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Introduction.

This year's Business Barometer is being published in a very different environment to its previous editions.
The first three were produced when there was broad consensus among business leaders that skills development was one of their top priorities. The phrase ‘battle for talent’ was frequently used to describe how employers responded to the skills shortage. And the pool of available talent was shrinking as employment levels reached historic highs and unemployment historic lows.

However, this year’s report is being published in social and economic conditions unimaginable just six months ago. The pandemic has dramatically changed the world in which we live and created a business environment characterised by rapid change and massive uncertainty. Organisations have had to stop all but essential spending, freeze recruitment, halt investment, and make redundancies, while adapting their operations to cope with a new way of working.

The labour market has radically changed, and many job applicants find that there is now a ‘battle for work’, as unemployment has doubled since the start of the year and is set to increase in the months ahead.

But in spite of a sea of new candidates for employers to recruit from, skills gaps undoubtedly remain. This year’s report will look at how this dramatically different environment has impacted skills shortages, how it is shaping employers’ skills strategies, and why investment in plugging these gaps remains essential.
With the number of job candidates growing as a result of COVID-19 disruption, it should be easier for employers to fill their skills gaps from a significantly larger pool of available talent.

Instead, the number of senior leaders reporting skills shortages within their organisations has barely changed in the last three years, according to this year’s Open University Business Barometer, as around three in five report that they still cannot get the skills they require.

There has also been a sharp increase in spending by businesses to find, secure and develop the skills they most need. This year’s report finds that employers increased spending by £1.7 billion since last year on recruitment fees, increased salaries, temporary staff, and training to upskill those hired at a lower level, at a total cost of £6.1 billion.

The reality is that the lowest paid and lowest skilled are the most affected by the economic fallout from the pandemic and are suffering the greatest job losses; in May the Resolution Foundation reported that one in three UK workers had either been made redundant or furloughed and it is likely that this will increase.

This means that the massive increase in available workers in the labour market is not increasing the supply of the skills that businesses most need to help them respond to and recover from the crisis. As a result, even when senior leaders are under serious pressure to reduce expenditure, they are still having to spend to fill the skills gaps in their organisations.
Nearly a third of lower-paid employees have lost jobs or been furloughed, compared to less than one-in-ten top earners, Resolution Foundation, 16th May 2020.

The long-standing skills crisis, that the Business Barometer has tracked since 2017, may now be escalating to critical levels, as some skills increase in value despite large numbers of people losing their jobs and having little prospect of alternative work being available. Governments, employers, and educators need to work together to address this huge social and economic challenge. Getting people back to work by equipping them with the skills that employers are struggling to find will be essential if we are to emerge from this crisis in a better place than the one before it.

Viren Patel. Director – Business Development Unit.
These are extraordinary times. The coronavirus pandemic is having a dramatic impact upon the economy and a devastating impact on jobs, the sheer scale of which is difficult to comprehend.

At the time of writing (August 2020), there are 2.7 million people claiming benefits, an increase of 117 per cent since March 2020, and the number is expected to keep rising as government emergency support packages are gradually withdrawn. Meanwhile, employers are having to adjust to the toughest business conditions in a generation.

Some businesses have been able to innovate, introducing new products and services or pivoting their business models, but the majority have not. Many are likely to stay in a state of semi-hibernation for the foreseeable future, especially those in hospitality and tourism. Survival has become the sole focus for many business leaders, as they stop investing and cut spending to stay afloat.

As this report shows, the process of recovery will not be easy. Social distancing, local lockdowns, and the threat of another outbreak, is creating massive uncertainty for business leaders across the country. This is made more challenging by a lack of clarity about the UK’s future relationship with the EU and the continued disruption caused by digitisation and automation. It is impossible to say what the ‘new normal’ will look like, other than it will be very different to the start of 2020.
Getting back to pre-crisis levels of business activity is a long way off. McKinsey Global Institute and Oxford Economics have estimated that it will take at least five years on average for large businesses, and probably much longer for small ones. It will be critical for businesses to make the right investments, if they are going to have the best chance of recovery and growth.

This is why it has never been more important for employers to have the right skills in their organisations. Skills are crucial to developing the capabilities that the new economic conditions demand, whether it is greater digitisation or new management expertise. Skills are also essential in enabling organisations to rapidly adapt, innovate and change; qualities normally associated with entrepreneurs, who have always operated in uncertain conditions, but that will need to be a staple requirement of every organisation.

If organisations want to seize new opportunities and to thrive in the future, they will need to invest in the skills of their people now. This will be a tough challenge at a time when budgets are being slashed and spending frozen. But it is a challenge that many senior business leaders recognise and are responding to, as this report shows.

I would like to thank The Open University for inviting me to write this year’s Business Barometer. It is a real honour to be writing the report when so much is at stake and when skills play such a vital role in determining and shaping the future for so many.

Anthony Impey, MBE

Some businesses have been able to innovate, introducing new products and services or pivoting their business models, but the majority have not.

Anthony Impey, MBE.
Executive summary.

70%

Seven out of ten senior leaders fear that a second lockdown would put their organisation at severe risk.

- Half (53%) said that their organisation would be unlikely to survive another lockdown.
- Almost three in five (55%) organisations are unable to think beyond the immediate challenges of the pandemic.
- More than half (52%) of organisations said that survival depends on reducing costs.
- One in four (25%) employers has already had to make redundancies.

63%

Nearly two thirds of organisations have ceased filling vacant roles due to the pandemic.

- London organisations are most likely to have stopped hiring – nearly three-quarters (74%) have done so.
- Training has also been reduced because of budget cuts – down an average of 15 per cent.
- More than half (54%) of the organisations with fewer than 250 people reported that they are unable to commit to apprenticeships in the immediate future due to uncertainty, compared to less than half (46%) of larger organisations.
- More than two in five (43%) said that they have already let some of their apprentices go.
- However, employers remain positive about the role of apprenticeships in the future. Around half (48%) said that apprenticeships and work-based learning would be vital to the recovery of their organisation.

The Open University Business Barometer
56%

However, 56 per cent of UK organisations continue to experience skills shortages.

→ Just over half (55%) of organisations struggle to find new employees with the right amount of experience – down from 62 per cent in 2019

→ Three in five (61%) organisations say that they are not as agile as they need to be because of shortfalls in their skills
Organisations have spent £6.6 billion to plug short term gaps this year, up from £4.4 billion in 2019.

- Employers spent £3 billion in the last 12 months to find the talent with the right skills
- £1.2 billion spent on temporary staff to fill skills gaps – up 45% year-on-year
- A third (32%) of all organisations anticipate increasing the level of investment in skills development for new staff by an average of 10%

57%

Nearly three in five remain uncertain about what the future holds for their organisation.

- 54 per cent are pessimistic about the UK economy’s recovery in the next 12 months
- Nearly a quarter (23%) believe it will take until this time next year to fully recover, while one in five (20%) do not anticipate this happening for another two to three years
- A quarter (25%) are currently putting together plans for next year and nearly two in five (38%) are now planning for the next two to three years

The Open University Business Barometer
Nearly half (49%) of businesses looking to hire at a lower level than intended and top-up skills required, compared to 30 per cent who did so over the last 12 months.

5% net increase in spending on training across all organisations for all staff of anticipated in the year ahead.

Nearly six in ten (58%) expect to be hiring more apprentices in the next 12 months.

For every extra £1 small businesses are planning to spend on training in the next 12 months, larger businesses plan to spend £1.17.

Around three in ten organisations are choosing to increase training budgets for all staff in the months ahead.

28%
Background.

The Open University commissioned market research of 1,000 senior business leaders across the UK, who were asked about their skills shortages, the impact the pandemic was having on their organisations and their skills strategies, and their outlook for the future.

Some questions asked senior leaders to consider activity over the last 12 months to allow a comparison with previous years. This was a period made up of two distinct parts: the first was a period of high employment, up to the end of March when the UK nations went into lockdown; the second was a period of escalating unemployment, as the crisis took hold. It is likely that the latter dominated many of the assessments provided.

Data was collected from organisations that employ more than 10, incorporating small (10 to 49 employees), medium (50 to 249 employees) and large (more than 250 employees) organisations. There are 275,960 organisations in the UK with 10 to 249 employees and 10,480 organisations in the UK with more than 250 employees.

Identifying patterns by nation, sector, geography or size of organisation has been complicated by the different responses organisations have had to the crisis. Some have quickly adapted to the new trading environment and have introduced new products and services, others have chosen to wait before implementing new plans, and others plan to wait until things return to normal and have no plans to make changes. Research by Be the Business categorises these groups as Innovators, Undecided and Stickers, respectively, and finds that around a third of small businesses fall into each category.

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¹ UK business: activity, size and location, Office of National Statistics, 2nd October 2019
² A third; a third; a third: different firms positions on recovery, Be the Business, June 2020
The immediate impact of the pandemic.

FIGHTING FOR SURVIVAL

The pandemic has placed extraordinary pressures on businesses to get to grips with a dramatically different environment, where social distancing and the threat of further lockdowns is the norm.

The survey found that seven out of ten (70%) senior leaders fear that a second lockdown would put their organisation at severe risk and half (53%) said that their organisation would be unlikely to survive it. Less than a quarter (21%) were confident that their organisation would make it through another lockdown.

Some organisations have been able to rapidly respond, by innovating, developing new products and services or pivoting their business models. For many others, such a rapid change in direction has not been feasible and they find themselves in a precarious position where fighting for survival is their only option.
My organisation is focused on surviving the immediate challenges presented by COVID-19 and is unable to think beyond that at the moment.

The following percentage of sectors agreed with this statement.

- **63%** Agriculture, forestry and fishing
- **40%** Mining, energy and water supply
- **59%** Manufacturing and automotive
- **63%** Engineering and construction
- **59%** Wholesale retail and repair of motor vehicles
- **31%** Transport and logistics
- **64%** Accommodation and food services
- **49%** Information and communication (digital/ICT)
- **43%** Financial and insurance activities
- **80%** Real estate activities
- **61%** Professional services (excluding financial and insurance activities)
- **44%** Scientific and technical activities (STEM)
Almost three in five (55%) organisations reported that they are unable to think beyond the immediate challenges of the pandemic. Organisations in engineering and construction feel this most, with nearly two thirds (64%) of them reporting this compared to only one in four (28%) in the public administration sector.

More than half (52%) of all organisations say that they have been disproportionately affected by the pandemic and nearly half (49%) are pessimistic about their organisation’s recovery in the next 12 months.
These conditions have forced organisations to cut back on all spending. More than half (52%) said that their survival depends on reducing costs.

This has inevitably led to job losses, with a quarter (25%) of employers reporting that they have already had to make redundancies and a similar number (28%) having to let people go that are furloughed. England’s East Midlands is most severely affected, as 80% of employers report having to or planning to let go of a colleague as a result of the pandemic. This picture varies according to the size of the organisation, with more than half (54%) of small businesses reporting that they have made redundancies or plan to do so for those on furlough, compared to two in five (46%) large businesses.

Who has put hiring ‘on hold’?

70% 65% 67% 57%
England Wales Scotland N. Ireland
Recruitment frozen and training stopped.

Cutbacks in spending have also resulted in a large amount of recruitment activity being stopped.

Nearly two thirds (63%) of organisations have ceased filling vacant roles because of uncertainty brought about by the pandemic.

London is the region where this is most prevalent, where over seven in ten (74%) organisations have stopped hiring, compared to less than half (46%) in the West Midlands.

Across the UK, 56 per cent of organisations in Northern Ireland have had to drastically reduce training budgets as a result of the financial fallout of the pandemic, which is the same for 39 per cent of Scottish organisations, and nearly a third (28%) in Wales.

Training budgets, which fell by an average of 15 per cent across all organisations, have also led to a fall in investment in training with the mining, energy and water supply sector having the biggest drops of 35 per cent. Of those organisations reducing their spending on training, almost half (49%) said that they had to do so because of financial difficulties caused by the pandemic with over two in five (46%) saying that the money was necessary to future-proof against the crisis.

East Anglia had the biggest cuts in training, nearly three in five (59%) organisations are having to save money to future-proof post-pandemic, closely followed by London (22%) and North Wales (21%), where the cutbacks were as a result of pandemic-induced financial struggles.
The pandemic fails to reduce the shortage of skills.

SKILLS SHORTAGES CONTINUE

Despite the big differences in the economic conditions between this year and last, skills shortages continue to impact organisations across the UK, almost unchanged.

The number of business leaders reporting that their organisation is experiencing a skills shortage remains near six out of ten (56%) compared to 62 per cent the year before and 63 per cent in 2018.

In England, this year it is the East Midlands (rather than the West Midlands) where organisations are least likely to report skills shortages. Meanwhile, the North West of England and South West and Mid Wales replaced the South West of England as the regions most likely to have shortages, with nearly three quarters (72%) of both regions’ organisations being impacted by them.
SKILLS SHORTAGES CONTINUE

The UK skills scene – where are the biggest gaps?

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REGIONS AND NATIONS

The following percentages show the regions and nations with the biggest gaps.

- **52%**  
  South West England

- **55%**  
  West Midlands

- **72%**  
  North West England

- **45%**  
  North East England

- **68%**  
  Yorkshire / Humberside

- **39%**  
  East Midlands

- **60%**  
  South East England

- **49%**  
  London

- **63%**  
  Wales

- **60%**  
  Scotland

- **64%**  
  Northern Ireland

The Open University Business Barometer
Differences emerge in how skills shortages are impacting different sectors, with the pandemic shaping the skills requirements of each.

The number of business leaders reporting that their organisation is experiencing a skills shortage remains near six out of ten (56%) compared to 62 per cent the year before and 63 per cent in 2018.

The sector reporting the biggest skills shortages is mining, energy and water supply, where nearly nine in ten (87%) organisations say they have struggled as domestic utility usage skyrocketed on a national level during lockdown. The digital and communications sector also reported big skills shortages, where close to two thirds (62%) of organisations had difficulties resourcing skills at a time when there was a giant leap in the use of technology. One of the sectors least likely to have skills shortages is hospitality, which is suffering the debilitating impact of lockdown and restrictions to international travel and tourism.
While the pandemic has inflicted serious damage to the economy and placed businesses under immense pressure, organisations have spent significantly more this year than last to address their shortfall in skills, jumping from £4.4 billion to £6.6 billion to plug short term gaps. Part of this increase will pre-date the crisis, but it is likely that a large part will relate to securing the skills necessary to respond to the immediate challenges of the pandemic.

Employers nearly doubled the amount that they spent on recruitment, spending £3 billion in the last 12 months to find the talent with the right skills. At the same time there was a modest fall in the amount spent on training to boost the skills of those hired at a lower level, indicating that businesses cannot wait to develop skills, but need to recruit them ready-made, in order to respond fast enough to uncertain and rapidly changing conditions. This urgency is also reflected in the increased amount employers spent on temporary staff to fill skills gaps, rising 45 per cent to £1.2 billion. This is true across England, Wales, Scotland and Northern Ireland.

"Skills shortages will continue to be a challenge for business leaders for the foreseeable future."
With so many more people looking for work, it would be reasonable for senior leaders to believe that skills shortages were declining.

However, the survey shows only a small increase in the number who believe that the skills shortage has decreased (39% in 2020, 32% in 2019 and 36% in 2018) and the number who believe it has increased is broadly unchanged over the last three years (54% in 2020, 55% in 2019 and 53% in 2018).
The pandemic has created massive uncertainty and rapid change that businesses need to adapt to, finding new ways to thrive if they are to have any chance of surviving.

This environment has resulted in added importance being placed upon those skills that enable organisations to be swifter to respond to threats and capitalise on new opportunities, at a time when around three in five (61%) say that they are not as agile as they need to be because of shortfalls in their skills.

Adaptability and ability to learn, together with transferrable and digital skills, are priorities for large numbers of organisations who want their workforces to be ready for whatever the future holds, with healthcare topping the list of sectors that value these skills most.

More than three in five (61%) of all organisations value adaptability as a result of the pandemic, with those in the financial services sector prioritising professional agility the most.

The same number (61%) reported that adaptability and the ability to learn new skills was now more important than vocational skills since the pandemic started.

There is recognition that digital skills are lacking because of the acceleration in the use of technology since lockdown, with around three in five (57%) organisations saying that they need to do more to improve these skills as a result.
Three in five (61%) say that they are not as agile as they need to be because of shortfalls in their skills.

Over half of (54%) organisations report that transferable skills are more important because of the conditions triggered by the pandemic. Big variations exist between regions: two thirds (66%) of organisations in the North West say transferable skills are more important as a result of the pandemic compared to just a third (35%) in London.

The emphasis on these skills, as senior business leaders prepare for a very different future to the one they anticipated at the start of the year, may only further increase the skills gap that many organisations faced before the crisis.

With there being no significant change in the number of organisations saying that they struggle to find new employees with the right amount of experience (55% in 2020 and 62% in 2019), businesses will need to continue spending money to fill their skills gaps, especially at a time when they play a key role in the recovery process.
Skills play a key role in the recovery process.

Even though the pandemic has meant that organisations have had to overhaul operations, reassess their priorities and review expenditure, spending on skills has not stopped entirely.

Many believe that they will need to continue spending in the next 12 months as part of their strategy to rebuild their organisations in the wake of the crisis.

Projected increases in spending on skills to aid the recovery from the pandemic (including additional recruitment costs, salary increases, spend on training to boost skills of those hired at a lower level and the cost of temporary staff to fill roles left vacant), may add a further £600 million to the total cost of filling the skills gap next year.

There is a wide range in how much organisations are planning to spend on skills to aid their recovery from the pandemic in the next 12 months. However, it is certain that almost all business leaders will be expected to do more with less, as resources become more limited and funding in short supply.

As a result, there is renewed focus on spending on training to boost the skills of new recruits to help in the recovery process. A third (32%) of all organisations anticipate increasing the level of investment in skills development for new staff by an average of 10 per cent, compared to less than a fifth (18%) who anticipate having to cut this type of training by an average of 13 per cent. The net impact is an increase of 5 per cent.
A third (32%) of all organisations anticipate increasing the level of investment in skills development for new staff by an average of 10 per cent.

Some sectors favour investing in recruitment in the next 12 months, to secure the skills they need for their recovery. Over half (52%) of businesses in the mining, energy and water supply sector anticipate increased recruitment budgets – pointing towards a determination to bring in the right skills, regardless of cost – as do a third (34%) in the engineering and construction sectors.

Organisations also anticipate having to spend more on salaries, as the most sought-after recovery-oriented skills become scarcer and increase in cost. Around three in ten organisations (27%) believe they will need to pay more in salaries compared to one in six (18%) who instead believe they will be able to pay less.

The need for organisations to hire temporary workers to inject ready-made skills, with minimal commitment, is also set to increase in the next 12 months. More than a quarter (27%) of all organisations plan on increasing spending on temporary staff while only a fifth (21%) anticipate reducing it.
49% of employers plan to recruit at a lower level and train up candidates over the next year to meet skills gaps, compared with less than one in three (30%) last year.
Spending on training for all staff is set to keep rising.

Even though spending is being reined in across the board, many organisations still see the value in investing in training for all staff in the next 12 months in an effort to lower costs, improve efficiency and increase productivity.

Boosting the return on investment and affordability of skills will be crucial drivers in determining the pace at which organisations can get back on their feet and start driving growth.

Around three in ten (28%) organisations are choosing to increase training budgets for all staff in the months ahead, to develop talent in-house, and retrain and upskill existing staff on new technology, new systems and new services.

There has been a big jump in the number of businesses that will need to hire at a lower level than intended, and top-up their skills, in the next 12 months, with nearly half (49%) anticipating this will be required compared to less than a third (30%) who did so in the last 12 months.

Only one in seven (15%) organisations are planning to cut their training budgets, primarily because of financial difficulties caused by the pandemic.

The net effect is a rise in spending on training for all staff of 5% over the year ahead, highlighting the importance of skills for many organisations in adapting to the new commercial realities of the post-crisis economy.
Apprenticeships: down, but not out.

Many employers had turned to the apprenticeship system to fill their skills gaps especially since the introduction of an apprenticeship levy in 2017.
The levy, which is payable by all employers with an annual wage bill in excess of £3 million, is distributed between England and the devolved administrations, with different apprenticeships systems in operation in each nation. The ambition is to encourage employers to develop more of the skills they need in-house, rather than hiring ready-made talent.

Twelve months ago, this was having the intended effect; in last year’s survey, nearly half (46%) of all organisations said they planned to increase the number of apprentices they employed because of the levy and more than three in five (61%) said that the apprenticeship levy would help reduce their skills shortage in the 12 months ahead.

The picture today is very different. The economic fallout from the pandemic is having an immediate impact on the ability and willingness of employers, especially smaller ones, to hire apprentices. More than half (54%) of the organisations with fewer than 250 people reported that they are unable to commit to apprenticeships due to uncertainty about the future, compared to less than half (46%) of larger organisations.
The enormity of the challenges that so many currently face, as they struggle to survive in an environment with massive uncertainty, means that apprenticeships are neither considered essential nor a priority for a significant number of employers in the short-term.

More than two in five (43%) said that they have already let some of their apprentices go, although there is significant variation between the nations: England has the highest number of organisations that have had to make apprentices redundant (44%), followed by Scotland (38%), Northern Ireland (36%) and Wales (32%). More than two in five (41%) also anticipate having to make apprentices redundant in the future, with a similar variation between the nations.

With so much uncertainty, many senior leaders report that they will be unable to commit to employing an apprentice in the next 12 months. Employers need to allow their apprentices to spend a fifth of their contracted working hours studying, as well as providing support and in-work training, on programmes that last a minimum of 12-months (with degree apprenticeships that are favoured by many employers lasting three years or more). More than half (56%) of all organisations said that apprenticeships were simply too much of a commitment in their efforts to recover from the pandemic in the next 12 months while a similar number (51%) said that they favour short-term training because of the level of uncertainty that they are having to contend with.
However, employers remain positive about the role of apprenticeships in the future. Around half (48%) said that apprenticeships and work-based learning would be vital to the recovery of their organisation, although there is significant variation between regions: around three in five organisations in the South East of England (59%) and Cardiff (58%) believe that apprenticeships will be important to their recovery from the pandemic, compared to a third in South West of England (33%) and less than a quarter (23%) in North Wales. Nearly two thirds of those in the pharmaceutical sector (65%) agreed that apprenticeships would play a key role in their future, as did more than half (53%) in the digital sector and a similar number (50%) in the healthcare sector.

There are also encouraging signs that employers will kick start their recruitment of apprentices in the medium-term. Nearly six in ten (58%) expect to be hiring more apprentices in the next 12 months, with a greater number of large organisations (63%) than small ones (59%) planning to do so in England, while there are more small businesses (54%) than large ones (50%) planning to do so in Wales.

Senior leaders in some regions are especially enthusiastic about hiring more apprentices in the year ahead: more than three quarters (77%) of those in the North West of England plan to increase their recruitment of apprentices, as do around two thirds of those in the West Midlands (67%) and London (63%).
A SECTOR-BY-SECTOR PICTURE

My organisation will likely hire more apprentices in the next 12 months

The following percentage of organisations in these sectors agreed with this statement

52% Agriculture, forestry and fishing
50% Mining, energy and water supply
51% Manufacturing and automotive

62% Engineering and construction
66% Wholesale retail and repair of motor vehicles
46% Transport and logistics

32% Accommodation and food services
67% Information and communication (digital/ICT)
58% Financial and insurance activities

85% Real estate activities
55% Professional services (excluding financial and insurance activities)
91% Scientific and technical activities (STEM)
There are also several sectors that have a very optimistic outlook for the next 12 months, reflecting both their growth prospects in the post-crisis economy and the demonstrable value that they get from apprenticeships. More than nine in ten employers in the pharmaceutical sector (94%) and the scientific and technical sector (91%), plan to hire more apprentices, as do more than two thirds of those in the healthcare (68%) and digital (67%) sectors. Only those sectors most affected by the pandemic, often called shut down sectors, have a negative outlook about hiring apprentices in the months ahead. Less than a third of organisations in the hospitality sector (32%) and the arts and entertainment sector (31%) plan to increase their intake of apprentices in the next 12 months.
Smaller businesses struggle to compete for skills.

Small and medium-size businesses (organisations that employ up to 249 people) represent a significant part of the UK economy, employing over 16 million people and generating annual sales of £2.2 trillion, more than half the UK’s total. They are the bedrock of every village, town, and city, and are frequently at the heart of their local communities, playing an important social, as well as economic, role across the UK.
While businesses of all sizes are having to contend with similar issues in response to the pandemic, this latest research suggests that small businesses are finding it tougher because of their lack of resources, greater relative costs and limited working capital. These factors are making it all the more challenging to make the necessary investments, skills included, that are needed to make a speedy recovery from the crisis.

For example, for every extra £1 small businesses are planning to spend on training in the next 12 months, larger businesses plan to spend £1.17. Only one in four (27%) anticipate an increase in their training budgets, compared to nearly two in five (36%) larger employers. More than half (52%) expect they’ll need to reduce spend on salaries in the next 12 months because of the crisis, with a similar number admitting they are disadvantaged by not being able to increase salaries on offer by as much as larger organisations (54%).

As a result, small businesses will take longer to recover from the crisis than their larger competitors. In the last recession, triggered by the 2008 financial crisis, it took small businesses in the US six years to recover compared to only four years for large enterprises. In the current crisis, the gap may widen further as larger businesses leverage their ability to invest in key skills in growth areas such as automation and digitisation.

**Time to recover after COVID-19**

![Graph showing time to recover after COVID-19 for all, small, and big businesses](chart)

*Business population estimates for the UK and regions: 2019 statistical release, Department for Business, Energy & Industrial Strategy, January 2020

*Small Business, Big Heart: Bringing communities together, Federation of Small Businesses, February 2019

SMALLER BUSINESSES PRICED OUT OF THE SKILLS MARKET

Even before the pandemic, small businesses struggled to compete for talent with their larger competitors.
More than three in five organisations agree that small businesses are impacted more by skills shortages: unchanged from last year (61% in 2019).

This is partly attributable to the requirement that many small businesses have all-rounders, who are able to wear different “hats” to fulfil a variety of roles because there is simply not enough work in any single role to fully occupy someone’s time. More than three in five (61%) said the difficulties with finding this multi-faceted talent accounted for them being more affected by skills shortages (almost unchanged, at 60%, to last year).

However, many small businesses simply cannot afford the skills they need. Around three in five (57%) say they cannot pay for temporary staff to cover staff shortages, compared to half of (50%) large organisations while most small businesses (55%) cannot pay recruitment fees so have a smaller available talent pool, compared to around two in five (42%) large organisations.

The cost and time of training are also barriers for small businesses. Nearly half (46%) of all small and medium-size businesses say that they cannot afford to pay for external training, whilst a significant number (49%) agree that employees would not have the spare time to attend anyway.

More than three in five small businesses (61%) report that they cannot pay the salaries offered by larger companies (63% in 2019).

More than half (51%) say that skilled workers are snapped up by their larger competitors who offer higher salaries, increasing to nearly seven in ten (69%) for businesses in the professional services sector. The majority of small businesses (55%) say that this impacts their organisation’s growth potential.
SKILLS ONLY AFFORDABLE TO THOSE WITH THE DEEPEST POCKETS

This tension of skilled workers being snapped up by larger competitors is not limited to smaller businesses. More than half (54%) of the organisations with more than 250 employees report that they are also experiencing this, indicating that competition for talent is driving wage inflation across the board, with only those organisations with the deepest pockets able to pay the premium. It points to the need for a more coordinated approach in some sectors to address the skills shortages and rebalance supply and demand.

RELATIVE VALUE OF SKILLS TO SMALL BUSINESSES

For many small businesses with fewer resources and more limited budgets, skills development can frequently drop down their list of priorities, behind the more immediate day-to-day challenge of keeping the business going. And there is always the fear that having invested in someone’s skills, they will leave and the value of the investment is lost (an investment that will be relatively higher for a small business if the individual is recruited by a larger competitor). As a result, smaller businesses often place a lower relative value on investing in skills.

Four in five (78%) small businesses believe that highly skilled workers are essential for healthy growth compared to nearly nine in ten (86%) large enterprises. And while more than half (58%) of small businesses say that they typically support staff who want to study towards a higher education qualification by contributing to their studies, almost seven in ten (68%) large organisations do this.

The Open University Business Barometer
BUILDING THE SKILLS NEEDED

Even before the pandemic, small businesses have been highly resourceful in responding to skills shortages.

Instead of going head-to-head with their larger competitors to secure the talent they need (a fight few could afford to win, as illustrated above) many opt to invest in building-their-own.

Apprenticeships have played a key role in enabling this, with small businesses recruiting young people at the start of their careers and developing the skills they need from scratch. Research by the Federation of Small Businesses last year, showed that more than nine in ten apprenticeships offered by small firms are held by under 24-year olds. As well as developing the skills they need at an affordable cost, this approach improves retention, engagement, and loyalty.

The pandemic has made it more difficult for small organisations to build the key skills required, as limited resources have become scarcer. However, securing new skills cost-effectively, in response to the post-pandemic environment, will play a crucial role in the speed at which many small organisations recover and start to thrive; nearly half (48%) agree that apprenticeships and work-based learning will be essential to their future.
The outlook for skills.

With little immediate prospect of a vaccine and the possibility of a surge in coronavirus cases as we head towards winter, it is easy to understand the level of anxiety that senior leaders are feeling about the next 12 months. Nearly three in five (57%) remain uncertain about what the future holds for their organisation and more than half (54%) are pessimistic about the UK economy’s recovery in the next 12 months.

The Bank of England expects the economy to be 5 per cent smaller at the end of this year and not back to its pre-crisis level until the end of 2021 at the earliest, but it warns that there are still considerable downside risks.

Senior leaders agree that there is still a long way to go before their business activity returns to levels seen before the crisis. Nearly a quarter (23%) believe it will take until this time next year to fully recover, while one in five (20%) do not anticipate this happening for another two to three years. One in ten (8%) think it will take even longer.
Of those who expect things to get better during the next 12 months, large organisations outnumber smaller businesses, reflecting how factors such as resource, costs and working capital – or lack thereof – are hampering the recovery efforts made by smaller organisations.

Most senior leaders say that their organisations have adjusted following the massive shock of lockdown and are now addressing future uncertainties by planning ahead. A quarter (25%) are currently putting together plans for next year and nearly two in five (38%) are now planning for the next two to three years.

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4 Bank of England tempers forecasts for UK economic rebound, FT 6th August 2020
For senior business leaders, the fallout from the pandemic and the threat of future lockdowns unsurprisingly tops their list of challenges in the months ahead. A close second is the challenge of accommodating new ways of working.

When political leaders across the UK announced lockdowns in March, there was literally an overnight change in the way that a large part of the UK worked. Lockdown meant that huge numbers of the workforce stopped commuting and started working from home. For parents, it also meant having to home school.

While some organisations already had remote and flexible working arrangements in place, it was a huge change for many others, having to put faith in employees to continue to meet responsibilities away from the workplace. However, the positive experiences of flexible working in the past few months has caused several major employers to say that they have no intention for their staff to return to the office anytime soon and around seven in ten (69%) employers forecast the need for further adaptations to provide remote and flexible working opportunities in the next 12 months. This is going to require entirely new skillsets for many to manage and operate across dispersed workforces.

Possibly because of the shift to more flexible working, half (50%) of all senior leaders are concerned about their ability to remain productive in the next 12 months.

One in five (20%) say that their organisation will be impacted by automation and new technologies in the next three years.
Long-term threats and opportunities.

While senior leaders are focused on addressing the immediate challenges created by the pandemic, they are also very aware of the long-term threats and opportunities on the horizon.

One in five (20%) say that their organisation will be impacted by automation and new technologies in the next three years. Whilst this number remains significant, it is down on last year (25%) suggesting that after six months of locked-down activity, which has exposed businesses – large and small – to technology at a supercharged rate, leaders feel as though the impact of technology has already been felt, with its influence unlikely to grow throughout the next year.

Senior decision makers in small businesses are concerned by their level of debt accrued to keep their organisation afloat during the crisis. It is estimated that there is around £50-60 billion of unsustainable borrowing by smaller businesses. The survey found that of those concerned by debt levels, two in five (40%) fear this will be an ever-present challenge throughout the next three years, which will potentially hamper the ability of these organisations to invest in the skills they need to recover.

The major trends in customer behaviour that were evident before the crisis and, in some instances, accelerated by it, feature at the top of the list of the major challenges over the next three to five years. Consumers moving online, the decline of the high street, increased price competition and the need to adapt and diversify services present challenges in the next few years. The ability to recruit and develop the right skills will play a key role in businesses being able to turn these threats into opportunities.
Factors that continue to exert pressure on skills.

BREXIT

In last year’s report, Brexit was the highest-ranking issue that senior business leaders anticipated would impact skills, with half of them citing it as a challenge in the 12 months ahead; needless to say, ‘global pandemic’ was not an option last year! It continues to be a major issue this year, with more than a third (32%) of all organisations reporting that it will impact skills in their organisations.

Negotiations on the post-Brexit relationship between the UK and the European Union are ongoing. With so many elements of the agreement still to be finalised, it is understandable that nearly six in ten (58%) organisations say that it is simply impossible to know what will happen in the next 12 months.

Over two in five (43%) report that it is harder for their organisation to find workers with the right skills now the UK has left the EU, while around a quarter (26%) anticipate that it will open up new opportunities that will drive growth.

Of those planning to increase their training budget in the next 12 months, more than one in five (22%) say that they need to do so because they may lose talent as a result of Brexit and will use training to plug the gaps this creates, while of those planning to reduce their spending on training, one in four (25%) say they are having to do so because they are experiencing financial difficulties as a result of Brexit.
Organisations rapidly reassessed how they approached diversity to ensure that their equal opportunities policies were backed by real and meaningful action.

Over two thirds of (67%) senior leaders say that they are actively looking to hire candidates from more diverse backgrounds. Of those who anticipate diversity will impact their organisation in the next 12 months, a quarter (26%) say they will actively recruit candidates with disabilities whilst nearly half (45%) acknowledge that their organisation could benefit from a more diverse workforce.

Several organisations are also abandoning the use of academic qualifications to filter potential job candidates. It is a practice that discriminates against those from disadvantaged backgrounds whose exam results fail to accurately represent their capabilities and potential. Nearly half (46%) of all senior leaders said they were looking to hire candidates without degrees, or who had lower educational attainment, to make their organisation more diverse.

The death of George Floyd in May this year placed renewed focus on the Black Lives Matter movement and the vital importance for diversity throughout society.
Even before the pandemic, there were skills shortages in areas that left local people unemployed or underemployed.

Without the skills valued by employers, and without access to the necessary training, increasingly large numbers of people have been forced into low-paid employment, frequently with little or no job security. Many of these jobs have now been lost or are at severe risk as employers scale back their operations to survive the economic fallout of the pandemic.

There is clearly a need for policy makers to target investment at a local level to enable skills development to avoid people being stuck in a cycle of low-pay work. But it also requires employers to recognise the skills that are lacking in their local area and play their part in developing them.

The survey reveals that over a third (37%) of employers are actively looking to hire candidates from their local area, with over half in tune with local skills gaps. Engineering and construction; agriculture, forestry and fishing and business administration are the sectors most aware of local skills shortfalls. The data also reveals a regional divide with more employers in the Midlands and North of England attuned to the challenge of local skills shortages compared those in the South.
The impact of Brexit, migration and ageing on the UK workforce, Mercer Workforce Monitor, March 2018

The UK’s population is getting older, as is its workforce.

Between 2018 and 2025 it is forecast that in the UK there will be 300,000 fewer workers under the age of 30 but there will be one million more workers over the age of 50. As we live longer, it is likely that people will need to work well beyond the state retirement age before they can afford to give up work.

Older workers bring a wealth of experience, knowledge, and often well-developed interpersonal skills to organisations, so the potential return on investment for augmenting their skills should be quick.

Of the organisations that report that the ageing workforce is a priority for the next 12 months, over a third (34%) are undertaking training for their older workers to ensure they have the required and relevant skills (a similar proportion to last year) and another third (33%) recognise that they need to do more to bring the skills of their older workers up to date.

The shift in the age of the workforce emphasises the importance of lifelong learning. Previous generations could acquire skills before starting their first job and exploiting them throughout their career. However, the longer working life we will all experience, coupled with increasingly rapid innovation and change, means continuous learning is now essential.
As employers look to the future and anticipate the skills they will need in the next 12 months, there is a strong focus on leadership and managerial capabilities ahead of industry specific skills.

Two in five (39%) said that they will require leadership skills, such as dependability, with a similar number (38%) requiring managerial skills, such as decision-making, reflecting the value that close to two thirds (61%) of organisations now place on agility and adaptability as a result of the pandemic.

There is a difference in the value placed on management skills between organisations of different sizes. For those with fewer than 250 employees, managerial skills are only likely to be required by less than two fifths (38%) compared to nearly half (49%) of larger employers. This may be partly the result...
of a lower priority placed on these skills in general by small businesses, even though it is a key driver to productivity growth and a stepping-stone to other improvements such as digitisation. At this present time, it is also likely to be because of the necessity to cut back on spending simply to survive. Either way, these are going to be vital skills in the months ahead if organisations are going to be able to navigate the choppy waters ahead.

There is also a lot of variation in the priority skills between different sectors, as they each respond to very different challenges in the months ahead. Managerial skills will be required by nearly two in five (38%) of all organisations in the next 12 months, with Tourism (63%), Professional Services (54%) and Business Administrative Services (50%) the sectors most in need. Meanwhile, soft skills, such as team working, will be needed by more than half of organisations in Accommodation and food services (49%) and Human Health and Social Work (43%) in the next 12 months.

Technical and operational skills, that are required to perform a specific task, are much lower priorities for all organisations, with just under a third (30%) anticipating that they will be a requirement in the next 12 months. Industry-specific skills were ranked lowest, with just one in five (20%) of all organisations saying that this would be a requirement in the next 12 months.

The challenge for all organisations is that the priority skills that they anticipate will be crucial in the next 12 months are the same as those that were found to be lacking in candidates the last time they tried to fill a skills shortage. Slightly more than a third (34%) of employers said that the last time they struggled to fill a role was because candidates were lacking leadership and managerial skills.

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Thinking about the last time you struggled to recruit due to a skills shortage, what skills were applicants lacking? Base: those that have found it difficult to recruit due to skills shortage.

<table>
<thead>
<tr>
<th>Skill Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft/human skills (team working)</td>
<td>19%</td>
</tr>
<tr>
<td>Managerial skills (decision making)</td>
<td>34%</td>
</tr>
<tr>
<td>Leadership skills (dependability)</td>
<td>34%</td>
</tr>
<tr>
<td>IT skills (Zoom proficiency)</td>
<td>26%</td>
</tr>
<tr>
<td>Technical/operational skills (data analysis)</td>
<td>24%</td>
</tr>
<tr>
<td>Industry-specific skills</td>
<td>20%</td>
</tr>
</tbody>
</table>
Even before the crisis, digitisation, automation, and new technology were placing huge pressures on organisations to find and develop appropriate skills.
The sectors that have made some of the biggest jumps in their use of technology in response to the magnitude of the challenges they faced at the outbreak of the crisis are also the ones that say that they most need to improve digital skills, with nearly three in four organisations in both the healthcare (63%) and education (52%) sectors reporting this. Schools, for example, switched from an analogue model of teaching in classrooms, to a digital one of teaching via video, in a matter of days.

Even before the crisis, digitisation, automation, and new technology were placing huge pressures on organisations to find and develop appropriate skills. Of those businesses who said that technology would impact their organisation, two in five (41%) said that they were trying to improve their digital skills through retraining (unchanged from last year). A similar number (39%) said that they were doing this through recruiting new talent (in line with last year). And a third (32%) said that technology would help their organisations become more productive if they can get the right skills (unchanged from last year), although with only 32% of smaller businesses reporting this compared to 41% larger ones.

The giant leap in digitisation caused by the pandemic combined with the on-going trend of automation, makes digital skills some of the most needed in the next 12 months. Almost two in five (38%) employers report that they will be the skills needed, ranking second-only to leadership skills which were only marginally more popular (39%). However, these skills appear to be more pressing amongst larger enterprises (43%) than their smaller counterparts (38%).

“
This rapidly changing environment is driving 56% of employers to say that digital skills need to be improved in their organisations to keep pace with the increased use of technology that has come about in the past few months.

*Add reference

*COVID-19 network traffic patterns, Netscout, May 2020

*2 years of digital transformation in 2 months, Microsoft, April 2020
Conclusion.

After the most sustained and significant disruption to businesses in recent years, it’s unsurprising that the road to recovery is a long and challenging one.

And while many employers can now select from a wider pool of applicants, brought about by mass unemployment, it’s clear that significant skills shortages still remain prevalent.

As organisations battle to recover from the last six months, and the knock-on effects we can expect from years to come, leaders should not lose sight of the importance of developing skills to meet and overcome the challenges addressed in this report. While strategies will undoubtedly have been revised drastically in recent months it’s clear that the need for a comprehensive skills policy is still essential for organisations looking to thrive amidst unsettling times. And as budgets for recruitment and temporary staff continue to feel the pinch, the need to “grow your own” talent has never been more pertinent.

METHODOLOGY

The Open University Business Barometer was developed by combining the expertise and experience of The Open University, and Anthony Impey in conjunction with quantitative market research amongst a wide range of organisations across Great Britain. A detailed methodology for this report is available on The Open University’s business website.

BUSINESS SURVEY

The Open University commissioned PCP Market Research Limited to undertake a survey of 1,000 HR decision makers senior leaders across Great Britain between 20 July and 24 August 2020, amongst SMEs and large enterprises. The data also includes statistically significant samples by English region, Wales, Northern Ireland and Scotland.
A company specialising in creating bespoke software for SMEs based in Shetland, Scotland.

Based on the Shetland Islands, far off the northern Scottish coast, the seven-employee strong software development company Mesomorphic works with The Open University in Scotland to ensure that its employees can develop a range of cross-discipline business skills without sacrificing company capacity for study time.

Managing director, Maria Bell, has played a key role in overseeing the progress made by graduate apprentice Jacob Mercer. Jacob works remotely for the company from his home in Aberdeen and dedicates 20 per cent of his working week to his IT: Software Development Graduate Apprenticeship with The Open University. Maria believes that the flexibility offered by The Open University is critical to making Jacob’s learning possible, as well as giving Mesomorphic the adaptability required to tackle any potential skills gaps head on, especially in light of COVID-19.

“For a company like ours operating out of an extremely remote location, it’s so important that we work with a training provider that can give us flexible distance-learning opportunities like The Open University can.

“We’re really proud of the connections we have with the local community here in Shetland, especially when we’re able to offer work experience to eager young learners here on the islands, but it’s also essential that the team have access to higher-level qualifications, which enable them to learn and understand business theory and then get to apply it in the real world. Working with The Open University apprenticeships team gives us that ability.”
Providing employees with the chance to not only hone their business skills but also the opportunity to put them to action right away is part of Mesomorphic’s plan to combat any skills gaps that could arise in the future. And whilst this strategy is not a direct result of COVID-19, it should certainly help the business be as adaptable as possible when it comes to managing any post-pandemic uncertainties that come its way in the months ahead.

At the heart of this strategy is the vision that every team member has the autonomy and agency to develop their skills on their own terms. What this means is that each employee is invested in adapting to any challenges that the changing skills picture has to throw at them, and capable of tackling them directly.

“The last few months have been tough for us - as they have for the entire business community across Shetland, Scotland and the UK as a whole. At the same time, one of the positives to come out of this is increased opportunities for skills development - especially with regards to digital and tech. These are absolutely at the top of everyone’s agenda now from company-level all the way through to the government.

“Whilst we’re very much part of a rural economy here, this won’t be a disadvantage. As a company we will put Shetland on the map for digital innovation and continue to develop our engagement programme to demonstrate how we can achieve a strong digital education across the board, which will support the team, teachers and students in far-flung communities like ours.”

For a company like ours operating out of an extremely remote location, it’s so important that we work with a training provider that can give us flexible distance-learning opportunities like the OU can.

Maria Bell, Mesomorphic.
IBM is global leader in business transformation, cloud and cognitive solutions, serving clients across 20 industries in more than 170 countries around the world.

Throughout its 109-year history, IBM has had a long-standing commitment to good tech, reflecting one of the company’s most deeply held values which is to put responsible stewardship at the core of its business strategy – it has to be a company that people can trust. With more than 3,000 researchers located across six continents, it uses technology to build systems and platforms to make organisations more resilient, efficient and sustainable for people and the planet. And a key part of this is supporting a more inclusive society by continuing to invest in skills and re-skilling for the digital era.

IBM is working with The Open University to deliver degree apprenticeship programmes and to support and promote the new IBM SkillsBuild Reignite. This is a platform, which, in response to Covid-19, provides learning opportunities and coaching support for jobseekers, businesses and entrepreneurs looking to adapt to a post-pandemic world.
We have had a really strong working partnership with The Open University on degree apprenticeships. It’s not just with delivery that they’ve been invaluable, but also in helping promote the programme and the benefits of degree apprenticeships at IBM. This helps demonstrate our commitment to IBMers for their personal growth and professional development. The Open University has been brilliant in supporting this from the get-go.

“IBM SkillsBuild Reignite is a global platform open to all and the The Open University OpenLearn content is relevant around the world but also really suits local communities in the UK. It made sense to partner, as we both serve international clients, have a strong UK presence and have Corporate Social Responsibility (CSR) at the heart of our organisations. It was a real meeting of minds when it came to our strategy and goals in terms of our response to Covid-19.”

Now Julia has stepped into a role as the SkillsBuild Reignite Programme Lead for Europe at IBM. This programme specifically sets out to address the UK digital skills gap and supports jobseekers, small businesses as well as entrepreneurs who have been affected by the Covid-19 pandemic.
The wider strategy for the programme is that through selected partnerships, and by supporting communities, together small businesses and entrepreneurs, larger companies and organisations can help the economy to recover more quickly. Everyone experiences the benefit.
A key element for IBM is to help businesses and the workforce deal with the current moment – right at the heart of accelerated tech transformation. People are having to reskill to adapt to the changing job market; businesses are having to become increasingly digital and dynamic to respond to changing realities. IBM chose to partner with The Open University to curate a set of free online courses designed to help job seekers, small business owners and entrepreneurs develop the technical, professional and business skills needed to reinvent their careers and businesses.

The learning opportunities and webinars on the IBM SkillsBuild Reignite platform cover everything from the latest tech skills and business practices, well-being and resilience, financial management, legal education and more. Plus IBM volunteers as well as volunteers from other organisations will serve as coaches to help reinvigorate local communities.

Beyond responding to the pandemic, IBM and The Open University are focusing their support on a more diverse set of future business leaders, many of whom have plans to create businesses with a social or sustainability mission.

“In the UK there’s a real focus on supporting social enterprises, BAME-led and female-led businesses. We want to help give these groups the support they need to adapt and thrive in a challenging environment.

“Where we are now is really just a starting point for our partnership. Our SkillsBuild Reignite programme is available right now, as a response to the current climate with increasing numbers of people out of work and businesses needing to reshape. There will be lots of future opportunities where The Open University and IBM can work in partnership to address the UK digital skills gap and support businesses in the UK going forward, keeping wider social benefit at the heart of our plans.”

For more information, visit skillsbuild.org/reignite
About The Open University.

For over 50 years, The Open University has led the way in innovative distance-learning.

The University has a proven track record and rich heritage of providing workplace education solutions for employers across a range of sectors, which help employees fulfil their potential.

Specialising in developing high-quality learning materials, based on rigorous research and industry insight, The Open University combines academic excellence with technological expertise to deliver flexible work-based learning. We have a range of options to suit individual requirements including apprenticeships, short courses, certificates and diplomas and undergraduate and postgraduate degree programmes.

The Open University’s flexible and adaptable approach enables consistent educational programmes to be delivered at scale, across geographically dispersed workforces. Through minimising the time needed in the classroom, The Open University’s blended delivery model is shaped around the needs of the employer and the role and responsibilities of the learner. This gives employees new skills and knowledge they can apply immediately to the workplace – increasing engagement and maximising return on investment.

This is why more than 2,400 employers, including IBM, Travis Perkins and the NHS, regularly choose The Open University’s learning solutions to develop their workforces. An impressive 77 per cent of FTSE 100 companies sponsor their staff on The Open University courses and over 160 local councils and more than 430 healthcare providers choose The Open University to deliver learning to employees.

Since 2016, The Open University has offered higher and degree apprenticeships to help organisations grow their own talent. In England, The Open University offers programmes in nursing, policing, social work, digital, management and leadership. In Wales, The Open University offers degree apprenticeships and in Scotland, graduate apprenticeships.

Whether you’re looking to develop new or current employees, contact The Open University today to find out how flexible learning can work for your organisation.