

BULLETIN

Do we need more skills?

At the heart of Europe workers in France, Germany and the Nordic countries earn more, produce more, and work fewer hours than their counterparts in the UK.¹ Why this should be so has been subject to exhaustive, if inconclusive study.² A better relationship between the worlds of finance, commerce, and manufacturing leading to more investment in industry has been one explanation. Another is the harmony between labour and capital that avoids wage- push inflation and seeks a fairer distribution of economic rewards. Though plausible, there appears to be something missing in these arguments. If, say, workers in Germany can produce more in fewer hours and be paid higher wages then might this be reflected in the quality of the German workforce? Surely to produce and sell goods (or services) of higher value successfully, someone in business is doing something right somewhere along the line, be it management, workers on the shopfloor, or staff in the office. It may not be simply a consequence of having better machines, a more sympathetic bank manager, or better relationships between business and unions that productivity in such countries is higher.

If the quality of our workforce is important to our national wealth, do we need to improve that quality? Put simply: do we need more and/or better skills? At a superficial level the answer would appear to be no. At the present time, despite reports of senior executives and MPs receiving big pay increases, there is in fact little wage inflation in the economy. If companies were experiencing substantial

shortages of skilled staff, at whatever level, this might be expected to show itself as wage inflation. But this is simply not happening. Companies may be reluctant to resort to competing for skilled staff by raising wages. Instead they may muddle through whilst still acknowledging that they are short staffed. There is a 'can do' spirit in many businesses that allows no obstacle, however formidable, to stand in the way of achievement.

Alternatively, companies may not realise they have skills deficiencies. But how can companies fail to realise they have a skills problem? To understand this issue requires some view to be taken about what might constitute good or best practice in business and the role played by workforce skills in that practice. If companies fall short of good or best practice, and this is reflected in poorer business performance, then there is *prima facie* evidence that they have failed to recognise a skills problem. Looking across to the mainland of Europe, have those countries with higher productivity managed to capture higher value markets because their workforces, at all levels, are better vocationally prepared, trained, and developed?

Establishing the Skills Task Force in 1999 was an implicit recognition by government of the need to do something about the skill base of the economy. Responding to the Skills Task Force's *National Skills Agenda* to raise skill levels across the economy, the then Secretary of State for Education and Employment stated that one of his main priorities was to

'...ensure that there is a coherent and strong support for learning in the workplace, and a strategy for gaining commitment and action from those employers who have not been interested in skills of their employees...'

¹ Results from the *Employers Skill Survey* were presented in *Bulletin* no. 55. This *Bulletin* explores further findings. Research relating to the survey was co-ordinated by Terence Hogarth who has prepared this *Bulletin* with Rob Wilson. T.Hogarth@warwick.ac.uk, Tel. 44 (0)24 765 24420 and RA.Wilson@warwick.ac.uk, Tel. 44 (0)24 765 23530.

² DTI (1998) *Our Competitive Future* White Paper.

So do employers have a skills problem?

In 1999, the Employers Skill Survey (ESS) was undertaken on behalf of the Skills Task Force. Comprising 27,000 interviews with employers about their skills needs, coupled to a series of nearly 100 intensive case studies of companies in England, ESS was the largest ever inquiry into the country's skills needs.

ESS was able to show that England has a major skills problem (see Table 1). Around a third of workplaces had unfilled vacancies, half of these were proving hard-to-fill, and half of these were directly related to a shortage of skills. This translates to around a quarter of a million unfilled vacancies that were hard-to-fill and 100,000 that were directly related to a shortage of skills. This may not sound like many in an economy that employs around 20 million people. Indeed, hard-to-fill vacancies directly related to skills problems amount to around only a half a per cent of all those in employment. But to conclude that skill-related, hard-to-fill vacancies are unimportant is a misinterpretation of the evidence. The research confirms the existence of a core of persistent hard-to-fill vacancies, resulting from a shortage of skilled workers. This in turn has been shown to result in significant negative effects on business performance.

Recruitment problems and their impacts

Around 60 per cent of those workplaces reported that skill shortage vacancies had resulted in difficulties meeting customer service standards (see Figure 1). Much more worrying was the nearly 40 per cent of workplaces where these vacancies had led, respectively, to a loss of orders or delays in developing new products or services. These

Table 1
Vacancies: Hard-to-Fill and Skill-Shortage Related

	% of all establishments reporting	Number of vacancies '000s
Any vacancy	32	560
Hard-to-fill vacancies	16	255
Skill-shortage vacancies	8	110

Source: ESS1999 (IER/IFF). See IER *Bulletin* no. 55.

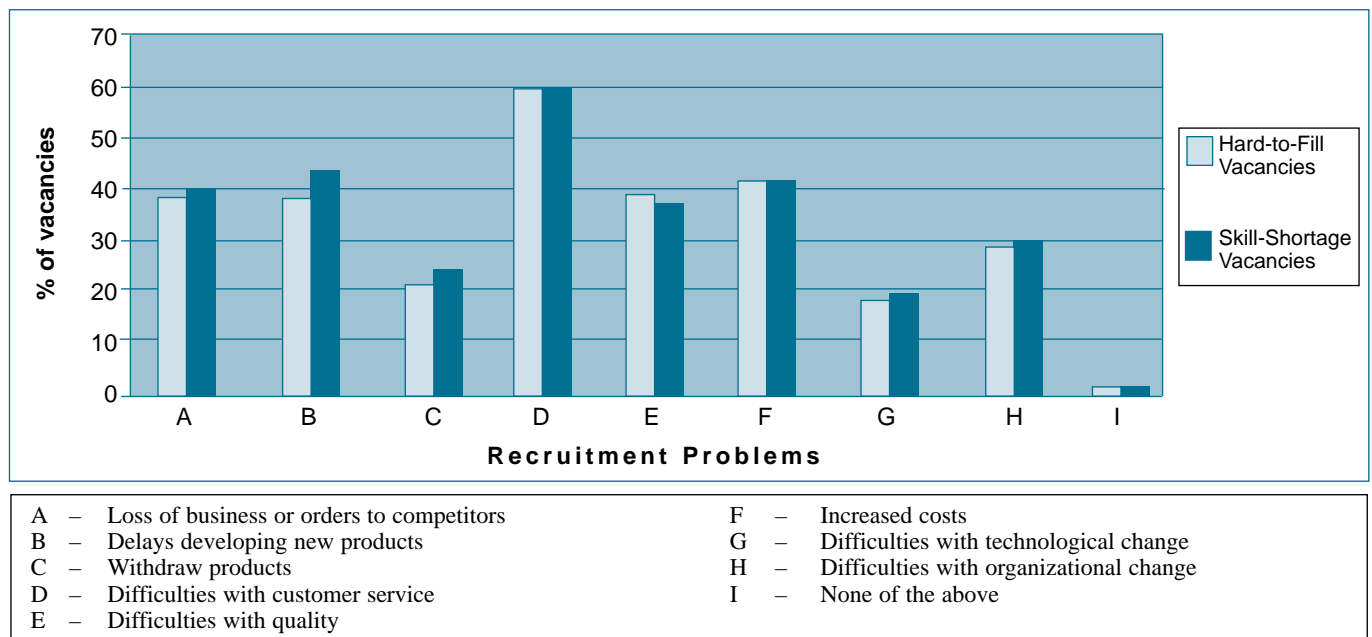
represent a major impact on the performance of a company and, summed across the economy as a whole, suggest that vacancies that remain unfilled because of a shortage of skills potentially weaken national economic performance.

Skills gaps and their impacts

However, measuring skills problems simply in relation to employers' recruitment difficulties tells a partial story. There is no reason to assume that employers are satisfied with the capabilities of their existing workforce. In fact, around 20 per cent of workplaces reported that they had staff who were not fully proficient in their current job. In total this amounted to nearly 2 million workers who were regarded by their employer as being less than fully proficient. Again, the existence of what have been termed 'skill-gaps' has potentially serious consequences for business performance (see Figure 2).

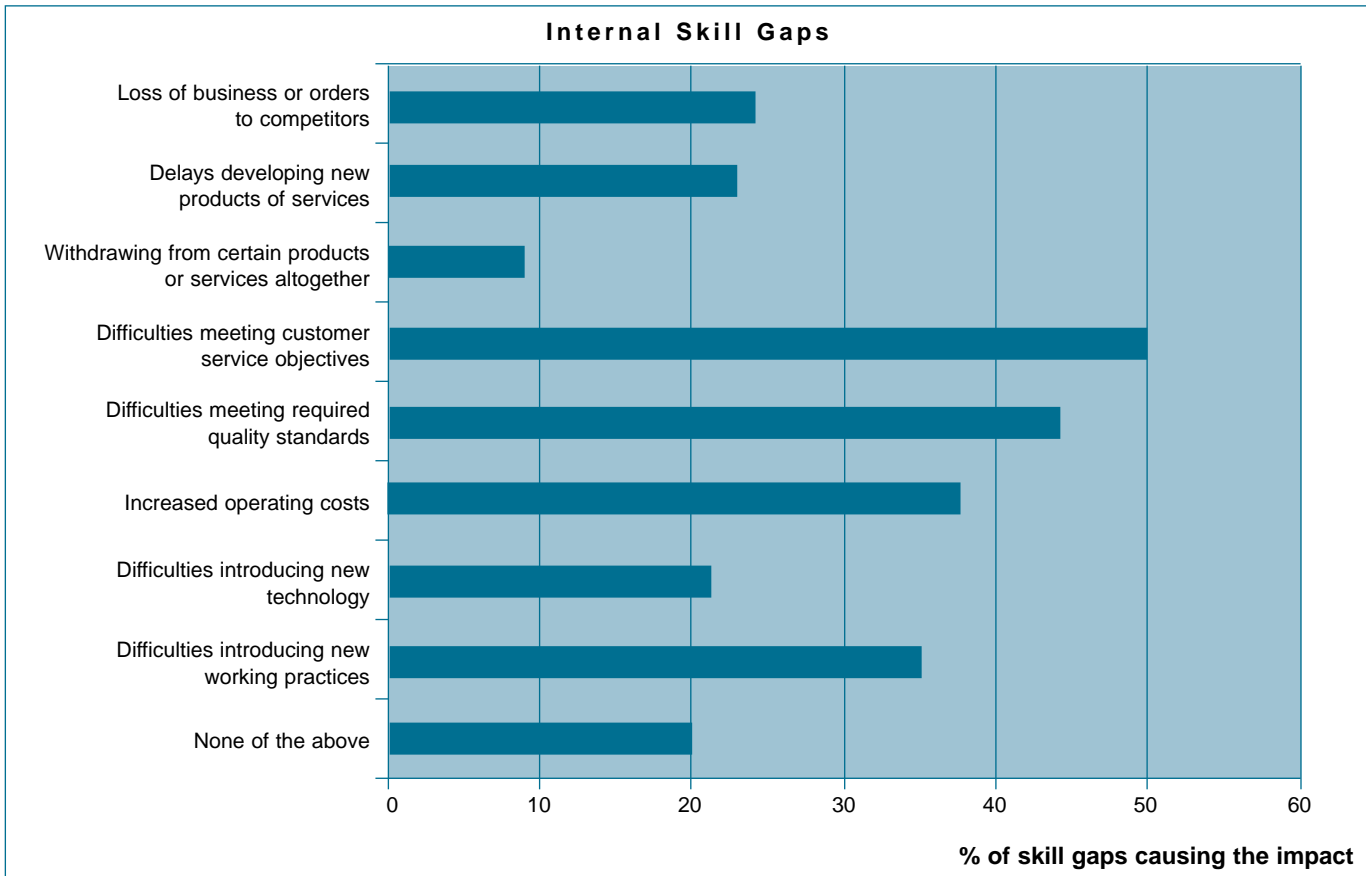
Skill gaps within organisations, as well as causing problems with standards of customer service, also caused delays in the development of new products or a loss of business to competitors.

Figure 1
Impact of Recruitment Problems on Establishment Performance



Source: ESS1999 (IER/IFF). See IER *Bulletin* no. 55.

Figure 2
Main Impacts of Internal Skill Gap



Source: ESS1999 (IER/IFF).

Company strategies and skills deficiencies

Recognition of either a recruitment problem or a skill gap by an employer will be based on some notion of attaining a certain level of performance. Hi-tech companies working at the frontier of the knowledge base will have a different level of skills need from the average business located in the backstreets of Britain’s industrial heartland, or providing typical services in hospitality or similar areas. Even amongst such average companies, some may have more demanding business objectives and this may be reflected in the types of workers they try to recruit or their views about the proficiency of their existing staff.

It is here that the evidence becomes a little less conclusive. Overall, workplaces were more inclined to report that capital availability, rather than skills, was a greater restraint on improving business performance. That said, the evidence points to more dynamic businesses encountering recruitment problems and skills gaps. Separating workplaces according to whether they placed a relative emphasis on achieving profitability and sales growth from those more inclined towards cutting costs gives an approximate indication of the amount of dynamism within a business. In general, where workplaces placed more

emphasis on achieving profitability and sales targets, the more likely they were to report either recruitment problems or skills gaps. In contrast, those more inclined towards cost reduction were less likely to report these problems. This suggests that perceived skill deficiencies may be only part of the problem. Many companies may be unaware that skill deficiencies are a constraint on their performance. Only if they attempted to ‘raise their game’ would these ‘latent skill gaps’ be revealed.

Taken as a whole the evidence points to there being substantial recruitment problems which inhibit business performance. Similarly, many employers felt their workforces were not up to doing their jobs, again with implications for business performance. How this situation is rectified depends upon how much one thinks it is the responsibility of the state, employers, or individuals to equip themselves with the skills required by the economy. The prescription becomes a little easier to write if attention is turned to product market strategies. Relying upon employers and employees to identify the skills required by industry in the future may (possibly inevitably) result in the reproduction (or something close to it) of skills already extant in the workplace. Workplaces engaged in producing goods and services of low value will continue to depend

upon skills consistent with that product market location. To break out of this cycle requires state intervention of a kind outlined in the *National Skills Agenda* to increase the stock of skills available and relax the shackles on business performance imposed by inadequate skills.

Further Publications

Bosworth, D. (2000). *Management Skills*. Skills Task Force Research Paper SKT8. DfEE Research Report.

Bosworth, D., R. Davies and R.A. Wilson (2001). *Employers Skill Survey: Econometrics Report*. DfES Research Report, forthcoming.

Bosworth, D., R. Davies, T. Hogarth, R.A. Wilson and J. Shury (2000). *Employers Skill Survey: Statistical Report*. DfEE Research Report.

Brown, A., A. Green, J. Pitcher, and C. Simm (2000). *Employer Skill Survey: Health and Social Care Report*. DfEE Research Report.

Davis, C., T. Hogarth, T. Buckley and R. Shackleton (2000). *Employer Skill Survey: Engineering Report*. DfEE Research Report.

Elias, D.P.B. and A. McKnight (1999). *Monitoring and measuring occupational change: the development of SOC 2000*. Skills Task Force Research Paper SKT24, DfEE.

Green, A.E. and D. Owen (2001). *Employers Skill Survey: Skills, Local Areas and Unemployment*. DfEE Research Report.

Hasluck, C. (1999). *Employment Prospects and Skill Needs in the Banking, Finance and Insurance Sector*. Skills Task Force Research Paper 9, DfEE.

Hogarth, T. and R.A. Wilson (2001). *Employers Skill Survey: Synthesis Report*. DfES Research Report, forthcoming.

Rowley, G., K. Purcell, M. Richardson, R. Shackleton, S. Howe and P. Whiteley (2000). *Employer Skill Survey: Hospitality Sector*. DfEE Research Report.

Copies of the above studies are also available from: DfEE Publications, PO Box 5050, Sherwood Park, Annesley, Nottingham NG15 0DJ, Tel: 0845 6022260, Fax: 0845 60333 60, Email: dfee@prologistics.co.uk

Wilson, R.A. (2000) (ed.). *Projections of Occupations and Qualifications 2000/2001*. Sheffield: DfEE.

www.skillsbase.dfee.gov.uk Copies may still be obtained free of charge from the IER Promotion and Dissemination Office, University of Warwick, Coventry CV4 7AL. Tel: 024 7652 4127. Email: L.Mazzoli@warwick.ac.uk

Visit the website for the CE-IER Conference Papers, (joint CE-IER Conference on Skills, Performance and Social Exclusion: making skills policy work at the regional and local level, Cambridge, July, 2001) including:

Hasluck, C. (2001). 'Lessons from the New Deal.'

Lindley, R.M. (2001). 'Skills, Innovation and the Knowledge-Based Economy.'

Wilson, R. (2001). 'Skills Deficiencies and Economic Performance.'

New Projects

'Employment Zones Cohort and Economic Study', sponsored by the DfEE. Contact Chris Hasluck, Peter Elias or Anne Green.

'Workforce Data Systems', sponsored by the RITC. Contact Terence Hogarth.

'Seven Years On – Graduates in the Changing Labour Market', sponsored by the ESRC. Contact Peter Elias.

'Financing of Lifelong Learning', sponsored by the EC. Contact Robert Lindley.

'Limits to Growth', sponsored by Seven Trent. Contact Anne Green, Peter Elias or Angela Canny.

'Local / Regional Development', sponsored by HEROBAC. Contact Robert Lindley.

'Review of Staff Market Forces Factors', sponsored by the NHS Executive. Contact Rob Wilson.

'Development and Enhancement of the EMTA Forecasting Model', sponsored by the EMTA. Contact Rob Wilson.

'LMI, Skills Foresight and Workforce Development', sponsored by the MNTB. Contact Rob Wilson.

'A Comparative Study of Labour Market Related Risks in Flexible Economies', sponsored by the EC. Contact Robert Lindley or Beate Baldauf.