Shackled by the skills crunch

Mike Harris, the IoD's Head of Education and Skills Policy, reviews the findings of the IoD's latest skills research, which show that skills weaknesses are impeding business growth. The findings have important implications for both business and government.

It has been a busy few months for skills policy. Several major government consultations and reviews have been conducted, the Spending Review settlement is being digested and a skills White Paper is expected imminently.[1] To inform the IoD's representations on all of these issues, two major research projects were undertaken in August and September 2010: a survey of 1,100 directors using *Policy Voice*, the IoD's public policy member survey panel, and an additional telephone survey of 500 directors conducted on the IoD's behalf by the market research company GfK NOP.

The results are striking. Employers face a skills triple-whammy: a struggle to fill the vacancies they have because of a shortage of skills in the wider workforce; contending with gaps in the skills of existing employees; and coping with both of these against background pressure to raise the skills bar ever higher to remain competitive. This article reviews the main findings of the surveys, exploring the particular skills pinch points and examining the implications for both employers and government policy.

SKILLS SHORTAGES

The IoD's latest research shows in stark clarity that a significant proportion of businesses is being held back by a lack of skills, in the wider workforce and among existing employees.[2] Looking at the former first, of the 1,100 directors surveyed in the Q3 IoD *Policy Voice* survey, approximately one in three (31 per cent) were

[1] At the time of writing: early November 2010.
[2] 'Skills shortages' are said to arise when employers find it difficult to fill vacancies with appropriately skilled applicants. 'Skills gaps' arise where existing members of the workforce lack the skills necessary to meet business needs.

SNAPSHOT

- The IoD's latest research shows that many employers are being held back by a lack of skills in the wider workforce and among existing staff. Three-fifths of those experiencing skills weaknesses say that their growth has been impaired.
- Skills deficiencies wreak considerable damage: higher costs, compromised quality, lost orders, stifled innovation and increased workloads for employees. 80 per cent of employers suffering from skills gaps believe this will affect their ability to capitalise on economic recovery.
- IoD members' organisations suffer more acutely from skills shortages and skills gaps than other employers nationally. This is likely to be because they are growth-oriented businesses competing on the basis of high quality and skills.
- The businesses run by IoD members have an impressive training record: 94 per cent trained employees in the last year, as against 68 per cent of employers nationally.
- The Government's skills strategy should eschew the regulatory approach of the deeply flawed Time to Train policy, focusing instead on creating the best possible business environment.

struggling to fill vacancies in their workforce.[3] This was primarily due to a shortage of applicants with the required skills: three-quarters (74 per cent) of those with hard-to-fill vacancies ('HtFVs') blamed a paucity of candidates with the appropriate skills, qualifications or experience.[4] The hardest skills to source have been technical skills, management and leadership skills, and customer service skills.

Overall, therefore, almost a quarter – 23 per cent – of IoD members' organisations surveyed had so-called 'skills shortage vacancies' (SSVs in the inevitable skills jargon): vacancies proving hard to fill because of a lack of skilled applicants.

TABLE 1

Organisations experiencing SSVs – the ten skills most difficult to obtain

Technical, practical or job-specific skills	57% (145)
Management skills	32% (81)
Customer handling skills	30% (77)
Leadership skills	29% (75)
Problem-solving skills	24% (62)
Oral communication skills	22% (57)
Written communication skills	18% (46)
Team working skills	16% (42)
IT professional skills	16% (41)
Numeracy skills	15% (39)

Source: IoD *Policy Voice* skills survey, Q3 2010. Base: 255 directors. In all tables the number of directors is given in brackets.

SKILLS GAPS

Even more significant than skills-related recruitment difficulties is the impact of skills weaknesses in organisations' existing workforces – so-called skills gaps. Almost half (47 per cent) of the directors surveyed said that some of their organisation's employees lacked the skills needed to do their job to the required level. On average, organisations reporting skills gaps estimated that a quarter (24 per cent) of their employees lacked the skills they required.

Organisations affected by skills gaps identified management skills and leadership skills as being in particular need of improvement. Managerial skills gaps and skills shortages potentially have very significant consequences: such deficiencies are damaging in their own right and are likely to carry myriad implications for the practical running of an organisation. Less obviously, but no less importantly, a lack of management skills

[3] 45 per cent (497) of organisations had vacancies at the time of the survey. 69 per cent (344) of those with vacancies reported them hard to fill. The types of occupation most frequently cited as being hard to fill included: professional roles (jobs usually requiring graduate/post-graduate qualifications), cited by 34 per cent of those with hard to fill vacancies; sales, marketing and customer service roles (cited by 32 per cent); and associate professional roles (occupations typically requiring high-level vocational qualifications), cited by 20 per cent.

[4] Equally notable was the proportion of employers encountering difficulties finding candidates with the right 'soft skills': 61 per cent of those with hard-to-fill vacancies blamed a shortage of applicants with the required attitude, motivation or personality.

TABLE 2

The ten most frequently occurring skills gaps

Management skills	52% (266)
Leadership skills	45% (232)
Sales/marketing skills	38% (195)
Customer service skills	35% (181)
Written communication skills	32% (165)
Problem solving skills	31% (159)
Team working skills	31% (158)
General IT user skills	24% (125)
Oral communication skills	24% (125)
Engineering/scientific/technical skills	24% (123)

Source: IoD *Policy Voice* skills survey, Q3 2010. Base: 514 directors.

may exacerbate and magnify the effect of other skills weaknesses by impairing managers' ability to leverage and develop the skills of other employees and to manage their performance effectively.

THE BUSINESS IMPACT OF RECRUITMENT DIFFICULTIES AND SKILLS DEFICIENCIES

Acronyms such as 'HtFVs' and 'SSVs' may sound innocuous, but the impact of recruitment difficulties and skills gaps is anything but, as Table 3 illustrates. Skills deficiencies wreak considerable damage: damage felt in higher costs, compromised quality, lost orders, stifled innovation and increased workloads for other

TABLE 3

The impact of hard-to-fill vacancies and skills gaps

	Hard-to-fill vacancies	Employee skills gaps
Increased workload for other staff	72% (247)	61% (313)
Growth of organisation held back	61% (211)	58% (296)
Delayed development of new products/services	43% (147)	33% (172)
Business/orders lost to competitors	25% (85)	25% (130)
Difficulties in meeting quality standards	25% (85)	34% (177)
Increased operating costs	24% (84)	32% (162)
Difficulties in introducing new working practices	20% (70)	39% (198)
Organisation prompted to outsource work	20% (70)	16% (82)

Source: IoD *Policy Voice* skills survey, Q3 2010. Base: 344 directors (HtFVs); 514 directors (skills gaps).

employees. Three-fifths of those facing skills weaknesses said that the growth of their organisations had been impeded.

Given the range of negative impacts it is not surprising, though still worrying, to find that 80 per cent of those employers suffering from skills gaps believe that these will impact on their organisation's ability to capitalise on economic recovery.

TABLE 4

"To what extent would you agree or disagree that inadequate staff skills will have an impact on your organisation's ability to capitalise on economic recovery?"

Strongly agree	28% (142)
Tend to agree	52% (268)
Neither agree nor disagree	13% (65)
Tend to disagree	5% (28)
Strongly disagree	2% (11)
Total: Agree	**80% (410)**
Total: Disagree	**8% (39)**

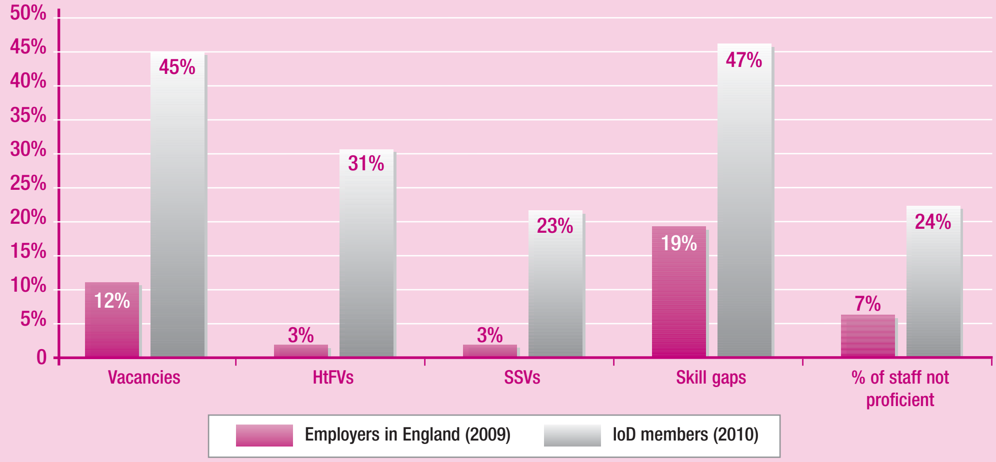
Source: IoD *Policy Voice* skills survey, Q3 2010. Base: 514 directors (all organisations with skills gaps).

EXPERIENCE OF SKILLS WEAKNESSES: IoD MEMBERS COMPARED

What is immediately apparent when comparing the IoD's latest research with national data is the extent of the gulf between IoD members' experience of skills weaknesses and that of the employer population as a whole. Chart 1 compares the IoD's skills survey with the National Employer Skills Survey (NESS) run by

CHART 1

Skills shortages and skills gaps, IoD members compared



Source: National Employer Skill Survey 2009 and IoD *Policy Voice* skills survey, Q3 2010. Note: for the final columns, NESS figure represents the proportion of all employees considered to be not fully proficient. IoD figure represents an estimate of the proportion of employees lacking full proficiency by those employers with skills gaps.

the UK Commission for Employment and Skills.[5]

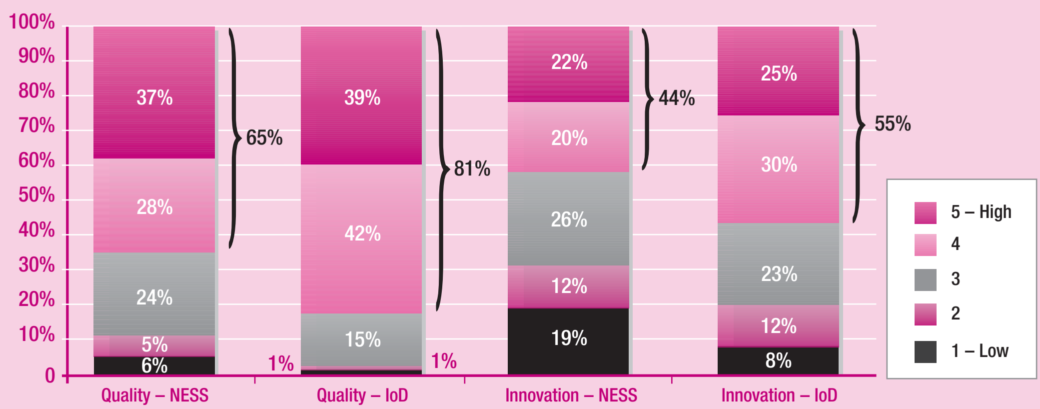
What can explain this disparity? Clearly, the economic context is important. Fieldwork for the 2009 NESS was conducted between March and July 2009 and thus took place during the recession which official figures indicate lasted from the second half of 2008 until the final quarter of 2009.[6] It would not therefore be surprising to see much lower levels of recruitment activity compared to the IoD surveys, both of which were conducted during a period of positive economic growth.

However, it is unlikely that the recession tells the whole story. That IoD members' organisations suffer more acutely from skills shortages and skills gaps than other employers nationally is not an isolated finding from the latest survey; it has been a consistent feature of our research over a number of years. One explanation is likely to lie in the characteristics of IoD members' organisations: typically growth-oriented, innovative businesses that compete on the basis of high quality and high skills.[7] Such businesses tend, for obvious reasons, both to have a higher perception of their own skills weaknesses and also a higher sensitivity to their impact. Businesses competing on the basis of high skills are more acutely aware of the challenges of recruiting in the fierce market for top talent. And given that internal skills gaps can often be indicators of positive changes in business strategy, such as the introduction of new products and services, businesses with a focus on innovation are more susceptible.

IoD members' companies' greater propensity to have a focus on high quality products and services, and to have an innovative

CHART 2

Strategic positioning – emphasis on quality and innovation



Source: National Employer Skill Survey 2009 and GfK NOP survey of IoD members, Q3 2010. For quality, the scale ascends from 1 (organisation offers basic quality products/services compared to others in the industry) to 5 (organisation offers premium quality products/services compared to others in the industry). For innovation, the scale ascends from 1 (organisation very rarely leads the way compared to other in the industry) to 5 (organisation often leads the way compared to others in the industry).

[5] This article draws comparisons between IoD members and employers in England using the latest (2009) National Employer Skills Survey: a series of surveys established by the Learning and Skills Council in 2003 covering the incidence, extent and nature of skills problems facing employers, as well as training activity and training spend. The 2009 NESS incorporated responses from over 79,000 employers, with fieldwork conducted between March and July 2009. See *National Employer Skills Survey for England 2009: Key findings report*, UK Commission for Employment and Skills, Evidence Report 13, March 2010.

[6] "GDP and the labour market: from recession to recovery", Office for National Statistics, 26 October 2010: www.statistics.gov.uk/CCI/nugget.asp?ID=2294&Pos=6&ColRank=2&Rank=1000 [accessed 30 October 2010].

[7] On average, almost half (48 per cent) of all jobs in IoD members' organisations require degree level skills. Source: IoD *Policy Voice* skills survey, Q3 2010. For an illustration of the high growth orientation of IoD members' organisations, see: R. Wilson & M. Harris, *Who do we think we are? A profile of the IoD membership,* Institute of Directors, March 2006.

bent, can be seen in two further comparisons with data from the latest NESS. Chart 2 illustrates the difference between how IoD members view their organisations' strategic positioning and the perception of employers in England generally. In both surveys, respondents were asked to compare their organisations against others in their industry in terms of the quality of their products or services, and the likelihood of their blazing a trail in the development of new products or services.

Finally, Table 5 illustrates the various pressures on organisations to 'upskill' – the rather inelegant term given for the process of increasing an individual's skills or knowledge. In the 2009 NESS, the most common stimulus to upskill was the anticipation of new legislative or regulatory requirements. This is in marked contrast to the findings for IoD members. Here, legislative change was the *least* powerful driver to upskill, and innovation the most potent.

TABLE 5

Whether employers expect staff will need to acquire new skills in the next 12 months, and the reasons why

	Employers in England	IoD members
Any need for upskilling	69%	92%
New legislative or regulatory requirements	47%	46%
The development of new products or services	44%	71%
The introduction of new technologies or equipment	42%	64%
The introduction of new working practices	42%	51%
Increased competitive pressure	35%	57%

Source: National Employer Skill Survey 2009 and IoD *Policy Voice* skills survey, Q3 2010.

TRAINING

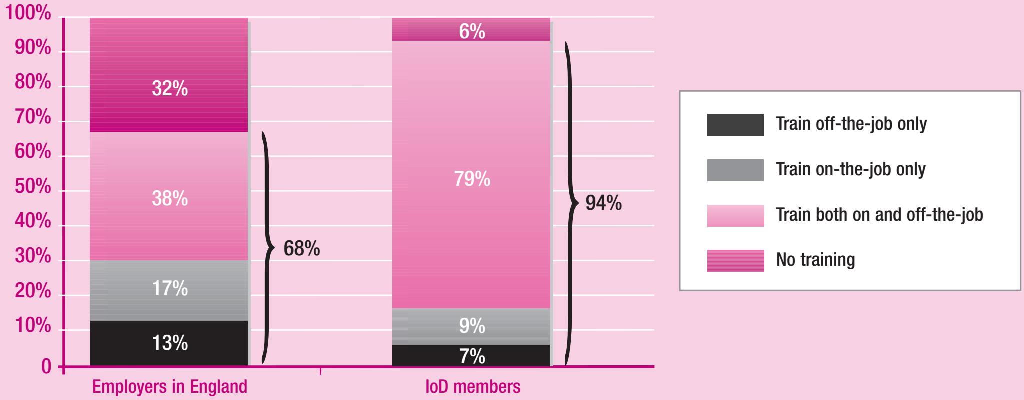
Denouncing employers' failure to train, and pronouncing their consequent culpability for the nation's skills problems, are both familiar refrains. It would be tempting to assume, given the severity of the skills problems described above, that IoD members' organisations have a training blind spot. This is emphatically not the case. In reality, the reverse is true, for skills shortages and skills gaps can serve as a significant spur to train. As Chart 3 shows, IoD members' organisations have an impressive training record, evident not only in the overall proportion investing in training (94 per cent), but also in the depth and variety of the training offered. Compared to the latest data for employers in England, a significantly higher proportion of IoD members' organisations invest in training, and considerably more offer both on-the-job and off-the-job development.[8]

The strong commitment to training employees is also

[8] In the NESS, 'off-the-job training' is taken to mean training away from the individual's immediate work position, whether on the establishment's premises or elsewhere. 'On-the-job training' describes training and development activities that would be recognised as training by staff, but not the sort of learning by experience that could take place all the time.

CHART 3

Provision of training in the last 12 months, IoD members compared[9]

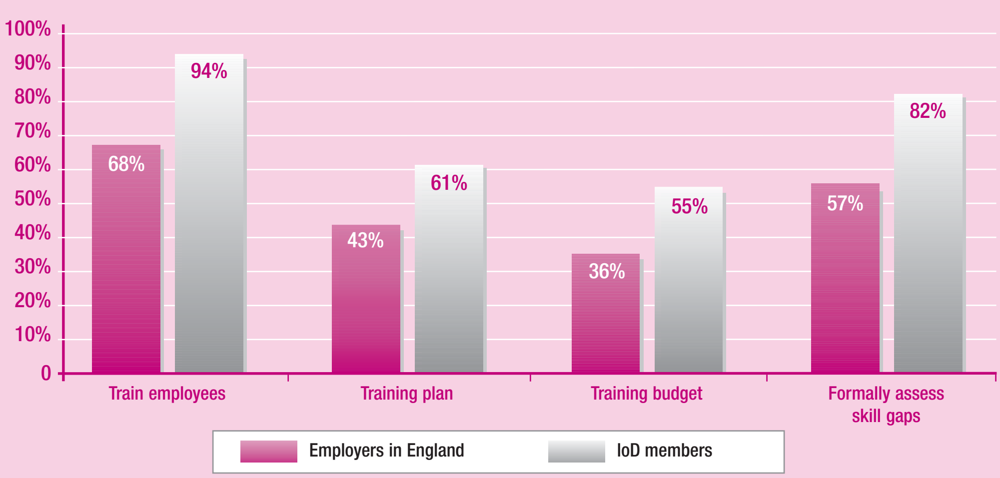


Source: National Employer Skill Survey 2009 and GfK NOP survey of IoD members, Q3 2010.

apparent in the structured way in which skills development is approached. IoD members' organisations are considerably more likely than other employers to have a training plan specifying in advance the level and type of training staff will need in the coming year, and a dedicated budget for this training expenditure. And, whilst three in five employers (57 per cent) in the 2009 NESS said that they formally assessed whether staff had gaps in their skills, the comparable figure for IoD members was four in five (82 per cent).

CHART 4

Organising training and assessing skills gaps, IoD members compared



Source: National Employer Skill Survey 2009 and GfK NOP survey of IoD members, Q3 2010.

[9] Note that the NESS was conducted in Q2 2009, the IoD survey in Q3 2010.

THE IMPACT OF THE RECESSION ON EMPLOYER INVESTMENT IN TRAINING

Inevitably, the recession brought an attendant pressure to reduce costs and improve efficiency wherever possible. This has had an impact on all budgets, including training spend. But earlier IoD research debunked the theory that the training budget was always 'the first to be cut' in a downturn. In fact, we found the opposite to be true: compared to other areas of business spending, investment in skills had held up best of all when IoD members were surveyed in April/May 2009.[10]

The latest survey, conducted in August 2010, confirms the picture of robust commitment to training. Assessing the impact of the recession:

- **72 per cent of those organisations providing training said expenditure on training per employee had either stayed the same (52 per cent) or increased (20 per cent). 22 per cent said it had decreased.**
- **85 per cent of training organisations said that the proportion of employees provided with training had either stayed the same (66 per cent) or increased (19 per cent). 10 per cent said that it had decreased.**
- **73 per cent of training organisations said that the amount of training leading to recognised qualifications had either stayed the same (61 per cent) or increased (12 per cent). 13 per cent said it had decreased.**[11]

WHAT DO THE SURVEY FINDINGS MEAN FOR GOVERNMENT POLICY?

As we have seen, business commitment to training has remained strong despite the unfavourable economic climate. As positive as that finding is, it does not obscure the enormity of the skills crunch facing many IoD members' companies. Nearly a quarter are facing skill shortages, nearly half are battling skill gaps and over 90 per cent anticipate a need to 'upskill' employees in the next 12 months.

> ***Business commitment to training has remained strong. It does not obscure the enormity of the skills crunch.***

[10] See: *Training in the recession: winner or loser?*, Institute of Directors, June 2009.
[11] Source: GfK NOP survey of IoD members, Q3 2010.

This has profound implications for government policy. Whilst it is true that IoD members seem to be more acutely affected by skills weaknesses than the wider employer population, they also represent the type of growth-oriented companies whose success is so critical to driving economic recovery. The first, and most obvious, implication of the sheer scale of the skills challenge is that it cannot be met by government-driven skills initiatives. This is not simply a question of government resources being necessarily scarcer as a result of the Spending Review. They clearly are. But even if they were not, increasing spending on skills would be a questionable use of public money. There are three principal reasons for this.

1. **Improving skills is not, and can never be, solely the Government's task. It is the responsibility of government to ensure a world class education system and a healthy flow of skills into the workforce. But it is the responsibility of employers to give their staff the specific training they may need to do their jobs effectively. Where, with the best of intentions, governments try to help this process along, they face the inevitable problem of deadweight and can end up subsidising training that employers would have provided anyway.**

2. **Government skills initiatives face a second problem: employers will always be better placed than the Government or an agency of government to understand their own skills weaknesses and training priorities. Employers themselves are the best arbiters of what type of training to invest in to meet the development needs of their employees and the objectives of their business. This is where government backing for certain adult training programmes over others, such as with Apprenticeships, becomes questionable. It distorts the qualifications market in a way that could limit employer choice. Apprenticeships are not a universal training solution, and apprenticeship-style skill formation is not suitable for all organisations or all circumstances.**
3. **There are also big question marks over how successfully government skills and training initiatives actually operate as a catalyst for employers to train, or influence business decisions about the level of investment in skills and development. The emerging evidence from our research is that this effect is rather modest. This will be explored in more detail in a forthcoming IoD policy paper, but strongly suggests that governments should approach direct intervention in skills with extreme caution.**

TIME TO TRAIN: A CASE STUDY IN BAD POLICY-MAKING

Clearly, that final point is not just applicable to skills policy. Governments generally proceed too often from a premise that 'something must be done' to the pursuit of a State solution to the perceived problem. And ministers, particularly new ones, often wish to be personally associated with reforms and laws to demonstrate their impact and make a mark. This is perfectly human and understandable. But it is frequently counterproductive. A classic example is the last government's 'Time to Train' policy. Time to Train introduced a new employment right allowing employees to request time off to undertake training, initially for employees of large companies but due to be extended to all in April 2011.

As Box 1 illustrates, Time to Train is a spectacularly bad policy; defective from conception to implementation. It was completely unnecessary to seek to regulate conversations between an employee and their employer about training. The case for legislative intervention was derisorily weak. The regulatory burden on business has been increased. And existing good practice in the provision and management of workplace training will be undermined. All in all, it is difficult to conceive of a 'better' case study in poor policy-making.

Time to Train encapsulates the flaws of a whole approach to skills policy, predicated on the belief that the key to more training is more regulation. It isn't. The IoD surveys stand as eloquent testimony to the fact that the biggest barrier to greater employer

BOX 1

Time to Train – the bad, the very bad and the extremely ugly

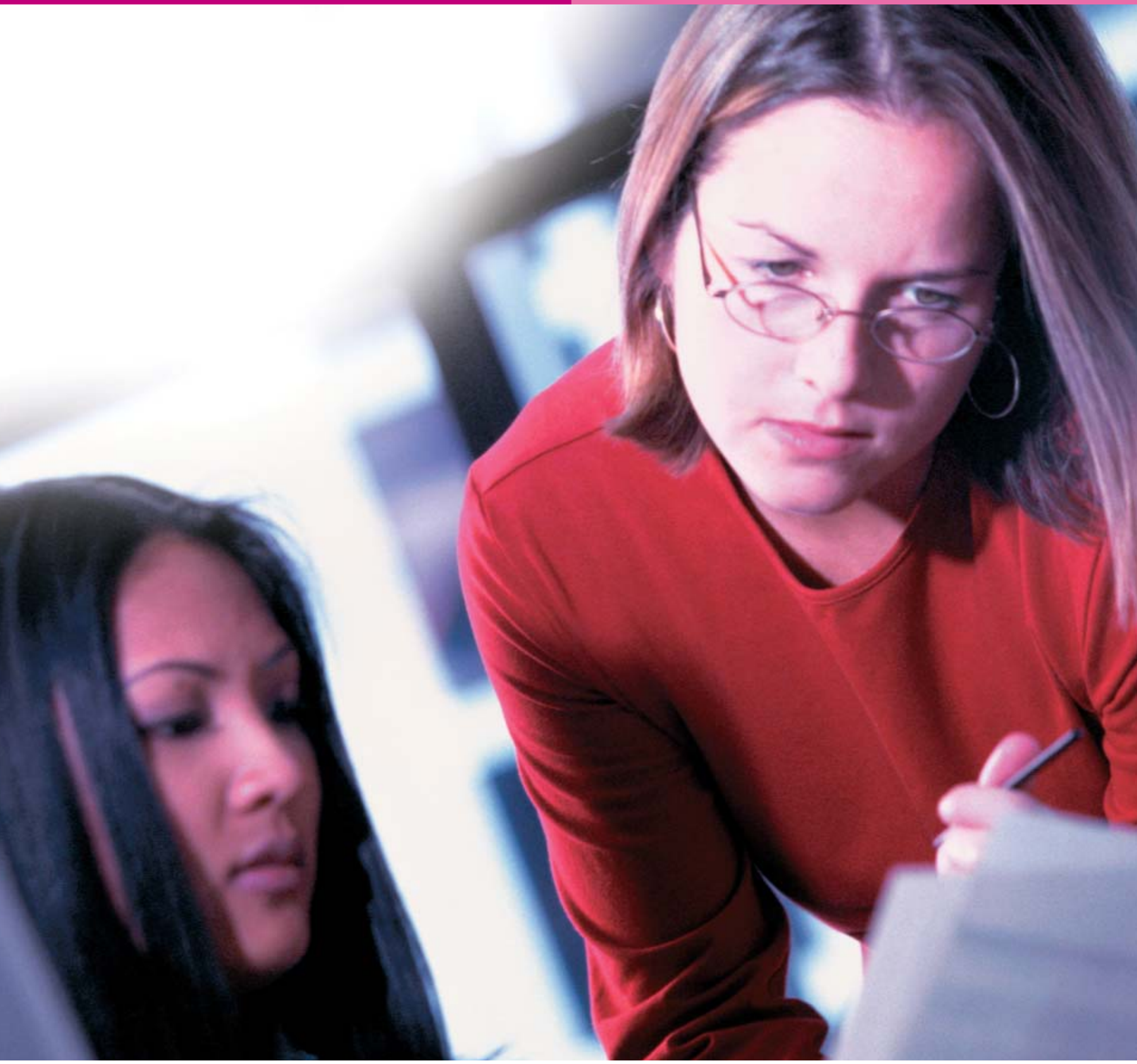
- The Time to Train regulations consciously took the right to request flexible working legislation as a model, arguing that the latter had proven 'a powerful driver of cultural change'. This is an entirely erroneous narrative. It is a myth. The flexible working legislation did not drive cultural change: increasing numbers of employers were already offering flexible working of their own accord prior to the new law's introduction. And the IoD's research shows that 93 per cent of businesses with flexible working practices would operate them even if there were no legislative basis for them.
- When the Time to Train regulations were proposed, there was a stark lack of evidence underpinning the rationale for legislative intervention. The government 'impact assessment' at the time argued that a voluntary approach "depends heavily on employers being open to considering training requests, and will do nothing to reassure employees that their request would be dealt with seriously." And then proceeded to present absolutely no evidence that employers were not open to training requests, denied employees the opportunity to discuss training needs, or did not treat requests seriously. An extraordinary approach to policy-making.
- In addition to being poorly thought-through and badly designed, the regulations will undermine existing good practice in the planning and delivery of workplace training. In other words, the legislation won't simply fail to work as planned; it will wreak considerable damage in doing so. In a survey of 1,300 directors in August 2009, 63 per cent said that the new right would increase the red tape burden by requiring firms to deal with ad hoc training requests throughout the year. 37 per cent said that the legislation would mean that training requests would be dealt with on a 'first come, first served' basis, undermining the strategic planning of training. And more than one in ten said that the regulations would so undermine their existing procedures that they would remove training discussions from appraisals altogether.

investment in training is a lack of resource, not a lack of law. When it comes to skills, the most effective role the Government can play is to facilitate and incentivise, not to direct and regulate.

TOWARDS AN EFFECTIVE SKILLS STRATEGY

We wait to see whether this lesson has been learned. The present government is now reviewing the case for Time to Train, and is due to unveil a new skills strategy just as this edition of *Big Picture* goes to print. What should be in it? What principles would underpin an effective skills strategy?

First, do no harm. Repeal the Time to Train regulations before they start to do real damage. Second, don't pursue further legislation, statutory levies, or other mandatory approaches in an attempt to increase training investment. They are bureaucratic, inefficient and counterproductive. Third, reduce the wider regulatory burden on business – and in particular, employment law. The Government needs to start 'walking the talk' on regulation if its claims to be pro-enterprise are to retain credibility. Fourth, continue the drive towards internationally competitive tax system. Both point three and point four are



relevant because they directly affect the resources businesses have to commit to skills development. Fifth, radically simplify the skills infrastructure: trying to navigate the skills system is a labyrinthine experience for most employers and most, as a result, don't bother.[12] Sixth, turn rhetoric about a 'demand-led' approach to policy into reality by ensuring Lifelong Learning Accounts operate as genuine accounts, not as passports to existing entitlements or favoured schemes. And seventh, recognise the limits of government intervention in skills: don't try to do too much and beware of 'picking winners' in qualifications. The road to hell is paved with good intentions. Stop paving.

All governments have pet skills projects and initiatives. But a truly successful skills strategy would be based on the Government seeking to do less, and the recognition that the best way to encourage greater spending on skills and training by employers and individuals is to leave both groups with more resources to invest. For too long, strategic thinking about skills policy has appeared siloed, but business decisions about investing in skills do

[12] The complexity of the skills system, and how to simplify it, will also be covered in a forthcoming IoD policy paper.

BOX 2

The skills crunch in figures

- 23% of organisations are struggling to fill vacancies in their workforce because of a shortage of applicants with the right skills.
- 47% of organisations report that some of their employees have gaps in their skills. On average, those organisations affected estimate that 24% of their employees lack the skills required.
- 61% of those with hard-to-fill vacancies in their workforce, and 58% of those with employee skill gaps, report that these problems have held back the growth of their organisation.
- 80% of those organisations with skills gaps believe that inadequate staff skills will impact on their ability to capitalise on economic recovery.
- 92% of organisations anticipate that they will need to improve the skills of some of their staff over the next 12 months.
- Over the next three to five years, 35% of directors believe that the number of roles in their organisation requiring STEM skills will increase; 52% believe that the number of roles requiring higher level skills (degree and above) will increase; and 63% believe that the number of roles requiring leadership and management skills will increase.
- 97% of directors believe that investing in the skills and training of their employees is important in meeting the organisation's business objectives. 81% rate it 'very important'.
- 94% of IoD members' organisations have invested in employee training over the last 12 months. 55% have a dedicated training budget; 61% have a training plan; and 82% formally assess whether their staff have gaps in their skills.
- 50% of employers would have provided more training for staff over the last 12 months if they had been able to resource it.
- Assessing the impact of the recession, 72% of training employers said that expenditure on training per employee had either stayed the same or had increased. 85% said that the proportion of employees provided with training had either remained the same or increased.

not take place in a vacuum. They are influenced profoundly by the wider business environment. IoD members believe in the benefits of training. They don't need persuading. The most effective help the Government can provide employers in meeting the skills challenge would be a relentless focus on creating the best possible environment in which to do business. And then letting employers get on with it.