



UK COMMISSION FOR
EMPLOYMENT AND SKILLS

The rationale for investment and case for action

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Intelligence > Investment > Impact

1 The rationale for investment and case for action

This paper sets out the key lessons from the *'Qualitative Evaluation of Demand-led Skill Solutions'* in relation to how bidders to the investment funds (GIF and EIF) and suppliers of standards and frameworks products build the case for action. It looks at the rationale for investment and discusses the implications this has on the early design and development of skills solutions.

Summary

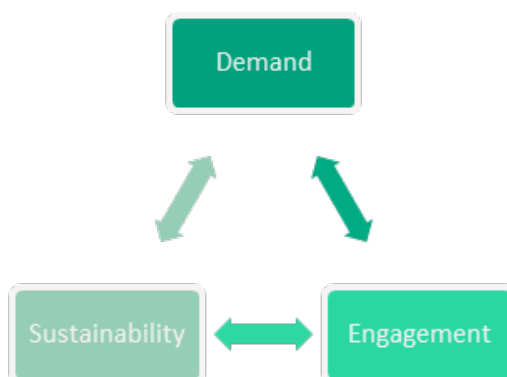
- Only when **grounded in a rich understanding of the problem** as experienced by employers can a solution (and within that, the innovation and how it is managed) be truly **shaped by, and to, employer needs** and, crucially, be something they will value and invest in.
- In making the case for investment, LMI provides the context rather than being the case in itself and 'softer' intelligence from employer research and consultation is used to interpret it. The nature, timing and influence of external stimulus such as regulatory change can shift; where the case is also founded in bottom-up demand this can help manage this risk.
- Innovation is dynamic in nature and hugely dependent on the critical activities of product testing, pricing, marketing and on-going refinement.
- The key factor influencing employer demand is the economic value the activity; being able to communicate the business benefits is fundamental. Corporate Social Responsibility can be a driver for employer engagement but it is rarely a sufficient condition for supporting the long-sustainability of skills solutions.

1.1 The context

The UK Commission investment funds and the standards and frameworks programme are predicated on developing solutions that meet employer needs. The difference with many previous employer-related public skills investments is the linking of this notion of 'need' to active, evidenced employer demand. In order to be successful under the investment programme, bidders have to be able to articulate a commitment from employers to contribute support (with time and money), so that demand drives the proposed solution.

The scoping, testing and refinement of demand for a given skills solution are a crucial component of sustainability and approaches for engaging employers. The relationship between demand, sustainability and engagement is illustrated in Fig. 1. There are separate thematic papers that look at the employer engagement and sustainability elements of the equation.

Figure 1: Key themes for successful skills solutions



The evaluation of demand-led skills solutions undertaken by ICF GHK was based around ten investment fund project case studies (five EIF Round 2 projects and five GIF Round 1 and 2 projects) and ten case studies looking at standards and frameworks products developed during 2012/13 (National Occupational Standards, apprenticeship frameworks and vocational qualifications). The case studies took place from January to April 2013.

The aim of the evaluation was to:

- *‘develop a greater understanding and insight of the development and commissioning of the individual funds;*
- *draw insights about delivery and potential improvements; and*
- *to enable the continuous improvement and capacity building to develop sustainable solutions¹.*

1.2 The issues that UK Commission investments projects address

The issues that sector bodies aim to address through UK Commission investments are not radically different to past programmes. Most address well-established sector issues relating the lack of professionalisation in the sector or lack of appropriate training.

¹ Invitation to tender, September 2012 UK Commission

In early bidding rounds sector bodies primarily put forward proposals that would impact on a high volume of employers. In some instances, they incorporated a range of activities in one project. This was because at that time sector bodies did not know what future funding opportunities would become available, and therefore chose to put forward a range of initiatives they had previously been developing or planning.

In later rounds there was a sense that projects were less broad in scope and focusing on smaller groups of occupations and employers. Both types of approach are viable from an investment perspective. The evidence from the investment funds is that while single-focus projects are easier to market, over time they tend to become connected to wider skills solutions.

For standards and frameworks, there was evidence of sector bodies rationalising the products they put forward and selecting those that relate to high volume, strategically important of qualifications. The notion of review cycles for standards and frameworks was described by some interviewees as influencing their thinking, but this acts increasingly as a spur for considering review rather than a rationale for review *per se*.

1.3 Identifying and articulating need

The rationale for intervention was still underpinned by existing evidence and data on need. The evidence of need for intervention was drawn from LMI and research, including national data on productivity, growth forecasts, staff turnover and skills shortages and gaps. This provided evidence of the scale of need (the number of employers that experience particular skills shortages and gaps) and a measure of the impact the problem has had on productivity and profitability. For standard and framework products, data on learner take up of qualifications and current skills shortages and gaps among groups of employers were often used as a proxy for employer demand.

The investment approach has, however, led to LMI being more contextual to the case for action, rather than being the case in itself. It was considered a necessary but insufficient precondition for investment. Projects also aimed to present a powerful (qualitative) case that industry will lead and can be mobilised to address the skills gap or shortage. This 'softer' intelligence was identified through a range of methods, such as through formal and *ad hoc* communication with employers, small-scale research or through the discussion of issues at industry meetings.

The need for action was, in many cases, also influenced by external stimulus or emerging sector challenges – due to changes in Government policy or regulation. This provides a useful hook both for setting out the rationale for a skills solution and providing a common cause around which employers can coalesce. However, projects that are partly dependent on decisions made by third parties can carry greater risks, as timescales and policy can shift over time.

1.4 Developing innovative skills solutions

In the early investment rounds the skills solutions were primarily generated by the sector body working with a small group of employers. In most instances these proposals were developed through consultation with sector bodies' existing network of employers. The period from translating an initial concept to fully-fledged project proposal generally took around 2 months. The period was quite short because for the early investment rounds, investees were generally reluctant to develop skills solutions until the funding prospectuses were published and they had a clear understanding of the UK Commission's expectations.

In later investment rounds, sector bodies understood the requirements of the investment funds and therefore the generation of skills solutions became a continuous process. Potential skills solutions were often identified and discussed through sector bodies' on-going communication with employers. When the prospectus was published, these proposals were tested and the most effective solution (in terms of the level of employer support and return on UK Commission investment) was put forward.

Many of the solutions sought to replicate good practice that existed and rolling it out to a new audience. These projects build on what has been shown to already work and reflect how innovations tend to evolve naturally in the skills arena. Tried and tested ideas are adapted and brought to new audiences. For example, one project extended its well-established and self-sustaining professional register to new occupations. These projects are arguably lower risk from an investment perspective as can draw on experience of implementation in other contexts.

Taking an existing idea and applying it to a sector or group of employers where there is a lack of skills investment is in itself quite an ambitious undertaking. Innovation in this context is not so much about the product or skills solution itself; it is much more about the detail of product design providing an effective method for employers to engage, buy and/or use the product over time. It is therefore dynamic in nature and hugely dependent on the critical activities of product testing, pricing, marketing and on-going refinement.

There are examples of projects that have more obvious potential to be transformative in nature, such as projects using technology to potentially radically change the way people access training and the development of guilds and similar associations as a vehicle for offering a wide range of products (some of which are highly-innovative in themselves). The investment portfolio as a whole is quite balanced in terms risk and inherent scale of ambition.

Underpinning all of this is a more general 'process' innovation that is apparent in terms of how employers are engaged and consulted. Employers were asked to make more targeted and goal-orientated contributions to influencing the skills landscape, by helping develop products and informing local skills provision. This differed from the largely passive consultation and advice they provided previously.

1.5 Testing the product and leveraging initial employer support

An important initial stage of making the case for action is the early testing and development with employers to understand whether the idea is likely to attract enough employers to be sustainable in future. The important consideration here is not so much the volume of employers engaged in early scoping, but rather that a sufficient understanding is developed of the *different* needs, interests and drivers for engagement across the potential employer target audience. The initial skills solution idea might stem from a small number of large, key employers within an industry – who can play a crucial role in driving development. However, from a sustainability perspective, the nature of demand from a wider cross-section of employers (be it explicit or latent at this point) should be hard-wired into early thinking to improve the chances of long-term success.

In many investment projects the testing primarily took place with employers that the investee already works closely with. These employers had a good working relationship with the investee and were therefore more willing to advise on project proposals and commit to supporting product development.

In later investment rounds there was evidence of sector bodies employing a two-stage approach to testing demand:

- An initial testing phase, where the project concept was initially developed into a project proposal. This generally took place through workshops and discussions with a small group of employers;
- A wider consultation phase where the proposal is tested with a broader range of employers. Sector bodies often did this through surveys or consultation events.

The investment model encourages sector bodies to ensure that employers are not just suggesting a work programme that is 'nice to have', but that the idea in question provides sufficient benefit for them to contribute. Projects are unlikely to be successful if this tangible industry support cannot be shown. This changes the way in which sector skills councils, in particular, think about engaging employers in supporting skills solutions before, during and after initial development.

1.6 Rationale for accessing UK Commission investments

Most sector bodies believed that without the UK Commission investment the solution would not be developed. In reality, the situation is often more complex. Most employers and partners interviewed as part of the evaluation had a clear understanding of the problem that the projects were looking to address. The importance of the skills issue meant that even without investment funding, some employers reported that they would have taken steps to address the problem themselves; the will to do something was there. However, the benefit of the investment, and main reason why many employers and partners supported the development of the project, was that it led to solutions being developed that were discussed and agreed by a wide range of sector stakeholders (in some cases including a range of industry associations, employers, trade unions and national skills academies). This brought conformity in standards which meant the solution would support employers' supply chain and increase staff mobility. Indeed, part of the policy rationale for the investment approach is to encourage collaboration with a view to solutions being stronger as a result.

Another perceived benefit of the investment funds is that it enabled sector bodies to draw investment for activities that still required further development before they could be launched. This differed from other public sources where the funding was dependent on supporting a high volume of learners, which some projects were unlikely to do in the first year. Some investees submitted applications for projects that were 'already in the pipeline' but which had not been able to attract funding from other sources.

In the early round of GIF the organisations that applied for funding were primarily SSCs. This was primarily because other sector bodies did not believe they had a clear understanding of the UK Commission priorities for investment and therefore could make a persuasive case for funding.

The GIF 2 development phase was found to remove many of these barriers to investment. Most of the organisations that accessed this support believed that the opportunity to get upfront feedback from the UK Commission about whether a project idea might be viable for GIF investment, made it easier to justify investing in full bid development. Practical support in relation to areas such as how to articulate outcomes and benefits was also valued. This reduced the risk for potential bidders, given the considerable time and resource related to making a bid.

The development phase also provided space for potential bidders to test the viability of what they were proposing. It helped organisations that are new to the investment approach to be able to scope out the existing market for skills solutions to gain an overview of how what is being proposed relates to existing tools and products, asking questions such as: Is the proposed idea really new? What is it that is innovative about the solution being developed?

1.7 Employer motivations for engagement

The key factor influencing employer demand is the economic value the activity - i.e. the savings it will lead to, or the costs it will reduce. Sector bodies need to make tough decisions on the type of activities that are included in a project, and ultimately have to exclude activities that employers would be unwilling to invest in. Design should be centred on what might influence whether an employer may invest in the product, which may be its price or the ease with which employers can access the tool. This should inform pricing and delivery decisions and upfront consideration of how the product will be marketed. Some sector bodies believed this had been a key development in their approach, although by no means all sector bodies think in these terms.

There was also evidence of employers contributing for altruistic reasons. In these cases, employers typically believe that the projects will directly benefit smaller organisations rather than themselves; but they are willing to support these organisations as they are not seen as direct competitors. Where employers are engaged in this capacity, it is primarily through providing advice on products where they can draw on their personal experiences. However, there are also examples in the EIF 1 evaluation of employers contributing cash and time to develop a new service, often rallying around a societal benefit, which may be the redeployment of staff facing redundancies or proving unemployed individuals with better opportunities to gain employment. While the CSR dimension is a driver to engage, it is rarely a sufficient condition for supporting the long-sustainability of skills solutions.

1.8 Skills solutions rooted in employer demand

Skills solutions that are rooted in a good understanding of employer demand and seek to address a market failure should, by their very nature, be predisposed to be self-sustaining and of value to employers. Crucial to this equation is that **the starting point is the understanding of the problem and / or opportunity** and that the solution is borne out of that understanding. Employers' skills requirements are dependent on a range of factors including: the products/services provided, technology used, the product/labour markets and environment they operate in. The roots of any skills solution should be grounded exploration and evidence of:

- What needs to change and why?
- What are the conditions that are hampering productivity and growth?
- What are the conditions that will see the sector thrive?
- What will good results look like?

Changes in policy or regulation can be a hook from which to explain demand but can be at **risk** of timescales and policy shifting. It is advisable to build a good understanding of the case for change independent of policy or regulatory change to ensure that employer demand is sufficient for any solution to have traction with its ultimate audience.

Only when **grounded in a rich understanding of the problem** as experienced by employers can a solution (and within that, the innovation and how it is managed) be truly **shaped by, and to, employer needs** and, crucially, be something they will value and invest in. The real test of a solution and its innovation is whether employers are willing to pay for it. When it comes to the solution itself and the innovation of that product or service key questions to explore include:

- **WHY** is it considered innovative? **HOW** is it different to what exists? **HOW** does it build upon what exists?
- Can you **explain what is new** to other employers? Can / Do employers **recognise** it as new and the benefits on offer?
- Does it provide a service or product with **new benefits** to employers? Does it have a **practical value**?

There is no replacement for solid, focused early market testing with a cross-section of employers. However, it is often most practical at the outset to engage a core group of employers. If these employers are **ACTIVELY** engaged in informing and shaping the solution this strengthens the link between the problem / opportunity and the results. This does not negate the need for further market testing and iterative development but does support the prospect of being commercially viable. This is further explored in the papers '*Employer engagement in the design and development of skills solutions*' and '*Planning for Sustainability*'.

Evidence Reports present detailed findings of the research produced by the UK Commission for Employment and Skills. The reports contribute to the accumulation of knowledge and intelligence on skills and employment issues through the review of existing evidence or through primary research.

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