

Business Models, Skills Utilisation and High Performance Working Practices in Greater Manchester

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Executive Summary

- The conventional approach to skills is to assume a deficit among the population. A shortage of skills – a ‘skills gap’ - is frequently linked to a ‘productivity gap’. Yet another side of the debate about skills is to examine the nature of the employer demand for skills and how employers use skills within workplaces. Business strategy influences demand for skills. This report examines the links between a firm’s business strategy (the term ‘product market strategy’ or PMS for short is used) and its likely consequences in terms of the demand for skills.
- PMS refers to the way that a business positions itself within a particular product or service market in order to achieve a competitive advantage. Research has established a statistical link between a firm’s PMS and its demand for skills. Firms whose PMS involves creating high quality, bespoke goods and services are more likely to need a workforce with highly developed skills, and in consequence, there are clear business reasons for developing the skills of workforces. Firms producing high-volume, basic goods and services are more likely to require lower skills, and the people are likely to need little training and are more interchangeable. The costs of skills development will thus also be lower. An organisation’s PMS therefore shapes how it manages the skills of its workforce. Even within the same sector businesses have highly varied approaches to PMS. This suggests a firm’s PMS is unlikely to be determined only by external factors, but also involves strategic decisions made by the organisation’s management.
- Using UKCES methodology, the research finds employers in the Greater Manchester city region pursue ‘low cost, low value, low skill’ business models to a greater extent than is the norm in the UK. Some 21% of Greater Manchester businesses have ‘low or very low specification product market strategies’ compared with 18% in the UK as a whole (the measure of product market strategy includes survey responses to questions on levels of innovation, price sensitivity, customisation of goods and services and other features of competitive strategy). The exception is in innovation, where Greater Manchester businesses appear to ‘take the lead’ more than the national average.
- This evidence indicates that, as well as lower skill levels overall, a contributory factor to Greater Manchester’s labour market issues (including pay and productivity) may be the strategies of employers, which imply lower aggregate demand for skills than in some (but not all) city regions.
- Interviews with Greater Manchester employers suggest scepticism that HR management practices (and skills utilization and development within them) can themselves have significant effects on business performance. Skills were often seen as a second or third order consideration.

- Employers believe that improvements in skills supply would best enable productivity advances, and that these typically flow from new technology being introduced into workplaces. In the view of employers upgrading the technology typically implies an upgrading of the skill levels of the workforce.
- The research was carried out as part of a wider project on low pay in Greater Manchester.

1 Introduction

- 1.1 Commentators have observed the reason the British employment rate has proved resilient in the face of a recession and a low-growth recovery is that the ‘people are cheap’¹. The cheap people thesis has important economic ramifications, quite apart from limiting unemployment following a downturn. The availability of people willing to work at low rates of pay may reduce the incentive for firms to invest in new technology; in turn, that may hold back the prospects for productivity increases.
- 1.2 Alternatively, competing on the basis of low cost goods and services, delivered through low-wage, low-skilled labour may be a viable competitive strategy for firms to pursue, not merely as a short-term reaction to economic uncertainty, but as a longer term business model. If sufficient profits can be made from selling high volume, but poor quality goods and services, why move upmarket? This type of strategy, sometimes called simply ‘the low road’, is likely to imply a low skilled workforce is perfectly adequate.
- 1.3 Here, then, is a possible explanation of the UK’s perceived skills problem: skills gaps may not reflect the poor stock of skills in a local population, but the preferences of businesses for how they compete: demand rather than supply.
- 1.4 There is general acknowledgement that the UK generates substantial numbers of low wage and low skilled jobs relative to other competitive nations in the Organisation for Economic Cooperation and Development (OECD). The proportion of these jobs has even increased slightly in the last decade. Understanding why this is the case, however, remains relatively limited.
- 1.5 This paper seeks to investigate one particular strand of the debate about low skilled work by exploring the relationship between business models (or ‘product market strategy’) and human resource strategy as it relates to the demand for and use of skills.
- 1.6 To do so the paper draws on three research approaches. First, we use a literature review of recent research on the relationship between how firms seek to compete and their approach to workforce strategy (which includes skills issues). Second, we undertake a secondary analysis of data from the 2013 Employer Skills Survey held by the UKCES to examine whether Greater Manchester has a higher incidence of ‘low road’ business models relative to a small selection of other comparable cities and the country as a whole. To do so we examine six indicators of product market strategy that indicate how city regions compete. And thirdly, a series of semi-structured interviews with employers in private, public and voluntary sectors in Greater Manchester have been used to add depth, insight and context. A final section concludes and highlights policy implications.
- 1.7 Although we follow other writers in using the term ‘product market strategy’ (PMS), the market for low-skill, low-wage work obviously does not have to have a product.

¹ See, for example, Bargain Basement, The Economist, March 14th 2015

Indeed, due to the concentration of low-wage work in the private service sector what is more often being referred to is often really 'service market strategy'. For the sake of brevity, the abbreviation PMS covers all sectors.

2 Product Market Strategies and Skills

Product Market Strategies (PMS)

- 2.1 The analysis of product market strategies (PMS) can broadly be separated into two dominant traditions, which diverge on the degree to which business models are externally conditioned or internally chosen within a firm or organisation.
- 2.2 One tradition flows from economics and management literature and positions PMS as the outcome of rational choices made by a firm's senior management about the type of market the firm seeks to compete in. In general, this tradition pays little, if any, attention to issues such as skill. Early management studies of business models had no place for skills² in their frameworks and even in more recent times, skill is sometimes spoken of as a 'third or fourth order priority'³ for business leaders more concerned with issues such as profitability, efficiency, investment, shareholder value, and staff and financial turnover.
- 2.3 However, human resources theorists, in particular those who advance the so-called 'resource-based view of the firm', have supplemented the broad approach by noting that skill levels are (or can be) a vital element in how a firm could choose to compete. In this view, although firms within a single sector all share the same technology, abide by the same regulations and have investors to satisfy, their competitive advantage is seen to stem from their ability to develop unique capabilities, which depends on human capacities. In the ubiquitous jargon, 'people make the difference'. The point perhaps has a particular resonance in the more knowledge intensive sectors of the economy, where the perceived contacts and bankability of 'the talent' or 'the stars' is reckoned to have potentially market-moving effects.
- 2.4 The second perspective is drawn from sociological literature on the 'varieties of capitalism' in which business models are shaped by external institutional conditions. An organisation's skill strategy is therefore a product of these external factors and there is relatively little scope for employer autonomy and decision making⁴. In this tradition, the 'social market' economies of northern European and Scandinavian countries involving workforce participation and consultation are sometimes contrasted with the more 'liberal market' models of the US, UK and Ireland, in which low levels of regulation, taxation and workforce involvement are dominant.

² See, for example, Miles, R., Snow, C., Meyer, A.D. and Coleman, H.J. Organizational Strategy, Academy of Management Review, 3 (3), 1978, : 546-562

³ Keep, E., and Mayhew, K., Globalisation, Models of Competitive Advantage and Skills, SKOPE Research Paper, No 22, Oxford and Warwick Universities, 2001, p 8

⁴ See, Hall, P., and Soskice, D., The Varieties of Capitalism: The Institutional Foundations of Comparative Advantage, Oxford University Press, 2001

- 2.5 A possible challenge to this approach is the commonsense observation (confirmed by research⁵) that there are the many examples of firms inhabiting the same industry, country, and indeed sectoral niche, but which nevertheless adopt very different strategies. It is hard to account for these differences if strategy is externally conditioned.
- 2.6 One way round this dichotomy is to understand PMS as an attempt to encompass and acknowledge both the internal and external influences on a firm's strategy and the role of skills within it. For example, Geoff Mason, a prominent skills academic, has argued that PMS choices within firms reflect their decision-makers' evaluations of external market opportunities and how best to exploit them.⁶
- 2.7 Although the distinction may sound academic, establishing the roots of PMS has relevance for policymakers. If the analysis identifies internal processes, then this will be where policy interventions need to focus. For example, influencing senior managers' choices through evidence, persuasion and networking. If the focus is on external factors then this is where to look to shape employer strategies, for example through regulation.
- 2.8 So what is the relationship between PMS and skills? A series of studies undertaken by Geoff Mason has established that there is a firm statistical link between PMS (as measured by a series of survey indicators) and the stock of skill levels in a workforce (proxied by qualifications). "All else being equal, high (low) workforce skill levels are positively associated with high (low) value added product strategies."⁷
- 2.9 Mason's series of studies which use data from the Employers Skills Survey across a number of years have developed this correlation to make several interlinked points:
- PMS is typically extremely diverse even within the same industry, but also between industries.
 - Firms that are part of larger groups that create high-value, skill-intensive products found moving upmarket in response to competition led to disproportionately large increases in employers' demand for skills.
 - Firms that relied on low-value added product market strategies found that upgrading their skills had relatively modest impact.
 - High specification PMS tended to be linked to exposure to international competition.
 - The type of market and company size both related to PMS.

5 Cappelli, P. and Crocker-Hefter, A. Distinctive Human Resources Are Firms' Core Competencies, *Organizational Dynamics*, Winter, 1996, 7-22

⁶ Mason, G. In Search of High Value Added Production: How Important are Skills?', DfES Research, Report RR.663(2005)

⁷ Mason, G. Product strategies, skill shortages and skill updating needs in England: new evidence from the National Employers Skills Survey, 2009. Report for UKCES, 2010; see also Mason, G. (2004) 'Enterprise Product Strategies and Employer Demand for Skills in Britain: Evidence from the Employers Skill Survey,' SKOPE Research Paper No. 50, 2004

- The direction of causation went from PMS to skills strategy.

2.10 Other studies have added some additional details to this picture. Dench et al studied 13 companies in food manufacturing and found PMS were constantly being modified⁸ in response to evolving market conditions. In addition, a new factor was found to be important in shaping PMS: the role of technology. The nature of the product determined the technology used, and this in turn was responsible for the level of employee skills. In other words, the deciding factor was PMS, but the determination and introduction of strategy was mediated by the type of technology in a workplace.

2.11 However, other research has downplayed this connection. A study on the food industry found only tenuous connections between PMS and skills⁹. Many employers, especially those in a relatively weak market position, had little interest in the skills of workforce, echoing the earlier point that skills are often a low business concern. Among firms in a better market position, some saw competitive advantage in the skills of the workforce, but fundamentally market strength depended on the product. With broadly similar production technologies, employees may be adequately trained, but skills were not central to competitive advantage: it was the product above all else.

2.12 According to the management academics David Ashton and Johnny Sung, one way to reconcile these findings is to consider business strategy as being made up of two components, PMS and competitive strategy. PMS is concerned with the type of market a firm operates in (for example, high or low value-added). Competitive strategy examines how the company will seek competitive advantage within that market (e.g. through quality or lowest cost). If the focus is on lower cost, the skill content of the product or service is likely to be reduced. Where it is concerned with quality then competitive differentiation depends to a greater extent on skill levels. The skill requirements are mediated through 'technical relations', but also through 'inter-personal relations'. Ashton and Sung describe a 'technical relation' in this way:

"If the firm wishes to produce high volumes of a standardized product or service, it will opt for a form of mass production technology or a call centre type of technology (or its equivalent in the service sector). If the firm decides to produce complex products or services, it will opt for a system of small batch or one-off craft production tailored to customer requirements at the differentiated end of the technical relations."¹⁰

2.13 An 'interpersonal relation' determines the way that human labour is organised within the production process. "At one end of the spectrum (people focused) they include most of those human relations practices we refer to as high performance working

⁸ Dench, S., J. Hillage, P. Reilly and J. Kodz, Employers' Skill Survey: Case Study – Food Manufacturing Sector, Institute for Employment Studies, 2000

⁹ See Edwards, P., Sengupta, S and Tsai, C., Managing Work in the Low-skill Equilibrium: A Study of UK Food Manufacturing, SKOPE Research Paper No. 72, 2007

¹⁰ Ashton, D., and Sung, J., Product Market Strategies and Skills Utilisation, Skills in Focus, Skills Development Scotland, July 2011, p11

practices (HPWPs – more detail about this is set out below) that are used to create people oriented skills, such as the problem solving, innovation and communications skills associated with the delivery of customized solutions...At the other end of the spectrum, management practices may be geared toward the creation and use of task oriented skills, for example the simple repetitive skills associated with assembly lines or call centres.”¹¹

- 2.14** Although Mason’s earlier work established that the direction of causation went from PMS to skill, some of his more recent work (with Susannah Constable) has served to finesse this finding¹². The study again confirmed the interdependence of PMS and skills – especially in firms serving national and international markets rather than those serving local or regional ones; a relatively small move upmarket by a firm had far larger impact on the skills needed. The scale of the difference was also emphasised: establishments serving the upper quartiles of markets had mean skill levels between level 3 and level 4; the mean skill level of firms outside the top quartile were below level 3.
- 2.15** But Mason and Constable also discovered reverse causation in operation. The ability to move upmarket in reaction to changes in PMS was influenced by skills: “High current levels of skills contribute positively to the development of high-end product strategies¹³...“When firms encounter opportunities for moving into high value-added product areas, their ability to respond to these opportunities (and indeed to identify their potential in the first place) will be partly shaped by the firm-specific resources and capabilities (including skills) which they have accumulated over time. At the same time, shifting to more complex and demanding product strategies is likely to increase the skills required by firms.”¹⁴

Skills Utilisation

- 2.16** How skills are used at work is critical in the skills debate, but it tends to get overlooked due to the singular focus on skills supply in policymaking. The UKCES, the government’s skills advisory body, notes that the UK’s ‘skills problem’ “lies largely on the demand side”¹⁵. “The relatively low level of skills in the UK; the limited extent of skill shortages; the potentially relatively low demand for skills relative to their supply taken together, imply a demand side weakness. The UK has too few high performance workplaces, too few employers producing high quality goods and services, too few businesses in high value added sectors. This means that in order to build an internationally competitive economy, the future employment and skills

¹¹ Ibid, p12

¹² Mason, G. and Constable, S., Product Strategies, Skills Shortages and Skill Updating Needs in England: New Evidence from the National Employer Skills Survey, 2009, Evidence Report 30, July 2011, p66

¹³ Ibid, p67

¹⁴ Ibid

¹⁵ UKCES, Ambition 2020: World Class Skills and Jobs for the UK, UKCES, p10

system will need to invest as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply.”¹⁶

- 2.17** This raises the question of what is meant by ‘good’ skills utilization. According to Ashton and Sung, effective skills utilisation can be defined as: “confident, motivated and relevantly skilled individuals who are aware of the skills they possess and know how best to use them in the workplace... working in workplaces that provide meaningful and appropriate encouragement, opportunity and support for employees to use their skills effectively in order to increase performance and productivity, improve job satisfaction and employee wellbeing and stimulate investment, enterprise and innovation.”¹⁷
- 2.18** In a local economic development context, interest in skills utilization issues is sometimes noted, but frequently downplayed. For understandable reasons, local authorities and Local Enterprise Partnerships typically focus on boosting skills supply and highlighting gaps in qualification levels in a population in a particular area relative to another as something they can realistically ‘do’ to help improve productivity. Government departments and other policymakers have been heavily influenced by theories such as human capital theory, endogenous growth theory and skills-biased technological change, which converge on the notion that skill levels (almost universally proxied by qualifications) drive different productivity outcomes, and this has fed through into policy statements, such as on the ‘five drivers of productivity’. The evidence on this score is strongest at the national level using comparisons of national level datasets. There is also some evidence at a regional level, as well, especially at higher skill levels (level 4 plus)¹⁸. Yet these drivers are far from being iron economic laws and are prone to revision. Prior to the five drivers there were the ‘16 key levers’ of productivity. More recently, the Treasury’s productivity plan focuses on eight headings in its ‘framework for raising productivity’¹⁹.
- 2.19** Yet the unproven contention at the heart of this approach is whether, at the level of an individual firm, simply improving skills alters the nature of the work and with it the potential productivity of the workforce and the ability to move upmarket. Here, at firm level, the relationship between skills supply and productivity needs probing in greater depth. Transposing theories on skills and productivity that operate at national level to the level of the individual and the individual firm needs careful treatment. From the earliest economic models, starting with Adam Smith’s famous case of the pin making factory, research has demonstrated that technology can be used in various ways around human capability, not only to replace human labour with machine ‘labour’, or to up-skill labour through the need for increasingly complex, cognitive operations, but to de-skill and to standardise as well.

¹⁶ *ibid*, p10

¹⁷ *ibid*, p9

¹⁸ Oguz, S. and Knight, J., Regional Economic Indicators, Economic and Labour Market Review, Office for National Statistics, February 2011

¹⁹ The eight are: skills and human capital, long-term investment, resurgent cities, flexible, fair markets, business investing for the long-term, economic infrastructure, ideas and knowledge, openness and competition and productive finance. See HM Treasury, Fixing the Foundations: Creating a More Prosperous Nation, Her Majesty’s Stationery Office, p7

- 2.20 Workplaces are constantly remaking skills requirements around technology, leading to both upskilling and de-skilling. Yet the models of theorists have perhaps been slow in keeping pace. In terms of de-skilling there is recent evidence emerging that companies are attempting to capture professional and technical know-how in software in both the service and manufacturing industries²⁰. This is enabling companies to standardise specialist knowledge previously held by technical and professional staff by embedding it in computer programmes. This means that they can employ lower skilled staff to do tasks previously performed by professional and technical personnel, thereby lowering skill levels and costs and changing industries' working practices and cultures. For example, in the legal services industry, paralegals can now accomplish routine legal tasks in back offices that used to be undertaken by fully trained solicitors who had to interact directly with clients. Therefore while technological changes can often lead to the upskilling of staff this is clearly not always the case.
- 2.21 As Ewart Keep, Ken Mayhew and Jonathan Payne have noted, recent decades have seen dramatic changes in the UK population's skill levels, in particular a swift increase in Level 4 plus skills and a corresponding reduction in people without qualifications. Yet productivity has not undergone a parallel performance transformation:
- "Given the unprecedented increase in the supply of qualified labour within the English labour market, and given the stress laid within official policy on the role of skills in boosting productivity, it might be expected that we would have witnessed a major increase in productivity growth. In reality, productivity growth has remained steady."²¹
- 2.22 Such findings highlight subtlety is needed in unravelling the relationship between skills and productivity. Could it be, for example, that the connection is less universal than sometimes imagined and is sectorally conditioned?

High Performance Work Organisation

- 2.23 A popular model for conceptualising how skills operate in the workplace is the High Performance Working model (HPW). According to this theory, skills are mediated by management practices. In order to enable 'talent' to flourish, senior management needs to develop effective practices around how people are managed and led, and their work is conceptualised and organised.
- 2.24 Differences exist within and between models of HPW, but most revolve around the importance of a clear and consistent sense of organisational purpose to inspire employees. This purpose is complemented by appropriate human resource management and development practices. Typically these practices include job

²⁰ Brown, P., Lauder, H. and Ashton, D. (2010) *The Global Auction. The Broken Promises of Education Jobs and Incomes*, New York: Oxford UP.

²¹ Keep, E., Mayhew, K., and Payne, J., *From Skills Revolution to Productivity Miracle: Not as Easy as it Sounds*, Oxford Review of Economic Policy, Volume 22, No 4, 2006

content, work autonomy, workplace environment including regular two-way communication between employees and management, flexible working, training opportunities, fair treatment and support in coping with pressures outside the workplace, notably caring responsibilities. In essence, these practices are aimed at providing employees with the ability, motivation and opportunity (sometimes abbreviated to AMO) to work effectively. Individual HR practices are considered important not only in themselves but also when combined as mutually reinforcing 'bundles' of practices.

- 2.25** The UKCES defines HPW as “a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance”.²²
- 2.26** How widespread is the use of such practices in British workplaces? The Workplace Employment Relations Survey (WERS) series of national surveys suggests that in general many practices linked with the High Involvement Management (HIM) model (a close relative to the HPW model) have slowly become more common, albeit in an uneven way. Even so, it is doubtful they amount to a wholesale adoption. In practice, employers are probably more inclined to pick individual practices rather than introduce wholesale the 'bundles' of mutually reinforcing practices which are most closely linked with successful implementation of the model.
- 2.27** The 2004 WERS noted that the diffusion of the HPW model had been 'rather muted'²³. By 2011 WERS found that the percentage of workplaces providing induction training to new recruits increased from 78% to 82% between 2004 and 2011. But there was no increase in the number providing on-the-job training to experienced employees, with one-in-five workplaces providing no training to these employees at all. During the same period there was also no general increase in the provision of flexible working practices. Indeed, the proportion of workplace managers who consider balancing work and family responsibilities as down to individual employees rather than the organisation increased from 56% to 71%.
- 2.28** There are several reasons why take up of HPW practices has been slow in the UK. John Philpott has argued the relatively low take up of HPW amounts to something of an 'implementation gap' that has arisen because of a number of factors, including ignorance, inertia, inadequacy and impediment (for example, lack of necessary skills or existence of regulations that inhibit HPW).²⁴
- 2.29** In its assessment the UKCES conducted a survey of 13,000 employers and found that just under a third of employers could be considered 'high performance work organisations'²⁵. However, as the commission pointed out, measurement is

²² Stone, I., International Approaches to High Performance Working, UKCES, Evidence Report 37, September 2011

²³ Kersley, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G., Oxenbridge, S., Inside the Workplace: First Findings from the 2004 Workplace Employment Relations Survey, Department of Trade and Industry, ACAS, Policy Studies Institute and Economic and Social Research Council, July 2005

²⁴ Philpott, J., High Performance Working: The Utilisation of Skills, in Skills and Economic Performance, edited by Sam Porter and Mike Campbell, Sector Skills Development Agency, 2007

²⁵ UKCES, Skills for the Workplace: Employer Perspectives, Evidence Report 1, 2008

hampered by a lack of agreed definitions. If its judgement is correct, the vast majority of employers in the UK do not pursue strategies that necessitate workforce organisation approaches that seek to motivate and get the best out of people. This could be read either as a huge untapped opportunity for boosting productivity or as a reflection of the previous point that skills and workforce organisation issues are not a priority among employers and their role is too easily overstated.

- 2.30** Yet critiques of high performance work literature have also looked to more fundamental objections than lack of take-up. Both the quality of the social science on which it is founded and the nature of the benefits promised have been examined²⁶. In practice, HPW is unlikely to be an easy win for advocates of the role of people and skills within organisations.

Management Practice

- 2.31** A further element of the debate in how skills are deployed at work relates to the ability of managers to use enhanced skills and to their willingness to rethink productive processes.
- 2.32** Research has shown management inertia about HR practices, with reluctance to accept evidence around high-performance working practices, let alone act on it. In turn, one of the aspects that may lie behind this resistance has been management skill. A recent Department for Business, Innovation and Skills research report highlighted that, among small and medium-sized UK firms, knowledge of management skills is under-developed and there is a 'long tail' of firms acting in ignorance of management best practice²⁷.
- 2.33** Research has suggested that managers in the UK are relatively under-qualified relative to others and lack skills regarding change management in organisations. The proportion of UK managers with degrees tends to be lower than among our major competitors. In addition the existing job roles of UK managers do not provide the opportunity to develop the leadership skills required to implement change.
- 2.34** One study led by Nick Bloom and John Van Reenan investigated 732 medium sized firms and found that managerial practice was strongly associated with firm-level productivity²⁸. American firms were typically better managed than European firms and there was a very long tail of very poorly managed firms.
- 2.35** In their study of the capabilities of UK managers, Penny Tamkin and colleagues found UK companies were less advanced at linking HR and business strategies,

²⁶ See Wall, T. and Wood, S., The Romance of HRM and Business Performance and the Case for Big Science, *Human Relations* 58 (4), 2005, pp1-34; see also Godard, J., A Critical Assessment of the High Performance Paradigm, *British Journal of Industrial Relations*, 42:2 0007–1080, 2004 pp. 349–378

²⁷ The research covers leadership, organisation, strategy, entrepreneurship, human resource management, turnover, productivity and growth in 250 UK SMEs. See Department for Business, Innovation and Skills, *Leadership and Management Skills in SMEs: Measuring Associations with Management Practices and Performance*, Research Paper 211, DBIS, March 2015

²⁸ Bloom, N., and Van Reenan, J., *Measuring and Explaining Management Practices Across Firms and Countries*, *Quarterly Journal of Economics*, Vol. CXXII, Issue 4, November 2007

and at convincing line managers that management development is taken seriously, all of which have been linked to performance²⁹.

- 2.36** According to one study, antipathy to organisational change around how to lead and manage workforces is deeply embedded in the mental models and mindsets of the UK's directors and senior managers. Researching the commercial cleaning industry, the authors found firms whose directors were aware of the possibility of moving from the delivery of low value-added to higher value-added activities – for example, from simply supplying cleaning services to planning and co-ordinating these activities and thus expanding the portfolio of services they delivered³⁰. This was seen as an opportunity to move up-market and increase productivity and profitability. Yet the managers failed to respond to these opportunities. In the words of the study's authors:

“... they remained imprisoned by their historic mental models and assumptions, constrained not only by their unwillingness or inability to think in new ways about what their relationship with and propositions to clients and indeed to staff – but also limited by historic and organisational arrangements (management styles and professionalism, staff capacities, organisational systems and cultures) – which seriously limited the capacity of the organisation and its staff to deliver anything other than low-cost, low-skill provision of conventional and limited cleaning services.”³¹

- 2.37** These kinds of somewhat torpid managerial cultures around workforce skills indicate that simply building the evidence base and expecting employers to respond could be naïve.

²⁹ See Tamkin P and Denvir, A, Strengthening the UK Evidence Base on Leadership and Management, Department of Trade and Industry, 2006

³⁰ Storey, J. and Salaman, G. Business Models and their Implications for Skills, SKOPE Monograph No. 11, (2008) SKOPE

³¹ Ibid, p37

3 The Product Market Strategies of Employers in Greater Manchester

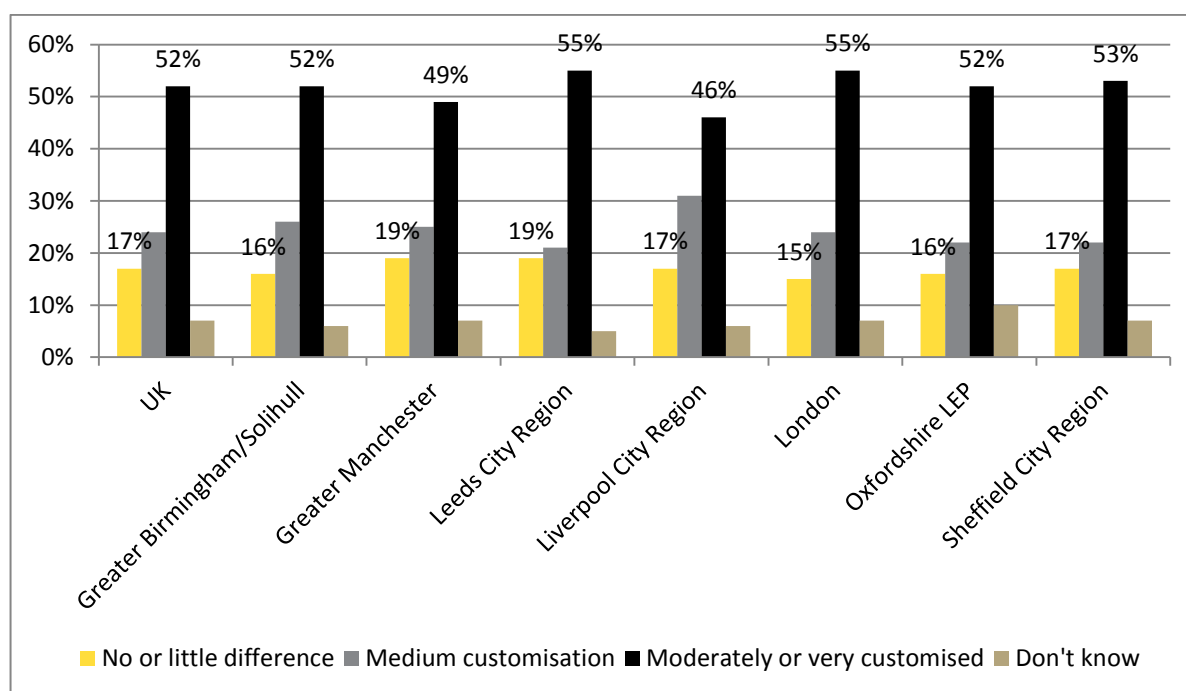
- 3.1 The analysis in this section of the report draws on the indicators of a company's approach to PMS that have been developed by the UKCES in its Employer Skills Survey (ESS)³². Measuring an organisation's strategy is a question of judgement and subtlety and many aspects may not lend themselves easily to being captured in a survey. But the indicators (as developed by Geoff Mason in the studies described above) are seen to be as close to a standard approach to understanding PMS as is currently available.
- 3.2 There is no attempt here to track change over time, so the data only offers a static snapshot of the views of respondents in 2013. In any case, changes in question wording make this task complex. Further analysis by type of sector would yield greater insight into the patterns of variation. It is also worth noting that these are subjective responses to questions and understanding of the questions may vary.
- 3.3 The PMS indicators are based on respondents' answers to questions which asked them to estimate where their establishment was positioned on different four or five point scales - as compared to other establishments in the same industries. The questions focussed on the following characteristics:
- The extent to which the establishment competed in a 'premium quality' product market as compared to a 'standard or basic quality' product market;
 - The extent to which competitive success depended on price;
 - The extent to which the establishment 'tend(ed) to lead the way' in the development of new products, materials or techniques;
 - The extent to which they provided customised (one-off or low volume) products or services as compared to engaging in high volume or mass production; and
 - The extent of accreditation for the Investors in People Standard (treated as a mark of organisations that endeavour to develop their workforces).
- 3.4 The results from these questions can be aggregated to form an overall PMS specification summary (see table 6 below), reflecting the general approach of businesses within different LEPs regarding how they position themselves around PMS.
- 3.5 The charts that follow show how Greater Manchester places on the particular questions against a selection of six other LEPs and the national average. Some response types have been aggregated, so, for example, firms which had 'moderate' levels of customisation have been grouped with those whose products and services are 'very' customised.

³² Data used in this section of the report is taken from the UKCES Employer Skills Survey 2013. It can be found at <https://www.gov.uk/government/statistics/employer-skills-survey-local-data>

Customisation

3.6 The first chart below shows how businesses responded to the question on the degree of customisation in products and services. Some 19% of businesses in Greater Manchester said there was no or very little degree of difference to distinguish their products from others in the marketplace. This proportion was higher than the UK average (17%) and joint highest on this question with Leeds City Region. By contrast 49% of Greater Manchester employers said their products were highly customised, which is on the low side (the national average is 52%), but not as low as Liverpool City Region. In general, Greater Manchester employers appear to compete at the basic end of the customisation spectrum with low levels of differentiation in goods and services.

Figure 1: Description of Establishment's Business or Service in Terms of Degree of Customisation

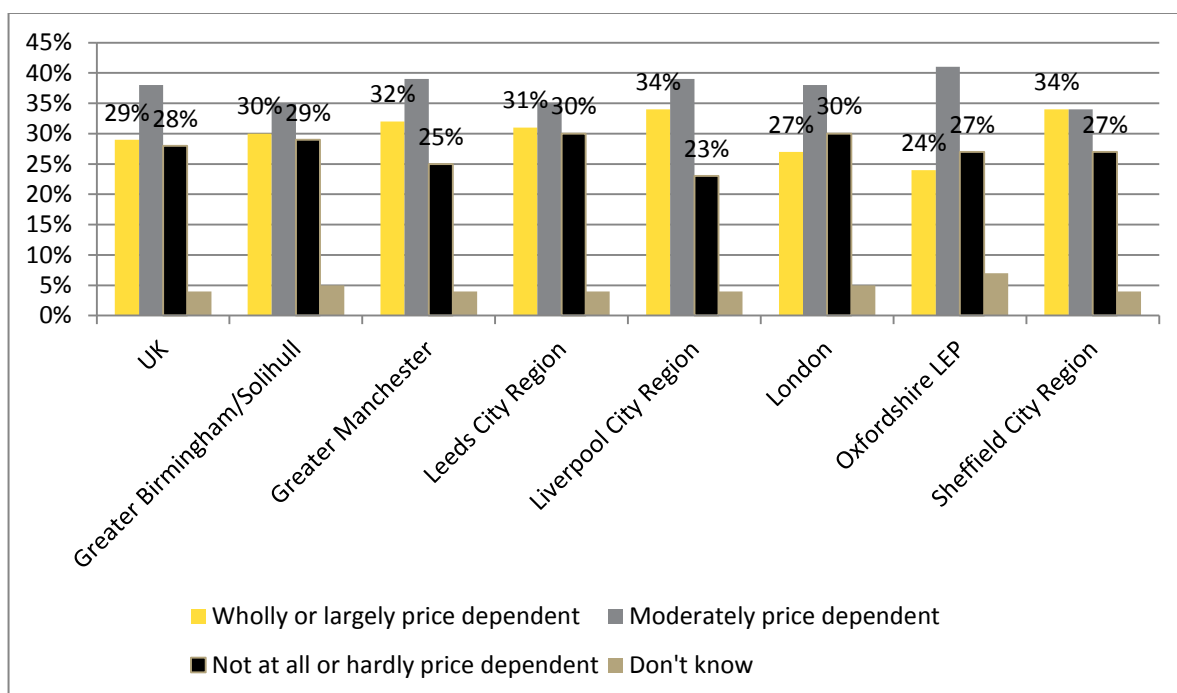


Source: *New Economy Analysis of Employer Skills Survey, 2013*

Price Dependence

3.7 The chart below measures the price dependence of businesses. Price dependence reflects the degree to which a business sees itself as competing on the basis of lower costs than rivals, or whether its products or services can command higher prices, reflecting added value. The chart shows that in Greater Manchester just under a third (32%) of businesses felt that their products were price dependent, which is not as high as Liverpool or Sheffield (34%), but again higher than the national norm (29%). A quarter of businesses felt price was not a factor in how they market goods and services – 3 percentage points lower than the UK average.

Figure 2: Degree of Price Dependence in Product Offering

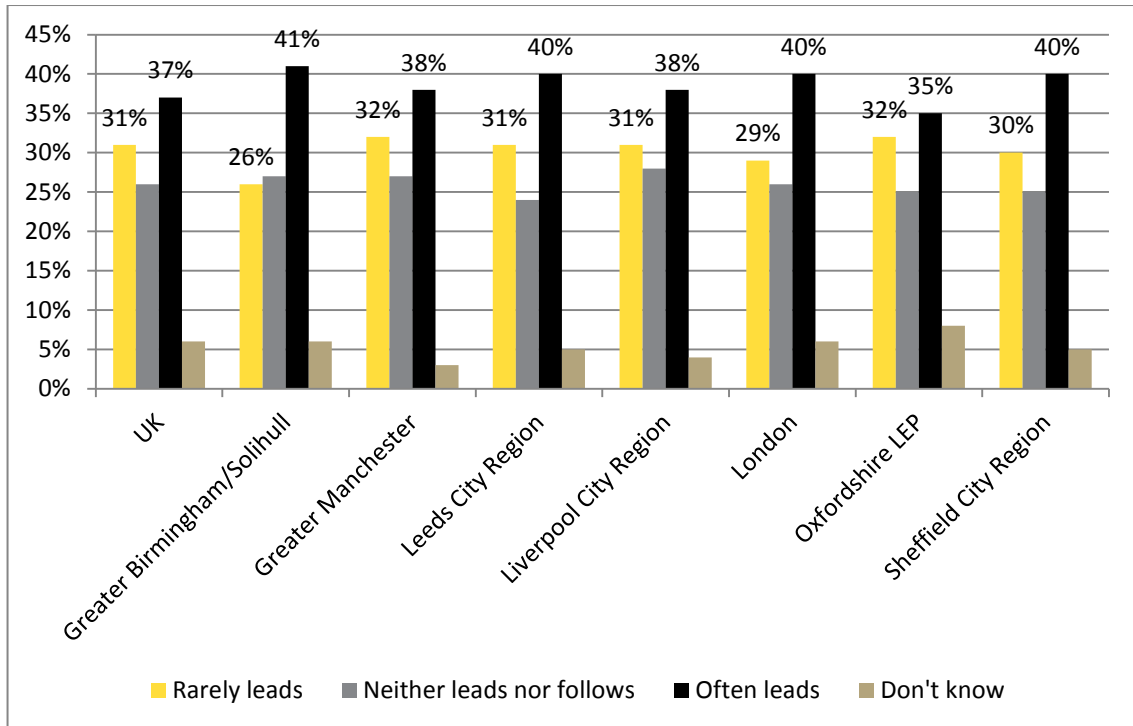


Source: *New Economy Analysis of Employer Skills Survey, 2013*

Innovation

3.8 The ESS endeavours to measure perceptions of innovation through asking whether business leaders regard themselves as ‘leading the way’, ranking responses as to whether they ‘often’ or ‘rarely’ do so. Naturally, respondents may interpret this question slightly differently. On this question Greater Manchester employers responded that they felt they led the way more than the UK average. In Greater Manchester 38% of businesses felt that they often led the way, compared with 37% for the UK as a whole. Meanwhile, 32% of business felt they seldom lead the way in Greater Manchester compared with 31% nationally.

Figure 3: Perceptions of Whether Businesses ‘Often’ or ‘Rarely’ Lead the Way

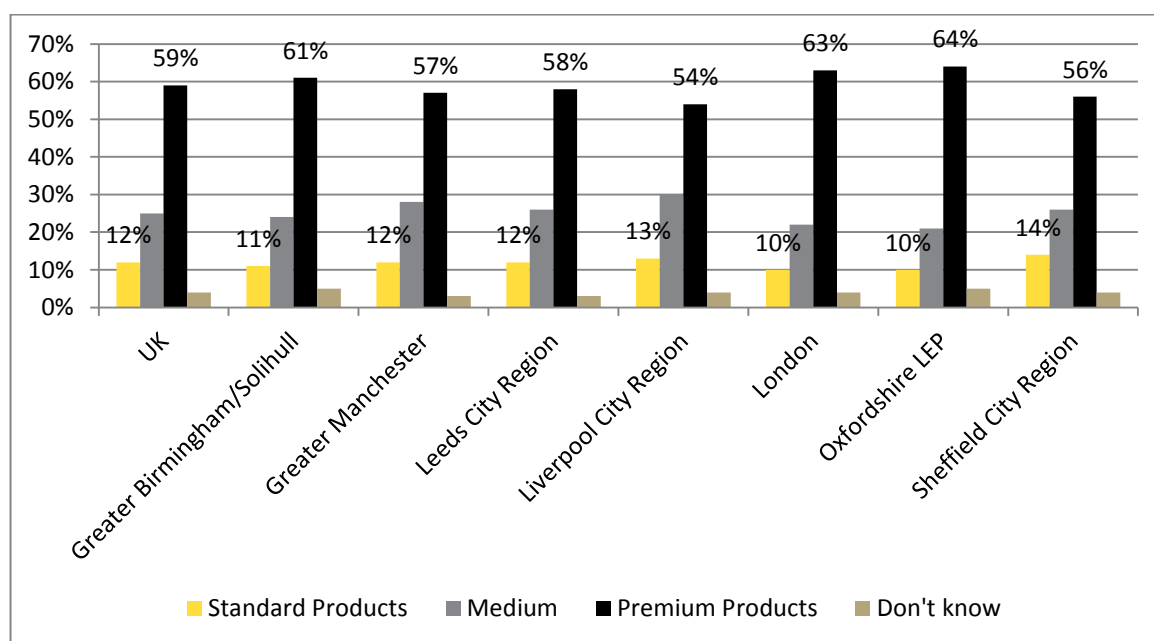


Source: *New Economy Analysis of Employer Skills Survey, 2013*

Standard Goods or Premium Products?

3.9 Whether the products and services sold are seen as high quality or more basic is a further reflection on PMS. The following question asked employers to rank whether they offer premium or more basic products. The Greater Manchester answers were on the low side compared with some other LEPs, but were in line with the results for the UK as a whole (13% said they offered standard goods and services in both Greater Manchester and the UK). As regards premium products, the percentage of firms responding that they targeted premium markets was slightly lower than the national norm, but not as low as several other northern LEPs, including Liverpool and Sheffield. In Greater Manchester 57% of firms offered premium products compared with 59% in the UK as a whole.

Figure 4: Perceptions of Whether the Business Offers Standard or Premium Products

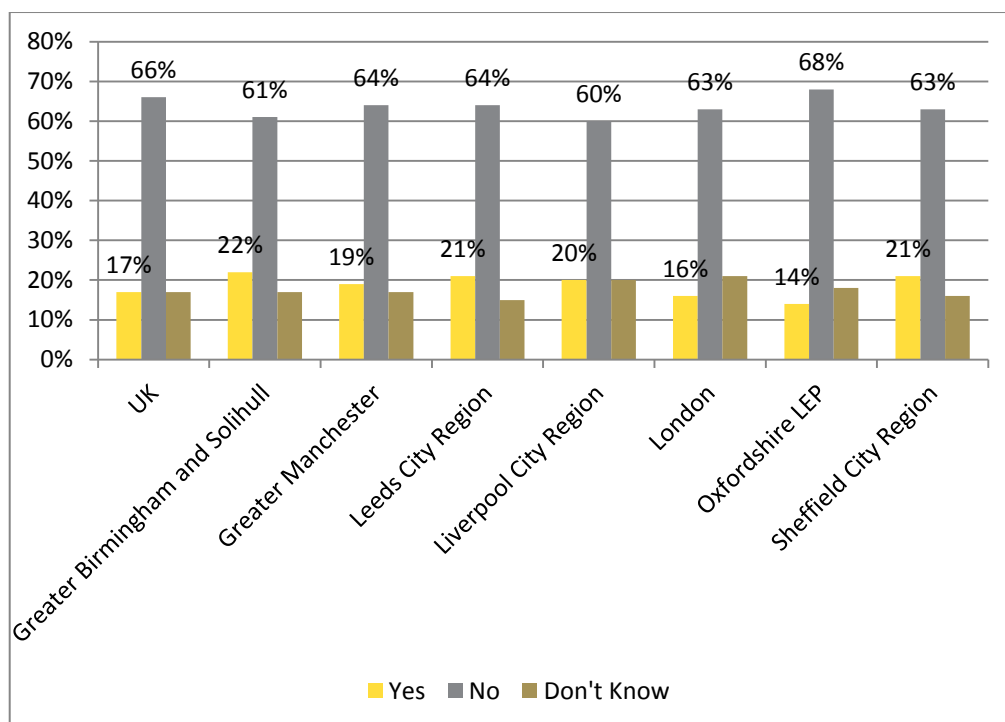


Source: *New Economy Analysis of Employer Skills Survey, 2013*

Investors in People Accreditation

3.10 A final reflection of the approach to skills within the framework of PMS is the extent to which there is take-up of the Investors in People (IIP) scheme. IIP is a government-backed programme that aims to encourage and accredit good practice in people management and development. Greater Manchester endorsement of IIP appears to be above what is typical for the UK as a whole (19%), but some other LEPs had higher rates of firms which had the standard (such as Birmingham). Anecdotally, it was felt that take-up of IIP may have reduced due to the burdens of accreditation which companies felt were an expense that could be eliminated during the recession.

Figure 5: Does the Business Have Investors in People Accreditation?

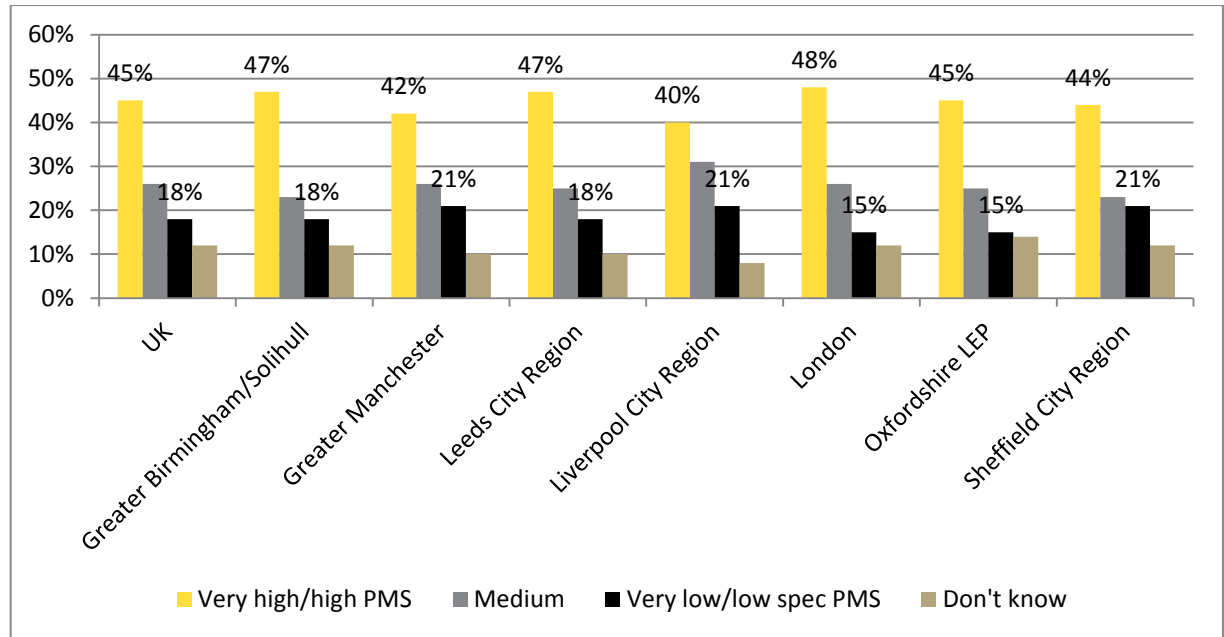


Source: *New Economy Analysis of Employer Skills Survey, 2013*

Summary PMS Index

- 3.11** Bringing these different measures together, it is possible to devise a PMS specification index and to measure the different LEPs accordingly, as UKCES does in the ESS. Overall, this finds that 42% of firms in Greater Manchester have a 'high specification PMS'. This is a lower proportion than is typical for the UK as a whole (45%), but is not the lowest (Liverpool has the lowest proportion of firms targeting this high value market segment at 40%). At the other end of the spectrum, the proportion of firms with a low specification PMS was 21% - a figure which is high compared with other LEPs and with the UK as a whole (18%). Other LEPs which also had more than a fifth of their businesses targeting the lowest value segment of their respective markets were Sheffield and Liverpool.
- 3.12** Overall, the results point to Greater Manchester firms tending toward low cost, undifferentiated, basic products and services rather than at the higher value adding segments of the economy that can command higher prices. In short, they pursue low value business models more than the UK average. If the connection described earlier in the report between the approach to PMS and the demand for, and use of, skills is accurate, the results indicate the business base of the Greater Manchester city region is likely to have relatively weak demand for higher level skills. An important element within this - given the research outlined above - is the degree to which Greater Manchester firms serve national and international markets. International competition functions as an important driver of higher level skills.

Table 6: PMS Summary: The Overall Positioning of Firms in Selected LEP Areas



Source: *New Economy Analysis of Employer Skills Survey, 2013*

4 Employer Perspectives

- 4.1 This section of the report summarises the views of a small number of employers (eight from the private sector, one from the voluntary sector and one public sector) concerning the issues of PMS, high performance work practices, and the use of skills. The interviews took the form of a semi-structured questionnaire, but with questioning that focussed on developing a discussion rather than sticking to a rubric. Two of the interviewees came from manufacturing, but the majority were service-oriented organisations from retail, outsourcing, healthcare, digital and creative, and social enterprise sector. The interviewees included managing directors, an operations manager, chief executives and HR directors. The material below attempts to capture the general tenor of the responses, providing verbatim quotes where relevant, and is not representative of Greater Manchester employers in general. All interviews were given on the basis of anonymity.

Conceptual Approach and Language Issues

- 4.2 An initial point worth noting concerns language. Not all of the respondents had heard of ‘product market strategy’ or ‘high performance work’ (though they recognised the practices and thinking that lay behind them once the terms were explained). In general they preferred to talk of ‘business models’, but did not see these models as being entirely freely chosen - a nuance on the rational choice aspects of the conventional thinking about PMS. The respondents felt their approach to business reflected the markets and wider business climate that the firm operated in, but above all else it reflected the nature of the particular product or service. The room for strategic manoeuvre around skills was felt to be relatively constrained.
- 4.3 In addition, the interviewees were sceptical that HR management practices themselves could have significant effects on a business (perhaps surprisingly, this doubt also emanated from the HR specialists). This is not to say that they were dismissive of HR and skills; their attitude simply reflected that, to them, skills were a second or third order consideration. As one respondent put it:
- “Ultimately, the real bottom line here is profitability and that determines everything else, including how we go about recruiting and developing the skilled labour that we need.”
- 4.4 So while skills were a business performance issue to some degree, the relevance of skills depended on, and derived from, other strategic considerations (such as market positioning and technology).

Relationship Between Productivity and Skills

- 4.5 Regarding productivity the answers revealed the central preoccupation with reducing waste, increasing efficiency, the critical importance of technology and ensuring the flow of skills into a business. Skills utilization and HR management were seen as only interacting with these other drivers. One particular interviewee, a chief executive, also emphasized that HR management practices needed to be as well aligned as possible with wider business objectives.
- 4.6 Several employers highlighted 'lean' techniques for removing waste, both as an important technique in manufacturing and in services (in the healthcare sector in particular).
- 4.7 No employer regarded skills per se as a vehicle for altering their productivity strategy. Skills in general tended to be seen as an important, but ultimately a lower order, consideration with answers concentrating on a perceived 'skills supply crisis'. Growth opportunities existed among these employers, but they perceived the difficulty was in finding suitable candidates to meet them.
- 4.8 A further dominant strand of thinking was around technology. Especially in manufacturing, but also in healthcare and digital, productivity advances were conceived as being dependent on technology, with this technology determining the need for skills and the possibility for up-skilling employees. In general, the employers felt that rapid advances in technology militated in favour of a growing need for high-level skills.
- 4.9 A minority of the employers acknowledged that the availability of 'cheap and flexible' labour was a possible influence on strategic choices. One employer who felt strongly about this said that the current availability of people willing to work at low rates of pay offered something of a 'distraction' from driving up productivity, but he went on to note that this situation was typically resolved (in his business at least) through the introduction of technology.
- 4.10 Others urged the point that it is important to see business not in a local, but in a global context. Other nations were always likely to be cheaper and more flexible and were dramatically altering their productivity relative to the UK.
- 4.11 Several employers felt competitiveness ultimately could not depend on 'cheap labour' strategies.
- 4.12 Finally, a vocal minority of the businesspeople thought skill should be seen as part of a wider package of people management practices. Getting value from these practices depended on how well aligned incentive arrangements were with the economic goals of the organisation. Provided they were well-aligned with business purpose, the overall package of people management practices could make a significant difference to the quality of work and the quality of the service on offer.
- 4.13 The comments below reflect some of these responses:

"In our business we need to be stripping 5% of costs every single year in order to remain competitive against international competitors, but also against ourselves

around the world. That is about a laser-like focus on waste and ensuring it is completely accepted by all members of staff as part of our DNA. In our business, lean is a critical element in achieving productivity goals.”

“Labour is decreasing with automation. Productivity changes fundamentally because of the technology.”

“Cheap and flexible labour can mean that business takes its eye off the productivity ball. Cheap labour is often up-skilled by the technology, though.”

“I think it [well-developed and aligned HR practices] means people are genuinely more interested in the economic outcome of their work. For example, every single colleague here has a reasonable bonus opportunity. And their cash bonuses align to short and medium term profit and return on investment goals. And those two things together, the equity ownership and the bonus really provide everyone with a real alignment to what we’re trying to do economically. And I think it really does have an impact, not just at a personal level but at a team level. It drives common purpose to performance but also if you get the metrics right, they really do drive the right behaviour.”

Moral Duties and Practical Considerations in Skills Formation

4.14 An important point regarding skills was that several businesses conceived skills not just in practical terms, but also in moral ones. Asked directly whether the skills crisis of the UK was a reflection of supply or demand side factors, the majority of employers plumped for the ‘both of the above’ option. While they certainly saw skills issues as being important, answers typically did not dwell solely on practical or financial considerations, but went into the moral aspects:

“Business also has moral responsibilities and it is right to be expecting them to up-skill the next generation out of moral duty. I’m not saying there is any one way that is right to go about doing it, but business does have a duty to invest in and develop people.”

“In our firm we do it through apprenticeships, in a firm of 65, ten of our people are apprentices. It really works; after two years they are very productive. But it is extremely difficult to get hold of the right candidates... English is a particular problem. We find that an awful lot of them cannot be trusted to respond to emails because their English is too bad. Many of the issues we are trying to sort out have their roots long, long before they get anywhere near the workplace – in the schools and in early years education. But business cannot just sit back and let it happen; they need to be rolling their sleeves up and getting involved as governors, as mentors.”

Attitudes as Well as Skills Being Critical

4.15 The often observed point that service businesses do not always recruit on skill, but focus on underlying attitude emerged strongly from the interviews. In general ‘hard

skills' tended to be emphasised in technology-dependent sectors such as manufacturing, digital and to a lesser extent healthcare; attitude was seen as more important within the service sectors where work tended to revolve around human interactions and relationships.

- 4.16 But almost all interviewees highlighted psychological factors - aspiration, ambition, and attitude - as being inseparable from the hard skill aspects of training, with many ranking them as more important than hard skills. Yet attitude, unlike skill, is not necessarily a quality that can be learned.

"It really is about attitude and work-readiness. If that is wrong and people don't have the basic aspiration to want to do well, it is not just going to work in terms of up-skilling them."

Developing Skills in Relation to Business Need

- 4.17 Without exception, interviewees felt that skill should be seen as depending on business need rather than existing as an isolated value in its own right. However, this viewpoint is admittedly difficult to square with the strong sense of moral duty regarding skills development that at least some employers avowed.

- 4.18 Some restrained criticism of learning providers was also evident. Skills training was too often perceived to be done in the absence of close contact with businesses.

"There is clearly a skills supply problem... there is a supply issue. Business needs are paramount and they do not always seem to be right at the top of the agenda in the way that they should be."

- 4.19 The interviewee who made this remark was also asked how, then, to balance the development of skills that are useful for individual businesses and transferable skills. She replied: *"That's the key balance of skills – to get the skills businesses can actually use, but also to make sure that people have skills – like a form of insurance – to move into work again outside of that individual business if things don't work out...I won't pretend I have all the answers."*

5 Conclusion

- 5.1 The evidence reviewed in this report points to something of an alternative narrative on skills. Rather than policymakers seeking to increase the qualification levels of the workforce to drive productivity, an effective strategy may also be to target the PMS and competitive strategy of employers. Firms seeking to compete in higher value markets are likely to demand higher skills and to seek to tap the discretionary effort of the labour force through practices that engage employees. Differentiated products and services are likely to demand the equivalent of jumping an NVQ level, for example.
- 5.2 As Ashton and Sung argue, this approach to skills development points to a number of different possible interventions:
- Working with employer associations to develop the evidence base and communicate it (for example, the benefits of high performance work organisation);
 - Developing the skills of senior managers so they can see the advantage of competing with a higher skilled workforce;
 - Easing the financial constraints that inhibit risk-taking and investment.
- 5.3 But, as research has shown, too often skills strategies are ‘path dependent’: they reflect past choices and there can be significant hurdles to progress. Thus policymakers should consider other possibilities including sectoral approaches such as efficiency regulation and the kinds of star-rating systems that operate in the tourism sector.
- 5.4 But whether these approaches are sufficient to change the game around skills is questionable. To quote one commentary, a realistic assessment of the UK’s low-wage, low-skill problem, “would suggest that to make any serious advances would require policy interventions designed to foreclose cost-based routes to competitive success, exert pressure on firms to move up-market, tackle short-termism and strengthen the position of organised labour both within the workplace and national policy setting”.³³
- 5.5 Despite some reservations, research points to compelling statistical evidence for organisations to adopt HPW practices. Yet evidence of the low take-up of these practices places a question mark over the willingness of organisations – faced, after all, with multiple additional pressures – to proceed very far or very fast down this route. On its own, this evidence is unlikely to be sufficiently strong or compelling enough to propel organisational change. This will be particularly true for organisations that have no apparent difficulty in hiring people into low-paid jobs requiring little formal qualification and where hard, job-related skills can be acquired quickly and cheaply, thereby reducing the cost of high-labour turnover.

³³ Lloyd, C and Payne, J Goodbye to all that? A critical re-evaluation of the role of high performance work organisation within the UK skills debate. *Work, Employment and Society*, vol. 20, 2006, p13

- 5.6 For low-paying organisations as a whole, the imperative for change is likely to depend on the specific market organisations choose to operate in. It will obviously be stronger in markets where consumers are attracted by quality rather than price. The decision to act on the imperative also depends on the abilities and strategic vision of the firm's senior leadership and operational managers.
- 5.7 The evidence points towards Greater Manchester firms tending towards PMS strategies of lower cost and lower specialism. On the indicators of PMS reviewed here, Greater Manchester firms generally rank beneath national norms when it comes to the adoption of high specification PMS approaches. In turn, this is likely to mean their demand for higher level skills and competences within their workforce will be relatively modest. For many, it is quite possible to compete on the basis of low cost, low skills and low paying strategies. These findings may be influenced by how much Greater Manchester firms sell into national and international markets. Where firms serve local or regional markets, their skills needs are likely to be lower. 'Internationalisation' is likely to imply an 'up-valuing' of the business model and in turn an imperative to acquire and use higher level skills.
- 5.8 These findings about PMS may be somewhat difficult to reconcile with the employer interviews. These interviews tended to emphasise the view that productivity would be enhanced by a higher skilled labour force and that significant issues with skills supply were holding them back.
- 5.9 The language of PMS and high performance work clearly has some way to go before it makes inroads into the consensus of business opinion. Businesspeople interviewed for this report tend to be of the view that improvements in skills supply would best enable productivity advances, and that these typically come from new technology being introduced into workplaces. In their view, upgrading the technology normally implies an upgrading of the skill levels of the workforce.