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MAJOR TRAINING BARRIERS IN SMALL FIRMS IN MACEDONIA

Abstract

Recent studies on employee training have confirmed the significant gap in training provision between small and large firms. Training activities are substantially lower in small than in larger firms across all countries in Europe. Small businesses face considerable obstacles to providing employee training. Identifying the major obstacles to training provision would enable developing appropriate policies to foster employee training among small firms. High costs, lost working time, lack of suitable courses in the market and difficulty in assessing training needs are perceived as the most significant barriers by small businesses in R. Macedonia.

Keywords: employee training, small businesses, training barriers

JEL classification: M53

INTRODUCTION

The issue of SMEs investing significantly less in employee training as opposed to large firms has raised the interest among researchers in recent years. As SMEs account for more than 99.8% of companies in Europe, the vast majority of them being micro businesses, their training provision, i.e. the extent and quality, is an important determinant of the overall training levels in the economy as well. Yet, studies have found considerable difference in training provision between small and large firms. In particular, in the OECD countries, SMEs provide 50% less training to employees as opposed to large firms. For example, the LEED studies conducted in several countries as UK, Canada and New Zealand revealed that about a third of small firms have

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not participated in training in the past year¹. Moreover, empirical studies reveal that training participation levels differ significantly among countries in Europe². In particular, the Scandinavian countries show considerably higher participation than Southern European countries.

The main objective of training is to improve human capital and thus increase the productivity of firms and the overall competitiveness of the economy, generating benefits for individuals, firms and society. In this context, investments in human capital have been considered essential to sustainable economic growth. Yet, due to various forms of market imperfections and internal obstacles of training, firms invest insufficiently in training of their workforce. Namely, about one third of the firms in EU did not provide any training to employees. Such trend has been evident in the past decade as well³. Nevertheless, the rapid pace of technological improvements and more sophisticated production processes impose higher demand for employee training as skills become obsolete more quickly than ever before. Thus, workforce upskilling is especially important in small firms not only because they are said to constitute the backbone of every economy but also because small firms face increased obstacles to training in comparison to larger firms.

Therefore, understanding the specifics of employee training in small firms and identifying the major barriers pertaining to training provision is paramount to increased levels of employee training. The last few years have witnessed some progress in employee training practices among small firms. Namely, the EU continuous vocational training survey has revealed that firms are paying increasing attention to the effects of the training they provide⁴. The most frequently used training evaluation practices among firms refer to participant satisfaction and employee performance. Small firms do not lag behind significantly since, over the period of 2005 to 2010, the evaluation practices have diffused more quickly among small firms than among large ones, thus narrowing the existing gap. These widely used criteria of training effectiveness reveal increased awareness of the effects of training among employers. Nevertheless, a more strategic approach to employee training

¹ OECD, "Skills development and Training in SMEs", OECD Publishing, 2013, p. 16

² Ok, W. & Tergeist, P., "Improving workers' skills: Analytical evidence and the role of the social partners", OECD Social, Employment and Migration Working Papers, 2003, p. 11

³ EIM/SEOR, "Policy Instruments to Foster Training of the Employed", vol. 1, Zoetermeer/ Rotterdam, 2005, p. 26

⁴ Beraud, D. "SMEs are increasingly interested in the effects of training", Training and Employment, No.114, 2014, p. 1-4

and a systematic evaluation of the impact of training increases with the size of the firm, mainly due to the existence of HR departments, as well as with the firm's strategic commitment to employee training, related to continuous evaluation of training needs, well-developed training plan and higher rate of access to training.

1 TRAINING IN SMALL FIRMS

According to Eurostat's latest survey on vocational training, about two thirds (66%) of European enterprises provided some type of employee training⁵. Formal courses, internal or external, were found to be the predominant type of training that was provided by firms in all EU countries as opposed to other types of training (job-rotation and exchanges, learning circles, self-directed learning, and alike). The share of firms that provide training courses differs significantly among the EU countries, ranging from 22 % in Poland to 91 % in Denmark and even higher (97 %) in Norway. The proportion of enterprises providing training courses exceeds the EU-28 average in Norway, Denmark Sweden, Belgium, Austria, Spain, France, the Netherlands and Finland.

Training participation among small firms however is consistently lower in all countries. In 2010, employees' rate of access to training courses was 25% in small firms up to 49 employees and 46% in those with at least 250 employees⁶. In addition, there are significant disparities in training within Europe as a result of the national specificities that dictate the rate of access to training, funding and the type of training undertaken. For example, several countries, as Poland, Greece, Bulgaria, Romania, Hungary, Croatia, are characterized by limited training provision since both the share of firms providing training and the employees' rate of access to training are relatively low compared to the EU average.

Based on Eurostat's data these differences are even more pronounced in small firms with less than 50 employees as firms' training commitments were found to depend to a great extent on the size of the firm⁷. Namely, the difference between EU countries in the share of small firms that do not provide training to their employees amounted to 73 percentage points, ranging from 11% in

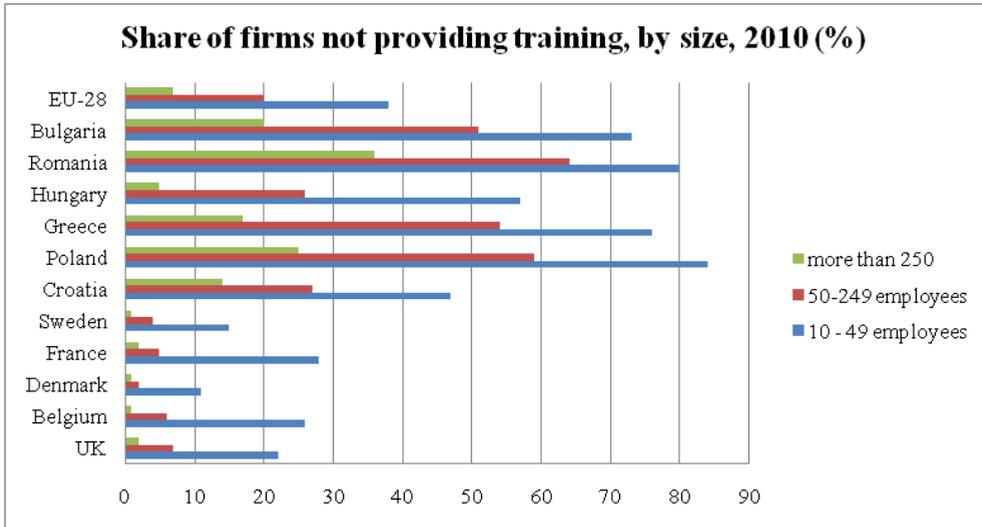
⁵ Eurostat, Vocational education and training statistics, 2016 [http://ec.europa.eu/eurostat/statistics-explained/index.php/Vocational_education_and_training_statistics]

⁶ Mignot, J.F., "Continuing training for employees in Europe: the differences between countries continue to narrow", Training and Employment, No.106 July-August 2013, p. 2

⁷ Eurostat, 2016, [<http://appsso.eurostat.ec.europa.eu>]

Denmark to 84% in Poland (Figure 1). This gap however is less significant for the large firms that did not provide training, with the lowest share of non-trainers in Belgium and Sweden (1%) and the highest in Romania (36%).

Figure 1. Share of all non-training firms in European Union in 2010, by size class



Source: Eurostat data, 2016

Limited employee training provision by small firms has been well documented in the literature as most studies found significant discrepancies between the level of training provision of small and large firms. What is even more concerning is that the latest data point to the fact that about 20% of small firms with between 10 and 49 employees provide only compulsory training so as to meet statutory requirements compared to just 7% of firms with over 2,000 employees⁸. In fact, most of the small firms that do provide training to employees with the purpose of acquiring skills and competences mainly do so by conducting informal training which is provided in-house. This is primarily a result of the greater opportunity that this type of training offers for tailoring the training according to the specific needs of firms. Yet, even when considering this type of training, the gap in training provision between small and large firms is still not negligible.

⁸ Dubois, J., Marion-Vernoux, I., Noack, E., “The training and employee trajectory surveys: a new look at in-firm training”, *Training and Employment*, No. 121, Jan-Feb 2016, p.2

Significant number of empirical studies has addressed the benefits of employee training for businesses and the different motives of firms behind the training. This issue is however much more complex for small and medium-sized businesses than it is for large ones. Namely, the motivation for the scale and scope of training provision among firms is closely related to their needs, which are derived from their overall business strategy. Hence, the motivation for employee training is diverse among small firms as they include start-up firms, growth firms, innovative firms and technology-intensive firms, as well as firms that may not be growth or innovation oriented. In this context, small firms that pursue innovation or growth strategy reveal similar training behavior to large firms than to other small firms⁹. Indeed, higher levels of training provision are found among small firms that frequently have to deal with change, whether in technologies, processes or in relations with clients; in fact, those firms that attach considerable importance to the latest technological and market developments and to innovation.

2 BARRIERS TO TRAINING IN SMALL FIRMS

Limited training provision among small firms has been closely connected to several factors, some of them directly related to the very specifics of small businesses, such as absence of training departments and training plan or budget, poor, if any, evaluation of training needs, HR strategy not incorporated into the overall business strategy, and alike¹⁰. The above factors result in lack of formality of training and thus limited training provision.

Not excluding the above, small businesses face additional challenges pertaining to employee training and constantly identify more barriers to training than larger firms. Research on small and medium-sized firms has identified several barriers that are observed to be critical to the limited provision of employee training. Small firms have less available time to devote to training, rather limited resources, including financial resources, insufficient information on training opportunities and less comprehension of the benefits of training to their workforce.

⁹ Rabemananjara, R. & Parsley, C., "Employee training decisions, business strategies and human resource management practices: a study by size of business", Small Business Policy Branch, Industry Canada, 2006, p.13

¹⁰ Beraud, D. "SMEs are increasingly interested in the effects of training", Training and Employment, No.114, 2014, p. 2

Cost of training is probably one of the most frequently cited obstacles to providing employee training by small firms. This is not only because small firms have more financial constraints compared to medium- and large-sized firms, but also because the average cost of training per employee is significantly higher in small firm (more than three times) than in large firms, mostly due to the fact that small firms cannot achieve economies of scale as large businesses when they provide training to their employees¹¹. In addition, even when the market price is identical, the ‘real’ price paid by small firms is much higher as a result of the various opportunity costs, some of which refer to employee absence from the workplace¹². Given the opportunity costs that arise from formal training, small firms tend to use informal methods of training that meet their immediate business goals.

Lack of information on available training in the market is also cited as a barrier to training for small businesses. Small firms are less informed on the available training providers and the training programs offered in the market. Furthermore, small firms encounter difficulties in accessing training tailored to their needs since providing customized training to small number of trainees by external providers substantially raises training costs. Therefore, training programs offered in the market are frequently considered to be general and not of specific relevance to businesses¹³. Another problem for small firms that lack HR specialists could be the inability to appropriately assess the training needs of the employees which could lead to miscomprehension of the current and future needs for skills and expertise.

The most common reasons stated by small firms in EU countries for not providing training was that firms either tried to recruit people with the required skills (49 %) or that the existing skills and competences of their workforce already corresponded to their needs (77 %)¹⁴. Lack of time, high training expenses and lack of suitable training courses in the market were also pointed as reasons for not providing training to their employees. The two most frequently stated reasons for not providing training to employees are directly related to the recruitment strategies. However, in the long run, and

¹¹ Stone, I. “Encouraging small firms to invest in training: learning from overseas”, Praxis, UK Commission for Employment and Skills, Iss.5, 2010, p.10

¹² Westhead, P. & Storey, D. “Management training and small firm performance: why is the link so weak?”, International Small Business Journal, Vol. 14, No. 4, 1996, p. 19

¹³ Ibid, p. 20

¹⁴ Eurostat, Vocational education and training statistics, 2016 [http://ec.europa.eu/eurostat/statistics-explained/index.php/Vocational_education_and_training_statistics]

taking into account that the rapid changes in the global market make skills and competences obsolete faster than ever before, this might cause severe ramifications to both employees and firms if seeking to keep pace with the competition.

3 TRAINING BARRIERS IN SMALL FIRMS IN R. MACEDONIA

Formal courses offered by external providers are usually considered to be costly, time-consuming and general. Therefore, smaller firms tend to provide in-house training as it could be tailored as to meet their specific needs and delivered at times and in formats convenient to businesses. In-house on-the-job training could provide skills and expertise to employees that are closely related to the specifics of their job and could tackle immediate problems that affect their everyday operations.¹⁵ This trend is evident among small businesses in R. Macedonia as well.

To analyze the main specifics and barriers of employee training in small firms in R. Macedonia, a survey was sent to 58 businesses that employ less than 50 employees. Since the response rate was 67%, only 39 questionnaires returned by small firms were further analyzed. The overall findings are consistent with those of the studies conducted in small firms in most of the European countries.

Generally, employers provide training to employees for variety of reasons as upgrading employees' skills, improving employee performance, facilitating introduction of new products, processes or technologies, increasing productivity and improving business performance. The evidence on small firm preference on training suggests that employers mainly undertake training to achieve short-term goals as overcoming ongoing challenges or facilitate employees to perform their current jobs¹⁶. In this regard, the main motives for providing training to employees as identified by small businesses in Macedonia refer to improvement of employee skills required for their current job roles and improvement of the overall business performance and productivity. In fact, the primary incentive for about 33% of small firms to provide employee training was upgrading workers skills (Figure 2). About 49% of small firms provided employee training to either increase productivity

¹⁵ Stone, I., "Upgrading workforce skills in small businesses: Reviewing international policy and experience", LEED/OECD, Report, 2012, p.5

¹⁶ Kitching, J. & Blackburn, R., "The nature of training and motivation to train in small firms", Small Business Research Centre, Kingston University, Report RR330, 2002, p.16

or improve the overall business performance (26% and 23% respectively). Providing employees with formal qualification or providing employees with skills necessary to meet future needs of the businesses were not considered to be a priority for small firms. These findings support the idea that small firms are characterized by short-termism, that is, they are rather oriented to achieving immediate goals and shorter horizons as opposed to long-term objectives¹⁷.

Figure 2. Main incentives for providing employee training in small firms



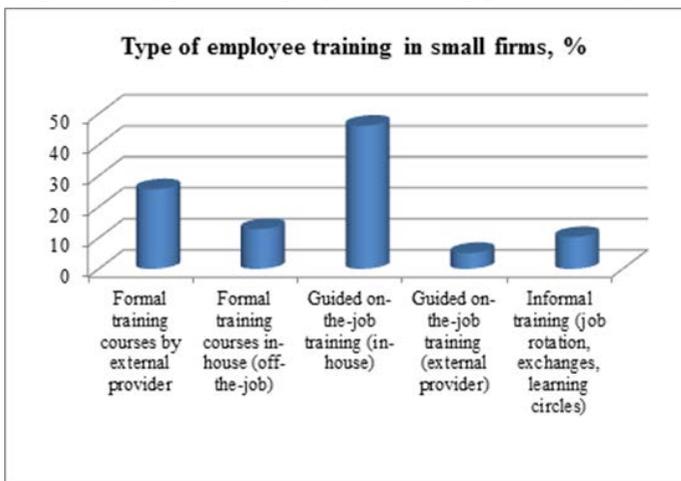
Source: Author's findings

Recognizing the above, it is not surprising that small businesses prefer guided on-the-job training that is provided in-house. In fact, recent studies have found that this is the most preferred type of employee training among small firms. There are several reasons for informal on-the-job training preference by small businesses, some of them pertaining to: 1) informal training allows businesses to overcome the major challenges they face while undertaking employee training such as lost working time, high training costs and alike; 2) it enables tackling immediate problems related to job specifics and has the advantage of relevance; 3) it is tailored to meet the specific requirements of individual jobs and the business; 4) limited external training opportunities relevant to the businesses.

¹⁷ Shury, J., Davies, B. & Riley T., "Skills for the workplace: Employer perspectives", UK Commission for Employment and Skills, 2008, p.18

In similar vein, small businesses in R. Macedonia mainly prefer guided on-the-job training that is provided in-house. Almost half of the surveyed businesses (46%) have reported in-house on-the-job training as the most favorable type of employee training. Worth noting though is that small businesses in R. Macedonia are not inclined to use other forms of informal training as job rotation, exchanges and alike. In comparison, the EU countries, as Sweden, UK and Germany, that report highest levels of employee training among SMEs, rather extensively use these forms of informal training¹⁸. However, when it comes to formal training, courses by external providers are the preferred type as opposed to in-house courses. About 25% of surveyed businesses prefer this type of training. Firms usually rely on formal training delivered by external provider when they seek to upgrade generic, management or entrepreneurial skills of their employees¹⁹ or when they lack the required resources as necessary expertise and knowledge of the subject or the adequate equipment. Taking into account that both external and in-house training have their own advantages, some businesses seek to combine the advantages of both external providers and on-the job training, in cases, for example, when a new technology is being introduced.

Figure 3. Type of employee training preferred by small firms



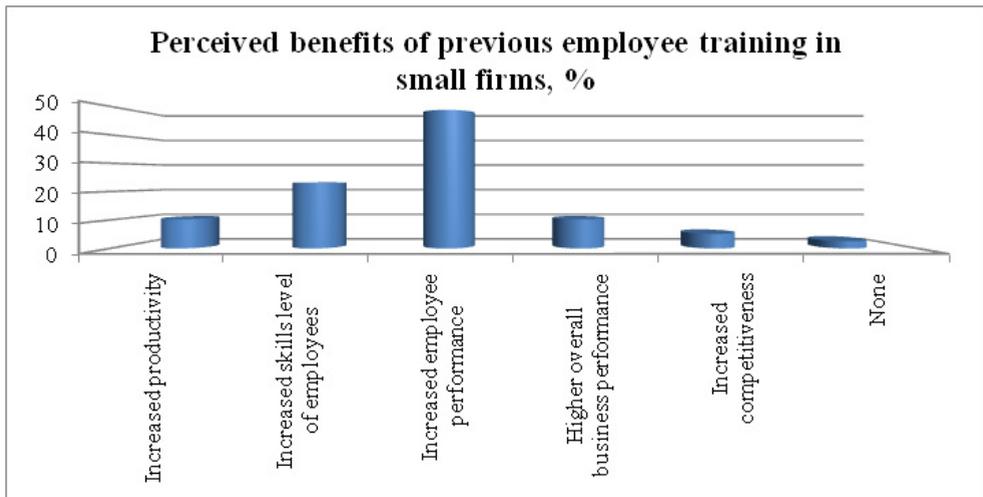
Source: Author's findings

¹⁸ Mignot, J.F., "Continuing training for employees in Europe: the differences between countries continue to narrow", *Training and Employment*, No.106 July-August 2013, p. 2

¹⁹ De Vos, A. & Willemsse, I., "Leveraging training skills development in SMEs: an analysis of East Flanders, Belgium", *OECD (LEED) Working Paper*, 2011, p. 30

Evaluating the potential benefits of employee training as perceived by employers is of utmost importance mainly because employers' perception of training benefits is directly linked with their inclination to provide employee training. Small businesses in R. Macedonia generally regard enhanced employee skills and increased employee performance as primary benefits of employee training. In this context, nearly 49% and about 23% of all surveyed businesses consider increased employee performance and skills levels of employees, respectively, as primary benefits of training (Figure 4). Furthermore, 20% of firms believe that employee training positively affects productivity and the overall business performance. Significant empirical attempts have been made to find a positive correlation between employee training and several business performance indicators as productivity, profit, revenue, sales. Yet recent studies found that employers generally measure direct outcomes of employee training as, for example, improvements in employee performance²⁰; and they do so in an informal manner mainly through observation of employees' job performance.

Figure 4. Benefits of employee training identified by small firms

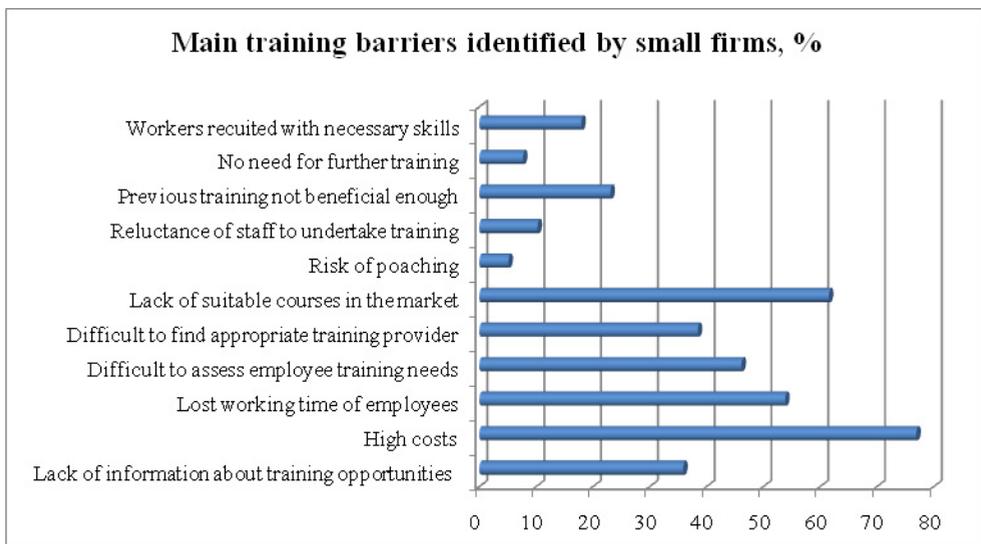


Source: Author's findings

²⁰ Beraud, D. "SMEs are increasingly interested in the effects of training", Training and Employment, No.114, 2014, p. 1-4

Lost working time and high costs related to external employee training remain to be the most significant obstacles among small businesses in Macedonia as well. In particular, almost 77% of small firms consider high training costs and just more than half (53.8%) of all surveyed firms consider lost working time to be major barriers to employee training (Figure 5). However, a rather significant share of small firms point to the lack of suitable courses in the market as a major barrier as well. Namely, access to suitable courses and appropriate training provider are perceived as obstacles to training by over 90% of surveyed firms. Such supply-side weaknesses pertaining to the quality or quantity of external training provision were not found to be perceived by small firms in EU. For example, only 5% of small firms in Belgium²¹ and 12.8% in UK²² perceive lack of suitable external training to be an obstacle.

Figure 5. Major obstacles for employee training identified by small firms



Source: Author's findings

Another challenge to employee training among small firms in R. Macedonia refers to their inability to assess training needs of their employees. A rather significant share of firms (about 46% of surveyed businesses) consider assessing training needs to be an obstacle as opposed to only 10% of small

²¹ De Vos, A. & Willemse, I., "Leveraging training skills development in SMEs: An analysis of East Flanders, Belgium", OECD (LEED), 2011, p. 35

²² Kitching, J. & Blackburn, R., "The nature of training and motivation to train in small firms", Small Business Research Centre, Kingston University, Report RR330, 2002, p.57

firms in EU²³. The difficulty of small businesses in R. Macedonia to assess the real training needs could be due to the lack of HR specialist and expertise, which is common for most small firms, and could also result in inadequate training investments that would not meet the required objectives of the firms. Hence, it is not surprising that about 23% of small firms do not perceive any or sufficient benefits of their previous training. Identifying the most suitable training course and adequate training provider that would best accommodate the needs of the business is preconditioned by appropriately assessing the real training needs of the employees. In such a scenario, businesses would get the highest return on their training investments.

CONCLUSION

Training participation is directly related not only to the size of the firm but also to market conditions and business strategy of firms. For instance, businesses that operate in dynamic market environments or pursue innovation strategy would require regular innovations in products/services or working processes and therefore would seek to continuously upskill their workforce²⁴. Similarly, small firms that are not interested in expansion or innovation might not need to upgrade the skills of the workforce. This however does not fully explain why small firms considerably lag behind larger firms in training investments. Furthermore, even taking into consideration the above, lack of training investment in small firms could put into question their long-term profitability and the very survival of the businesses. In this context, identifying the major barriers that small businesses face could assist in developing appropriate policies to facilitate training provision in small firms. Providing incentives and conditions to support training in small firms would lead to increased level of training in small firms and subsequently more skilled and productive workforce. In this context, most of the EU countries have developed different policies, as training subsidies or tax incentives, to foster employee training among small firms. In particular, the experience of EU countries that have introduced tax incentives to small firms so as to enhance training reveals that reducing the financial constraints of small firms results in higher levels of training provision.

²³ OECD, "Skills development and Training in SMEs", OECD Publishing, 2013, p 34

²⁴ Kitching, J. & Blackburn, R., "The nature of training and motivation to train in small firms", Small Business Research Centre, Kingston University, Report RR330, 2002, p.56

Research has supported the notion that small businesses prefer on-the-job training, provided in-house as opposed to formal external training. This type of training enables small businesses to overcome the potential drawbacks of external training that are perceived as obstacles and to provide customized training that encompasses the specifics of both the business and industry. High costs of external training and lost working time are considered to be main obstacles by small businesses in R. Macedonia. Moreover, finding suitable courses in the market and an appropriate training provider as well as assessing the training needs of employees are also perceived as a considerable challenge. Small businesses should either seek to outsource external or develop internal HR expertise to be able to assess the real training needs of their employees so as to gain maximum benefits of their training investments. In addition, adequate policies should be developed to overcome the existing supply-side deficiency regarding the quantity and quality of available training in the market.

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