

Learning to grow: what employers need from education and skills

Education and skills survey 2012



Survey sponsored by



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Foreword by John Cridland, CBI



The past few years have been a rollercoaster ride for business and education. From the early 1990s to 2008, we enjoyed uninterrupted GDP growth. Over the same period, government funding for schools and colleges increased steadily, while universities saw student numbers rise by more than 50%. But that all changed in 2008. We are still wrestling with the aftermath of the recession as well as having to tackle the debts built up by government and consumers during the good times.

The key to the UK getting back on course is growth, founded on a rebalanced economy geared much more towards investment and exports. Education and training have a central role to play in the process – my view is that skills are at the heart of our ability to sustain economic growth.

It is essential that our schools equip every young person with the attitudes and competences they need to lead fulfilling and productive lives. Many schools do a terrific job, raising the standards and aspirations of young people regardless of background, but we need to look for faster and more widespread improvement. The results from this year's survey show the scale of the challenge we face. As Lord Heseltine recently warned¹, radical change in our schools is under way but can we be confident that improvements in core skills of English, maths and IT will come fast enough to gain us an edge over our international competitors? The question is of such importance that the CBI is placing the schools system at the heart of our work over the coming months. We will be setting out our thinking on how best to raise ambition for all in schools later in the year.

The UK's universities are rightly held in high regard, attracting students from across the globe and acting as a magnet for inward investment. Their world-beating capacity for research and innovation will be critically important in rebalancing our economy successfully. But we also need to be confident that the graduates they produce have the employability skills as well as the intellectual capacity to be effective in the workplace. While most graduates thrive at work, our survey findings show this is not universally the case – here too we need to see a sustained drive for improvement.

We also still have much to do to open minds to the varied avenues through education and training into fulfilling work that are becoming available. The expansion of apprenticeships, highlighted in the survey, has been one of the great success stories of recent years. As other results in our survey show, many employers are giving serious thought to developing new training and entry schemes to run alongside traditional graduate recruitment programmes. But too often careers advisers – and therefore young people – have little awareness of major employers of graduates, technicians and other skilled people or of the range of entry routes to them.

We face plenty of challenges across our education and skills system. But as we also know, necessity is a great driver of innovation and change. I hope and believe that in a few years' time we will look back on the current period as one when we acted to remedy a number of long-standing weaknesses, building a system truly fit to equip our citizens to learn, earn and thrive in the 21st century.

A handwritten signature in black ink that reads "John Cridland". The signature is written in a cursive, slightly slanted style.

John Cridland
CBI director-general

Foreword by Rod Bristow, Pearson



Last year, Goldman Sachs's chief economist Jim O'Neill wrote that, demographics aside, education is now perhaps the principal factor that determines a nation's long-term economic success. As the man who coined the term BRICs to designate the success of Brazil, Russia, India and China's economies in the last decade, he's a voice we should take heed of in the current economic climate.

Pearson supports the CBI education and skills survey because we strongly believe in every kind of learning – whether in school, college or university, through an apprenticeship or training at work. There are those who say that education is too important to be focused on utilitarian ends like employment. But often as not, those people already have good jobs. They forget that young people want their education to help their employment prospects, and that anyway, the skills that employers want are in reality skills for life. We have to ask, does our education system and education policy give enough emphasis to the sort of skills young people – let alone employers – demand in the 21st century. Most of them would say it does not.

Education, training and high-quality skills have the power to unlock personal ambition and success, but they also drive the economic wellbeing of families, regions and nations. So it's heartening to see in this year's survey that business leaders are optimistic about the value of training and skills to their success, and are putting their money where their mouth is, by maintaining or increasing their investment in skills.

Business commitment is essential to a better-skilled workforce – but it is only one factor. The current government's desire to improve our schools is clear and is very welcome. They will need relentless focus if they are to make a long-term impact on the key issues in education.

Most employers I talk to are clear that their priorities are high standards of literacy and numeracy, and giving young people the broader set of skills needed for a fulfilling career. So as government moves to introduce the English baccalaureate, reform school and college structures, and improve the standard of teaching, it must not lose sight of the importance of other important attributes like creativity, teamwork, and written and oral communication. They can be gained through qualifications, assignments or hands-on training – preferably a combination of all three. These are the skills which help young people to stand out in the workplace and beyond. They are also the skills which will help our country to excel in the international education studies carried out by the Organisation for Economic Co-operation and Development.

They're also increasingly the skills which employers look for in their graduate recruitment, trumping the subject studied or even the class of degree awarded when we hire people straight out of university. Employability is the watchword when it comes to getting our economy back on track.

At a time of youth unemployment and sluggish GDP figures, it's natural for some to question our national investment in skills and education, or look to reduce their own firm's training budget. This survey should fuel our optimism that the best and brightest leaders will continue to invest in education for growth.

A handwritten signature in black ink that reads "Rod Bristow". The signature is written in a cursive, slightly slanted style.

Rod Bristow
Pearson UK president

Executive summary

The fifth education and skills survey

- The CBI/Pearson education and skills survey was conducted in January and February 2012
- Responses were received from 542 employers, collectively employing some 1.6 million people. Respondents came from all sizes, sectors and regions of the UK.

Employers investing in skills

- Despite current economic and trading pressures, four fifths (81%) of firms plan to maintain or increase their investment in training over the coming year
- There are major variations between sectors: while a positive balance of +17% of firms in manufacturing intend to increase their training spend, widespread reductions are planned in the public sector
- The proportion of employers involved in apprenticeships has risen to almost two thirds (63%), and over half plan to extend their programmes further or to start taking on apprentices in the next few years
- Government pledges to cut back on the bureaucracy around apprenticeships have yet to be felt in practice by employers, with more than nine in ten (94%) reporting no change as yet
- Looking at workforce training more broadly, the leading issues on which employers would like to see progress are the business relevance of vocational qualifications (58%) and reduced bureaucracy around government funding (56%).

Raising standards in schools

- Employers say the need to provide businesses with the skills they require is the single most important reason to raise standards in schools (73%). Other reasons cited are the importance of enabling young people to lead fulfilling lives (57%) and minimising the risk of educational underachievement contributing to social breakdown (57%)

- Employers want to see primary schools concentrating on the key enabling skills of numeracy (61%), writing (58%) and reading (45%) that underlie success in all other learning
- For those in the 14-19 age group, employers believe schools and colleges should be prioritising development of employability skills (71%). They also want to see more done to strengthen literacy (50%), numeracy (45%) and technology skills (30%)
- While all types of qualifications are seen as aiding development of particular employability skills, no one type is seen as delivering on all the essential areas.

Employer commitment to schools and colleges

- Over half of the employers surveyed have built links with secondary schools (57%) and further education colleges (56%)
- Employers are stepping up their commitments, with a positive balance of a third (+32%) having increased their school and FE college engagement activity over the past year
- Business involvement goes beyond providing work experience for pupils (70%) to include careers advice (51%), employees acting as school governors (29%) and mentoring (25%)
- Employers see the quality of careers advice for young people as not good enough (by a balance of -68%)
- There is an appetite from employers to play a greater role in delivering careers advice – more than half (60%) would be willing to do more.

Preparing for working life

- There is a pressing need to improve the literacy/use of English and numeracy skills of school and college leavers (35% and 30% respectively of employers report dissatisfaction)
- Employers also report weaknesses in employability skills, including school leavers' self-management (61% unsatisfied), business and customer awareness (69%) and attitude to work (37%)

- Levels of employer satisfaction with the employability skills of graduates are higher, but there are still worrying weaknesses in teamworking (25%), problem-solving (23%) and inadequate work experience (37%)
- Among existing employees, employers report widespread weaknesses: there are problems to at least some extent in literacy/use of English (56%), numeracy (55%) and IT skills (66%)
- Remedial training by employers is widespread (ranging from 5% reporting training in numeracy for some graduates to 50% reporting remedial IT training for some adult employees).

Employers seek high skills for the future

- Most employers consider skill levels among their employees to be satisfactory for their current activities, with two thirds (68%) rating their high-skilled employees as good
- Less positive ratings are given to low skilled employees, with one in ten (10%) of the largest employers and 7% of employers overall assessing their competency levels for their roles as poor
- Looking ahead, far more businesses expect to increase the number of jobs requiring leadership and management skills and higher skills in the next three to five years than expect to reduce them (a positive balance of +67% and +61% respectively)
- More employers expect to decrease the number of low-skilled employees in the next few years than to increase the number (giving a negative balance of -3%)
- While most employers are confident there will be enough people available to fill their low-skilled vacancies (a positive balance of +51%), employers are not confident of meeting their need for high-skilled employees (a negative balance of -15%).

Meeting the need for STEM skills

- STEM skills open up career opportunities at every level from apprenticeship entry (among 43% of those employers recruiting STEM-skilled people) to postgraduate entry (31% recruit at this level)
- Among those firms that need employees with STEM skills and knowledge, two in five (42%) currently have difficulties recruiting staff, rising to nearly half of employers (45%) expecting difficulty in the next three years
- STEM qualifications alone are not enough – many employers find that applicants lack general workplace experience (42%) and are weak in employability skills (39%)
- Employers believe government can help tackle future shortages by promoting science and maths in schools (68%) and businesses also have a key role to play – many of those employers taking steps to promote study of STEM subjects offer STEM-related work experience (42%).

Graduates in the workforce

- One in five jobs (20%) now require degree level skills and the proportion is likely to rise in the years ahead
- About a fifth of graduate-level jobs need applicants to have studied a specific discipline at university, but in recruiting for other roles employers prefer graduates holding STEM degrees (favoured by 50% of employers)
- Employability skills are the most important factor taken into account when businesses recruit graduates – four in five employers (81%) value these skills above other factors such as degree subject (70%) and class (46%)
- The highest median graduate starting salaries are paid for legal roles (£24,000) and engineering and science roles (£23,000), and the lowest for administrative roles (£18,000)
- Most employers (63%) expect the increases in tuition fees to change the market for graduate-level skills – more than a third (38%) think they may develop alternative entry routes for young people with good A levels.

Linking businesses and universities more effectively

- Two thirds (63%) of employers have developed links with universities in activities ranging from providing sandwich-year and other placements to a role in shaping degree programmes
- Almost half of employers (47%) offer internship opportunities of some type for graduates
- Employers want to see universities upping their game by enhancing students' employability skills (65%) and increasing the business relevance of undergraduate courses (61%)
- Employers believe universities should be providing more programmes to develop employees (a priority for 31% of employers) and increasing the number and quality of STEM graduates.

Building a responsive skills system

- While at least some employees at four out of five firms (81%) receive accredited training, overall only a third (31%) of the training employers provide is linked to recognised qualifications
- Almost nine in ten businesses (89%) use external training providers, with private training organisations the most widely used (by 79%) and universities the least common (used by 25%)
- The proportion of employers believing their Sector Skills Council adds value to the business has risen (to 29%) but half of employers (47%) still don't know which Council covers their sector.

Communication means business

- Nearly three quarters (72%) of businesses say they value foreign language skills among their employees, particularly in helping build relations with clients, customers and suppliers (39%)
- One in five firms (21%) is concerned that weaknesses in foreign language proficiency are losing them business or is uncertain whether this is happening
- Among firms concerned about shortfalls in language proficiency, half (52%) are looking to recruit staff with the appropriate skills.

1 The skills landscape

The fifth CBI education and skills survey, run in partnership with Pearson, is published at a time when the pace of economic recovery remains slow and a necessary squeeze on public spending lies ahead to tackle the budget deficit. This makes for a challenging environment – but also one in which it is critically important for government, employers and individuals themselves to invest in skills. In the short and medium term more – and a changed mix of – workforce skills are needed to help rebalance the economy and bring the unemployed back into work. In the longer term, a wider and deeper pool of skills is essential if the UK economy is to thrive in the face of intense international competition.

Economic recovery set to continue in 2012

The UK's economic recovery is fragile, having lost some momentum at the end of 2011 during the euro area crisis. Nonetheless, the CBI is expecting GDP growth of 0.9% this year – slightly better than the economy's performance in 2011. But expectations for 2012 are now more subdued than a year ago, highlighting the particularly challenging nature of this recovery. On the international front, the situation in the euro area remains fraught with risk.

While inflation is forecast to fall further this year, unemployment will remain stubbornly high, pointing to the risks of large numbers of people losing skills and motivation. As the pace of growth picks up, private sector job creation is expected to offset reductions in public sector employment.

Skills underpin economic rebalancing and employment growth

Having the right people in place with economically valuable skills is essential if UK firms are to gain and retain a competitive edge in this difficult climate. Employers are keenly aware of the importance of developing the skills of their workforce to meet the demands of changing technology and customer requirements. During the recent recession, output fell by far more than employment, as employers took steps to safeguard the skills pool among their employees as far as possible.² Employers know from experience the costs involved in rebuilding a skilled, motivated workforce.

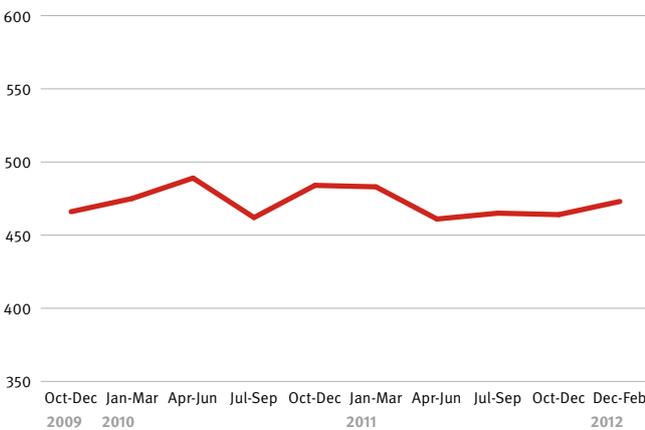
The UK faces a particularly tough challenge on skills: rebalancing the economy successfully will involve major changes in the skills mix of the UK workforce at all levels. At the same time, we have to tackle a long tail of weakness among parts of the workforce in the essential skills of literacy/use of English, numeracy and competence in IT. With levels of attainment rising fast in other leading and emerging economies, it has never been more important to ensure that everyone in the workforce has the essential skills to secure employment – and to recognise that the bar is constantly being raised.

The number of vacancies in the economy has remained fairly stable in recent years, at close to half a million (**Exhibit 1**). Over the same period, unemployment has climbed to more than 2.6 million while employment has been broadly stable or gently rising, reaching 29.23 million by Q1 of 2012.³ This apparent paradox is in part explained by the continued rise in employment of non-UK nationals – up by 49,000 in the three months to March 2012 to reach 2.6 million. One factor behind this trend is the need for firms to fill vacancies for which many of those unemployed in the UK have shortfalls in the essential competencies. Improving employability skills – and other skills – is essential if we are to make sustained headway in tackling unemployment, with all its associated personal, social and economic damage.

The levels of skills in demand are rising

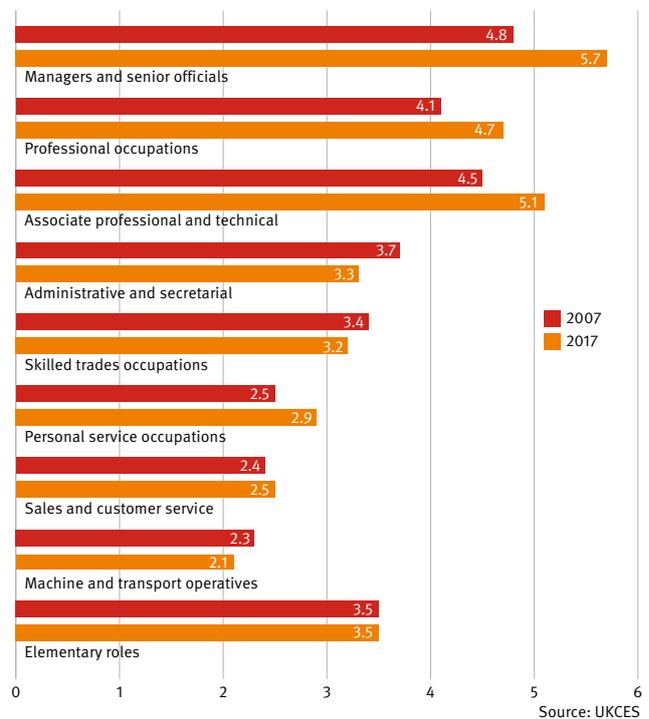
Forecasts for the UK workforce show that demand is expected to rise for those able to fill jobs in more highly skilled occupations. Over the decade to 2017, the major areas of job expansion are for managers, professionals and associate professionals and technical occupations (**Exhibit 2**).⁴ This continues the pattern of the past decade and more, during which almost all employment growth has been for people with higher skill levels.⁵ Less-educated people face

Exhibit 1 Vacancies 2009-2012 (000s)



Source: ONS

Exhibit 2 Changes in major occupation groups, 2007-17 (millions employed)



Source: UKCES

unemployment and inactivity rates that are three times greater than those with higher education, emphasising the value of improved skills levels for individuals as well as the economy as a whole.

As our results show, businesses attach particular value to people with science, technology, engineering and maths (STEM) skills (see chapter 8). These are increasingly required in high-value sectors which will be key to rebalancing the economy, including advanced manufacturing, pharmaceuticals and the creative industries. In contrast, while there will always be low-skilled jobs in the economy, overall numbers have declined.

Traditionally, lower skilled jobs have served as labour market entry points for many moving out of unemployment, and their declining number emphasises the need for everyone to have a strong platform of basic skills on which to build. This is particularly true for young people, for whom the costs of failure are particularly high. In 2010 the Audit Commission estimated that the population of 16-18 year olds not in education, employment or training (NEET) would cost the taxpayer £13bn over their lifetime (through welfare payments and costs to health, criminal justice and other services), plus a further £22bn in opportunity costs (loss to the economy, and welfare loss to individuals and their families).⁶

Laying the foundations at school

As the first rung on the skills ladder, it is essential schools focus on ensuring young people develop a strong grasp of the basics. The UK has been making progress in recent years in improving literacy/use of English and numeracy results at age 16, but far too many young people still fail to make the grade. Last year only 59% of entrants achieved a grade A*-C in GCSE maths and two thirds (65%) in English.

This means over 300,000 young people did not achieve the benchmark of a grade C in maths, and more than 200,000 falling below this level in English. These young people will join the ranks of those who have left school ill-equipped to deal with a labour market where the baseline of skills required for employment is continuing to rise. The adoption of measures of achievement such as the English baccalaureate (EBacc) highlights the scale of the underperformance gap still further. In 2011, just under a quarter of pupils (24%) in England were entered for all the GCSE subject areas of the EBacc and only 18% passed every subject area with grades A* to C.⁷

Exhibit 3 UK rankings in PISA tests

Year	2000	2006	2009
Science	4th	7th	8th
Reading	7th	17th	25th
Maths	8th	24th	28th

Note: A total of 32 countries participated in 2000, 57 in 2006 and 65 in 2009

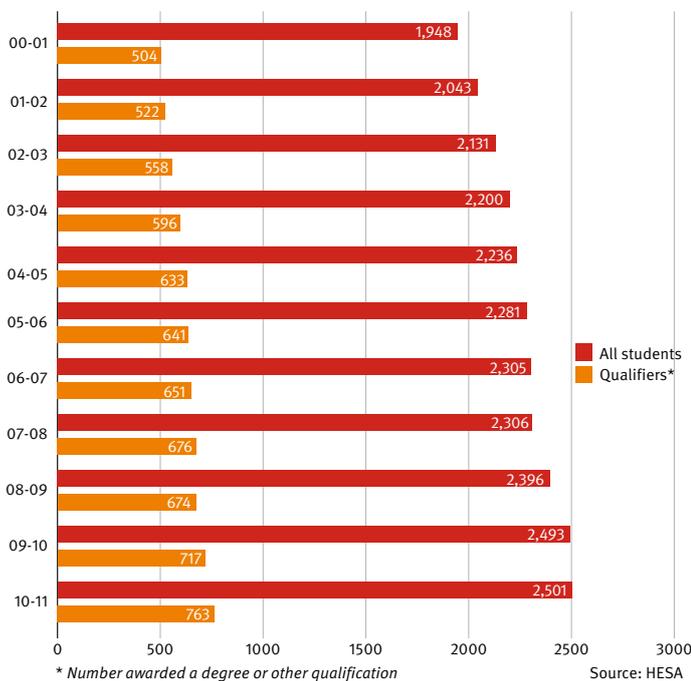
Source: OECD

While levels of attainment in the UK have been rising, they have also been rising in other economies. According to OECD data, secondary school pupils in the UK have been falling behind our competitors in maths, reading and science. The latest OECD Programme for International Student Assessment (PISA) survey, based on tests taken by 15 year-olds, shows the UK has dropped in international rankings. In 2009 UK pupils ranked 16th in science, 25th in reading and 28th in maths (**Exhibit 3**). While other international measures have cast some doubt on the UK's relative decline⁸, there can be no doubt we need to move further and faster in raising levels of educational achievement in these important areas.

There are encouraging indicators. The number of entrants to the separate science GCSEs has begun climbing from its very low base, with physics, chemistry and biology all seeing an increase of around 30% in 2010 and a further increase of around 15% in 2011.⁹ There is more to do, however, to spread triple science provision across schools.

At A-level, over the past five years there's been a 40% increase in the number of students taking maths and a near 20% rise in the numbers taking physics and chemistry (compared with an overall increase of just 8% in total A-level entrants).¹⁰ On international comparisons, however, England, Wales and Northern Ireland are the only advanced economies in which fewer than a fifth of post-16 students study maths. And the number taking physics (at nearly 33,000 in 2011) is still far below the number in the mid-1980s (more than 46,000 in 1985).

Exhibit 4 The university student population and graduates 2000-2011 (000s)



Building a flow of high-quality graduates

UK universities provide businesses with an essential flow of high-quality graduate and post-graduate talent. There are now 2.5 million students enrolled in higher education and a record 763,000 students completed their degrees or other qualifications in 2011, marking a 50% increase since 2001 (**Exhibit 4**).

Of course, not every graduate goes straight into a graduate-level job. There are a range of other factors, such as their field of study and broader employability skills that have a major influence (Chapter 9). But graduates typically have higher employment rates than non-graduates and lower levels of unemployment. In the final

quarter of 2011, 86% of all graduates were in work, compared to 72% of non-graduates, and just 4% were unemployed, compared to 9% of non-graduates.¹¹

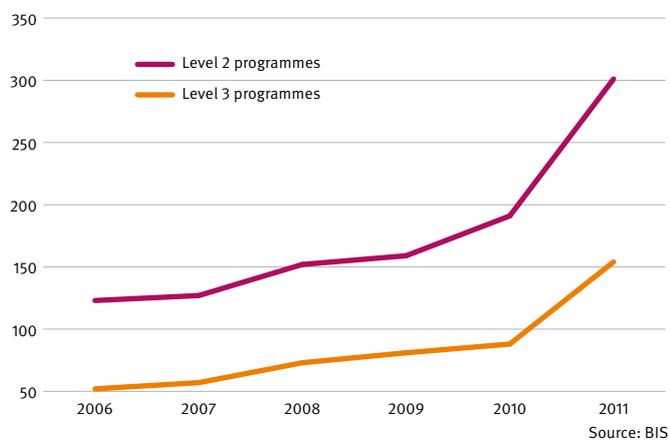
The effect of changes to fees and funding arrangements for higher education is yet to be felt – but maintaining the number of graduates in STEM subjects will be crucial to the ability of businesses to spearhead economic growth. The government has shown encouraging recognition of the importance of supporting STEM as part of the focus on strategically important and vulnerable subjects, with HEFCE proposing to concentrate funding on these areas for the future – an approach the CBI endorses.¹²

Investing in workforce skills

Employers recognise the value of skills and invest heavily in training their staff.¹³ The most recent National Employer Skills Survey for England found the majority of employers (68%) were providing formal training to their staff.¹⁴ Alongside this, a great deal of informal training and learning takes place in the workplace, particularly in SMEs. In this context, the recently launched employer ownership pilot, jointly overseen by UKCES, BIS and the Department for Education, is a welcome development, offering employers in England direct access to up to £250m of public investment over the next two years to design and deliver their own training solutions.¹⁵

A major area of expansion in recent years has been in government-supported apprenticeships (**Exhibit 5**). More than 450,000 people started a government-recognised apprenticeship in 2010-11, a welcome increase of over 60% on the level of starts in 2009-10 and greatly accelerating the trend in the growth of apprenticeship provision.¹⁶ The government's increased support for apprenticeships is in line with its view of them as the main vocational route for developing skills within the workforce.

Exhibit 5 Starters on government-funded apprenticeship programmes by level (000s)



Increasing the number of high-quality, employer-led apprenticeship places will help raise skills levels and provide essential support for sustained private-sector growth in the years ahead. Apprenticeship programmes give people the practical skills they need to secure employment and contribute to higher productivity. Over 80% of employers believe that apprenticeships have helped raise the overall productivity of their organisation¹⁷ and 90% of apprentices find employment (or self-employment) immediately after their training ends.¹⁸

With the UK needing to expand the pool of people with intermediate level skills in both technical and managerial disciplines, it is encouraging that there has been an increase in the numbers starting Level 3 apprenticeship programmes and that ministers want to encourage progression within apprenticeship training.

Level 3 starts have increased to three times the level of 2006 and 2010/11 saw some 2,000 people start higher apprenticeships (above level 3).

2 The fifth education and skills survey

The fifth CBI education and skills survey, run in partnership with Pearson, provides an authoritative snapshot of current trends and business opinion on education and skills issues. Having the right base of skills available across the UK workforce will be essential to support economic recovery and a return to sustained growth – our approach to skills is a critical part of our wider industrial strategy. Our survey measures the scale of employers' activity on training and development, their involvement in the education system and the actions businesses believe need to be taken to boost the skills of existing employees and future entrants to the workforce.

The survey was conducted in January and February 2012, with useable responses received from 542 employers, collectively employing some 1.6 million people, equivalent to 6.4% of all employees in the UK.¹⁹ Participant organisations are drawn from all sectors of the economy – spanning the public and private sectors – and are of all sizes, from very small firms to organisations with workforces of more than 5,000 people.

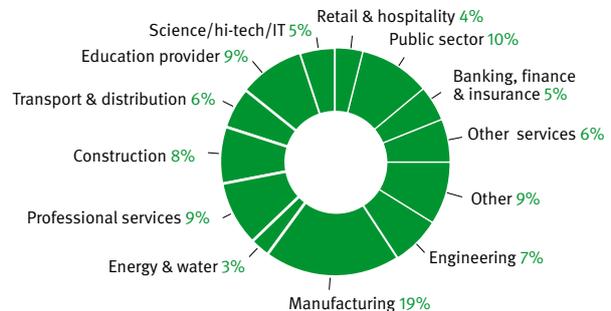
The survey was completed by senior executives. In small and medium-sized companies, this tended to be the managing director, chief executive or chairman. In larger firms, it was the human resources director or equivalent.

The results have been weighted by sector on the basis of data from the Office for National Statistics so they reflect practices across the economy.

Sectoral analysis

Responses were received from across all sectors of the economy (**Exhibit 6**). Public sector organisations make up about one in ten respondents (10%). Among private sector participants, manufacturing firms account for just under a fifth (19%) while those in construction and professional services each make up just under a tenth of the sample (8% and 9% respectively).

Exhibit 6 Respondents by economic sector (%)



Respondents by company size

Companies of all sizes participated in the survey – around one in ten (9%) employ under 50 staff while at the other end of the scale a similar proportion (9%) employ more than 5,000 people (**Exhibit 7**).

Official data suggests that, as with most business surveys, medium-sized and larger firms are over-represented, as the majority of UK businesses employ fewer than 50 people. But medium and larger enterprises employ over half (54%) the UK workforce²⁰, so the survey broadly reflects overall employment patterns and practices.

Respondents by region

The majority of respondents had employees based in several or most regions of the UK (**Exhibit 8**). Respondents most commonly had at least some employees in the south east (40%) and London (35%). Across other regions, the range was from a third of respondents (33%) with at least part of their workforces based in the north west to 16% with employees in Northern Ireland.

Exhibit 8 Respondents by region (%)

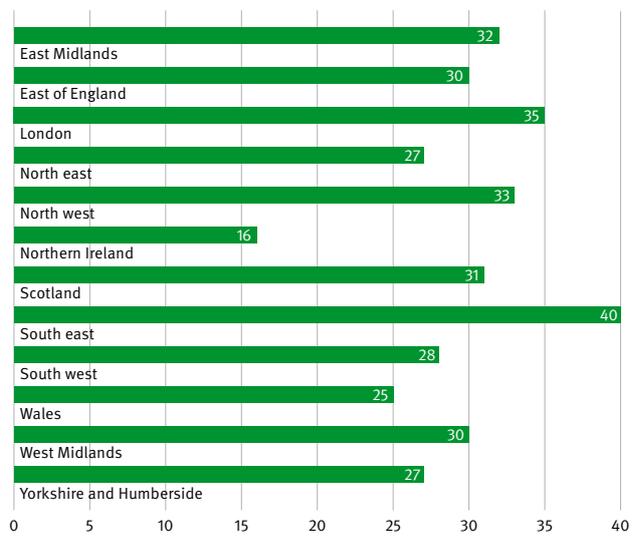
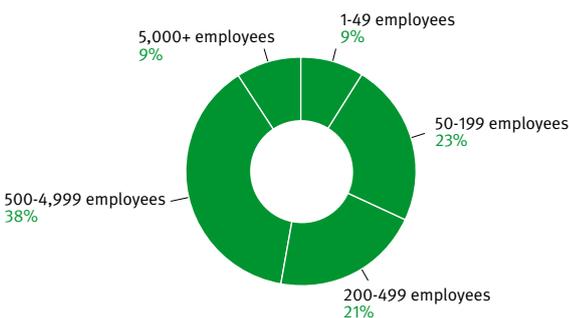


Exhibit 7 Respondents by company size (%)



3 Employers investing in skills

Sustained recovery in private sector economic activity is central to the UK's future growth – and that in turn depends on private sector employers having the skilled workforces they need to succeed in an intensely competitive global marketplace. Employers are investing heavily in enhancing skills among their existing employees, but there is more that could be done to help encourage additional investment.

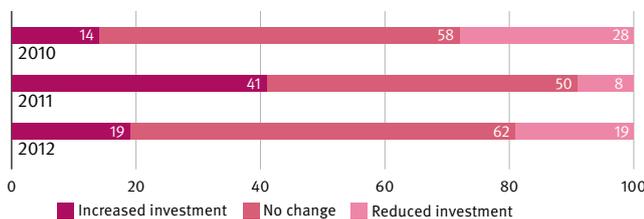
Key findings

- Despite current economic and trading pressures, four fifths (81%) of firms plan to maintain or increase their investment in training over the coming year
- There are major variations between sectors: while a positive balance of +17% of firms in manufacturing intend to increase their training spend, widespread reductions are planned in the public sector
- The proportion of employers involved in apprenticeships has risen to almost two thirds (63%), and over half plan to extend their programmes further or to start taking on apprentices in the next few years
- Government pledges to cut back on the bureaucracy around apprenticeships have yet to be felt in practice by employers, with more than nine in ten (94%) reporting no change as yet
- Looking at workforce training more broadly, the leading issues on which employers would like to see progress are the business relevance of vocational qualifications (58%) and reduced bureaucracy around government funding (56%).

Employers planning to increase or maintain levels of investment in training

81%

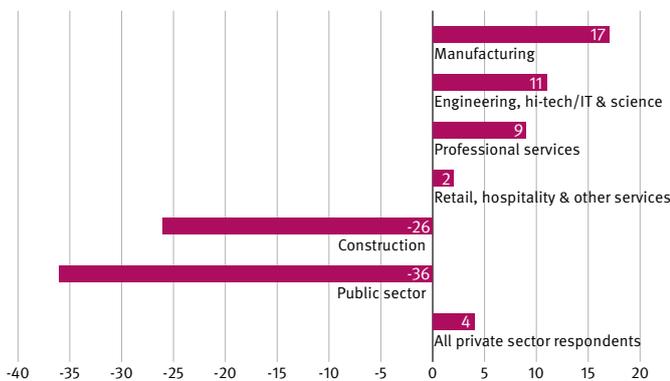
Exhibit 9 Employers' intentions for training and development of staff (%)



Businesses recognise the need to keep investing in skills

This year's survey paints an encouraging picture, with firms intending to maintain their levels of investment in training following a substantial boost last year (Exhibit 9). We asked respondents what impact the current economic climate is having on their plans to invest in training and development of their staff over the next 12 months. The results show two thirds (62%) of firms plan to maintain their current level of spend, while the one fifth (19%) planning to reduce spending are balanced by an equal proportion (19%) intending to increase their training and development investment.

Exhibit 10 Net balance of employers by sector planning to increase/decrease training spend (%) *



* Net balance of employers planning to increase training spend minus those planning to decrease spend

The determination to maintain levels of training investment builds on the significant boost identified by last year's survey. The 2011 results showed a net positive balance of +33% of firms increasing training spend as employers began preparing for economic recovery.

Manufacturing leads the way on increased training investment

The results show major parts of the private sector leading the way in raising levels of investment in training and development in the coming year. With a quarter (25%) of manufacturing respondents reporting that they intend to increase their spend on training while just 8% plan to reduce it, a positive balance of +17% of manufacturing firms will be increasing their investment (Exhibit 10). Responses are also encouraging in engineering, hi-tech/IT and science, with a positive balance of +11% of firms intending to increase their spend on training and development.

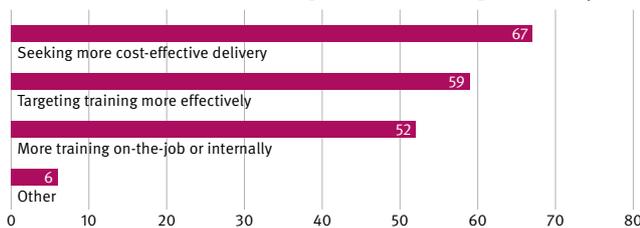
The most widespread reductions in training investment are planned in the public sector, with a balance of -36% of respondents there expecting to cut back on their spending.

Gaining more value from training spend

Measuring levels of investment in training and development in cash terms is of course only one side of the equation. The other is the effectiveness of that training in equipping employees with relevant skills they need to add value to the business.

In view of current economic and commercial pressures, it is no surprise that two thirds (67%) of employers report that in the coming year they intend to seek more cost-effective routes for delivering training (Exhibit 11, page 18). The quest for greater cost-effectiveness in training is particularly widespread in the public sector, where four out of five organisations (78%) say they will be pursuing this in the coming year.

Over half of all respondents also intend to target training more effectively (59%) and to increase the amount of training provided on-the-job or delivered internally (52%). Once again, public sector

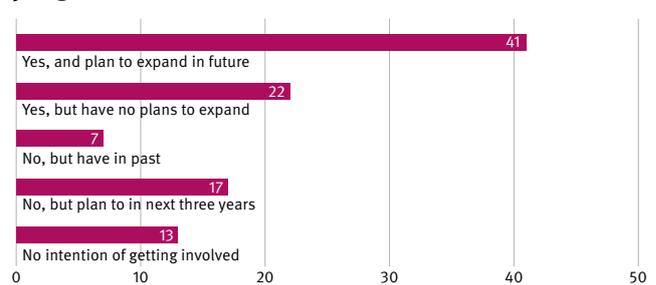
Exhibit 11 Planned changes in training delivery (%)

organisations in particular plan to use these approaches to help offset their reductions in training budgets, with four fifths (78%) aiming for more effective targeting and two thirds (65%) planning more on-the-job and in-house training.

Employers are committed to offering apprenticeships

Apprenticeships provide practical, business-focused training that delivers benefits to employers and apprentices, improving productivity and giving apprentices the skills they need to achieve well-paid and satisfying careers. The value of apprenticeship training is increasingly appreciated by the public as well as by employers and policy makers. As pointed out in the Wolf review of vocational education, “Apprenticeships at BT or Rolls-Royce are more oversubscribed than the most desirable course at the best university. These types of courses offer a route to good salaries and quick promotion at world-beating firms.”²¹

In 2010-11 some 457,000 people started a government-funded apprenticeship programme – up by 64% on the level of apprenticeship starts in 2009-10.²² The increase in part reflects government ministers’ determination that apprenticeships should become the ‘primary work-based learning route’ and extra funding to expand the number of employer-led apprenticeship places. In all, 60% of apprenticeship starters were under the age of 24, while two fifths were older people looking to upskill or retrain to change career direction.

Exhibit 12 Employer involvement in apprenticeship programmes (%)

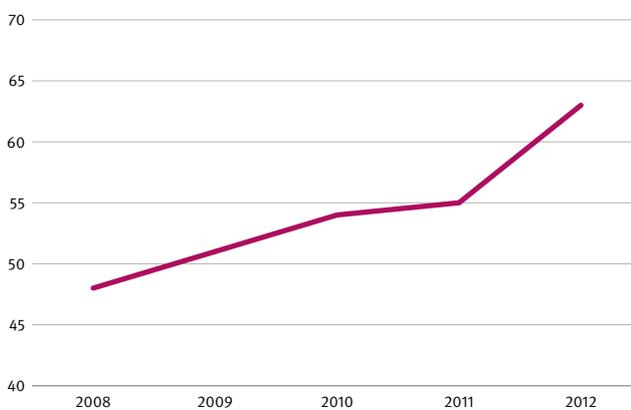
Employers in our survey show a strong and growing commitment to apprenticeship programmes. Among respondent firms, two thirds (63%) are currently involved in providing apprenticeship training (**Exhibit 12**). In addition, prospects for growth are positive, with over half (58%) of employers either intending to expand their current apprenticeship programmes or planning to start providing apprenticeship places in the next three years. This is particularly encouraging in view of the end of government funding for programme-led apprenticeships and the need for all apprentices in future to be sponsored by an employer.

The scale of employer provision is climbing...

The proportion of businesses involved in apprenticeships has grown rapidly over the past five years of the education and skills survey: from 48% in 2008 to two thirds (63%) in 2012, demonstrating employers’ growing commitment to high-quality apprenticeship training (**Exhibit 13**).

Growing the scale of apprenticeship provision still further will require the involvement of firms of all sizes. Our survey shows that while many smaller firms are already engaged in delivering apprenticeships, the proportion of employers involved rises fairly steadily with company size. While nearly nine in ten organisations (89%) with over 5,000 staff are providing apprenticeships in 2012, among firms with under 50 employees only just over a fifth (22%) are doing so (**Exhibit 14**).

Exhibit 13 Employer involvement in apprenticeships 2008-12 (%)

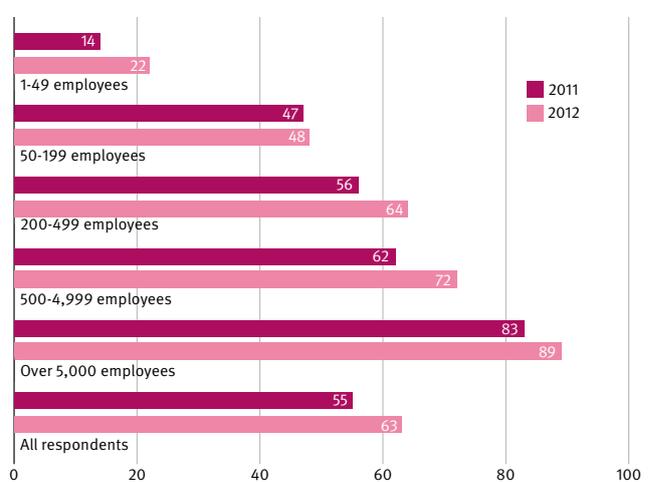


Small and medium-sized enterprises therefore represent the least tapped market in terms of providing additional apprenticeship opportunities. Many smaller employers still see apprenticeships as not relevant to them or are apprehensive about the costs and bureaucracy of becoming involved. Working in partnership with a training provider can help shield SMEs from some of the paperwork involved, but smaller firms often lack dedicated HR resources and need clear user-friendly information on the constantly changing apprenticeship process and funding arrangements, together with support in finding the right provider. The government has rightly recognised the problems faced by SMEs and the appointment of Jason Holt to lead a review of how to encourage SME involvement is welcome.

... but there are still barriers to overcome

Business is a willing partner for government on apprenticeships and wants to grow both the quantity and quality of apprenticeship provision. We need the right framework in place to build on the current good practice of employers, encouraging existing participants to offer more placements and other firms to start doing so.

Exhibit 14 Employer involvement in apprenticeship programmes by size, 2011-12 (%)



Our survey asked employers what three measures would encourage them to become more involved in apprenticeship programmes (**Exhibit 15, page 20**). The single most important consideration, cited by nearly half (46%), is for qualification programmes that are more relevant to business needs. More than a third (37%) also want government support for firms to train more apprentices than they need for the wider benefit of their supply chain or their sector as a whole – they recognise the importance of strengthening the skills base more broadly.

Other important areas in need of attention are greater flexibility for employers to design bespoke apprenticeship frameworks (36%) and ensuring that more of the young people who apply for placements are suitably qualified and motivated (34%).

Exhibit 15 Action required to encourage employers to get more involved in apprenticeships (%)



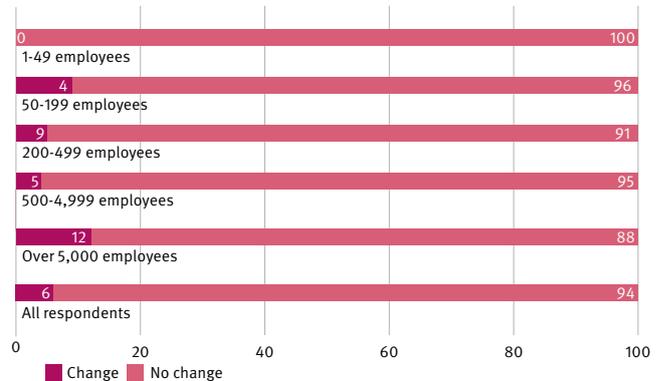
Little progress as yet on curbing bureaucracy

Last year's survey identified high levels of bureaucracy and complexity in the apprenticeship system as a concern, particularly among those large firms (over 5,000 staff) with direct funding contracts that take on all the costs and responsibilities of delivering accredited apprenticeship programmes. Over half (57%) of larger firms urged the need for progress in this area.

The scale of bureaucracy remains a concern, with more than one in four respondents (28%) believing reductions in the administrative burden are needed to encourage continued expansion of apprenticeship provision (**Exhibit 15**).

In November 2011 the government announced measures intended to slash the amount of red tape around apprenticeships. As yet, the changes do not seem to have been felt by employers (**Exhibit 16**). Even among the largest firms, almost nine out of ten (88%) report

Exhibit 16 Employers' experience of measures to reduce apprenticeship bureaucracy, by size (%)



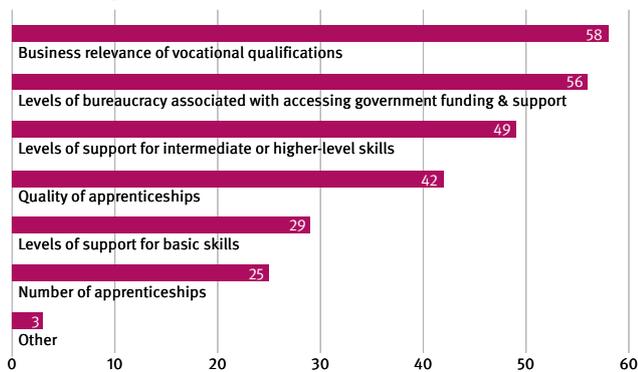
they have not yet experienced any change in practice, while no firm with under 50 employees reports experiencing a change. Across all respondent employers, just 6% say they have experienced a change for the better so far, though it is early days.

Priority areas to boost workforce skills

As part of this year's survey, we asked employers what they believed are the three key areas that need to be addressed to help strengthen skills among those already in the workforce (**Exhibit 17**). The single most frequently mentioned concern, cited by 58%, is over the business relevance of vocational qualifications – also the top concern in relation to apprenticeships, as noted above.

More than half (56%) of firms also point to the levels of bureaucracy associated with accessing government funding and support for training and development as among the most important areas for action. Many employers (29%) continue to see government support for helping those employees with weaknesses in basic skills such as literacy, numeracy and IT as a priority, but more (49%) would like to see resources committed to supporting the development of intermediate or higher-level skills. This increasing emphasis on

Exhibit 17 Employer priority areas for action to strengthen workforce skills (%)



Employers wanting to see vocational qualifications made more business-relevant

58%

more advanced skill levels reflects the growing need for skills beyond basic levels if the UK is to compete successfully as a hi-tech, high-skills economy in the global marketplace. The recently launched employer ownership pilot, jointly overseen by UKCES, BIS and the Department for Education, may provide some useful lessons in how training support can be delivered most effectively to meet these changing needs.

4 Raising standards in schools

The essential foundations for people's working lives are laid during their time at school. Employers have long been keen for schools to ensure all young people emerge with the essential core skills they need and the right motivation to continue learning and to thrive in the workplace. Currently, too many young people are missing out – action is needed to raise ambition for all in schools.

Key findings:

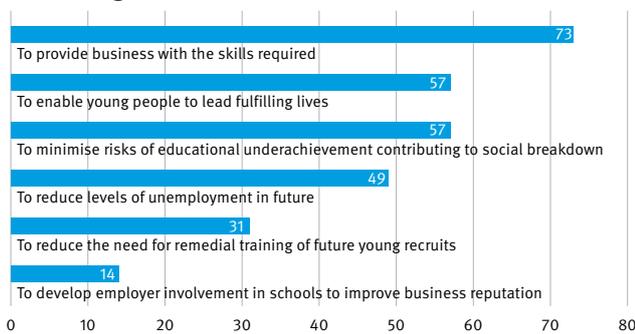
- Employers say the need to provide businesses with the skills they require is the single most important reason to raise standards in schools (73%). Other reasons cited are the importance of enabling young people to lead fulfilling lives (57%) and minimising the risk of educational underachievement contributing to social breakdown (57%)
- Employers want to see primary schools concentrating on the key enabling skills of numeracy (61%), writing (58%) and reading (45%) that underlie success in all other learning
- For those in the 14-19 age group, employers believe schools and colleges should be prioritising development of employability skills (71%). They also want to see more done to strengthen literacy (50%), numeracy (45%) and technology skills (30%)
- While all types of qualifications are seen as aiding development of particular employability skills, no one type is seen as delivering on all the essential areas.

Raising school standards is important for business growth...

Levels of attainment among school leavers are a long-standing cause of concern to employers and they have frequently called for standards to be raised. This year's survey set out to explore in more detail why employers are concerned and the areas of school activity in greatest need of attention. One of the CBI's major policy priorities for 2012 is to raise ambition for all in schools. A report following up these and other issues related to improving attainment will be issued later this year.

When asked to identify the three most important reasons for raising standards in schools, three quarters (73%) of respondents point to the need to provide businesses with the skills required for future growth (**Exhibit 18**). This is by far the single most commonly cited reason among employers of all sizes.

Exhibit 18 Employer views on the importance of raising school standards (%)



...but employers are also concerned about the personal and social impact

Well over half of employers, however, also identify broader individual and social concerns as major reasons to push up standards within schools. Enabling young people to lead fulfilling lives and minimising the risk of educational underachievement contributing to social breakdown both feature as highly important (both rated in the top three reasons by 57% of respondents). The responses reflect keen awareness among employers of how weaknesses in core educational attainment restrict life chances for individuals and how this in turn can contribute to wider problems in society.

Nearly half (49%) of employers also point to the importance of higher school standards in reducing the risk of individuals lapsing into unemployment in the future – all the evidence shows better levels of education are associated with better job and career prospects.

Around a third (31%) of employers believe it is important to raise standards in schools to reduce the need for businesses to organise remedial training of young people when they take on recruits. Currently, resources are too often diverted from other training and development activity or from other business investment to try and compensate for earlier failings in the education system.

Primary schools should focus on the key enabling skills

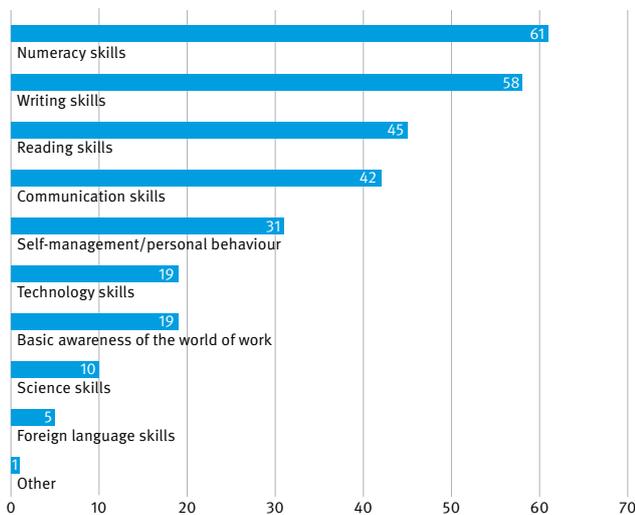
Educational standards – including the core skills of literacy and numeracy on which acquisition of so many other skills depend – and enabling young people to make an effective transition into working life have long been concerns for employers. Only if these are effectively addressed can young people begin to use their other skills and abilities to contribute in the workplace. The issue has gained added urgency against the background of high unemployment among young people: in the three months to December 2011, one in five (21%) of young people aged 16-24 not in full-time education were unemployed.²³

Employers want to see primary schools focusing on the essential competencies that make further learning possible (**Exhibit 19, page 24**). When asked to identify the three priority areas they believe need to be addressed in primary education, the top responses are numeracy (61%), writing skills (58%) and reading (45%). Unless youngsters make sustained progress in all three of these during their time in primary education, they face major difficulties subsequently in their schooling – and potentially in their working lives. It is a major cause for concern that one child in three leaves primary school without reaching expected standards in reading, writing and maths combined.²⁴

Employers believing numeracy should be a priority for primary education

61%

Exhibit 19 Business priorities for primary education (%)



Employers also believe it is important for children to start developing the effective communication skills that are so essential later in personal and working life (a priority for 42% of respondents). And they attached importance to primary schools helping children to develop appropriate self-management and personal behaviour (31%). These are important skills underpinning both effective future learning and success in an increasingly diverse, complex and stretching work environment. A relentless focus in primary schools on these core enabling skills is essential if children are to thrive later in life, and employers have an important role to play in highlighting their significance and helping schools develop effective approaches.

Improving employability skills should be the top priority for secondary schools

For young people in the 14-19 age bracket, employers want to see development of employability skills (outlined in chapter 6) made the top priority (**Exhibit 20**). Over two thirds (71%) of firms cite this as one of their top three issues for the government to address as part of its educational reforms. Improvements in the essential skills of literacy and numeracy also rank highly (identified as priorities by 50% and 45% of respondents respectively).

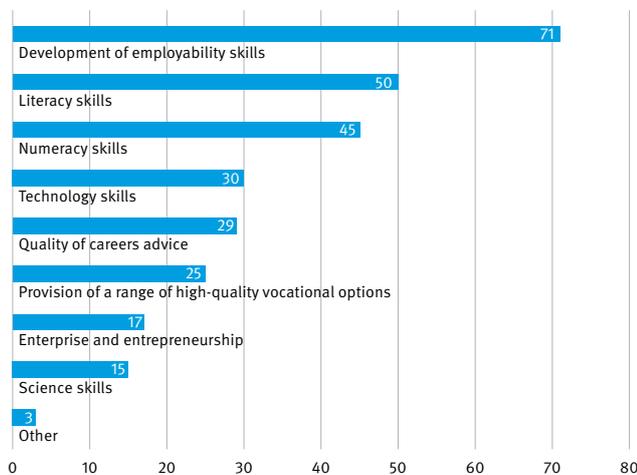
Many employers are also keen to see the government encouraging schools and colleges to strengthen technology skills among young people (30%). Improvements in this area are an important part of preparing young people for the essential rebalancing of the economy towards a greater role for manufacturing, engineering and technology in all its forms. The current reform of the ICT national curriculum is a welcome first step.

A similar proportion of employers (29%) want to see a step change in the quality of careers advice. Young people need help to gain a better understanding of the varied routes open to them and, critically, the qualifications they will require to pursue them. Too often it seems that young people have not received guidance at a sufficiently early stage. It remains to be seen whether the newly launched national careers service (NCS) can rise to the challenge.²⁵ For the NCS to be truly effective, it will need a programme of continuous engagement with businesses to ensure that impartial careers advice and guidance is always up-to-date and relevant.

Employers seeing development of young people's employability skills as a priority for secondary schools

71%

Exhibit 20 Business priorities for 14-19 year-old education (%)



One in four employers (25%) want to see improved provision of high-quality vocational options. As last year's review by Professor Alison Wolf showed, too many 14-16 year-olds have pursued vocational courses that in practice have been of little or no value in terms of preparing them for higher education or the job market.²⁶ Employers believe we need a combination of high-quality vocational options and high-calibre academic subjects, all underpinned by development of young people's employability skills.

Key sectors want a focus on technology skills

Perhaps not surprisingly, employers in the engineering, hi-tech/IT and science sectors see strengthening of technology skills among 14-19 year-olds as second only to development of employability skills in terms of priority (**Exhibit 21**). Among firms in this key grouping, two thirds (62%) rank development of employability skills as a priority for schools and colleges, with technology skills in

Exhibit 21 Business priorities for 14-19 education, by sector (%)

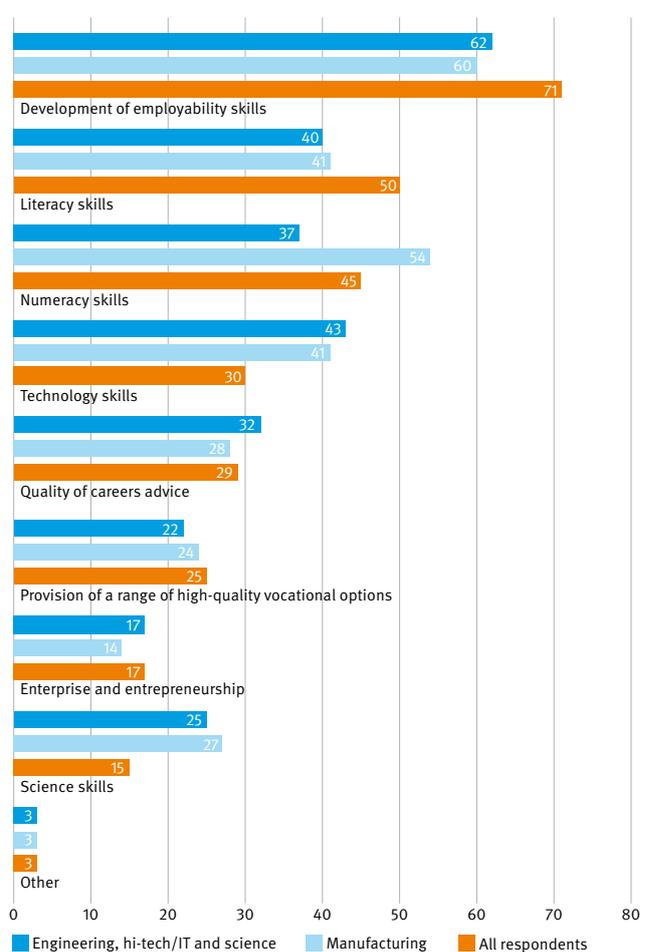
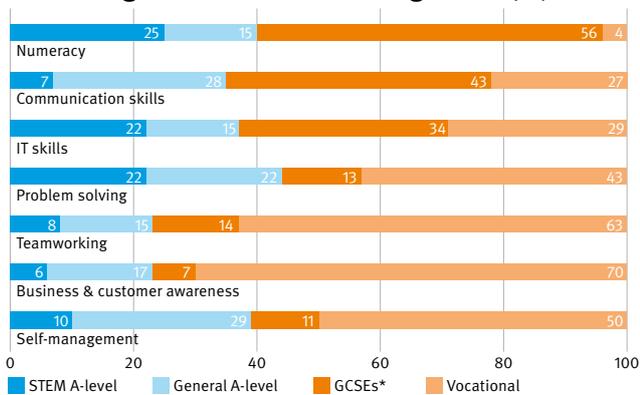


Exhibit 22 Qualifications best equipping school and college leavers with working skills (%)



* Five GCSEs grades A* to C including maths and English

second place (rated as a top-three priority by 43%) ahead of literacy and numeracy skills (40% and 37% respectively). Manufacturing firms too rate improved technology skills as a priority, equal in importance to better literacy (a top-three priority for 41%).

Which qualifications are best for working life?

While employers tend to see vocational qualifications as likely to be the best qualifications in terms of equipping school and college leavers with many of the generic skills needed to cope in working life, there is no simple pattern (**Exhibit 22**). In terms of numeracy, for example, a GCSE pass at grades A* to C is seen as the best qualification in terms of equipping young people with the skills needed at work (by 43% of respondents), followed by a science, technology or maths (STEM) A-level (by 25%).

Vocational qualifications, however, emerge strongly as arming school and college leavers with the necessary skills in areas such as business and customer awareness (rated as best by 70%), teamworking (63%) and self-management (50%). Overall, however, there is no one type of qualification which is seen as delivering on all the essential areas of employability.

5 Employer commitment to schools and colleges

Businesses recognise they have an important role to play in supporting schools and colleges to raise achievement and improve performance that goes beyond simply being a stakeholder in the education system. Employers can spell out the relevance to the workplace of the skills and knowledge developed at school. They can provide young people and teaching staff with practical experience and they can bring their own expertise into schools and colleges through roles such as governors, sponsorship and careers advice. Business links with education are widespread and there is an appetite for greater engagement to help inspire our young people.

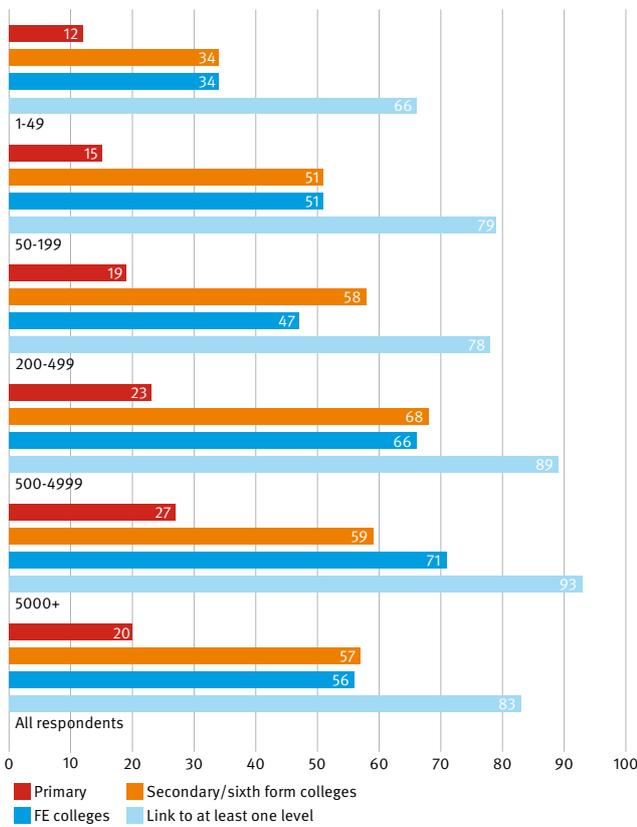
Key findings

- Over half of the employers surveyed have built links with secondary schools (57%) and further education colleges (56%)
- Employers are stepping up their commitments, with a positive balance of a third (+32%) having increased their school and FE college engagement activity over the past year
- Business involvement goes beyond providing work experience for pupils (70%) to include careers advice (51%), employees acting as school governors (29%) and mentoring (25%)
- Employers see the quality of careers advice for young people as not good enough (by a balance of -68%)
- There is an appetite from employers to play a greater role in delivering careers advice – more than half (60%) would be willing to do more.

Employers are committed to involvement

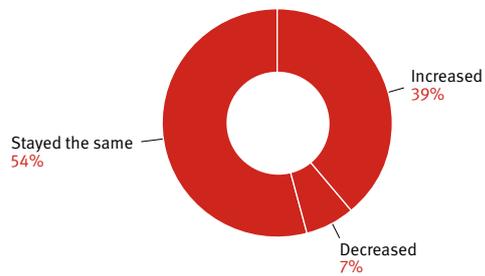
The CBI has long championed business partnerships with schools and colleges and has pointed to the need for a clear mechanism for co-ordinating employer efforts.²⁷ The majority of employers in our survey have in practice developed links with schools and colleges, seeing the benefits to all parties that engagement can bring (**Exhibit 23, page 28**). Connections are particularly strong between businesses and secondary schools (57%) and further education colleges (56%), but a fifth (20%) of employers also engage with primary schools. Levels of engagement are highest among larger employers, with nine out of ten firms (93%) employing more than 5,000 people having some links to schools or colleges. But even at the level of the smallest companies with 1-49 employees, two thirds (66%) now work with schools or colleges.

Exhibit 23 Employers linked with schools and colleges (%)



Despite the difficult trading climate and the pressures on companies, businesses' commitment to working with schools has continued to gain momentum as more employers and schools experience the benefits of working in partnership (Exhibit 24). Over a third of employers have increased their engagement with schools in the past year (39%) while just 7% have reduced it, giving a positive balance of +32%.

Exhibit 24 Change in scale of links with schools/colleges over the past year (%)



Business support takes many different forms

The single most widespread way in which businesses support schools and colleges is by providing work experience placements for students (Exhibit 25). In all, more than two thirds (70%) of employers supporting education are currently engaged in this activity, which is an important way for young people to develop employability skills and recognise the importance of these skills (see chapter 6).

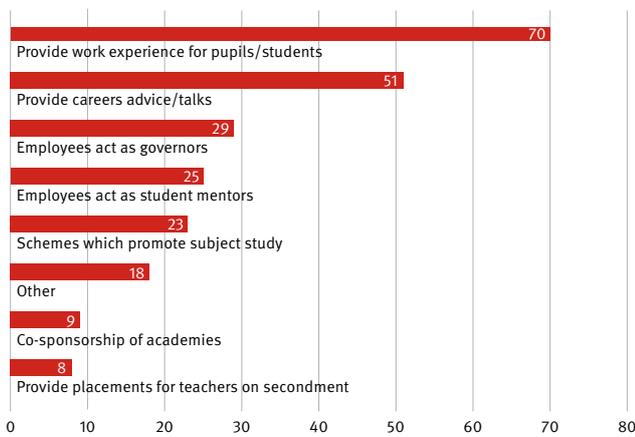
But there is much more that can be done. Other types of business involvement include a wide range of activities, all of which are vital in supporting teaching, school and college management and successful progression of young people into the world of work.

Employers are heavily involved in providing careers advice and presentations to young people in schools and colleges. Over half

Employers increasing or maintaining their links with schools and colleges over the past year

93%

Exhibit 25 What’s the nature of your work with schools/colleges? (%)



(51%) of those with links to schools and colleges contribute in this way. School governance is another area where business involvement can make a real impact. Many employers (29%) now have members of staff acting as governors, who can draw on their business expertise to help schools and colleges run efficiently and effectively. Businesses interested in finding out more about school governance can visit the School Governors’ One Stop Shop.²⁸ Enabling employees to act as student mentors has been a fast-growing area, with a quarter (25%) of those firms with education links providing help in this way.

Schemes in which employers engage with schools to promote subject study are widespread, with one in four businesses (23%) taking this approach. This kind of engagement is particularly common among engineering, hi-tech/IT and science firms (39%), indicating that businesses are responding to the need to enthuse and inspire young people about studying science, technology, engineering and maths. The STEM Ambassadors scheme run by STEMNET is a good example of this kind of activity – there are now thousands of STEM Ambassadors drawn from some 1,500 different employers going into schools to enthuse and inspire students about STEM study.²⁹

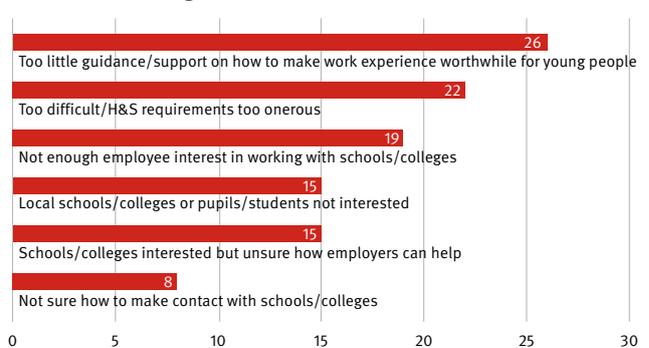
Employers are engaged in providing a wide range of other assistance to schools and colleges. Activities include running mock interviews, CV preparation workshops, funding for particular projects and involvement in classroom delivery of scientific and technical subjects. Initiatives such as the business class programme operated by Business in the Community can help ensure employer involvement is well-structured and sufficiently long term to produce lasting benefits.³⁰

Business involvement could be further increased

Although the great majority of businesses now have at least some links with schools and colleges, the scale of that involvement could be stepped up and young people could be deriving greater benefit (Exhibit 26). The biggest concern among employers (voiced by 26%) is that there is insufficient guidance and support on how to make work experience placements as worthwhile as they should be. This has long been an area of concern to employers – the value that young people derive from their placements depends on a partnership approach being adopted by schools, employers and young people themselves.³¹

The activities of some businesses simply do not lend themselves to educational involvement such as providing work experience openings. But more troubling is the view among a fifth (19%) of businesses that not enough of their employees are interested in

Exhibit 26 Barriers to building links with schools/colleges (%)



working with schools and colleges. Taking charge of young people on work experience, the responsibilities of governors and the demands of mentoring or giving career presentations are certainly not to be treated lightly, but employers need to get the message across that they are an important part of business activity and an integral element of career development for employees. Equally concerning is the finding (voiced by 15% of respondents) that there are still schools that are not interested in employers being involved or that have failed to impress the value on their students.

Careers advice: a key area for improvement

Employers are clear that many young people are not in a position to make informed choices about their future career because of inadequate careers advice in schools and colleges. Only 4% of businesses are confident that careers advice is good enough, while more than two thirds (72%) think that advice must improve (Exhibit 27). The negative balance of those believing careers advice needs to be improved over those considering it as good enough is even greater this year at -68% than last year at -58%. The new NCS will need to bring about a step change in this poor level of performance.

Young people need access to high quality, impartial careers advice grounded in information about the jobs market to allow them to make informed choices about their future career. This must include advice about the vocational routes open to them – such as apprenticeships – as well as more traditional academic options.

Recognising the scale of the challenge, business is prepared to help with the essential improvement. Many employers are already

Exhibit 27 Employers' views on the quality of careers advice for young people (%)

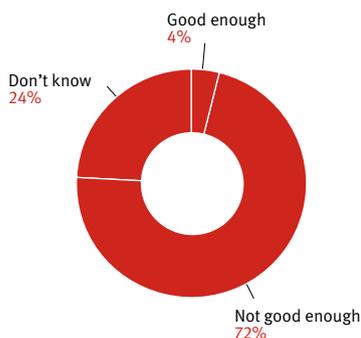
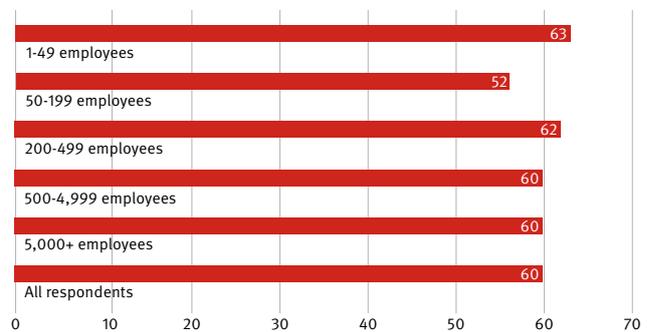


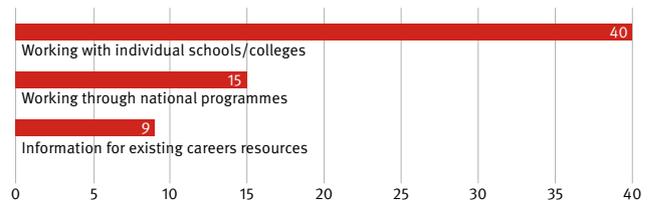
Exhibit 28 Employers willing to play a greater role in delivering careers advice (%)



actively involved (Exhibit 25, page 29) in supporting the delivery of careers advice, but over half (60%) would be willing to play a greater role (Exhibit 28). The appetite to support schools on careers advice is strong among employers of all sizes.

When asked about plans for action to increase their involvement in delivering careers advice, two in five firms (40%) say they will be looking to work on this with individual schools and colleges (Exhibit 29). A smaller proportion (15%) are intending to increase their involvement in national programmes such as the STEM Ambassadors initiative or to provide more or better information for existing careers resources such as *Prospects* or the b-live foundation.

Exhibit 29 Involvement in supporting improved careers advice (%)



6 Preparing for working life

Employers recognise it is their responsibility to train employees to do specific jobs. But young people must enter the labour market in possession of core skills – literacy, numeracy and other employability skills – that will enable them to operate effectively from the outset of their working lives. Too many young people leave education with shortfalls in these essential skills, feeding the pool of adults who have weaknesses in these core competencies.

Key findings:

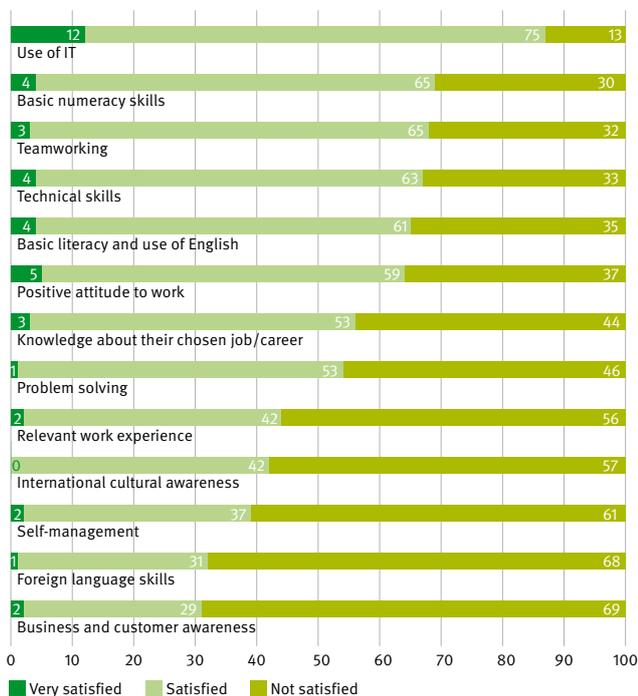
- There is a pressing need to improve the literacy/use of English and numeracy skills of school and college leavers (35% and 30% respectively of employers report dissatisfaction)
- Employers also report weaknesses in employability skills, including school leavers' self-management (61% unsatisfied), business and customer awareness (69%) and attitude to work (37%)
- Levels of employer satisfaction with the employability skills of graduates are higher, but there are still worrying weaknesses in teamworking (25%), problem-solving (23%) and inadequate work experience (37%)
- Among existing employees, employers report widespread weaknesses: there are problems to at least some extent in literacy/use of English (56%), numeracy (55%) and IT skills (66%)
- Remedial training by employers is widespread (ranging from 5% reporting training in numeracy for some graduates to 50% reporting remedial IT training for some adult employees).

The price of failure at school is high – for young people, businesses and society

Improving the basic skills of school and college leavers in the 16-19 age group is an educational priority for most employers. This year's survey shows that a third of firms (35%) are not satisfied with the basic literacy/use of English skills of school and college leavers, and a slightly lower proportion (30%) are unhappy with levels of numeracy (**Exhibit 30, page 32**). Encouragingly, both of these figures are lower than in the 2011 survey (42% and 35% respectively).

We should be under no illusions: there was never a golden age of universal high attainment in literacy and numeracy – these problems have persisted over time. Back in 2003, CBI data showed over a third (34%) of employers unhappy with the basic skills of school leavers.³²

Exhibit 30 Employer satisfaction with school/college leavers' employability skills (%)



The need for young people to have mastered the basic skills becomes more acute with the passage of time. The UK can ill afford to have young people leaving compulsory education with inadequate literacy and numeracy – and for the young people concerned the weakness represents a major handicap at the start of their working lives. Real progress in this area is as important as raising levels of attainment measured by the English baccalaureate.

There is still much to be done to improve young people's employability skills more broadly (**Exhibit 31**). The survey results show continuing widespread dissatisfaction among employers. Too many young people are leaving education without some of the

Exhibit 31 CBI definition of employability skills

A positive attitude (readiness to take part, openness to new ideas and activities, desire to achieve) underpinning:

Self-management – readiness to accept responsibility, flexibility, time management, readiness to improve own performance

Teamworking – respecting others, co-operating, negotiating/persuading, contributing to discussions

Business and customer awareness – basic understanding of the key drivers for business success and the need to provide customer satisfaction

Problem solving – analysing facts and circumstances and applying creative thinking to develop appropriate solutions

Communication and literacy – application of literacy, ability to produce clear, structured written work and oral literacy, including listening and questioning

Application of numeracy – manipulation of numbers, general mathematical awareness and its application in practical contexts

Application of information technology – basic IT skills, including familiarity with word processing, spreadsheets, file management and use of internet search engines

skills and attributes that every person should have to be effective at work.

Employers recognise it is their responsibility to train young people for specific jobs and roles. But firms do expect school leavers to be able to draw on a range of employability skills, enabling them to become rapidly effective in the workplace.

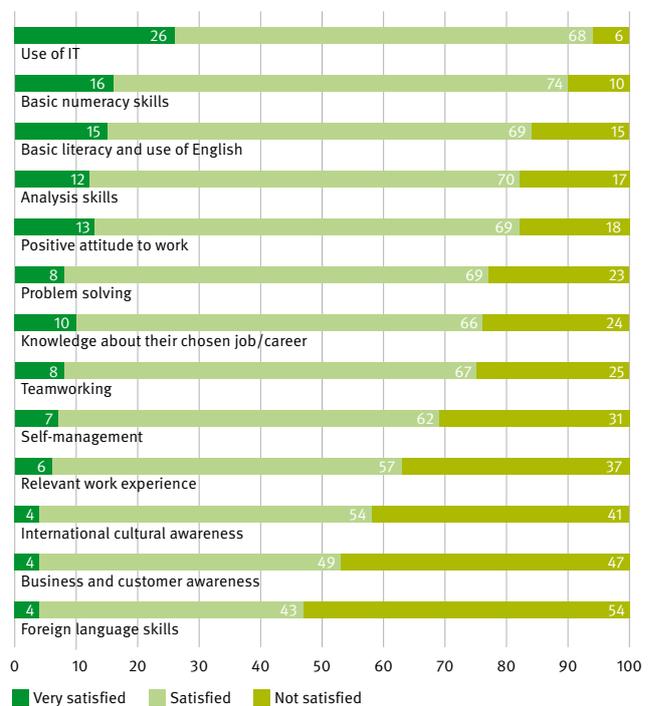
For example, over half (61%) of employers are not satisfied with young people’s self-management skills – expecting them to be better able to accept responsibility, manage their time effectively and be prepared to improve their performance. More than two thirds of employers (69%) are also not satisfied with levels of business and customer awareness among school and college leavers, feeling that too many young people have weaknesses, for example, in understanding the need to provide customer satisfaction.

The combination of an increasingly global economy and heightened cultural sensitivities is making new demands on many people at work. Weaknesses in foreign language skills are nothing new, but have intensified since the requirement to take a language at GCSE level was ended (68% of employers are not satisfied with young people’s foreign language skills). Perhaps more worrying still in the context of a workforce, customers and society drawn from increasingly diverse backgrounds and a globalised economy, well over half of employers (57%) perceive shortfalls in international cultural awareness among school and college leavers.

Perhaps predictably, skills in use of IT emerge as the area receiving the highest employer satisfaction rating (87% satisfied or very satisfied). Even here, however, there is a lagging tail of weak skills among school leavers, with one in eight employers (13%) reporting gaps in the attainment they expect.

A positive attitude to work is the vital underpin that enables young people to approach the world of work with enthusiasm and a desire to learn and develop. It is therefore troubling that more than a third (37%) of employers are not satisfied with the extent to which young people display this critical attribute.

Exhibit 32 Employer satisfaction with graduates’ employability skills (%)



Many graduates also need to improve their employability skills

Employers are more satisfied with the skills of their graduate applicants and recruits on every measure of employability than they are with school and college leavers (Exhibit 32). But too many employers are reporting worrying shortfalls among graduates – some in core areas of schooling while others are in those skill areas where higher education should help students develop.

One in ten employers (10%) report shortcomings in the basic numeracy skills of graduates and a higher proportion (15%) are not satisfied with standards of literacy/use of English among graduate candidates and recruits.

It is even more concerning to find over a fifth (23%) of employers not satisfied with graduates' problem-solving skills, involving their use of creative thinking to develop appropriate solutions to problems, which should be a prime outcome of higher education. A similar proportion (25%) do not find the teamworking skills of graduates meet their expectations – another important outcome of most higher education programmes.

A quarter of employers (24%) are also concerned about graduates' limited careers awareness, with many more (37%) feeling graduates should have more relevant work experience. Business awareness is also seen as a major area of weakness, with nearly half (47%) of employers expressing dissatisfaction with graduates' business and customer awareness.

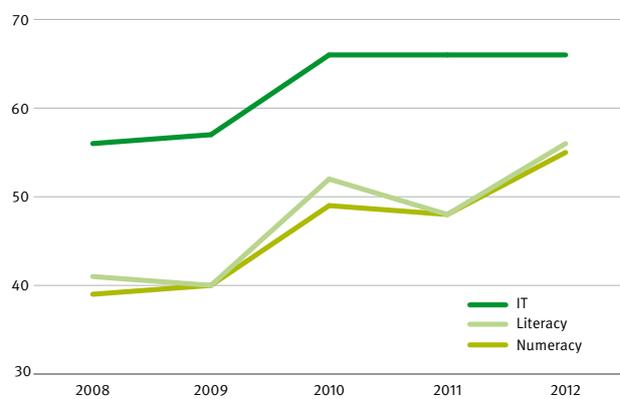
Remedying these shortfalls is best addressed through a partnership approach, involving students, HE institutions and employers. In the end, however, students and graduates themselves have to commit to making the difference, appreciating the importance of employability skills from an early stage and deciding how best to develop their work-relevant skills through their courses and other opportunities.³³

Core skills weaknesses persist among adult employees

The results from our survey highlight the ongoing weaknesses in basic skills used at work across large parts of the UK workforce (**Exhibit 33**). Over half of respondents express concern – to at least some extent – about the basic literacy (55%) and numeracy skills (56%) of some employees in their current workforce. Worries about IT skills are higher still, with two thirds (66%) of firms expressing concern to some extent or a significant extent – a finding that reflects the shakier grasp of IT skills among some older employees.

Over the past five years' of this survey, employers' concerns over weaknesses in core skills amongst their employees have deepened. It is probably not so much that levels of attainment have declined as that the levels of skill needed tend to escalate with the growing complexity of the workplace. There is, however, some research suggesting the number of adults with poor numeracy has increased

Exhibit 33 Employers reporting concern over basic skills of current workforce (%)

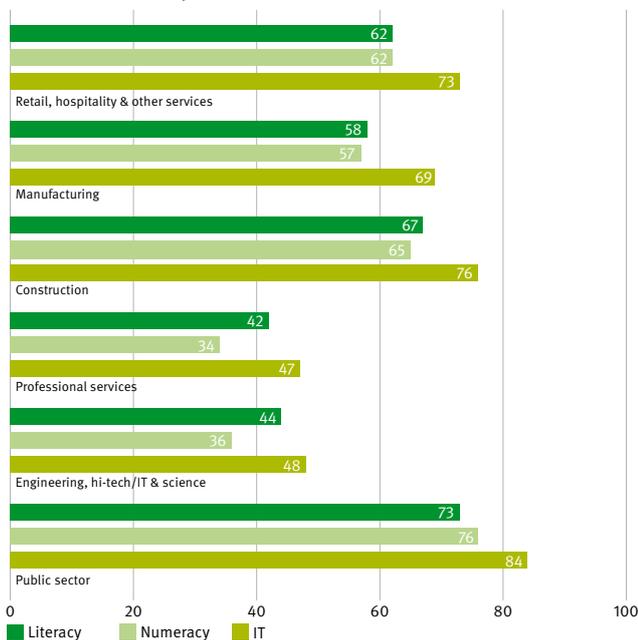


over the past eight years and that one in two adults now has numeracy skills roughly equivalent only to those expected of children at primary school, meaning for example that they may not be able to understand pay and deductions on a wages slip.³⁴

The extent of concerns tends to rise with organisation size. Among firms with under 50 employees, two in five (40%) report literacy problems and a third (35%) perceive numeracy difficulties to at least some extent among employees, while among those with over 5,000 employees, two thirds have concerns about employee literacy (67%) and numeracy (68%). Shortfalls in employee IT skills are seen as an even more widespread problem, reported by half (48%) of the smallest firms and three quarters (73%) of the largest.

Employer concerns over numeracy and literacy inevitably vary from business to business and sector to sector (**Exhibit 34**), but there is broad agreement about how shortcomings in basic skills affect employees in performing everyday tasks. They can hinder employees' ability to draw out information effectively from basic texts, compose written communications, or work through basic arithmetic and percentages, such as calculating change, working out a discounted price or estimating materials needed. Shortcomings in IT skills affect more and more jobs as the use of technology spreads to new activities.

Exhibit 34 Employers reporting concerns over basic skills, by sector (%)



Other research has shown that the concerns of employers are shared by many employees, conscious of the impact of weaknesses in their basic skills on their working lives. Around 16% of employees participating in a recent *Skills for Life* survey by UNISON said low levels of confidence in their core skills had stopped them from applying for promotion, while 14% reported they had been deterred from taking on more responsibilities.³⁵ This is detrimental to the long-term performance of the UK economy.

Employers diverting resources into remedial training

To address weaknesses in functional skills across the workforce, employers are diverting funding and resources from other training activities or investment into remedial training (**Exhibit 35**).

In the past year, more than two in five employers (42%) report that they have organised remedial training for at least some young people joining them from school or college. In all, a fifth of firms have provided training in literacy (20%) and similar proportions in numeracy (18%) and IT (23%) – some firms provided remedial training in two or all three areas.

Among graduates, a quarter (26%) of employers report providing remedial training in at least one area for some recruits in the past 12 months. The biggest area for assistance was IT skills (by 14% of businesses) followed by literacy/use of English (6%) and numeracy (5%). Public sector employers report a higher-than-average need for remedial training among graduates, with 24% helping them with IT skills, 9% with literacy and 7% with numeracy.

Remedial training is even more widespread for adult employees, with more than half of employers (58%) saying they have organised training in at least one basic skill area in the past year. IT skills have been the top area for improvement, with 50% of businesses reporting that they have provided remedial training for at least some adult employees in IT in the past year. There was less widespread activity on literacy (15%) and numeracy (13%). Once again, public sector organisations were particularly active, with three quarters (75%) reporting provision of remedial training to some adults in at least one basic skill.

Exhibit 35 Employers providing remedial training in past year

	School/college leavers	Graduates	Adult employees
Literacy/use of English	20	6	15
Numeracy	18	5	13
IT skills	23	14	5

7 Employers seek high skills for the future

As the UK seeks to win a larger share of global markets as part of rebalancing our economy, it is essential that British businesses should have the right mix of skills among their employees. The drive towards developing more high-value, export-oriented products and services will require more and higher levels of skills across the workforce. The trend for an increasing proportion of jobs to need higher levels of education and skills will intensify, leaving those with weak skills competing for the diminishing proportion of lower-skilled roles.

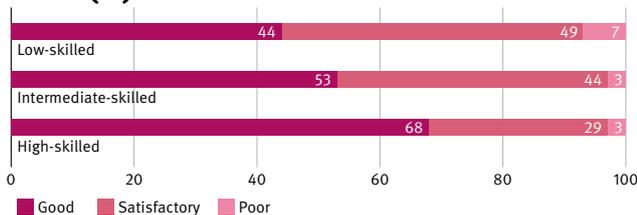
Key findings

- Most employers consider skill levels among their employees to be satisfactory for their current activities, with two thirds (68%) rating their high-skilled employees as good
- Less positive ratings are given to low skilled employees, with one in ten (10%) of the largest employers and 7% of employers overall assessing their competency levels for their roles as poor
- Looking ahead, far more businesses expect to increase the number of jobs requiring leadership and management skills and higher skills in the next three to five years than expect to reduce them (a positive balance of +67% and +61% respectively)
- More employers expect to decrease the number of low-skilled employees in the next few years than to increase the number (giving a negative balance of -3%)
- While most employers are confident there will be enough people available to fill their low-skilled vacancies (a positive balance of +51%), employers are not confident of meeting their need for high-skilled employees (a negative balance of -15%).

Most employers see the skill levels of their employees as adequate for now...

Employers are broadly satisfied with current levels of skill among employees in their organisations (**Exhibit 36**), despite the weaknesses in functional skills noted in chapter 6. Two thirds (68%) rate their employees in high-skilled jobs as having good levels of skill, while most of the remainder (29%) consider their employees at this occupational level as having satisfactory levels of skills. Less than one in 20 (3%) consider their employees in high-skilled roles as having poor levels of skills. But the bar is constantly being raised by international competition, so no employer can be complacent about the skills of their employees.

Exhibit 36 Ratings of employee competency levels (%)



At lower levels, employer assessments are not quite so positive. At the level of intermediate skilled jobs, only half (53%) of employers rate general skill levels among their employees as good, and this drops below half (to 44%) when employers consider the skill levels of those in low-skilled roles. For both job groups, however, only around one in twenty employers view the skills levels of their current employees as poor (3% for intermediate-skilled jobs and 7% for low-skilled jobs).

... but there are warning signs for the low-skilled

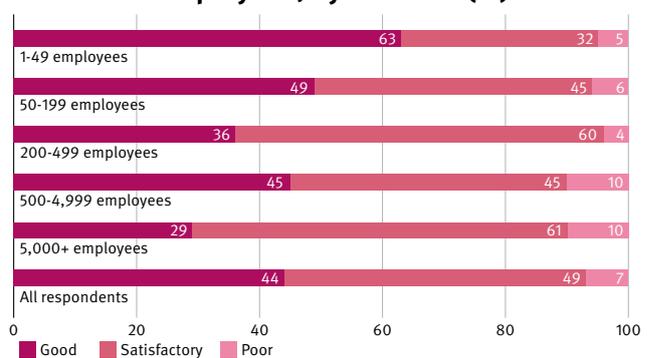
While employers mostly consider their workforces to have sufficient levels of skills for their current activities, there are signs of the need to boost skills among the least skilled in particular. Looking at employer ratings for those in low-skilled roles shows declining levels of employer satisfaction by size of organisation (**Exhibit 37**).

While two thirds (63%) of the smallest firms rate the competency of their low-skilled employees as good, less than a third (29%) of the largest employers take the same view. Among those organisations with 5,000 or more employees – many of them international businesses – more than half (61%) of employers rate the skills of their lowest levels of UK employees as no better than satisfactory and one in ten (10%) rate them as poor.

There will be a growing hunger for skills in future

Over the years ahead, employer demand for people to fill more highly skilled occupations will grow. The major occupational groups expected to expand in the coming years are managers,

Exhibit 37 Ratings of competency levels among low-skilled employees, by firm size (%)



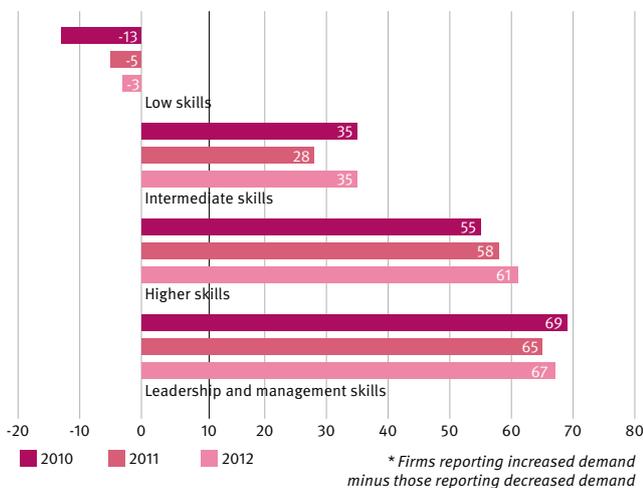
professionals and associate professionals and technical occupations, all of which need high levels of education and skill development. In contrast, occupations such as administrative, clerical and secretarial work and machine and transport operatives are expected to see declining levels of employment.³⁶

Our survey asked about the expected skill needs of organisations in the next few years. The results show the strength of the drive towards a higher-skill economy and the resulting changing future shape of skill needs (**Exhibit 38, page 38**).

Assessing their likely demand over the next three to five years, many more employers expect to need more people with leadership and management skills than expect to need fewer (71% expect to need more, 4% to need fewer and 25% no change, producing a positive balance of +67%). The balance of businesses expecting to require more people with other higher skills is only a little lower (at +61%, up on the response to the same question in 2010 and 2011).

Survey respondents also expect to need more people with intermediate skills in the next three to five years, as the economic recovery gathers momentum. But the balance of employers anticipating adding jobs over those cutting intermediate roles (at +35%) is not so pronounced as at higher levels of skill. This reflects

Exhibit 38 Employer demand for different skills levels over next 3-5 years (%)*



the fact that changes in technology and advances in productivity have more impact on employee numbers in the intermediate group than among those with higher skills.

Only among roles in lowest skills category do employers expect to be cutting numbers in the next few years. While half (48%) of employers expect no change in their number of low-skill jobs, among other employers more (28%) expect to reduce the number of low-skilled posts than expect to increase them (25%), producing a

Employers expecting to need more staff with leadership and management skills

71%

negative balance of -3%. This negative balance is more moderate than the reductions anticipated by employers in previous surveys as economic conditions ease a little, but it nonetheless shows the increasing vulnerability to unemployment of those with the lowest levels of skills.

There will always be some jobs at the bottom end of the skill spectrum, but the message from the survey results is that there will be ever more intense competition for the shrinking number of these roles. The importance of gaining skills is clear.

Can employers meet their need for more skilled employees?

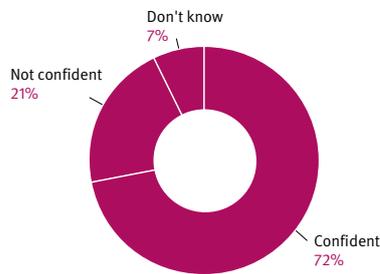
Given the changing shape of the workforce over the coming years, how easy are employers likely to find it to attract and retain the right mix of employees? Perhaps unsurprisingly, three quarters of employers (72%) are confident there will be enough people available to them to fill their low-skilled jobs in future (**Exhibit 39**), with only 21% not confident, giving a positive confidence balance of +51%.

Businesses' confidence about being able to fill all their jobs requiring intermediate levels of skill is much lower. While half (53%) of employers are confident there will be sufficient people available with the right skills, more than a third (37%) are not confident, with one in ten (10%) uncertain, giving a positive balance of +16%.

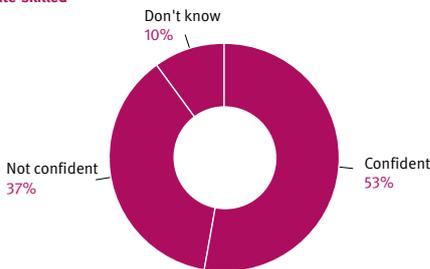
When it comes to filling high-skilled jobs in the future, however, the proportion of businesses (51%) not confident they will be able to find sufficient recruits outweighs those (36%) who believe there will be enough people available to them (producing a negative confidence balance of -15%). This lack of confidence may in part reflect the scale and pace of expansion expected in demand for higher-skilled employees, particularly once the economy enters a more vigorous phase of recovery.

Exhibit 39 Employer confidence in accessing employees in the future (%)

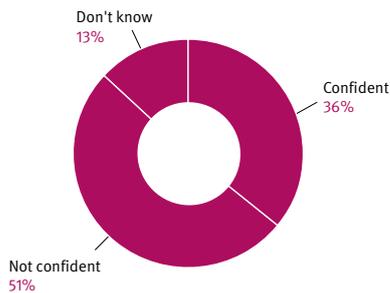
Low-skilled



Intermediate-skilled



High-skilled

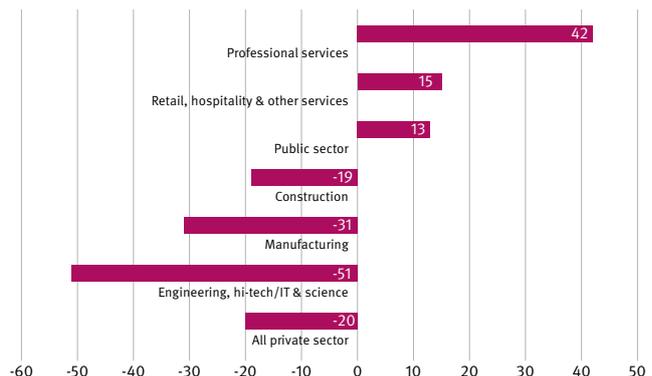


Worries over filling high-skilled posts are unevenly spread

Concerns about filling future high-skilled openings differ greatly between sectors (**Exhibit 40**). Among professional services firms, for example, a positive balance of +42% of employers are confident they will be able to fill all their high-skilled jobs in the next few years.

Businesses in other sectors see much tougher conditions ahead. Among engineering, hi-tech/IT and science firms, a large negative balance of -51% are not confident there will be sufficient skilled people available to fill their high-skilled jobs, and the results for manufacturing too show many employers are not confident of being able to recruit sufficient highly skilled staff in future (a -31% balance). Across the private sector as a whole, a balance of -20% of employers are not confident there will be sufficient high-skilled people available to them to meet their skills needs.

Exhibit 40 Employer confidence in accessing high-skilled employees in the future, by sector (%) *



* Firms reporting 'confident' minus those reporting 'not confident'

8 Meeting the need for STEM skills

Science, technology, engineering and maths (STEM) skills underpin the UK's ability to compete and achieve growth in many major sectors. Demand for these skills is strong across the economy and is set to grow in the coming years – two in five (42%) of those employers who take on staff with STEM skills currently face difficulties in recruitment and no easing of the situation is expected in the near future. This means STEM study will continue to unlock an array of opportunities for young people at every skill level. Government and businesses are already taking action to encourage the study of STEM subjects in schools, colleges and universities but there is more that could be done.

Key findings

- STEM skills open up career opportunities at every level from apprenticeship entry (among 43% of those employers recruiting STEM-skilled people) to postgraduate entry (31% recruit at this level)
- Among those firms that need employees with STEM skills and knowledge, two in five (42%) currently have difficulties recruiting staff, rising to nearly half of employers (45%) expecting difficulty in the next three years
- STEM qualifications alone aren't enough – many employers find that applicants lack general workplace experience (42%) and are weak in employability skills (39%)
- Employers believe government can help tackle future shortages by promoting science and maths in schools (68%) and businesses also have a key role to play – many of those employers taking steps to promote study of STEM subjects offer STEM-related work experience (42%).

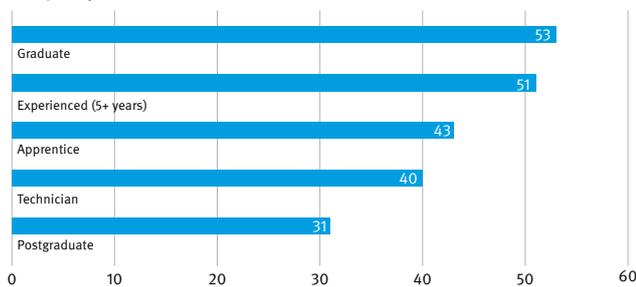
STEM skills open opportunities at every level...

When we asked respondents about the levels of the workforce at which they recruit STEM-skilled individuals, the results show STEM skills open the way to a wide spread of opportunities (**Exhibit 41**). At more junior levels, two in five employers recruit people with STEM qualifications and knowledge as apprentices (43%) and technicians (40%), while half (53%) recruit graduates who have studied STEM subjects in higher education.

...because STEM skills are in demand

Among those organisations that need employees with STEM skills and knowledge, employers of every size struggle to find the STEM talent they require (**Exhibit 42**). In all, two in five (42%) of those firms needing STEM skills report they have difficulty recruiting STEM-skilled staff at some level. While one in four employers (23%) currently face difficulties in meeting their need for experienced staff with expertise in science, technology, engineering and maths, nearly one in five (17%) report problems in finding suitable

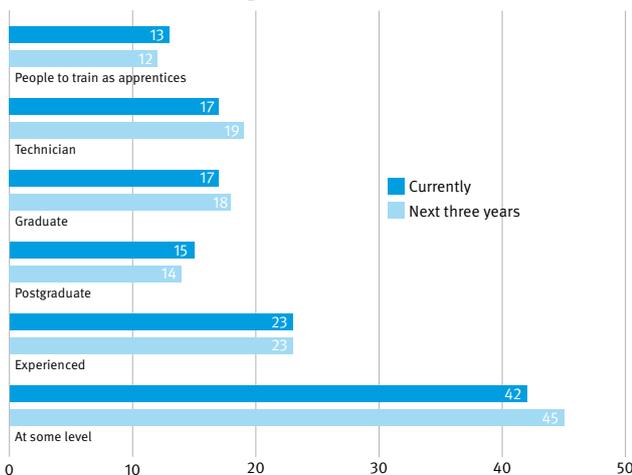
Exhibit 41 Employer recruitment of STEM-skilled employees (%)



graduate recruits and more than one in ten (13%) say it is hard to find people with STEM skills to train as apprentices.

This concerning picture is likely to get worse, with employers expecting growing difficulty in finding STEM-skilled staff once economic recovery gathers momentum. Among businesses aiming to recruit staff with STEM skills, nearly half (45%) anticipate difficulties over the next three years (Exhibit 42).

Exhibit 42 Difficulty recruiting people with STEM skills and knowledge (%)



Shortage of STEM skills has an uneven impact

The extent of difficulties in recruiting STEM-skilled people currently and in the future varies markedly by sector, with difficulties particularly intense in some of the sectors that are seen as key drivers of recovery and the rebalancing of the economy (Exhibit 43). In manufacturing, nearly a third (30%) of firms report current difficulties in recruiting technicians, and this is expected to ease only slightly over the next three years (to 27%). The picture is similar in recruitment of STEM-related graduates, with recruitment problems at present reported by a quarter (26%) of manufacturing firms and anticipated to continue by a fifth (21%) in the coming years. Popular though many apprenticeship schemes are, even at this level a fifth (20%) of manufacturers report current difficulties in attracting the right STEM-skilled candidates and this is expected to ease only a little (to 16% in the next three years).

Responses from firms in the engineering, hi-tech/IT and science areas point to challenges on recruitment of technicians and STEM graduates there too. While the proportion of employers reporting current difficulties in recruitment at the technician level stands at a relatively modest 18%, almost twice as many firms (31%) anticipate difficulties in the next three years. On the graduate side, a quarter (26%) of firms report current problems, with little change expected in the next three years (24% anticipate recruitment difficulties).

Exhibit 43 Difficulty recruiting people with STEM skills and knowledge, by sector (%)

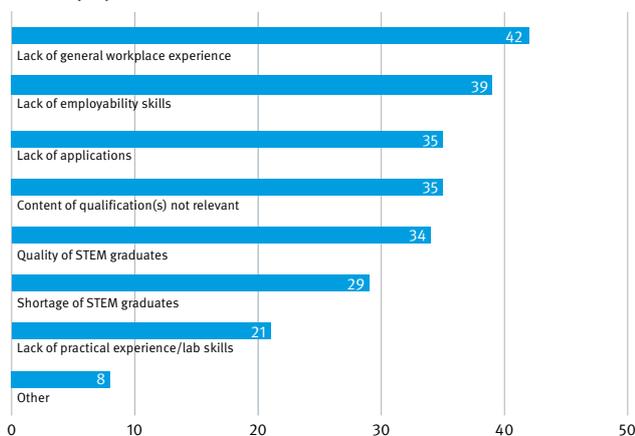
	People to train as apprentices	Technician	Graduate
Manufacturing			
– currently	20	30	26
– next three years	16	27	21
Construction			
– currently	17	16	3
– next three years	9	16	17
Engineering, hi-tech/IT & science			
– currently	16	18	26
– next three years	16	31	24

STEM applicants are not meeting business needs

What accounts for the scale of the difficulties in filling jobs that require STEM-linked skills and qualifications? Among firms that have experienced problems recruiting STEM-skilled staff, the two biggest barriers are the lack of general workplace experience among applicants (42%), perhaps reflecting a lack of interaction with businesses during their education, and weaknesses in their employability skills (39%). These findings highlight the need for all young people to build up understanding and some experience of the day-to-day demands of the workplace (**Exhibit 44**).

Despite the current tough conditions in the jobs market, around a third of employers (35%) also report a lack of applications at some level and 29% are short of interested STEM graduates. At least equally troubling is the view (expressed by 34%) that too often there are shortcomings in the quality of STEM graduate applicants – they do not always possess sufficiently good technical knowledge and skills, together with more general employability skills. A similar proportion (35%) of firms warn that the content of qualifications held by applicants for STEM roles does not equip them adequately for the real world of work. To overcome this

Exhibit 44 Barriers to recruiting STEM-skilled staff (%)



Employers wanting science and maths promoted more in schools

68%

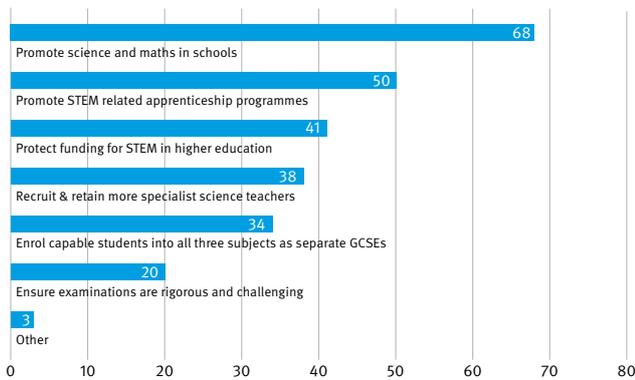
problem, employers must be prepared to work with education and training providers to revise programmes of study in the light of workplace developments – such as technological advances in manufacturing and science-based industries.

Science and maths hold the key to STEM progress

Studying science and maths unlocks a range of employment opportunities for young people across the economy. When asked to identify the three most important areas for action, businesses are clear that government should take further action to promote these subjects, with two thirds (68%) wanting to see more done in schools and colleges to encourage their study (**Exhibit 45**).

Success in promoting science and maths to young people depends on high-quality teaching delivered by subject specialists. Despite recent improvement³⁷, there are still not enough specialist teachers in schools. Almost one in four state secondary schools in England did not have a specialist physics teacher in 2010 and hundreds of secondary schools failed to enter a single pupil for A-level physics.³⁸ More than one in three employers (38%) want to see recruitment and retention of more specialist science teachers as a priority, and it is encouraging to see the government planning to focus funding on meeting this need.³⁹

Exhibit 45 Steps government should take to encourage STEM study (%)



Action is particularly important if uptake of triple science GCSE – the best preparation for A-level and beyond – is to improve. Only around half (46%) of secondary schools offered the combination of biology, chemistry and physics at GCSE level in 2009⁴⁰, although the past couple of years have seen an improving trend in the number of young people entered for separate sciences. A third of employers (34%) advocate enrolling all capable students into triple science GCSE – those achieving level 6 at age 14 (key stage 3).

Beyond school, apprenticeships in STEM sectors are an increasingly popular route among young people. Employers see the government as having a central role to play in supporting and promoting STEM-related apprenticeship programmes (cited by 50%) and promoting them to young people. The government’s view of apprenticeships acting as the gold standard for excellence in vocational training needs to be put across loud and clear.⁴¹

If the education system is to respond to the needs of business for more – and better quality – STEM graduates, funding for STEM in higher education has to be protected. With government support for higher education teaching falling sharply from autumn 2012, remaining resources must be focused on these subjects of immediate importance to the economy, which are often costly for universities to provide.

Business can do more to support STEM in schools

Many employers know they have an essential role to play in promoting the study of STEM subjects by young people. Understanding the relevance of science and maths to a diverse range of careers and hearing employees talk about how they use the subjects on a daily basis and the opportunities on offer can enthuse students and help tackle any negative perceptions (Exhibit 46).

In all, two thirds (64%) of respondents take action of at least some type to encourage young people about STEM subjects, rising to four fifths (80%) among the largest firms employing over 5,000 people. But there are no grounds for complacency – if we are to meet the growing need for advanced and technical skills in the years ahead, businesses will need to step up their involvement still further.

Exhibit 46 Steps by business to promote study of STEM subjects (%)

	Manufacturing	Construction	engineering/ IT/science	All* respondents
Provide high-quality work placements	53	48	50	42
Engage with schools to enthuse pupils about STEM study	44	52	47	39
Provide STEM apprenticeships	54	29	38	35
Engage with universities to develop business-relevant STEM courses	29	24	33	25
Encourage employees to become STEM ambassadors	21	24	24	18
Promote STEM careers resources	21	14	18	16
Provide financial incentives – eg sponsoring students	17	33	20	14
Other	3	5	-	4

* Based on organisations taking action of some type to promote STEM

Offering high-quality work experience placements relevant to STEM subjects is the single most widespread action taken by those employers engaged in promoting STEM (42%). Placements of this type can help students understand the practical application of STEM knowledge and see its value in a concrete setting. Work experience also plays an important role in supporting careers information and advice, by giving students first-hand experience of STEM in the workplace.

Businesses are involved on an almost equal scale (39%) in engaging with schools to enthuse young people about studying STEM subjects. One element in this process is encouraging employees to become STEM ambassadors, going into schools to talk about their work and promote STEM subjects to students. Nearly a fifth (18%) of respondents encourage involvement by employees in the ambassadors scheme.

The low business relevance of STEM qualifications held by applicants can be an important barrier to recruitment of STEM staff. Recognising that they are well placed to help tackle this problem, employers are engaging with universities to assist in developing STEM courses with built-in business relevance, by participating in degree programme advisory boards for example or through the creation of entirely new degrees. Nearly a quarter (25%) of employers taking action of some type to promote STEM are involved in this way.

9 Graduates in the workforce

Businesses depend on graduate-level talent to fill their most demanding roles. Around one in five jobs now require degree-level skills, but for the great majority of employers the all-round employability of graduates matters much more than the subject studied at degree level. With rising tuition fees likely to deter at least some talented young people from applying to university, many employers are giving thought to expanding their recruitment of school leavers and apprentices with A levels to develop an alternative to the traditional university graduate entry route.

Key findings

- One in five jobs (20%) now require degree level skills and the proportion is likely to rise in the years ahead
- About a fifth of graduate-level jobs need applicants to have studied a specific discipline at university, but in recruiting for other roles employers prefer graduates holding STEM degrees (favoured by 50% of employers)
- Employability skills are the most important factor taken into account when businesses recruit graduates – four in five employers (81%) value these skills above other factors such as degree subject (70%) and class (46%)
- The highest median graduate starting salaries are paid for legal roles (£24,000) and engineering and science roles (£23,000), and the lowest for administrative roles (£18,000)
- Most employers (63%) expect the increases in tuition fees to change the market for graduate-level skills – more than a third (38%) think they may develop alternative entry routes for young people with good A levels.

Graduate-level skills are in demand

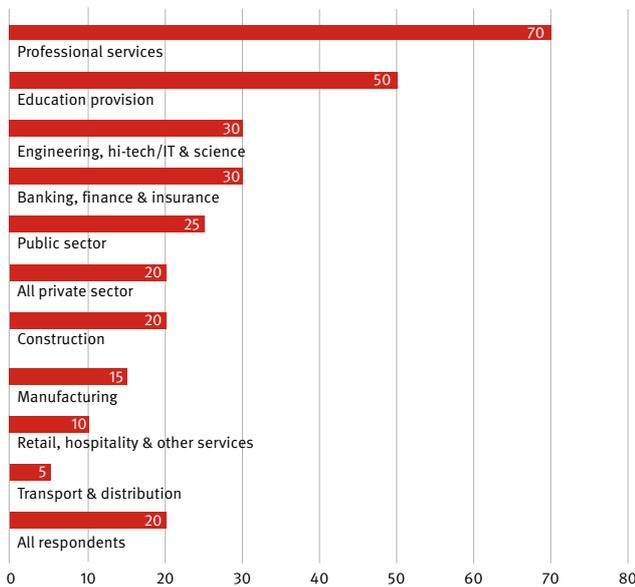
Employees with graduate-level skills bring organisations the advanced-level knowledge, skills and subject-specific expertise needed to drive their future productivity and growth. Across the economy as a whole, around one job in five (20%) now requires degree-level skills (**Exhibit 47, page 46**). This proportion will increase in the years ahead as the UK moves towards an economy based on a higher-value, higher-tech mix of products and services to compete in the global marketplace.

In professional services, 70% of jobs now require degree-level skills. Other sectors which draw heavily on graduates include education and training provision (50%), engineering, hi-tech/IT and science (30%) and banking, finance and insurance (30%). Overall, around a quarter (25%) of jobs in the public sector require degree-level skills, compared with around a fifth of jobs (20%) across the private sector.

Jobs requiring
degree-level skills

20%

Exhibit 47 Proportion of jobs requiring degree-level skills (median %)

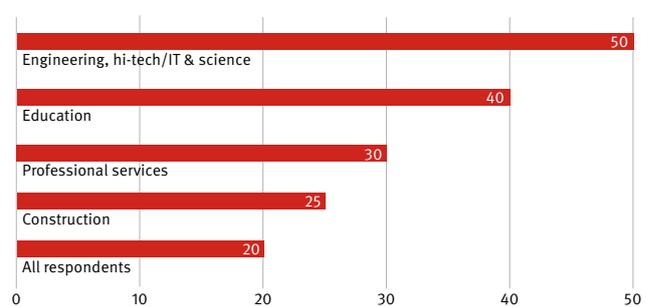


As we saw in chapter 8, a third (35%) of employers finding difficulty in recruiting STEM staff cite shortage of graduate applicants as a major problem. While some industries have a lower than average proportion of jobs requiring degree-level skills – such as manufacturing (15%) – it is often these sectors that need graduates with specific subject expertise that can be hard to secure (26% of firms in manufacturing report current difficulties in recruiting graduates with STEM skills).

Picking the right degree is essential...

In the labour market of the future, those with graduate-level skills will have an increasingly significant advantage. In many cases, having completed a degree-level course can be sufficient to satisfy an employer's initial requirements for their recruits – employers for example may be looking for the generic ability to handle and analyse complex information and apply it in a well-considered way.

Exhibit 48 Graduate jobs requiring a specific degree discipline (median %)

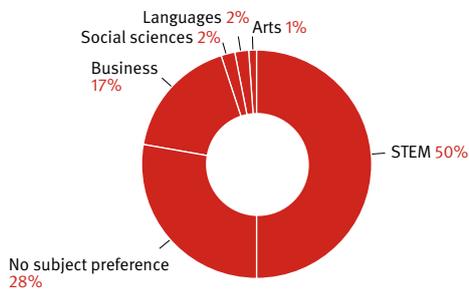


One in five employers (20%), however, need graduates with degrees in specific subject disciplines (**Exhibit 48**). In some sectors the proportion of graduate jobs requiring a particular subject to have been studied is much higher, reaching 50% in engineering, hi-tech/IT and science, 40% in education and 30% in professional services. If these needs are to be met adequately, it is important that businesses make it clear which degree subjects they require, so prospective students – and those advising on their future career prospects – know what they need to study to access certain careers. All too often, young people at school and college are closing the door on potential career paths unintentionally by dropping essential subjects.

...but STEM subjects give graduates an edge...

While four in five (80%) graduate jobs do not require a specific degree discipline, it is clear that studying STEM subjects gives students a competitive advantage in the labour market (**Exhibit 49**). When asked whether they prefer any particular degree subject when recruiting graduates, half (50%) of employers responded that they prefer those with STEM degrees. The mathematical abilities and analytical skills associated with STEM study are in high demand across the economy and the degree courses are often seen as more testing than some other subjects. Business (at 17%) is the only other area of study attracting employer preference above a marginal level.

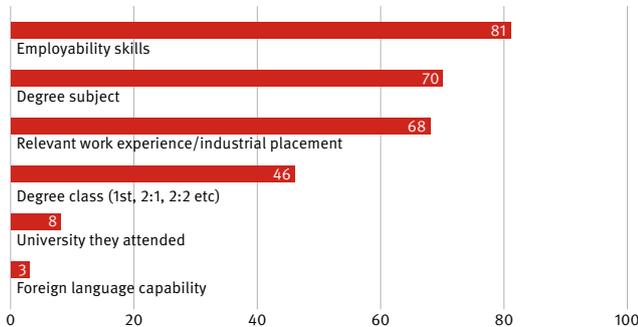
Exhibit 49 Degree subjects preferred by employers (%)



...and developing employability skills is crucial

When recruiting graduates, businesses are looking out for employability skills first and foremost (**Exhibit 50**). Repeating the pattern of previous years, this factor was rated number one by graduate recruiters, with more than four in five employers (81%) citing it as among their three most important considerations. Competition for graduate jobs is intense and those aiming to move smoothly into the world of work need to take seriously the development of employability skills during their time in higher education, as outlined in the CBI/NUS guide.⁴²

Exhibit 50 Most important factors considered when recruiting graduates (%)



As noted above, employers are often also on the lookout for graduates in certain subject disciplines (70%) and half (46%) take into account the degree class achieved by students. This has risen in significance in recent years, suggesting that employers have tightened their selection criteria as the number of graduates emerging from higher education increases.

Having relevant work experience – such as an industrial placement or internship – ranks almost as highly as the right degree subject and is a key factor for two thirds of graduate recruiters (68%). This type of work experience can play an invaluable part in strengthening the generic employability skills of graduates, as well as giving them the chance to learn about the activities of a specific sector at first hand. Many firms offer these opportunities to students and it is important for those thinking seriously about their future careers to take them up.

Widening spread of graduate starting salaries

While gaining a degree is almost always a good investment for young people, there is an early pay off for those studying professional and STEM subjects and going into those fields of work (**Exhibit 51, page 48**). When measured by median starting salaries, graduates taking up legal roles head the pack (at £24,000) followed closely by graduates going into scientific and engineering activities (£23,000). For all three groups, these median starting are higher than in the 2011 survey (when they stood at £22,800 for legal roles and £22,000 for engineering and science ones).

In contrast, median graduate starting salaries show no change from last year's levels for other major occupational groups. At the lower end of the scale, the median starting salaries for those taking up graduate-level entry roles in administrative functions stand at £18,000, the same level as in 2011.

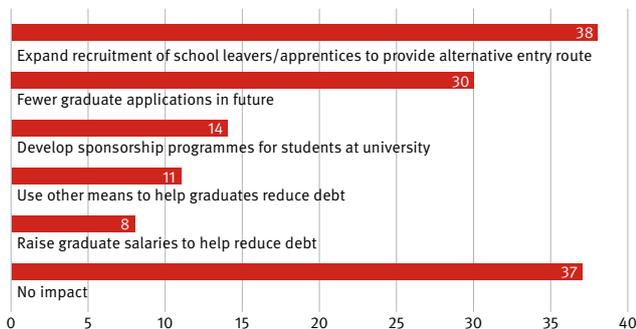
Exhibit 51 Graduate starting salaries, by job type (£)

	Lower quartile	Median	Upper quartile
Legal	22,000	24,000	26,000
Scientific	20,000	23,000	25,000
Engineering	20,000	23,000	25,000
Finance	18,000	21,000	24,000
Human resources	18,000	20,000	23,000
IT	18,000	20,000	24,000
Management trainee	18,000	20,000	24,000
Marketing	17,400	20,000	23,000
Sales	18,000	20,000	24,000
Administrative	15,000	18,000	20,000

Reshaping the graduate labour market

With increased university tuition fees taking effect from the autumn of 2012, most employers (63%) expect the new fees and student loan repayment regime to change the shape of the graduate labour market over the coming years (Exhibit 52).

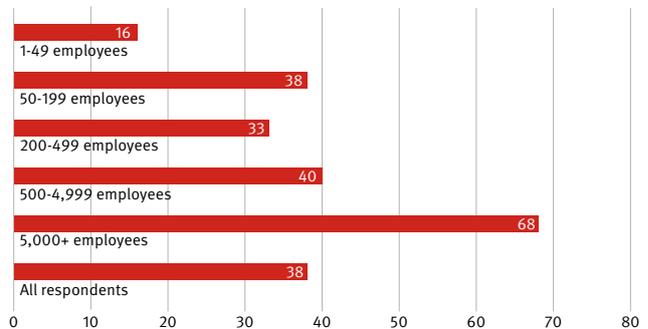
Exhibit 52 Expected impact of university tuition fees on graduate recruitment (%)



A third (30%) of employers expect to receive fewer graduate applications in the future, as the new funding arrangements may deter some potential students from taking up places in higher education. There is clearly a risk that this could start to squeeze the volume of graduate-level talent available to business in future years. With a view to offsetting this risk and maintaining their talent pipeline, more than a third (38%) of employers expect to expand their recruitment of school leavers and/or apprentices with A levels to provide an alternative to the graduate recruitment route, developing and training these young people through their own tailored arrangements up to graduate level.

The proportion of employers thinking along these lines rises sharply with organisational size, partly reflecting the importance of graduate recruitment programmes to large businesses (Exhibit 53). Among the largest employers with more than 5,000 employees, two thirds (68%) are expecting to look at expanding alternative routes to develop young people to fill their graduate-level roles. Major employers such as KPMG are already offering school leaver programmes, enabling young people to gain experience, a degree and professional qualifications while receiving a salary.

Exhibit 53 Organisations by size considering expanding entry of school leavers/apprentices to alternative routes (%)



10 Linking businesses and HE more effectively

In the changing landscape of higher education, strong partnerships between businesses and universities are more important than ever – both to sustain the world-class reputation of UK higher education and to help businesses drive their future growth. There is also a strong mutual interest in working together through programmes such as internships to ensure graduates have the skills they need to flourish in the workplace.

Employers linked with universities

63%

Key findings

- Two thirds (63%) of employers have developed links with universities in activities ranging from providing sandwich-year and other placements to a role in shaping degree programmes
- Almost half of employers (47%) offer internship opportunities of some type for graduates
- Employers want to see universities upping their game by enhancing students' employability skills (65%) and increasing the business relevance of undergraduate courses (61%)
- Employers believe universities should be providing more programmes to develop employees (a priority for 31% of employers) and increasing number and quality of STEM graduates.

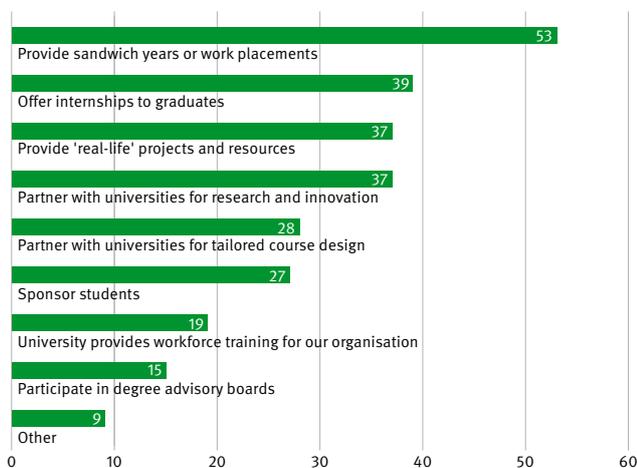
Business-HE partnerships are widespread

Engagement between businesses and higher education can be a powerful source of benefits for both parties, as well as for students. Encouragingly, two thirds (63%) of employers have developed links of some type with universities.

Engagement takes a variety of forms for employers (**Exhibit 54, page 50**). Provision of sandwich-year and other placements leads the way, together with offering internships for graduates (offered by 53% and 39% respectively of those employers with links of some type with higher education). These forms of engagement are particularly extensive among large employers with workforces of more than 5,000 people (operated by 65% and 60% respectively of those with links with universities).

Businesses are also extensively involved in providing 'real-life' projects and resources to help students understand the practical relevance of their courses (37%) and in partnering with universities for research and innovation (37%). Initiatives such as Knowledge Transfer Partnerships (KTPs), which place a recent graduate or post-graduate in a business to work on a specific research-based project, can be effective ways of tackling complex business problems and building relationships with partner universities.

Exhibit 54 Nature of employer links with universities (%)



Some employers are involved in a more direct role in shaping the content of degree courses by partnering with universities for tailored course design (28%) and participating in degree programme advisory boards (15%). This type of involvement can help ensure that qualifications and course content are geared to meeting real business needs. Once again, the largest employers are most active in both these areas (54% and 35% respectively).

As tuition fees rise and the university system becomes increasingly driven by student demand, many employers are looking to support students financially. Over a quarter of businesses currently sponsor students through degrees (27%). Moreover, a fifth (19%) of employers have drawn on the expertise of universities to provide training and development support for at least some employees in their existing workforces: experience shows universities can help businesses achieve a step change in their performance.⁴³

Internships boost employability skills

Internships are a valuable route for young people to boost their employment prospects by developing their employability skills and gaining a foothold within an industry. Almost half (47%) of all employers in our survey offer internship opportunities of some type, including two-thirds (66%) of firms in the engineering, hi-tech/IT and science sectors and well over half (59%) of professional services businesses (Exhibit 55).

While internship opportunities are most widespread among the largest employers (operated by 62% of those employing 5,000 or more employees), it is encouraging that close to half (44%) of firms with under 50 staff are also providing internship placements, enabling graduates to gain experience of smaller businesses. Practice on paying internships varies widely, with short-term unpaid internships running alongside longer-term paid placements.

Employers want universities to focus on student employability and business relevance...

Employability emerges as the single most important aspect of higher education where employers want to see standards raised. Two thirds of employers (65%) would like to see more effective development of graduates' employability skills (Exhibit 56). It's a view shared by students themselves, as a CBI/NUS poll found (66%

Exhibit 55 Employers offering graduate internships (%)

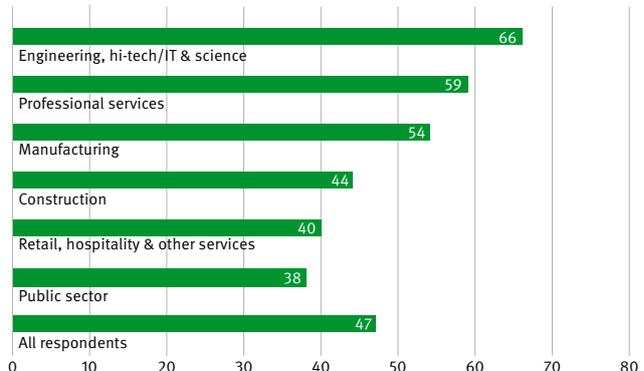
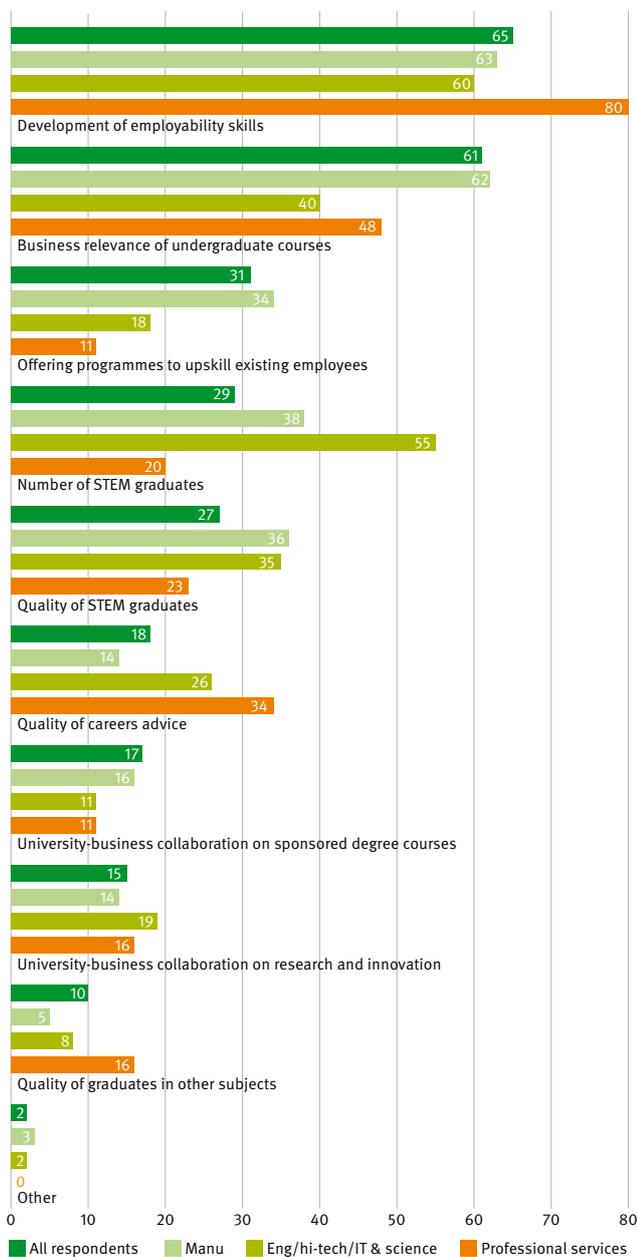


Exhibit 56 Business priorities for HE (%)



of students said they would like their university to provide more help in developing their employability skills). There is much that can be done – and is being done by some institutions – to embed acquisition of employability skills in academic programmes and to encourage students to use their time at university to good effect.

Ultimately, it is up to students themselves to seize the opportunities available to strengthen their employability – a theme emphasised in the CBI/NUS guide for students.⁴⁴ Universities, students’ unions, businesses and careers services, however, have an essential role to play in getting the message across to students.

In a similar spirit, nearly two thirds (61%) of employers rate improved business relevance of courses as among the most pressing priorities for HE. Many institutions are taking steps in this direction, building more work-related elements into courses and encouraging greater student awareness of the skills they need and how to acquire them.

... they also see a need for action on employee development and STEM skills

As noted earlier, there is scope for universities to help boost business performance by programmes to develop and upskill firms’ existing employees. Nearly a third (31%) of respondents would like to see more action in this area (rising to 34% in manufacturing, recognising the pace of change here and the need to keep skills up to date).

Just under a third of respondent employers also point to raising the numbers (29%) and quality (27%) of STEM graduates as a major area of concern. The issue is seen as particularly pressing among employers in those sectors with relatively high proportions of the workforce needing to apply these skills on a day-to-day basis. More than a third of employers in manufacturing see action on the number (38%) and quality (36%) of graduates in STEM subjects as a priority for action.

One in five employers (18%) see the quality of careers advice within universities as needing improvement, rising to a third (34%) among professional services businesses.

11 Building a responsive skills system

Employers train and develop their employees through a variety of different routes – internally using their own resources or externally using a provider, delivering accredited or unaccredited programmes. They use the methods most effective in their particular circumstances. When employers do engage with the external skills system, they look for provision responsive to their needs. On most measures of employer satisfaction, providers are improving their performance, but there is still more to be done.

Key findings

- While at least some employees at four out of five firms (81%) receive accredited training, overall only a third (31%) of the training employers provide is linked to recognised qualifications
- Almost nine in ten businesses (89%) use external training providers, with private training organisations the most widely used (by 79%) and universities the least common (used by 25%)
- The proportion of employers believing their Sector Skills Council adds value to the business has risen (to 29%) but half of employers (47%) still don't know which Council covers their sector.

Accreditation is not a test of the business value of training

While many employers recognise the benefits for staff of having transferable qualifications, the priority will be training that develops key competencies needed within the business. Employers choose accredited qualifications only if the programmes deliver the skills they need.

In line with our findings in earlier years, the latest survey results show that while four out of five employers (81%) provide accredited training for at least some employees, on average only about a third (31%) of training leads to recognised qualifications (**Exhibit 57**). Even this figure is boosted by a relatively small number of organisations that make heavy use of accredited training and development – the median proportion of training leading to accredited qualifications is just 20%.

There is little variation by organisation size, indicating the relatively low take-up of accredited qualifications is not strongly related to costs. It seems more likely employers too often find the content of a qualification is not relevant or are deterred by additional verification and assessment procedures associated with many accredited programmes.

Exhibit 57 Training leading to accredited qualifications by size of firm (mean %)

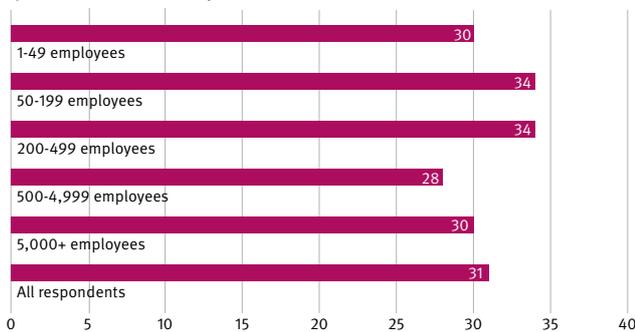
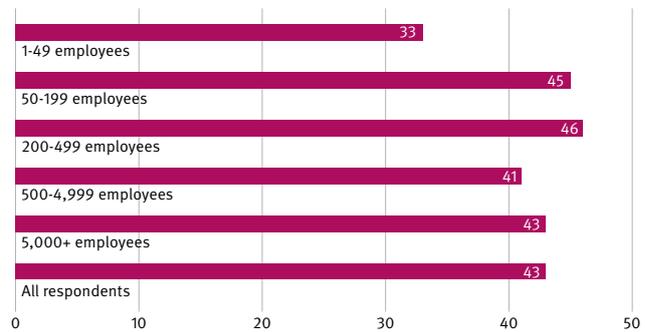


Exhibit 58 Training delivered by external providers by size of firm (mean %)



Most employers draw on external training expertise...

Almost nine in ten organisations (89%) in our survey use external providers to deliver at least part of their training to staff. Providers can be valuable partners for employers – providing access to valuable teaching resources and expertise. Among firms using providers – just under half (43%) of training on average is delivered externally (**Exhibit 58**).

Among the smallest employers with under 50 employees, a third (33%) of training is delivered by external providers, but for all organisations above this size, the proportion provided by external trainers stands at more than 40%. Our survey, however, shows clear differences between sectors. Among firms in retail, hospitality and other services for example – where a lot of training is likely to be practical and on-the-job – only 33% of training on average comes through providers. This contrasts with construction and the public sector, where more than half of training is delivered by external providers (54% and 51% respectively).

...and providers are becoming more responsive to business needs

When choosing a provider, an employer will base their decision on whether the provider can deliver high quality and relevant training in a way that fits with the day-to-day running of the business. The need to be responsive to employer requirements is increasingly important and the signs are that providers recognise this. With the government moving towards creating a more competitive market for workforce training, employers will have a greater ability to choose and influence provision. And a business will only choose, and be willing to pay, for quality.

Private providers are the most common choice for employers using external training and development provision – four in five firms (79%) in our survey use them, often for short, unaccredited courses. Over a third (36%) of employers use further education colleges and a quarter (25%) work with universities.

On most measures, employer satisfaction with training providers seems to be improving (**Exhibit 59, page 54**). Private providers still achieve higher satisfaction ratings in every area from quality of trainers to overall responsiveness to employers' training requirements, but universities and colleges are starting to narrow the private provider lead in some important respects. In particular, the proportion of employers satisfied with the timing of training

Exhibit 59 Employer satisfaction with training providers (%)

	Private provider		University		FE college	
	2012	2011	2012	2011	2012	2011
Overall responsiveness to your organisation's training requirements	70	65	42	44	46	44
Quality of trainers / assessors	69	65	63	60	51	46
Relevance of course content to your skills/ training needs	71	68	61	59	53	54
Cost of the training	47	45	40	40	55	52
Training delivered in a location to suit my organisation's needs	71	73	54	50	59	57
Training delivered at a time to suit my organisation's needs	72	72	53	42	61	55

delivery in terms of its fit with business needs has climbed (to 53% for universities and 61% for FE colleges as compared to 72% for private providers), suggesting these providers are becoming more flexible. Nonetheless, the results show there is still much to be done by colleges and universities if they are to approach or match the performance of the bulk of private training providers.

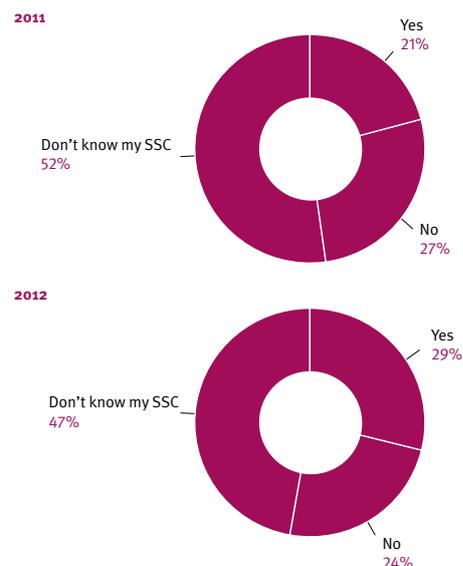
Getting value from Sector Skills Councils

Sector Skills Councils (SSCs) have an important role within the organisational landscape of the skills system. As representative employer bodies for their sectors, they aim to perform a variety of tasks, including tackling sector-wide skills issues and supporting the development of relevant qualifications. These are important activities, but there is still a question mark over whether SSCs are fulfilling them adequately.

Our survey asked employers whether they believe their SSC adds value to their organisation. Encouragingly, the proportion of employers saying their SSC adds value has risen over the past year (**Exhibit 60**). The balance of employers viewing their SSC positively compared to negatively has swung from -6% last year to +5% now. However, the largest single group of employers (52% in 2011 and 47% in 2012) continue to answer 'don't know', reflecting the difficulty SSCs – as relatively small organisations – can sometimes face in building awareness across large numbers of employers.

Bigger employers with more time and resource have the most favourable view of SSCs. The positive balance of firms with over 5,000 staff feeling their SSC adds value rose from +13% last year to +17% in 2012, with only 25% now answering 'don't know'. There are also major variations between sectors. In construction for example, most employers (72%) are aware of their SSC and a balance of +30% rate its contribution to their organisation as positive.

Exhibit 60 Employers believing their sector skills council 'adds value' (%)



12 Communication means business

Operating effectively in a global economy relies on the right language skills – and the UK has the worst foreign language proficiency in Europe. Staff who can communicate at least conversationally – combined with an understanding of the local culture – can make all the difference in the conduct of business, consolidating relationships with existing suppliers and customers and opening the way to new overseas contacts.

Key findings

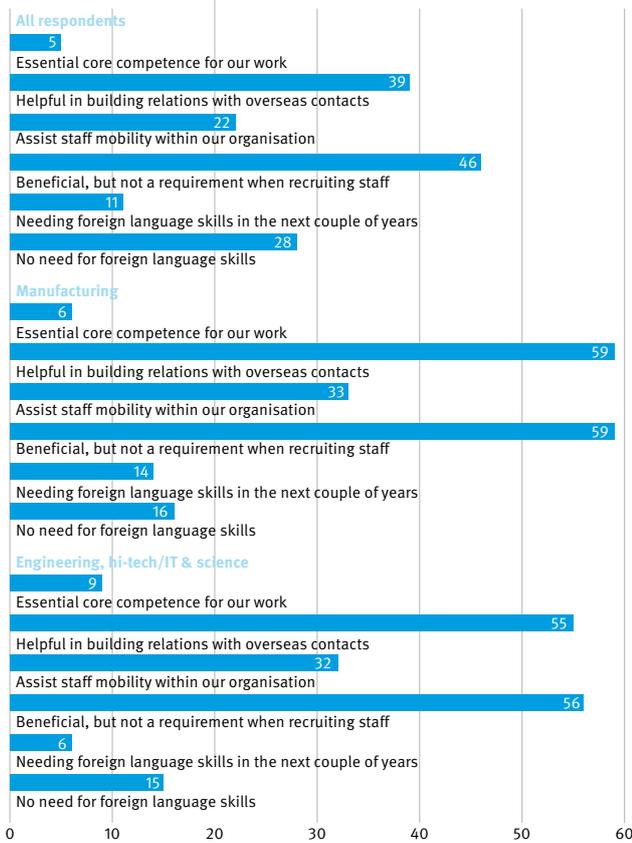
- Nearly three quarters (72%) of businesses say they value foreign language skills among their employees, particularly in helping build relations with clients, customers and suppliers (39%)
- One in five firms (21%) is concerned that weaknesses in foreign language proficiency are losing them business or is uncertain whether this is happening
- Among firms concerned about shortfalls in language proficiency, half (52%) are looking to recruit staff with the appropriate skills.

A global market demands language skills

The UK's future relies on our ability to compete in international markets. Our share of global exports declined from 5.3% in 2000 to 4.1% in 2010, continuing a long-running decline.⁴⁵ If the UK is to achieve an export-oriented economic recovery, we need to break into and succeed in high-growth markets. Effective communication with potential suppliers, customers and those regulating markets is an essential part of achieving that. The UK has the worst foreign language skills in Europe, and there is a strong argument that limited language abilities and cultural awareness are acting in effect as a tax on UK trade.⁴⁶

While English is currently the international language of business – in itself a real benefit for the UK – there are enormous advantages for British businesses if they have employees in key roles with the skills to communicate competently in the local language. The many businesses linked to the high-growth economies of the Far East and Latin America recognise the value of employees who understand the culture and can operate effectively in the different business environments of these countries – and an understanding of the language is often a crucial first step.⁴⁷

Exhibit 61 Need for employees who can speak foreign languages (%)



Language skills serve varied purposes

While around a quarter (28%) of businesses say they have no need for foreign language skills, for around one in 20 organisations (5%) the ability of at least some members of staff to speak one or more foreign languages is an essential core competence for the business (Exhibit 61). Much more commonly, fluency in another language

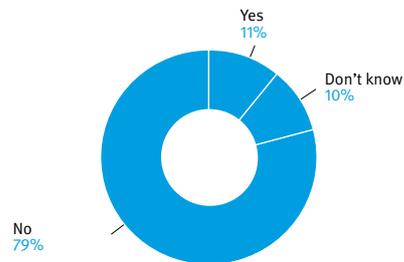
helps in the conduct of business and can assist staff in their careers. Around two in five employers (39%) see foreign language ability as helpful in building relations with overseas suppliers, customers and other contacts, while one in five (22%) believe it assists staff mobility within the organisation, facilitating international working.

Language skills are much more important in some sectors than across businesses as a whole, particularly for those leading the rebalancing towards a more export-oriented economy. For example, over half of firms in manufacturing (59%) and in engineering, hi-tech/IT and science (55%) see foreign language skills among staff as helpful in building relations with overseas contacts, while a third report foreign language skills as assisting staff mobility within their organisation (33% in manufacturing and 32% in engineering, hi-tech/IT and science).

There's business at stake...

We asked respondents whether they are concerned that they are losing business because of weaknesses in foreign language skills among their employee (Exhibit 62). While most firms do not feel they are missing out, one in five (21%) said they are concerned they are losing business opportunities or do not know whether this is happening. Among manufacturing firms, the proportion concerned that they are losing business as a result of weak language proficiency rises to a fifth (20%), with a further 8% unsure.

Exhibit 62 Concern about loss of business caused by weak foreign language skills (%)



... so some employers are taking action

Among those firms recognising foreign language proficiency as important and concerned they may be losing business because of weaknesses among staff, half (52%) are looking to recruit new staff with the necessary language skills (**Exhibit 63**). Other employers worried about potential loss of business are addressing the issue by raising the language skills of their existing staff, using private providers (21%), FE colleges (6%) or in-house language training (15%).

European languages still top the list but this will change

The major European languages are those most commonly mentioned as being in demand (**Exhibit 64**), led by German (50%) and French (49%). France and Germany still represent – along with the US – the largest export markets for British goods. Spanish too is in demand, sought by nearly two in five (37%) of those employers wanting employees with language skills. Spanish is valued both in a European context but also as the lead language of fast-growing economies across Latin America (and increasingly parts of the USA).

Language skills geared to business in China and the Middle East feature prominently (of those valuing staff with foreign language skills, 25% rate Mandarin as useful, 12% value Cantonese and 19%, Arabic). Employer demand for other languages shows a different

Exhibit 63 Steps to address weaknesses in language skills (%)

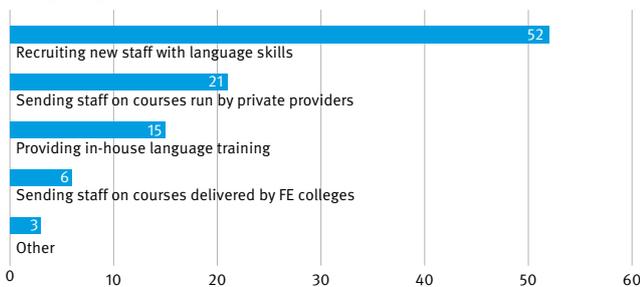
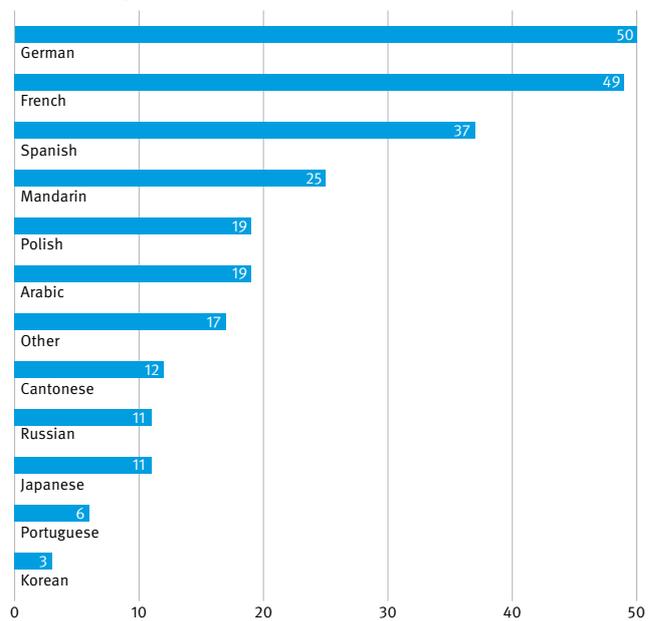


Exhibit 64 Foreign languages rated as useful to the organisation (%)



trend, reflecting the need for language skills that can help in managing workforces in the UK from non-English speaking backgrounds. The scale and importance in the UK of the migrant workforce from Poland and other parts of central and eastern Europe is well known, so it is no surprise that many British employers value employees who understand the language and culture to achieve effective working relationships (with 19% rating knowledge of Polish as useful).

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