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**More Effective Skills Utilisation:  
Shifting the Terrain of Skills Policy in Scotland**

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## **Abstract**

This paper examines shifts in skills policy in Scotland towards emphasising the importance of effective skills utilisation. Turning policy into practice, however, requires a better understanding than currently exists of skills utilisation in order to facilitate better measurement, evaluation and intervention. This paper aims to contribute to such an understanding. We suggest that effective skills utilisation comprises two distinct elements: the use of better skills and the better use of skills, with the former crucial to the development of a high skills economy and the latter crucial to realising existing untapped workforce potential. We further argue that skills utilisation is most likely where workers have the ability, motivation and opportunity to deploy their skills effectively. We conclude by advocating greater collaboration in skills utilisation practice and research between relevant stakeholders, drawing on European experiences and an approach – which we call ASPiRRE – that envelops actors, structures, protocols, responsibilities, resources and expertise in order to align distinct stakeholder interests and encourage innovative practice in skills deployment.



## **Introduction**

Over recent years huge policy weight has been placed upon the shoulders of skill. Skills have become the magic bullet to solve a range of social and economic problems (Keep and Mayhew 2010). In Scotland there is a remarkable consensus across political parties about the importance of skills (cf. Scottish Executive 2001, 2004, Scottish Government 2007, 2010a). Even as the recession took hold, a belief that skills would provide a key route out of the economic downturn and deliver sustainable growth continued (Scottish Government 2010a).

The economic objectives underpinning skills policy are both narrow and broad. Narrowly, skills are offered as a solution to longstanding concerns over Scotland's productivity relative to other advanced nations, such as the US and the Scandinavian countries, and to emerging economies in South East Asia (Scottish Government 2007, 2008a, SSDA 2007). This productivity problem is compounded by the tendency for Scotland (and the rest of the UK) to be trapped in a low skill equilibrium, producing low value-added goods and services drawing on low skill workers (Wilson and Hogarth 2003). By way of response, skills policy is deployed more broadly as a lever to convert Scotland into a high skill economy; 'a smarter Scotland with a globally competitive industry based on high value jobs, with progressive and innovative business leadership' (Scottish Government 2007: 4).

Distinguishing between these narrow and broad objectives is important in assessing the economic potential of skills policy. Some firms in Scotland need to shift out of low into higher value-added product markets (SSDA 2007). However, notwithstanding aspirations to create a smarter Scotland, the number of industries and jobs that require better skills (as measured by qualifications, particularly at Level 4 and above, i.e. degrees) is inevitably limited. Only a minority of the workforce in any country can be employed in the type of industries that currently require high skilled workers: IT, pharmaceutical, aircraft manufacture and financial services. As Crouch *et al.* (1999:227) state bluntly, 'it is highly unlikely that employment of this kind will ever be the major, or even a major, source of new jobs'. Claims, by the IES (2010) for example, that other industries, such as retail, offer lots of highly skilled jobs are unconvincing (cf. Grugulis and Bozkurt 2011). Thus whilst it is right for government to want to maximise the number of high skill jobs in Scotland, not all jobs currently do or in the future will require high skills and workers with degrees. Indeed, it is

important to acknowledge that most jobs will not.<sup>1</sup> This reality, however, does not undermine the role of skills in improving Scotland's economic performance, as pointed out in this paper.

Importantly, policy thinking about how skills contribute to economic performance has developed considerably since devolution. Initially, emphasis was placed on supply-side initiatives to create more better-skilled workers through education and training (e.g. Scottish Executive 2001). This policy has resulted in workers with more skills acquired than are deployed, creating untapped potential in some Scottish workplaces. More recently, policy emphasis has shifted to the demand side and boosting employers' demand for these skills (e.g. Scottish Government 2007). However it is recognised that the new policy emphasis requires finessing, with a more targeted focus on skills utilisation within workplaces (Scottish Parliament 2007). Yet, as Keep (2003) has observed about Scotland and elsewhere, many of the policy instruments that can achieve this change have yet to be designed.

The objective of this paper is to help develop these missing policy instruments, ultimately offering a new approach that we term 'ASPiRRE'. This approach emerges from a review of existing policy debates, academic research and workplace practice. The paper has two main sections. The first briefly outlines the shifting policy terrain in Scotland and, with it, current problems in both policy and practice. The second signals what is needed to further shift the policy terrain in Scotland.

## **The Shifting Policy Terrain**

### **Starting from there ...**

In the late 1990s, skills policy focused largely on interventions in the supply side of the labour market. Accordingly, the Scottish and many other governments adopted an 'active labour market policy' (Scottish Executive 2001: 5) boosting education and training. This development of the workforce would, it was widely assumed, trigger organisational and business development as employers responded to the opportunities provided by more qualified workers and to the demands of more qualified workers for more rewarding work.

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<sup>1</sup> New policy thinking will be required about how jobs that are not high skilled can be made better, which raises wider questions about job quality in Scotland. This task is one that we have started, see [www.makingbadjobsbetter.org.uk](http://www.makingbadjobsbetter.org.uk)

Boosting the supply of skills also benefitted government, as skills hold out the promise of reducing unemployment, poverty and income inequality and for families to have happier, healthier, fairer and more successful lives (Scottish Government 2007, 2008a). Enhancing the supply of skills also avoids the ideological inconvenience and practical challenges of direct intervention in the management of firms. Reluctant to open the ‘black box’ that is firms, government intervenes in the supply-side of the labour market because it can (Layard 1997). To be fair, it was an approach that seemingly had an intellectual justification. A raft of prominent academic literature makes the claim that there is a tight link (or equilibrium) between the skills of workers and particular types of product; typically, low skilled workers produce cost-driven goods and services; high skilled workers produce higher value-added quality or innovation-driven goods and services (for a short overview see Lloyd *et al.* 2009). This approach transmuted into an assumption by government and some academics that education and training provides the workforce development that then levers organisational development<sup>2</sup> which in turn levers business development. Thus having better qualified workers would encourage different use of these workers within firms whose management would then need to rethink their product market positioning to compete in higher value-added product markets, thereby breaking the low skill equilibrium.

Unfortunately, this supply-side solution has not worked as intended. Whilst there are now more better-skilled, that is qualified, workers in Scotland, the country’s economic performance has barely changed. As a percentage of its workforce, Scotland now has more graduates than England but its productivity and competitiveness still lags behind England (Scottish Government 2007). Instead there is an over-supply of qualified workers resulting in over-skilled and under-employed workers. In Scotland there are 240,000 more graduates than jobs requiring a degree (Level 4+ qualifications). A similar figure exists for Level 3 intermediate qualifications. Moreover there are 724,000 jobs that require no qualifications but only 230,000 workers with no qualifications in Scotland (Felstead 2007). Worryingly, the figures are worse than for the rest of the UK and the trend appears to be worsening. Felstead (2007:8) concludes that whilst ‘the education system [in Scotland] has been successful

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<sup>2</sup> We use this phrase as a shorthand for the nature of leadership, management and job design within firms. We are mindful that organisational development is a term used differently in the human resources literature (see IDS 2011).

in increasing the qualification level of the economically active population, the demands of the economy have not kept pace with this success'. If better-skilled workers really are more capable, then Scotland now has huge untapped potential in its workplaces.

We argue that it is important to distinguish between two types of employer demand for skills: Type 1 centres on the point of hire and the skills needed to get the job; Type 2 centres on the point of use and the skills needed to do the job. With Type 1, employers' demand for skills has changed; that is, increased. Many employers, faced with a more qualified pool of applicants, select workers with better qualifications, seeing the possession of qualifications as a signal of capability. However the effect is that the qualification levels to obtain jobs spiral: jobs that were non-graduate yesterday are graduate jobs today (see Elias and Purcell 2004) and will likely become post-graduate jobs tomorrow.

Untapped potential exists because while employers have increased their demand for skills at the point of hire, Type 2 demand for skills needed to do the job has remained unchanged. There is no evidence that having more better-skilled workers encourages employers to create jobs that utilise these workers' skills effectively. In other words, workforce development has not triggered organisational development, far less business development.

### **... got us to here.**

Before the end of the 2000s, policy thinking was beginning to take on board what some academics had long argued: that raising workforce skill levels is important but not sufficient if innovation, productivity and competitiveness are to be improved (e.g. Keep and Mayhew 1996, Warhurst and Thompson 1999). Jobs must exist that use these skills effectively and skills are now recognised to be a derived demand. As a consequence, employer demand for skills became the new policy focus (Scottish Government 2007), reflecting the view that 'Our problem is not ... the supply of skills but ... employer demand for skills and how these skills are utilised in the workplace' (Hyslop, Scottish Parliament 2007). In this respect, government's concern is with Type 2 demand and boosting skill at the point of use.

There are a number of reasons why Type 2 demand is difficult to improve. Hutton (2010) blames banks' lack of interest in the patient building of companies for the UK's lack of investment in innovation. There is some truth in his claim that UK

banks have too readily ignored developing the UK's productive capacities through business re-engineering, favouring instead financial engineering to make profits (Erturk *et al* 2008). However, it also has to be said that there is a lack of demand for this innovation on the part of some Scottish companies, which are instead content to 'bottom feed' in low cost, yet still profitable product markets (Wilson and Hogarth 2003). Many firms don't actually need more qualified workers. As Futureskills Scotland (2009) has repeatedly shown, there are few substantive skill shortages or gaps amongst Scottish employers. Low skill equilibriums are maintained because they appear to work. However whilst cost-driven business strategies might produce 'quick wins' for firms, this situation remains a long-run worry for government. As Wilson and Hogarth (2003: xvii) state, for many sectors and regions, 'product and skill strategies based solely on ... competing on price are likely to prove a dead end'.

It is the pursuit of profit and threats to that profit that typically drives innovation in the private sector (ABS 2008-9). As Keep (2010) points out, skills are a third or even fourth order issue for employers. It is business development that is the predominant driver of change and so the first order priority for employers, which in turn levers the second order priority of organisational development, which in turn levers workforce development, including skills development; a reversal in the direction of change causality to that often assumed.

Finding ways to enhance the use of the skills already possessed by many Scottish workers now dominates policy thinking in Scotland (e.g. Scottish Government 2007, Skills Utilisation Action Group 2009).<sup>3</sup> The key issue is how to stimulate more effective skills utilisation by increasing Type 2 demand amongst employers and tapping the latent potential in Scottish workplaces.

### **Why policy isn't practiced**

If more effective skills utilisation is now the policy priority, its firm-level practice is weak. The reason, we argue, is that many employers perceive it as a policy solution to a problem that does not exist. As market pressures are the major influences on business development, firms will shift out of cost-driven to higher value-added product markets in line with market signals (Sung *et al.* 2009). The need for this change is real for these firms in Scotland which face and recognise pressure to shift

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<sup>3</sup> Scotland is leading policy development in this respect (cf. OECD 2010, Skills Australia 2009, UKCES 2009).

their products up the value chain in response to intensifying competition in terms of rising product specification standards and low cost competition in global markets (SSDA 2007).

Currently, however, skill use remains a lower order issue for many employers. Promoting more effective skills utilisation requires opening the black box of firms to examine the higher order issues – work design, management and leadership, and business strategies respectively (CfE 2007). However, content with their existing operations, many employers have little incentive to open the black box, ‘not because they haven’t seen the “light” but simply because it doesn’t make economic sense for them to do so’, note the CfE (2007: 16). First, cost driven product markets may have low margins but can still be very profitable. Hence for many cost-driven firms it is ‘business as usual’ as they bump along the bottom and neither innovate nor move up the value chain and so use skills any differently (Hogarth *et al.* 2004). Second, there is no employer penalty for under-utilising employees (Bevan and Cowling 2007), a situation exacerbated in an economic downturn when labour turnover and retention problems diminish (Wilson and Hogarth 2003). As a consequence, incentives to use skills effectively or upskill jobs may be difficult to discern in the short-term for employers.

There may be three reasons why employers do not perceive the lack of effective skills utilisation as a problem. The first reason is that, as noted above, there is no product market signal about the need to change operations as sufficient profits are maintained in a low skill equilibrium. The second might be that there are market signals that some firms need to develop their businesses but these signals are not being picked up by management because they lack the ability to interpret those signals or the ambition to act on them. The issue here is the quality of management. The third reason may simply be the proximity of the market signals and variation in the time horizons of managements’ planning. This problem can be particularly acute for SMEs with fewer specialist managers and other staff and so less capacity and/or capability to read any signals.

While under-utilising the skills of their workers may not present employers with immediate problems, it does represent a missed opportunity for business. Improving skills utilisation can provide immediate benefits through decreasing skills shortages and gaps, easing recruitment difficulties (Scottish Government 2011), reducing labour turnover (UKCES 2010c) and increasing the expenditure of

discretionary effort by employees (Appelbaum *et al.* 2000). By contrast, jobs in which skills are under-utilised are demotivating, alienating, lessen job satisfaction and lower levels of well-being (Green *et al.* 2010, Helliwell and Huang 2010). There may be additional longer-term benefits for employers: productivity gains (Flood *et al.* 2008) and, importantly, the possibility of incremental process and product innovations (Toner 2009).

It is important to note that innovation can occur in all types of firms. In terms of productivity gains, big, epoch-making product and production innovations are rare (Cowen 2011). More usual are incremental product and process innovations. For example, single large auditorium cinemas break up these auditoriums to accommodate more screens and become multiplexes, showing more movies per day; low cost airlines use front and rear cabin doors to more quickly embark and disembark passengers so that an extra flight per day can be made (Toner 2009). Although their extent and nature within a firm can vary considerably, such incremental innovations are fairly common, and can increase skill levels within firms and boost employment (Leigh and Gifford 1999).

### **How policy might be practiced**

The task is to change employer behaviour to realise these opportunities. Some argue that if the potential business benefits do not win over employers to more effective skills utilisation, intervention will be needed (Felstead 2007). The task for government is to identify appropriate forms of intervention that can lever more effective skills utilisation. There are two broad options.

First, employers may respond to regulatory requirements to improve skills utilisation. There is evidence that in some sectors regulation has resulted in an upskilling of the workforce in Scotland (Sung *et al.* 2009). However regulation is difficult to direct towards skills utilisation *per se*. Employers can spend specified amounts on training employees but, if merely the accreditation of existing worker competencies, this spend will not necessarily translate into new skill development or different skill deployment (Gospel and Lewis 2010). Similarly, licences to practice could be used to set national standards for skill possession (CfE 2007), although again possession will not necessarily equate with deployment. In any case, extending

licences to practice beyond current requirements has been ruled out in the UK both by Leitch (2006) and more recently by UKCES (2009b).

The second option appears to be soft substitution for the market through persuasion. In the absence of market need and regulatory requirement, government has taken to exhorting employers to improve their skills utilisation. The Scottish Government's Skills Utilisation Action Group (2009) for example wants to *raise awareness* of the need to have more effective skills utilisation, *help* organisations achieve it and *support* the agencies and stakeholders who can deliver it. It aims to do so by having a suite of good practice examples intended to persuade firms about the benefits of effective skills utilisation. It is as if, through these exemplar projects, employers will see the light and accept the importance and necessity of more effective skills utilisation. This option makes sense within the voluntarism of the UK's liberal market economy.

### **Problems changing practice**

Unfortunately, it is not clear what employers are being exhorted to do. Skills utilisation is not well-recognised amongst, or understood by, employers. Employers in both the CfE (2008) workshops and the SWQ Consulting (2010) case studies in Scotland did not recognise the term skills utilisation. If employers have difficulty knowing what it is, it is obvious that they will then have difficulty engaging with it as government policy and adopting it as workplace practice.

The development of policy and practice in relation to skills utilisation needs to be underpinned by greater conceptual clarity and by analysis of existing good practice. Yet as the Scottish Government acknowledge, there is very little research in the UK or in Scotland on effective skills utilisation (Scottish Government 2008b). This situation is not peculiar to Scotland. As Buchanan *et al.* (2010:2) note in a review for the OECD, literature on the subject is 'patchy and disparate', with little workplace level research that would help clarify the nature of effective skills utilisation. With a lack of conceptual clarity over what skills utilisation actually means, there is then a problem in measuring skills utilisation (Payne 2010).

In the absence of a clear specification of what constitutes skills utilisation, a proxy is often used: high performance working (HPW) (CfE 2008, SQW Consulting 2010), an approach also employed at UK level (Green 2010, UKCES 2010b). This

emphasis seemingly offers a neat aspirational (and also inspirational) benchmark of better workplaces and a target to direct efforts to generate high skilled workers (UCKES 2010b).

Yet while there is overlap between some of the organisational and work practices associated with skills utilisation and HPW (such as job redesign and employee engagement), and while HPW *may* facilitate skills utilisation, the use of HPW as a proxy for skills utilisation is unhelpful for a number of reasons. First, the take-up of HPW amongst firms is not high in the UK; it tends to be more topical than typical. Whilst some HPW *practices* might be adopted by some firms, few firms in the UK have anything that might be loosely accepted as an HPW *system* (Philpott 2006). Second, some of those practices, for example formal employee grievance procedures, whilst regarded as ‘high’ in the US from where much of the research on HPW is drawn, are ‘basic’ practices in other countries (including Scotland) (Boxall and Macky 2010). Their presence, therefore, whilst important, is insufficient to boost effective skills utilisation in these other countries – or it would have already done so. Third, the link between HPW and firm performance is ambiguous, with causality difficult to measure generally and the specific employee role within it also difficult to evaluate (Payne 2010). Fourth, although assessment of HPW practices note the existence of upskilling, which is and which can be measured through training incidence, skills utilisation per se is not measured. Instead a further set of proxies are used, such as the existence of quality circles within a firm (Huselid 1995). There is plenty of research that shows that quality circles can be little more than talking shops, have a limited shelf life and can result in productivity gains through work intensification rather than through more effective skills use (Wilkinson and Willmott 1995). Fifth, there is little consensus about the definition of HPW practices, the bundle of practices that characterise it and the combination of these practices that work best, plus there are said to be negative impacts on employees associated with some of these practices (Huselid 1995, Ramsay *et al* 2000). Using a proxy that is itself contested only further exacerbates the problem of measuring skills utilisation.

There are thus three challenges in moving forward policy on skills utilisation: definitional, measurement and evaluation. A definition is required before measurement, both taken together enable identification of what currently exists and can provide a benchmark from which any change or intervention can be evaluated. Payne’s (2010) solution to these challenges is for policy-makers to pursue an

inductive approach to skills utilisation, examining what is out there and then working towards measurement and evaluation of it.

### **Shifting the policy terrain**

#### *Towards a better understanding of skills utilisation*

In contrast to Payne, we argue that a deductive definition of skills utilisation is possible which then allows measurement and evaluation. We suggest that debates about skills and their utilisation often fail to distinguish between the skills possessed by people (P) and the skills required by jobs (J), yet this distinction is important in disentangling different types of skill/jobs mismatches and understanding what action is required to achieve effective skills utilisation by firms. For simplicity, the relationship between employees' skill and jobs can take three forms, as Table 1 illustrates. Where  $P=J$ , employees' skills are effectively matched to the requirement of jobs i.e. utilised effectively. Where  $P<J$ , employees lack the skills to perform their job appropriately. Where  $P>J$ , the skills of employees are under-utilised. These positions are static. In terms of remedial action,  $P<J$  means that *use of better skills* is required and so skill acquisition, or upskilling, needed on the part of workers.  $P>J$  means that firms need to make *better use of skills* workers already possess. Both actions achieve  $P=J$ , in other words, effective skills utilisation. However the two actions have different policy resonances. *Better use of skills* focuses on doing a job better; *use of better skills* focuses on doing a better – that is, higher skilled – job. Firms can train workers to address skills gaps but without necessarily increasing the levels of the skills possessed by these employees; using better skills involves upskilling and so movement towards the high skill economy desired by government. Firms making better use of skills addresses the untapped potential of workers and levers the existing sunk costs in skills acquisition. Significantly, the latter form of skills utilisation can occur in any firm regardless of product market strategy, not just those that are in high value-added product markets. Moreover, we recognise that whilst under-utilised skills can be acquired through formal education and training, they can also be acquired experientially, through practice and so can exist amongst any workers with tacit 'know how' about their jobs. Thus our approach has applicability to a broader range of firms and workers.

**Table 1: Understanding skills utilisation and related actions**

<b>Configuration</b>	<b>Meaning</b>	<b>Remedial action</b>
P=J	Effective skills utilisation as the skills of the person and job are matched	None
P<J	Workers lack the skills to do the job.	Use of better skills needed, so upskilling through training and education
P>J	Workers have more skills than their job needs and so are under-utilised.	Better use of skills needed to tap existing potential of workers

A note of caution is needed at this point. Our approach is useful for government because it envelops the boosting of workers' skill acquisition and the boosting of how workers' acquired skills are deployed. However where skill/job mismatches exist, equilibrium can be achieved by raising or lowering skill levels. Where  $P < J$ , employers might remedy this situation by deciding to maintain their current business strategy and achieve a matching of the skills required to do the job by hiring lower skilled workers. Given the increase in Type 1 demand that we outlined earlier, this development is unlikely. Moreover it would counter government policy aspirations.

What is required is identification of the workplace conditions under which more effective skills utilisation might occur. In this respect Appelbaum *et al.*'s (2000) work on the way in which employees' discretionary behaviour can be harnessed to business outcomes can be adapted: effective skills utilisation involves workers' ability, motivation and opportunity (AMO). While skill supply can ensure employee ability (i.e. employees possessing the skills to be deployed), employees need sufficient motivation to deploy that ability (e.g. through improved job security and/or a share in the material benefits of innovation and productivity gains) and employers must provide the opportunity for them to do so (e.g. through particular work design, and management and leadership styles). Effective skills utilisation thus requires management and organisational practices, processes and approaches that support, inspire and enable employees to use their skills to best effect to improve business outcomes. These requirements distinguish our conceptualisation from that offered by Bates *et al.*'s (2009: 11) and which is buried in a technical report for UKCES. They

suggest that effective skills utilisation ‘implies a particular concern with identification of workforce talents, designing work in such a way that the talents are optimally used and offering opportunities for employees to contribute to shaping the broader development of the organisation’. This formulation rightly envelops workers’ ability and opportunity but ignores their motivation. All three elements of AMO must be present for more effective skills utilisation. We have already noted the benefits for employers but workers must also have an interest in skills utilisation for it to be delivered. Such benefits might include better job security, more interesting work, better career development opportunities and the potential for enhanced earnings, as recent Scottish case studies have shown (Findlay *et al.* 2011).

For workers, acquiring better qualifications is still beneficial – even if the rate of return to qualifications for individuals is becoming more ambivalent (Wolf *et al.* 2006). The deployment of skills in UK workplaces to deliver more incremental process innovations has too often led to headcount reductions and work intensification (Wilkinson and Willmott 1995). In other instances firms have boosted productivity and profits without sharing those gains more widely with workers (OECD 2011). Yet, workers can be incentivised by improving job security and providing higher wages. The challenge is to align employer and employee interests around skills utilisation.

In terms of measurement, Payne (2010) is right to argue that survey data is useful but limited, needing to be supplemented by longitudinal in-depth organisational case studies employing qualitative analysis that digs below the surface of survey data. We also agree with his point that good evaluation will require the use of ‘action research’, involving researchers with an orientation to and experience of applied research who are able to work with practitioners to broker and solve business problems.<sup>4</sup> Unfortunately, the cadre of UK researchers best positioned to understand why skills utilisation is poor have, in recent years, settled into a comfort zone of criticising policy and practice rather than engaging with it and seeking to improve it (Warhurst 2005). Moreover, the interface of interests and *modus operandi* between researchers, government and practitioners in the UK is weak with none really understanding each other’s needs (Crouch 1998, Warhurst 2009). In this respect the focus on the ‘Definition → Measurement → Evaluation’ process overlooks perhaps the most important stage – that of change, and there is a need to shift from identifying

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<sup>4</sup> For a short overview of the origins and operation of action research see Beirne (2008).

what currently exists to what might exist in terms of skills utilisation. If more effective skills utilisation is to be achieved in Scotland there needs to be greater exploration of the feasible interventions that might best affect the desired change.

### **Aligning policy and practice**

For employers, the prize of improving skills utilisation is the opportunities it brings to improve business outcomes. Exhorting employers is only likely to be successful if it appeals to their interests. Other stakeholders, principally government and employees, also have an interest in more effective skills utilisation. The challenge is to align employer interests with these other stakeholder interests to establish mutual gains.

UKCES (2009a, see also Cox and Stone 2009) has already signalled the desirability of taking ‘collective measures’ but chooses to focus on employers as a collective. This narrowness is limiting. Employers may well learn from each other through collective engagement with skills issues but it is, as yet, untested and there may be good reason for cynicism in expecting employers to do collectively what they have not done individually, particularly in the absence of immediate market carrots or regulatory sticks to change their practice. We suggest that greater progress would be made with a more inclusive operationalisation of the ‘collective’. This should include not only employers but also government and employees, and should recognise that there are also secondary actors who can have important supportive roles: trade unions, employer organisations, researchers and consultants most obviously.

In seeking to improve incremental workplace innovation specifically, Ramstad (2009) has already identified the importance of these stakeholders acting in concert. She argues that what is needed is concept agreement, systemic tools, project funding and political (government) and social partners’ (employers and trade unions) support. It must also involve a co-ordinated formal and informal network of colleges and universities, research institutes, consultancies, firms, labour market organisations and policy bodies. Such a system would encourage and help implement the incremental innovation that is needed.

Ramstad accepts that this approach relies upon management-employee collaboration and co-operation and that, as a consequence, it is closely linked to management’s right to manage. For this reason governments are more fearful of engaging this approach to supporting incremental innovation, opting instead to focus

on approaches that purport to deliver ‘big bang’ innovations. Examples of Ramstad’s preferred approach therefore tend to occur most in the Scandinavian countries and in Germany. In Denmark, for example, there are now ‘regional growth fora’ involving regional partnership between the actors responsible for business development and labour market policy and which aim to better link workforce development to business development (OECD 2008).

Given the difficulties so far in developing effective skills utilisation in Scotland, it is time to overcome this fear and explore the practical conditions under which this approach can be developed. The Better Not Cheaper campaign in Germany offers such an opportunity. Its starting point is the need for business development from which organisational and workforce development follow.

### **The Better Not Cheaper Campaign<sup>5</sup>**

In 2004, aware that Germany ‘can’t beat Beijing on price’, IG Metall (Germany’s largest trade union) launched the BNC campaign in North Rhine-Westphalia<sup>6</sup> to involve unions and employees in business and workplace restructuring. The campaign is one illustration of how the state, employers, employees, unions, consultants and researchers can usefully combine not only to generate a robust evidence base about what works but also to resolve real business problems through the more effective deployment of workers’ skills and capabilities. Importantly, workers have the ability, motivation and opportunity to engage with these business problems.

The BNC campaign, details of which are provided in Box 1, includes interventions that facilitate workers doing jobs better and doing better jobs. While many of the BNC workplace interventions have been driven by crisis or impending crisis, in others developments reflect a proactive approach by stakeholders. In either case, positive outcomes require stakeholders to be open, capable of engaging with strategic business issues and convinced of the potential for real and mutual benefits.

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<sup>5</sup> We are grateful to Achim Vanselow of Deutscher Gewerkschaftsbund and Gabi Schilling and Thomas Haipeter of the Institut Arbeit und Qualifikation at the University of Duisburg-Essen for the material in this section (Schilling and Vanselow 2010, Haipeter 2011).

<sup>6</sup> North Rhine-Westphalia is an important lande in Germany: alone it ranks 17<sup>th</sup> in the world in terms of GDP, employs 8.7m workers and has the headquarters of 24 of Germany’s top 50 companies. It is a services-dominated economy but retains significant manufacturing capability.

### **Box 1: The background, operation and outcomes of Better Not Cheaper**

**Triggers:** Germany has long enjoyed an enviable reputation for its highly skilled workforce and its highly productive, innovative and competitive economy. Increasing global competitive pressures in the last decade have, however, resulted in more German employers introducing temporary contracts, reducing working hours and off-shoring production. This development has created particular challenges for government, workers and trade unions. In North Rhine-Westphalia, the lande government's economic strategy focuses on stimulating innovation in a small number of prioritised industries, including engineering and the creative industries. This economic strategy is founded on a 'Culture of Dialogue', involving government, employers, unions, NGOs and citizens.

**Objectives:** The BNC campaign challenges existing business strategies and develops informed alternatives to short-term cost cutting. At its heart is an assumption that businesses can benefit from employee input to, engagement with and co-operation in managing change and/or crisis. Employee input is assumed to contribute constructively to developing mutually beneficial solutions such as product and process innovation, identifying cost savings and developing new activities and markets. The BNC campaign however aims at more than short-term crisis management; it aims to build sustainable innovation.

**Levers:** BNC involves joint working between employers and employees, through works councils, to devise mutually beneficial solutions. Previous German research confirms the potential of works councils to support innovation where they have sufficient expertise and support, and where their input is taken seriously by management.

**Process:** Where employers accept the principles and orientation of the BNC campaign, any employer proposals for change are evaluated by the works council, with support from the trade union and consultants employed by the trade union. This evaluation examines the implications of any proposed change for the business and for employees against the benchmark of long-term strategic solutions. To enable effective evaluation of employer proposals, works councils are given detailed access to company financial information. Employers must make a convincing case that any change is both necessary and likely to be effective. Where the works council accepts that the proposed change can enhance business functioning or ensure business survival, they can sanction temporary deviation from industry-wide collective agreements. This sanction represents a powerful incentive for employers, given the weight of such agreements in Germany. Where the works council does not accept the management case, alternative solutions are proposed. Once agreement is reached, the works council monitors how management adhere to the terms of the agreement.

**Stakeholder interests:** The prize for employers in engaging employees includes greater flexibility in relation to collective agreements, the freeing of resources for investment and the in-sourcing of additional expertise from academics and consultants. For employees and works councils, benefits arise from their enhanced participation in processes of organisational change which might, without this participation, be detrimental to employee interests in terms of job security and terms and conditions. For unions, the process engages them in change of crucial relevance to their members and generates new roles and activities, although greater involvement in

the management of crisis is not without risk for unions. Academics provide direct expertise and act as knowledge-brokers for the works councils. Consultants are employed to provide expertise to lever, for example, technical change and change management.

**Challenges:** For all stakeholders, engagement with the BNC campaign involves significant learning about the issues facing individual businesses and developing new forms of communication and relationships required to support the BNC approach. BNC engages works councils directly with strategic and operational business decisions, casting their members in a challenging role that requires expertise in their employer's business and extensive engagement with their fellow employees. Works council members thus require particular competencies and skills as well as access to expertise relevant to the needs of their employers and co-workers.

**Process outcomes:** To support the education and professionalisation of works councils required to support BNC projects, new relationships between employers, trade unions, academics and wider industry actors have been established. Supported by funding from the Germany education ministry, collaborative arrangements have been established that encourage dialogue, knowledge exchange and knowledge transfer between universities and businesses through works councils. These arrangements enhance the accessibility of expert information, targeted to individual business priorities, and enable knowledge dissemination, transfer and exchange. The overarching aim is to build a constructive and innovative network that brings together scientific expertise, business and employee experience directed to the long term development of business in ways that also serve employee interest.

Crucially, the engagement of individual firms with the BNC campaign has wider impacts. Works councils are connected in regional and sectoral networks, and deliberate strategies are pursued to transfer knowledge and good practice between works councils and hence across firms and sectors. Academics, works councils and unions provide benchmarking data for use by other companies, engage in industry specific workshops, construct and disseminate industry reports, generate survey data and construct strategic and procedural guidelines as well as protocols for continuous learning for all participants.

**Business outcomes:** The immediate outcomes of BNC projects have been striking. In the 137 plant-level cases to date, there have been process and product innovations; re-training and re-deployment; the shelving of business relocation plans; new customers and markets; employment growth and significant cost savings, often resulting in increased investment. In some cases, management have required convincing as to the merits of engaging with works councils on workplace innovation; in others, management have viewed the BNC campaign as a significant opportunity to develop their businesses.

The systemic supports provided by co-determination arrangements in Germany and the history of constructive, joint working arrangements between strong employer organisations and trade unions assist a collaborative approach to business development. At first sight, therefore, the German BNC campaign may seem of little

relevance to Scotland. Germany is a co-ordinated market economy as opposed to the liberal market economy of the UK and has a different institutional context (Hall and Soskice 2001).

However the BNC campaign has resonance with Scottish circumstances and offers lessons for Scotland about effective skills utilisation. First, there is already a significant degree of concerted stakeholder policy development in Scotland at national level and which continues with changes of government. Second, there is also extensive partnership working between employers and trade unions across major parts of some sectors in Scotland. Third, in any case, initial social partnership is not a precondition of BNC. There is confrontation as well as consensus amongst the BNC cases. More important to supporting constructive engagement with the BNC campaign is openness amongst all of the stakeholders to business development and what follows.

Most importantly, the aims, objectives and operation of BNC are not necessarily context specific. The challenges from which BNC emerged are common to Scotland and many other advanced economies. Market pressures may drag firms into a 'race to the bottom' in terms of skills and job quality in these countries, at a time when government policy is promoting a shift to higher-value activities. Looking more positively at the potential of BNC, many firms might benefit from such an approach in responding to and seeking out business opportunities which lever untapped employee potential.

Whilst BNC has resonance with Scotland, operationalising something similar would require a number of important issues to be addressed. Existing stakeholder collaboration in Scotland is largely centred on the public sector and a small number of large private sector workplaces. The vast majority of firms in Scotland are SMEs many of which are currently beyond the reach of unions. More broadly, moving forward requires the key and supportive actors to develop structures and protocols to support sustained activity around more effective skills utilisation. The latter is unlikely to happen unless government creates the right incentives for stakeholder participation. These incentives would helpfully move Scotland beyond current reliance on recognition of good practice exemplars as persuaders. Instead incentives would trigger normative and, if necessary, coercive isomorphism amongst Scottish firms and embed desired practice, as is commonplace already in many advanced economies for other purposes (DiMaggio and Powell 1983).

Beyond incentivising the primary actors and developing the appropriate protocols to support change, what BNC also highlights is the importance of external expertise that allows for a re-framing of business relationships, challenges and opportunities. Given the existing weakness in the interface between government, practitioners and academics, a key task for Scotland will be the building of a critical mass of researchers with expertise in skills issues able and willing to undertake action research to support government, employers and employees to deliver more effective skills utilisation.

We call this approach ‘ASPiRRE’ as it involves actors, structures, a set of protocols that identifies the responsibilities and resources to incentivise change, and the accessing of internal and external expertise. The prize for government in adopting it is an opportunity to move beyond episodic reactive interventions and encourage a sustained change in how firms in Scotland operate. Having a supportive system around skills utilisation would allow Scotland to be more proactive in its economic development. There would be in place a system for continuous business, organisational and workforce development through which more effective skills utilisation might take place. This sustainability is important because strategies that only focus on short-term business needs simply reinforce low skill equilibriums, can run into difficulties and ignore longer-term economic developments and opportunities (OECD 2008). As the OECD states, ‘policy cannot afford to be primarily reactive, but also needs to engage in promoting change within the economy’ (2008:3).

### **Shifting Scotland’s thinking on skills policy still further**

Skills remain important in Scottish policy thinking. It is now, rightly, appreciated that the supply of more workers with better skills is important but not sufficient. Target-setting for the expansion of training and education has failed to deliver an innovative, higher productivity, more competitive economy for Scotland. Employer demand for skill is now recognised as necessary, though this demand can be both to obtain employment (leading to spiralling credentialism) and to do the work. It is on this latter Type 2 demand involving effective skills utilisation that policy attention is now focused. Unfortunately, there is little research in Scotland or elsewhere to support this new approach and the translation of policy intent into workplace practice has been limited. This policy to practice gap is underpinned by definitional, measurement and

evaluation problems. These problems are not peculiar to Scotland but do require addressing in Scotland in order to develop the successful policy instruments that Keep (2010) flags as necessary.

The starting point has to be better understanding of skills utilisation. To facilitate measurement and evaluation, there is a need to stop using proxies of skills utilisation and, instead, develop a definition. We suggest that effective skills utilisation comprises two possibilities: the use of better skills and the better use of skills. The former aligns with the government's desire for a high skill economy but has limitations in terms of the number of jobs and types of workplaces that feasibly will be high skill in Scotland, as any country (Crouch *et al.* 1999). The latter draws out the untapped workplace potential of an over-qualified Scottish workforce (Felstead 2007) and can be applied to most if not all Scottish workplaces where workers have the ability, motivation and opportunity to deploy their skills effectively, regardless of whether these skills are derived through formal education and training or experientially.

Whilst we have defined effective skills utilisation in terms of skills matching to lever the better use of skills and the use of better skills, the two are not mutually exclusive. In fact, some of the practices necessary to deliver the better use of skills feature in workplaces wanting to use better skills. In both cases, however, skills utilisation needs to be driven by business development. As Wilson and Hogarth (2003: xvi) conclude:

Without significant changes to product market strategies ... work organisation and job design, improving the skills of those who undertake these jobs may achieve only limited results and may lead to over-qualification and to skills that are under-utilised or not at all.

It is time, therefore, for policy to acknowledge that what happens inside firms matters and appreciate that whilst direct intervention by government inside this 'black box' may be neither feasible nor desirable, there is a role for government in establishing the infrastructure necessary for a broad-based approach to innovation as suggested by Ramstad (2009). Once established this system allows the building up of expertise in effective skills utilisation advocated by Payne (2010), the exchange of experience and thereby benchmarking within and between industries (Sung *et al.* 2009), and within and between countries (Carré and Tilly 2012). The German BNC campaign offers an example with lessons about how a new approach can be developed

in Scotland. It shows how all stakeholders can work in partnership and how the interests of the key actors can be aligned.

This alignment of interests will not happen spontaneously but requires deliberate encouragement. What is needed is an approach that envelops actors, structures, protocols, responsibilities, resources and expertise– what we call ASPiRRE – or more prosaically, who does what, when, how and why. Such an approach, as with BNC, represents what Payne (2010) has suggested is needed in Scotland in terms of developing not just good research but also good evaluation of skills utilisation projects: action research that is case study focused in which academics, appropriately incentivised, engage in applied research with government and practitioners to broker and solve business problems. Of course, as yet there is no longitudinal tracking of BNC cases and a longitudinal approach is important for evaluative purposes and, more practically, for effective skills utilisation to spread beyond specific firms and become embedded not as good practice but as standard practice.

If Scottish policy thinking has shifted in recent years, it needs to shift further if effective skills utilisation is to be achieved. Scotland can make that shift. As Glyn (2006) has argued, in a global economy, governments are not wholly constrained; they can exercise policy choices. If Scotland continues to bump along the bottom, it will be vulnerable to competition from low wage economies elsewhere in the world. Maintaining the status quo in Scotland will only reinforce the low skill equilibrium, with low skill workers continuing to receive low wages and only able to consume low cost goods and services, while firms in turn are only able to produce cost-driven goods and services (Keep 2000). The cycle needs to be broken and we need to aspire to something better.

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