

CIPD

Report
May 2022

Gaps and Opportunities

Employer views on skills
policy in Scotland

The CIPD has been championing better work and working lives for over 100 years. It helps organisations thrive by focusing on their people, supporting our economies and societies. It's the professional body for HR, L&D, OD and all people professionals – experts in people, work and change. With almost 160,000 members globally – and a growing community using its research, insights and learning – it gives trusted advice and offers independent thought leadership. It's a leading voice in the call for good work that creates value for everyone.

Report

Gaps and opportunities: employer views on skills policy in Scotland

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Executive summary

The importance of skills to employees and employers has further increased as a result of the pandemic. This report offers an insight into employer awareness of skills in their organisations, engagement with skills public policy initiatives and their preparedness for the future. It provides a series of conclusions and recommendations for both employers and public policy-makers.

We find Scottish employers struggling with skills and labour shortages, with over two-fifths saying they have hard-to-fill vacancies. Skills shortages are more pronounced in smaller businesses, with larger businesses more likely to struggle with labour shortages. The biggest gaps are around technical, vocational and specialist skills, underlining the importance of apprenticeships and further education. Employers are responding by upskilling and hiring apprentices, offering an opportunity for policy-makers in this area.

Employers who implement strategic skills interventions – conducting a workforce planning exercise, putting a training plan in place, having a training budget – report better understanding of skills in their organisations and feel better prepared for the future. We also find a strong relationship between organisations who report adequate people management training and their understanding of skills and future preparedness.

Over half of employers who recruited directly from school felt that young people were poorly prepared for work. Some of this is down to lack of experience, but we also find concerning gaps in literacy and numeracy. Bringing employers and the education system closer together can result in benefits for young people as well as organisations' talent pipelines.

There is an opportunity to expand the apprenticeship programme and we find that direct financial incentives could help the smallest of businesses. Concerningly, there is also a considerable lack of awareness of some key Scottish skills initiatives, with over half of all Scottish small businesses surveyed never having heard of a single one of the nine initiatives offered.

Our findings serve both as a warning and a call to action. We identify some clear gaps in what employers do and in how our education system prepares young people for work, and some remarkably low levels of awareness of key Scottish skills initiatives. However, as with all challenging findings, there are also opportunities to focus on closing the gaps, to reach those that are disengaged and to build on the willingness to improve.

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Introduction

While the pandemic may have led to lasting changes in the way we work and learn, it has not changed the fundamental importance of skills to individuals and employers. Gaps, mismatches and underutilisation of skills all act as brakes on productivity – both individual and organisational – with knock-on impacts on the country's prosperity. They also impact individuals' job quality and, by extension, their wellbeing.

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Put simply, if employers can't find the skills they need and employees can't use or develop the skills they have, something is going wrong in the relationship between the labour market and the skills development system. Of course, the nature of this relationship depends on public policy as much as it depends on employers and employees themselves. The aim of this report is to explain the interdependencies and reasons for any difference and to shine a light on some of the experiences and perceptions of employers in Scotland in relation to skills development. Primarily based on survey data, it looks at six areas:

- labour and skills shortages
- employer approaches to training
- relationships with training providers
- young people and work
- apprenticeships
- Scottish skills initiatives.

Where possible, it highlights differences between types of business – by size or sector – and concludes with a number of recommendations for both employers and policy-makers.

It is in all our interests to ensure people can develop their skills and use them in their work-place, to see employers able to respond agilely to a changing economy and for the country to reap the benefits of boosted productivity as a result. After two extraordinary years, it is time for skills to take centre stage – both in organisations and in government.

Background to the survey

The report analyses data captured in a YouGov survey conducted for the CIPD between 17 February and 14 March 2022. The total sample size was 2,026 senior decision-makers, with a boosted sub-sample of 509 respondents in Scotland. The figures have been weighted and are representative of UK employers by size, sector, industry and region.

Since the data in this report is based on a sub-sample of a UK weighted survey, we need to be careful when interpreting the results, although the Scottish employer profile is not dissimilar to the UK as a whole. Nonetheless, we generally avoid comparisons with the rest of the UK and focus on the relationships within Scotland – differences between organisational sizes, public and private sectors or strategic approaches to training.

Unfortunately, the sample size does not allow us to drill down into the differences between industries or size of industry, but the UK-wide analysis of this survey data, to be published later, will provide some interesting insights.



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Labour and skills shortages

Recent months have seen increasing reports of labour and skills shortages across a variety of sectors. The impact of the pandemic on business activity, labour mobility and apprenticeship numbers, combined with changes to the UK's immigration system and other global factors, have created a challenging environment.

Only 18% of businesses report no vacancies at all, with 10% saying they currently have over 100 vacancies. For all organisations, we record an average (mean) of 74.47 vacancies, with considerable differences by sector – 73.24 in the private sector, 123.03 in the public sector and 8.07 in the voluntary sector. This is primarily a function of organisational size, with SMEs (2–249 employees) reporting an average of 2.27 and large businesses (250+ employees) reporting 112.28.

Vacancies can fluctuate during the year, with hard-to-fill vacancies being a good indicator of labour and skills shortages. Forty-one per cent of Scottish businesses said they have vacancies that are hard to fill, rising to 76% if we only include businesses who are reporting vacancies. This is broadly in line with CIPD's latest [*Labour Market Outlook*](#) which puts the number at 45% across the UK.

Those businesses that report hard-to-fill vacancies were also asked to estimate the proportion that were due to skills shortages and those that were due to labour shortages. By skills shortage vacancies we mean vacancies that remain unfilled because applicants do not have the required skills, experience or qualifications. By labour shortage vacancies we mean vacancies that are difficult to fill for non-skill-related reasons, such as an insufficient number of applicants for the role or because there are specific issues related to the role, such as antisocial hours or poor working conditions.

On average, 55% of hard-to-fill vacancies are reported to be due to skills shortages, and 45% because of labour shortages. SMEs reported that skills shortage was more of an issue (62%) than labour shortage (38%), while this was less pronounced for large businesses of 250 employees or more (52% skills shortage as opposed to 48% labour shortage).

Figure 1 shows a breakdown of hard-to-fill vacancies by occupation. The largest proportion of vacancies by far (36%) is in professional occupations – including scientists, engineers, IT business analysts, medical practitioners, psychologists, teachers or solicitors. Twenty per cent of organisations report a shortage of skilled trade occupations – for example farmers, sheet metal workers, electricians, mechanics or construction and building trades – and 19% is reported for associate professional and technical occupations – these can include science/engineering technicians, architectural technicians, IT technicians, paramedics or fitness instructors.

The occupations most in demand seem to be primarily linked to specialist, technical or vocational skills. This is confirmed in Figure 2, which shows the skills that organisations have struggled to find in candidates during recruitment.

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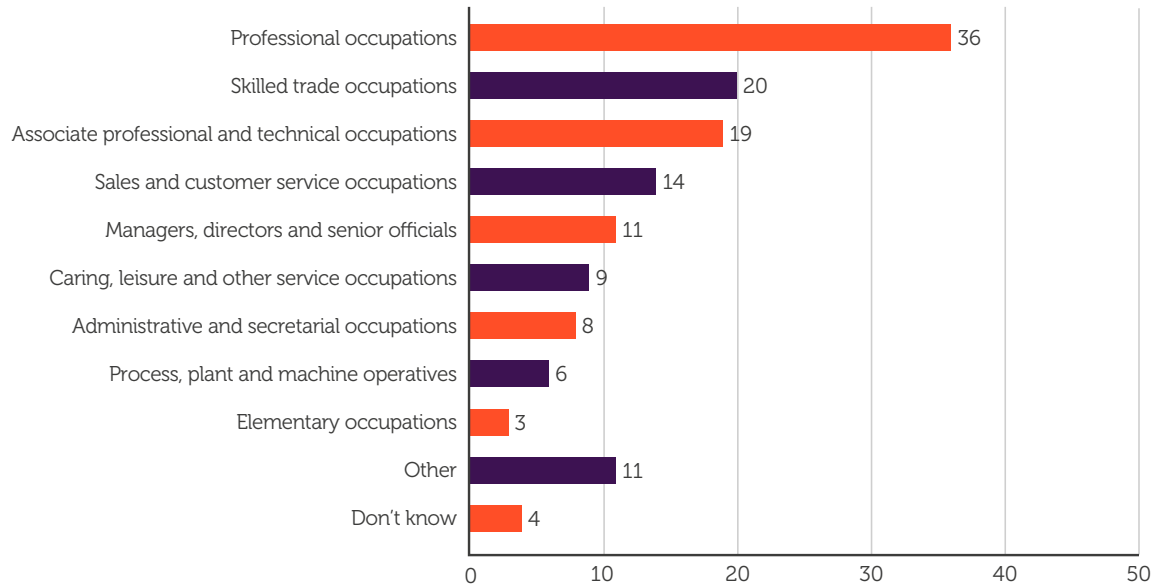
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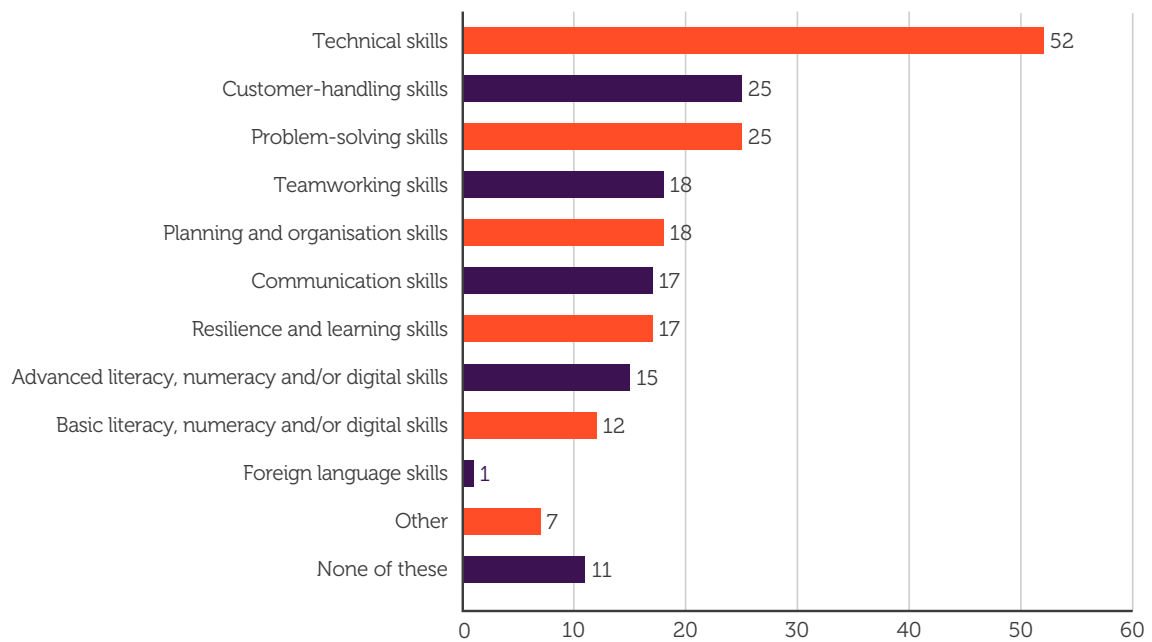
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Figure 1: Hard-to-fill occupations (%)



(Question: 'Do you currently have any vacancies that are hard to fill?')

Figure 2: Skills missing in recruitment (%)



(Question: 'Thinking about recent recruitment into your organisation, which skills, if any, has your organisation had difficulty finding among candidates? Please tick all that apply.')

The highest proportion by far report a shortage of technical skills, with 52% of organisations saying that these candidates are difficult to find. By technical skills we mean the specialist knowledge needed to perform job duties, knowledge of particular products or services, or the ability of operating specialised technical equipment. In addition, 25% of businesses list customer-handling skills and problem-solving skills as missing. The latter is linked to findings in the [Young people and work](#) section, which shows that these soft skills are especially lacking in those hired directly from school, college or university.

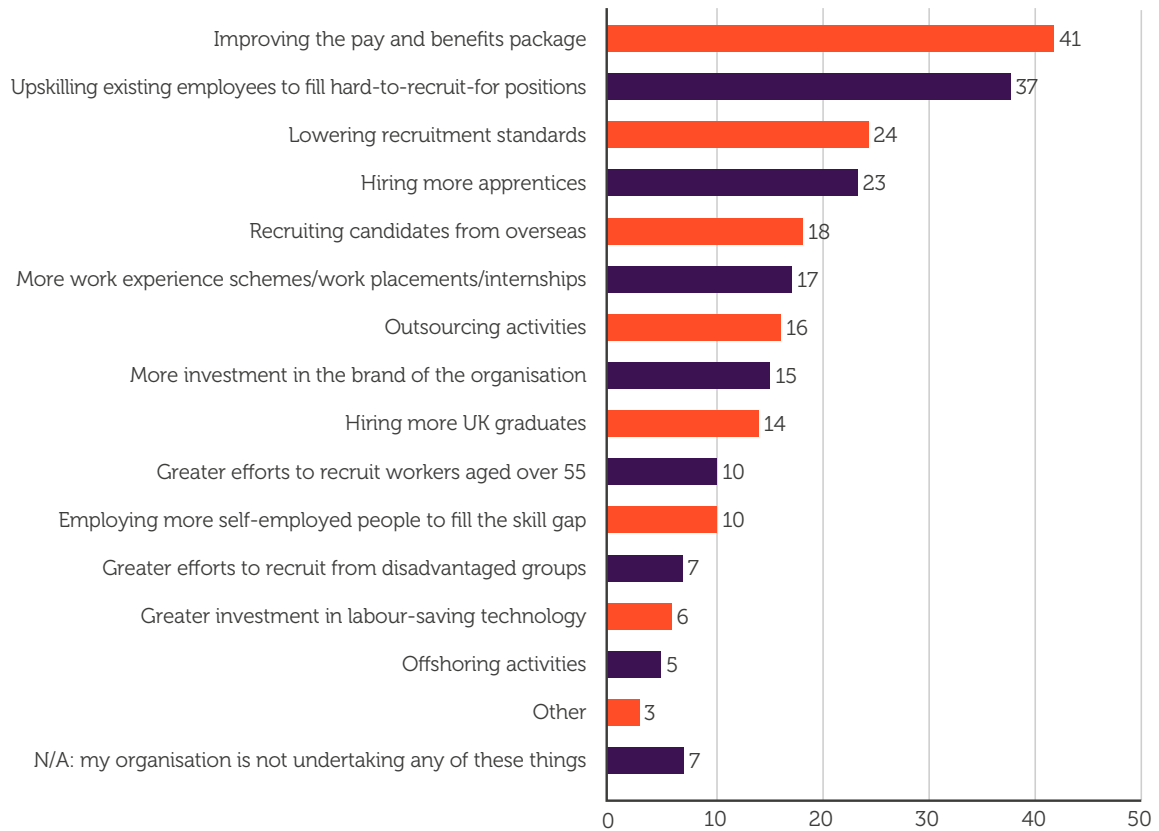
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Figures 1 and 2 suggest that there are occupations and skills where demand clearly outstrips supply. Coupled with long-standing issues around graduate overqualification in Scotland, this underlines the need to rebalance our education system towards vocational routes, with more support for further education, apprenticeships and upskilling/reskilling opportunities. These were all calls the CIPD made in our [2021 Scottish Election Manifesto](#).

It is, however, not just the role of government to act on skills and labour shortages – employers can and do respond in a variety of ways. Figure 3 shows how organisations deal with hard-to-fill vacancies.

There are a few interesting points to highlight here. First, the largest proportion of employers (41%) respond by making these jobs more attractive and competitive by improving the pay and benefits package. This underlines the upwards pressure on job quality in a tight labour market. Of course, it is not an option for every organisation – some operate with very tight margins – and it is more likely to be a strategy used by larger businesses. That said, we know that applicants are increasingly interested in job quality measures beyond just salaries, with skills and career development opportunities becoming more important.

Figure 3: Employer responses to hard-to-fill vacancies (%)



(Question: 'You indicated that your organisation has hard-to-fill vacancies. How, if at all, is your organisation currently responding to such difficulties?')

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Linked to this, it is encouraging to see upskilling existing employees as the second most common response, listed by 37% of organisations. Upskilling, and lifelong learning more broadly, will be of increasing importance as our economy faces big transitions as a result of Industry 4.0 or the net zero agenda. Upskilling is also related to the third most common response – lowering recruitment standards (24%) – as new employees are upskilled after being recruited.

Nearly a quarter of organisations say they respond by hiring apprentices. This is discussed more in the [Apprenticeships](#) section, but organisational size is a significant factor here. Twenty-eight per cent of large businesses say they hire more apprentices, as opposed to only 9% of SMEs. This reflects the considerable challenges that SMEs face with the apprenticeship system, but also highlights an opportunity for a boost in apprenticeship starts in Scotland.

In addition to apprenticeships, there are also opportunities in developing closer relationships with the education system, with 17% of employers saying they are increasing their work experience schemes, placements or internships. Furthermore, organisations are trying to expand their pool of available candidates by recruiting older workers (10%) and those from overseas (18%). We know that an [additional focus on flexibility, skills development and wellbeing](#) ties in with older workers' preferences, and there are steps employers can take to boost their recruitment in this area.

Lastly, organisation size plays a significant factor in the employment of freelancers and consultants. Sixteen per cent of SMEs say they employ more self-employed people compared with only 7% of large businesses. This should not come as a surprise, but it does present a sustainability challenge to SMEs, who are often forced to pay premium rates for freelancers in the face of skills shortages.

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Employer approaches to training

One of the intentions behind this report is to look at employer approaches to training, their perceptions of the skills development system and what conclusions we can draw from the differences between types of employer and their approaches. This section looks at strategic and proactive actions by employers and how these relate to their understanding of skills.

Strategic planning and investment

Employers were asked about three interventions:

- 1 Whether they had conducted a strategic workforce planning exercise in the last 12 months – this would include employers who have used the challenges of the pandemic to re-evaluate their skills needs in the medium to long term.
- 2 Whether organisations had a training plan in place – this would suggest a more strategic approach to skills development as opposed to ad hoc interventions taken as and when needed.

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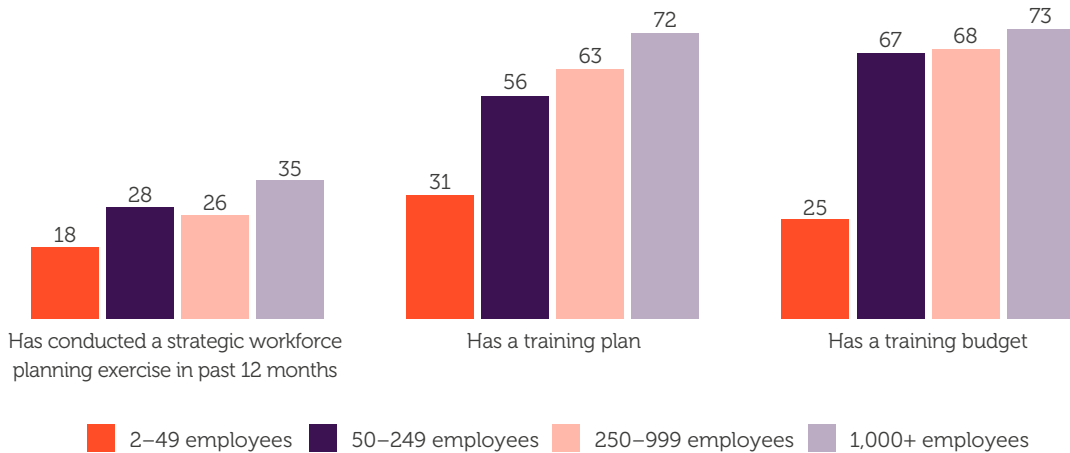
3 Whether organisations had a training budget – the presence of which would suggest tangible investment underpinning skills development.

Regarding strategic workforce planning, the highest proportion (37%) said they had not conducted such an exercise in the last 12 months, with 29% saying they had and another 35% answering ‘don’t know’. The fact that over a third of senior leaders in organisations do not know the answer to this question is rather staggering, but it may be that a proportion of these did not understand what a strategic workforce planning exercise is.

The answers were significantly more positive for the other two interventions. Fifty-nine per cent of organisations said they had put a training plan in place and 60% said they had a training budget, with only 18% saying they had neither. Unsurprisingly, it was the smallest of businesses that were most likely to have neither (57%).

For most of the analysis in later sections of this report, the three variables are combined. Seventy-one per cent of businesses have done at least one of the above interventions, 23% of businesses have done all three, and 15% have done none of them. Figure 4 shows the significant differences by organisation size.

Figure 4: Strategic approaches to skills, by organisation size (%)



(Question: ‘Has your organisation conducted a strategic workforce planning exercise in the past 12 months? Which, if either, of the following does your organisation have? Please tick all that apply.’)

Organisations were also asked whether their overall spending on learning and development had changed in the past 12 months and how, if at all, they expect it to change over the coming 12 months. The proportions were roughly similar across both questions. For 25% of organisations, spending increased, for 35% it stayed the same and for 13% it decreased. In the next 12 months, 28% expect spending to increase, 39% expect it to stay the same and 6% expect a decrease. Unsurprisingly, it is the smallest businesses (with 2–49 employees) which have seen the least change (or expect the least change), with 59% saying spending stayed the same and 62% expecting spending to stay the same.

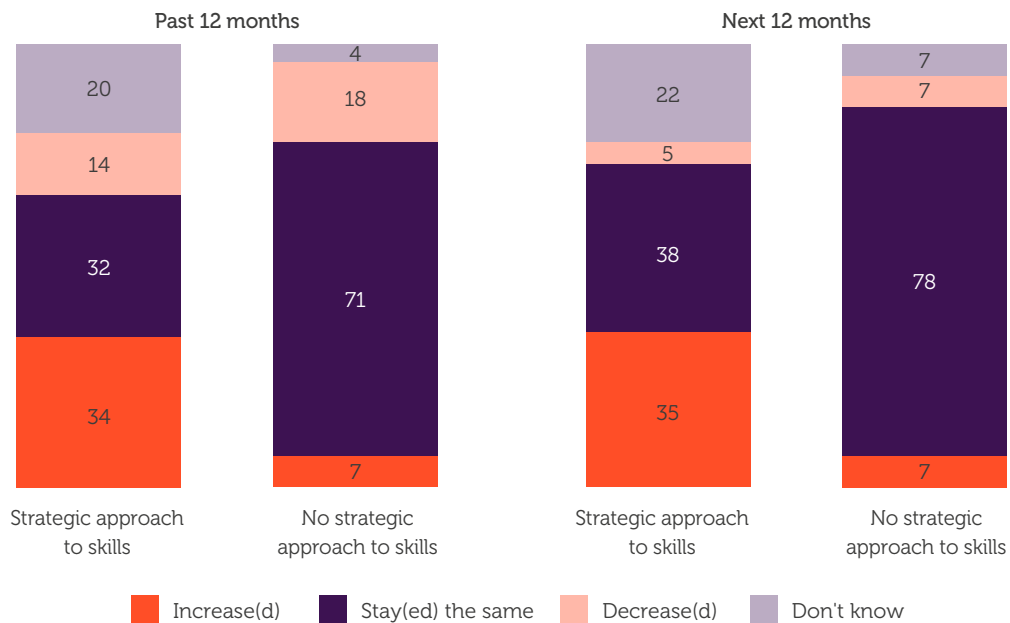
Combining answers to this question with the three variables in relation to strategic approaches to skills development, we begin to see the importance of these interventions. Figure 5 shows the difference in past and future spending on learning

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and development between organisations who have done at least one of the three strategic interventions (conducted strategic workforce planning, put in place a training plan, put in place a training budget) and those who have done none of them. We see that those who took a strategic approach to skills are five times more likely to have increased spending on learning and development, or expect an increase in future.

Sample size does not allow us to break this down by business size, but an analysis of UK-wide data confirms the pattern, with significant differences between large businesses with at least some interventions and those without, as well as SMEs with interventions and those without any.

Figure 5: Past and expected future L&D spending, by strategic approach to skills (%)



(Questions: 'How, if at all, has spending on learning and development in your organisation changed in the past 12 months?' 'How, if at all, do you expect spending on learning and development in your organisation to change in the next 12 months?')

Existing skills gaps

In the [Labour and skills shortages](#) section, we looked at the skills that employers found missing when recruiting for hard-to-fill vacancies. We also asked employers to estimate what proportion of employees in their organisation currently lack skills required to do their job effectively.

Eighteen per cent of employers estimate that over a fifth of their employees lack some skills. Nineteen per cent said that none of their employees lacked the required skills, but this rose to 50% of those working in the smallest organisations. This illustrates a recurring finding that small employers can be prone to overestimating their organisation's grasp on skills.

It is important to emphasise that there will naturally be differences in how organisations of different sizes and sectors can respond. Our sample does not allow

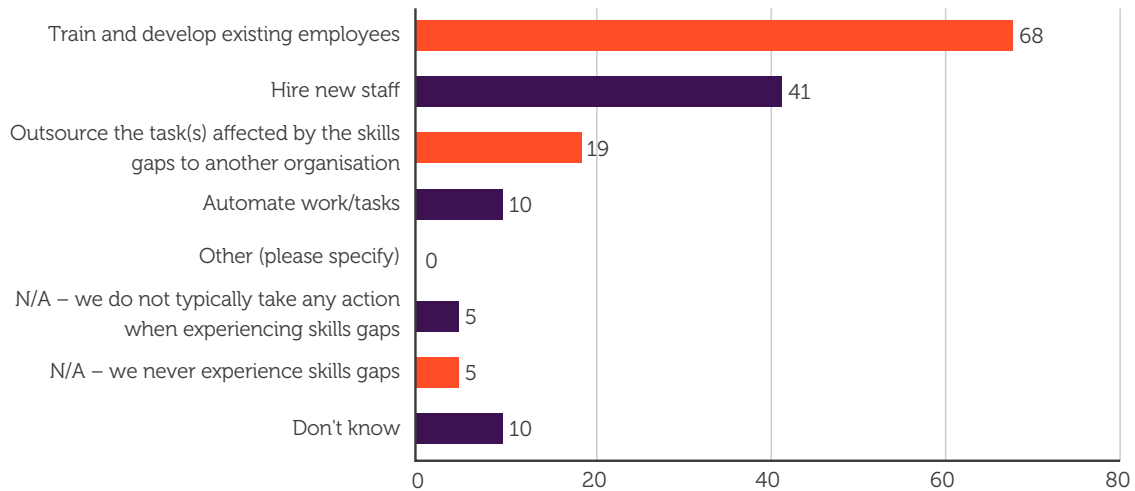
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for an analysis by industry, but it can be seen, for example, that while 15% of the very largest organisations (with 1,000+ employees) say they automate work/tasks, this is not an option for the smallest businesses – only 4% of those respond by automation. Big differences are also seen in the ability to hire new staff, with 46% of large businesses recruiting people with the required skills, compared with only 27% for the smallest businesses.

Further analysis also shows that out of those who say they respond by training and developing existing employees, 30% do it without a training plan and 32% without a training budget, which puts the effectiveness of the response into question.

Looking ahead to the next section, we also find that 11% of those who respond by automating work/tasks also say they don't understand the skills they have in their organisation or understand the skills they need to be competitive tomorrow. It may be that, by opting for automation, some of these organisations are putting the cart before the horse, when the priority should be developing a better understanding of existing and future skills needs first.

Figure 6: Employer responses to skills gaps of current employees (%)



(Question: 'When skills gaps exist in your organisation, what does your organisation typically do in response? Please tick all that apply.')

Skills and job design

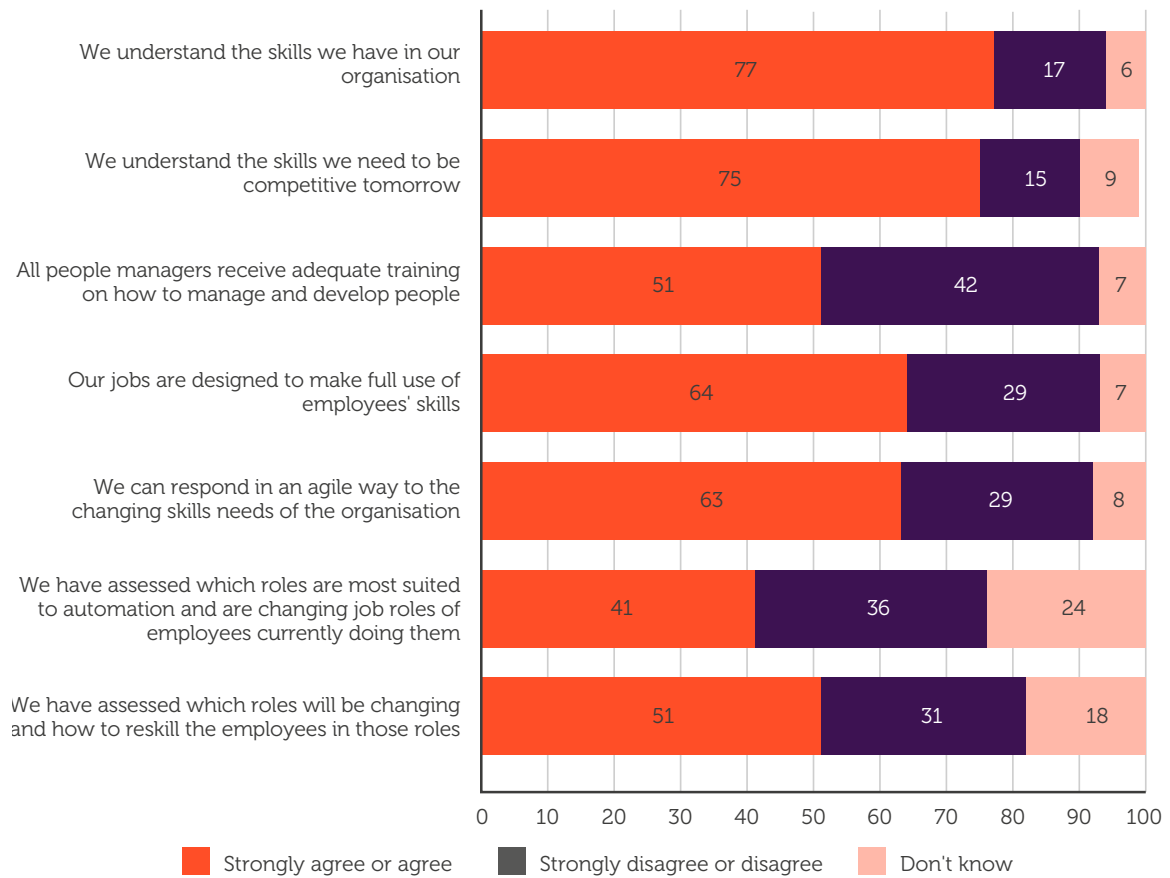
To analyse the relationship between strategic skills planning and outcomes, employers were asked seven questions to uncover their understanding of skills in their organisation, their views on organisational job design as well as their perceived preparedness for the future. Figure 7 summarises the responses, which were measured on a five-point Likert scale (strongly agree, agree, neither agree nor disagree, disagree and strongly disagree).

There are a few interesting findings to highlight:

- 1 Forty-two per cent disagree that people managers receive adequate training on how to manage and develop people (46% of large businesses disagree). Of course, the question cannot ascertain the *quality* of training, since it is self-



Figure 7: Employer understanding of skills and job design (%)



(Question: "To what extent do you agree or disagree with the following statements with regards to your organisation?")

reported *adequate* training that was asked about. Furthermore, large businesses will self-evidently have a higher number of managers, so the disagreement may refer to the coverage (*all*) rather than quality (*adequate*).

- 2 Looking at UK micro-businesses only (those with fewer than nine employees), 21% disagree that people managers receive adequate training on managing and developing people. Since quantity can't be an issue in this case, it must be due to the lack of training itself. Considering there are over 85,000 micro-businesses, employing over 300,000 people in Scotland, this is a considerable gap.
- 3 Twenty-nine per cent of employers disagree that their jobs are designed to make full use of employees' skills. Skills utilisation as well as job design elements like task complexity and autonomy are crucial elements of job quality, with links to employee wellbeing and productivity. Proper job design should be a key consideration for every role in an organisation.

Figure 7 also seeks to ascertain how prepared employers feel in the face of automation and broader skills demand changes. The proportions of disagree answers across all three questions is concerning, but it is important to cross-reference these answers with the strategic skills interventions discussed above to see if these make a difference.

There is a slight paradox across these questions when breaking the answers down by organisation size. We know from above that larger businesses are more likely

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to have conducted a strategic workforce planning exercise, are more likely to have training budgets and training plans, and yet they are less likely to agree with these statements. In fact, SMEs record higher levels of agreement for all bar one answer – the exception being the automation question, which is of lesser relevance to SMEs.

Of course, this does not mean that taking a strategic approach to skills in an organisation makes it less likely to have a good grasp on skills or feel less prepared for the future. There are likely two main reasons for these findings:

- 1 Other factors apart from training plans/budgets influence these answers. For example, as mentioned above, the sheer size of an organisation will impact the number of managers required to be trained, which will skew the answers from large organisations. Agility in responding to changing skills needs will similarly be impacted by size or sector (with public sector organisations facing additional constraints).
- 2 It is well documented that smaller businesses, especially owner-managers and those in family-owned businesses, tend to overestimate their grasp on skills. This will also impact their willingness to take a strategic approach to skills development – they may say they understand the skills in their organisation and therefore don't need a training plan or a budget. If anything, these answers underline the importance of the relationship between good people management and driven skills demand, something we explore in the next section.

Despite the above, we find that those businesses that have carried out at least one of the strategic interventions (conducted a workforce planning exercise, put in place a training plan or a training budget) were more likely to agree with every single question than those who did none of them or did not know. These differences are even stronger if we restrict the analysis to large businesses only (those with 250+ employees).

The difference in the statements diverges further when we look at organisations that have implemented all three strategic interventions, as summarised in Figure 8, which shows the increasing proportion of 'strongly agree' or 'agree' answers to the seven qualitative questions.

Figure 8: Impact of strategic skills interventions (%)



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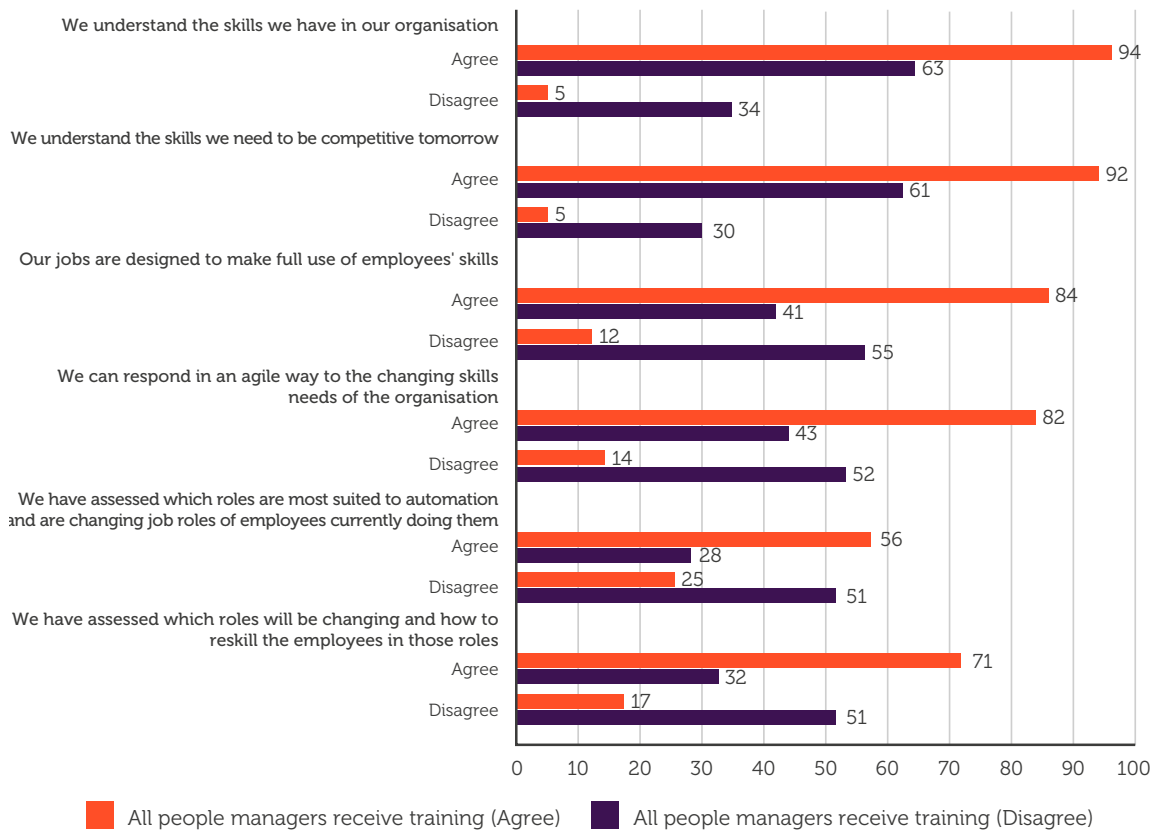
These findings show a clear correlation between strategic skills interventions and, by extension, longer-term skills planning, and employer understanding of the skills in their organisations today and in the future. For large organisations especially, the differences are considerable and underline the importance of planning to an organisation’s preparedness for future skills challenges.

The importance of people management

Past research has highlighted gaps in the demand for skills from employers, especially those in smaller organisations, as well as the big differences in management quality between the UK and some of our competitors (for example Germany). Those two issues are of course linked. We know that people management capability is a key enabler of skills demand. Good managers can ensure that organisations understand their skills needs and can also use people’s skills effectively.

When looking at the inter-relationships between the seven skills-related questions above, all variables correlate to each other in a statistically significant way. Focusing on people management in particular, Figure 9 summarises the considerable differences in the understanding of skills and preparedness for the future between those organisations that say they give all people managers adequate training and those that do not. These differences are just as large and statistically significant when we restrict analysis to large businesses only, to account for the SME differences discussed above.

Figure 9: Importance of people management training (%)



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Of course, this is not a direct proxy for the amount or quality of people management – they are subjective responses after all – but it will be an indication of the importance an organisation places on management quality. Seeing the differences in the automation and upskilling questions, in particular, with organisations who report adequate people management training twice as likely to feel prepared for changing job roles and skills needs, supports the position that people management is a key enabler for skills demand.

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Relationships with training providers

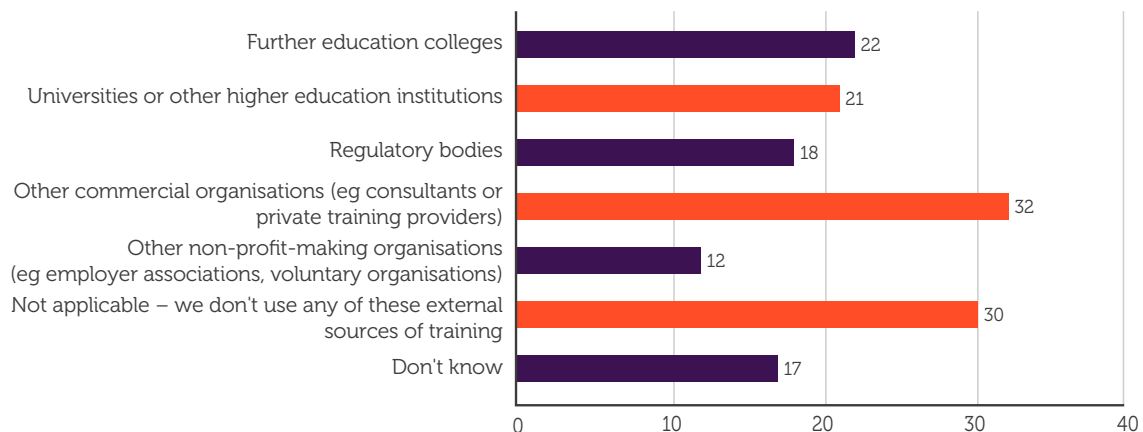
When it comes to developing employee skills, organisations can provide in-house training through formal or informal channels, or they can access skills development through external training providers. These methods are summarised in Figure 10.

Unsurprisingly, significant differences are again found by organisation size, with all types of training provider more likely to be used by larger businesses compared with SMEs. Fifty-three per cent of the smallest businesses do not use any external sources of training.

This is also reflected in the differences found between businesses that take a strategic approach to skills and those that do not. Sixty-eight per cent of businesses that have not done strategic workforce planning, do not have a training plan nor a training budget also do not use any external training providers.

For those who do not use further or higher education institutions for training, Figure 11 shows a breakdown of the reasons given.

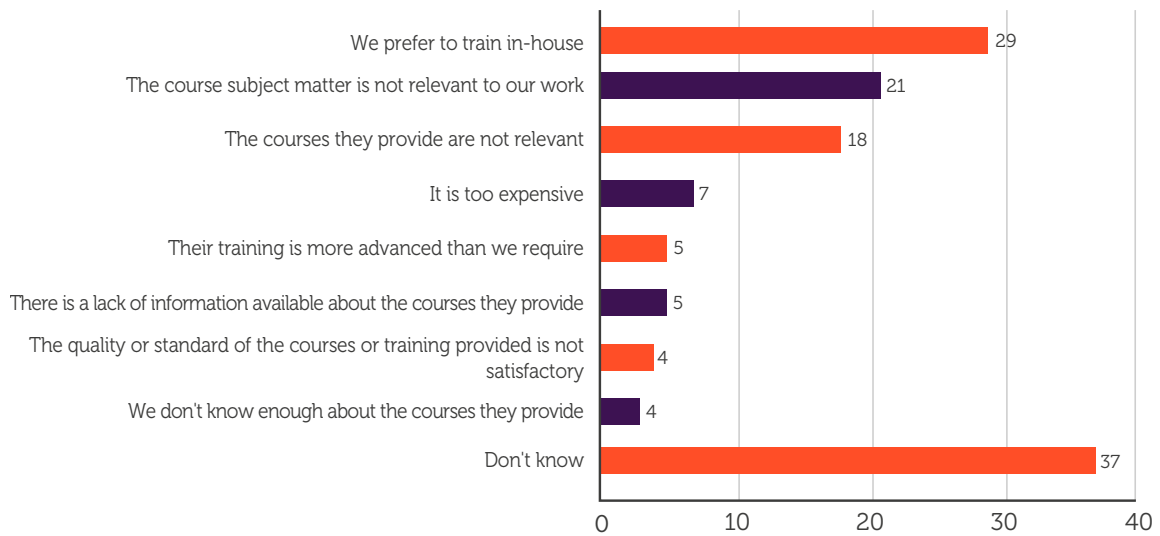
Figure 10: Use of external training providers (%)



(Question: 'Does your organisation use any of the following external sources of training? Please tick all that apply.')

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Figure 11: Reasons for not sourcing training from further education or higher education institutions (%)



(Question: 'Why does your organisation not source training from further education or higher education institutions?')

The biggest proportion of organisations (37%) said they 'don't know', which is a disappointing indication of disengagement with these training providers. The second highest proportion (29%) said they prefer to train in-house, which is an understandable position. That being said, however, upon closer inspection, 28% of these employers do not have a training plan in place and 38% do not have a training budget, which puts the effectiveness of in-house training somewhat into question.

We also see that 'don't know' responses constitute a bigger issue for SMEs than larger businesses, with 7% of SMEs giving this answer, compared with only 1% of large businesses. This underlines the importance of signposting and targeted business support services. We also see that SMEs are much more likely to say the courses or the subjects are not of relevance to them (30% and 28% of SMEs respectively gave this answer). Sectoral differences might have an impact here, but it's likely this is linked to the level of understanding of courses and subjects too.

One of the impacts of the pandemic has been a shift in how employees and employers access training, with online learning becoming more popular.

Twenty-three per cent of employers said that their use of external online learning suppliers (for example LinkedIn Learning, FutureLearn) increased in the last 12 months. For 28% it has stayed the same and 4% reported a decrease. Another 25% said they don't use online learning at all, rising to 43% for SMEs and 51% for the smallest businesses.

Looking to the future, 18% expect an increase in their use of external learning suppliers in the next 12 months, with 31% expecting no change and 5% projecting a decrease. The majority of the increase will come from those that have increased online learning already (72% of those who expect increases have increased in the last 12 months).

Current and future effectiveness in developing skills

To look at the skills development system as a whole, the survey also asked employers to rate the current and expected future effectiveness of universities, colleges, schools, private/independent training providers and internal training in developing the skills

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their organisation needs. This captures virtually every employee that an organisation recruits, with the exception of migrant labour. Figure 12 shows the results for both current and expected future effectiveness.

Schools are doing the worst by far here, being the only institution with a current negative effectiveness balance (more employers rate them ineffective than effective). This is discussed in the Young people and work section below, which shows concern over literacy and numeracy – clearly linked to school education – but also to more general concerns over preparedness for work.

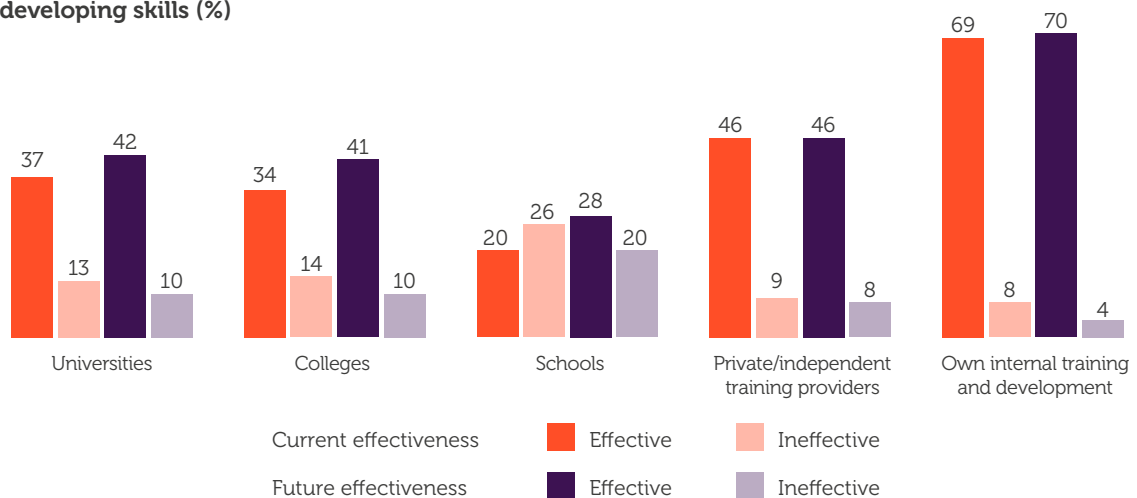
Unsurprisingly, internal training and development gets the most positive scores, both currently and in the future. It is found that employers expect schools, colleges and universities to improve in the future when it comes to their effectiveness in developing skills. Of course, this may be more in hope than expectation.

Broadly speaking, the CIPD has consistently championed the development of closer relationships between employers and the education system. Not only can it improve the understanding of what’s on offer, but it can also help employers with their talent pipeline and expose young people to the world of work earlier. It can also change perceptions employers may have. This is nicely illustrated when analysing views over the perceived effectiveness of institutions between those who actually use them and those who do not.

Regarding universities, 64% of employers who use them as external training providers find them effective, compared with 29% of those who don’t use them. Fifty per cent of those who recruited someone for their first job directly from university find them effective, compared with 26% of those who have not recruited directly from university.

Regarding colleges, 60% of employers who use further education facilities as external training providers find them effective, compared with 27% of those who do not use them. Furthermore, 43% of those who hired a 17- or 18-year-old directly from college find them effective, compared with 30% of those who did not.

Figure 12: Employer rating of the current and future effectiveness of training providers in developing skills (%)



(Questions: 'How would you rate the current effectiveness of each of the following in developing the skills your organisation needs?' ' And how would you rate the effectiveness you expect each of the following will have in developing the skills your organisation will need in the future?')

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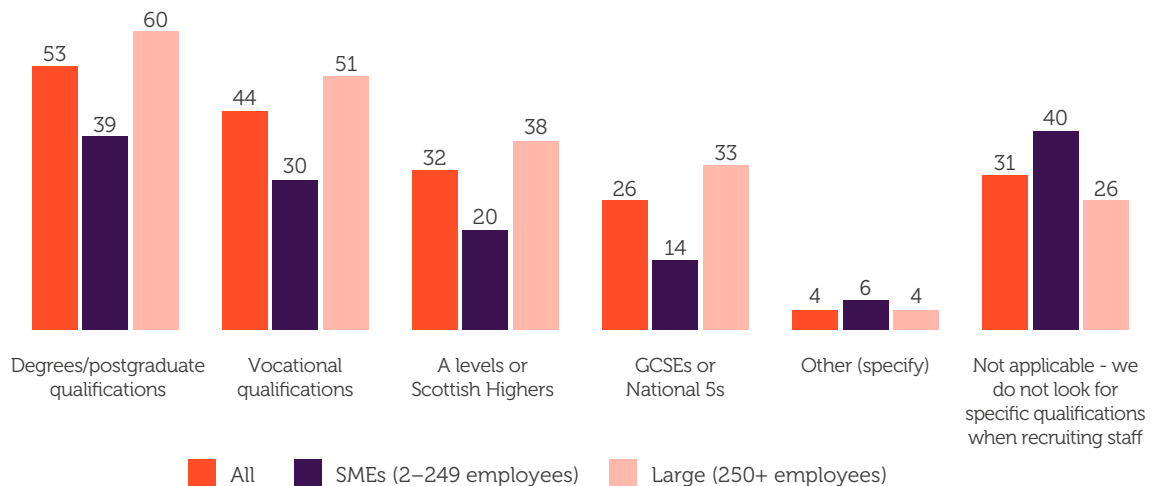
Young people and work

One of the direct effects of the pandemic has been the disruption to young people’s education – be it through less direct contact with teachers, a drop in work placements or reduced apprenticeship hiring activity. Furthermore, given the workforce age profile of some of the most impacted industries, the forced closure of businesses also had a disproportionate impact on young people. Specific interventions, like the Young Person’s Guarantee in Scotland, were put in place to avoid any long-term effects, but it is still too early to tell whether there will be any.

Complementing the [research](#) the CIPD conducted as part of our One Million Chances campaign, this survey looks at employer recruitment patterns and how they perceive young people’s preparedness for the world of work. First, Figure 13 summarises the type of qualifications that employers look for when recruiting.

As with most variables in this survey, significant differences by organisation size are found, with SMEs much less likely to look for specific qualifications when recruiting staff. Forty per cent of SMEs say they do not look for qualifications, rising to 46% for the smallest organisations. The primary reason for this tends to be the number of vacancies and candidates, with larger organisations (especially with high staff turnover) having to recruit more often and sift through more applications. Qualifications are then used as a filter, which of course disadvantages applicants who may have relevant experience, but not the relevant qualifications. This is a challenge for [older workers](#) in particular, who will have more experience, but are the least likely to have formal qualifications.

Figure 13: Qualifications sought when recruiting (%)

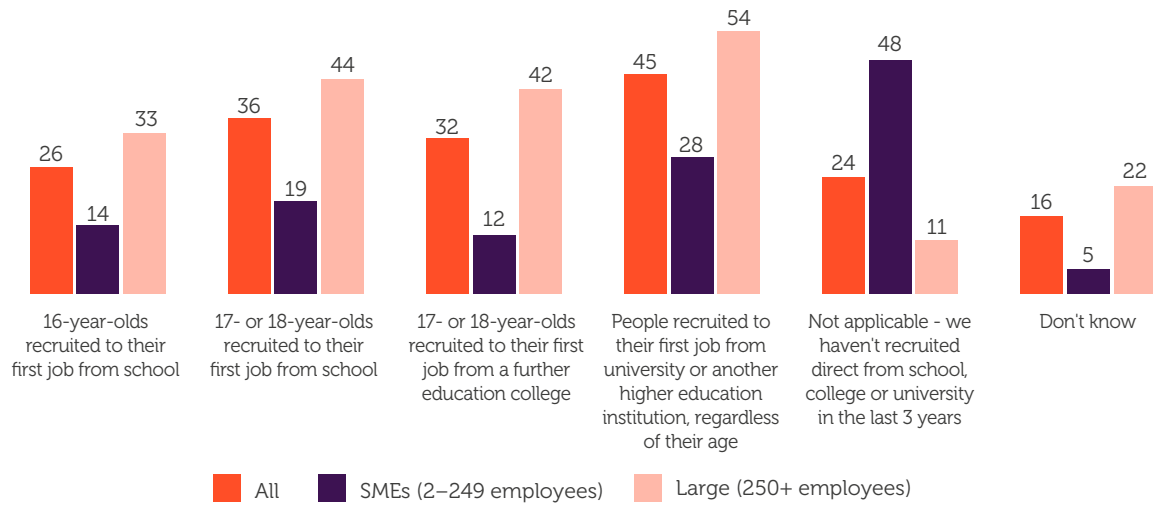


(Question: 'Which, if any, of the following types of qualifications does your organisation look for when recruiting staff? Please tick all that apply.')

The survey also asks specifically about the recruitment of young people (aged 16+). Figure 14 shows the proportions of organisations that have hired young people into their first job directly from school, college or university.

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Figure 14: Recruitment to first job from school, college or university (%)



(Question: 'In the last 3 years, has your organisation recruited any of the following young people to their first job after leaving school, college or university? Please tick all that apply.')

Again, significant differences by business size are found, with 48% of all SMEs not having recruited directly from school, college or university in the last three years. There are a few likely reasons for this:

- 1 Overall levels of recruitment will be lower for SMEs, especially so during the last three years.
- 2 Smaller businesses are less likely to have developed relationships with educational institutions, which can lead to direct recruitment channels.
- 3 Tallying with the above findings around qualifications, it is possible that SMEs prefer to recruit based on experience to minimise the need for post-recruitment training.

The survey also asked about eight different types of job placement. Results show that 38% of organisations offered some sort of placement, with the most common ones being a short-term placement for people at university (15%), a paid or unpaid internship (13%) and a placement specifically targeted at giving work experience to the unemployed (10%). In line with other findings, large businesses were more likely to offer placements, with 61% of SMEs saying they haven't offered any in the last 12 months.

There is also a significant link between placements and young people's recruitment. Employers who offer placements also tend to recruit directly from school, college or university, with only 12% of those offering any kind of placement not hiring anyone directly in the last three years. This again underlines the importance of relationships between employers and educational institutions.

Young people's preparedness for work

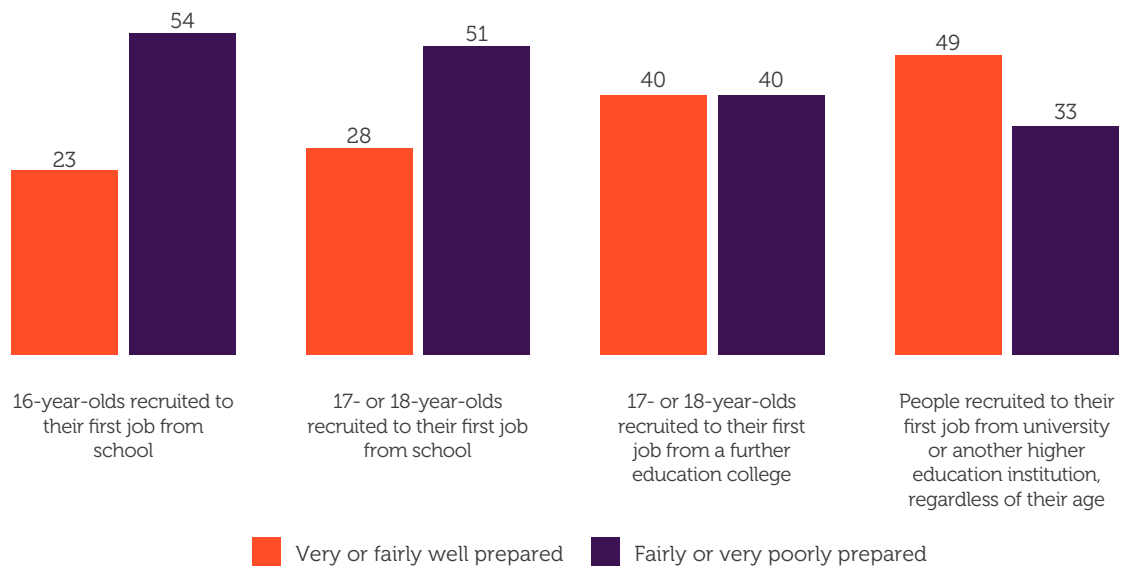
For those who have recruited directly from school, college or university, the survey asked employers to rate perceived preparedness of young people for work when they were first recruited. Figure 15 shows a breakdown of the answers by age group and/or institution that young people were hired from.

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We see that young people hired directly from school are perceived to be the least prepared, with over half of all employers who hired them saying they were fairly or very poorly prepared (54% for 16-year-olds and 51% for 17- or 18-year-olds). While this is understandable, it does corroborate the general feedback from employers that there is a gap between schools and the world of work. Initiatives like [Developing the Young Workforce in Scotland](#) that seek to deepen links between schools and local employers need more government and employer buy-in.

Young people recruited directly from college or university are perceived to be better prepared for work, as Figure 15 shows. That being said, still only less than half (49%) of employers who hired someone directly from university feel they were well prepared for work, with only 40% of employers saying the same about 17- or 18-year-olds hired directly from college.

Figure 15: Employer views of young people's preparedness for work (%)



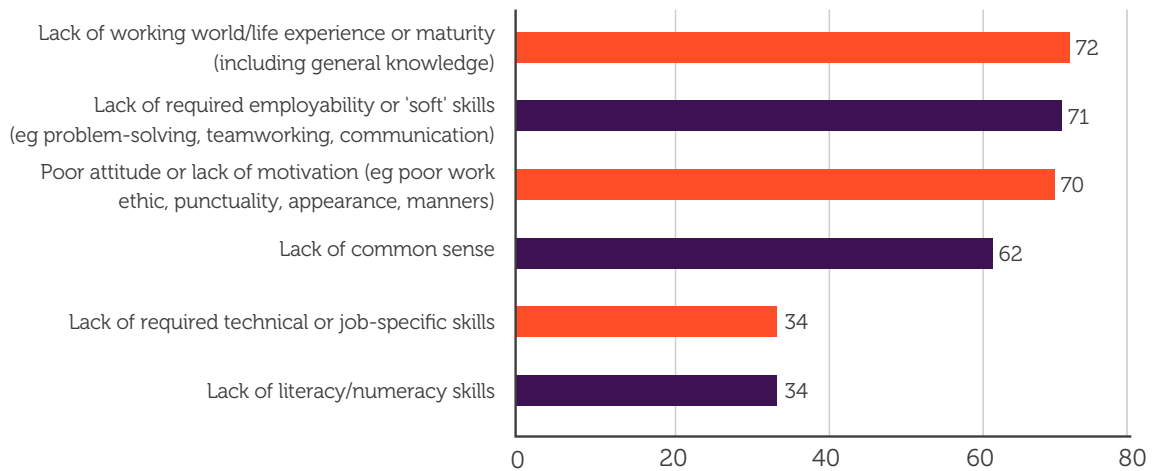
(Question: 'Overall, to the best of your knowledge, how well or poorly prepared for work have people from the following groups been when they were first recruited by your organisation?')

Of course, there can be a range of reasons why employers feel young people are unprepared for work. Not all of them can be attributed to the education system. Our survey asked employers to select from six different options, as summarised in Figure 16.

The three most common issues were the lack of working world/life experience, lack of required employability skills and poor attitude or lack of motivation. It stands to reason that much of this is impacted by age and will improve with experience and exposure to a work setting. That said, improving the provision of work placements for pupils and linking in with local employers can help. Furthermore, embedding the development of employability skills in the curriculum, built around a shared understanding of what soft skills are (along the lines of the [Skills Builder Universal Framework](#)), could also be a part of the answer.

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Figure 16: In which ways have school, college or university leavers been poorly prepared for work? (%)



(Question: 'In which, if any, of the following ways have the school, college or university leavers been poorly prepared for work? Please tick all that apply.')

Over a third of employers who hired a young person from school, college or university cite lack of literacy/numeracy skills as a reason for the poor preparedness of young people. Sample size does not allow us to isolate those employers who only hired directly from school (to make a direct link between the reasons for poor preparedness and school-leavers), but a look at the UK-wide data confirms that numeracy/literacy gaps are worse for those hired directly from school than for those hired from college or university. Concerningly, lack of literacy/numeracy skills is a bigger issue in Scotland than in England, where it was selected by 24% of employers. There is no silver bullet as a solution to this, but it is another call to action from employers to policy-makers.

7 Apprenticeships

We have seen in the [Labour and skills shortages](#) section that 23% of employers say they respond to shortages by hiring more apprentices. This is an area where the pandemic had a very direct impact, since apprentice-hiring activity has dropped considerably. More recent statistics show a gradual return to apprenticeship starts in Scotland, but as highlighted in this section, there are opportunities to go further.

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Box 1: Types of apprenticeship available in Scotland

- Modern apprenticeships are the primary type of apprenticeship, available across 80 different frameworks at various skills levels. Different training contribution rates exist across the frameworks, with most funding aimed at younger apprentices.
- Foundation apprenticeships are available in 15 different industries and are aimed at senior phase school pupils who can pick an apprenticeship as one of their subjects. These can be a useful way to develop an employer's talent pipeline.
- Graduate apprenticeships are a newer type of work-based training at some of the higher skills levels (up to master's level). They are available in a smaller number of areas, but the list is expanding.

The survey asked employers whether they offer any of the three main types of apprenticeship (listed in Box 1). Thirty-seven per cent of all Scottish employers said they offer apprenticeships, and 52% said they do not. There are significant gaps by organisation size, with 84% of the smallest businesses not offering any apprenticeships, compared with only 35% of those working in the very largest. The vast majority (83%) of those who do offer apprenticeships offer modern apprenticeships, with 30% offering foundation apprenticeships and 29% offering graduate apprenticeships.

Unsurprisingly, organisations that are approaching their skills strategically are more likely to hire apprentices. Using the three variables from the Employer approaches to training section, we find that 45% of those who have conducted strategic workforce planning and/or have a training plan and/or a training budget also hire apprentices, compared with 17% of those who have done none or don't know. Taking organisational size into account, while only 18% of SMEs offer apprenticeships overall, this rises to 27% for those who take a strategic approach to skills.

The highest proportion (26%) of employers gave a 'don't know' answer, which is as disappointing as the 37% who could not give a reason for not using further education or higher education as external training providers. The highest substantive proportion is recorded for those who say apprenticeships are not suitable due to the size of their organisation. This is self-evidently a bigger issue for smaller businesses, with 38% of the smallest giving this as a reason for not offering apprenticeships.

Given the gap between small and large organisations and apprenticeship hires, it is worth looking at the key reasons that the smallest businesses give, beyond just their size per se. Twenty-one per cent of small businesses say that they currently cannot afford to. This is linked to the question around financial incentives for apprenticeship hires, which is explored in the next section. Nineteen per cent say that their staff are already fully skilled, with the same proportion saying that they prefer to recruit experienced staff. This underlines the need to improve people management capability in these firms as a way of boosting the understanding of skills and driving demand. Lastly, 11% say that they think apprenticeships are too administratively complex, which can be addressed by better business support services.



Figure 17: Reasons for not offering apprenticeships (%)

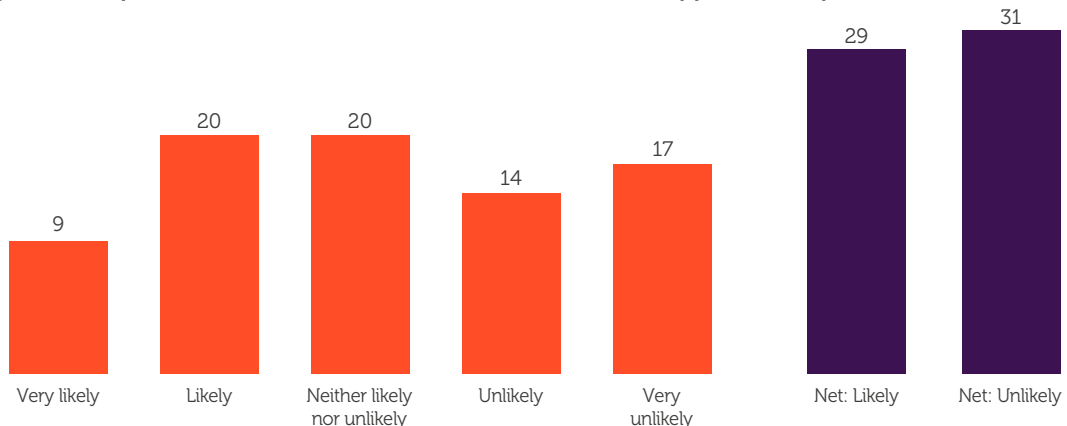


(Question: 'Which of the following are reasons that your organisation doesn't offer apprenticeships? Please tick all that apply.')

With 12% of all businesses citing costs as a barrier to apprenticeship hires (rising to 19% for the smallest organisations), the survey asked whether direct financial incentives would impact their likelihood to hire apprentices. These schemes, offering a cash grant for each apprentice, were set up in all parts of the UK in response to the pandemic, but it could be that there is a case for a permanent scheme.

As summarised in Figure 18, there is a roughly even split between those businesses that say they would be likely (29%) and unlikely (31%) to consider hiring apprentices. Importantly, financial incentives are more likely to make a difference to the smallest of businesses. Eleven per cent of these say that they would be very likely to consider hiring apprentices, with another 24% saying they would be likely to do so. For comparison, the equivalent figures are 7% and 16% respectively for those working in large organisations. Of course, it should be emphasised that simply hiring an apprentice is no guarantee of a completed apprenticeship, but it is a prerequisite of one.

Figure 18: Impact of financial incentives on likelihood to hire apprenticeships (%)



(Question: 'Would financial incentives in the form of direct grants make your organisation likely or unlikely to consider hiring apprentices?')

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Apprenticeship Levy impact

One of the most significant interventions in this space has been the introduction of the Apprenticeship Levy by the UK Government some five years ago. The levy was designed for the English skills development system and its operation is a hotly contested topic in any roundtable of devolved nation employers. Instead of directly linking money paid to levy payers, the funding received through the block grant is allocated by the Scottish Government to a series of skills initiatives that can be used by all organisations. The Flexible Workforce Development Fund is the only ring-fenced (but rather limited) fund for levy payers.

In our survey sample, 23% of organisations have to pay the Apprenticeship Levy, the majority of which are, unsurprisingly, large employers that are more likely to breach the £3 million annual pay bill threshold. It is worth pointing out that a staggering 45% of senior leaders did not know whether their organisation had to pay the levy or not.

The (intended or unintended) impact of the levy has been much commented on since its introduction, with the CIPD [arguing](#) that it has failed on every measure. Levy payers were asked to estimate its impact on overall levels of training expenditure in their organisation. Twenty-eight per cent said they have increased their overall levels of training expenditure, 36% said it remained unchanged and 10% said it has decreased. Considering the key intention behind the levy was to boost employer investment in training, it is a disappointment (for government) to see that 46% of payers have either not changed or decreased their expenditure on training.

Uniquely in a Scottish context, levy payers were asked whether they feel they can get the money they pay back – either in the form of apprenticeships or any other training. The results were rather split, but the highest proportion (38%) of employers said they felt they could, with 31% answering ‘no’ and another 30% not knowing the answer. Concerningly, over a quarter (27%) of those who said ‘no’ or ‘don’t know’ have not heard of any of the key Scottish skills-related initiatives discussed in the next section.

8

Scottish skills initiatives

We have seen how employee skills development is impacted by organisational planning and investment in training, by individual and employer demand, and by the relationships between training providers and businesses. The other piece of the puzzle is the availability of public policy initiatives that employees and employers can tap into. This is an area with considerable divergence between Scotland and other parts of the UK due to skills policy being virtually fully devolved.

The survey therefore included a specific set of questions aimed at Scottish employers alone, regarding nine different skills-related initiatives available in Scotland (listed in Box 2), and whether they had heard and/or made use of them. The list was made up of more recent programmes in the skills space and included employer-led (for example the Flexible Workforce Development Fund) as well as employee-led (for example Individual Training Accounts) initiatives.

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Box 2: Key skills-related initiatives in Scotland

- **Foundation apprenticeships** are available in 15 different industries and are aimed at senior phase school pupils who can pick an apprenticeship as one of their subjects.
- **Graduate apprenticeships** are a newer type of work-based training at some of the higher skills levels (up to master's).
- **The Young Person's Guarantee** aims to bring together a host of initiatives under one umbrella, with a commitment to connect every 16–24-year-old in Scotland to an opportunity. It includes employer recruitment incentives, which are delivered by local authorities through local employability partnerships.
- **Developing the Young Workforce (DYW)** includes regional employer-led groups set up across Scotland with the primary aim of connecting employers with the education system. A range of programmes are available through Developing the Young Workforce and there are many ways to get involved. Regional DYW groups can also help employers navigate the skills and employability system in Scotland.
- **The Flexible Workforce Development Fund** provides several routes for accessing upskilling. SMEs can access up to £5,000 to access training opportunities with colleges and the Open University in Scotland. Levy-paying businesses can access up to £15,000 for training opportunities with colleges, with a smaller total amount of funding available to access training delivered by independent providers.
- **Skills for Growth** effectively functions as a skills diagnostic service for companies. In partnership with several well-known organisations, it provides a free consultancy service that can help identify skills needs and provide advice on what programmes to connect with. It is offered to businesses with between 5 and 250 employees.
- **Individual Training Accounts (ITAs)** provide eligible individuals with £200 towards the cost of training. ITAs aim to improve work-related skills and qualifications, and courses are aligned to the Scottish Government's Labour Market Strategy.
- **The National Transition Training Fund** was set up in response to the pandemic and is targeted at those aged 25 or over who are unemployed or who are at risk of redundancy and require upskilling or retraining.
- **Partnership Action for Continuing Employment (PACE)** is the Scottish Government's national strategic partnership framework for responding to redundancy situations. It offers free support for businesses of any size as well as free, impartial advice on dealing with the practical and emotional sides of redundancy for employees.

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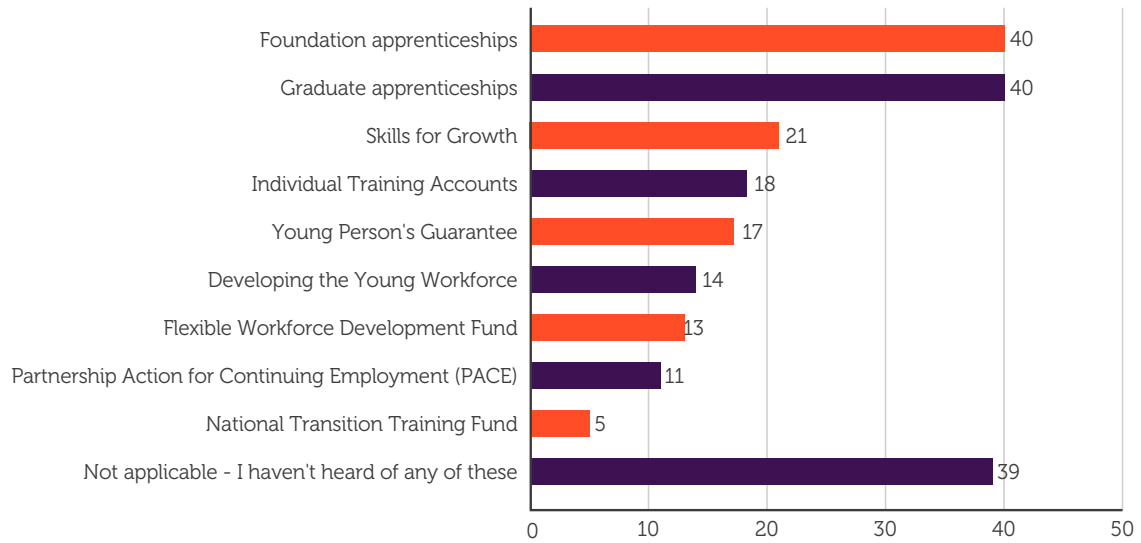
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Figure 19: Awareness of Scottish skills-related initiatives (%)



(Question: 'Which, if any, of the following skills-related initiatives offered in Scotland have you heard of? Please tick all that apply.')

Figure 19 summarises the awareness Scottish employers have of these skills-related initiatives offered in Scotland.

Worryingly, 39% of employers had not heard of any of the initiatives above, rising to 52% for the smallest of businesses (with 2–49 employees). This could be due to the fact that the respondents are senior leaders in organisations, responsible for strategic decisions, and it is junior members of staff who are more likely to deal with specific programmes. Nonetheless, these findings show a concerning level of disengagement from public policy initiatives in Scotland.

Breaking the figures down by sector, it was found that public sector employers are significantly more likely to be aware of them. This is true for each of the nine initiatives, with the biggest differences in the Young Person's Guarantee (with 39% of public sector organisations aware, compared with 11% of private sector organisations), Developing the Young Workforce (27% vs 9%) and the Flexible Workforce Development Fund (23% vs 8%). With over three-quarters of all employees in Scotland working in the private sector, this is a real challenge.

Unsurprisingly, those with a strategic approach to skills are much more likely to be aware of the initiatives. Fifty-six per cent of those who hadn't done any of the three interventions (conducted a strategic workforce planning exercise, put in place a training plan and/or a training budget) have never heard of any of the nine initiatives, compared with only 31% of those who had done at least one. For SMEs (2–249 employees), the difference is 60% for those who are not taking a strategic approach, compared with 38% for those who are.

In addition, of those employers who don't offer any apprenticeships, 69% are not aware of foundation apprenticeships and 70% are not aware of graduate apprenticeships. Of course, both of these are newer and much narrower, but this does highlight the opportunity from increasing awareness.

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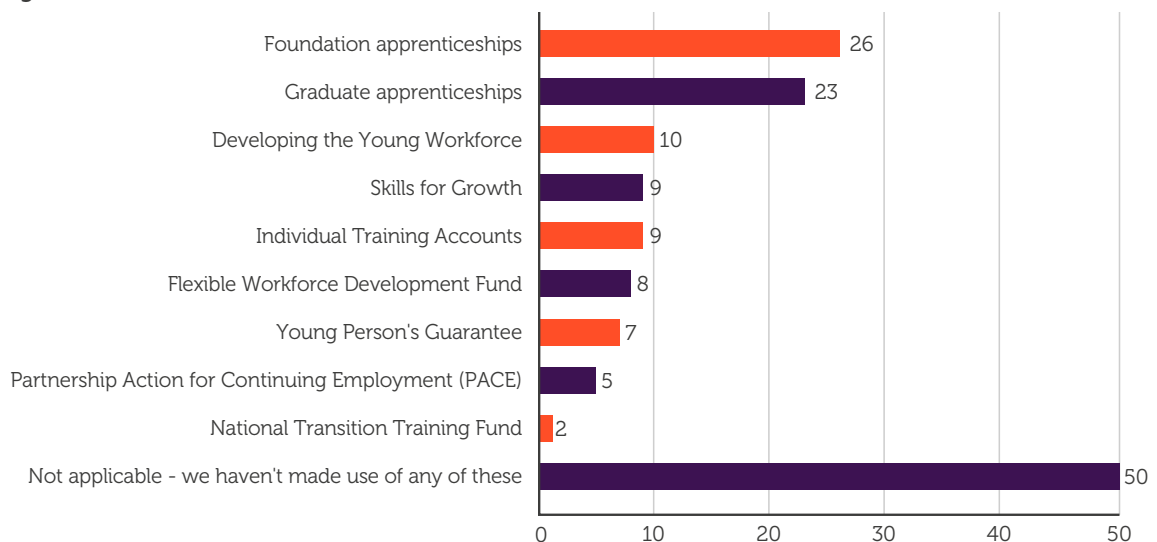
Only 24% of Scottish employers have heard of at least one of the three initiatives primarily directed at upskilling (the Flexible Workforce Development Fund, Individual Training Accounts, the National Transition Training Fund). Upskilling was listed as one of the key responses by employers to both skills/labour shortages during recruitment and skills gaps among existing employees. However, the vast majority of employers who upskill remain unaware of the three upskilling public policy initiatives we ask about. Seventy-one per cent of those who say they upskill existing employees to fill hard-to-recruit positions and 72% of those who say they train and develop existing employees to deal with skills gaps are unaware of any of these three initiatives.

Furthermore, the Flexible Workforce Development Fund specifically includes a ring-fenced funding route for Apprenticeship Levy payers, allowing them to access upskilling opportunities up to a £15,000 limit. Out of those levy payers who said they can't (or don't know whether they can) get back the corresponding levels of funding in apprenticeships or other training, 85% were not aware of the Flexible Workforce Development Fund.

It was also found that just 19% of those who have hired a 16-, 17- or 18-year-old directly from school in the previous 12 months were aware of Developing the Young Workforce – which has been put in place specifically to bring local employers and education closer together. Conversely, 90% of those who have not hired a 16-, 17- or 18-year-old directly from school in the previous 12 months remain unaware of DYW. That is a gap that can be narrowed.

Employers who were aware of at least one of the initiatives were asked whether they or their employees actually made use of the initiatives. Figure 20 shows that the mere awareness of initiatives does not necessarily result in their use.

Figure 20: Use of Scottish skills-related initiatives (%)



(Question: 'Which, if any, of the following skills-related initiatives offered in Scotland have you or your employees made use of? Please tick all that apply.')

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Fifty per cent of employers said that they or their employees have not used any of the initiatives above. Therefore, while awareness of these policy interventions is a clear issue, it is not the only problem – it is the policy offer itself that is not being taken up by organisations.

It is important to point out that many of the nine initiatives are targeted at growth sectors, disadvantaged employees, or specific business or employee demographics. Some are employer-led and others employee-led. Our sample does not allow us to delve deeper and cross-reference these specifics with individual interventions, so while these findings are cause for concern at a high level, more work needs to be done to understand why these gaps occur and to develop policy responses.

9

Conclusions and recommendations

This report shines a light on Scottish employer views around skills. It shows the approaches they take to respond to skills/labour shortages and skills gaps in their organisations. It explores the relationships they have with training providers and their awareness of public policy initiatives. In addition, it analyses their views on the effectiveness of the education and skills system in preparing young people for the world of work. The findings and inter-relationships between these questions allow us to reach a few conclusions and provide some recommendations for both practitioners and policy-makers:

- 1 Labour and skills shortages are a real problem for Scottish employers, with 41% of all employers reporting some hard-to-fill vacancies. Out of those who have hard-to-fill vacancies, we see that the proportion of skills shortages is worse for SMEs than for large businesses, who are more likely to report a higher proportion of labour shortages.
- 2 This tight labour market results in upwards pressure on job quality, not least when it comes to pay and benefits. There is also an increased willingness to hire apprentices and upskill employees, which presents a golden opportunity for public policy to harness this. More funding for apprenticeships and boosting upskilling opportunities, alongside better awareness of existing schemes, should be a priority.
- 3 Employers should also learn from their peers and look at ways to improve job quality to boost retention and improve recruitment prospects. For example, more can be done to attract older workers or people from disadvantaged groups, with [research](#) showing flexibility and wellbeing as key. Furthermore, closer relationships with the education system and more opportunities for placements or internships can help develop an organisation's talent pipeline.
- 4 The biggest gaps in recruitment as well as for existing employees are in technical, vocational and specialist skills. This is seen in the kind of occupations that are proving the hardest to fill, as well as the breakdown by type of skill missing. This further underlines the crucial importance of apprenticeships and further

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education in meeting the skills demand of organisations. However, there is a gap in the relationship between employers and the skills development system. Only 22% use further education colleges to deliver training and 52% do not offer any apprenticeships at all. There is a concerning lack of awareness of most other skills-related initiatives in Scotland.

Both employers and policy-makers have a role to play here. Government has to fund training opportunities and get better at signposting through business support services. Employers have to show initiative, assess their own training needs, approach local training providers and co-invest – be it through apprenticeship hires, or through direct learning and development spending.

- 5 The importance of a strategic approach to skills is highlighted throughout the report. Putting in place strategic workforce planning, training plans and training budgets is positively correlated with an understanding of skills within organisations and their preparedness for the future, especially when it comes to automation and upskilling needs. Organisations that take a strategic approach to skills are more likely to have increased L&D spending, are more likely to offer apprenticeships and be aware of available skills policy initiatives. Employers should learn from these findings and put additional effort into training – even if they think they have a good understanding of their own organisations.
- 6 In general, driving up skills demand through a better understanding of current and emerging skills needs depends on good people management. We find a strong relationship between organisations that report adequate people management training and their understanding of skills and future preparedness. Building up people management capability requires action from employers themselves, but the Scottish Government could also offer better business support and consultancy services.
- 7 One of the challenges highlighted by the data in this report is that it seems likely that many organisations, particularly SMEs, are unaware of their skills and people management challenges or underestimate these, which means they are not taking necessary steps to invest more in skills and workforce development. This underlines the need for better-quality business support on HR/people management and development, to help smaller firms build their capability in these areas and to prompt greater investment in skills, to boost progression opportunities and job quality.

The CIPD has run a number of positively evaluated pilots providing this type of support, including one in Glasgow, which have shown the need for this type of support and its potential value. This type of HR support service could also help signpost relevant Scottish Government skills initiatives to employers, to boost engagement and take-up.
- 8 Those employers who hire young people directly from school, college or university are rather negative about their preparedness for work. Some of the most concerning findings are around the gaps in literacy and numeracy – worse in Scotland than in England – which are linked to school education. Coupled with the poor preparedness for work of those hired directly from school and schools being rated the least effective when it comes to developing the skills



organisations need, this suggests a negative perception of schools across Scotland. Of course, there are ways in which employers can play their part – by building closer links to local schools, engaging with pupils directly or offering more placements and internships.

When it comes to colleges and universities, there seems to be a perception gap, with employers who actually use them rating them significantly better in both their effectiveness and in how they prepare young people for work. Again, this highlights the need to bring employers and education closer together.

- 9 The findings also show there is a clear opportunity to boost apprenticeships and upskilling policy right now, as employers look towards them to deal with skills/labour shortages and existing skills gaps. Apprenticeship hiring incentives are most likely to help the smallest of businesses, in line with our previous public policy recommendations. But we have also uncovered clear gaps in awareness of the types of apprenticeship on offer. Out of those organisations that don't offer any apprenticeships, 69% are not aware of foundation apprenticeships and 70% are not aware of graduate apprenticeships.

Furthermore, we again find evidence that the Apprenticeship Levy has not had the desired impact, with only less than a third (28%) of levy payers saying they increased their spending on training and 46% saying it decreased or remained unchanged.

- 10 Looking beyond apprenticeships, the lack of awareness about some of the key Scottish skills-related initiatives is of real concern. The fact that 52% of small businesses have not heard of any of them should be a wake-up call to the Scottish Government and its agencies and lead to improvements in business support, signposting and targeted advertising. That being said, awareness itself will not lead to use, as we have shown here too, although more investigation is needed to uncover the reasons for this.

What is clear, however, is that the potential to reach more organisations is considerable. For example, we find that over 70% of businesses that say they upskill their employees to fill skill gaps or respond to labour shortages are unaware of the three key Scottish upskilling initiatives. We also find that 85% of levy payers who say they can't access their funding (or don't know if they can) are unaware of the Flexible Workforce Development Fund – the majority of which is ring-fenced for use by levy payers.

Where gaps are identified, there is an opportunity to fill them. As we emerge from the most extraordinary two years, it is time for organisations and policy-makers to put skills back where they belong – at the heart of conversations about job quality, productivity and the labour market.

People practitioners can take the insights in this report to the workplace and make the case for a more strategic approach, further investment and closer relationships with the education system. Policy-makers may now have a better idea on where the opportunities for progress are, where to focus efforts in search of tangible outcomes and the areas where employers themselves identify serious shortcomings. If this then leads to action across organisations, government and its agencies, the gaps identified here will narrow and it will be Scottish employees, employers and the country as a whole that benefit.

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