertion that the scale of job creation by Gazelles is not necessarily as significant as indicated by David Birch in his groundbreaking Study "The Job Generation Process". Only when firms reach a certain size (a growth in turnover proceeding and funding an expansion in the workforce and with it the ability to recruit Apprentices) are firms able to continue to Grow Rapidly. Quite simply that is why only a relatively small number of new and expanding small firms are able to create a substantial proportion of new jobs including apprenticeships. It is not merely a question of perspective one needs to be critical of the methodological approach one adopts to this subject-area.

**Location, Location, Location and oh, the Quality of your Offering**

The issue is in understanding why some small firms are more successful than others in terms of where they are located. Often their success is due to the fact that they specialize in high quality products that they are able to offer by being part of an integrated and extensive supply chain typically in the defence, automotive or education technology sector. It is therefore not the number of these small firms that is the key but the specialized nature and high quality of their product offerings. That is why Government needs to be highly selective in its policy in backing Apprenticeship schemes in industrial areas like manufacturing that are likely to succeed particularly in highly competitive export markets. Apprenticeship schemes will only work if they can become self sustaining and the apprentices have a reasonable prospect of selling their skills in a thriving and prospering rather than declining industry. In that sense Apprenticeship schemes ought to be as much about the process of creative destruction as elsewhere in the New Economy.

**Apprentice Salesmen – a Contradiction in terms?**

In a Third Volume entitled The Performance of Small Firms (1987) David Storey this time writing with Kevin Keasey, Robert Watson & Pooran Wynarczyk examines the Enterprise Allowance Scheme launched by the Thatcher Government which was designed to increase the rate of Small Business Formation. Examining Job and Apprenticeship creation the authors concluded that small firms were more likely to be restricted by a lack of financial and managerial resources and have little market power. Storey further concluded that Apprenticeship and job creation were more likely to be associated with high trading profits. The question we need to ask ourselves therefore for Businesses in the Retail Sector is do we need to train the next generation of Sales Staff? Should Public Policy therefore be focussed on the Retail Sector and how Government can encourage such Businesses to make a larger profit? It is only by doing so that they are likely to be able to afford to recruit the next generation of Sales Apprentices. Should we take notable account of what Alan Sugar in his book “The Apprentice: How to get hired and Not fired” says that being able to sell (at least an idea) should be in the critical DNA of any modern apprentice.

The problem as Storey et al starkly put it is that scarce public resources would have to be focussed on "picking winners" from a very small group of firms indeed which would unfairly militate against the vast majority who could benefit from assisted labour schemes. Moreover the Public Sector has a very poor record indeed in picking winners. Dragons Den this certainly isn't!

 **The conceit of Apprenticeships in no-hope businesses**

Such an across the board assistance of all firms with apprenticeships in the non-high tech sector becoming a defacto replacement for training schemes may be effective in job creation in the short term but it is based on a conceit. That conceit is that all firms are likely to benefit to the same degree. They won't. A vast majority won't, potentially trapping a large number of employees in business that simply won't thrive. Even much vaunted mentoring schemes are not necessarily a guarantee of exploiting untapped potential. This is the paradox of selective assistance - that for policies to be effective they need to have a significant and visible effect. This means being able to spot winners with a far higher degree of probability than previously and to better understand why businesses fail. If the vast armies of Growth Advisers that have been employed in Public Sector Business Support schemes can't, despite their best efforts, prevent increasingly large failure rates are we not simply recycling the business stock and under investing in the very young businesses that should have succeeded with the obvious sort of help like Bank Funding, Lower Business Rates, Less punitive NI & Business Red Tape and Corporation Tax. The paucity of Business Intelligence systems to identify them early enough also has convinced me that we do not have the systems in place to spot them in the first place.

**Skilled versus Unskilled Apprenticeships – Real Apprenticeships or Training by Numbers**

I think that the problem was best encapsulated by David Storey in his classic text Understanding the Small Business Sector published in 1994. In it he makes two fun points of critical importance. The first is that young firms are more likely to fail than older ones ones. The second is that small firms are more likely to fail than large ones. Older larger firms therefore have more to offer apprentices than smaller younger ones not least in terms of their prospects of survival. Critical to the apprenticeship debate is the notion of the life stage of the development of a firm.

It is important to recognize that we should not be seen to be encouraging apprenticeships which are little more than cheap labour or replacement youth training schemes. The result in the medium to long term will be an unhelpful differentiation in the Apprenticeship offering between those schemes in skilled environments requiring a high degree of technical competency and those in unskilled environments requiring a low level of technical competency and which would offer little prospect of career progression or the development of a portable knap-sack of skills to earn a living in other parts of the same industry.

More problematically most small firms do not want to grow despite offering employment opportunities. Some rapidly growing firms it has to be acknowledged make a major contribution to job creation. It must equally be recognized however, that small firms in the UK, also lose jobs at a very high rate, unhelpfully so.

**The need for rigour and longevity**

With Apprenticeships, particularly for NEETs surely we should be offering them a reasonable prospect of security in the first instance (if they can make the grade of course) - to fail to do so is to wholly undermine the principle of an Apprenticeship as a long-term training programme through which to acquire skills and qualifications.

The quality of jobs is also generally lower in small firms as compared to larger firms something which is also reflected in wages, fringe benefits and the quality of training. Public Policy surely therefore should be focussed on creating Apprenticeships within larger firms. The last thing that we do should be to condemn armies of Apprentices to an uncertain future in small firms that have no real prospect of growth and will simply use Apprenticeships as a source of cheap Labour. It is ultimately the Larger Older firms which will create the trading opportunities for Smaller Younger firms that will become part of the supply chain.

**The idea of an Apprentice Pool**

Something that we are considering in the Ribble Valley as an alternative is an Apprenticeship Pool whereby Groups of Firms (especially in the High Street Retail Sector) that contribute can have access to a Pool of Apprentices and will have the opportunity to offer them training and gain valuable experience in different parts of the Retail sector. Apprentices would therefore have the opportunity to sample different roles and functions in a range of retail settings rather than just one - from Front of House to Display & Window Dressing to Ordering/Purchasing and Warehousing and Delivery.

The issue which has been provoking the greatest degree of thought in me at the moment is the notion that if the Apprenticeship lobby did not exist and was not as strong as it is, would the idea have as much traction? Youth Unemployment should not be a driver of poor quality Apprenticeship schemes in areas of the economy that are in decline rather than real long-term growth. What is clear is that we better need to understand the prospects for the firms that we are driving Apprentices into.

**The Economic Displacement Effect**

I can readily understand the anger at Policy Makers and the failure of one size fits all schemes. Local differentiation is important as is the difference between high tech (or skilled) and low tech (or unskilled) businesses. That is why it is critically important to recognize the difference between "real apprenticeships" and schemes which are little more than "glorified job creation schemes" or sampler traineeships or, even worse unpaid internships. Indeed I would argue that experience valuable though it is accounts for nought if it fails to underpin the objective of economic growth more widely if young people are unable to utilise or acquire skills in equivalent or similar settings. Nor is it beneficial in the long-term if all that we are doing is encouraging displacement by training high volumes of individuals in trades like for instance plumbing or electricians when there is only a finite amount of business in a particular business sector with the result that existing firms are driven out of business or a particular geographic location or area as they are forced to cut costs to compete for increasingly scarce and less profitable work.

The major factor influencing the creation of Apprenticeships should not be the rate of job losses in a region to which self employment or Apprenticeships seems the only viable alternative. Instead the answer to managed decline should be a far greater emphasis on attracting direct and in particular foreign direct investment. The impact that Nissan has had on Sunderland and the massive number of highly technically based skilled Apprenticeships has had on the local workforce and regeneration of the region has been profound.

Don't think, by the way that I am advocating the Tesco-ization of economically depressed areas. I am not. The last thing that we need is the further hollowing out of high street retail businesses.

**A Well-Head Strategy**

Instead I am advocating a well-head strategy in which major manufacturing primes are encouraged to expand only by a small amount creating business opportunities in the direct and indirect supply chain that newly established firms can take advantage of. This suggests to me a far more sustainable model than one in which we are condemning young people to dismal short-term placements in which their key experience is likely to be that of struggling businesses that are surviving instead of thriving. My issue is that actions stimulating the formation in economically depressed or underperforming areas may be far less effective in the long-run than pushing resources into facilitating the growth of those firms, particularly in the high technology sector that are will continue to grow because they are innovatory.

**It’s a Life Stage Issue – Not a Journey to Shangri-La**

As you correctly identify policy makers have singularly failed to distinguish between those start-ups that will succeed and those that are doomed to failure. Far too much money public money is being wasted on such an exercise. As I argue in a Research Paper that has been written recently, within Public Sector Business Sector Support Networks there has been an obsession with hunting Gazelles - an American expression coined originally by David Birch to describe small, fast growing companies (in reference to the fact they can jump higher and run faster than their peers) that create many job opportunities. The problem is that they have proved extremely difficult to track as they develop and expand from young, juvenile, start-up or spin-out firms into adolescent businesses expanding their turnover and headcount as they venture further into the market jungle. Like the overextended metaphor above what started off as a potentially highly profitable academic exercise has become a search for a veritable economic Shangri-La. In the current economic climate many gazelles are caught in the crosshairs as the economic recession continues to find its mark wounding some, badly disabling others & bringing too many to their knees. What we should to better to understand is businesses with growth potential, subject to constraints we need to be realistic about, including a need for skilled Apprenticeships.

 **Will Apprenticeships make a difference to Small Businesses**

Of course the key question that we need to answer is: Will Apprenticeships make a difference to small fast growing SMEs? Small fast growing companies grow rapidly because they are agile. For the Owner/Directors of Small Firms the Economic Costs of Apprenticeships are high. The Potential Economic benefits in both the short and Long-Term are far more uncertain than they will be for Larger Firms. This is the Apprenticeship Dilemma. SMEs are less likely to survive long enough to derive the economic benefits of Apprenticeships. Indeed SMEs are likely to be at much higher risk of losing even partially trained Apprentices with highly specialized skills in highly innovative areas of technology development. Indeed the potential rewards (and we are not just talking about salary here) are uncertain within the limiting internal confines of start-up companies in the early stages of the development cycle. This is particularly true for High Technology Firms. There is another important downside that we have to bear in mind and that is the very high costs of Apprenticeship Training Schemes relative to the Turnover of Gazelles. Any profit is typically reinvested in a High Growth Business to Fund the Next Stage of Growth. It is impossible to spread the cost across the Employee Base by structuring Wage Differentials with a concentration of Low Waged Employees constituting the Bulk of the Workforce at the bottom. In order to retain Highly Skilled Employees to ensure the success of technological innovation it is important to offer a Salary Reward structure to suit if Employees are to stay with the Business during the critical take-off period.

**Are Apprenticeship Schemes a Distraction for SMEs?**

Nor is there a direct causal relationship between Apprenticeship Schemes a Guarantee of Enhanced Performance for SMEs. Infact it can be argued that Apprenticeship Schemes can be a distraction both in terms of Administration and the Vital Time that it can take Apprentices from the Business during off-site periods of Formal College Based Instruction. Until we are able to answer the question that I have raised above with convincing longitudinal data then it appears that we are taking a risk that we are unable to effectively calculate the consequences of with sufficient surety, particularly in relation to small high-tech businesses. One thing we do know and the bitter experience of the failure of successive Governments has taught us, and I'm sorry to end on a pessimistic note, to pick enough winners - the right kind of small high growth businesses that will create very large numbers of next generation employment opportunities in leading edge high-tech businesses.

**Where to and What now: Entrepreneurs, TECS or an SME Agency?**

That I believe leaves us with three options in terms of the debate on Apprenticeships with Small High Growth Businesses. First, leave it to the Entrepreneurs. We should be less concerned about failure and more convinced that within the developing Entrepreneurial culture of Britain at least some Entrepreneurs will get it right and lead by example providing modes that Government can follow. Second, to embed the culture of Entrepreneurship within an interlocking network of verified and certified service providers whose ultimate purpose is not to salami slice Government Funding for its own ends as it does at present in a number of contexts to the point where little of the money for Apprenticeships finds its way to the ultimate end-users of such services. This should be through a revivified Chamber of Commerce Network or much enhanced Industry Associations. What has surprised me in particular is that no-one is actively talking up the most successful deliverer of Training during the Thatcher Years - the TECs (Training & Enterprise Councils) - partnerships between Education and Private Business. Third, to adopt a Japanese or Scandinavian model through a hands-off Government Agency in the form of an SME Agency delivering Formal Training and Business Based Higher Education Degrees rather than through Universities or Former Polytechnics or signposting consumers to a range of training providers as now.