

The Skills Dilemma

Skills Under-Utilisation and Low-Wage Work

A Bottom Ten Million Research Paper

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This paper is the second in a series of publications as part of The Work Foundation’s new research programme, [The Bottom Ten Million](#), which focuses on the employment prospects of Britain’s low earners between now and 2020 and seeks to identify the priority measures that need to be taken if they are to share in the sources of growth and prosperity over the next decade. There are ten million people in Britain who currently have annual incomes of less than £15,000. The Bottom Ten Million programme is sponsored by Working Links, The Tudor Trust, the Barrow Cadbury Trust and the Private Equity Foundation.

1. Introduction

There is a skills dilemma in the UK. Successive governments have focussed on supply-side measures to tackle the UK's skills problems and to improve the nation's international economic competitiveness. However, despite increased investment in skills and educational attainment, labour productivity in the UK lags behind other comparator countries.¹ Lord Leitch's review of skills found that the UK's relatively poor skills base only accounts for around one fifth of the productivity gap with countries such as Germany and France;² with the rest mostly attributable to our poor record of 'investing in physical capital, R&D and infrastructure', but commentators have also identified the importance of work organisation and job design in boosting productivity.³ This paper challenges the implicit assumption in much skills policy making that the skills problem lies solely on the supply-side.

Supply-side interventions can certainly boost competitiveness and also have an important influence on individual labour market outcomes; however in isolation they have not been sufficient to close the productivity gap with competitor nations.⁴ We therefore argue that greater attention needs to be paid to the limited demand for skills. This argument is not new, Wilson and Hogarth advocated this view in the early 2000s,⁵ however acknowledgement of the issue in policy circles, and progress towards better demand-side policies, has been painfully slow.

The UK faces significant skills challenges. The suggestion of demand-side concerns should not be taken as implying that there are not further improvements that can be made in the supply of skills. This is particularly true for the lowest skilled. Whereas the UK ranks 12th for high level skills in the OECD, it is further behind for intermediate level skills (18th) and for low skills (17th).⁶ The supply of skills has important implications for the ability of employers to recruit a suitably qualified and skilled workforce. Last year's national employer skills survey found that 19 per cent of employers were suffering from a skills gap.⁷ It is therefore clear that on-going efforts to improve the supply of skills remain important.⁸

However, there is a growing body of research arguing that **the skills problem is related not only to skills supply but also to poor skills utilisation.** For this study we adopt a definition of skills utilisation that captures both the individual, firm level and potential national effects, and which was developed by the Scottish Funding Council (SFC) who have recently funded a programme of 12 projects which test different approaches to skills utilisation.

¹ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

² Leitch Review of Skills (2005) *Skills in the UK: The long-term challenge* HM Treasury

³ Keep, E., Mayhew, K. and Payne, J. (2006) 'From Skills Revolution to Productivity Miracle – not as easy as it sounds?' *Oxford Review of Economic Policy*, 22:4.

⁴ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

⁵ Wilson, R. and Hogarth, T. (Eds.) (2003) *Tackling the Low Skills Equilibrium: A Review of Issues and Some New Evidence* Department of Trade and Industry

⁶ UKCES (2010) *Ambition 2020*

⁷ UKCES (2009) *National Employer Skills Survey*

⁸ Lawton, K. (2009) *Nice Work If You Can Get It* IPPR

Effective skills utilisation is about:

- Confident, motivated and relevantly skilled individuals who are aware of the skills they possess and know how to best 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 well-being, and stimulate investment, enterprise and innovation.

Previous research by The Work Foundation has found that between 35 and 45 per cent of employees feel their skills are under-utilised.⁹ Other employee surveys such as the UK Skills Survey have reported similar results.

Skills under-utilisation is also more prevalent in low-wage sectors. Employer demand for skills is lowest in sectors such as retail and hospitality – those sectors which also employ the most low-wage workers.

Skills utilisation matters for the UK economy, for employers and for employees. Firstly, although the UK workforce has become increasingly skilled in recent years, the productivity gap with comparator countries remains. There is a growing body of research that argues that a demand-side approach is needed to help close the gap. Secondly, better skills utilisation matters for employers because it can result in better motivated, confident and productive employees and reduce staff turnover. And lastly, better skills utilisation can make work more satisfying for employees, and improve their prospects for progression.¹⁰ Therefore, failure to understand and address the skills problem appropriately will not only hinder the UK's long term growth potential but may also dampen social mobility.

⁹ Brinkley, I. et al. (2009) *Knowledge Workers and Work* The Work Foundation

¹⁰ CFE (2008) *Skills Utilisation Literature Review* Scottish Government Social Research

Box 1: Approaches to skills utilisation

One problem inherent in the skills utilisation agenda is that the term ‘skills utilisation’ is subject to a relatively wide variety of definitions. These definitional problems are also exhibited in practical skills utilisation policies, with the early evaluation evidence from Scotland suggesting a number of pilot projects leaned quite heavily towards the supply-side of skills.

There are also a number of different approaches to skills utilisation – these have been grouped as market-driven, state-driven and holistic (see table below). These approaches differ in their focus, main drivers and models of delivery as well as in their intended outcomes. The following table provides an overview of some of these differences regarding both their implementation and impact:

Implementation of approaches			
	Market driven	State driven	Holistic
Focus	Organisation	Organisation	Industry/National
Driver	Business performance	National productivity	National prosperity
Model	HPW Learning transfer	National strategy Workplace projects	National strategy (combining acquisition and utilisation)
Enablers	Leadership and management Employee trust	Buy-in – employers, employees	Stakeholder engagement Sector wide projects Fund
Impact of approaches			
	Market driven	State driven	Holistic
Take up	Low	No evidence	No evidence
Outcomes – economic	Profit Sales Productivity	Productivity	Use of resources Improved innovation
Outcomes – social	Job satisfaction Staff retention/motivation Work intensification	Well-being Working conditions Equality and diversity	Improved collaboration
Limitations	Employee buy-in	Buy-in Dissemination	Broad approach MeasurementS

(Source: CFE, 2008)

Generally speaking skills utilisation is presented as a positive concept, although some commentators viewing the concept in its broadest sense also argue that management practices aimed at deliberately limiting the use of employees skills can also be examples of skills utilisation.

The challenges faced by low-wage workers – including the under-utilisation of skills in low-skill low-wage sectors – are driven by multiple factors. There are forces both inside and outside of the workplace that shape under-utilisation outcomes. The *skills ecosystem* captures the context in which skills are developed and used. It includes the business setting, the institutional and policy frameworks (skill and

non-skill based), the modes of engaging and contracting labour (such as labour hire arrangements) and the structure of jobs (for example job design and work organisation).¹¹

Initiatives to improve skills utilisation have been undertaken in Australia, New Zealand, Scandinavia, and also Scotland – where the Skills Strategy makes a commitment to *‘improving the skills and employability of individuals and creating high skill, high productivity, healthy workplaces where this talent can be best used’*.¹² **But there is no established policy response in England.**

Changes in the structure of the labour market in recent years have placed new pressures on low-wage workers. The labour market has become increasingly polarised into low-wage, low-skill jobs and high-wage, high skills jobs; and the recession has accelerated this structural change.¹³ We also know that progression from low-wage work is often quite poor. Furthermore it is forecast that there will *not be significantly fewer low-wage jobs in the UK by 2020*, yet there will be relatively few adults in the labour market with no qualifications.¹⁴

Brockmann, Clarke and Winch have also identified there is **a cultural difference between how work is conceived in the UK and overseas**.¹⁵ In comparator countries progression is an integral aspect of any occupation, and the floor of minimum training required is often much higher. This incentivises employers to maximise the productivity of its workforce through job design – to cover training costs. Conversely, the UK jobs market is increasingly characterised by a long ‘tail’ of low-wage work,¹⁶ with limited opportunities to progress.

A recent review of international skills policy has identified three main approaches to tackling skills under-utilisation – market driven, state driven, and holistic.¹⁷ In countries such as Finland and Ireland the state has played a leading role; establishing a policy framework to encourage organisations to maximise skills utilisation. Other countries have taken a more holistic approach involving *employers, employees, learning providers and the state ... to achieve industry wide and national impacts on productivity*.¹⁸ The Skills Ecosystem Project in Australia is an example of a holistic approach.

High performance working, which has been the central plank of the English response to employer skills use, is a market driven approach which includes activities in the areas of human resource management,

¹¹ Buchanan, J. et al. (2010), *Skills demand and utilisation: An international review of approaches to measurement and policy development* OECD Local Economic and Employment Development Working Papers, 2010

¹² Skills for Scotland at <http://www.scotland.gov.uk/Resource/Doc/326739/0105315.pdf> accessed on 22 November 2010 p. 7

¹³ Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* The Work Foundation

¹⁴ Lawton, K. (2009) *Nice Work If You Can Get It* IPPR

¹⁵ Brockmann, M., Clarke, L. and Winch, C. (2011) *European Skills and Qualifications: Towards a European Labour Market* Routledge

¹⁶ Clayton, N. and Brinkley, I. (2011) *Welfare to What? Prospects and challenges for employment recovery*, The Work Foundation

¹⁷ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

¹⁸ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

work organisation, management and leadership, and organisational development. Although, less than a third of organisations in the UK take a HPW approach (2008 Employer skills survey).¹⁹

This paper

In this paper we analyse skill utilisation in two sectors in the UK economy – **hospitality and retail** – which employ a relatively high proportion of the low-earners and which exhibit high levels of skills under-utilisation compared to other sectors. We focus on the following questions:

- 1. What are the main drivers of skills under-utilisation in low-wage sectors in the UK?**
- 2. What can and should be done to address skills under-utilisation in low-wage sectors in the UK?**

The paper also draws on examples of skills utilisation best practice in comparator countries before developing a set of policy recommendations for UK policy makers and employers.

The research method involved both a review of the existing literature on skills utilisation and how this applies to the case study examples as well as undertaking 15 expert interviews. These interviews covered a range of actors including academic experts, Unions, Sector Skills Councils, employer and trade bodies, and central government.

The Skills Dilemma builds on our existing *Bottom Ten Million* evidence base. The paper aims to highlight the role that improved utilisation can play in generating better work outcomes for the *Bottom Ten Million* and to raise awareness of skills under-utilisation in England. Better skills utilisation also has the potential to generate higher productivity levels for businesses and to bring about benefits for the wider economy.

The paper is structured as follows:

- **Section 2** outlines the scale of the problem in the UK;
- **Section 3** examines the barriers to improving low-wage work and the role of skills utilisation;
- **Section 4** explores the drivers of skills under-utilisation and barriers to better skills utilisation in two low-wage industrial sectors:
 - Hospitality;
 - Retail;
- **Section 5** summarises our findings and sets out a series of policy recommendations.

¹⁹ UKCES, *High Performance Working*

2. Skills under-utilisation in the UK and low-wage work – the scale of the problem

While there is growing evidence that under-utilisation of skills by employers is an issue, there is no established definition of skills utilisation. This makes measuring the issue problematic. In part this reflects the insufficient understanding or awareness of the problem in government and amongst employers (especially in England), when compared to supply-side challenges such as skills shortages and skills gaps. As such, policy makers have not sufficiently recognised the importance of demand-side measures such as improved work organisation practices and job design in delivering skills improvements. This is despite there being take-up of this policy agenda in other countries, including Scotland.

Progress on skills has traditionally been measured using qualifications across the workforce; but this ‘does not take account of the skills which people acquire through non formal; and informal learning both at work and within their wider lives’.²⁰ Qualifications are only one measure of skills in the workforce – a more comprehensive understanding takes into consideration the three logics of skill:²¹

- **Behavioural:** ‘the personal qualities of the worker to deal with interpersonal relationships’;
- **Cognitive:** ‘level and kind of education and training undertaken by the population to help it understand and act in the world’;
- **Technical:** ‘the capacity to undertake particular set tasks.’

Any attempt to measure skills under-utilisation must therefore take into account this holistic understanding of skills; different types of skills are utilised and under-utilised in different workplaces.

The scale of the problem in the UK

There is a significant body of evidence demonstrating that the UK lags behind comparator countries in terms of the quality of skills in the workplace. Whereas the UK ranks 12th for high level skills in the OECD, it is further behind for intermediate level skills (18th) and for low level skills (17th).²² This has resulted in some skills gaps and skills shortages for UK employers, with the 2009 National Employer Skills Survey finding that 19 per cent of establishments reported a skills gap among their employees.²³

However there is a growing body of research (both from this country and abroad) that argues that the skills problem is related not only to skills supply but also to weak demand for skills and poor skills utilisation. The term Low Skills Equilibrium was coined in 1988 by Finegold and Soskice (and subsequently developed by academics such as Ewart Keep) to describe what they saw as a ‘systems failure’ in the British economy; an economy characterised by low-wages and with a relatively high proportion of low specification companies in which demand for high level skills is relatively low.

²⁰ Payne, J. (2010) *Skills Utilisation: towards a measurement and evaluation framework* SKOPE Research Paper No. 93

²¹ Buchanan et al. (2010), *Skills demand and utilisation: An international review of approaches to measurement and policy development*, OECD Local Economic and Employment Development Working Papers, 2010

²² UKCES (2010) *Ambition 2020*

²³ Wright, J., Clayton, N. and Brinkley, I. (2010) *Employability and Skills in the UK*, The Work Foundation

Felstead et al. have pointed out that 'whilst a relative balance of skills demand and supply exists for those jobs requiring high level qualifications, an aggregate imbalance exists for those requiring intermediate and no qualifications'.²⁴ In a study of *Skills at Work* between 1986 and 2006 it has been shown that the number of people in the workforce with no qualifications has fallen far faster than the number of jobs requiring no qualifications (the number of people with no qualifications fell by 5.5 million between 1986 and 2006; whilst the number of jobs requiring no qualifications for entry fell by 1.2 million). The result has been a growing mismatch between individuals with no qualifications and jobs which require no qualification requirements.²⁵

The most useful data on skills under-utilisation however comes from employees themselves.²⁶ A body of evidence suggests that skills under-utilisation affects a higher proportion of the UK workforce than does skills gaps or skills shortages. A study by The Work Foundation in 2009 found that between 35 and 45 per cent of employees felt that their skills were under-utilised.²⁷ Furthermore, skills under-utilisation is more prevalent amongst people in jobs requiring some or little knowledge content; 36 per cent of knowledge workers reported that their jobs under-utilised their skills compared to 44 per cent in jobs with some or little knowledge content. Moreover, the UK Skills Survey found that the proportion of employees reporting that they are 'over skilled' is highest in the low-skill/low-pay sectors and occupations; with over 55 per cent of people working in the hotels and catering industry reporting being over skilled compared to approximately 20 per cent in finance; over 60 per cent of workers in elementary level jobs reported being over skilled compared to less than 20 per cent in managerial positions (see Figures 1 and 2 below).

The UK skills survey also suggests that the skills under-utilisation problem is getting worse over time. The percentage of employees reporting high levels of discretion at work – jobs which are likely 'to make better use of employees' judgement and skill' – dropped from 57 per cent in 1992 to 43 per cent in 2001, and remained at this level in 2006.²⁸

Despite this, there is limited public awareness of the issue in England and skills utilisation does not feature heavily in skills policy. But there are examples elsewhere of how skills utilisation policies can be effectively built, and can benefit both employees and firms. England is relatively isolated in having largely ignored the importance of work organisation and job design in delivering skills improvements. In a number of other European countries, government workplace organisation initiatives have been implemented to improve job quality and enhance productivity.²⁹ Countries which have pursued these policies include the Nordic states, Germany and Ireland.³⁰

²⁴ Buchanan et al. (2010), *Skills demand and utilisation: An international review of approaches to measurement and policy development*, OECD Local Economic and Employment Development Working Papers, 2010

²⁵ Felstead, A., Gallie, D., Green, F. and Zhou, Y. (2007) *Skills at Work, 1986-2006*

²⁶ Payne, J. (2010) *Skills Utilisation: towards a measurement and evaluation framework* SKOPE Research Paper No. 93

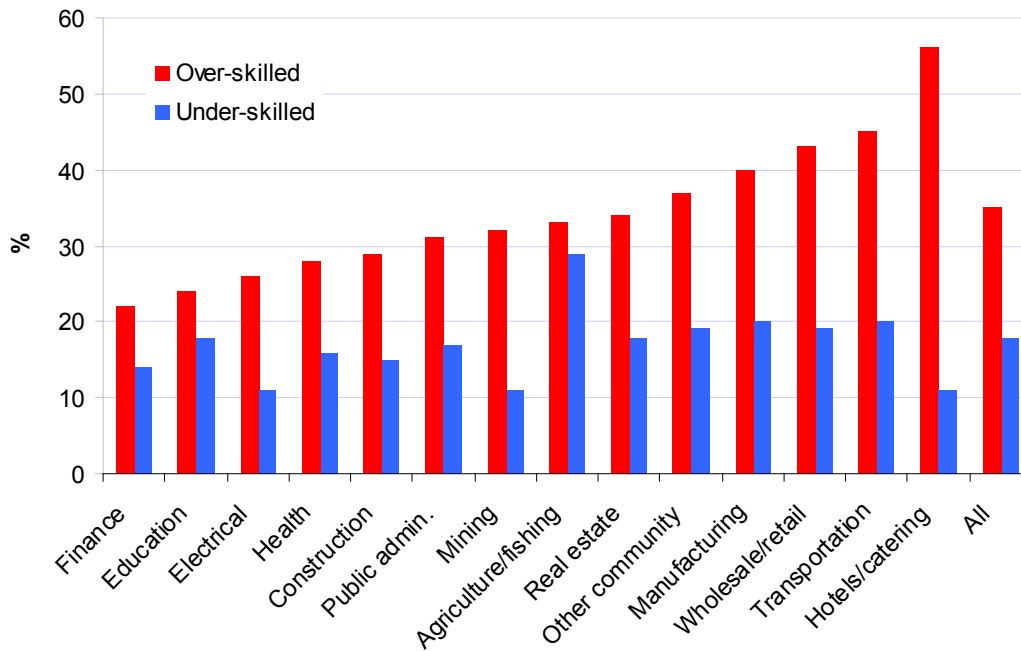
²⁷ Brinkley et al. (2009) *Knowledge Workers and Work*, The Work Foundation

²⁸ Felstead, A., Gallie, D., Green, F. and Zhou, Y. (2007) *Skills at Work, 1986-2006*

²⁹ Keep, E., Mayhew, K. and Payne, J. 2006. 'From Skills Revolution to Productivity Miracle – Not As Easy As It Looks?', *Oxford Review of Economic Policy* 22:4, pp539-559

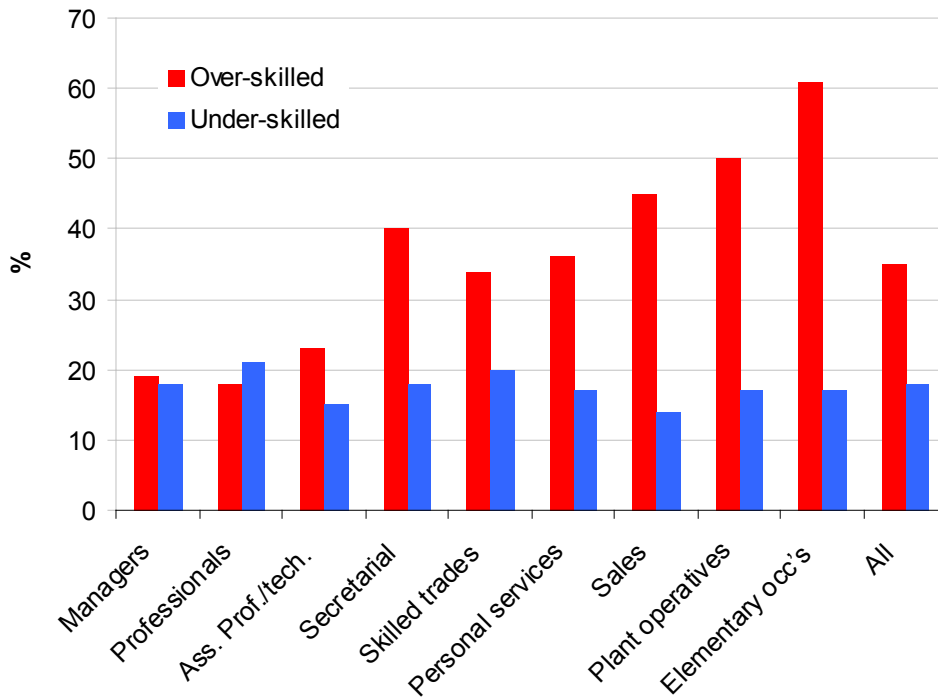
³⁰ Ibid

Figure 1: Percentage of employees over and under-skilled, by industry



Source: 2001 UK Skills Survey

Figure 2: Percentage of employees over and under-skilled, by occupation



Source: 2001 UK Skills Survey

3. The challenge of improving low-wage work: the role of skills utilisation

Low-wage workers face a number of distinctive challenges in the labour market. For example low-paid/low-skilled workplaces tend to have few development and progression opportunities, worse HR practices and higher staff turnover.³¹ In this chapter we discuss the wider challenges faced in improving low-wage work, and we consider the role which skills utilisation policies can play in this. Skills utilisation is certainly not a 'magic bullet' to resolve all the challenges faced in improving the lot of low-wage workers. Improving skills utilisation is potentially a useful strategy in generating better work outcomes; however to fundamentally address the issues faced by low-wage earners, it must be part of a broader suite of measures.

There are a number of primary drivers which serve to make things challenging for low-wage workers, these include:

- The structure of the labour market and the types of jobs that are growing and declining;
- The poor conception of work in low-wage sectors;
- The corporate strategies adopted by firms in low-wage paying industries which often compete on cost rather than quality;
- The forms of work organisation and management techniques adopted by low-wage employers;
- The weak career and wage progression that is often experienced by people at the bottom of the labour market;
- Wage inequality and the level of the National Minimum Wage.

The primary focus of research in this paper is on the third and fourth bullets, which are concerned with employer demand for skills and how well employers utilise the skills of their workforce. However, in this chapter we also discuss the issues raised by the other bullets, which skills utilisation policies would not directly address.

The changing structure of the UK labour market

During the past few decades the UK economy has undergone a structural change, with the economy increasingly based on knowledge, rather than routine production, and with new jobs created in large numbers in high-skill/high-wage professional and managerial occupations. However this growth in jobs at the top is not the entire story. Evidence shows that over the last 25 years the labour market has become increasingly hollowed-out, as middle wage/middle skill jobs have been lost in significant numbers; and this trend accelerated noticeably during the recent recession.³² There is a growing body of evidence which suggests that labour markets in a number of developed countries are becoming increasingly polarised into 'lovely' and 'lousy' jobs.³³ There are several explanations for this trend:

³¹ Newton, B., Miller, L., Bates, P., Page, R. and Akroyd, K. (2006) *Learning Through Work: Literacy, language, numeracy and IT skills development in low-paid, low-skilled workplaces* Institute for Employment Studies: Report 433

³² Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* The Work Foundation

³³ Goos, M. and Manning, A. (2003) *Lousy and lovely jobs: the rising polarization of work in Britain* CEP Working Paper

- Technological change and the automation of routine jobs;³⁴
- Globalisation and off-shoring of semi-skilled production jobs has reduced demand for some groups of workers;³⁵
- Growth in high-skill occupations can in itself increase the demand for lower level jobs, particularly in private personal services;³⁶
- Other socio-demographic trends, for example those associated with increasing female participation in the labour market and the aging population, have also increased the demand for some personal service occupations.³⁷

One implication of a more polarised job market is that it can have direct implications for employment and earnings mobility, as individuals can become trapped in poor quality, low-paid work. More generally, the labour market trends clearly show there remains significant numbers of jobs which have low qualifications requirements, and also have relatively low utilisation of skills. These jobs appear to be an enduring feature of the UK labour market, and it is therefore pertinent to explore what can be done to ameliorate the effects for individuals within these jobs.

Corporate strategy and the organisation of low-wage work

The central barrier to improving skills utilisation is employer demand for skills. This demand tends to be relatively weak in a number of sectors as a result of firms corporate strategies and their models of work organisation. Policy makers work under the assumption that skill acquisition is a good thing, however increased skills need to be effectively utilised within firms, and this is often not the case.³⁸ Therefore demand-side strategies are fundamental in order to address skills utilisation, as Keep argues:³⁹

instead of assuming that the key to the desired 'skills revolution' is the supply of more skills, concentrate on stimulating demand for higher levels of skill, through seeking to upgrade product market strategies, enhance product and service quality and specification, and re-design jobs and work organisation so as to minimise dead end, low-skill jobs and maximise the opportunities for the entire workforce to both acquire and utilise higher levels of learning and skill.

³⁴ Goos, M., Manning, A. and Salomons, A. (2010) *Explaining job polarization in Europe: The roles of technology, globalization and institutions* CEP Discussion Paper No. 1026; Goos, M. and Manning, A. (2003) *Lousy and lovely jobs: the rising polarization of work in Britain* CEP Working Paper; Autor, D., Levy, F. and Murnane, R. (2003) 'The skill-content of recent technological change: An empirical investigation' *Quarterly Journal of Economics*, vol 118, pp1279-1333; Autor, D., Katz, L. and Kearney, M. (2006) 'Measuring and interpreting trends in economic inequality' *AEA Papers and Proceedings* 96:2; Autor, D. and Dorn, D. (2009) *Inequality and specialization: The growth of low-skill service jobs in the United States* IZA Discussion Paper No. 4290

³⁵ OECD (2011) *Growing income inequality in OECD countries: What drives it and how can policy tackle it?* OECD, Paris

³⁶ CEDEFOP (2011) *Labour market polarization and elementary occupations in Europe: Blip or long-term trend?* CEDEFOP Research Paper No. 9

³⁷ Ibid

³⁸ Keep, E. (2000) *Learning organisation, lifelong learning and the mystery of the vanishing employers* SKOPE Research Paper Number 8

³⁹ Ibid

Keep, Mayhew and Payne also make the case that the public policy focus and expenditure on the skills supply-side alone is likely to have only a muted impact if similar attention is not focused on employer demand for skills:⁴⁰

while there are numerous expensive public programmes aimed at enhancing the skills of the future and existing workforce, there is no parallel effort aimed at work organization and job redesign.

The central cause of low employer demand for skills often relates to employers' product market strategies, and this in turn often influences their method of work organisation. Low-paid employees are more likely to be found in firms which compete on cost rather than quality; and they are particularly over represented in the retail sector and in smaller firms.⁴¹ A low-cost product market strategy has particular implications for the utilisation of skills, with many employers with low-cost strategies viewing their workforces as 'an easily substitutable factor of production, or as a cost to be minimised, rather than as assets and sources of competitive advantage in their own right'.⁴² This strategy informs the organisation of work and job design adopted by many low-wage employers; with low-skill jobs often organised using Taylorist forms of job design which give workers little task autonomy, discretion or flexibility.⁴³ This is in sharp contrast to high-end knowledge workers who often have considerable autonomy and flexibility over their work. More generally, cost pressures on employers can also result in relying more on contingent labour with the increasing use of temporary workers.⁴⁴

Often employers producing consumption goods are 'not acting irrationally' by following standardised, low cost approaches. Keep estimates that only 30 per cent of the population have an income high enough to support purchasing 'high value added, customised goods and services on a regular basis'.⁴⁵ However the low-road strategies adopted can become a 'vicious cycle':

Products are poor because the workforce skills to produce better ones are often lacking, and skills are poor because existing product market strategies do not demand high levels of skill and because work has been organised, and jobs are designed to require low levels of skill and discretion. Low wages can also result in a further reinforcing factor, limiting consumer demand for more highly specified products and services.⁴⁶

⁴⁰ Keep, E., Mayhew, K. and Payne, J. 2006. 'From Skills Revolution to Productivity Miracle – Not As Easy As It Looks?', *Oxford Review of Economic Policy* 22:4 pp539-559

⁴¹ Newton, B., Miller, L., Bates, P., Page, R. and Akroyd, K. (2006) *Learning Through Work: Literacy, language, numeracy and IT skills development in low-paid, low-skilled workplaces* Institute for Employment Studies: Report 433

⁴² Keep, E. (2009; page 5) *Labour market structures and trends, the future of work and the implications for initial E&T* Beyond Current Horizons Paper

⁴³ Newton, B., Miller, L., Bates, P., Page, R. and Akroyd, K. (2006) *Learning Through Work: Literacy, language, numeracy and IT skills development in low-paid, low-skilled workplaces* Institute for Employment Studies: Report 433; Keep E (2000) *Learning organisation, lifelong learning and the mystery of the vanishing employers* SKOPE Research Paper Number 8

⁴⁴ Metcalf, H. and Dhudwar, A. (2010) *Employers' role in the low-pay/no-pay cycle* Joseph Rowntree Foundation

⁴⁵ Keep, E. (2000) *Learning organisation, lifelong learning and the mystery of the vanishing employers* SKOPE Research Paper Number 8

⁴⁶ Wilson, R. and Hogarth, T. (Eds.) (2003) *Tackling the Low Skills Equilibrium: a review of issues and some new evidence*, DTI

These forms of corporate strategies are also influenced by the particular variant of Anglo-Saxon capitalism and its focus on short-term results.⁴⁷ There is therefore an enormous challenge in producing the type of demand-side improvement which is required to better utilise individuals' skills.

It should be stressed that the product market strategy is not the only influencing factor. Low-wage/ low-skilled service sector jobs are also a product of the institutional environment. Gray highlights the lack of unionisation in many low-wage service sector occupations as being a key determinant of them being 'bad jobs', pointing to the fact that unionisation vastly improved the pay, terms and conditions for manufacturing jobs which (prior to unionisation) were often 'casual, ill-paid, with appalling working conditions'.⁴⁸

The product market strategy therefore sits within a wider skills ecosystem which determines skills use, the skills ecosystem includes factors both internal and external to firms. The OECD defines elements of a skills ecosystem as:⁴⁹

- Business settings (eg enterprise design, networks financial system);
- Institutional and policy frameworks (skill and non-skill based);
- Modes of engaging labour (eg standard contracts, labour hire arrangements);
- Structure of jobs (eg job design, work organisation); and,
- Level and types of skill formation (eg apprenticeship arrangements, informal on-the-job).

Career progression from low-wage work

One of the greatest challenges for low-wage workers is the lack of career progression or earnings mobility.⁵⁰ However, a number of interventions have been shown to be effective in boosting career progression.⁵¹ In the US in particular there is a growing literature on adopting career ladders as a boost to earnings progression within employers or individual sectors; although it should be noted that there are some questions surrounding the efficacy of this approach in some employment sectors – notably some parts of the service sector. Workers can also be helped to progress through supporting policies which enhance their ability to move between employers, for example by supporting lifelong learning and through the provision of effective careers advice.

⁴⁷ Keep, E. (2000) *Learning organisation, lifelong learning and the mystery of the vanishing employers* SKOPE Research Paper Number 8

⁴⁸ Gray, M. (2004) 'The social construction of the service sector: institutional structures and labour market outcomes' in *Geoforum* 35, pp23-34

⁴⁹ OECD (May 2010) *Skills demand and utilisation: an international review of approaches to measurement and policy development*

⁵⁰ Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* The Work Foundation

⁵¹ For a summary see Sissons, P. (2011) *The Hourglass and the Escalator: Labour market change and mobility* The Work Foundation

Wage inequality and the minimum wage

During the last three decades the labour market has become increasingly unequal and wage inequality has grown sharply. Wage inequalities increased very dramatically in the 1980s, as both upper-tail and lower-tail wage inequality grew.⁵² This trend continued, albeit at a slower rate, during the 1990s. In the 2000s there was a slightly different pattern as lower-tail wage inequality declined somewhat, while upper-tail inequality continued to grow.⁵³

Inequality considerations aside, there is an argument that the single most effective intervention to increase skills utilisation might be to raise the National Minimum Wage. Edwards, Sengupta and Tsai argue that the availability of relatively cheap labour undermines the incentive for employers to pursue a high-road high-value added path and that increasing the National Minimum Wage would be a key means to encourage employers to move off a low-skills path.⁵⁴ Again there are examples from other countries on which we can draw, where there exists more widespread use of licence to practice regulation in the labour market which is often 'reinforced' by wage systems that more generously reward lower level occupational employment.⁵⁵

Good and bad work

The preceding sections have highlighted the number of factors which make it challenging for low earners. As such better skills utilisation policies are required as part of the broader challenge of improving low-wage work. There is an emerging body of literature, particularly from Canada and the US, about what can be done to 'upgrade' low-wage service sector work. Part of this upgrading is about improving wages and part is about improving conditions. It is argued that low-wage service jobs are the 'last frontier of inefficiency' and it is advocated that more service sector firms take the 'high-road' by investing in workers skills to enable them to perform at a higher standard.⁵⁶

Other work in the US also charts a route map to better jobs. Paul Osterman in his body of work on 'making bad jobs good' provides a useful framework for how we might approach these wider issues. Osterman concentrates on both improving existing bad jobs and encouraging policy to support the formation of new good jobs. Table 1 provides his conceptualisation of the needs, as well as the policy levers needed, to improve work. These are both standard setting, for example through national and local

⁵² Upper-tail wage inequality is the difference between earners at the 90th percentile and those at the median; lower-tail wage inequality is the difference between earners at the median and those at the 10th percentile of the earnings distribution

⁵³ See Kasparova, D., Wyatt, N., Mills, T. and Roberts, S. (2010) Pay: Who were the winners and losers of the New Labour era? The Work Foundation

⁵⁴ Edwards, P., Sengupta, S. and Tsia, C-J. (2007) *Managing work in the low-skill equilibrium: A study of UK food manufacturing* SKOPE Research Paper Number 72

⁵⁵ Keep, E. (2009) *Labour market structures and trends, the future of work and the implications for initial E&T* Beyond Current Horizons Paper

⁵⁶ For a brief summary see Florida, R. (2010) *America needs to make its bad jobs better* (<http://www.creativeclass.com/rfcgdb/articles/America%20needs%20to%20make%20its%20bad%20jobs%20better.pdf>)

regulation; and, programmatic or technical assistance based which support sector or firm specific good practice.

Table 1: Making bad jobs good

	Standard setting	Programmatic
Make bad jobs good	Minimum wage Living wages Unionisation	Career ladders Intermediaries Sectoral programmes
Create more good jobs ⁵⁸	Community Benefit Agreements Managed tax incentives	Extension services Sectoral programmes Consortia or partnerships under business or union auspices

Source: Osterman⁵⁸

Findings

In this chapter we have explored some broader labour market issues in order to place skills utilisation within a framework of broader changes required to improve the lot of the Bottom Ten Million. The aim has been to show how and where skills utilisation policies have the potential to have a beneficial impact for low-wage workers, but also to show they are not a ‘magic bullet’. To systematically improve the position of low-wage workers, skills utilisation needs to be part of a broader suite of policies which also address opportunities for progression and wage increases.

⁵⁷ Community Benefit Agreements essentially involve local government agreeing elements of job quality with a developer as part of a large development project; managed tax incentives place job quality stipulations as part of tax breaks and incentives offered by economic development actors

⁵⁸ Osterman, P. (2008) ‘Improving job quality: policies aimed at the demand side of the low wage labor market’ in A Future of Good Jobs? : America’s Challenge in the Global Economy, Bartik, T. and Houseman, S. (eds). Upjohn Institute, pp. 203-244 http://research.upjohn.org/up_bookchapters/10

4. An analysis of skills under-utilisation in two low-wage sectors – retail and hospitality

This section summarises the main findings of the expert interviews conducted between July and October 2011 in order to identify the main drivers of skills under-utilisation and the barriers to improving skills utilisation in two low-wage sectors – retail and hospitality.

4.1 Sector profile

Retail

The retail sector is the UK's largest source of private sector employment, and despite the damaging impact of the economic downturn (resulting in over 6,000 insolvencies⁵⁹) employs approximately 2.8 million people (over 10 per cent of the UK's workforce). It includes retail sales in:⁶⁰

	Example
Non-specialised stores	Supermarkets and department stores
Specialised stores	Butchers, greengrocers, fishmongers and tobacconists
Pharmaceutical goods	Chemists and pharmacies
New goods in specialised stores	Stores selling textiles, clothing, books, electrical household appliances, furniture and lighting
Second-hand goods	Charity shops and eBay
Not in store	Catalogue and mail order sales, online and via stalls and markets

The retail sector is diverse; approximately two-thirds of people employed within the sector work in 'large retailers'; however 99 per cent of retailers employ less than 50 people (accounting for 28 per cent of employment).⁶¹ It is also highly polarised; knowledge intensive work is concentrated in head offices and head quarters, and less knowledge intensive work is concentrated on the shop floor.

Figure 3 below shows the occupational breakdown of the sector. Almost 20 per cent of retail workers are employed in managerial positions (higher than the national average), but 50 per cent are employed in sales and customer service occupations and 14 per cent in elementary level jobs. 'Softer' customer facing skills are therefore in higher demand in the retail sector. Low pay is also prevalent; the median hourly wage in the sector is £6.94, which compares to £10.97 for all employees in the UK.⁶²

Previous research has suggested that the wholesale and retail industries tend to have some of the highest levels of skills under-utilisation, with 43 per cent of employees reporting being 'over-skilled' and

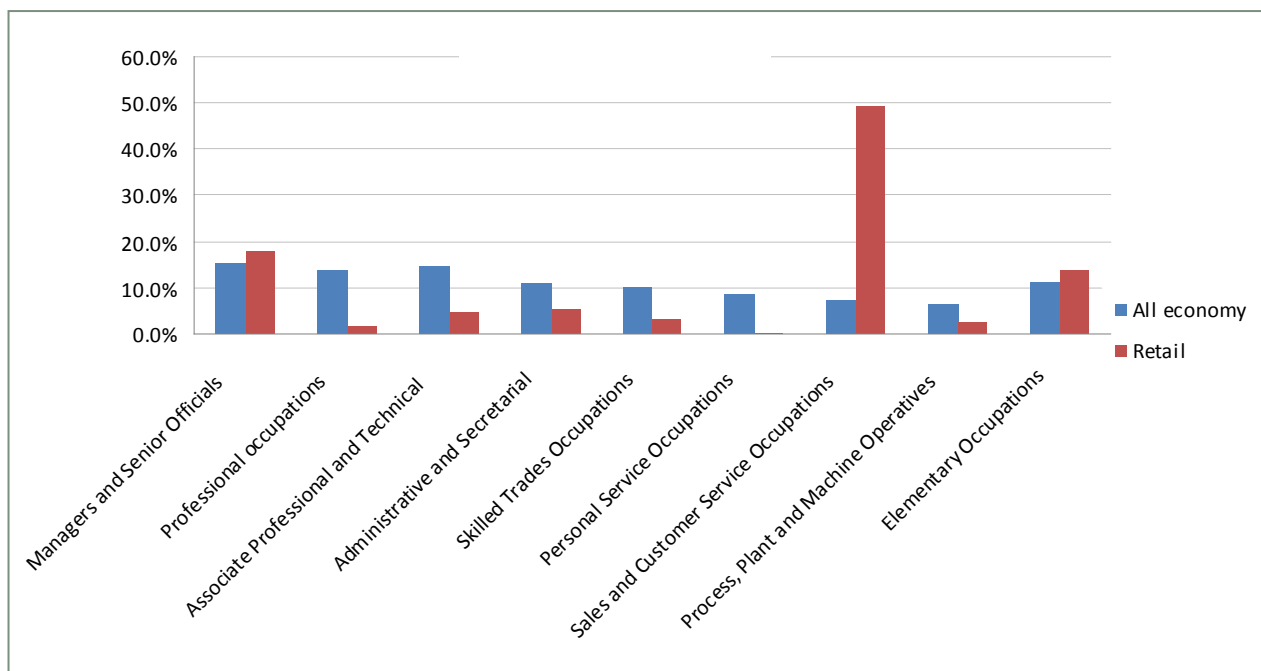
⁵⁹ <http://www.bis.gov.uk/policies/business-sectors/retail>

⁶⁰ Skillsmart retail (2010)

⁶¹ UK Business Activity Size and Location (2010)

⁶² Defined as SIC 47; Retail trade, except of motor vehicles and motorcycles. Annual Survey of Hours and Earnings, Office for National Statistics

Figure 3: Employment by occupation in the retail sector and the whole economy



Source: Labour Force Survey Q4, 2010: Retail defined as SIC 47 (Retail trade, except vehicles)

52 per cent over-qualified'.⁶³ This level of under-utilisation is above that observed in other sectors of the economy, with the exception of hotels and catering.

It is also important to note – based on the occupational structure of the retail sector – that 45 per cent of sales workers reported being ‘over-skilled’ and 57 per cent ‘over-qualified’ (the highest level amongst all occupations). Furthermore, research published by The Work Foundation⁶⁴ in 2009 found that 55 per cent of ‘servers and sellers’ were ‘over-skilled’ for their job. However, some interviewees felt that skills under-utilisation was a ‘major problem’ which extended ‘all the way up the line’ to management roles. There was also a perceived lack of skills development and training in the retail sector.

One possible explanation for the reported levels of skills under-utilisation is the flexible nature of retail work; 56 per cent of retail employees work part-time (twice the UK average), and the mean hours worked in the sector is 27.4 compared to the UK mean of 32.5 hours.⁶⁵ The part-time and local nature of retail work can be attractive to some people, who require a particular work-life balance (individuals with care responsibilities or students for example). Indeed, a disproportionate amount of store workers are women and young people, especially in supermarkets. One third of employees in the retail sector are under 24

⁶³ These are self-assessed incidences of under-utilisation which draw on the 2001 Skills Survey – see Green, F. and McIntosh, S. (2002) *Is there a genuine underutilisation of skills amongst the over-qualified?* SKOPE Research Paper No. 30 2002

⁶⁴ Brinkley, I., Fauth, R., Mahdon, M. and Theodoropoulou, S. (2009) *Knowledge Workers and Knowledge Work*

⁶⁵ Annual Survey of Hours and Earnings (2009)

years of age (compared to 13 per cent in the economy as a whole)⁶⁶ and 61 per cent female, compared to 49 per cent in the economy as a whole.⁶⁷

Not all interviewees perceived skills under-utilisation to be a major concern for the retail sector; some considered the (inadequate) supply of skills to be a bigger challenge for employers. The sector employs a large proportion of people with low-level qualifications; for example 31 per cent of sales staff have below level two qualifications.⁶⁸ Skillsmart Retail have identified technical and practical skills, customer handling, and management skills to be the main skills gap areas and in need of improvement; interviewees cited the sector's poor image as a barrier to attracting the right people to address these skills needs.

It is also worth noting on the positive side that there has been a greater emphasis on training and skills development in the retail sector in recent years. Although the retail sector accounts for 10 per cent of employment in the private sector it accounts for 12 per cent of training spend. The qualification framework has also been simplified to increase transferability.

Hospitality

Hospitality is the country's fifth largest industry and employs more than 2.4 million people.⁶⁹ In the decade prior to the recession, the rate of employment growth in hospitality outstripped employment growth in the wider economy; it has also been recently predicted that the sector has the potential to generate relatively strong employment gains over the next decade.⁷⁰ The industry includes the following types of employers:

Contract food service providers	Membership clubs
Events	Pubs, bars and nightclubs
Gambling	Restaurants
Holiday parks	Self catering accommodation
Hospitality services	Tourist services
Hostels	Travel services
Hotels	Visitor attractions

Source: People 1st

The hospitality sector is both broad and diverse; it is widely geographically distributed and makes an important contribution to employment in all regions. Firm sizes vary from a neighbourhood chip shop

⁶⁶ Skillsmart Retail

⁶⁷ Skillsmart Retail

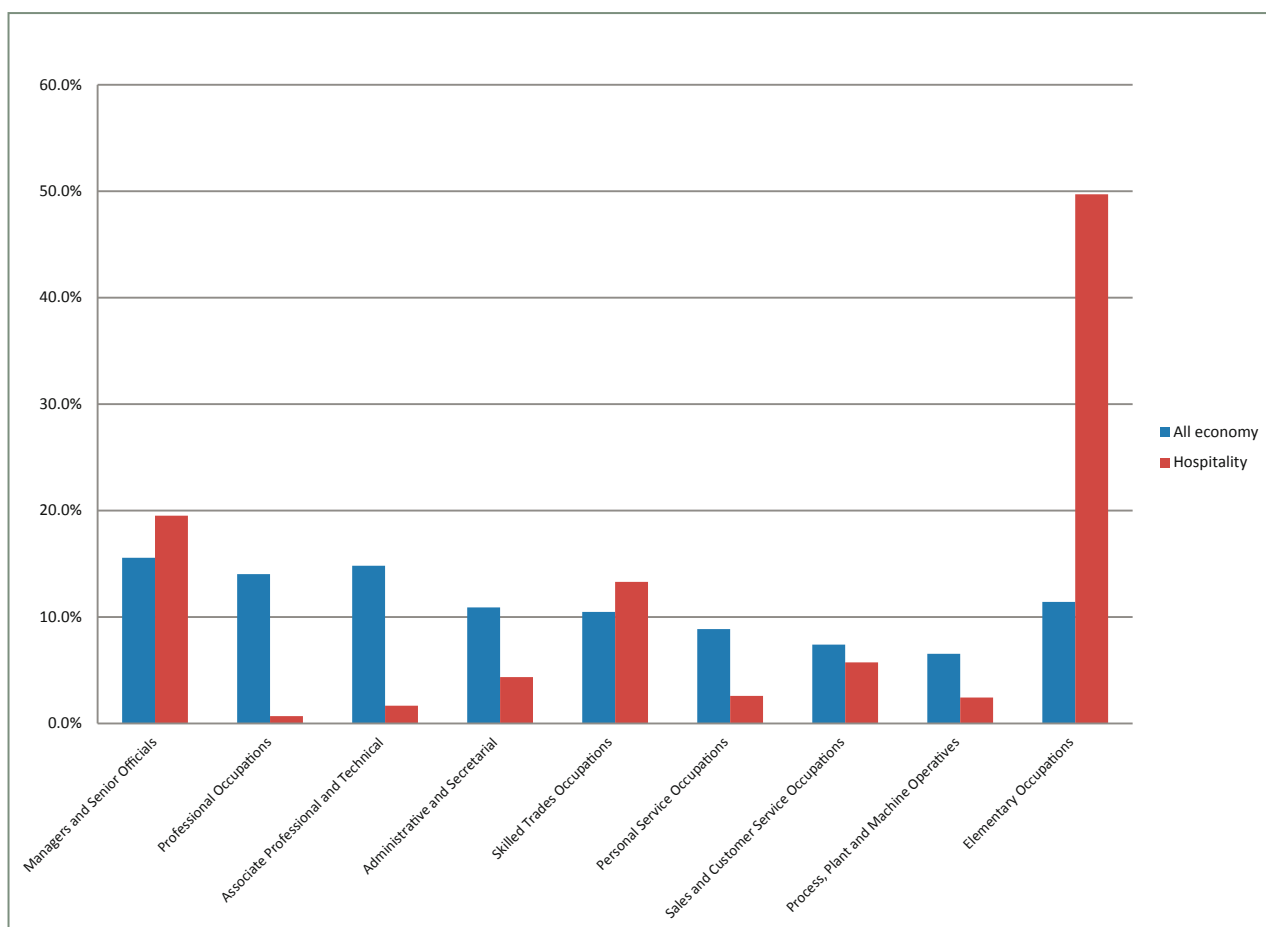
⁶⁸ Skillsmart Retail

⁶⁹ British Hospitality Association (<http://www.bha.org.uk/policy/>)

⁷⁰ See Oxford Economics (2010) *Economic contribution of the UK hospitality industry* (<http://www.baha-uk.org/OxfordEconomics.pdf>)

through to large multinational food service and hotel chains. In general the workforce in the hospitality sector tends to be concentrated in less skilled and lower-wage roles. The median hourly wage in the sector is £6.20, compared to a national average of £10.97.⁷¹ Figure 4 presents the occupational distribution of employees in the hospitality sector compared to the economy as a whole. The most striking feature of the graph is the number of hospitality employees working in elementary jobs (the least skilled job types), with half of all hospitality employees in these posts compared to just 11 per cent in the economy as a whole.⁷²

Figure 4: Employment by occupation in hospitality and the whole economy



Source: Labour Force Survey Q4, 2010: Hospitality defined as SIC 55 and 56 (Accommodation and Food and Beverage Service Activities)

Previous research has suggested that the hotels and catering industries tend to have some of the highest levels of skills under-utilisation, with 56 per cent of employees reporting being ‘over-skilled’ and 50 per

⁷¹ Figures refer to gross hourly earnings excluding overtime in 2009 from the Annual Survey of Hours and Earnings. Hospitality is defined as accommodation and food service activities

⁷² Elementary jobs are defined by the Office for National Statistics as jobs ‘which require the knowledge and experience necessary to perform mostly routine tasks, often involving the use of simple hand-held tools and, in some cases, requiring a degree of physical effort’

cent over-qualified'.⁷³ This under-utilisation is significantly above that observed in other sectors of the economy.

One common characteristic across the sector is that there tends to be relatively low barriers to entry in terms of qualifications required for many posts. In the absence of qualification requirements, hospitality sector employees are often recruited on the basis of their attitude rather than skills sets. The low accreditation needs mean that for some individuals the sector can offer reasonable prospects for progression, either internally or by moving between employers. The sector also has a large number of back of house roles so some skills, in particular language ones, are not as much of a barrier to employment as they can be in other sectors.

Interviewees pointed towards the high levels of employee turnover in the sector as being an important feature and one that has significant implications for skills use and skills development. More generally it was also felt by some expert interviewees that there was a group of workers in the hospitality industry who are paid less for using comparable skills than they would make for using similar skill sets in other sectors. In part this relates to the fact that profitability of employers in the sector is often very low. Interviewees reported that this was also in large part driven by the fact the sector has historically employed more marginal workers – including students and migrants – who are less likely to have a voice with employers.

When considering skills in the sector it should be noted that there are some issues around conceptualising skills, and this creates some difficulty in judging the extent of under-utilisation. The skills used, and in demand, in the sector are largely soft skills such as inter-personal skills and flexibility, rather than formal qualifications. A focus on utilisation of technical skills would therefore provide one measure of skills utilisation, but looking at the use of wider skills, particularly soft skills, would give a different one. This also raises questions about the way skills are valued and rewarded both in the sector and beyond. In practical terms organisations may or may not acknowledge soft skills (in appraisals, progression or pay) – where they don't there are clearly questions around whether the organisation knows what skills are and how to value them.

Some interviewees suggested that one of the issues around the poor deployment and utilisation of skills in the sector was the result of the sector suffering from a relatively weak quality of management. It was noted by interviewees that HR practice in the sector could be poor, and in common with other sectors smaller employers often have no specialist HR function.

However, while under-utilisation was felt to be more prevalent in smaller businesses and those in more peripheral areas, interviewees identified a number of examples of good practice in larger employers. Furthermore, as described previously, the hospitality sector tends to have a relatively high level of staff turnover so in some cases skills under-utilisation can be a short-term issue for an employee. Several

⁷³ These are self-assessed incidences of under-utilisation which draw on the 2001 Skills Survey – see Green, F. and McIntosh, S. (2002) *Is there a genuine underutilisation of skills amongst the over-qualified?* SKOPE Research Paper No. 30 2002

interviewees pointed to the large numbers of migrant workers who use the sector as an initial stepping stone into other sectors for whom again under-utilisation might be a short lived problem.

4.2 The drivers of skills under-utilisation in low-wage sectors

Section 3 highlighted some of the wider drivers which serve to make things challenging for low-wage workers in the UK, such as the poor conception of work in low-wage sectors, corporate strategies based on cost competition, and forms of work organisation based on Taylorist forms of job design which give workers little task autonomy, discretion or flexibility. These themes were highlighted in the expert interviews, but interviewees also identified a set of drivers that were more specific to the retail and hospitality sectors.

Retail

Retailers are often highly cost competitive. The economic climate was cited as an immediate concern for employers, with 'store survival' often the biggest priority in the short to medium-term. In an attempt to keep costs as low as possible, interviewees identified the centrally driven de-skilling of work as a common corporate strategy pursued by employers – the de-skilling of lower level occupational store work and in-store managerial jobs through increasing central office control to increase efficiencies. These models of central management encode a 'one best way' approach.

The corollary is that (unlike in Scandinavian countries such as Finland) there is no real capacity for process innovation from employees and product knowledge is declining on the shop floor. The increasing usage of technology and ICT has also reduced employee discretion. Furthermore, this type of work organisation has resulted in a highly polarised workforce – with the decline of 'intermediate level jobs' also reducing career progression opportunities.

Secondly, given the prevalence of low-skill flexible work the retail sector also traditionally exhibits a relatively high turnover of staff. Before 2006 the turnover rate was above 30 per cent. Although research conducted by the CIPD in 2009 found that the annual staff turnover had fallen to 17 per cent in the retail and wholesale sector.⁷⁴ In this type of environment employers may consider skills development and strategies to improve skills utilisation to be counter productive.

A third important driver of skills under-utilisation in the retail sector is employee demand for flexible working arrangements. The previous sub section has presented evidence of the high proportion of women and young people in the retail sector who prefer or require the work-life balance offered by retail work in comparison to other sectors. It may be that there is relatively little demand for job re-design and greater skills utilisation amongst this group. Often in these cases individuals have acquired greater skills than those required for the job, but make a conscious decision to accept less skilled work.

⁷⁴ CIPD (2009) *Recruitment, Retention and Turnover*. Annual survey report

More generally interviewees often felt that there were issues around the quality and completion rate of apprenticeships in the sector; with apprenticeships too often not providing apprentices with a broader skills base around retail skills.

Hospitality

Interviewees identified a number of central drivers of skills under-utilisation in the sector – these related to business models and task design, the sector's high staff turnover, and poor management understanding of the skills needed. They also flagged-up the broader issue of pay levels.

The business strategies adopted by many employers in the sector were felt by some interviewees to be largely driving the under-utilisation of skills. Many employers operate with low-profit margins and compete primarily on cost rather than quality. In this explanation, skills under-utilisation is driven by the low-pay culture, perceptions of competition, and long-term tacit acceptance of low profit margins and the consumer demand for low prices. Low-value business models were felt to generate more jobs characterised by basic tasks.

Issues around the understanding of skills, and the relatively high turnover of employees in the sector were also felt to be important elements in explaining skills under-utilisation. It was reported by interviewees that there was often an 'incomplete understanding' among employers of what skills are required to deliver services effectively; with some businesses being 'fairly woolly' about how to match specific skills to a jobs requirements, and employers tending to simply take on whoever is willing to do the job.

The high rate of staff turnover was also felt to limit the extent to which employers would explore skills use or development with employees. For employers this stance may seem quite rational – why train someone who is going to leave anyway? However it is also the case that greater attention to skills deployment and usage may in turn help to reduce high turnover.

As was the case in the retail sector interviews, a third driver was related to employee choice and lifestyle decisions rather than employer behaviour. This is important in two senses. First the sector offers a range of hours and working arrangements and this can make it attractive for people who need a job which fits around other commitments. Secondly, people can trade down in employment terms, but this allows them to live in a location of their choice because hospitality work is so widespread.

Box 2: Summary findings: Drivers of skills under-utilisation in low-wage sectors

- Corporate strategies; business models competing on cost rather than quality;
- Forms of work organisation and management techniques adopted by low-wage employers;
- Poor conception of work;
- Poor management and understanding of skills needs;
- High turnover of staff;
- Employee demand for flexible working/ work-life balance.

4.3 What are the barriers to better skills utilisation in low-wage sectors?

As well as identifying the main drivers of skills under-utilisation, interviewees also highlighted a set of barriers to improving skills utilisation in low wage sectors.

- Employers may simply be unaware of the practical benefits of better skills utilisation (to themselves, their employees and the wider economy), see skills utilisation as irrelevant to them, and/or see job design as a cost (in terms of training or higher wages). Interviewees generally agreed that the skills utilisation agenda must be employer-led; providing employers with the evidence of the practical benefits is therefore a priority.
- Secondly, skills utilisation 'is interdependent on the wider economic development policy being pursued by a nation';⁷⁵ the lack of intermediate level economic development and business support agencies (one example cited was the abolition of the Regional Development Agencies) was identified as a barrier to operationalising this agenda in England.
- Lastly, due to the prevalence of part-time work, unionisation rates are low, and interviewees highlighted that employees have limited representation in skills policy – with the lack of employee voice making securing positive changes to work experience and conditions more difficult. This may be reinforced at the moment by the perception that in the current economic climate 'any job is a good job'.

The following sub section summarises the sector specific barriers to better skills utilisation.

Retail

The 'flat pyramid employment structure' in parts of the retail sector was cited as a barrier to employer investment in workforce development. There is also a perception that employers view changes to job design as an extra cost. But if progression opportunities from the shop floor are limited and the 'bottom line' is the priority, employers are unlikely to be concerned about better skills utilisation. The high turnover of staff in the retail sector exacerbates this attitude.

Some interviewees perceived skills under-utilisation to be most prevalent in smaller organisations (and 99 per cent of retailers employ less than 50 people). As well as being more susceptible to cost pressures, smaller retailers practically lack progression opportunities for their employees. They also often lack HR departments which further disadvantages them from operationalising better skills utilising and skills development initiatives. It is also more difficult for the Sector Skills Council (and other institutions) to reach or contact them regarding initiatives/to share best practice.

⁷⁵ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

Again, employee demand for local and flexible work was acknowledged as a barrier to improving skills utilisation in the workplace. But consumer demand was also identified as a potential barrier; one interviewee pointed out that shop floor workers in many UK retail outlets are not expected to have extensive product knowledge, the status-quo is therefore in a sense culturally ingrained.

Hospitality

Although the impact of high labour turnover was highlighted in the retail sector interviews, there was a perception that it was even more significant in the hospitality sector. There is a significant degree of (often relatively high skilled) migration into the hospitality industry as it offers a ‘relatively easy port of call’ to get a foot on the employment ladder in this country (where employees can improve language and get a reference for example). More generally there is a need for employers to look towards better retention of staff; which would make them more likely to invest in skills development and deployment. The often marginal nature of the labour force and the low levels of unionisation across the sector may also act as a barrier to improving skills use.

A second barrier identified in the hospitality sector was the perception of relatively weak managerial skills. It was reported that there was an older managerial and supervisory cohort in the industry who are relatively poor at leading and identifying skills needs.

Lastly, interviewees identified improvements in technology as a barrier to better skills utilisation. This has had a ‘deskilling effect’ on some roles, leaving people ‘over tooled’ for their work (an example cited was a sous chef’s role where the skill content was perceived to have diminished).

4.4 International examples

There are a number of other countries which have paid much greater attention to the issues around skills utilisation than has been in the case in England. Scotland is a very close to home example where the issue has been taken more seriously and steps have been taken to mobilise policy around the agenda, including funding a range of pilot projects to develop approaches and learning. As described in Box 1 approaches to skills utilisation can be termed either state-driven or holistic, examples of countries with skills utilisation policies include:⁷⁶

- Norway – where skills utilisation has been on the agenda since the 1960s. The agenda has been driven at the national level by ‘social partners’ including employer-bodies. The past 40 years have seen four national skills utilisation programmes;
- Finland – adopted skills utilisations policies in the early 1990s with a focus on workplace practices;

⁷⁶ Summarised from CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

- New Zealand – skills utilisation policies date back to the 1980s and are typified by a ‘system of high involvement in work practices’;
- Australia – adopted a skills ecosystem model built on a national strategy and individual projects;
- Singapore – set out a national skills utilisation programme, the Integrated Workforce Development Plan, and have supported large numbers of employers.

It must be said that the evidence base for the success of programmes in these various countries is not as comprehensive as it might be hoped; with social outcomes in some cases being demonstrated but with less focus on economic gains. This makes generating an evidence-base and learning in the UK context all the more important.

Several interviewees pointed to Germany as offering good practice lessons. Germany has historically taken a more pragmatic view that there are different routes into the workplace and there is a less ‘sniffy’ distinction between qualifications and training (graduate and non-graduate) routes. There is clear progression through training and into employment which creates a sense of professionalism – and culturally it is very different (vocational routes are not seen as being ‘second rate’). The richer conceptions of occupation and job content in Germany are also embedded in licence-to-practice regulation.⁷⁷ However it was noted by interviewees that the institutional and cultural context are very different – for example in Germany unions are much more involved in making work good.

⁷⁷ Brockmann, M., Clarke, L. and Winch, C. (2011) *European Skills and Qualifications: Towards a European Labour Market* Routledge

5. Conclusions and policy recommendations

In this chapter we summarise the key findings from the research. We also develop a set of policy recommendations for what can be done to increase skills utilisation in low-wage sectors.

5.1 Key findings from the research

Skills utilisation is a contested concept and one that has no consistent and established definition. The definition developed by the Scottish Funding Council is perhaps the most comprehensive and intuitive put forward in the literature:

Effective skills utilisation is about:

- Confident, motivated and relevantly skilled individuals who are aware of the skills they possess and know how to best 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 well-being, and stimulate investment, enterprise and innovation.

This report has argued that the under-utilisation of skills in work is a significant problem in the UK labour market and that the incidence of under-utilisation is particularly apparent in low-wage sectors. Previous quantitative evidence has suggested that skills under-utilisation may in fact be a bigger skills problem than skills gaps or skills shortages and affects between 35 and 45 per cent of employees. The qualitative interviews with experts for this research also found reporting of significant skills under-utilisation in the retail and hospitality sectors.

Skills utilisation matters for a number of reasons. First, although the UK workforce has become increasingly skilled in recent years there remains a productivity gap with comparator countries. This suggests that a demand-side approach is also needed. Given the large public investment in skills supply in recent years there is the potential for productivity gains to be made at a relatively low cost from this existing investment by better utilising the skills which have been developed. Secondly, skills utilisation matters to individual employers because better utilisation of the skills of their workforce can result in better motivated, more confident and more productive employees. It may also reduce staff turnover. Thirdly, skills utilisation matters to individuals. Better skills utilisation can make work more satisfying and stimulating for employees. Better skills utilisation may also allow employees to improve their prospects for progression.

This report has identified a number of core drivers of skills under-utilisation:

- Corporate strategies; business models competing on cost rather than quality;
- Forms of work organisation and management techniques adopted by low wage employers;
- Poor conception of work;
- High turnover of staff;
- Employee demand for flexible working/ work-life balance.

Furthermore, a number of barriers to improving skills utilisation were also identified:

- Lack of public awareness of skills under-utilisation and policy gap in England;
- Lack of intermediate level economic development and business support agencies in England;
- Lack of employee voice over work conditions and skills issues;
- Poor management and understanding of skills needs.

5.2 Policies for skills utilisation

What are the core needs?

The first need around skills utilisation is to raise awareness of the fact that under-utilisation is an issue. More than that, it is an issue that has implications for national wealth, employer performance, and individual employees. Yet there is little recognition of the issue. Where work has been done on employer demand for skills it has tended to focus on high performance working. The central critiques of HPW have been that first, take-up has tended to be quite low; secondly there is some evidence that HPW has actually contributed to increasing work intensification and stress among employees.⁷⁸

There is a central role for policy makers in raising awareness that under-utilisation is an issue and to support policies which address the problem. The central challenge here is to take the argument about better skills use increasing competitiveness which tends to have traction at the national level, and transferring that to the day-to-day running of firms. In Scotland there has been far greater recognition of the issue and a concerted effort by policy makers to address this. Other countries are further ahead still. There is also a need to develop suitable institutional arrangements to facilitate better skills utilisation.

Beyond raising awareness of the issue there are a number of other steps that should be taken. At the heart of the issue is the need to tackle the UK's low-skilled equilibrium through innovation in business models and job design. A central tenet of skills utilisation policies must be around job design, something that has to this point been 'off limits' to policy. Where funding is provided for skills utilisation policies it should therefore be linked to meaningful changes in job design which enable employees to more fully utilise their skills and to more fully contribute to the success of their employer. One possible solution could

⁷⁸ CFE (2008) *Skills Utilisation Literature Review*, Scottish Government Social Research

be to place skills utilisation within the core business support function. Skills utilisation could be part of the wider business support structure to help employers consider changes to (and the impact of) job design. Greater use of licences to practice can also help to support better skills utilisation.

There is also a need to develop a better evidence base around what works as well as to demonstrate more precisely the impact the skills utilisation policies have, or can have on productivity, staff turnover, and improved business practice and customer service.

In practical terms establishing better skills utilisation requires an element of experimentation. It also requires some quick wins to show that skills utilisation policies can be effective. We would therefore recommend that policy makers start relatively small, with a workplace innovation fund that provides small-scale funding for skills utilisation projects and provides practical and financial support to employers who are taking steps to better utilise their workforce.⁷⁹ Rather than a blanket approach this is likely to be best targeted at particular sectors which offer both good potential for improvement but also have entrenched low levels of skills utilisation – the hospitality sector is a good example of this.

It is also likely that the most effective targeting of this type of support would be medium-sized firms which are large enough for their to be scale returns on investment but which tend not to have the larger and wider-ranging HR functions associated with big employers and who may also be outside existing good practice structures like Investors in People.

This research has identified a number of policy recommendations which relate more specifically to the **retail sector**. These include improving both the quality and completion rate of apprenticeships in the sector. This would include providing apprentices with a broader skills base around retail skills but would also link into meaningful changes in the ways these skills are deployed once developed. To support career progression as well as to increase employee influence on the work process more ‘intermediate supervisor’ roles would help. These create both some localised influence on the work process and also have the potential to boost opportunities within internal labour markets.

The **hospitality sector** also has a number of more sector-specific needs. The sector has a large number of jobs which require the least skills, has a high level of reported under-utilisation, and as such is a sector where a focus on better skills utilisation represents a real opportunity. The sector suffers in comparison to many other sectors because of its often poor firm profitability – and in an era of squeezed incomes and reduced private spending this situation is likely to deteriorate. However there is also cause for hope as previous evidence from the United States has shown that when they have access to the right information and support, employers have responded by implementing new approaches to workforce organisation.⁸⁰

⁷⁹ We note that UKCES have established the Growth and Innovation Fund (GIF) to support ‘employer-led skills solutions’. However the projects to be funded through the GIF appear to often lean more towards increasing or improving the supply of skills rather than to boosting demand

⁸⁰ Osterman, P. (2008) ‘Improving job quality: policies aimed at the demand side of the low wage labor market’ in *A Future of Good Jobs? : America’s Challenge in the Global Economy* Bartik, T. and Houseman, S. (eds). Upjohn Institute, pp. 203-244 http://research.upjohn.org/up_bookchapters/10

There are also specific issues around skills in the sector. In particular a key issue relates to the understanding of skills in the sector among its management. There is evidence that both conceptions of skills in the sector and the way in which they are rewarded often suffers from a technical definition of skills, rather than a more holistic view which also identifies the importance of soft skills in the sector. This requires a form of culture change among parts of the sector's management and a better understanding of the way that employee skills can contribute to productivity and profitability. There is also a wider issue regarding the Qualifications Framework and the extent to which this matches up with the types of skills needed in an industry like hospitality.

There remains a significant degree of uncertainty about how best to implement skills utilisation policies for maximum effect, and what the overall net effect of them is likely to be. There is therefore considerable scope to test different approaches to see what works and what doesn't. What is clear however is that while the supply of skills remains critically important, employer demand for skills can also be important in determining the nature and competitiveness of the national economy. As such skills utilisation policies offer one way of beginning to make meaningful progress on this front.

Certainly there are examples of other countries which have paid greater attention to skills utilisation. Skills utilisation policies in one guise or another have been established in Scandinavian countries, New Zealand, Australia and Singapore among others. The evaluation and evidence-base for these policies is somewhat patchy but learning that can be taken highlights that skills utilisation policies tend to work best when they are 'bottom-up' and when they have the 'active support of management and the broad participation of the workforce.'⁸¹

What would the institutional framework look like?

A major problem with implementing skills utilisation policies is the absence of an effective institutional arrangement to do this. The key features of such a framework can be summarised as:

- A coalition approach – there is a need for a coalition of partners to respond to the needs of both employers and employees around the skills utilisation agenda. These institutions potentially include employers, central government departments, universities, training providers, Sector Skills Councils and unions;
- But, employer-led – while a coalition of partners is needed, the approach needs to be employer-led to ensure maximum buy-in and benefit. This might be through established institutions such as trade bodies, or might best be achieved through a new employer body which focuses on innovation in workplace process. This would also allow for dissemination of ideas and best practice.

⁸¹ Payne, J. (2011) *Scotland's Skills Utilisation Programme: an interim evaluation* SKOPE Research Paper No. 101

How can employer buy-in be secured?

Employer buy-in is fundamental if skills utilisation policies are to achieve any meaningful success. This raises the tricky issue of how to convince employers of the benefits of such policies. A major challenge in this is that often the type of interventions or adaptations that may be needed are seen to have up front costs in money and time but any benefits which accrue will do so further down the line. It is therefore important to show employers how skills utilisation can benefit their bottom-line to encourage them to develop better skills utilisation as part of their strategic planning. In this regard evidence of the potential monetary benefits of better skills utilisation policies is required. Skills utilisation has the potential to improve workforce motivation, reduce turnover, increase productivity, and improve customer service. However, there remains a need to grow the evidence base around the impact which skills utilisation policies can have, and have had.

There are also a number of other ways in which employer buy-in can be encouraged. In part this links in those recommendations made around the institutional framework – for example through peer-to-peer or business network encouragement to adopt better skills utilisation policies; but also placing skills utilisation within the core business support function.

5.3 Wider policies for labour market improvement

Skills utilisation policies have the potential to be beneficial at the macro level as well as offering benefits to individual employers and their employees. However for employees, better skills utilisation is no magic bullet. Better skills utilisation offers a number of benefits to workers, in particular they can find their work more interesting, satisfying and dignified. What is less clear is the extent to which this is likely to improve their material wellbeing through increasing their incomes. In other words while skills utilisation can make work better, it does not necessarily make work pay any better. It is therefore the case that for meaningful improvements in the labour market to be achieved for low-wage workers, skills utilisation policies must be part of a broader suite of developments. In particular there remains a need to enable workers to improve their financial lot through both wage progression and through improving wages and conditions at the bottom-end of the labour market more generally. Skills utilisation can contribute to both these things but alone is unlikely to yield significant changes.

It is clear that in order to improve the working lives of low-wage workers there is much that can be done to improve 'bad jobs' and to create better work. Skills utilisation policies are one approach that can contribute to this. They also offer the potential benefit of being a win-win, as workers using their skills more effectively can also boost firms' productivity and profitability.

Job-skills/experience match by work cluster

Work cluster	Good match	Underskilled	Overskilled
Experts and analysts	54.4%	10.6%	35.0%
Care and welfare workers	51.9%	10.7%	37.4%
Information managers	50.2%	7.2%	42.6%
Leaders and Innovators	49.0%	13.0%	38.0%
Total	48.0%	10.3%	41.6%
Assistants and clerks	47.5%	11.4%	41.2%
Servers and sellers	40.2%	4.9%	54.9%
Operatives	38.6%	8.6%	52.8%

*Source: Brinkley, I., Fauth, R., Mahdon, M. and Theodoropoulou, S. (2009)
Knowledge Workers and Knowledge Work The Work Foundation*

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