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Foreword

The Department for Business, Innovation and Skills (BIS) leads work to build a dynamic and competitive UK economy by creating the conditions for business success, promoting innovation, enterprise and science.

A well functioning migration system contributes to these objectives by enabling UK businesses to recruit migrant workers to address skill shortages where skills are not in sufficient supply in the UK labour market. This ensures that work-related migration contributes positively to economic growth.

We commissioned this research in 2012 following recent policy changes relating to the recruitment of skilled workers from outside the European Economic Area. These included the closure of the Tier 1 (General) route, and the introduction of an annual limit to the Tier 2 (General) route of the Points Based System.

Tier 1 (General) previously allowed highly skilled potential migrants to look for work or self-employment opportunities in the UK even if they did not already hold a job offer, providing they obtained enough points under the Points Based System. This route was closed in April 2011.

Tier 2 (General) allows foreign nationals that have been offered a skilled job that cannot be filled from within the UK, to live and work in the UK, providing they obtain enough points under the Points Based System. In April 2011, an annual limit was introduced of 20,700 skilled worker visas under this route.

These policy changes have the potential to affect UK employers that are looking to recruit highly skilled or skilled workers from outside the EEA. Note that employers are still free to recruit nationals from within the EEA or Switzerland without being subject to limits.

Most UK employers will be unaffected by these changes, or in some cases, experience only minor effects. There may be some short-term effects as employers adjust to the policy changes, and take time to adapt to the restrictions in hiring skilled workers from outside the EEA. These adaptations may include increasing training of existing staff or looking to recruit from within the EEA or Switzerland. Over time some of the short-term negative effects will disappear if employers are able to successfully adapt. However there is the possibility that some negative consequences will persist where adaptation is not possible.

The aim of this research was to give us an early insight into the response of employers to these changes. The research was qualitative in nature and used a relatively small sample of 20 case studies. Therefore it is important that we do not draw conclusions too strongly. It gives us an idea of the range of potential business responses to the policy changes, but the incidence of particular responses in the business population should not be inferred from the incidence in the sample. The sample was drawn from employers that have historically recruited non-EEA migrants.
through Tier 2 (General) and who were most likely to have been affected by the changes.

The research highlights the diverse mix of skills that employers require of their employees in order to remain competitive. Global companies with operations and sales around the world need employees with language skills and knowledge of regional cultures as well as the right qualifications. This means that businesses sometimes need to recruit migrants where, ostensibly, there are UK workers available with the right qualifications but who may be missing other key skills required to do the job.

There is some indication of employers adjusting by changing their recruitment and training practices: for instance by switching their recruitment of skilled migrant workers to within the EEA or seeking to develop the skills of existing workers, in some cases by training apprentices.

We also see some indication that the changes have had negative impacts on some employers. Almost all the employers in our sample reported a reduction in their flexibility to address skill shortages and an increased administrative burden. However the other negative impacts reported were on a much smaller scale. These included lost business opportunities and delays in conducting business. More speculatively, there are also some suggestions of businesses considering relocating outside the UK or outsourcing certain functions to other jurisdictions where it is perceived to be easier to recruit the necessary talent.

We will continue to monitor the effect that changes in migration policy have on the UK business community. Our primary consideration is to make sure that businesses continue to be able to recruit the talent and skills that they need, and ensure that policy changes have a positive impact on growth, minimise uncertainty to facilitate business planning, allow firms to attract the brightest and best and uphold the principle that the UK is open for business.

Bill Wells
Deputy Director, Labour Market Analysis
Department for Business, Innovation and Skills
Executive Summary

The purpose of the study is to enhance the Government's understanding about how businesses that make (or did make) significant use of skilled labour from outside the European Economic Area (EEA) have responded following recent changes in migration policy, with specific reference to changes in recruitment patterns, business implications and cost implications. The migration policy changes which are the focus of attention here are:

• the introduction of an annual limit on 6 April 2011 of 20,700 skilled workers under Tier 2 General of the Points Based System; and

• closure of the Tier 1 General of the Points Based System.

The study comprises 20 case study interviews with private sector employers and research foundations from the following sectors: finance and business; manufacturing and engineering; science and science related activities; and other sectors. The sample includes large UK establishments of multinational organisations and SMEs. As the sample is small, the results of the study may be indicative of the range of business responses but conclusions cannot be drawn about the relative incidence of those responses amongst the general business population.

Employers interviewed in the study cited three main reasons for recruiting skilled people from outside the EEA:

• employers wanted to recruit experts in their field where the supply within that field was limited - for example, scientists with a particular specialism in short supply in the EEA (and globally);

• employers wanted a particular skill in short supply in the EEA amongst a bundle of more general skills - for example, speaking a Far Eastern language or having experience of a non-EEA country-specific institutional system; and.

• employers wanted fairly general skills - for example, software engineers, design engineers and chefs - which they reported as not being able to fill from either the UK or EEA workforce, in sufficient numbers and/or at a quality level necessary to meet demand.

Employers reported a range of business impacts arising from recent migration policy changes, ranging from mild adjustments to more significant negative impacts for a minority of employers:

• Most of the employers interviewed reported that the policy changes have resulted in a general reduction in the flexibility with which they can address their skill needs; as well as an increased administrative burden in becoming familiar with the recent changes. However for many employers, the changes have not had a significant impact on the operation of their business.
• Some of the employers interviewed reported changes to recruitment and training practices in the short-term - including switching to recruitment within the EEA, looking to develop skills within the business through training, and assessing how and whether to use intra-company transfers to offset some of the impact of rule changes;

• A small number of employers reported more significant negative impacts such as delays in conducting business, lost business opportunities, difficulties in maintaining quality standards, and in the medium- and longer-term - consideration of business relocation (of the business or of certain functions) and possible outsourcing of some activities.

The overall cost impact of specific migration policy changes was difficult to discern because despite general agreement about increased bureaucracy, most employers interviewed in the study found it extremely difficult to quantify impact in monetary terms. This was because the impacts of specific changes in migration policy tended to merge into issues relating to migration policy in general, which in turn form part of the general environment in which organisations operate. The easiest cost to identify was that of hiring personnel (either internally or via external providers) to advise on migration policy changes and manage applications. Some of the employers interviewed reported that the rule changes caused delays in recruitment and in starting projects. These delays had cost implications and impacted on their competitiveness. Several employers reported increased anxiety about whether they were in compliance with changing regulations.

In conclusion, while the case studies revealed some limited evidence of employers changing their recruitment behaviour, in other instances there were no immediate and/or obvious substitutes for non-EEA migrants. In some instances this reflected a shortfall in individuals with specific skills that might take some time to resolve - as in the case of the higher education system providing more engineers. There was limited quantifiable evidence that business had been lost as a result of migration policy changes, but some multinationals indicated that they might be tempted to relocate some functions outside the UK to areas of the world where they considered it would be easier to recruit the talent they wanted. This was largely a hypothetical response, rather than reflecting actual business plans. The biggest challenge that the migration policy changes posed for the employers interviewed was reduced flexibility in managing their businesses.
1. Introduction

1.1 Policy background

The UK has a long history of immigration. There has been a general move from a liberal immigration regime of unrestricted access, to one of increasing restriction and control – at least for certain categories of migrants.

The focus of the research reported here is on selected specific changes in the latest period, which started in 2008 with the introduction of the Points-based System (PBS). The PBS was introduced to manage inflows to the UK of economic and student migrants from outside the European Economic Area (EEA) and Switzerland, by simplifying and consolidating a very large number of routes into five tiers (see Table 1.1).

Table 1.1: The five tiers of the PBS

<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Investors, entrepreneurs, exceptionally talented people and recent graduates of UK universities (formerly Highly skilled workers)</td>
</tr>
<tr>
<td>2</td>
<td>Skilled workers with a job offer</td>
</tr>
<tr>
<td>3</td>
<td>Low skilled workers – currently suspended</td>
</tr>
<tr>
<td>4</td>
<td>Students</td>
</tr>
<tr>
<td>5</td>
<td>Temporary workers</td>
</tr>
</tbody>
</table>

Under the PBS, points are awarded to reflect the migrant's qualifications, skills and experience, English language ability and age, and, in the case of Tier 2 (see the discussion below), labour market need. The number of points required can be adjusted to labour market conditions at a particular time and to broader strategic migration objectives;1 since the introduction of the PBS, adjustments have been made on several occasions to entry criteria. An annual limit on non-EEA economic migrants entering the UK under Tier 2 (General) was introduced in April 2011 (see section 1.3), despite some concerns from businesses that this might stifle economic growth.2 The Government’s response has been that businesses should look to fill

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vacancies from the resident labour force before looking for skills from outside the UK.

1.2 Skilled migrants

This research is focused on specific changes in migration policy relating to Tier 2: Skilled Workers. Where possible any evidence on highly skilled migrants (previously Tier 1 (General)) was also collected. Further details of Tiers 1 and 2 of the UK PBS are presented in Table 1.2.

Table 1.2: PBS Tier 1 and Tier 2, September 2012

<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1    | Tier 1 (Exceptional Talent) - people who are recognised or have the potential to be recognised as leaders in the fields of science and the arts  
Tier 1 (Entrepreneur) - people who want to set up or take over, and be actively involved in running, a business or businesses in the UK  
Tier 1 (Investor) - people who want make a substantial financial investment in the UK  
Tier 1 (General) - for highly skilled workers. Note: This category is now closed to applicants outside the UK, and to migrants who are already here in most other immigration categories  
Tier 1 (Graduate entrepreneur)  
Tier 1 (Post study work) – closed to new applicants |
| 2    | Tier 2 (General) - for migrants who have a skilled job offer from a sponsor employer to fill a gap in the workforce that cannot be filled by a settled worker  
Tier 2 (Intra company transfer [ICT]) enables multinational companies to transfer their employees to a UK branch of the organisation, either on a long-term basis or for frequent short visits.  
Tier 2 (Sportsperson) is for elite sportspeople and coaches  
Tier 2 (Minister of religion) is for people coming to the UK to work in a job as religious workers within a genuine (bona fide) religious organisation for up to 3 years if there is no suitable settled worker to fill the role |

Source: UK Border Agency website. For specific details see:  
http://www.bia.homeoffice.gov.uk/visas-immigration/working/tier1/ and  

To qualify to work in the UK under Tier 2 (General) a migrant must have a job offer from a licensed sponsor, a valid Certificate of Sponsorship (COS) and pass a points-based assessment. The onus is on the employer to check that the job in question meets the requirements on skill level and the rate of pay (detailed guidance for
sponsors is published on the UK Border Agency [UKBA] website). Assuming that the conditions are met, the employer then issues a COS to the migrant in order that they can apply for permission to enter the UK if they are overseas or permission to stay if they are already in the UK. These actions are performed via the UKBA Sponsorship Management System (SMS).

As indicated in Table 1.2, Tier 2 (General) is designed to fill gaps in the labour force which cannot be filled by a settled worker. The Migration Advisory Committee (MAC) makes recommendations for occupations and job titles to be included on the Shortage Occupation List (SOL), taking into consideration: (1) whether such occupations and job titles are sufficiently skilled to be included on the list; (2) whether there is a shortage of labour; and (3) whether it is sensible for immigrant labour from outside the EEA to fill the shortage. In order to employ a skilled migrant worker under Tier 2 (General) to an occupation that is not on the SOL, the employer has to apply a resident labour market test (RLMT) in order to ascertain whether a UK or other EEA worker is available before a third country national is employed. The RLMT involves advertising vacancies to settled workers for 28 days before a skilled migrant worker can be recruited under Tier 2 (General).

1.3 Migration policy changes of specific interest for the study

There are implications for, and costs to, business in both adhering and adapting to changes in migration policy. Uncertainty about changes to migration policy might cause some businesses to postpone or alter decisions about business development and recruitment. The research reported here suggests that ongoing changes to migration policy mean that migration has moved up the strategic agenda of businesses who have previously recruited outside the EEA so that it is no longer solely in the domain of human resources policy.

The main specific migration policy changes of interest relating to access to the Tier 1 and Tier 2 work routes from outside the EEA for the study are:

| The introduction of an annual limit on 6 April 2011: 20,700 skilled workers (Tier 2 |

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3 In accordance with the code of practice issued by the UK Border Agency (UKBA) detailing the minimum rates of pay and the skill level for specific jobs and the methods employers are allowed to use to advertise a job. See: 

Closing of Tier 1 (General) (all skilled workers effectively now come under Tier 2 (General)) and the introduction of Tier 1 Exceptional Talent route

It is important to note that these are not the only changes that have been made to migration policy.

Other changes to migration policy are also likely to impact on, and may have costs for, businesses.

1.4 Aims and objectives of the study

The purpose of this qualitative research is to enhance the Government's understanding about how businesses that make (or did make) significant use of skilled labour from outside the EEA have responded following recent changes in migration policy. The findings are based on interviews with a small sample (n=20) of employers. As such, the aim is to provide insight into how employers may be responding to these changes. The results should not be regarded as a representative and definitive account of how employers responded to the changes in the rules governing the recruitment of employees from outside the EEA. Neither should conclusions about the relative incidence of responses in the general population of employers be drawn from the incidence of responses in the small sample of employers interviewed here.

Specifically, the research sought to provide insights into the following questions:

- Has the business made changes to the way new workers are recruited as a direct result of the policy changes?

Possible responses to changes in policy explored include:

- seeking alternative labour sources – for example:
  - recruiting migrant workers from the EEA; and
  - recruiting less skilled workers to train up;
- substituting labour for capital;

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5 Together under Tier 1 and Tier 2, approximately 28,000 employment-based visas – excluding ICTs – were issued in 2009.

6 During the course of interviews, respondents were also asked about their awareness of other migration policy changes: (1) Changes to the Shortage Occupation List (SOL) (year on year); (2) Raising of skill levels from NQF3 to NQF4+ in April 2011, then NQF4+ to NQF6 in April 2012: 27 occupations were removed from the Shortage Occupation List including paramedics, IT operative technicians, some managers, financial and accounting technicians, building inspectors; (3) In April 2011: the requirement for all workers to speak intermediate-level English; (4) Leave limited to 5 years: no settling and no switching to Tier 2 General; (5) Closing of post study work route and transfer into Tier 2 (General); (6) Closing of Tier 1, Post Study-Work Route and the introduction of Tier 2 employment with a RLMT exemption.
• not recruiting;
• no change.

What have been the business implications resulting directly from the policy changes?

Possible responses include:

• changes to the ways staff are trained;
• changes to the ways staff are deployed;
• changes in business activity;
• seeking to move functions outside the UK;
• no change.

What have been the cost implications resulting directly from the policy changes?

Possible responses include:

• incurred additional time or expense as a result of keeping abreast of the legislation, or obtaining external information or advice about it;
• reductions in productivity;
• increased training costs;
• increased wage costs (for example, as a result of paying overtime to existing workers, payment of [additional] external contractors);
• lost business;
• no change;
• a reduction in costs as a result of not employing migrants.

1.5 Structure of the report

The methodology used for the research is outlined in Chapter 2. Chapter 3 presents the main findings. It considers the reasons why businesses recruit skilled migrant labour from outside the EEA, how alternative sources of labour are identified – either in the UK or elsewhere in the EEA, the relative importance of skill in recruitment decisions vis-à-vis other considerations, how recruitment is managed and the
impacts of regulatory changes. Chapter 4 focuses on the cost implications to businesses. Chapter 5 summarises and concludes the research.
2. The Study

A qualitative approach was employed for the study using in-depth interviews to obtain meaningful information from participating employers. A total of 20 case study interviews were conducted. The sample of employers for the study comprised those in the private sector and research foundations who have historically recruited non-EEA migrants through Tier 2 and who were most likely to have had to change their practices in the light of changes to the rules relating to non-EEA migrants working in the UK. This was due to either having their Certificate of Sponsorship (CoS) allowance cut significantly in relative terms and/or because of having a significantly high CoS allowance which may be impacted by future reductions/changes.

The population of CoS are those firms who are licensed and fully active on the Tier 2 sponsor register. Table 2.1 shows that over the period 2009 to 2011 there were over 6,000 sponsors in Tier 2 (General). This is the sub-population of interest. Tier 2 (General) accounts for over 70 per cent of all Tier 2 CoS.

Table 2.1 Tier 2 CoS by category, 2009 to 2011.

<table>
<thead>
<tr>
<th>Status</th>
<th>Sub-tier</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed and Fully Active</td>
<td>Minister of Religion</td>
<td>410</td>
<td>521</td>
<td>465</td>
</tr>
<tr>
<td></td>
<td>Elite Sportsperson</td>
<td>159</td>
<td>160</td>
<td>155</td>
</tr>
<tr>
<td>General</td>
<td></td>
<td>6,348</td>
<td>6,150</td>
<td>6,584</td>
</tr>
<tr>
<td>Intra Company Transfer</td>
<td></td>
<td>2,246</td>
<td>2,474</td>
<td>2,722</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8,390</td>
<td>8,631</td>
<td>8,974</td>
</tr>
</tbody>
</table>

Table 2.2 demonstrates the distribution by size of firms that were licensed and fully active sponsors in 2011. One third of these are small organisations with between 10 and 50 employees and just under half of all firms were either large or medium sized firms.

Table 2.2 Tier 2 CoS by firm size, 2011

<table>
<thead>
<tr>
<th>Organisation Size</th>
<th>Sponsors</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large organisation (251+ employees)</td>
<td>1,756</td>
<td>27</td>
</tr>
<tr>
<td>Medium organisation (51-250 employees)</td>
<td>1,348</td>
<td>20</td>
</tr>
<tr>
<td>Small organisation (10-50 employees)</td>
<td>2,239</td>
<td>34</td>
</tr>
<tr>
<td>Micro organisation (0-9 employees)</td>
<td>1,241</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>6,584</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 2.3 indicates the distribution of licensed and fully active sponsors by industry sector (using the Standard Industrial Classification, 2007).
Table 2.3  Tier 2 Sponsors by industry sector, 2011.

<table>
<thead>
<tr>
<th>Section</th>
<th>Standard Industrial Classification, 2007</th>
<th>No.</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, Fisheries and Forestry</td>
<td>&lt;50</td>
<td>0%</td>
</tr>
<tr>
<td>B</td>
<td>Mining &amp; Quarrying</td>
<td>&lt;50</td>
<td>0%</td>
</tr>
<tr>
<td>C</td>
<td>Manufacturing</td>
<td>526</td>
<td>8%</td>
</tr>
<tr>
<td>D</td>
<td>Electricity and Gas Supply</td>
<td>&lt;50</td>
<td>1%</td>
</tr>
<tr>
<td>E</td>
<td>Water Supply</td>
<td>&lt;50</td>
<td>0%</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>113</td>
<td>2%</td>
</tr>
<tr>
<td>G</td>
<td>Retail and Wholesale</td>
<td>287</td>
<td>4%</td>
</tr>
<tr>
<td>H</td>
<td>Transportation and Storage</td>
<td>71</td>
<td>1%</td>
</tr>
<tr>
<td>I</td>
<td>Accommodation and Food</td>
<td>982</td>
<td>15%</td>
</tr>
<tr>
<td>J</td>
<td>Information and Communication</td>
<td>747</td>
<td>11%</td>
</tr>
<tr>
<td>K</td>
<td>Financial and Insurance</td>
<td>514</td>
<td>8%</td>
</tr>
<tr>
<td>L</td>
<td>Real Estate</td>
<td>&lt;50</td>
<td>1%</td>
</tr>
<tr>
<td>M</td>
<td>Professional, Scientific and Technical</td>
<td>990</td>
<td>15%</td>
</tr>
<tr>
<td>N</td>
<td>Administrative and Support Services</td>
<td>221</td>
<td>3%</td>
</tr>
<tr>
<td>O</td>
<td>Public Administration and Defence</td>
<td>72</td>
<td>1%</td>
</tr>
<tr>
<td>P</td>
<td>Education</td>
<td>613</td>
<td>9%</td>
</tr>
<tr>
<td>Q</td>
<td>Health and Social Work</td>
<td>1,002</td>
<td>15%</td>
</tr>
<tr>
<td>R</td>
<td>Arts, Entertainment and Recreation</td>
<td>241</td>
<td>4%</td>
</tr>
<tr>
<td>S</td>
<td>Other Personal</td>
<td>60</td>
<td>1%</td>
</tr>
<tr>
<td>T</td>
<td>Household Service Activities</td>
<td>&lt;50</td>
<td>0%</td>
</tr>
<tr>
<td>U</td>
<td>Activities Extra Territorial Organisations</td>
<td>&lt;50</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6,584</td>
<td></td>
</tr>
</tbody>
</table>
The sample of employers to be contacted was supplied by the UKBA focussing on sectors of particular interest to BIS. These were:

- Finance and Business
- Manufacturing and Engineering
- Science
- Other (private) sectors

The structure of the sample provided in comparison to that of the completed employer case studies is shown in Table 2.4. The sample of employers which participated in the study differs from the sample provided by the UKBA insofar as the former contains proportionately more manufacturing and engineering firms and fewer finance and business employers. The main reason for these differences is that rather than being recruited specifically to take part respondents were invited to opt in to the study.

Table 2.4: Sample of employers

<table>
<thead>
<tr>
<th>Code</th>
<th>Sector</th>
<th>Sample provided</th>
<th>Case Study Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FB</td>
<td>Finance and Business</td>
<td>37%</td>
<td>25%</td>
</tr>
<tr>
<td>ME</td>
<td>Manufacturing and Engineering</td>
<td>18%</td>
<td>40%</td>
</tr>
<tr>
<td>SC</td>
<td>Science and science related activities</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>OT</td>
<td>Other</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Number of employers (n)</td>
<td>413</td>
<td>20</td>
</tr>
</tbody>
</table>

The characteristics of the companies which participated in the study are listed in Table 2.5. In addition, information is provided about the occupational focus of the case studies. In most instances this relates to the recruitment of professionals qualified to degree level. The sample of employers also includes examples of occupations which fall under the skilled trades category (that is, chefs and craft engineers) where people have typically completed an apprenticeship to gain entry to the occupation.

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7 In Table 2.1 the case study establishments are categorised according to their major activities as discussed at the interview, which in some cases led to a categorisation by sector which differed from that coded on the sample provided.
Table 2.5: Details about sample of employers participating in the study

<table>
<thead>
<tr>
<th>Case No</th>
<th>Organisation</th>
<th>Occupational Focus of study</th>
</tr>
</thead>
<tbody>
<tr>
<td>FB1</td>
<td>Finance Company</td>
<td>Finance experts/brokers</td>
</tr>
<tr>
<td>FB2</td>
<td>Finance Company</td>
<td>Finance experts/brokers</td>
</tr>
<tr>
<td>FB3</td>
<td>Finance Company</td>
<td>Brokers</td>
</tr>
<tr>
<td>FB4</td>
<td>Business Services Company</td>
<td>Professionals (various, degree level)</td>
</tr>
<tr>
<td>FB5</td>
<td>Finance Company</td>
<td>Finance experts/brokers</td>
</tr>
<tr>
<td>ME1</td>
<td>Engineering Company</td>
<td>Professional engineers</td>
</tr>
<tr>
<td>ME2</td>
<td>Engineering/IT company</td>
<td>Engineers/IT specialists</td>
</tr>
<tr>
<td>ME3</td>
<td>Engineering/Telecommunications</td>
<td>Sales and marketing professionals</td>
</tr>
<tr>
<td>ME4</td>
<td>Aerospace Engineering</td>
<td>Skilled trades engineers</td>
</tr>
<tr>
<td>ME5</td>
<td>Engineering</td>
<td>Engineering professionals</td>
</tr>
<tr>
<td>ME6</td>
<td>Engineering</td>
<td>Engineering professionals</td>
</tr>
<tr>
<td>ME7</td>
<td>Engineering Services</td>
<td>Professional engineers/scientists</td>
</tr>
<tr>
<td>ME8</td>
<td>Engineering/Energy Company</td>
<td>Professional engineers</td>
</tr>
<tr>
<td>SC1</td>
<td>R&amp;D establishment</td>
<td>Professional scientists</td>
</tr>
<tr>
<td>SC2</td>
<td>R&amp;D establishment</td>
<td>Professional scientists</td>
</tr>
<tr>
<td>OT1</td>
<td>Hospitality Company</td>
<td>Chefs and restaurant managers</td>
</tr>
<tr>
<td>OT2</td>
<td>Hospitality company</td>
<td>Chefs</td>
</tr>
<tr>
<td>OT3</td>
<td>Hospitality company</td>
<td>Chefs</td>
</tr>
<tr>
<td>OT4</td>
<td>Education Establishment</td>
<td>Specialist teachers</td>
</tr>
<tr>
<td>OT5</td>
<td>Environmental Services Company</td>
<td>Landscape architects</td>
</tr>
</tbody>
</table>

Employers agreeing to participate were interviewed face-to-face by a member of the IFF and IER research team using a semi-structured interview schedule. Interviewees were senior HR staff (or those responsible for recruitment) and other staff as considered necessary by the organisation because of the impact of migration policy changes on their roles. Employers were also asked to provide a range of cost estimates, as one of the aims of the study was to capture information about the monetary costs. The semi-structured interview schedule and spreadsheet are reproduced in Appendix I and Appendix II, respectively.

The study is based on a small number of observations (n=20). This means that it is not appropriate to quantify the findings from the study. The results should not be regarded as a representative and definitive account of how employers responded to the changes in the rules governing the recruitment of employees from outside the

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8 Some HR staff had responsibility for recruitment at one site only, while others had responsibility for two or more sites.
9 One option would have been to ask respondents for a ‘headline’ cost to their organisation of migration policy. In order to identify separate cost components the spreadsheet itemised different costs in detail.
EEA. Instead, the findings provide useful insight into how employers may be responding to these changes.
3. Employers’ response to rule changes

3.1 Introduction

This chapter considers how migration policy changes affected employers' recruitment behaviour and the performance of their business. Although the next chapter looks at the costs borne by employers in adapting to the rule changes in more detail, examples of non-monetised costs are also discussed in this chapter.

All of the case study employers had a record of recruiting people from outside the UK, principally through Tier 2 (General), but at least half of case study employers also reported that they had recruited people with post-study rights to be in the UK and/or migrants under Tier 1 (General).

All the employers interviewed provided an account of how they had adapted their recruitment activities in relation to the rule changes and indicated how it had affected the performance of their organisation. Employers tended to talk about recruitment from outside the EEA in general and the costs this imposed on them rather than in relation to the specific rule changes which formed the focus of this study. This reflects the difficulty that many interviewees faced in isolating the impact of the specific rule changes in the context of facing a broader array of migration policy changes (see also the discussion in Chapter 4). The reader needs to bear this in mind when considering the findings presented below.

The study took place during November to December of 2012 which was a period of generally weak demand for goods and services in the UK economy. Even though employment levels have held up better than might have been expected since the economic crisis of 2008 given trends in output,10 one might expect relatively weak recruitment demand from employers such that migration policy changes might have had limited impact.

The evidence overall reveals that some of the case study establishments were experiencing an increase in their demand for labour, and others reported that recruitment had, over recent years, been relatively stable rather than declining. Accordingly, several case study employers felt that they had weathered the economic downturn fairly well. In some cases recruitment had declined as staff turnover had reduced. Should economic conditions improve it seems reasonable to speculate (as some employers interviewed did) that their demand for labour might well increase and the impact of migration policy changes may be different to those reported.

Some employers mentioned that the impact of weak market conditions resulted in recruitment criteria being more exacting – the company wanted to be surer than before that someone they took on was a perfect fit with the business. These more exacting recruitment criteria applied to both recruits from within and beyond the EEA.

3.2 Recruitment Behaviour of Employers Participating in the Study

The employment characteristics of employers participating in the study are presented below in Table 2.1. It reveals that employees recruited from outside the EEA comprise a substantial percentage of all employees in some companies and, similarly, a substantial share of their recruitment over the past 12 months. There are also several large companies in the sample where non-EEA workers comprise a relatively small share of their overall employment though numerically the numbers employed are relatively large. This is true of their recruitment activities as well.

The main route through which people outside the EEA are recruited is through the Resident Labour Market Test (RLMT) though there are a few examples of people being recruited through the skilled occupation list (SOL) route as well. In some cases employers were recruiting through both routes. Table 3.1 indicates the principal recruitment route used by the employers.

No marked differences between sectors are evident.
<table>
<thead>
<tr>
<th>Case N°</th>
<th>Organisation</th>
<th>Total number of employees in the UK</th>
<th>% of employees from outside the EEA (rounded)</th>
<th>Number of skilled people recruited in last 12 months</th>
<th>% recruited from outside EEA (rounded)</th>
<th>Main route used to recruit non-EEA people</th>
</tr>
</thead>
<tbody>
<tr>
<td>FB1</td>
<td>Financial consultancy</td>
<td>120</td>
<td>25</td>
<td>37</td>
<td>40</td>
<td>Moved to Tier 5</td>
</tr>
<tr>
<td>FB2</td>
<td>Finance Company</td>
<td>35,000</td>
<td>5</td>
<td>200</td>
<td>Not known</td>
<td>RLMT</td>
</tr>
<tr>
<td>FB3</td>
<td>Finance Company</td>
<td>1,500</td>
<td>5</td>
<td>150</td>
<td>10</td>
<td>Not reported</td>
</tr>
<tr>
<td>FB4</td>
<td>Business Services Company</td>
<td>6,000</td>
<td>Not known</td>
<td>1,000</td>
<td>Not known</td>
<td>RLMT and SOL</td>
</tr>
<tr>
<td>FB5</td>
<td>Finance Company</td>
<td>95,000</td>
<td>1</td>
<td>8,000</td>
<td>5</td>
<td>RLMT (plus some right to work)</td>
</tr>
<tr>
<td>ME1</td>
<td>Engineering Company</td>
<td>360</td>
<td>15</td>
<td>70-80</td>
<td>30</td>
<td>RLMT</td>
</tr>
<tr>
<td>ME2</td>
<td>Engineering / IT company</td>
<td>1,000</td>
<td>10</td>
<td>400</td>
<td>10</td>
<td>RLMT</td>
</tr>
<tr>
<td>ME3</td>
<td>Engineering / Telecommunications</td>
<td>8,000</td>
<td>10</td>
<td>1000</td>
<td>10</td>
<td>RLMT (but also used ICTs)</td>
</tr>
<tr>
<td>ME4</td>
<td>Engineering</td>
<td>365</td>
<td>10</td>
<td>24 (over 6 months)</td>
<td>30</td>
<td>RLMT</td>
</tr>
<tr>
<td>ME5</td>
<td>Engineering</td>
<td>500</td>
<td>5</td>
<td>176</td>
<td>(1 person recruited from outside company)</td>
<td>RMLT (but also used ICTs in four cases)</td>
</tr>
<tr>
<td>ME6</td>
<td>Engineering</td>
<td>45</td>
<td>90</td>
<td>22</td>
<td>90</td>
<td>RLMT and SOL</td>
</tr>
<tr>
<td>ME7</td>
<td>Engineering Services</td>
<td>7</td>
<td>30</td>
<td>1</td>
<td>100</td>
<td>RLMT</td>
</tr>
<tr>
<td>ME8</td>
<td>Engineering / Energy Company</td>
<td>15,000</td>
<td>Not known</td>
<td>530 a month currently</td>
<td>Not known</td>
<td>SOL</td>
</tr>
<tr>
<td>SC1</td>
<td>R&amp;D establishment</td>
<td>1,100</td>
<td>10</td>
<td>20-30</td>
<td>Not known</td>
<td>RLMT</td>
</tr>
<tr>
<td>SC2</td>
<td>R&amp;D establishment</td>
<td>6,000</td>
<td>Not known</td>
<td>500</td>
<td>Not known</td>
<td>SOL</td>
</tr>
</tbody>
</table>
Table 3.1 (continued): Details about participating employers and their recruitment behaviour over last 12 months

<table>
<thead>
<tr>
<th>Case No.</th>
<th>Organisation</th>
<th>Total number of employees in the UK</th>
<th>% of employees from outside the EEA (rounded)</th>
<th>Number of skilled people recruited in last 12 months</th>
<th>% recruited from outside EEA (rounded)</th>
<th>Main route used to recruit non-EEA people</th>
</tr>
</thead>
<tbody>
<tr>
<td>OT1</td>
<td>Hospitality Company</td>
<td>300</td>
<td>20</td>
<td>15</td>
<td>80</td>
<td>RLMT</td>
</tr>
<tr>
<td>OT2</td>
<td>Hospitality company</td>
<td>10,000</td>
<td>30</td>
<td>400</td>
<td>40</td>
<td>RLMT / SOL</td>
</tr>
<tr>
<td>OT3</td>
<td>Hospitality company</td>
<td>1,000</td>
<td>10</td>
<td>30 - 40</td>
<td>20</td>
<td>SOL, but salary level too high to use this now</td>
</tr>
<tr>
<td>OT4</td>
<td>Education Establishment</td>
<td>226</td>
<td>30</td>
<td>15</td>
<td>30</td>
<td>RLMT</td>
</tr>
<tr>
<td>OT5</td>
<td>Environmental Services Company</td>
<td>25</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>Have used RLMT in past</td>
</tr>
</tbody>
</table>
3.3 Reasons for Recruiting Outside of the EEA

With respect to the skills employers involved in the case studies were looking for, they fell into three broad groups:

- employers looking to recruit experts in their field where the domestic supply within that field was limited (for example, scientists who were expert in a particular specialism and where there were relatively few people working in that specialism worldwide, let alone within the EEA);

- employers looking for a particular skill amongst a bundle of more general skills. The skill sought may not be particularly high level but for a number of reasons may be relatively scarce within the EEA because it is not ‘produced’ in any sizable volume (for example, speaking a Far Eastern language, or being skilled in several vintages of a particular technology; or having experience of a non-EEA country-specific institutional system);

- employers looking for fairly general skills – software engineers, design engineers, chefs, etc. – which they reported as not being able to fill from either the UK or EEA workforce. Nevertheless, these are skills which are generally produced within the UK and EEA, but in insufficient numbers, at the quality and level of proficiency required, to meet demand.

The example below is illustrative of the type of employer which was looking for relatively scarce skills (see Case Study FB1).

**Employer Case Study No.FB1: International Finance Organisation**

The organisation advises on financial matters to countries across the world. It has 120 employees drawn from 30 countries. The company needs people who are expert in the financial regulations in a particular country or region. It needs to recruit people from that region or country. This was succinctly put by the respondent:

“No amount of training will ever make somebody from John O’Groats or wherever representative of [financiers] in Brazil, Russia or Kathmandu. We need people because it is where they come from not just because of a certain level of skill. We need both.”

The respondent went on to say that they needed to recruit from beyond the UK because it is a global organisation and needs to be perceived as such.

“For us it was mission critical because if we couldn’t bring people in then it would fundamentally affect the way we were perceived as an organisation. If we were only able to staff the place with people from Europe or worse just the UK, we would be seen to be not a global body but just European. That would have fundamentally flawed the nature of our work.”

The two case studies of scientific establishments also said that they were looking for highly specialist staff. In some instances there might be a relatively small pool of people across the world from which to recruit. Sometimes a particular country may, for one reason or another, specialise in a given branch of science, consequently recruitment would be focussed on that country. Because some of the scientists were relatively young, perhaps having just completed their doctoral studies, the salaries they could command were not always large, which could make it difficult for them to
qualify through the PBS system. Yet the organisations concerned were keen to recruit such talent.

An example of a company which was looking for specific, scarce skills within a bundle of other skills is presented below (see Case Study ME2). Employers often require what has been referred to hybrid skills; that is, a specific mix of technical skills coupled with a range of generic skills such as being fluent in another language. Depending upon the particular combination of skills required it can prove difficult to find suitable applicants for a vacancy, as the example below illustrates.

**Employer Case Study No. ME2: Foreign Owned Multinational Engineering Company**

The employer was a large multinational engineering firm with around a quarter of a million staff spread across the world with around 500 in the UK.

Its principal recruitment need was for skilled telecommunications engineers, many of which it could locate within the EEA. But it also had a need for people to be proficient in the language of the parent company which was outside the EEA. This was required in order to facilitate communication between the UK sites and the parent company's sites in its country of origin. It was considered particularly important for people in the two countries to be able to liaise with one another. Hence the UK company's demand was for people with a particular foreign language capability; one which was not commonly found in either the UK or the EEA more generally. Over the past year it had recruited eight people who were native speakers of the language.

Another example of specific skills requirements that proved difficult to satisfy from the UK or EEA workforce is provided in Case Study OT4:

**Employer Case Study No. OT4: Educational establishment**

The establishment served the families of migrant workers, teaching a non-UK curriculum for non-UK formal examinations. To deliver teaching in certain subjects for these specific examinations required teachers with a minimum of two years’ teaching experience in that non-UK country. While teachers with subject expertise existed in the UK and EEA, there were relatively few that could meet the necessary non-UK country-specific teaching experience requirement: “skills are no different, just different experience”. Ideally, the establishment would have recruited UK residents - and in doing so would have saved on accommodation costs.

The third type of company which sought to recruit outside of the EEA is where the skills required are available with the UK or the EEA but not at the quality required. The example below of an Indian restaurant chain exemplifies this situation (see Case Study OT2).
Employer Case Study No.OT2: Hospitality Company

The employer said that it was possible to find chefs in the EEA and train them to become competent chefs in Indian cuisine but they tended not to be of a comparable quality to those who could be recruited from India. The respondent commented:

“Indian chefs have a three year degree in cooking and five to ten years’ experience before they even come here to work as a sous chef. Although there have been some success stories with UK staff training up many never get to the level we require. Also many UK [hospitality] graduates move into fine dining. Whilst there is a small level of creativity we ask them to cook what we tell them to cook.”

Where the company had recruited from within the EEA this had not always been successful. Because the EEA based chefs tend not be of a comparable quality to the company’s existing chefs – many of whom are recruited directly from India – it tends to unsettle working relationships in the kitchen.

With respect to categories ii) and iii) It was apparent that the employers interviewed had, over time, identified where there were relatively plentiful pools of labour outside the EEA from which they could recruit. In the case of (i) there was a general view that there were no alternative means of developing the skills required within the UK or the EEA; indeed the supply of people with the skills sought was so limited that even the worldwide pool of labour was relatively small.

In the cases of (ii) and (iii) some (but not all) employers had sought to improve more local skills supply by providing initial vocational education and training to new recruits (e.g. apprenticeships or graduate traineeships) or developing relationships with the HE sector in order to improve the supply of graduates (especially for those with engineering or IT skills). But there was a sense in which they could not develop these sources fast enough, and / or were not sufficiently confident about retaining trained staff, so they sought labour from outside the EEA (especially those countries - notably India - where individuals were proficient in the English language). Hence, there was a sense that this was a medium-/long-term response to a structural problem of a lack of qualified engineers. As one interviewee from an engineering/energy company remarked:

“The problem is there is not enough [specialist engineering graduates] in the UK. That is the long and short. It is a numbers game. … It is the case that we don’t have enough [specialist engineers] in the UK so we are having to pull in extra. … We don’t have the source and feed in the UK.”

[Employer Case Study No.ME8]

Another employer seeking engineers had undertaken more training with existing staff, but this was seen as providing only a partial solution:

“… there are not enough [employees suitable for training] … even at exit interviews they have referenced that they were lacking that deep expertise [required to do the role] and they need that coaching and mentoring ….”

[Employer Case Study No.ME1]

Yet another employer wanting skilled engineers (Case Study ME3) had used non-EEA staff with technical experience to upskill the EEA staff. This solution was
favoured over use of subcontractors (except as a last resort) because the latter was expensive and was likened to "crisis management".

Other employers in categories (i) and (ii) were of the view that they wanted to recruit from the top five or 10 per cent of people in their field. This was, for example, a comment made in the financial and telecommunications sectors. In an industry which operated in a global market they wanted to be able to recruit what they considered to be the very best and this required them to search worldwide for the skills they needed. In such circumstances it is salient to note that it is not easy to distinguish between a genuine skills shortage and a desire by the employer to find the very best people.

In one instance the requirement to search globally was not prompted by a need for ‘top’ skills but rather by a desire to have a diverse workforce as a global business operating in a range of markets internationally:

"The whole point of growing a business is to have a number of skilled nationalities and cultural backgrounds – we are a global business. We like to have varied teams."

[Employer Case Study No.FB4]

3.4 Initial Responses to Rule Changes

As the previous section has demonstrated, all the case study employers considered that they had a robust business rationale for recruiting people from outside of the EEA. With the introduction of the PBS in 2008 and the subsequent rule changes in April 2011 which are the focus of this study, employers were obliged to review their recruitment practices to ensure their compliance with the new regulations. Most of the case study employers had been aware that the rule changes were about to take place and had planned ahead of their introduction, but there were a few who were caught unawares. For example, recruiters at Case Study Employer No.OT3, for example, were about to depart for East Asia where they were hosting a number of recruitment events in order to attract chefs into their employment. They promptly cancelled the visit because the people they would have been recruiting would not have satisfied the Tier 2 skilled worker criteria for entry to the UK.

In general, the reaction of employers to the rule changes ranged from them finding changes irksome to their being business critical. In the former instance the employers interviewed felt they could accommodate the changes without their recruitment practices being unduly affected, though they faced an additional administrative burden. The latter instance applied to a small number of cases where the employer felt that they would be denied access to the skills essential to their business model.

Although most of the case study employers were critical of the rule changes which had been introduced and about the message that they gave to potential non-EEA employees at skilled and highly skilled levels about working in the UK, they nevertheless recognised that the Government needed to control the overall flow of migrants into the UK.
Once the rules changes were announced the immediate responses of employers included:

- engaging in lobbying of the UKBA and Government regarding what they considered to be the unintended consequences of the actual rule changes following their introduction;¹¹
- considering how they could amend their existing recruitment practices in order to remain compliant with the regulations;
- deciding to continue with existing recruitment practices because they were confident that these met the changed criteria.

Where firms lobbied for what they considered to be their exceptional position to be recognised in the new regulations, this tended to be where their business model was dependent upon being able to recruit from outside the EEA. Case Study Employer No.FB1, for example, recruited from a small pool of global experts with knowledge of financial standards. If it could not recruit the requisite experts then its reason for being was effectively being challenged. After discussion with the UKBA it became apparent that it could recruit the people it needed through Tier 5. Similarly, Case Study No.SC2 needed to recruit specialist scientists who were not on the SOL but was able to agree with the UKBA how it could more expeditiously bring to the UK the type of scientists who were not available in the UK. For most of the employers interviewed, however, it was the case of ensuring that their existing practices complied with the new regulations and making changes as necessary. An example of how one employer made changes in response to the rule changes is provided by Case Study Employer No.FB4.

**Employer Case Study No.FB4: Business Services Company**

The employer was “very aware” of the rule changes because of attendance at UKBA seminars, receipt of information through trade associations and through engagement of specialist immigration lawyers. The changes to the migration rules had forced the company to be “more cautious when we hire” and the internal business case rationale for recruitment had been tightened: “The changes really taught us to look at our strategy and how we focused on immigration.” The company had kept COSs increasingly for “more junior staff”. In some instances greater use was made of the ICT route also: “If we know the employee is not going to make the UK their permanent residence then we go for the ICT route to get them in quicker. We have a process in place with our immigration lawyers to drill down and find out what the best route of recruitment would be.”

By taking this more cautious approach to recruitment the company had continued to recruit from outside the EEA.

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¹¹ Some respondents reported also that they had expressed views routinely on migration policy changes in MAC consultations.
3.5 Impact of Rule Changes on Business

The employers interviewed reported the following types of impact on their businesses resulting from the implementation of the rule changes:

1. General impact on their business
   • the flexibility with which employers could address their skill needs had been reduced

2. Immediate impacts on meeting skill needs through changing recruitment and training practices
   • switching recruitment to within the EEA
   • looking to develop skills within the business through training
   • assessing how ICTs might offset some impact of rule changes
   • identifying how to mitigate the impact of rule changes which might affect existing staff recruited under the previous system

3. Other immediate impacts
   • delays in conducting business
   • lost business opportunities
   • difficulties maintaining quality standards
   • needing to manage an increased administrative burden

4. Longer-term impacts
   • consideration given to relocation of business
   • contemplating moving certain functions of the business dependent upon migrant workers to parts of the EEA where recruitment of people from outside of EEA was considered easier
   • possible outsourcing of some activities

Table 3.2 shows the pattern of impacts for each of the case study employers.
## Table 3.2: Details about the business impact of rule changes on case study employers

<table>
<thead>
<tr>
<th>Case Study</th>
<th>General</th>
<th>Immediate recruitment/skills impacts</th>
<th>Other immediate impacts</th>
<th>Longer-term impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduction of flexibility to address skill needs</td>
<td>Switching to recruitment to EEA</td>
<td>Training within business for skills</td>
<td>Mitigation of impact on existing staff</td>
</tr>
<tr>
<td>FB1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FB2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FB3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FB4</td>
<td>1</td>
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<td>FB5</td>
<td>1</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>ME1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>ME2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>ME3</td>
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<td>1</td>
<td>1</td>
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<td>ME4</td>
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<td>1</td>
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<td>ME5</td>
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<td>ME6</td>
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<td>ME7</td>
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<td>ME8</td>
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<td>1</td>
</tr>
<tr>
<td>SC1</td>
<td>1</td>
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</tr>
<tr>
<td>SC2</td>
<td>1</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>OT1</td>
<td>1</td>
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<td>OT5</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>5</td>
<td>7</td>
<td>6</td>
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</tbody>
</table>
Nearly all of the case study employers reported that the changes reduced the flexibility with which they could satisfy their skill needs. Most of the case study employers reported that they experienced an immediate impact upon their recruitment and training practices. Many reported other immediate impacts; with the most frequently cited impact being that of facing an increased administrative burden in dealing with changes in migration rules. All of the respondents from Manufacturing and Engineering and the Science and Science related sectors reported this to be the case. A relatively small share of case study employers reported longer-term impacts. These were from the Financial and Business Services and Manufacturing and Engineering sectors, but accounted for a minority of case study employers from these sectors.

With reference to flexibility of recruitment, among some of the multinational corporations this was articulated with reference to them operating in several countries which requires them to possess the skills allowing them to operate in those countries. This necessitated them being able to recruit to their UK office – which was sometimes the head office – people from anywhere in the world who possessed the skills they sought. Some employers wanted to recruit people able to speak the language of the non-EEA country in which they were doing business who also possessed the range of technical skills they were looking for (for example, Information and Computing Technology skills). It was very much the flexibility with which they were able to satisfy their skill needs which companies highly prized and which the implementation of the new rules was thought to reduce. It is possible that in some cases that non-EEA labour is cheaper than resident labour and in such cases cost minimisation might also be a factor, but information is not available from the case studies on this point.

In some respects the employers interviewed wanted the flexibility to recruit who they considered to be the best in their field, in order that they could be 100 per cent productive from the outset. This was expressed by a telecommunication engineering multinational in the following terms:

“There has been a change in focus … employers have become more demanding about what they are recruiting for. There are lots and lots of very talented people out there so the expectation the employer has of them is even higher than before. The pressure from the recession and the pressure from changes, particularly if you have to go through processes to recruit, means you are much more challenging about making sure you have a 105 per cent fit rather than 85 per cent and let’s see how they work out … each year [customers and businesses] want a better [product] and better delivery but want to spend less than last year … roles are becoming bigger and the pressures becoming larger … we are less tolerant of giving people time to adapt and come up to speed ….”

[Employer Case Study No.ME3]

Related to the flexibility factor, it was also apparent that the employers interviewed had become accustomed to filling their vacancies in a certain way. At Employer Case Study No.ME6, a small engineering consultancy, the company wanted experienced graduate level electrical and mechanical engineers and was looking towards collaborative working with UK universities in the future in order to build a supplementary supply of labour.
**Employer Case Study No.ME6: Engineering professionals**

The employer had, for historical reasons, tended to recruit in India via personal and client networks because this had yielded a plentiful supply of high quality engineers with the client-specific skills and experience the company required; the opportunity to work in the UK was attractive for the non-EEA employees who gained on-site expertise with high profile engineering companies through project-based consultancy. The change in the migration rules had resulted in the company finding it increasingly difficult and time consuming to recruit the employees with experience that it wanted to meet its short-term needs at a time of business growth, highlighting the increasing bureaucracy and delays in recruiting non-EEA employees, so placing an additional workload on existing employees, while citing a lack of interest from UK graduates, who were considered to prefer working for larger companies.

Looking to the future, the company was seeking collaboration with selected universities, in order to explore possibilities for collaborative project work, and raise the profile of what working for a small company might offer for engineering graduates. This was seen as a medium-term solution, rather than a short-term one.

**3.6 Impact on Recruitment Behaviour**

Some companies recognised that they would no longer be able to recruit from outside the EEA in the same way as before. This was true for all the employers which had recruited skilled trades workers from outside the EEA (that is, those qualified at NQF Level 3), but some other employers mentioned this too in relation to the recruitment of more highly qualified staff who were no longer on the skill shortage list. Where employers had been recruiting skilled trades workers – the examples in the study are technicians linked to the aerospace industry and chefs – they accepted that they would no longer be able to do this (or at least on the same scale as previously).

In relation to chefs the main problem related to the salaries which were paid. If potential non-EEA recruits were to be successful in their application to work in the UK, then the employer would need to pay them more than they were currently paying their existing chefs in the UK and at a level which the employer thought could not be supported in the business. Accordingly, the employer had decided to rearrange the organisation of the business. Instead of having highly trained chefs experienced in preparing Indian cuisine the company would prepare more food centrally – using its cadre of experienced senior chefs – and then transport this to its restaurants where less experienced chefs would prepare it for service. The costs of this approach related to the quality and range of meals being served to its customers, and the problem of retaining its better chefs in its restaurants who may grow disillusioned at the prospect of cooking meals which have been put together by another chef. The company would look to train chefs taken on at a lower level – many of whom had been recruited from outside the UK but in the EEA – but this was a longer term solution to its problems.
The example of the aerospace employer also reveals how employers have changed their recruitment behaviour (see Case Study ME4).

**Employer Case Study No.ME4: Aerospace Engineers**

The company has experienced an increased demand for its services. Historically it had recruited skilled craft workers experienced in aircraft repairs and maintenance from the Far East. But with the changes in the immigration rules it was no longer able to recruit from its traditional source since they were not on the skill shortage list and were not qualified at Level 4, although all were fluent in English. It currently employs 33 people in craft engineering roles from the Far East.

The company was concerned about how it would manage without a supply of people from the Far East. It already had an apprenticeship scheme: “We take on eight apprentices a year … eight across four years so having thirty-two trainees in your business is enough to cope with … we get no funding or assistance towards our apprenticeship which annoys us because we are considered a large organisation and all funding seems to be targeted towards small to medium businesses.” The company thought that it might not be cost-efficient to expand further its apprenticeship programme and, in any case, it would take time for people to attain the standard required. UK graduates were not a substitute for the non-EEA workers either – “When you get a student graduate from the XXXXXXXX foundation degree in aircraft maintenance, you then have to spend another two years training them to get them up to, or not even close to the hand skills of a [person from the Far East]” – and there are restrictions on how much work can be subcontracted.

Some multinational companies had considered the use of ICTs to bring people in to the UK from outside the EEA, but this was thought to be a solution of last resort for two reasons:

1. the company wanted to retain experience and skills in its local offices outside of the EEA; and
2. it was costly to relocate staff.

The case study evidence indicates that employers from the Financial and Business Services sector may be more amenable to this route (see Table 3.2).

Because the case study employers had been recruiting from outside the EEA for a number of years they had existing staff who had been recruited under the previous regulatory regime under Tier 1 (General). They were concerned about whether they would be able to transfer these people over to the new Tier 2 category and about the implication of the cooling off period. As one employer said:

> “When those visas expire and they can’t switch into Tier 2 because they are either not at the level or the employer is deciding they don’t want to switch these people into Tier 2, they are a group who will find it a cold welcome … it has meant we are getting a lot of applications from inside Britain – [previous] Tier 1 candidates who want us to sponsor them … we are trying our best not to recruit them because we want to keep our Tier 2s for roles where we are genuinely going to have to sponsor someone … probably eighty people that impacts on [currently] and for some of them it will be the end of their time here.”

[Employer Case Study No.ME3]

Another employer was also concerned about the loss of the Tier 1 (General) route because of the loss of flexibility that this offered, although the full implications of the loss of this route had yet to be felt:
"Tier 1 was really good for us. We used to recruit a lot of people through Tier 1 because they had the right to live in the UK for a certain number of years and work for anyone – a good way to recruit locally without having to jump through hoops ... we haven't really felt [the impact yet] because the [Tier 1's] are still here and we are moving them slowly. We have only had to use one of our quota. I think it will impact us more next year as their leave to remain runs out."

[Employer Case Study No.ME5]

3.7 Impact on Conducting Business

A problem cited by many case study employers was the delay which is introduced into the recruitment process as a consequence of migration policy regulations. Most respondents found it difficult to distinguish between the impacts of different aspects of migration policy and so it was not always clear to them whether the rule changes which had been introduced resulted in further delays to the recruitment process.

In many cases there was at the outset of the recruitment process a recognition that vacancies would not be filled from within the UK or the EEA. Employers registered their vacancies with Jobcentre Plus, and with another recruitment agency, for the required period of time, but were very much of the view that this would not yield any applicants who satisfied their needs. As one employer reported:

“We have to follow the rules and regulations of the UK Border Agency [when recruiting]. We advertise on Jobcentre Plus and then you have to use another recruiter they recommend. At the moment we use XXXXXXXX. We place these adverts for four weeks and then if we don't have any successful applicants we can start looking at the people from [outside the EEA]... If we can get somebody who, say, already lives here permanently that is great. Number one it saves us money but the most important thing is there is a chance they will stay here longer as well if someone is already settled here."

[Employer Case Study No.OT4]

But the skills which the company needed were so country-specific they knew at the outset that it would be highly unlikely that anyone in the UK would be found with the appropriate skills and experience. Other employers concurred with this view too with one employer referring to the process of advertising in the Jobcentre as an “irrelevance”.

Employers said that in their experience it could take between four and six months to recruit a non-EEA worker. Where employers were able to anticipate vacancies they could begin the recruitment process earlier than they would otherwise do so. But several of the respondents were engaged in project or contract work, and so it was not possible for them to anticipate precisely all of their recruitment needs in advance. First they needed to secure a contract or project and then they could commence the recruitment process. Often the organisation awarding the contract wanted employers to commence the project immediately it was awarded, so requiring skills on a ‘just-in-time’ basis. In order to avoid delays employers needed to provide cover through, for instance, existing employees working overtime (see Case Study ME7). An alternative solution to existing employees working overtime might have been to use contractors, but in this specific case such a solution was not straightforward.
Employer Case Study No. ME7: Engineering Contractors

The company was an engineering consultancy providing environmental services to the defence sector. Its work was awarded on a contract-by-contract basis and all staff needed to have security clearance.

The problem the company faced was that relatively few people in the UK had the security clearance required whereas there was a more plentiful supply elsewhere. It had found that, on average, it took around six months to obtain work permits for people recruited in the USA whereas it could much longer to obtain security clearance in the UK. Accordingly, it found that the relative delay was shorter if it recruited abroad – even though there were UK workers with the requisite skills to undertake the work.

The problem the organisation faced was that its contractors expected it to commence work immediately once the contract was awarded. As a small company – with 40 employees in the UK – this proved to be a struggle and had to rely upon existing employees working overtime.

This type of problem was also mentioned by another small engineering company and one of the science research institutes which was dependent on the award of research contracts. The contract would be awarded and then they would need to recruit someone who was appropriately qualified to fill the vacancy – often someone with relatively scarce skills. In the case of the science institute, this had been delaying the recruitment process by around six months which resulted in the delivery of project to timetable being delayed. The organisation had been able to speed up the recruitment service by paying for an expedited service from the UKBA which cost £25,000 a year.\textsuperscript{12} The small engineering company had to rely on existing staff until new staff members could be recruited. Delays in conducting business were cited by half of the case study respondents from the Manufacturing and Engineering sector.

The case study employers found it difficult to point to business having been lost as a consequence of changes in the rules. It was rather that the rules and the changes to the rules were an inconvenience. But employers could point to a reduction in the quality of the service they provided and the productivity of their workforce. In the example of the case study employers which had been recruiting chefs and restaurant managers, the shift to recruiting EEA based workers was thought to have resulted in the recruitment of people whose skills were of a lower quality than the ones who could have been recruited from outside the EEA. Similarly in the case where skilled trades workers needed to be recruited from within the EEA this had resulted in workers being taken on who were not as skilled and whose productivity was lower. In the cases above the companies were not recruiting people from outside the EEA and were instead training people recruited from within the EEA.

All the employers interviewed pointed to an administrative burden related to: (a) keeping abreast of changes in the regulations; and (b) completing the various forms where permission is sought to recruit from outside of the EEA. The larger companies tended to use in-house expertise in addition to seeking the advice of immigration lawyers where they were unsure of how rules changes would affect their

\textsuperscript{12} This organisation could be recruiting many people every year from outside the EEA so felt the investment was justified
recruitment practices. The smaller organisations often used agencies expert in assisting with dealing with the paperwork – in one example this cost around £500 per applicant – or muddled through as best they could. One of the reasons for externalising the recruitment function related to keeping up to date with changes in the regulations.

3.8 Longer-term Potential Impacts

Some of the employers interviewed reported that there were potential longer-term impacts of not being able to recruit the employees they needed. These included:

- the possibility of relocating to another country where it would be possible to recruit the people the company wanted. This was mentioned by one organisation which had initially faced problems following the rule changes in recruiting the people it needed to make the organisation viable. It had since been able to resolve the recruitment problems it faced through consultations with, and expert advice from, UKBA.

- the possibility that certain functions of the company could be transferred out of the UK to elsewhere in the EU where it was considered easier to recruit the people the company wanted. The multi-national organisations interviewed highlighted that these possibilities were kept under review. Germany was mentioned in a few cases as being a country where it was thought to be easier to recruit migrants from outside the EEA. As two respondents commented:

> “It can take three months from beginning to end … it could be ninety days to immigration approval so you are looking at someone where it might take six months to recruit … We have to be really sure that they are the right candidate … if they get a visa signed off in Germany in three weeks, and we can recruit in Germany that can be a solution.”

[Employer Case Study No.ME7]

> “We are increasingly trying to have one centre for most of Europe. If you look from a UK PLC point of view, one of the risks is that if another European jurisdiction are more favourably inclined to allow certain types of immigration, it can become a perverse incentive to base those teams in places like Germany.”

[Employer Case Study No.ME3]

- outsourcing activities to other companies which might be based outside of the UK (see Case Study ME3). A large multi-national company mentioned that if the immigration system was too complex, they would consider alternative options.
### Employer Case Study No. ME3: Engineering / Telecommunications Company

The company was a large multinational engineering/telecommunications company, which was able to absorb some extra time taken in recruitment and which could afford external legal advice on migration. Yet, in some circumstances of delay in recruitment of people with necessary skills it would consider off-shoring:

“If we needed a specialist technology centre or a skill and we felt that the only way we could get that was to go international and we felt the [UKBA] process would delay it, then that would drive us to push that product or service offshore, maybe indirectly through a supplier. … The risk or the consequences are if it [the UKBA process] becomes too complex, we put those jobs elsewhere.”

As mentioned above these types of impact had not materialised as yet, rather respondents mentioned that they were possibilities if recruitment problems were to adversely affect organisational performance.

## Conclusions

The evidence relating to the impact of the change in regulations points to the following:

- the SOL changes had an impact where employers were looking to recruit skilled trades workers. Employers which had been recruiting experienced chefs from outside the EEA for example no longer felt able do so. In response they had decided to recruit from within the EEA and train staff to the level required. They considered this a sub-optimal solution because they wanted to recruit experienced chefs expert in the preparation of a specific style of cooking;

- for professional and managerial jobs there was less evidence of the changes to the SOL and qualification and earnings thresholds affecting the recruitment of people, though there was the example of expert scientists in the early stages of their careers facing problems obtaining permission to work in the UK because their salaries were relatively low. At least one employer said that it would need to consider whether the overall cost of recruiting someone from outside the EEA was value for money and whether they might need to consider looking to recruit from within the EEA and provide workforce development;

- the impact of changes in regulations appears to have been felt particularly by respondents from Manufacturing and Engineering. Issues here included a shortfall in a supply of professional engineers in the UK – with training as a partial or medium-term solution, delays in recruitment, and particular issues of coping with such delays when the business model was based on contracting for project work.

- there was no evidence of the English language requirement inhibiting employer recruitment behaviour as all employers in the case studies required their employees to be fluent in English.
It was apparent that in some instances the employers interviewed had become accustomed to recruiting in a certain way because this worked for them and, accordingly, they were reluctant to move away from that model. To some extent the rule changes had in certain instances forced them to reconsider whether this was the most effective means of meeting their recruitment needs and to reconsider their rationale for recruitment more generally. There was also evidence that recruiting from outside the EEA had allowed them to offset insufficient supply from their own initial vocational education and training systems. Again the rule changes had in one case limited the capacity of the company to do this. In other cases, employers were aware that they were looking for skills which they would be unlikely to find in the UK. The jobs were advertised by Jobcentre Plus and at another recruitment site without any real expectation that the vacancy would be filled. This was thought to add to the employers’ costs because of the time it took to recruit someone from outside the EEA – and the uncertainty attached to whether the recruit would be given permission to work in the UK – and the measures which needed to be put in place where the delayed recruitment resulted in a contract or project starting later than planned. This was a particular problem for smaller companies operating on a consultancy/project basis. But often it was not clear to the respondents whether this was the result of the rule changes rather than the operation of the immigration system as a whole.
4. Estimating the costs of recent rule changes

Most respondents found it extremely difficult to quantify in monetary terms the impact of migration policy changes. In an attempt to aid quantification of costs, the detailed cost spreadsheet itemised possible impacts of migration policy changes and sought to obtain information on the numbers of migrants/other workers involved and additional time spent on tasks. Yet respondents struggled to fill in the detailed cost spreadsheet because they tended not to think in terms of ‘hours spent’ or ‘staff time spent’ on these specific issues. In one instance a respondent indicated that costs associated with migration policy changes would be ‘wrapped up’ in other costs. Many also found it difficult even to provide ‘headline’ costs. This reflects the fact that the respondents tended not to think in terms of ‘costs of migration policy changes’ per se. In practice, the impacts of specific changes in migration policy tend to merge into issues relating to migration policy in general, which in turn form part of the general environment in which the organisations are operating. Within this general environment, migration policy changes tend to merge together with changes in the economic environment and organisation-specific issues, rather than being compartmentalised into separable quantifiable elements.

Where information was provided about the costs these most often related to the costs of keeping abreast of rule changes and the costs of form filling. An international financial organisation – Employer Case Study No.FB1 – said that the cost of staff time spent keeping up to date with the regulations was around £1,300 a year, and another company estimated that it was around £2,400 a year (Employer Case Study No.FB3 which was relatively dependent upon meeting its recruitment needs by hiring non-EEA staff). Much larger organisations such as Employer Case Studies No.FB5 and No.SC2 said that they had a dedicated staff for dealing with immigration policy (two and five members of staff respectively), and it was difficult to isolate the amount of time they spent on dealing with the specific migration policy changes at the focus of this study. Most case study organisations agreed that increased expenditure on “making sure we are doing the right thing” (Employer Case Study No.FB2) was justified.

Employers also commissioned specialist companies to manage their recruitment of people from outside the EEA: Employer Case Study No.FB3 had engaged a company which worked out at £200 per applicant, and another company indicated that it was around £500 per applicant (Employer Case Study No.OT2). Other companies which had sought external advice from legal experts on the rule changes indicated annual costs of around £1,000 to £2,500.

One company reported that it needed to spend more on recruitment than it had previously in order to recruit people with the skills it needed. Its recruitment costs had increased by £1,600 for each recruitment (Employer Case Study No.FB4).
Only one employer provided an estimate of lost business due to not being able to recruit people from outside the EEA and being understaffed as a result: a cost of £180,000 to £200,000 was attributed to business lost in the last year (Employer Case Study No. ME6). No evidence was provided to substantiate this estimate. This employer made overtime payments to current staff instead of spending on salaries for skilled migrants from outside the EEA and an additional £10,000 was spent on outsourcing work within the UK.

Whilst employers were uncertain about the costs they faced in managing changes in immigration policy, they were conscious that the rules – not necessarily the latest set of rule changes – caused delays in starting projects which had cost implications. Respondents whose businesses worked on a consultancy basis – for example, providing engineering services – emphasised that clients expected an immediate response. Other respondents also mentioned that in business speed of response was of utmost importance, and hence delays in processing immigrants posed difficulties for businesses. Respondents raised concerns about delays in processing of migrants through the UKBA system. They felt that the time taken in processing migrants and associated bureaucracy impacted on their competitiveness. One organisation had purchased an expedited service from the UKBA in order to accelerate the recruitment process at a cost of £25,000 a year.

Whilst several companies reported that where they were no longer able to recruit non-EEA recruits they had provided training to EEA recruits or existing staff to compensate for this. Only one organisation, Employer Case Study No. OT3, provided a cost for this. It was now spending £10,000 a year more on training than it had been as it now recruited from within the EEA but needed to train them in order to approach the quality of the chefs it had previously recruited from India.

Costs of immigration policy changes were also evident in terms of increased anxiety amongst respondents about whether they were in compliance with the regulations. The relatively frequent changes to migration policy meant that they had to ‘constantly’ refer to UKBA guidance (which was often not considered to be clear), and also to update line managers. Most interviewees reported that the burden of costs had been passed to the employer and the rule changes posed an additional burden for them, as illustrated by a quote from the interviewee at ME8:

“It has just made it harder for myself to make sure that we are doing it right all the time. There have been so many changes and when do you give employers a break? You have gone from responsibility sitting with the UKBA and like many other government bureaus … the responsibility has been [delegated] to the organisation … there will come a point where companies say ‘enough’.

[Employer Case Study No.ME8]

From the case studies it is apparent that changes to migration policy tended to have led to an intensification of work amongst HR personnel. In general this ‘intensification’ was not associated with direct financial costs in terms of overtime, increased salary, etc. For some respondents payment of external advisors was seen as helpful in reducing this burden of anxiety. Respondents from small companies, who did not have dedicated HR departments, indicated that it was especially important for them to have external advice with an understanding of their business, and on whom they could rely.
5. Conclusion

From the case studies there is some evidence of organisations changing their recruitment behaviour in the light of migration policy changes, by recruiting EEA labour and providing training. Typically this was where the rule changes no longer made it cost effective to recruit from outside the EEA because the salary level stipulated in the rules was perceived as too high (this related principally to intermediate level skilled jobs). There were also a few cases where the employer was no longer able to continue to recruit people from outside the EEA in the way they had done in the past.

But in other cases migration policy changes had had less impact on changing recruitment patterns. Often the language, technical and specific qualifications required were such that there were no obvious and/or immediate substitutes for non-EEA migrants. This was the situation, for instance in the following cases:

- an organisation with its headquarters outside the EEA and where personnel were required to have the language skills to liaise with head office;
- a school where teachers needed experience of a specific non-UK examination system; and
- in financial services organisations where specific language / cultural / market knowledge was a central requirement of the business.

There was also evidence that where employers reported that their underlying business rationale was threatened by the immigration rules – as was reported at Employer Case Studies Nos. FB1 and SC2 – employers had successfully lobbied to have their situation addressed by the UKBA, though this had been time consuming for the organisations concerned.

The cost which the employers interviewed could most readily estimate was that of hiring personnel to monitor the immigration rules and hiring organisations to manage the applications to ensure that the applications fully met the UKBA’s stipulations.

Perhaps the biggest costs – which employers were not able to monetise – were those incurred due to the inability to quickly recruit people to fill vacancies. This was a particular problem where organisations were engaged in project or contract work since the employers needed to be sure that they had a new project or contract before they could advertise a vacancy. Once the project or contract was awarded then the client expected work to start more or less immediately, but this posed a problem given the time it would take to recruit someone. This was particularly the case in engineering.

In general, the employers interviewed were talking about six months being added to the recruitment process where they needed to recruit someone from outside the EEA. But it was not clear the extent to which this related to the specific changes to the migration rules which had been introduced, as opposed to other aspects of the
operation of immigration rules as a whole. Where employers knew there would be a
vacancy arising which would in all likelihood need to be filled from someone outside
the EEA, they could start the recruitment process earlier in order to offset the delay,
but it was not always possible to foresee such a vacancy. In general it was easier
for larger companies to start the recruitment process earlier than it was for smaller
ones, given the greater volume of recruitment overall in the former than in the latter
cases and easier absorption of associated costs.

In many respects, the principal problem – and cost – faced by employers were the
limitations imposed on the flexibility with which they managed their businesses.
Several organisations reported that they were ‘global businesses’ in a ‘global
marketplace’ and emphasised the need for a ‘global workforce’ which, for them,
meant being able to recruit whoever they needed from wherever they were available.
The evidence suggests that they were largely able to do this within the rules of
migration policy. There was recognition that other things being equal it was more
cost-effective to recruit someone locally than from a distance, but where it was not
possible to recruit someone from within the EEA it should then be possible to recruit
someone from outside it. But the process of doing so was time consuming and
bureaucratic.

As pointed out above there was limited quantifiable evidence that business had been
lost as a consequence of the rule changes. But some multinationals did indicate that
if it proved too difficult to recruit the people they wanted they might be tempted to
relocate certain functions to areas of the world where it was considered easier to
recruit the talent they wanted. Germany was mentioned by two employers as a
country in the EU where it was thought to be easier to recruit certain skills from
outside the EEA, though it was outside the scope of the study to test the veracity of
such claims.\textsuperscript{13} It should be noted that consideration of moving to where the
immigration rules were less onerous was a largely hypothetical response rather than
being a reflection of businesses’ current policies or plans.

\textsuperscript{13} It is salient to note here that many developed countries are tightening immigration policy.
Appendix I: Topic Guide

Employer Responses to migration policy changes

Topic Guide

Background, introduction and firmographics

Explain purpose of the study: to explore the effects that changes in access to non-European Economic Area (EEA) skilled labour are having on businesses – how they are responding to these changes and what impact it is having on their organisation.

Methodology and logistics:

- 20 employer case studies across number of key sectors
- F2F and expect to last for an hour to an hour and a half
- Cost spreadsheet
- Follow-up telephone interview can be arranged with colleague if required for specific aspects
- Confidentiality
- Obtain permission to record

Firmographic details of company not already known

- Sector
- Size
  - number of employees – UK and worldwide
  - number and location of sites (including extent operate outside the EEA)
- Broad occupational profile of UK employees
  - classification by qualification level, approximate % with, as their highest...
    - post-graduate / MBA etc
    - degree level qualifications
    - level 3 (A level, NVQ level 3, BTECs at Level 3 etc)
    - level 2 (equivalent to 5 GCSE A*-C, NVQ level 2 etc)
- Proportion of current UK workforce that are:
  - UK residents
  - EEA migrants
  - non-EEA Points Based System migrants
In general terms, how important an impact does a migration policy change have on your firm?
   o Why do you say that?

Recruitment practices

Would like to discuss your recruitment practices in the UK in relation to skilled staff.

CHECK / DISCUSS THE EXTENT TO WHICH SINCE EARLY 2011:

- There has been a change in their overall demand for skilled labour e.g. related to economic downturn
- They have experienced a change in their demand for specific skills or specific skilled occupations/roles, e.g. as a result of:
  o Changing nature of work
  o Redefined job roles
  o More/less outsourcing

DISCUSS:

- Numbers of skilled employees typically recruited in the UK per annum in recent years, and in last 12 months
  o Main occupations where recruit skilled employees (generally, and in the last 12 months)
- Key channels used
- Any difficulties regarding recruiting skilled staff?
  o Specific occupations
  o Reasons for any recruitment difficulties
    - What impact has the recession had e.g. lower demand and job losses?
  o Local labour market conditions (inc. graduate market)

Recruitment relating to non-EEA workers

Ask for the total numbers of skilled workers recruited from outside the EEA in the last 12 months

- Can they break this down by the number on/via:
  o ‘shortage occupation list’
  o ‘resident labour market test’
  o Intra company transfers (ICTs)?
INTERVIEWER: EXPLAIN TO RESPONDENT THAT WE ARE NOT INTERESTED IN ICTS FOR REST OF INTERVIEW

Ask for the key occupations where have recruited skilled workers from outside the EEA in the last 12 months

- For each occupation mentioned:
  - Total numbers of non-EEA workers recruited in the last 12 months (how does this compare with number recruited from EEA/UK in that role?)
  - How many employed in the UK in that occupation/role, and how many of these would be non-EEA?
  - How important is it to recruit non-EEA workers to this occupation? Why do you say that? If non-EEA recruits were not available for this occupation what steps would you have to take?
  - How do their performance and skills compare to UK or EEA workers in the same occupation?
  - How strategically important for the company is this occupation / role? Why do you say that?

Why do you recruit from outside the EEA?

SPONTANEOUS RESPONSE

THEN PROMPTED (SHOWCARD). Are any of the following reasons for recruiting skilled staff from outside the UK? Which?

- To meet specific/specialist skills needs
  - Which skills?
    - Level of importance of skill to business – i.e. critical (business wouldn’t exist without it / would significantly impact ability offer product service or profitability) vs. important (could live without but would harm the business) vs. nice-to-have
    - How unique / distinctly different are the skills available from EEA skilled workers to those possessed by nearest equivalent UK/EEA skilled workers?

- Reflects being global business
  - Language skills
  - International business/cultural understanding and experience

- Cost – wage differences, lower costs of recruitment,

- Improves workforce diversity, brings new/alternative ideas and perspectives to the company

- Better work ethic

Having seen these, are there any other reasons/benefits you can think of?

Thinking about recruiting non-EEA workers, are there any drawbacks of recruiting outside the EEA?

So overall, how important is it to your business to be able to recruit non-EEA skilled workers?
Why do you say that?
The policy changes: awareness, understanding and views
To what extent are they are aware of, and how much do they know about recent changes (last 2 years) to government policy on accessing skilled labour outside the EEA - spontaneous

Then prompted (USING SHOWCARD):

- The introduction of an annual limit on 6 April 2011:
  - 20,700 skilled workers (Tier 2 General)
  - Closing of Tier 1 (General) (all skilled workers effectively now come under Tier 2 (General)) and the introduction of Tier 1 Exceptional Talent route (together under Tier 1 and Tier 2, approximately 28,000 employment-based visas – excluding ICTs – were issued in 2009)

- Changes to the Shortage Occupation List (year on year)

- Raising of skill levels from NQF3 to NQF4+ in April 2011, then NQF4+ to NQF6 in April 2012: 27 occupations were removed from the Shortage Occupation List including paramedics, IT operative technicians, some managers, financial and accounting technicians, building inspectors

- In April 2011: the requirement for all workers to speak intermediate-level English

- Leave limited to 5 years: no settling and no switching to Tier 2 General

- Closing of post study work route and transfer into Tier 2 (General)

- Closing of Tier 1, Post Study-Work Route and the introduction of Tier 2 employment with a RLMT exemption

What are your views on these changes?

How do you keep abreast of any policy changes such as these – what information sources do you use and who do you speak to for advice?

How easy or difficult to you find keeping abreast of policy changes like this? Why?
Employer response

Now we would like to discuss the changes your business has made as a result of the Tier 1 and 2 policy change, the reasons you have made those changes and the impacts that the changes have had. Just to be clear, the main changes were the introduction of an annual limit on 6 April 2011 of

- 20,700 skilled workers (Tier 2 General)
- Closing of Tier 1 (General) - all skilled workers effectively now come under Tier 2 (General) and the introduction of Tier 1 Exceptional Talent route

We are not exploring in this research the impact of closing of post study work route and changes to ICT pay thresholds.

When did you become aware of the changes to Tier 2 access?

What changes, if any, did you make in the run-up to the change in April 2011, in preparation for the restriction in access? Why?

And what changes has your organisation made since April 2011 as a result of the Tier 1 and 2 policy change?
Specific changes made as a result of the Tier 2 policy change (related to the main policy change in April 2011 when the limit of 20,700 was imposed)

In terms of recruiting skilled workers, have they in preparation for or have they since the policy change in early 2011, or do they plan to...

- Switch to greater use of EEA workers
- Switch to greater use of UK workers
  - Whether this required increasing salaries/benefits offered
- Increased training of:
  - Existing staff with lower/different skills to the skills levels required
  - Taken on less skilled workers to then train up
  - IF NOT - Do they consider the skill gap too great to up-skill or are costs the main barrier or is something else a barrier
- Decided not to recruit and reduced output
- Have you enacted or considered any solution to make capital investment to reduce the need for skilled (non EEA) workers (e.g. investment in machinery or technology)?
- Made more use of subcontracting/outsourcing
- More use of Tier 2 intercompany transfers (ICTs)
- Any other responses not listed above

For each **undertaken**, ask for details of the changes made, when made, why they took that approach, and the pros and cons

For those **not** undertaken, to what extent were these considered? Why rejected? Pros and cons?

If the business recruits non EEA workers to **multiple occupations** explore whether their response to immigration policy changes has differed for each and, if so, how and why
What impacts have these changes they have made had?
Thinking about the changes you’ve made in response to the Tier 2 policy, what impacts have each of these responses had on the company?

SPONTANEOUS

PROMPT: Has the company been impacted in any of the following ways AS A DIRECT RESULT OF THE TIER 2 CHANGES i.e. not other policy changes in general, or things that might have happened anyway? SHOW CARD:

- Any impacts relating to the level of skills of UK/EEA employees and ability to do the job [nb check whether they measure or record this]
  - Which specific skills do ‘replacement’ workers lack relative to non-EEA workers
  - Whether there are any skill areas that replacement workers better at?
- Relative levels of productivity – again, check whether measured/recorded?
- Costs (wage comparison, recruitment fees, training costs etc NB just touch upon here at headline level –)
  IF YES: Would you be able to quantify these costs?
- Ability of the company to deliver its key products/services
- Impact on competitiveness of the company
- Impact on future business plans/long term growth of the business/investment
  - If they could meet the majority of their skills shortages through UK/EEA workers what level of demand would they still have for non EEA skilled workers, i.e. are there other reasons why non-EEA workers would still be in demand?

Anything else would like to add on the issues discussed?
## Appendix II: Cost Spreadsheet

All of the following refers to the costs and benefits of any additional work due to a change in migration policy in a year.

Time spent is hours per year so 1.0 represents 1 hour.

Staff involved is FTE hours by grade (administrative grade, manager, senior manager, director).

### Calculations (to translate hours to £s)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Staff Cost per hour (£ per hour)</th>
<th>EXTRA hours per staff grade (to insert)</th>
<th>Costs per grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>£ per hour</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Manager</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Senior manager</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Director</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**TOTAL (£) - transfer to relevant cell**: 0.00

### Question

#### 1. In the last 12 months:

**No** | **Yes**
---|---

**GO TO Q2** | **CONTINUE**

**How many extra hours have you and colleagues had to spend on this task?**

**What is the aggregate (internal) salary cost of this (£ per year)?**

### 2. Have you purchased additional external specialist advice (legal or other) regarding changes in regulations relating to non EEA skilled labour?

**GO TO Q3** | **CONTINUE**

**What is the additional cost of this external advice?**

### 3. At any time in the last 12 months have you been unable to recruit skilled non EEA labour that you would otherwise have planned to hire as a result of the legislative changes/ limit?

**GO TO Q8** | **CONTINUE**

**How many non EEA skilled workers were you unable to hire?**

**How many months of non EEA skilled worker time (in aggregate) have been lost because of this?**

### 4. Have you made any savings in one-off costs (e.g. relocation costs, assistance with housing, schools, etc) because of a reduction in activity associated with fewer non EEA skilled workers coming to the UK as a result of changes in regulations relating to non EEA skilled labour?

**GO TO Q5** | **CONTINUE**

**What is the aggregate saving that has been made in one-off costs associated with relocation?**

### 5. Have you hired UK/EEA skilled workers as a substitute for the non EEA skilled workers that you were unable to recruit?

**GO TO Q6** | **CONTINUE**

**How many UK/EEA skilled workers have you recruited?**

**What % of the aggregate months lost because of an inability to recruit non EEA skilled labour has been filled by these substitute UK/EEA skilled workers?**

### 6. Have you used existing workers to substitute for non EEA skilled workers that you were unable to recruit?

**GO TO Q7** | **CONTINUE**

**How many existing workers have been used in this way?**

**What is the aggregate salary cost difference between all of these substitute workers compared with the non EEA skilled workers they are substituting for?**

### 7. Is there a difference in the productivity between EEA skilled workers and substitute UK/ EEA skilled workers?

**GO TO Q8** | **CONTINUE**

**Please express the productivity of a substitute UK/ EEA worker as a % of a non EEA skilled worker**
Have you made any gross savings on recruitment costs for non EEA skilled labour as a result of legislative changes/ the limit on non EEA skilled labour?

What has been the reduction in hours spent on this task?

What is the aggregate of gross cost savings you have made on cost of advertising/ headhunter fees, etc?

What is the aggregate (internal) salary cost saving on this (£ per year)?

What is the aggregate of cost savings you have made on external course/ training fees and purchase of training and testing materials as appropriate (£ per year)?

What is the aggregate (internal) salary cost saving on this (£ per year)?

Please use staff cost calculator

Have you made any gross savings on training costs for non EEA skilled labour as a result of the legislative changes/ the limit on non EEA skilled labour?

What has been the reduction in hours spent on internal training?

What is the aggregate of gross cost savings you have made on cost of training and purchase of training and testing materials as appropriate (£ per year)?

What is the aggregate (internal) salary cost saving on this (£ per year)?

Please use staff cost calculator

Have you incurred any additional gross recruitment costs for hiring UK/ EEA skilled workers to substitute for non EEA skilled labour?

What additional hours spent on this task?

What is the aggregate of gross additional costs spent on advertising/ headhunter fees, etc?

What is the aggregate (internal) extra salary cost saving on this (£ per year)?

Please use staff cost calculator

Have you incurred any gross additional training costs for UK/ EEA skilled workers substituting for EEA skilled workers?

What additional hours have been spent on internal training?

What is the aggregate of additional costs of external course/ training fees and purchase of training and testing materials as appropriate (£ per year)?

What is the aggregate of additional (internal) salary costs on this (£ per year)?

Please use staff cost calculator

Have you made use of external contractors to cover work that would otherwise done by non EEA skilled workers that you have been unable to recruit because of legislative changes/ the limit on non EEA skilled labour?

What is the estimated fee (£ per year) for outsourcing this work to locations beyond the UK?

What is the estimated fee (£ per year) for outsourcing this work within the UK?

Have you lost output as a result of vacancies for skilled workers being open for longer than they would have been before legislative changes/ the limit on non EEA skilled labour?

What do you estimate to be the aggregate cost of this lost output (£ per year)?

Have you lost output in any ways not already discussed as a result of not being able to recruit non EEA labour because of legislative changes/ the limit on non EEA skilled labour?

What do you estimate to be the aggregate cost of this lost output (£ per year)?

Have you increased output as a result of substituting UK/ EEA workers for non EEA skilled workers following legislative changes/ the limit on non EEA skilled labour?

What do you estimate to be the aggregate cost of this increased output (£ per year)?

End