UK COMMISSION FOR EMPLOYMENT AND SKILLS

The Labour Market Story: Skills Use at Work

Briefing Paper
July 2014

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The Labour Market Story is based on research undertaken by the Institute for Employment Studies, the Warwick Institute for Employment Research, Cambridge Econometrics and the UK Commission for Employment and Skills. We would also like to acknowledge the assistance of expert reviewers who provided comments on early drafts.

Executive Summary

- The effective use of skills is critical to maximising productivity and supporting economic growth. To compete successfully, the UK economy needs firms both to invest in skills and to use them effectively in order to raise productivity, innovate and pursue high value product market strategies.
- Effective use of skills brings benefits to individuals, who feel more engaged at work; employers, who benefit from the added productivity of employees whose skills match wider business requirements and enable businesses to move up the value chain; and the economy as a whole, as a result of increased productivity.
- Parts of the UK economy are in a low skills equilibrium, with a relatively poor supply of skills and low demand for high level skills. Current employer demand for skills is sub-optimal, and on average management capability is weaker than in countries such as the US, Germany, Japan and Sweden. In particular, the UK has a 'long tail' of poorly managed firms.
- Effectively using employees' skills requires an approach to management which supports employees to apply their skills and encourages employee engagement, such as High Performance Working (HPW). HPW practices cover the four domains of access (recruitment and resourcing); ability (workforce skills and training); attitude (engagement and motivation); and application (opportunities for individuals to deploy their skills).
- Employee engagement is an important contributor to productivity. Employees who have the opportunity to use their skills in well-managed workplaces are likely to contribute more discretionary effort and be more engaged.
- There are a number of proven tools and approaches which can be used to improve management and to improve employee engagement. These include HPW; Investors in People; human capital reporting; and supporting employer collaboration and collective action such as professional standards, employer networks and training levies.
- Employers are increasingly taking responsibility for skills needs in their sectors and there are encouraging signs of employers stepping up to collective leadership, including through 'industrial partnerships' of employers working in a particular sector.

1 Skills in the UK

The 2008 economic crash had a significant impact on the UK economy and labour market, and there are still considerable uncertainties about the future affecting households, firms and financial markets. In order to compete globally, the UK economy needs to shift towards high value sectors and businesses. This will require businesses to become more ambitious in the products and services they offer, and to be managed more effectively in order to improve productivity. Without sustained gains in productivity, and in the development of new products and services, UK businesses will struggle to compete in the global economy. Developing management capability and using skills effectively is crucial to attracting investment and maintaining competitiveness (Cox *et al*., 2012).

Skill levels in the UK tend to be lower than in many competitor countries. For example, in 2011 the UK was ranked 24th of 33 OECD countries for intermediate skills, and 11th for high skills – behind the US, Canada, Japan, South Korea, Finland and Norway (UKCES, forthcoming). However, employers in the UK tend to be satisfied with the skills of their employees and applicants for jobs, as evidenced by the relatively small proportion of vacancies that cannot be filled for skills reasons. This suggests that some parts of the UK economy experience a low skills equilibrium, with a relatively poor supply of skills and low demand for high level skills. This occurs when a significant proportion of businesses employ workers with low skills to produce goods or services of relatively low specifications, for low wages. It is difficult for firms to move towards producing goods and services of higher quality and requiring higher skills, as this requires developing new markets and fundamentally changing business strategy and ways of working (UKCES, 2009).

Skills on their own are not enough and will not necessarily lead to improved economic performance; of equal importance is that employer demand for skills is sufficient, that they are the ‘right’ skills, and that they are used effectively in the workplace. The effective use of skills is critical to maximising productivity and supporting economic growth. The widespread under-use of skills in the UK means that employers are not maximising the productivity of their workforce. This suggests that action is needed both on the supply side, but more importantly on the demand side, in raising employer demand for skills in the labour market and in ensuring these skills are used effectively in the workplace.

This paper considers the role of high performance working practices in making use of skills in the workplace; the importance of good management in supporting employee satisfaction and engagement; and ways of raising employer demand for skills and ensuring effective use of these skills at work.

2 High Performance Working

Effective use of skills brings benefits to individuals, who feel more engaged at work; employers, who benefit from the added productivity of employees whose skills match wider business requirements; and the economy as a whole, as a result of increased productivity. Effectively using employees' skills requires an approach to management which supports employees to apply their skills. Working and management practices that are developed and deployed to use skills more effectively in the workplace are commonly referred to as High Performance Working Practices.

High Performance Working (HPW) is defined as 'a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance' (UKCES/Belt and Giles 2009: ii). It encompasses a range of practices which relate to:

- Access – recruitment and resourcing
- Ability – workforce skills and training
- Attitude – engagement and motivation
- Application – opportunities for individuals to deploy their skills (UKCES, 2009).

This model ('the 4 As Model') shows that skills (of the existing workforce and new recruits) on their own are not sufficient to ensure high performance. Individuals must want and have the opportunity to apply their skills effectively. HPW is designed to ensure that workers have the opportunities to offer discretionary effort in the workplace to perform at a higher level, motivate them to 'go the extra mile' and, crucially, equip them with the skills to do so (UKCES/Wood *et al.*, 2013).

The UK Commission's Employer Skills Survey (UKCESS) 2013 identifies 21 different HPWPs:

- Annual performance review
- Awards performance related bonuses
- Business plan
- Creates teams to work on projects
- Employee consultation / trade union
- Equal opportunity policy
- Flexible benefits
- Flexible working

- Formally assess performance after training
- Holds ISO9000
- Investors in People (IIP)
- Individual performance related pay
- On or off job training
- Processes to identify high potential or talented individuals
- Task discretion
- Task variety
- Trade union consultation
- Training budget
- Training needs assessment
- Training plan
- Work shadowing/stretching/supervision

The most commonly-reported practices are: work shadowing and equal opportunities policies (both used by 85 per cent of establishments); on or off the job training (67 per cent); and annual performance review and business plan (both 63 per cent). Two fifths (44 per cent) of establishments have a training plan, 17 per cent have achieved Investors in People accreditation and 14 per cent hold ISO9000 accreditation. The most significant returns to HPWPs are likely to be in organisations that are innovative, operate in high value-added markets, and are knowledge intensive (Ashton and Sung, 2011).

There is extensive evidence on the **benefits of HPW** (see UKCES/Belt and Giles, 2009). Organisations that adopt HPW are likely to be more productive, more profitable, and experience lower labour turnover (UKCES, 2009). Research that examined how organisations have changed over time by using HPW approaches shows significant organisational benefits, including: improvements in organisational culture, better staff retention, increased productivity, higher customer satisfaction and expanding market share, improved efficiency and reduced costs, reduced staff absence rates and improved employee relations (UKCES/Tamkin and Roberts, 2010). A considerable body of evidence illustrates that HPW is a highly versatile and flexible approach to managing people that can be customised for use in businesses facing very different circumstances. Case studies of organisations which have embraced HPW and used the IIP standard creatively to drive improved business performance are often characterised by a desire among senior managers to outperform their competitors, linked to a strong mission and vision to be outstanding within sector (UKCES/Cox *et al*., 2012b; UKCES/Tamkin and Roberts, 2010).

A number of factors, including structural characteristics, affect **take-up of HPWPs**. These include:

- Size of establishment: larger employers are more likely to be HPW than smaller employers.
- Sector: industries with the highest proportions of HPW establishments include financial services, public administration and education. Those with the lowest proportions include agriculture, construction and manufacturing. Human capital-intensive businesses are more likely to adopt HPWP than physical capital-intensive businesses. Drivers of these differences are likely to include regulations to ensure competence of staff which demand regular training and assessment of performance.
- Largest occupational group: workplaces where most workers are either professionals, associate professionals, or in caring, leisure and other service occupations make the greatest use of the HPWPs which increase employee involvement (UKCES/Wood *et al.*, 2013).

Other influences on HPWP take-up include the business strategy and level of organisational ambition. For example, workplaces competing in markets with high or premium quality products or services are more likely to adopt HPWPs than establishments producing standard or basic goods and services.

Reasons why businesses have adopted the approach include:

- Customer pressure: pressure to improve organisational performance, arising from growing competition in product markets, changes in consumer tastes and preferences, parent company interests or directly through supply chains can be a powerful catalyst for change. These pressures are experienced by both public and private sector organisations (UKCES/Tamkin and Roberts*,* 2010).
- Managing growth and complexity: small to medium-sized organisations which are growing quickly commonly find they need to adopt a more professional and systematic approach to managing a larger group of staff. HPW and associated tools such as Investors in People are often helpful in establishing and integrating common management practices, such as assessing performance and meeting training needs, involving staff in decision-making and rewarding good performance (UKCES/Stone, 2010; UKCES/Tamkin and Roberts, 2010; UKCES/Cox *et al*., 2013a).
- Solving workplace problems: businesses which have a poor employment relations climate, or problems with product quality, delivery or reliability have used HPW to turn their organisations around (UKCES/Tamkin and Roberts*,* 2010). Evidence shows that it is often easier to persuade managers and employees of the benefits of HPW and to try a new approach when there are significant challenging circumstances to overcome (Cox *et al*., 2012).

However, while evidence from the Workplace Employment Relations Studies of the late 1990s and early 2000s showed increases in the adoption of some HPWPs, evidence from the UKCESS shows a more recent overall decline in the use of most of the practices. For example, between 2009 and 2011, use of annual performance reviews, evaluation of training and individual performance-related pay experienced some of the greatest decreases, and the smallest businesses were most likely to discontinue HPW. In 2013, just 12 per cent of establishments were regarded as being HPW establishments (adopting at least 14 of the 21 practices). This raises a challenge**: given the benefits of HPW, why do more businesses not adopt it as an approach?**

Recent research (Stone *et al*., 2012) found that the main reasons businesses did not adopt HPWPs were:

- they felt their business was too small to benefit or to implement the practices
- they had never considered doing so
- they did not need to adopt HPW as they had existing (alternative) systems.

Businesses which had not adopted many (or any) HPWPs suggested that they might do so if they were provided with case study examples of the benefits of doing so; if they received financial support to implement practices; if they were experiencing an increase in product or service demand; and if the economy improved (however, very few stated that the poor economic climate was a disincentive to adopting HPWPs) (Stone *et al.*, 2012).

In some cases, there has been some resistance to HPW from unions and employees, because of fears the practices can be used selectively to intensify work rather than as a means of improving skill utilisation (Danford *et al.*, 2005). An additional issue is that partial implementation of HPW does not seem to result in significant performance gains; it is the adoption of a bundle of practices, working synergistically, that results in business benefits (Doeringer *et al.*, 2002). Finally, effective use of the practices may take time to embed, and so their impact on productivity may not be apparent for several years (Brynjolfsson and Saunders, 2009).

However, most businesses did not feel that adopting HPWPs would be costly (either in terms of time or money). This raises a conundrum: if businesses are aware of the benefits of HPW, and do not see major costs in adopting HPWPs, why is take-up so low? This points to the fundamental role managers need to play in implementing high performance working practices.

3 Employer approaches to training

Employer demand for skills is evident in recruitment and resourcing decisions, as well as approaches to training (these relate to the access and ability quadrants of the HPW model). Employers aim to recruit people with the skills they need to deliver their chosen business strategy, and train where they recognise a gap between the skills of their employees and the skills needed by the business. Training patterns show where employers recognise that the skills of the employees are insufficient to meet their business objectives, and investing in training can help businesses to develop higher-quality goods and services and move to higher-value markets.

Evidence suggests that there has been an increase in the level of skills needed at work. (as proxied by the level of qualification needed to gain entry to a job). The Skills and Employment Survey (SES) shows that the proportion of jobs for which no qualifications are needed to gain entry fell from 28 per cent in 2006 to 23 per cent in 2012, and the share of jobs requiring at least an undergraduate degree increased from 20 per cent to 26 per cent over the same period. The proportion of people reporting that, where a degree was required to get the job, it was also necessary to have a degree to be *able* to do the job, remained stable at three-quarters of all respondents (Green *et al.*, 2013a).

3.1 Training decisions

UKCESS 2013 shows that the majority (66 per cent) of employers invest in training. Of these, 47 per cent wanted to train more; and of the 34 per cent of employers that did not invest in training, 29 per cent wanted to train. Overall, 42 per cent of employers wanted to undertake more training than they had in the past year (UKCES/Winterbotham *et al.*, 2014). In addition, the proportion of staff receiving training increased from 55 per cent of the workforce in 2011 to 62 per cent in 2013. This suggests that many employers recognise the benefits of training and are keen to upskill their workforce.

Evidence from UKCESS also shows that both total spend on training and spend per trainee decreased between 2011 and 2013 (UKCES/Winterbotham *et al.*, 2014) (see 'The Labour Market Story: The State of UK Skills' for further discussion of changes in training patterns). Similarly, the Workplace Employment Relations Study (WERS) shows that, while the number of recipients of training increased between 2004 and 2011, each individual employee now receives less training, and the total spend on training has fallen (van Wanrooy *et al*., 2013). This is not a recent phenomenon: employer investment in training in the UK has been on a downward trend for over 15 years (with drops in training predating the 2009 recession), and employees are increasingly dissatisfied with the training they receive (Green *et al*., 2013a).

This raises questions about the value and quality of the skills investments employers are making. While it is possible that some employers are training 'smarter' (by providing more targeted training, of shorter duration), over two-fifths of UKCESS 2013 respondents stated they wanted to provide more training (42 per cent) but were prevented in doing so (usually for reasons of cost and time, as well as not being able to find suitable providers or courses). The reduction in training could also reflect that some businesses are increasingly competing on costs rather than quality, and so shifting their business strategies down market. This means they are less likely to require highly-skilled staff, or to train to meet business objectives (Ashton and Sung, 2011a).

3.2 Barriers to training

Reported barriers to training include:

- Difficulty in proving bottom line benefits of training: while a majority of employers conduct broad assessments of the impact of training on their learners, they often find it difficult to calculate the impact on overall organisational performance. So employers may not be aware of returns on investment in training, or may not be able to measure returns accurately. Employers may also find it difficult to translate the benefits of training to their own circumstances (Guest, 1987).
- Belief that staff don't need training: analysis of UKCESS 2013 shows that nine per cent of employers who do not conduct annual performance reviews with any of their staff report a skills gap in their workforce, compared to 18 per cent where all staff have a formal review. Similarly, 23 per cent of establishments with an annual business plan, training plan or training budget report having skills gaps compared to 10 per cent without any of these practices. For some of these employers, it may be that they are not able to identify those skills gaps that do exist as they do not collect sound evidence on which to base the assessment.

- Short-termist priorities: many businesses adopt relatively short-term horizons when making decisions. Short-termism can affect all types of business: larger listed companies focus on quarterly returns to shareholders and small and medium-sized enterprises (SMEs) on short-term survival, rather than ambitious business strategies which place a higher premium on staff development (UKCES/Stone, 2010).
- Lack of forward planning: businesses do not always plan training effectively. SMEs in particular are less likely to undertake formal planning of training and to allocate funds to a training budget than larger organisations. Managers who have not benefited from formal training are, in turn, less likely to see upskilling as a solution to business challenges. Owner-managers are less likely than managers in larger organisations to have formal management training, and may not recognise (or may be reluctant to admit) knowledge or skills gaps (UKCES/Stone, 2010; UKCES/Garrett *et al.,* 2010).
- Constraints on time and money, especially for smaller firms: allowing staff time away from their day-to-day work to take part in training can be a challenge. This is particularly the case in customer service-focused workplaces, continuous production operations, where senior staff need to participate, and where firms are operating with reduced staff numbers (UKCES/McQuaid *et al*., 2012). Identifying and accessing appropriate training is often more difficult for SMEs, which are less likely to know the training provider market, and have less contact with sources of advice on funding. As a result, they may find it hard to source training customised to their individual needs (UKCES/Stanfield *et al.,* 2009).
- Fear of losing staff: having trained staff, firms may then be concerned about losing the benefits if workers move to other firms. Smaller organisations may find it harder to create internal labour markets to enable career progression for individuals (UKCES/McQuaid *et al.,* 2012), and may fear that staff will leave after receiving training (although while this a common fear, the evidence suggests that it is largely unfounded). However, SMEs may therefore decide to provide training which is firm-specific and less easily transferable. Inefficiency in delivering small scale customised training for the training provider means that training will be relatively more expensive. Firm-specific skills are also less likely to be of value to the individual and the broader economy. Again, this points to a potential set of solutions through bringing smaller employers together to address their training needs.

Some businesses see little need to increase investment in skills, or even to invest at all, given limited competition in their markets. However, given falling trade barriers and technical change, many will find competition increasing faster than they expected. They are likely to need to become more productive to compete, and building workplace capability, including through skills development, will be important for many. The key to improving UK productivity and enhanced competitiveness is well managed and high performing businesses, where investment in skills is integral to a business's growth strategy and drives business improvements.

Current levels of training investment have not been sufficient for the UK's skills to keep pace with international competitors. Competitor countries are making very significant investments in skills, but this has not necessarily led to individual UK businesses increasing their investment in skills, as shown by the decline in training levels over the past 15 years. UKCESS 2013 finds only a minority of employers (12 per cent) are 'high performance workplaces' and less than two-fifths (38 per cent) deploy a high value 'product market strategy'. There are two related challenges: the first is how to encourage businesses to adopt higher product market strategies; and the second is supporting them in making more effective use of their employees' skills.

4 Management and skills use

Providing opportunities for individuals to use their skills at work is central to the implementation of HPW (and relates to the ‘ability’ quadrant). This section considers: management skills in the UK; management and skills use at work; the benefits of effective management; and the costs of ineffective management.

4.1 Management skills in the UK

International comparisons of UK management capability are typically unfavourable, and suggest that **poor management hinders UK competitiveness**. Recent evidence shows that while we have many good managers, UK management capability is on average weaker than in countries such as the US, Germany, Japan and Sweden, and is likely to be a substantial factor in the productivity gap with these countries (BIS, 2012a).

In particular, the UK has a ‘long tail’ of relatively poorly performing firms with weak management capability (Bloom and Van Reenen, 2010), in which small and medium sized businesses and owner-managed firms are over-represented. This may be because the managers do not wish to expand into higher value-added markets, or because they do not have the skills or knowledge required to develop different business strategies. In addition, some firms in the UK have relatively limited understanding of what effective management involves, and do not provide managers with enough training (BIS, 2012b).

4.2 Under-use of skills

Skills under-use, where employees have skills and qualifications above the level needed for their role, is a significant issue for the UK economy, and is related to poor management.

While over-qualification for the jobs people actually perform in the workplace has fallen slightly, and more sharply among graduate workers from 28 per cent in 2006 to 22 per cent in 2012 (Green *et al.*, 2013a), skills under-use is widespread. UKCESS 2013 found that 16 per cent of the workforce, or 4.3 million workers, had skills and qualifications above those required by their current role.

Some degree of skills mismatch in the economy is to be expected and in some cases it can be positive. For example, businesses adopting very high product market strategies (based on innovative and premium quality products and services) are more likely to report skills under-utilisation (52 per cent) than those with very low product market strategies (42 per cent). This may seem counter-intuitive, but could reflect the fact that these ambitious companies are more aware of their workforce skill needs or that they have recruited very highly skilled employees in advance of expanding into new areas or products. However, the scale of skills under-use in the UK, with 48 per cent of businesses reporting that they have at least one employee whose skills are not being used fully, suggests there are structural issues and point to demand deficiencies.

Large-scale under-use of skills is problematic for a number of reasons. Firstly, employees whose skills are not used at work may feel demotivated and may be more likely to leave the employer, resulting in additional recruitment costs. Secondly, if employers are not fully using their employees' skills, there is a missed opportunity for increasing productivity and maximising business returns by producing higher-value goods and services. Given the rise in more highly qualified people in the workforce, working in more complex jobs, we might expect employers to make greater efforts to draw on the innovative potential and talents of their workforces.

4.3 Effective management

Effective management has several benefits for firms. It is associated with higher levels of employee engagement, including willingness to invest effort in work and enjoyment of work (McLeod and Clarke, 2009). Engaged employees take around four fewer days' sick leave per year than those who are disengaged, have a better understanding of customer needs, and are less likely to leave their employer, thereby reducing recruitment costs. More broadly, skilled managers are more likely to innovate and launch new products and services and adopt higher quality-based product market strategies (Bosworth *et al*., 2002). Well-managed firms 'tend to have better performance on a wide range of dimensions: they are larger, more productive, grow faster, and have higher survival rates' (Bloom and Van Reenen, 2010, p204).

Two different aspects of management are important in determining firm performance: strategic HR management and line management. Strategic HR management is 'an approach to the management of human resources that provides a strategic framework to support long-term business goals and outcomes' (CIPD, 2013). In medium and large firms, the responsibility for management is usually divided between owners or senior managers, who make strategic decisions, and middle managers, who implement the strategies. The decisions about business strategy drive the level of skills required, as well as how those skills are used in the workplace (Ashton and Sung, 2011). The skill requirements for each type of manager are different (although in some cases the two roles overlap). Senior managers are required to develop new ideas, inspire staff, and set the mission and vision for the organization (Tamkin *et al*., 2010). Middle managers are required to implement decisions in line with company culture, and so play a key role in ensuring access to training and development (Grugulis *et al*., 2010). The role of managers is therefore critical in shaping the adoption of HPWPs though the management strategies adopted in different firms, and the levels of investment in training and development of staff.

Improving management capability is a challenge for the UK. Only one fifth of managers in the UK hold a management-related qualification. UKCESS shows that up to one in five management vacancies are caused by skills shortages, especially in smaller firms, firms operating in international markets, and firms with low product market strategies. This results in an insufficient supply of well-qualified managers (Bloom *et al.*, 2011).

UKCESS 2013 shows that just one half (50 per cent) of managers received training, the lowest proportion of any occupational group (UKCES/Winterbotham *et al.*, 2014). Explanations for this lack of training include managers not assessing their own training needs effectively, and businesses assuming management skills can be learnt 'on the job', rather than requiring formal training (BIS, 2012b). Skills gaps among managers are common in firms operating in international markets, and those adopting high value added product market strategies - precisely the types of businesses that will drive growth (UKCES/Campbell, 2013).

There are indications of unmet development needs in existing managers (resulting in skills gaps). For example, there is evidence that some managers (especially those in medium-sized firms) are not aware of what kind of changes to make to improve firm performance (Bloom *et al.*, 2011). Research evidence suggests that managers tend to over-estimate how well-managed their firm is, but are not necessarily well informed about good management practice or how to improve their own performance (Bloom and van Reenen, 2006).

Research by the Chartered Management Institute shows that ineffective management could be costing UK businesses over £19 billion per year in lost working hours based on the amount of time wasted due to lack of clarity and support or poorly directed management communications (McBain *et al*., 2012). Ultimately, poor management has a role to play in weak financial performance and business failure (BIS, 2012b). Poor managers may also be less aware of approaches such as HPW and the benefits that they bring.

However, some firms are aware of shortfalls in management skills. According to a recent CIPD survey, 72 per cent of organisations in England reported a deficit of management and leadership skills. Of these organisations, 65 per cent reported senior managers were deficient in management and leadership skills, while 85 per cent reported that line managers and supervisors lacked management skills (CIPD and Cornerstone, 2012). Encouraging organisations which recognise the need to improve their managers' skills to invest in training is a potential route to raising management quality in the UK.

5 Employee engagement

Management skills are not the only determinant of productivity at work. Employee engagement is an important contributor to productivity. The MacLeod Review (MacLeod and Clarke, 2009) suggests that employee engagement is 'a workplace approach designed to ensure that employees are committed to their organisation's goals and values, motivated to contribute to organisational success, and are able at the same time to enhance their own sense of well-being' (p9). Employee engagement and motivation are central to the 'attitude' element of HPW (UKCES, 2009).

The MacLeod Review sets out four enablers of employee engagement: clear leadership; engaging managers; employee voice; and organisational integrity (MacLeod and Clarke, 2009). Good management can enhance both job quality and employee satisfaction, and increase levels of engagement: employees who have the opportunity to use their skills in well-managed workplaces are likely to contribute more discretionary effort and be more engaged. Engaged employees take fewer sick days and are more likely to stay with their organisation, and research suggests that 'private sector organisations with higher levels of employee engagement have **better financial performance**, and high levels of engagement are associated with **better outcomes in the public sector'** (MacLeod and Clarke, 2009, p34).

Survey data from WERS show that the use of employee engagement techniques has increased between 2004 and 2011, with increased adoption of all staff workplace meetings, team briefings, provision of financial information on the workplace to staff, and use of staff surveys, illustrating greater opportunities for staff to become involved in communicating and providing their views to managers (van Wanrooy *et al*., 2013). Similarly, the Skills and Employment Survey (SES) shows an increase in numbers of employees with access to meetings which informed and consulted them about workplace change (Inanc *et al*., 2013).

Employee representative structures (including unions) can play an important role in influencing firms' investment in staff. However, in the UK it is relatively uncommon for training to be the subject of collective agreements between unions and staff. Union Learning representatives play an important role here in championing the value of learning and training in their workplaces. A substantial body of research shows that the role of individual Union Learning Representatives is widely recognised as helpful, particularly in engaging non-traditional learners who often have low or no qualifications and enticing them back to learning, as well as, in some cases, negotiating support for learning from employers (see Stuart *et al.,* 2013).

This kind of support is usually only available to workers in establishments which have access to union representation. Findings from the recent Workplace Employment Relations Study (WERS 2011) show that the percentage of workplaces with union members has declined by six percentage points from 29 per cent in 2004 to 23 per cent in 2011 (van Wanrooy *et al.,* 2013). Representation may be available through other forms (such as an on-site representative from a non-recognised union, a workplace-level committee or a stand-alone non-union representative). However, the proportion of workplaces with any employee representative structures (including unions) has declined from 45 per cent to 35 per cent over the same period. Experiences in other countries show how important unions can be in developing tripartite agreements with employers and employees to improve skills use at work and increase productivity (UKCES/Stone, 2011). The decline in union representation is a worrying trend in this regard. The rise of 'precarious' forms of employment, including casual and zero-hours contracts, also raises concerns over the quality and quantity of work for people on such contracts. The ONS (2014) estimate that there are 1.4m employee contracts which do not provide any guarantee of a minimum number of hours, and 35 per cent of employees with such contracts want more hours' work.

While some workplaces have been trying to increase employee engagement, employees also report an implementation gap in terms of levels of job discretion and willingness of managers to let them influence decisions. Employees in workplaces which have been sharply affected by recession are reporting adverse effects on training and job security. Evidence from WERS 2011 shows that only a minority of employees are satisfied with management willingness to allow employees to influence decisions (van Wanrooy *et al*., 2013). Similarly, SES shows that only 27 per cent of employees say that they have 'a great deal' or 'quite a lot' of say over work organisation (Inanc *et al.*, 2013). When compared to other European countries, this aspect of job quality in the UK shows considerable room for improvement. The OECD's Survey of Adult Skills results show that the UK ranks seventeenth out of 22 countries for levels of task discretion (OECD, 2013). As much as managers have experimented with HPWPs and methods to increase employee engagement, the failure to implement these more widely has direct results in terms of employee engagement.

The recession has had an impact on many aspects of job quality, including ‘pay, skill, effort, autonomy and security’ (Green, 2009). Real wages have fallen in recent years; and while levels of task discretion have remained stable, the proportion of workers reporting fear of job loss has increased significantly post-recession (Gallie *et al.*, 2013). There has been a notable increase in the proportion of employees who believe that their job requires them to work very hard (34 per cent in 2011 compared to 27 per cent in 2004) (van Wanrooy *et al*., 2013). Across all workplaces, a third of workers reported pay freezes or cuts and 29 per cent stated their workload had increased. These findings are supported by broader trends in other surveys such as the Skills and Employment Survey 2013, which shows falling contentment in and enthusiasm for work, rising stress and decreasing overall job satisfaction (Green *et al*., 2013b).

The decline in well-being raises the questions of how long these patterns of employment are sustainable, and the extent to which they result in adverse effects on staff and negative impacts on organisational performance. There could be implications for the UK economy as a whole: higher skilled workers may show their dissatisfaction by migrating to countries that they perceive will offer them a better quality of work. Over 1.28 million highly-skilled British citizens are now living abroad economy (OECD, 2012). Continued emigration of highly-skilled people may limit the UK’s future competitiveness. Maximising the quality of work, thereby contributing to overall quality of life, remains an important step in retaining highly-skilled people. However, policy attention to employee engagement has diminished in recent years, and the challenge is to ensure that it remains high on the political agenda.

6 Raising employer demand for and use of skills

As we have seen, raising employer demand for skills and fully using the skills that are available is crucial in shifting the UK towards a high skills, high productivity future. The challenge is how best to do this, and this section explores a number of mechanisms which have been shown to be effective. Comparative international research offers many useful insights that could help to encourage higher levels of skills investment by firms in the UK. International competitors have supported approaches to workplace innovation, including HPW, which have resulted in increased productivity for firms (UKCES/Stone, 2011). Firm-level initiatives such as Investors in People have supported businesses to improve performance. Human capital reporting provides a useful way of benchmarking activity against other firms. Employer-led collective approaches, including professional standards, employer networks and training levies, can provide support and help employers to develop higher-value product market strategies. They can also support employers to implement more effective approaches to management, through peer learning and providing practical evidence of what works.

This section explores potential options for encouraging businesses to develop higher value-added business strategies, including:

- promoting the benefits of HPW
- Investors in People
- human capital reporting
- supporting employer collective action (including professional standards, employer networks and training levies).

6.1 Promoting the benefits of High Performance Working

Recent research found that awareness of HPW was relatively low, particularly among smaller businesses (Stone *et al.*, 2012). This suggests there is significant scope to raise awareness both of HPW and of its benefits, through promotional activity such as case studies, as well as incorporating information about HPW into existing sources of mentoring or business support. Lessons from Ireland, Canada and New Zealand show cross-political party support for the adoption of approaches that can be broadly categorised as HPW, powerful illustrations that it can benefit workers and employers, and that the use of 'win-win' arguments can help make a HPWP philosophy attractive to employers and workers (see Cox *et a*l., 2012). The connections between HPW and organisational innovative capacity - in forms of work organisation, and, more fundamentally, products and services, are striking and illustrate the powerful potential that adoption of these practices has to drive businesses to improved organisational performance in higher value-added markets (UKCES/Stone, 2011).

Establishing long-term networks of organisations with expert support from policy, research and leading-edge organisations has helped to foster mutual learning and sustain innovations in management practice over the long-term in countries such as Finland and Germany. For example, in Finland, the TYKES programme (Programme for the Development of Productivity and Quality of Working Life) provided funding for workplace-based projects to improve productivity and the quality of working life, and supported the development of employer networks to share good practice. Three quarters of managers involved felt the programme had had positive impacts on workplace productivity (UKCES/Stone, 2011).

HPW also shows clear potential to support innovative businesses to adopt high end product market strategies. In a report for UKCES, Stone (2011) found that 'businesses with high road strategies that emphasise product differentiation through quality and innovation are found to be more likely to adopt HPW practices than those with low road strategies that emphasised cost control and competition based primarily on price' (p56). Projects in the UK such as the ACAS Innovative Workplaces programme and the activities of the UK Work Organisation Network have started to build interest in developing integrated approaches to management and employee engagement, by providing practical support to businesses, developing action learning sets to address practical issues around implementation of new mechanisms to improve employee engagement, and management training. Similarly, the Engage for Success movement, which builds on the MacLeod Review, shows how employee engagement is capturing the interest of senior managers from a wide range of businesses (www.engageforsuccess.org).

6.2 Investors in People

Investors in People (IIP) is the UK's leading people management standard, built on the belief that good businesses require great people. IIP provides assessment, advice and solutions to help businesses unlock the talent of their employees. The IIP approach is based on aligning employees' skills with business aims, and ensuring that employees' skills are used at work. This requires clear leadership at all levels of the organisation, and a workplace culture which fosters autonomy. A recent survey of over 700 accredited employers found that the majority of organisations had made improvements to leadership and management training when working towards gaining (re) accreditation. Organisations which had achieved IIP accreditation for the first time identified improvements across a range of areas, including: the quality of leadership skills, management policies, staff commitment and the ability of staff to do their jobs (UKCES/Winterbotham *et al.*, 2013).

This suggests that organisations recognise the importance of investing in management, although they may not always be able to quantify the returns. IIP is currently working with the Chartered Institute for Personnel and Development (CIPD), the UK Commission for Employment and Skills (UKCES), the Chartered Institute of Management Accountants (CIMA), the Chartered Management Institute (CMI) and the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) on a project called 'Valuing your Talent', to develop a framework for organisations to map long-term returns from people development.

6.3 Human capital reporting

Skills investment in the UK is below optimal levels. There are a number of reasons for this. Under traditional accounting models, investing in skills is seen as a cost to businesses, and the resultant benefits are not always linked back to the original investment. In addition, businesses may be unaware of how much competitors are investing in their workforces, and so underinvest.

Human capital reporting aims to capture organisations' investment in people, including information on training, employee engagement and workforce performance (Scraggs *et al.*, 2013). Businesses have to produce annual financial reports, and listed companies are also required to produce annual business reviews which include narrative reporting of non-financial information. Including information on workforce investment in these narrative reports would help to raise the profile of training and development; allow employers to benchmark themselves against others; and help position training spend as an investment rather than a cost.

The ‘Valuing your Talent’ project aims to raise the profile of human capital reporting and provide businesses with clear and easy to use tools to identify their investments in people. The project will define the core metrics to be used; explore best practice around how effective people management maximises value; and develop a framework so businesses can assess their approach to people management, and identify how they can become higher performing. It will produce a set of case studies, providing practical examples of how employers measure the impact that investing in people has on their business; a framework and set of indicators that businesses can use to measure and report human capital; and tools for employers to use to support strategic investment in people.

6.4 Employer collaboration

Recent research has shown that a range of collective approaches, such as professional standards, employer networks and training levies, help to break through the barriers that prevent employers from pursuing more ambitious plans for workforce development (UKCES/Stanfield *et al*., 2009). In a number of situations, a sectoral approach has been helpful in bringing employers together to establish training solutions, for example, through the work of Sector Skills Councils (SSCs) and National Skills Academies. For example, SSCs and groups of employers have been working on developing **professional standards** which require specific levels of training, assessment of worker competence and regular updating of skills in line with market needs (Forth *et al*., 2011). Research for the UK Commission has shown that standards have successfully been adopted to help employers overcome skills shortages and recruitment difficulties, through widening entry routes to occupations, improving progression, creating a supply of new talent, and as a way of upskilling occupations to enhance their status, credibility and improve professionalism through ensuring quality of work (UKCES/Tamkin *et al*., 2013).

Employer networks range from informal networking through social contact to formal networks with a central hub organisation with a membership structure, fees and formal governance arrangements. There is great variation in the models of networks adopted and how they are organised on a sectoral, supply chain and geographical basis and the range of partners involved. Detailed analysis of their purpose and outcomes shows that employers are genuinely able to connect business problems with solutions through collaborating with other organisations (UKCES/Cox *et al*., 2009; 2013b; UKCES/Stanfield *et al*., 2009).

Group Training Associations and Apprenticeship Training Associations have seen some recent growth in employer interest, but building collective ownership of business challenges among employers who have no history of collaboration can be tricky due to concerns about the impact on competitiveness and risks of sharing intelligence (see UKCES/Cox *et al*., 2013b). Major employers who carry influence through supply chains and purchasing power can be powerful in ensuring that the businesses supplying them are sufficiently agile to be able to respond to their changing needs. Crucially, developing supplier capacity can benefit employers seeking to expand by enabling joint product development, and help employers to achieve higher ambitions via their business strategies.

Another form of collaboration between employers takes the form of industry-backed compulsory **training levies**, sometimes with an exclusion, rebate or grant for smaller firms. There are three major schemes in the UK in the construction, engineering construction and film industries, where the fragmentation of the sectors, concentration of large numbers of small employers and high costs associated with training often make it challenging for individual employers to source and purchase training (UKCES/Gospel, 2012). Research in this field finds evidence that the schemes are successful in sharing the costs of investment in skills more fairly between firms and contribute to a general increase in the investment in developing workers in the sectors, so that the industries operate better through reduced skills shortages (UKCES/Gospel, 2012). Sectors which have been facing chronic under-investment in skills resulting in operational and reputational problems may want to consider this kind of collective investment.

Employers are increasingly taking responsibility for skills needs in their sectors. The Employer Ownership of Skills Pilots challenged employers to work in partnership to develop skills solutions for their sectors which would raise skill levels, create quality jobs, and drive growth. There are encouraging signs of employers stepping up to collective leadership, including through 'industrial partnerships' of employers working in a particular sector. These industrial partnerships will identify the growth strategy for their industry over the long term, the emerging markets to exploit and the skills needs of their sectors. They will then commit to delivering the skills employers need and deploying those effectively in the workplace, so the sector as a whole becomes more competitive globally.

7 Policy implications

Raising employer demand for skills and fully using the skills that are available is crucial in shifting the UK towards a high skills, high productivity future. Adopting high performance working practices (HPWPs) can support investment in skills, more effective use of skills in the workplace, and help maintain job quality and satisfaction.

Management capability is a major influence on investment in skills. Business owners and managers are the key influencers on choice of products and services offered, the levels of skills sought from the workforce and the quality of management practices used. But many managers in the UK perform less well than those in international competitor countries and do not receive adequate training. We need to stimulate managers to raise their game in terms of developing high value added products and services, which in turn are more likely to demand high skill levels and adoption of High Performance Work Practices leading to higher quality jobs. Trade unions have played an active role in promoting good quality work and employee engagement, so the decline in trade union membership is concerning in this regard.

Comparative international research offers insights that could help to encourage higher levels of skills investment by firms in the UK. International competitors have supported approaches to workplace innovation, including HPW, which have resulted in increased productivity for firms (UKCES/Stone, 2011). Firm-level initiatives such as Investors in People have supported businesses to improve performance. Human capital reporting provides a useful way of benchmarking activity against other firms. Employer-led collective approaches, such as sectoral approaches, employer networks and training levies, can provide support and help employers to develop higher-value product market strategies. They can also support employers to implement more effective approaches to management, through peer learning and providing practical evidence of what works.

Decades of government involvement in the skills system has led to changes to the supply of skills, but to date we have not cracked the demand side. To do this will require a stable business and economic environment which inspires business and consumer confidence, a greater focus in business and education policy on supporting entrepreneurship and innovation and a changed business and social culture in which a sufficient volume of domestic and overseas consumers is willing and able to pay more for premium goods and services. It will also require a more sophisticated approach to human capital measurement and recognition of the importance of management to ensure that managers are adequately equipped and inspired to make the most of workforce talent.

In all of this, bringing employers together to share and learn from each other is critical. Programmes to overcome market failure in training provision and encourage employer co-investment (such as the Employer Ownership of Skills pilots) are starting to demonstrate the benefits of collective action. The challenge is to extend these across the economy as a whole and to make effective management and skills use the norm across the UK.

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