

futureskills Scotland

FULL REPORT

Product Market Strategies and Workforce Skills

by **Dr. Johnny Sung, Prof. David Ashton and Dr. Arwen Raddon**



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This research was undertaken by Johnny Sung, David Ashton and Arwen Rodden.

Disclaimer: This work is the responsibility of the authors and does not necessarily reflect the views of Futureskills Scotland or the Scottish Government.

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FOREWORD

Futureskills Scotland was launched in November 2002. Amongst its key aims were:

- **to improve access to labour market information and intelligence across Scotland; and**
- **to analyse the Scottish labour market to inform policy-making.**

Sophisticated web tools have been developed and refined to meet the first of these aims. Free access to labour market information is available through Key Indicators (www.keyindicators.org.uk). Similarly, access to the most comprehensive set of labour market reports and analyses from around the world are made available through Research Online (www.researchonline.org.uk).

Futureskills Scotland also provides a series of core reports on the Scottish labour market. These are regularly updated and are available free from the Futureskills Scotland website (www.futureskillsscotland.org.uk).

In recent years, Futureskills Scotland has commissioned research from experts across the UK to provide informed and objective analysis of key labour market issues. This research sheds light on key issues for Scottish policymakers. It also provides a stimulus for wider debate.

Collating this work into a formal research series will help to bring the issues and discussion to a wider audience. Futureskills Scotland is committed to disseminating and promoting this research series as widely as possible.

The views expressed in this research series are not necessarily those of Futureskills Scotland.

Futureskills Scotland
June 2009

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Executive Summary

The aims of this project were to use case studies of companies, to obtain a better understanding of the links between employers' product markets strategies and the demand for skills. It sought to identify the conditions and constraints in which firms' product market strategies affect skills utilisation, and explore the potential implications for public policy.

Methodology

The methodology was to use case studies of 32 companies in five of the economic sectors identified by the Scottish Government as crucial for the development of its economic strategy. In order to achieve sufficient coverage of all the various segments in each sector and because of confidentiality issues the study focused on the following sectors: Hotels, Financial Services, Creative Industries, Food and Drink and Utilities. Interviews were also conducted with key informants who had a knowledge of the sector and skills issues within it. The case studies covered three main areas: the firm's competitive or product market strategy and how this was affected by market conditions and public policy; the ways in which the firm developed and utilised the skills of its employees and their experiences with the recruitment and supply of labour. These three themes were developed in the subsequent analysis which forms the main body of this report and the conclusions. Individual case study write-ups will not be published. Including the level of detail necessary in each case-study made it impossible to adequately anonymise some of the companies involved.

Previous research had identified the link between product markets strategies and employers' demand for skill in terms of a linear relationship with product market strategies determining the companies skill strategies and thereby the utilisation of skills within the firm. The researchers adopted a different approach, one which saw the product market or competitive strategy of the firm, (how the firm positions its product or services in the market in relation to their competitors) as potentially influenced by a range of factors in the market, including government policy. However, the way in which this competitive strategy then shaped the utilisation of skills within the company was seen to be a result of the firm's skills strategy; that is the ways in which the company chose to use the skills of its employees. This meant that in each of the case studies the links between the product market strategy and the utilisation of skills was seen as empirically contingent.

The nature of the research, based on a small number of case studies in key sectors, suggests that there is no basis for general policy recommendations or conclusions. However, the detailed insights gathered can illustrate potentially fruitful areas to take forward.

Key Findings

There are three sets of key findings.

1. The first is that while employers remain in firm control of their product market and skills strategies, these are shaped by their experience of the market. We identified a number of ways in which government has been able to influence employers' product

market strategies. These ranged from legal measures such as the use of levies, licences to practice, procurement specification and skills passports to government-sponsored programmes such as Investors in People (IiP), to persuasion based on research evidence. In addition to confirming the importance of some of these, this research revealed a series of other ways in which government actions, at different levels, affected employers' product market and skills strategies. None of these have been previously discussed in the research literature. The two most important of these were what we have called 'regulation' and 'branding'.

The report distinguishes between three types of regulation: efficiency, standards and criteria.

- (a) Those that attempt to function through improving the efficiency of companies – we call these 'efficiency' regulations, e.g. regulatory frameworks in the utility sector. Their main function is to increase the operational efficiency of the old nationalised utilities and to safeguard against any possible misuse of monopoly power. These regulations can show a powerful influence over business strategies.
- (b) The second type we call 'standards'. These may be legislative standards, as in the case of Health & Safety or they may be private standards as with those developed by the International Standards Organisation (ISO) and

enforced through large or multinational companies. These require compliance and can also have a powerful impact on the utilisation of skills in the workplace.

- (c) The third type we call 'criteria' regulations as these provide guidelines for compliance which are spelt out in the criteria that are used for enforcement. These are evident in the private sector through the use of grading systems, as in the hotel industry where the grading of hotels by both public sector and private sector agencies provide guidance for employers on what criteria they need to satisfy to improve the quality of the service they offer. In the public sector they may be evident in the criteria that grant giving bodies attach as a condition of their awards, for example insisting that grants given to charities include a proviso that acceptance of the grant should be accompanied by actions to ensure the development of staff skills.

We use the term 'branding' to refer to the attempts by government, in collaboration with the private sector, to market specific industries and improve their location in national and global markets. These function to help employers change their product market strategies usually in the direction of higher value-added products or services. In our case-study sectors, they are especially important in the Hotel industry (as well as in the wider tourism and hospitality sector) and to a lesser extent in the Food and Drinks

and Financial Services industries. These public private sector collaborations provide another set of levers through which employers' product market strategies can be influenced by public policy. In the public sector Creative industries, the use of government controlled appointments to leadership positions has been instrumental in changing the product market and skill strategies of organisations in the creative and performance arts.

Another form of government action which we encountered in all sectors was the use of persuasion. Our case studies revealed a number of ways in which employers might be better persuaded to improve the utilisation of their labour forces' skill and so enhance their competitive position in the market. However, the impact of this type of government action will vary between sectors. In Food and Drink there is considerable scope for improvements but in the Utilities sector there is much less room for improvement, as the employer's use of skills is much more tightly controlled there by standards regulation.

What our result also suggests is that these mechanisms operate differentially across the various sectors. This means that in some sectors, employers have more control over their competitive strategies and, in some instances their skills strategies than in others. For example, in the Energy and Utilities sector, forms of efficiency regulation leave employers with less room to manoeuvre than, say, in the Food and Drinks or Hotel sectors. Similarly, standards

regulations in the Energy and Utilities sector constrain employers' utilisation of skills far more than in the Hotel industry. What these and the subsequent results suggest is that concept of sector has an important analytic content. It suggests that when it comes to understanding the levers that government can utilise to shape the product market strategies of employers these are much more powerful in some sectors than others because of the nature of the sector. From the employers' point of view it means that in some sectors they are in a position to exercise much greater control over their product markets strategies and their utilisation of skills than they are in others.

In terms of government levers, we must also recognise the devolved nature of Scottish government. Some of the levers we identify are the preserve of the Scottish Government; others are reserved powers of the UK Government. Our discussions with the Sector Skills Council representatives, themselves licensed by the UK Commission for Employment and Skills, indicated the need for close collaboration on these issues.

2. The second set of results concern the relationship between product market strategies and skills utilisation. Here, the case studies provided examples of companies in which there was a link between the decision of the company to compete in high value-added product markets and their subsequent attempt to up-skill their labour force. The line of causality went from the product market or competitive strategy to the utilisation of

skills. However, there were also companies which had decided to use the skills of their employees to provide a competitive advantage and move their product market strategy into higher value-added goods and services, with the line of causality apparently moving in the other direction. These case studies all suggested that attempts to compete in higher value-added markets was creating pressure on employers to up-skill their labour force.

Yet what we also found were firms in the case studies which were already competing in higher value-added product markets but with only a minority of skilled workers and the majority low skilled. There were others which while competing in a relatively high value-added market were thinking of deskilling the work process in order to resolve difficulties in recruitment. There were a number of others which while competing in the middle of their markets saw no need to enhance the skills of their employees. In short, while attempts to compete in higher value-added markets created pressure on employers to increase the utilisation of employee skills, there was no invariant relationships involved. Employers had considerable discretion over whether or not they chose to enhance the skills of their labour force.

3. The third set of findings concern the ways in which employers set about utilising the skills of their labour force. Here our results, supported in places by other research, suggested that there are two important factors that shape the level of skills and the

utilisation of those skills by employers.

These relate to the technologies used by employers and the management or high performance working practices they adopt. This explains why some employers are able to compete effectively in high value-added markets with a high proportion of low-skilled labour and conversely why some employers in low value-added markets can improve their competitive provision through improving the skills of their labour force. While these findings are not necessarily new, what is new is the suggestion provided by the case studies and other evidence, that there are important sector differences both in the use of technologies and in the use of high performance management practices that are specific to each sector. Again the concept of sector has strong analytic potential.

Conclusions

While we have concentrated on identifying the levers available for government action, we must stress that not all employers would request such support. We have a number of case studies of employers who do not see any need for government help and who are perfectly happy with the skills of their labour force and their product market strategy. We also have others who, while they may request improvements in the supply of vocational skills from the education system, see their own skill strategies as something they wish to control. Indeed, they have taken a lead in formulating some very forward-looking skills strategies to support their own operation and expansion. For these employers who see the skills of their

staff as part of their competitive advantage in the market, any attempt to try and control their use of skills by outside parties would be counter-productive. For others who wish to shift the product market strategy and make more effective use of the skills of their staff such help would be welcomed. To be effective any policy initiatives have to be sensitive to these diverse requirements.

Of course these findings are only based on a limited number of case studies and therefore the results are tentative. They require further research to corroborate them. However, what the analysis of these case studies suggests is that there are important sector differences in the factors which shape employers product market strategies, including those influenced by governments. They also suggest that there are also important sector differences in the factors which shape employers' utilisation of skills and the issues they encounter in the supply of labour. This suggests that public policy delivery may be improved by the development of institutional structures, employer-led, and firmly located within each sector, which can help co-ordinate these various government levers in order to enhance the pressure to shift product market strategies up the value chain. Such institutions could also deliver sector specific knowledge of skills utilisation practices to those employers who want to change their skills utilisation strategies as well as help ensure an adequate supply of skills.

The sectoral approach is not the only possible approach. There are differences in terms of ownership, for instance, there may be specific issues around family businesses. Similarly, small businesses may have particular issues. But, in our opinion, a sectoral approach not only has analytical power, it also provides a mechanism for implementation.

In some of these key industries Scotland may already be on the way to meeting this challenge. They are already developing an appropriate collaborative infrastructure for supporting employers in improving their product market strategies and responding to their skill needs. For example, in the Financial Services, the Financial Services Strategy, a collaboration between the public and private sector, has already been successful in identifying and addressing skill needs and helping employers improve the utilisation of skills. In the Hotel industry, and now in the Food and Drinks industry, the basis for an effective set of institutions may be developed through the activities of VisitScotland and more recently Scotland Food and Drink. Our discussions with employers and other stakeholders suggest that at the moment the Utilities sector and the Creative sector, especially the private sector of the creative industries, do not have similar support mechanisms, although the Sector Skills Councils are currently playing an important role here.

Product Market Strategies and Workforce Skills

1 Introduction

This research has three objectives, namely to:

- Obtain a better understanding of product market strategies and the demand for skills;
- Identify conditions and constraints which affect change in firms' product market strategies;
- Provide examples of good practice and identify current policy challenges.

The report is divided into five sections. The first summarises our existing knowledge of the relationship between product markets and employers' demand for skill. It also outlines the methodological approach adopted by the researchers while the second provides an overview of the Scottish labour market. The third section presents the results of the case studies and the policy challenges they raise. The fourth section explores the relationship between business strategies and the use of skills within the case study organisations and the fifth presents the conclusions the authors drew from the research.

1.1 Literature Review

The relationship between firm's product market strategies and skills is a relatively new area of academic enquiry. Researchers have adopted two main types of approach to the examination of the issues involved. The first, typified by Dench (2000) and the work of Hogarth and Wilson (2002), uses a case studies approach. These studies start with the product market strategy and then examine the links between

that and the type of technologies firms adopt together with their people management or human resource practices and sees the demand for skills to be a result of these factors. The second is to examine the links through the use of statistical methodology. Here work by Mason (2004) and Green et al (2003) has demonstrated a statistically significant link between product market strategies and the skill levels of firms, using educational qualifications as a proxy for skills.

The tendency in this early research was to identify two contrasting types of product market strategy, involving the distinction of high value-added and low value-added production. In the statistical approach the researchers tended to use what they termed high specification product market and low specification product market strategies, although Mason (2005) also identifies medium value-added strategies. Mason concluded from his (2005) research that improvements in skills were not sufficient on their own to move a company's product market strategy up the value chain, as this required investments in capital equipment, product development and so on. Mason, like Hogarth and Wilson tended to see skills issues (usually in the form of shortages and deficiencies) as a consequence of product market decisions. The dominant impression that emerges from this research is that there is relatively little scope for employers to change their product market strategies. Mason talks of path dependency

and suggests that this means there is little governments can do to influence employers' product market strategies.

More recent work by Edwards et al (2007) in food manufacturing has challenged this idea that employers have relatively fixed product market strategies. His study of small and medium sized firms revealed that employers had a degree of choice in the type of product market strategy they adopted, For example, those supplying large supermarkets could choose to supply basic products over which the supermarkets often gave them little room for manoeuvre with regard to product specification or price, or they could provide products that gave them more latitude with regard to pricing and product specification. Thus, the latter group chose to supply up-market restaurants or hotels. There was a perceived impact of these strategies on the demand for skills. Those which adopted the higher value-added strategy had more choice of the type of labour they employed and indeed, in some instances, regarded the skills of their labour force as part of their competitive advantage in the product market.

Two authors of this report (Ashton and Sung, 2006) have attempted to build on these insights and develop a 'business strategy and skills utilisation' model which enables them to explain the variable nature of the relationship between employers' product market or competitive strategies and the skills of the labour force. We use the term product market strategy to refer to the ways in which firms position their product or services in the market in relation to their competitors. It differs from

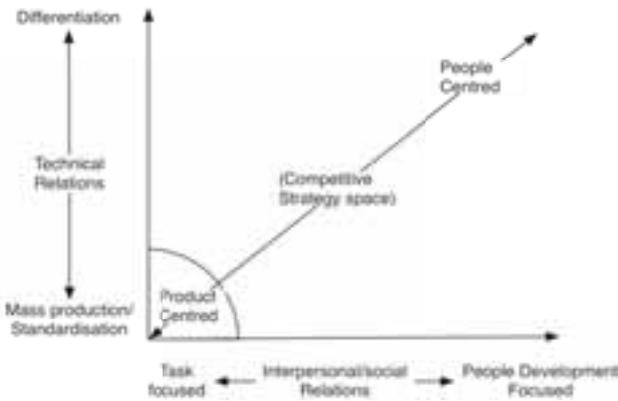
the conventional use where it is defined in terms of the value-added or the product market specification, which we see as a proxy for employers' competitive strategies. We argue that skills are an integral part of employers' competitive or product market strategies but that there are two main influences which determine how skills are used: one is the technical relations, the type of technology used and the other the inter-personal relations, the ways in which people are managed.

Figure 1 shows that where employers adopt a product market strategy where they produce standardised products or services, and compete on price, then the emphasis is on using mass production technologies and what we term task focused inter-personal relations. In Figure 1, this form of product market strategy is represented by the 'product centred' production area. The effect of this approach will inevitably lead to minimum use of employee skills and an emphasis on production efficiency at minimum unit costs. Furthermore, this form of product market strategy is not compatible with high level of employee development and work practices that are designed to stimulate creativity, innovation and discretionary effort at work. To do so, it would be 'wasteful'. As a result, the level of skills utilisation tends to be low in task focused workplaces.

At the other end of the scale where employers produce differentiated products or services and compete on the basis of quality, then they tend to use batch or customised technologies and use people development inter-personal

relations to maximise the use of employee skills. In these firms, employee skills are seen as an integral part of their competitive advantage. In Figure 1, these are described as the 'people centred' product market strategy. The level of skills utilisation under this strategy will be high.

Figure 1: The Business Strategy - Skills Utilisation Model



Source: Ashton and Sung, 2006

Of course there are many different positions that firms can adopt on this scale. They can adopt high value-added product market strategies but choose to minimise the skills of their employees, or they can adopt a relatively low value-added strategy but seek to gain a further competitive advantage by improving the quality of their product or service through utilising the skills of their labour force. For example, in a recent study commissioned by the DTI and the CIPD (Sung and Ashton, 2005), it was shown that in a drinks bottling plant in the south of England where wages are generally not high, it was possible to use practices that aimed at creating a high level of employee development and involvement, to generate significant and quantifiable workplace innovations (e.g. waste reduction, production improvements, new products etc.). The reason

for this change of strategy was the initial threats of relocation to a low-cost production site in the Far East. By creating an innovative workplace based upon high levels of skills utilisation, this increased the competitiveness of the existing plant in the UK, and simultaneously 'pushed up' the opportunity cost of relocation. So in terms of Figure 1, this bottling plant is located towards the lower half of the technical relations scale (standardised assembly lines bottling). However, by adopting a 'people centred' product market strategy, the company is able to utilise a higher level of employee skills by operating toward positions on the right hand side of the interpersonal relations scale.

Thus, while for some employers the competitive or product market strategy may shape both the technology employed and the human resource practices, thereby also shaping the skills of employees, for other employers this may lead to greater use the development of the skills of their labour force as a source of competitive advantage.

The other feature of the above strategy-skills utilisation model is that employers' competitive strategies are not seen as fixed but shaped by the relationships and constraints facing employers in their product markets rather than stemming solely from their own rational decision making processes or path dependency. These relationships and constraints change over time and comprise many different factors which can bring about change in employers competitive strategies.

The use of this model had two main consequences for the way in which the

research was designed. First, there was an explicit attempt to identify the broader relationships within the product market especially the role that government and its various agencies played in them and which in turn help shape employers' competitive strategies. Secondly, there was an explicit attempt to identify the part played by skills in that competitive strategy. This is elaborated in the next section.

1.2 Methodology

After initial consultation with Futureskills Scotland we identified five sectors in which to study employer product market strategies and the role of skills within them, i.e. Food and Drink, Creative, Hotels, Financial Services and Energy. These were chosen because they are key sectors identified in the Scottish Government's *Economic Strategy*¹.

Within each sector we interviewed a minimum of six employers, a total of 32 companies. The interviews lasted between 1 hour in the case of smaller firms and to over two hours in the case of some of the larger firms. In some cases, we conducted two separate interviews. Most were face-to-face but some of the smaller firms in geographically remote areas were interviewed over the phone. The size of firms ranged from 3 to over 150,000 employees.

In order to obtain an understanding of the characteristics of the five product markets and prior to the identification of specific firms, we interviewed key personnel and stakeholders within the sectors - e.g. Sector Skills Council

(SSC) representatives or sectoral professional bodies, trade associations and so on. These provided us with an overview of the characteristics of the employers in the sector, and enabled us to understand key trends and issues in each of the product markets that were affecting employers' product market strategies. In this way we were able to acquire knowledge of changes in relationships within these markets that we could then explore further in our interviews with employers. We were already aware of the range of policy interventions which were likely to affect employers, such as licences to practice, procurement specifications, the availability of subsidised training and programmes such as Investors in People. What we also gained from these interviews with stakeholders was knowledge of the changes in customer demand, knowledge of changes in the relationships between companies in the supply chain and differences in strategies adopted by companies in the market.

Finally, we used these discussions to help identify a range of employers to approach. These were chosen to provide good examples of employers who have moved their product market strategies as well as employers who were resistant to change or for whom a shift in product market and skill strategy was not seen as appropriate. In addition, in each sector we sought to identify the leading edge companies, those who represented the major sub-sectors, as well as small and medium-sized companies. The selection of companies also reflected the

¹ The Scottish Government (2007) *The Government's Economic Strategy*, Edinburgh: the Scottish Government. Also see <<http://www.scotland.gov.uk/Resource/Doc/202993/0054092.pdf>>

nature of the relationships between firms in each sector. Thus in Energy and Utilities we sought to capture the impact of sub-contractor relationships which are so crucial to an understanding of employment and skills relationships in that sector. In the Creative sector we sought to encompass both the public and private sub-sectors, as the nature of relationships differs substantially between the two.

In the event, the SSCs and other employer bodies were a major source of help in identifying case studies and providing general information on the sectors. We also made direct approaches to some employers as a result of our own searches in order to fill in any gaps.

We make no claim that this sample of employers is representative, only that they illustrate some of the important trends and issues in their industry, and especially those trends which policymakers seek to encourage. There were also companies that did not wish to take part in this project for a variety of reasons, but we were pleasantly surprised at the general level of co-operation we received from employers.

In conducting these initial interviews, with stakeholders as well as in the actual case study interviews, we were keen to identify those factors in the firm's product market and competitive environment that were shaping the organisation's competitive strategy and utilisation of skills, over which the government had some influence, and which public policy could possibly use to encourage change. It is acknowledged in the Scottish Government's

economic strategy that there is 'a range of levers' at different levels of government that it can use in pursuit of its strategic objectives (Scottish Government, 2007: 17). Our intention was to identify the range of these levers that can be used in the five sectors we examined, as well as pointing to the limits on what government action might be expected to achieve. Within each of the five sectors we report the findings on both the impact of these levers as well the limitations to government action. Although our focus was on public-sector levers, we also point to some of the private sector levers that are used to influence employers' product market strategies. The research recognises that employers are 'in the lead' in terms of determining product-market strategy and the use of skills; but there is also a role for government to influence and support this as necessary.

The interviews were semi-structured in order to allow us to follow leads that emerged in the process of discussion. We used the existing literature on the drivers of training and skill utilisation to inform the range of issues we covered (see Tamkin, 2005; Ashton and Sung, 2006; and Smith et al, 2008). Thus, in addition to the firms' competitive strategy we covered issues such as the characteristics of the labour force, the type of management practices they utilised, the ways in which work was organised, the role of unions, the type of skills they developed, the part played by employee skills in their competitive strategy, issues of labour supply, recruitment difficulties and relationships with the education and training system.

The interviews were conducted between January and August 2008 before the main impact of the 'credit crunch' was felt. While the subsequent recession will undoubtedly have affected issues connected to the supply of labour and recruitment difficulties, it is less likely to have affected the competitive strategies of the companies we interviewed, or the relationship between these strategies and their utilisation of employee skills. The exception here is of course some of the larger companies we interviewed in the Financial Services sector. These companies now face the likelihood of changes in their competitive strategies as a result of further regulation and restructuring within the sector.

All interviews were recorded and at the end of each interview we wrote them up as case studies which highlighted the company's competitive strategy, the role of skills in that strategy, the internal organisation of the company and the skills issues which the company saw as important to their business strategy, their utilisation of skills and experience of public interventions in the area of education and training. These case studies were then sent to the interviewees for their comments and verification. These finalised case studies were then submitted as part of the final report. However, it proved impossible to retain the level of detail necessary in the case-study write-ups whilst also maintaining anonymity of respondents. This meant that the

case-study write-ups could not be placed in the public domain. Instead we use these case studies to inform our discussions in the main report.

In particular, we used the interviews to identify the main themes which emerged in each of the sectors. These covered three main areas: the main factors which affected the competitive strategies in each of the product market markets; factors affecting the ways in which the company used the skills of its employees and how they developed them; and the characteristics of the firm's relationship with the education and training system and any difficulties they encountered with the recruitment of labour. These themes were then used to form the basis of our presentation of the findings in Sections 5 and 6 as well as the conclusions.

2 Overview of Skills and the Scottish Labour Market

In 2007, Scotland had a total labour force of 2,611,000. Economic activity rates for males are slightly higher than females, 82 per cent compared with 75 per cent. Approximately, one third of the labour force have graduate level, SVQ level 4 or above, and that is expected to rise. At the other end of the spectrum 13 per cent hold no formal qualifications at all².

According to the projections made by Futureskills Scotland, most of the sectors we

² Wilson, R. and Jones, P. (2007) *Labour Market Projections for Scotland, 2007-2017*, Warwick Institute for Employment Research, Coventry: IER.

focus on in this research are expected to show increases in employment over the next decade. All sectors considered in this research can expect to see positive net job openings due to replacement demand. However, with the impact of changes such as the global financial crisis, the likely economic repercussions and fluctuating energy prices, these projections are likely to be subject to variations. In general, we can also expect to see the workforce achieve higher qualification levels, a trend common to most industrial countries³.

When compared with the UK as a whole, Scotland can expect to see a slight decline in its labour force, a slower increase in the activity rates of older workers and more stability in the activity rates of males and females. The Scottish education system is more successful than the rest of the UK in producing people with level 4 or above qualifications, but this is not reflected in Scotland's productivity performance. Research into workers' skills in Scotland has indicated that although broad skills in jobs are similar to those in the UK, Scottish jobs require slightly lower generic skills (such as problem-solving and communication skills) than those in the UK. Scotland also lags behind in terms of computing skills.⁴

3 Challenges in the Five Sectors

3.1 Government Levers and Limitations

It is the conventional view that governments can influence companies' product market strategies through encouraging or incentivising them to adopt high performance working practices which have been shown to increase the demand for skills. There are four ways in which these influences are seen to operate.

The first is through creating external pressure on the firm, for example through procurement specifications, which oblige companies tendering to meet certain conditions which have the function of driving up the demand for skills within the firm, e.g. the need for 'skills passports' in construction. In the highly regulated sectors, e.g. energy and utilities, government regulations work in a similar manner.

The second is through the use of government programmes which provide general incentives to firms to increase the skills of their labour force, either directly through the use of schemes such as Investor in People (IiP) or indirectly through the use of schemes such as Industrial Partnerships.

The third way in which governments seek to influence companies' product market and skills strategy is through persuasion, by providing employers or those seeking to bring about change within the firm with the evidence

³ *ibid.*

⁴ Felstead, A. and Green, F. (2007) *Skills at Work in Scotland, 1997 to 2006: Evidence from the Skills Surveys*, Glasgow: Futureskills Scotland.

necessary to win the argument for change (see Guest et al, 2002; Mason, 2005 and Tamkin, 2005).

Fourthly, governments can influence firms in the private sector by setting a good example, for example by demonstrating the effectiveness of high performance working practices in raising skills and performance levels in its own organisations and agencies.

In this project one of our aims was to identify the extent to which these and other factors were shaping the behaviour of employers and encouraging them to change their product market and skill strategies. What we found were a range of other factors, which have largely been ignored in the existing research literature, but which tended to operate at sector rather than national level. In the sections below we explain how these were operating in the five sectors we researched. We make no pretence that all the issues we raise are equally important as potential levers with which to change or sustain employer behaviour. Our knowledge of them is only based on a limited number of interviews with stakeholders and employers but we feel they are all worthy of further investigation as sources of possible government action.

We have categorised these factors or drivers of product market and skill strategies in the following way:

- Drivers which impact directly on employers' product market strategies we categorise as 'branding'. A good example of these drivers include government supported organisations which function to influence

employers' product market strategies through improving the branding of the product or services, as in the promotion of Scotland. For example, in Hotel industry through VisitScotland promoting the country as a quality tourist destination and in the Food and Drink industry through Scotland Food and Drink promoting Scotland as the home of premium food and drink products.

- Forms of government action which operate through different types of regulation. We break them down into three separate groups:
 - (a) Those that attempt to function through improving the efficiency of companies we call 'efficiency' regulations, e.g. regulatory frameworks in the utility sector. Their main function is to increase the operational efficiency of the old nationalised utilities and to safeguard against any possible abuse of monopoly power. These regulations have a powerful influence over business strategies.
 - (b) The second type we call 'standards'. These may be legislative standards, as in the case of Health & Safety or they may be private standards as with those developed by the International Standards Organisation (ISO) and enforced through large or multinational companies. These require compliance and can also have a powerful impact on the utilisation of skills in the workplace.
 - (c) The third type was call 'criteria' regulations as these provide guidelines for compliance which are spelt out in the

criteria that are used for enforcement. These are evident in the private sector through the use of grading systems, as in the hotel industry where the grading of hotels by both public sector and private sector agencies provide guidance for employers on what criteria they need to satisfy to improve the quality of the service they offer. In the public sector they may be evident in the criteria that grant giving bodies attach as a condition of their awards, for example insisting that grants given to charities include a proviso that acceptance of the grant should be accompanied by actions to ensure the development of staff skills.

- Another form of government action which we encountered in all sectors was the use of persuasion. Our case studies revealed a number of ways in which employers might be better persuaded to improve the utilisation of their labour forces' skill and so enhance their competitive position in the market. However, the impact of this type of government action will vary between sectors. In Food and Drink there is considerable scope for improvements but in the Utilities sector there is much less room for improvement, as the employer's use of skills is much more affected there by standards regulation.

As we show below, the use of these drivers differs substantially between sectors. We have presented them in rank order, as we perceive their current effectiveness, or future effectiveness, at this point in time. Thus in the hotel industry the branding by VisitScotland

and other public-private bodies is already effective in shaping employers' product market strategies, but in Food and Drink, the relevant agency, Scotland Food & Drink is still in its early stages, but it has the potential to have a powerful impact in future.

While we have emphasised the different ways in which government action can potentially influence employers we are also conscious of the fact that there are limits to what government action can achieve in this area. For this reason, and to contextualise our findings, we also highlight those areas where the employers we interviewed see no need for government action or where intervention would be counterproductive. Again, this recognises that employers are 'in the lead'. Other limitations to government action may stem from the need to recognise the effects of EU directives and issues concerning devolved governments in the UK.

3.2 Private Sector Levers

While in this report we have concentrated on public policy levers, in the course of the research, it became evident that for some employers' control over the skills agenda was seen as an important part of their competitive advantage in the market. Moreover, through their own organisations it was also clear that the employers had already put in place a range of measures to tackle skills issues on an industry to sector basis. Some of these measures are joint efforts with their sector trade or professional bodies, e.g. in financial services, Scottish Investment Operations (SIO); in Food and Drink, their trade association; in Creative Arts, the IPA and Sector Skills Council.

3.3 Food and Drink

3.3.1 Characteristics of the Sector⁵

Contribution to the Economy

The Food and Drinks industry employs 51,100 making it the largest manufacturing sector with about 21 per cent of Scotland's manufacturing workforce producing 27 per cent of its manufactured exports and representing 22 per cent of Scotland's total manufacturing turnover. In 2006 its Gross Value Added (GVA), was over £3,003 million but this conceals considerable variation between the various sub-sectors. For example at one extreme the GVA for the processing and preserving of fruit and vegetables was £30,142 per employee while at the other, in the manufacture of distilled potable alcoholic beverages it was £161,400 per employee, or 55 per cent of the nation's total sector GVA.

Product market structure

The companies in this sector are primarily involved in competing in the domestic market. However, as our interviews revealed, parts of the Food and Drink industry are subject to strong international competition, especially in the more knowledge intensive, high value added sector, where companies compete in global markets with other multinationals (MNCs). At the national level, countries such as New Zealand, Denmark and Ireland are leading the way in many aspects of food production and processing. Apart from intensified

competition, employers are facing numerous changes in their market, including changing consumer tastes, new technologies and products, increasing concentration of market power by the supermarkets and continued regulation of food standards and labour use.

Characteristics of the firms

There are around 1,500 food and drink sector workplaces in Scotland. The Bakery, Wholesale of other Food and Beverages sub-sectors dominate the industry's workplaces in Scotland, representing 22 per cent, 20 per cent and 16 per cent of the nation's total, respectively. The size of workplaces tends to be larger than the average for the country as a whole. However, this does not detract from the heterogeneity of employers in this sector. These companies range from numerous small and medium-sized enterprises to major multinationals. The Sector Skills Council (Improve) reports that lean manufacturing is becoming a reality as the sector improves its competitiveness. The fact that GVA per employee is ahead of that for the manufacturing sector as a whole indicates that this is a relatively productive workforce. However, this should not detract from the fact that the sector is characterised by considerable heterogeneity, although the sector as a whole is dominated, in terms of turnover and the contribution to GVA, by the manufacture of beverages.

⁵ Data for this section is derived from the following sources: Improve (2008) Sector Skills Agreement - Food and Drink Manufacturing Sector, York: Improve Ltd; Futureskills Scotland (2008) *Food and Drink Manufacturing and Processing Scottish Sector Profile*, 2008; Office for National Statistics, *Annual Business Inquiry, Turnover, GVA and GVA per Employee, 2006 and Sub-sector percentages of Manufacture of food products and beverage sector*.

Skills and labour force characteristics

What is distinctive about the labour force of companies in this sector is the high proportion of process plant and machine operatives they employ, which account for 45 per cent compared with 7 per cent for Scotland as a whole. This preponderance of operatives helps explain why full-time wages are 8 per cent below the average for Scotland and why 59 per cent of the workforce has level 2 or lower qualifications, while 17 per cent have no qualifications at all. The industry also employs a high proportion of migrant labour, estimated by Improve Ltd to be as high as 15-20 per cent of the labour force. However, while this is the overall picture it would be inaccurate to give the impression that companies in Scotland are all using low qualified and relatively low-paid labour. As we noted earlier this sector is characterised by considerable heterogeneity with some companies being very knowledge intensive, with extensive R&D, and operating at the leading edge of the international food and drinks market.

The high proportion of operatives employed by the industry may also explain the distinctive use of high performance working practices by employers in the industry. Here, recent research (Sung et al, 2008) has revealed that employers are using high performance work practices (HPWPs) to raise skill levels and the performance of operatives in the industry, findings that were reflected in some our case studies. In line with these findings, Improve Ltd, the Sector Skills council for the industry reports skill deficiencies in supervisors/managers, technical roles such as food scientists, machine operators and craft skills.

Some of these categories are now covered by the Migration Advisory Committee's (MAC) Scotland Shortage Occupation List (SSOL), e.g. manual filleters of frozen fish; machine trained operatives and quality controllers in the fish processing industry. However, some of these recruitment difficulties may have been eased as a result of the current economic downturn.

3.3.2 Government Levers

In Food and Drink sector there are five areas where our case studies indicate that government could potentially influence the product market and skill strategies of companies.

1. The first concerns the attempt being made by the government supported industry-led agency Scotland Food and Drink to place Scotland among the top three global producers of premium food and drink. This industry-led organisation would operate on the demand side and offers the potential to develop the Scottish Brand in this sector, improve the supply chain, stimulate product innovation and add value for firms in the premium market. This private-public sector collaboration could be a powerful lever to help Scottish food and drink employers shift their product market strategies toward a premium brand and help push the industry as a whole up the value chain with consequent pressure on employers to increase in their demand for skills. Two of our case studies provided examples where the drive to compete at the leading edge of their respective markets had created the need to upskill their labour forces. However this had not been an easy task and required

sustained effort over some time on the part of their staff to achieve those objectives. In both instances it involved not just more training but the implementation of management practices to support such a learning and performance culture.

2. The second is through assistance to firms to help them utilise the skills of their labour forces to compete more effectively in the higher value-added end of the food and drink product market. The experience of the firms we studied suggested that in order to compete in this section of the market, and deliver consistently the high quality products required, companies need to introduce major changes in the organisation of production and in human resource management. This is the way in which leading employers are able to ensure that learning becomes embedded in business processes and that the discretionary effort required from all staff is directed at getting things 'right first time' and 'every time', identifying and resolving problems in the production process, and providing continuous improvement in the product in order to achieve the highest level of customer satisfaction.

Central to these changes was establishing trust between employees and management. This enabled the companies to implement high performance working practices (HPWPs) which produced a step-change in the quality of their products. Other research (Sung et al, 2008) suggests that the specific combinations of HPWPs used in this sector are those that deliver high levels of

intermediate skills, as employers view skills at this level as particularly important for the Food and Drinks industry. We have two case study examples where these practices have been implemented, both of which generated significant business improvements. Both companies were using the skills of their labour force either to move up market or to compete at the leading edge of their markets through innovation. To get there required sustained use of HPWPs and was not an easy task but there are lessons here for other companies seeking to follow this route to enhanced performance.

This is an area where the employer must necessarily take the lead but there are ways in which government could help them in implementing the necessary HPWPs. The interviewee from one of the case studies reported that she had experienced several demands from other employers to tell them how these improvements were achieved, suggesting a demand from other employers for this knowledge, and a desire on their part to change their business strategy. There was a plea here from employers for the government to play a more active role by helping make such knowledge available to them and signposting the sources of such help. Such action could be channelled through a co-ordinating body or group such as Scotland Food and Drink or the Sector Skills Council.

3. The third is through ensuring an adequate supply of higher level skills. If Scottish firms are to be among the world's leading producers of premium food, then the

product market strategies of such firms require a constant supply of appropriate talent. Here we found that companies already competing successfully in these markets felt their product market strategies threatened by the lack of home-grown food technologists. This was especially the case for medium-sized Scottish owned enterprises facing competition from multi-nationals in this field. Action is being taken by the companies and the Sector Skills Council, Improve, has a key role to play.

A related issue is the acute shortage of operative and skilled manual workers faced by the smaller firms. There were two problems reported here. One concerned the difficulties some employers faced in building collaboration with local colleges, in part because of the geographical distances involved and in part because the employers' skill demands were changing so rapidly. The second was the belief among some employers we interviewed, that increasing numbers of young people staying on at school and entering university had resulted in a lack of capable young recruits at operative and skilled manual levels. Employers felt that curriculum and careers advice could be refreshed to identify the range of career opportunities available in the Food and Drinks industry. They argue that if the industry is to grow and become internationally competitive it requires a supply of capable young recruits. Here there were notable attempts on the part of one of our case study employers to develop a programme designed to attract young

people to the industry. The plea was for government support to generalise the lessons learnt from such a programme. What our evidence suggests, is that if these shortages become acute, then this may persuade some employers to de-skill their production processes further as a way of maintaining production. However, this fear may be eased as a result of the impact of the economic downturn.

4. Governments can also influence the product market strategies through the enforcement of 'standards' regulations such as those embedded in Health and Safety legislation. Such regulations help drive training and learning within companies initially for safety at work, and while they may not produce the step-change in skills that HPWPs can deliver, they nevertheless help support the establishment of learning within the workplace. At the moment other regulations, such as those produced by the British Retail Confederation (BRC) as well as standards set by the ISO are having the same effect. It may well be that there is a case for government agencies to deliver help to firms in meeting these standards and embedding learning in their production processes. This is supported by evidence in our case studies which suggests that when training is systematically built into the operation through 'standards' and 'quality requirements', it becomes to be seen as a necessary part of the operation and no longer as an additional 'cost'. The learning becomes built into the business process. By creating greater awareness of the impact of

training this has the potential of changing the culture of training in firms.

5. The fifth area where government support could help is in delivering advice to family businesses in the process of transition from one generation to the next, a point at which many face a threat to their business strategy. One of our case study companies felt a need to raise awareness of family business issues as a separate and expert type of advice within existing business support systems and especially those that support small medium sized enterprises (SMEs). These issues are also relevant to family businesses outside the food and drink sector. That is, although a sectoral approach is useful, it must also encompass issues pertaining to family-owned businesses and those specific to small and medium-sized enterprises.

3.3.3 Limits to Government Action

While there are areas where government help can aid employers to move their product market strategies up the value chain and potentially help raise the skill levels of the labour force, there are clear limits to their influence.

1. First, it has to be recognised that there is no one-to-one correspondence or linear relationship between product market strategies and the skills of the labour force.

Some companies are capable of delivering premium products with relatively low-skilled labour force, utilising mass production methods. In our sample, we encountered one such example. They are a company producing premium food products, with a small group of highly skilled quality testers, supported by a much larger group of lower skilled workers responsible for packaging the product. Other researchers have noted similar examples (Mason, 2004). For such companies, attempts to introduce HPWPs or increase the training of low skilled workers only adds costs without significant corresponding improvement in the final product or in company performance.

2. Secondly, there are companies we visited in the Food and Drinks industry that are perfectly happy with their ability to deliver the skills they require. Thus small companies using craft skills to delivering premium products to niche markets, such as high quality meat and fish products to hotels, restaurants and specialist retailers, were capable of training their own staff and fulfilling all their own skill needs. When they needed help they found this through their own trade associations or relevant government agencies. If they faced problems it was not in the process of training but in finding suitable recruits. Labour supply was at the time, a bigger problem.

3.4 Creative, Performing Arts and Heritage

3.4.1 Characteristics of the sector⁶

Contribution to the economy

This sector comprises Advertising, Crafts, Cultural Heritage, Design, Music, Performing Arts, Literary and Visual Arts. Overall it employs 36,800 with Design accounting for the largest single group. In terms of GVA it contributes £1.25 billion or 4 per cent of GDP.

Product market structure

In terms of product market structure the sector is best seen as having two major sub-sectors, the public and private, as the drivers for the product market and skills strategies are very different in the two sub-sectors. In the private sector, the market, which is largely national in character, drives business strategy. In the public sector, public funding is a significant influence, although market considerations are increasingly important.

In the private sector, companies tend to be relatively small in size and in the advertising and design subsector are part of the supply chain to larger private sector employers such as the major banks. In the public sector the companies tend to be larger but cater to a largely domestic audience, although they are important in establishing Scotland as an international centre for the arts and improving Scotland's attraction as a quality tourist destination.

Characteristics of firms

Small and micro firms dominate the Creative and Performing Arts sector. In this respect this sector differs from most other sectors which are characterised by greater heterogeneity. As a whole the Creative and Performing Arts sector consists of over 5,000 businesses with over 85 per cent employing less than five people. Only 4 per cent have a turnover of more than £1 million while over half have a turnover of less than £100,000. The public sector companies are subject to change from both customers and the government. Although we can assume that consumers usually exercise a huge degree of influence in the market, this part of the industry is also subject to other changes such as rapid technological innovations, the 'convergence of the media' and the rise of the Internet, which all play an important part in influencing the industry's future development.

One of the features facing companies in both the public and private sectors is the competition they face from London for market share and for scarce talent.

Characteristics of labour force and skills

The sector as a whole is characterised by a relatively highly skilled labour force. This is reflected in the fact that around two thirds of new jobs are expected to be in managerial, professional and associate professional roles. Across the industry, the majority of the

⁶ Data for this section is derived from the following sources: *Creative Choices, Scotland Impact and Footprint*, London: Creative and Cultural Skills, 2006. *Creative and Cultural Skills: a position statement for Scotland*, London: Creative and Cultural Skills, undated; *The Creative Blueprint: The Sector Skills Agreement for the Creative and Cultural Skills Industries, The Skills Needs Assessment*, London: Creative and Cultural Skills, 2008; Futureskills Scotland (2007) *Creative & Cultural Skills: Scottish Sector Profile 2007*, Glasgow: Futureskills Scotland.

workforce (74 per cent) are full time with males predominating in Design and Music and females forming half the labour force in Culture and the Arts. However, many jobs (36 per cent) are filled by the self-employed especially in the Music and Arts sub-sectors. The drive for greater flexibility which is affecting the industry, is resulting in the sector also being characterised by a high, and increasing proportion of freelancers (26 per cent), with the largest group of freelancers being employed in the arts. This is also resulting in a changing role for volunteers, many of whom are employed in Museums and Galleries where they number approximately 5,500⁷.

3.4.2 Government Levers - Public sector

The public sub-sector of the creative sector typically includes organisations such as theatres, museums and galleries. These organisations are regarded as public sector mainly because they receive funding from the government in the form of grants, though many are increasingly seeking to supplement this income with a number of additional business-related revenues.

In the public sector the government and its agencies influence companies and organisations product market and skill strategies in a number of different ways, of which the two most important are through the control of appointments to leadership positions and what we have referred to as criteria regulation.

1. Although theatres, museums and galleries are supported by public funds, these organisations are increasingly operating within parameters that are more akin to the commercial environment. Our case studies exhibit a clear sense of urgency among senior people of the need to develop their organisations' ability to deal with the ever more challenging financial environment in the performing and creative arts. Here, through the power to appoint leaders of the nationally important organisations within the creative industry, the Government has made the important first step to change the mindsets of many of those who are working in the industry. For example, the appointments of the leaders to two of our case studies, demonstrated how a concern with introducing a more business-like approach and developing the skills base of the industry has driven change.

In one case it has involved the establishment of feeder training programmes and working with schools to increase the interest of young people in their branch of the arts. In the other case it involved the transformation of the companies organisational structure to introduce a dedicated human resource function, tasked with improving skills throughout the organisation as well as a programme to introduce more comprehensive training for technical staff.

⁷ Much of the sector information is derived from a number of existing official publications. See Appendix A.

2. A second and crucially important lever the Government and its agencies have in this industry is the power to decide the criteria used in the awarding of grants. Traditionally, our respondents reported that grants have been awarded in this industry without regard to the development of skills among staff. They were typically awarded for specific projects and it was assumed that the development of staff skills was not the responsibility of the grant holders. It was reported by the respondents that this resulted in skills development within the industry often being overlooked.

In this sector public policy is well positioned to ensure that in the awarding of future grants, it is made clear that they are conditional upon the recipients developing the skills of their staff. This will not only ensure the establishment of higher skill levels it will also help ensure that the leaders of these organisations place human resource development higher in their priorities. These higher skills, and a more sophisticated approach to competing in the international stage, will support Scotland in sustaining a strong position globally in the creative arts.

3. A third lever is the ability of the Government to improve the utilisation of skills in organisations which it funds through the introduction of high performance working practices. One of our case studies provided a good example of how HPWPs can be used to elicit discretionary effort and commitment from staff in order to deliver change in accordance with the

Government's priorities. These are different 'bundles' of HR and work practices to those used in the Food and Drink industry but they have the same outcome, namely they secure the commitment of staff to the organisation's goals which in turn are derived from Government policy objectives. The result is more effective performance than could be achieved by the older 'top down command and control' form of organisation it replaced and one more suited to delivering Government objectives in a changing environment. We are uncertain as to whether there are any mechanisms for transferring this learning to other parts of the public sector that could benefit from having a closer alignment between the Government's political objectives and the performance of organisation tasked with delivering them.

4. It is also clear from our discussions that the theatre and dance sub-sectors are increasingly competing with international organisations for audiences and the export of expertise, e.g. in the management of theatres and innovative approaches to theatre design and technology. Here the head of one of the case studies has already identified the growth of theatres in China as a market. The building of a significant number of theatres is creating a shortage of theatre management and technical expertise in the country, which could be supplied from Scotland. Policy support could be established to facilitate the training of staff in this area as well as establishing a specific export strategy for the sector.

5. One further area where the Government has already acted is in funding leadership courses for those in senior positions in the public sector creative arts. However, this was a one-off exercise but did provide a means through which one of our case study organisations was able to enhance the skills of leaders in their sector. The continuance of such programmes would enable a larger group of senior staff to become equipped with the skills necessary for implementing change and higher level skills in their organisations.

3.4.3 Public sector - limits to Government action

1. While the Government has more potential control over this sector than any other sector because of its funding power, the new industry leaders are demonstrating a capacity to resolve their own issues and problems and so take the industry forward without targets or directives. This is evident on two case studies where the respective Directors have taken the lead in resolving their own challenges with the supply of skills.
2. The flip side of the internationalisation of this sector is that companies in the public creative arts will increasingly be competing with an ever-rising number of centres of excellence for the export of expertise. For example, Singapore did not have a performance art platform until the opening of the Esplanade in 2002. Over the years, it has accumulated a huge amount of expertise and is keenly competing to supply this expertise in China, through its training

provision. However, as more countries compete to supply expertise in the performance arts market this may limit the impact of public support.

3. Any proposed action in this area must recognise the autonomy and primacy of local government in funding such institutions. For example, in the case of local museums the main source of funding is often the local authority; the central government grant awarding bodies can make a significant difference at the margins. However, this highlights the need for national and local authorities to continue to work together in order to create a greater leverage effect through funding.

3.4.4 Government levers - Private sector

The business environment of the private sector is very different from the public sector part of the creative industry. In the private sector case studies that we cover - e.g. music, graphic design, marketing and communications - profitability is the criteria by which activities are sustained and developed. There we found a number of areas where government agencies may have leverage, the foremost were the lack of a critical mass of skills for the sector and the problem of representing the sector to government.

1. Unlike financial services, there is no critical mass of skills in this sub-sector. This was seen by some employers in our study as a major factor in inhibiting their ability to compete with other centres for skills, namely London and New York. Employers were constantly having to face the threat of

staff moving away. Part of this could be resolved if ways were found of developing a critical mass, similar, but on a smaller scale, to that found in the financial services industry. One suggestion from the employers was for public/private sector collaboration to lobby some of the major multinationals (MNCs) located in Scotland to spend part of their marketing budgets in Scotland, rather than London. As mentioned in one of the interviews, the Institute of Practitioners in Advertising (IPA) found that only a very small proportion of the marketing budgets of the big MNCs in Scotland were spent with Scottish media agencies - much of it has gone to big agencies in London. Hence, the employers suggested that even a fraction of that spending would help create a much stronger creative media sector in Scotland. This would help establish a supply chain which would increase employment in the private sector creative arts in Scotland.

We also identify that the lack of a critical mass leads to a further problem, namely, the limited supply of vocational skills from the public sector. For example, in the marketing and communication sector, employers reported that there were limited sources for new recruits in Scotland and they frequently had to look elsewhere for new recruits. This makes recruitment a real problem and employers see a need for a greater supply of degree or diploma holders in this field from Scotland.

2. The second point made strongly by some employers from the private sector was that

it was not appropriate for the purpose of public policy to group the public and private sub-sector employers together within this very broad 'creative' sector. A tension was apparent between the 'private' creative arts sector which saw itself as an intensively competitive commercially based industry as opposed to the public creative arts sector which it saw as more culturally-focused.

3. The issue of intellectual property (IP) rights is increasingly an important topic *vis-à-vis* the growth of businesses such as the music labels and media communication companies. At the moment media companies lack protection from IP rights. For example, advertising agencies cannot protect advertising concepts while music producers suffer from piracy over the Internet. Employers argued for greater protection (e.g. through legislation) and enforcement. It was their view that greater skill building and innovation in the industry can only be encouraged if their IP rights are protected.

3.4.5 Private sector - limits to Government action

Employers in this sub-sector all recognise that they have to be responsible for much of the training. While a greater supply of vocationally trained recruits would help, many of the skills they utilise are 'hard to teach', as reflected in our music label case study, because the codified part of the knowledge is smaller than the tacit part. This means that learning through experience is often very important (e.g. managing client relationships) in order to become successful in the industry. In all of our private sector case studies - e.g. in

communication, branding, advertising and running an independent music label - much of the necessary expertise was learnt on-the-job.

3.5 Energy and Utilities

3.5.1 Characteristics of the sector⁸

Contribution to the economy

This sector, comprising electricity, gas, waste management and water employs over 57,000 in Scotland, with the largest numbers, 17,000 employed in Waste Management. The productivity of the sector is around five times greater than the UK average, in part a function of the high level of capital investment in the industry. In 2003, it contributed £2 billion to Scottish GVA.

Product market structure

There is a strong element of foreign ownership of the utility companies but some remain under British ownership while Scottish Water is still a nationalised company. However, all companies in this sector are competing in the domestic Scottish market.

The sector is also characterised by a high degree of economic and safety related regulation. This has an important impact on the business strategies of companies that operate within it, although not all their activities are subject to regulation.

Unlike the other sectors where their industry structures have evolved over many years, this sector is still experiencing rapid change as the ramifications of privatisation and regulation are still being felt.

Characteristics of firms

This sector is characterised by rapid change resulting from the privatisation of what were vertically integrated nationalised industries. This has produced a far more complex structure, with large asset owners dominating the various sub-sectors, and many functions being outsourced. The result is the creation of a large number of small and medium sized companies (sub-contractors) providing specialised services, sometimes operating across industries. One result of this is a strong pressures to develop multi-utility skills. The sector is also subject to market and political pressure to develop new technologies and greener energy production.

Characteristics of labour force and skills

The high level of capital investment in the industry is one of the main reasons for the high level of skill which characterises the workforce. In Scotland the greatest numbers of employees are found in associate professional and technical occupations (9,500) and skilled trades (9,400), all operating in a highly technical environment. The Stage 3 Sector Skills Agreement (SSA), derived from employer consultation, notes that the continued drive for efficiency and downsizing has had an adverse impact on medium and long term investment in skills. Unless positive steps are taken, the SSA suggests a likelihood of significant skills shortages appearing within the next five to fifteen years. Nevertheless there is a higher than average take up of level 3 qualifications in the sector compared to the UK average,

⁸ Data for this section is derived from the following sources: *EU Skills Sector Skills Agreement Stage 3 Report Scotland 2008*; *EU Skills Sector Skills Agreement Stage 5 Report Scotland, 2008*.

although much in-house training is not certified and therefore not readily transferable across the industry. It is a predominantly male industry with females representing only 25 per cent of employees.

3.5.2 Government Levers

In the energy and utilities sector the most important levers are efficiency regulation and standards regulation. However, some of these regulations, apart from those governing Scottish Water, may be controlled by the UK rather than the Scottish Government.

1. The efficiency regulations have a substantial impact on the product market strategies of firms in this sector, although their impact varies somewhat between different firms. These regulations are enforced through agencies such as OFGEM and OFWAT. After privatisation the regulators had two purposes, to increase the efficiency of these companies and to ensure that their near monopoly position is discharged responsibly and that effective competition is maintained. The regulators set the prices companies can charge, and regulate the costs that can be set against their income through the five-year licensing agreements. The aim is to bring all companies up to the level of the most efficient.

What our case studies show is that those larger companies, which are already seen as the most efficient, tend to work closely with the regulators and almost become benchmark companies for the rest of the industry. However, the regulator still has a strong influence on their product market

strategies. Other smaller companies in highly regulated sub-sectors, such as the supply of gas, have their product market and skill strategies more tightly structured by the regulator. According to our interviewees, this has led to skills issues and new management practices not being given sufficiently high priority in the past. The emphasis has been on delivering skills in the shortest time possible with the minimum of cost. Moreover, the five-year time limit on the licences and pricing framework has meant that companies have felt discouraged from investing in the skills of their staff over the long term. Thus, as the Sector Skills Agreement points out, one of the downsides of this system was the weakening of the apprenticeship system, although this is just one manifestation of more general skill issues in the industry.

The regulator is starting to recognise this problem and recently the costs of apprenticeship training have been allowed as legitimate expense in the new pricing agreements. As the employers point out, there may be a case here for the Government to use any influence it may have to review these agreements to ensure that the costs of skills required to operate modern high performance organisations are embedded in the new regulations, otherwise the industry may lag behind in the introduction of more efficient forms of organisation and in the skills required to run them.

In other parts of the utilities sector the benchmarking of companies against the

most efficient in the industry led to the introduction of more extensive skills in customer service and modern management practices. It has also driven up skills through the use of efficiency measures which drive new technology adoption and the skills to support it.

The impact of efficiency regulation may be extending as questions of national energy security are becoming more prominent in public policy. Here political directives can be seen to directly influence business policy.

The Government encouragement for investment in wind farms is a case in point as it seeks to reduce reliance on overseas sources of energy. This involves the use of new technologies where specialist skills are particularly in short supply, as this technology has been developed abroad. Here the problem is how to help develop those skills in Scotland. Our interviewees suggests that much of the future skills supply issue can be resolved if graduates are aware of the emerging opportunities in the 'new' (e.g. renewable) energy sector. Here again there would appear to be a need for an increasing awareness throughout the educational system of range of opportunities that these new technologies are creating. The Sector Skills Council could have a central role in spreading a greater awareness of opportunities in this new sector.

The impact of efficiency regulation extends beyond the asset holders to the rest of the sector through the use of sub-contracting, which is also a characteristic of this sector.

Here one of the most important factors driving up skill levels is the behaviour of the major asset holders which specify the contractual requirements sub-contractors have to adhere to. Thus, many of the sub-contractors have their skill levels shaped to a large extent by the major asset holders for whom they work, for example the technical knowledge required of staff, the quality standards they have to adhere to, the qualifications employees require and the level and content of their training.

2. Standards regulations also have a powerful influence in this sector. These extend well beyond conventional Health and Safety that affect workplaces in general because of the danger associated with conveying gas and electricity. The tight regulation of workplace practices in this sector means that companies have less discretion over the way in which they utilise skills precisely because these are prescribed by law. Thus, while there is less room for company discretion in introducing new practices and upskilling, those who determine these standards have a stronger influence over the utilisation of skills within companies.
3. Employers in this sector identified a number of areas where they encountered difficulties with the supply of labour. In the short-term, part of the solution may be through the work of the Migration Advisory Committee whose list covers many of the skill shortage categories identified by our interviewees, such as construction managers and various kinds of engineers. However, the employers are also keen to explore greater cross-sector

collaboration as the various utilities do draw on common recruitment pools - e.g. mechanical and electrical engineering, various skilled trades and technicians. The problem here is that there has been little history of cross-sector collaboration to co-ordinate career progression, recruitment, apprenticeship training and other issues. For example, the one interviewee revealed that their skills supply may be influenced by the work of SEMTA, ConstructionSkills as well as other sector skills councils. Collaboration may also help improve up-skilling issues faced by sub-contractors as well as the recruitment and qualifications issues. There may be a role for public policy to help here especially as the relatively recent privatisation of these industries means that there are no strong employer bodies to initiate action as is the case in some of the others sectors we researched.

The Sector Skills Councils have already taken an active role in tackling these issues. Both asset holders and sub-contractors have reported difficulties in recruitment across the different levels of jobs ranging from apprentices, technicians, graduates to industry specialists. EUSkills reports a shortage of intermediate level skills and has done innovative work with the Government in developing programmes for young recruits to learn these skills, but this remains a one-off exercise and it is possible that more could be done by the Government to support such initiatives on a more permanent basis.

Some case-study employers had difficulty understanding the complex qualifications landscape. Additionally, there were some occupations where employers considered new qualifications were required to support individuals' career development. Again, the Sector Skills Councils have a role to play here in ensuring that the qualifications system meets employers' needs.

4. Rapid technological change is also very important in driving the skills agenda in this sector. Here our interviewees pointed out that as new techniques are developed for laying mains, for inspecting pipes using CCTV, for excavating roads and even digging holes, these all make new technical demands on employees. In addition the introduction of 'smart meters' is creating new demands on the information technology skills of white collar staff. Finally, new Health and Safety requirements, such as the Roads and Streets Works Act impose additional requirements on employers to ensure their staff work in compliance with the new regulations. This is a sector where upskilling and re-skilling is a continuous process. At the same time changes to enhance business efficiency are reducing the time available to learn these skills. These are all new challenges that are being partly met through the re-introduction of new forms of apprenticeship and management training. This is an industry in which the Sector Skills Councils are starting to play a crucial role in helping tackle challenges in the field of training and certification.

3.5.3 Limits to Government Action

1. The privatised energy companies are relatively young compared with companies in other sectors. Employer organisation initiatives are therefore less well established. As these energy companies respond to government regulation the Sector Skills Council may become a more important focal point for co-ordinating the actions of employers in tackling some of the issues we have raised here.
2. As PLCs, energy companies have been diversifying to strengthen their financial position. Their business activities now extend well beyond energy, as defined by the regulator, and may now include property and leisure ventures. As a result one interviewee pointed out that there would be increasingly more and more activities that would move beyond the areas that Government could influence through the regulator, although this trend was much stronger in England than it is the case in Scotland.
3. Many interviewees commented on the need to ensure that local facilities and practices were joined-up with European Union policy directives. This was particularly the case in waste management and renewable energy.

3.6 Hotels

3.6.1 Characteristics of the sector⁹

Contribution to the economy

The tourism sector as a whole provides 16,800 workplaces and direct employment for 200,000, approximately 9 per cent of the workforce, with hotels and restaurants employing 169,000 and providing 7 per cent of Gross Value Added in the Services sector. There are also an addition of 13,000 people estimated to be working as self-employed in the sector.

Product market structure

The industry is primarily geared to the domestic market with only a limited number of hotels actively seeing themselves as competing in a global market for customers. For the industry as a whole the marketing of Scotland as a tourist destination is seen as very important. Most of the employers we interviewed saw their main competition coming from other hotels in their area and their competitive strategy being based on the level of facilities and service they offered, though it is also obvious from the case studies that the hotel market is quite diverse. For example, while most hotels catering for tourists would see quality service and possibly a 'unique' experience being important for the tourist market, those located in the cities may place

⁹ Data for this section is derived from the following sources: *National Skills Strategy for the Hospitality, Leisure, Travel and Tourism Sector in Scotland*, Uxbridge: People1st, November 2006; *Hotels Industry Report*, Uxbridge: People1st, 2006; *Scottish Employers' View: Critical Factors*, Uxbridge: People1st, undated; *Scottish Tourism Forum, Visit Scotland Tourism-related Employment in Scotland 2006*; *Scottish Annual Business Statistics, 2006*; Futureskills Scotland (2007) *Hospitality, Leisure, Travel and Tourism Industries: Scottish Sector Profile 2007*, Glasgow: Futureskills Scotland.

greater emphasis on the importance of repeat customers. Even within the top-end of the hotel market there are distinctive segments of the industry which compete in international markets. This global competition can be for business and leisure customers, as is the case for some of Scotland's internationally renowned resorts, or it can be for the international conference market, as is the case for some hotels located in the big cities.

Characteristics of firms

There are approximately 2,360 hotels in Scotland, excluding bed and breakfast establishments, employing a total of 50,100 in 2006. However, there are many sub-sectors within the industry. These sub-sectors include major international hotel chains, exclusive boutique hotels, budget hotels, travel-to-work hotels and the ubiquitous B&Bs. Moreover, the size of hotels varies from a few beds to hundreds, although the majority of them are small. The customer base also varies from the 'exclusive experience' as offered by a top resort that we include in our case studies to other case studies of ours that concentrate on business events and conferences as well as general tourism. The result is a high level of heterogeneity with each of these different segments, having to confront different operational issues and forge different types of relationships with its customers, creating different demands for skills. However, unlike some of the other sectors in this report, such as Energy and Utilities, financial services and in some cases of food and drink manufacturing, technology is not generally an important driving force in driving skills issues.

Increasingly, many international chain hotels as well as city-based hotels are working with a wider range of stakeholders in their related industries, and these efforts are driving future business development and their skills requirements. For example, international hotels and city hotels in our case studies, together with city promotions and private sector businesses, are increasingly planning their development years ahead through events such as exhibitions, trade shows, cultural activities and conferences. Some of these collective efforts involve stakeholders from different segments of society and often involve long-term planning and co-ordination years before the events. In contrast, the locally-based tourist hotels and B&Bs are more reactive to the market and do not in general benefit from the major national cultural events.

Characteristics of labour force and skills

The labour force in this sector is generally characterised as having lower levels of qualification. Nearly one half of the workers are employed in elementary occupations, for example as waiters/waitresses or cleaners/domestics. Of the remainder 18 per cent are managers and 11 per cent employed in administration or secretarial roles. This predominance of low skilled employees is reflected in the educational levels of staff: 15 per cent have no qualifications, 24 per cent have level 1 and 27 per cent level 2; making 66 per cent of the workforce having level 2 or less. Of the remainder only 20 per cent have level 3 and 14 per cent level 4 or above.

As our case studies demonstrate, skill levels vary from one company to another, with those

competing at the top end of global markets having very highly skilled staff while others competing at the lower levels of the market have staff with little training.

The industry as a whole employs a high proportion of part-timers and seasonal workers; for the UK as a whole, 63 per cent are full time and 37 per cent part-time. Many of these workers are females who comprise 59 per cent of the workforce with males comprising 41 per cent. The sector also employs a high proportion of foreign workers.

The workforce is also characterised by its youth, with 37 per cent of employees being aged between 16-24. It has high levels of staff turnover, with the Sector Skills Council, People1st, estimating it to be in excess of 60 per cent. There is a belief in the industry that young people see the entry level, elementary jobs it offers, as providing only stopgap jobs and not as a first step on a career. Skill gaps were more prevalent in this sector than is the average for all industries across Scotland. Customer handling, oral communication, problem-solving and teamworking were all cited as specific skills lacking in workers¹⁰.

3.6.2 Government Levers

In the Hotel sector there are a range of levers available to government, of which branding through public and private sector collaboration is perhaps the most significant in helping the industry move up the value chain, although

standards regulation and criteria regulation are also important. In addition, the industry often has difficulties sourcing a ready supply of labour.

1. Unlike many industries where the brand is clearly and unambiguously the property of a particular company, in hotels, tourism and leisure, large sections of the market are dependent on the branding of the locality for the reputation of their product. This generates a degree of interdependence between the public and private sectors in structuring the product market that is not evident in many other industries. This distinctive experience then serves to differentiate their service from that of competitors in other countries or regions.

This interdependence can be seen in the marketing and branding of the product - for example, the branding of Scotland as a 'quality destination', or Glasgow as the home of 'green hotels' or specific localities as a 'quality local tourist destination'. Here the public sector agencies provide help and expertise in promoting the brand of the nation as a whole or the city or region, while the private sector companies deliver the experience to the customer. By promoting Scotland as a quality tourist destination, agencies such as VisitScotland have helped companies move up the value chain. Similarly at the city and regional level, City Marketing Bureaux and the Exhibition and Conference Centres have helped hotels such

¹⁰ Much of the sector information is derived from a number of existing official publications. See Appendix A.

as those in our case studies, as well as other large international chain hotels in their area or region, to secure access to the international markets for conferences and obtain certification of their green credentials. In our case studies, we encountered examples of very successful collaboration but also areas where employers felt the public sector agencies could improve the employers' own attempt to move the brand up the value-chain. Some employers felt that VisitScotland was doing a 'fantastic' job at the national level, but that more could be done to promote specific localities as quality tourist destinations.

A second area where this inter-dependence between public and private sector is evident is in the big public sector sponsored events, such as the major Scottish festivals, which bring in tourists and which hotels then can use to build on and offer their own deals. It is widely recognised that such events have an impact in stimulating the industry as a whole but only within the immediate locality. For example, some employers, especially SMEs, felt that some festivities in the regions could perform the same function of stimulating the market for them.

2. Standards and criteria regulations also have an important impact on employers' product market strategies in this sector. Standards regulations provide an area where government may be able to help companies, especially SMEs, in their attempt to move their service up market. This again stems from the interdependency between the public and private sector in delivering the tourist experience. Here the overall experience which the customer has of Scotland, or a region of Scotland, as a tourist destination, depends on the actions of a range of providers. These include the hotel providing the accommodation, the restaurant providing the meals, the taxi company providing the transport and so on. An unsatisfactory experience in any one of these areas is likely to reflect badly on that person's experience of Scotland or the region or the locality as a quality destination. Some of our interviews argue that one way to improve the standard for the whole sector would be to have common standards (e.g. a common grading system) for all accommodation providers.
3. While some employers in our case studies saw advantages in standards regulation, the flip side was the complaint from many in the sector about the adverse affects of 'red tape'. It is not that employers are against regulation as such. But they are concerned with those regulations which appear to be less relevant to (or may even hinder) their operation.
4. Criteria regulations, in the form of grading systems, were another area where the actions of public sector agencies helped shape the product market strategies of hotels in Scotland. These systems offered by the Scottish Tourist Board and other private sector organisations provide an important validation function for those wishing to move their product up market. However, because there are a number of different schemes operating, with different criteria,

this can create confusion for the owners of small hotels. Here one of our interviewees noted that as he was unaware of the criteria used to judge hotels he did not know what he had to do to improve his firm's service and grading. Equally, if some hotel owners are not sure, one might expect similar confusion among the customers. Here there may be a role for the public sector, as partner of the 'brand', to promote collaboration between the various stakeholders in order to rationalise the system, making it easier for the owners, especially SMEs, as well as customers.

5. Recruitment difficulties remain an issue for most employers whom we interviewed. There are two areas where employers felt that government action could help. The first concerned what employers felt was the complexity of the existing arrangements. Many colleges provided hospitality courses but their syllabuses and the type of skills they trained young people in differed widely. This made it difficult for employers to know where to target their efforts when they wished to recruit for different roles. This was a problem experienced by both large and small employers in our case studies. There was a plea therefore for some help for employers in finding their way through the system, namely a better system for signalling the availability of public provision for vocational skills. This is an issue that is currently being addressed by the UK Commission for Employment and Skills (UKCES) as it seeks to simplify the skills system and present a simpler more coherent front to employers.

The second area where they felt government action might help was in the difficulties they faced in recruiting staff. For some of our cases, it was their isolated location which created the problem, while for others it was a shortage of specific skills, such as chefs. Here there may be help through the recent Migration Advisory Committee (MAC) Skilled Shortage Occupation List (SSOL) which has made provision for chefs who are paid more than £8.10 per hour to be recruited from abroad through the managed migration system. However, whether they tried to resolve this problem by recruiting migrant labour depended in part on their business strategy. If they sought to deliver their customers a high quality experience then the tendency was to recruit only local staff, because of their command of the English language and local knowledge. Other employers saw migrant labour as part of the solution to their recruitment problems, although this may change with the introduction of the new regulations.

One area where public policy may be able to help is with regard to the recruitment difficulties encountered in the search for recruits to low-paid jobs. Here the solution must rest with employers but the government, through its agencies can provide advice. From our case studies, there appear to be two ways in which Government sponsored advice can help. The first concerns the economics of employment. If the business can be persuaded to re-structure or upgrade its service there will

be greater added value which will enable the company to pay staff more and resolve the problem that way.

The second concerns the question of demand at the 'lower end' of the labour market. There will always be demand for low paid jobs at the lower end where up-grading is an unrealistic expectation. However, research on 'best employers'/high performance working (HPW) has demonstrated that lower pay does not necessarily deter people from working for a particular employer. It all depends on how work and the working environment are constructed, as this will influence the intrinsic value of the work. For example, some people prefer to work in small groups where relationships are personal even if the wages are lower than elsewhere (Edwards et al 2007; Ashton et al 2008). Here, the organisation of work is crucial to skills utilisation. As one of our case studies demonstrated, if work is organised appropriately, for example through the use of appropriate high performance working practices to create flexible working and allowing employees to exercise their discretion at work, this will help counteract the effect of low wages. This is an issue that is just as applicable to others sector as it is to hotels, although it seems more acute in this sector. Here, government action can be used to promote HPW and 'good practice' to improve recruitment and retention as well as skills utilisation in those work places.

3.6.3 Limits to Government Action

1. For those hotels which seek to compete at the quality end of the market, through the service their staff offer, it is essential that they stay in control of their training and the skill formation of their staff. One of our case studies regards the way it trains as a competitive advantage of the hotel. They depend on good quality recruits from the colleges and other training providers but public sector bodies are not relied upon to provide (or to fund) all their training. For these hotels, the skills of their staff in delivering a quality service are an integral part of their competitive strategy. Indeed, these are good examples of 'employer-led' training. However, to deliver and sustain high levels of performance by their staff also required that these companies had appropriate support structures in the form of high performance working practices. Training for those hotels has of necessity to be in-house in order to transmit skills which are specific to the type of hotel and customer which they target in their niche markets. These again are companies, in many respects like the MNCs, which want to be in control of their own skills agenda.
2. Employers were also active through the various trade associations in seeking to improve their position and resolve some of the problems we highlighted above. For example, some SMEs in our case studies sought to influence the school and college curriculum though the activities of the Scottish Tourism Forum, although some employers felt that the Forum did not receive the support it required from across

all the industry. Other larger employers such as our city conference hotel case sought to tackle these problems themselves and work with schools directly. In other areas, hotels and their trade associations, such as the Greater Glasgow Hotels Association, were active in securing accreditation for their members' green credentials as a way of securing an advantage over other, often international, event bidders.

3. While many hotels were active in tackling the problems they faced, they also recognised a clear role for the public sector in helping build career paths in the industry through the provision of appropriate credentials. Here industry specific vocational qualifications can play a crucial role, as well as measures to increase awareness of the careers that are available in the industry generally. Employers see an urgent need for hotel industry jobs not to be seen merely as a stepping-stone to other jobs, but offering worthwhile careers in their own right. Indeed, one or two of the hotels we interviewed offered a whole range of careers from chefs, accountants to engineers. There is already collaboration between different employers in this area but there is also further scope for developing public-private collaboration. As the public's

perception of the sector can be an issue, the Sector Skills Council is well placed to take appropriate action in this area.

3.7 Financial Services

3.7.1 Characteristics of the Sector¹¹

Contribution to the economy

Scotland's international financial services sector accounts for approximately 7 per cent of GDP, and in 2007 it employed 108,200 people directly (approx. 5 per cent of all Scottish jobs) and a further 70,000 in related industries¹². Most activity is centred in Edinburgh and Glasgow. The sector accounts for 6 per cent of Scottish exports and around 23 per cent of total Scottish service exports. Against 29 other countries Scotland attained the third highest value of exports per worker.

Product market structure

Prior to the September 2008 financial crisis banking was the most successful and globally competitive of all the Scottish industries capable of penetrating the world's fastest growing markets. Scotland is the HQ of four banks, including one of the largest in Europe. Although it is the most globally oriented of all the sectors we studied there is still a strong domestic market as indicated by the fact that around one quarter of employers in this sector saw increasing competition from within

¹¹ Data for this section is derived from the following sources: *Strategy for the Financial Services Industry Annual Report*, London Financial Services Skills Council, 2008; *Financial Services Industries, Scottish Sector Profile 2007*, Glasgow: Futureskills Scotland, 2007; *The Skills Bill: Analysis of Skill Needs in UK Financial Services*, London: Financial Services Skills Council, 2007; *The Skills Bill: An Agenda for the Industry in Scotland*, London: Financial Services Skills Council, 2007; Futureskills Scotland (2007) *Financial Services Skills Council: Scottish Sector Profile*, Glasgow: Futureskills Scotland.

¹² Please note that all of the case studies on the financial services were carried out in the spring and summer of 2008 just ahead of the fallout of the credit crunch in September 2008.

Scotland as the main challenge they faced. There is an emphasis on retail banking and back-office operations although Scotland has a growing sophistication in investment and fund management.

Characteristics of firms

In 2007 there were 4,400 financial services workplaces with sole operators and small businesses being the largest group of employers and most workplaces (68 per cent) employing less than 10 employees. While there is great heterogeneity in the sector it has a smaller proportion of small firms than Scotland as a whole. Within the industry it has a higher share of employment in the Life and Pensions sub-sector than is found across the rest of the UK, although 52 per cent of employment in the sector is accounted for by Banking.

Investments in new technology are seen by employers as the major factor driving productivity, although interpersonal and sales skills, are seen as important as are technical skills in the wholesale and investment and fund management sub-sectors.

Characteristics of labour force and skills

The clustering of financial services firms in Edinburgh and Glasgow has stimulated the growth of a specialist workforce and shared business infrastructure. What is distinctive about the jobs in this sector is that they are more likely to be full-time than those in other sectors, while it also has a lower proportion of part-time, short-term and seasonal jobs.

In terms of skill levels, it is characterised by a high proportion of higher level and intermediate level skills. In 2006, while 39 per cent of jobs were managers, professionals and associate professionals, 33 per cent were in administrative and secretarial occupations. Sales and customer service staff represented 23 per cent of the workforce.

Moreover, this is a very well qualified workforce, with 27 per cent having above level 4 (degree level), 13 per cent level 4 (higher education), 35 per cent level 3 (A level) and 18 per cent level 2. Unlike the rest of Scotland it has very few at level 1 or below, 6 per cent compared with the national figure of 22 per cent. This higher skill level is reflected in earnings in the sector which were above Scotland's average in 2007¹³.

The interviews on which this research is based were conducted at the start of the global financial crisis before its full impact was felt. At that time companies were still experiencing recruitment difficulties which may no longer be the case. However, the other issues we identify are still just as important as they will play an important role in helping the sector recover and ensure that Scotland retains its leading role in the industry.

3.7.2 Government Levers

The Financial Services sector in Scotland is distinguished by a high level of collaboration between the public and private sector in addressing skills issues. This is seen by some as

¹³ Much of the sector information is derived from a number of existing official publications. See Appendix A.

a model for skills collaboration in other sectors. However, there are other levers that governments may use including efficiency and standards regulation, although previous comments about reserved and devolved powers apply.

As a result of the financial crisis, numerous governments are introducing further regulation of the financial services sector, some of which may have an impact on skills requirements. However, at the time of writing, it is not possible to assess just what that impact will be. What we can state with more certainty is that the larger companies we interviewed saw control over the skills agenda as an important part of their overall competitive strategy.

1. The high level of public and private sector collaboration is manifest in 'The Strategy for the Financial Services Industry in Scotland' which is a product of the collaboration between the Scottish government, industry, unions, public sector and universities. This has been successful in improving the accuracy and range of information in schools on the potential of banking as a career, in delivering appropriate skills among staff in new areas and in addressing existing concerns about the need to streamline the delivery of skills and find a way through what is seen as a fragmented system of public provision.

The other function of such collaboration is that it supports a healthy relationship of

'collaborate and compete' which enables companies to collaborate while still engaging in healthy competition with each other. This form of collaboration between employers can add-value which is not possible in other areas such as London where intense competition prevents collaboration. It is this relationship which is seen as one of the pillars of Scotland's success as it has enabled employers, working with unions, training providers and the public sector institutions, to tackle problems which are detracting from the performance of companies in other centres such as London.

In addition, it is widely acknowledged that the Scottish education system is delivering high quality graduates¹⁴. This together with the fact that the region has a cluster of institutions delivering a broad understanding of the investment process, across a range of financial undertakings, means that Scotland has succeeded in establishing a critical mass of skills which in turn has attracted new investment. Our interviews including financial institutions working in different areas of the financial services suggest that the breadth of expertise - e.g. in banking, insurance, fund management, fund administration and brokering - exceeds that in many other European cities. This means that Scotland is not a niche centre, but offers a broad understanding of the complete investment processes across a wide range of financial

14 Futureskills Scotland (2008) *The Work-Readiness of Recruits from College and University in Scotland*. Glasgow: Futureskills Scotland.

institutions, overseeing complex processes and products. The question is 'How do we strengthen this competitive advantage as a financial hub?' and 'What role does the education system have in order to sustain this advantage?'

A related area where it was felt this private, public sector collaboration could be improved concerned the way in which Scotland was selling itself as a destination for inward investment. Our interviewee argued that Scotland should emphasise its advantages such as the quality of its graduates and command of the English language as well as the business infrastructure. This would emphasise its attractiveness as a base for the delivery of high value-added products and services.

Of all the different sub-sectors within the financial services, the independent financial advisor (IFA) sector is perhaps least collective in terms of collaborative initiatives. The main reason for this is the presence of large numbers of 'one-person bands' in the industry. However, our interviews also show that this is where the Sector Skills Council has been particularly useful in helping small IFAs organise skills issues, practices and standards.

2. As in some other sectors efficiency regulations are also important in the Financial Services sector in shaping the skill strategies of employers, although their impact varies across the sector depending on the size of the firm. In the past they have been more important for smaller firms although this may now change as

governments respond to the global financial crisis of 2008 with further regulation of the banking and financial services sector. In general, regulation was found to push up the demand for skills. We uncovered a number of areas where existing regulations were having a significant impact on the skill strategies of smaller companies or the business units of larger companies. For the smaller companies such as Credit Unions, the liberalisation of the common bond requirements will create a demand for greater professionalism and more business skills among their staff, a trend that will be enhanced by the further changes enhancing their competitiveness in the wider markets, such as the ability to offer current and business accounts. In the Independent Financial Services sub-sector changes in regulations concerning the Retail Distribution Review (RDR) will affect the organisation of companies and the skills of staff if sales and advice are clearly separated as expected, while the Client Agreed Remuneration (CAR) proposal is likely to enhance the degree of professionalism in the industry and hence the skills of staff. In general, many of the interviews suggest that greater professionalisation will demand the backing of appropriate qualifications in a wide range of financial services, e.g. corporate action, risk management, international settlement and so on.

3. This sector is also affected by standards regulation, as the Financial Services Authority regulations stipulate minimum standards for some staff. We found that the

increasing regulation of the financial services sector has already increased the demand for better technical knowledge among employees and this is likely to increase in the future. This together with the enhanced demand from consumers for better technical advice will increase the demand from the sector for appropriate higher level qualifications. Here it may be useful for higher education institutions to liaise more closely with employers in designing appropriate qualifications.

4. On the supply side, we have already noted how public-private sector collaboration has succeeded in generating a critical mass of skills and avoiding some of the problems of recruitment difficulties observed in other sectors. However, while regulation was driving up the demand for skills, some employers, both large and small, complained that the high numbers of students staying on at school and going onto further study had diminished their traditional recruitment pool. One way forward is for the Government and its agencies to explore ways to enable the education system to provide a more realistic picture of the range of career opportunities in this sector. One interviewee suggests that allowing school-leavers to join the industry does not close off any possibility for them engaging in further or higher education. In fact, there is considerable scope for people joining from school to progress their careers to high levels through real industry experience and professional study, with banking qualifications now equivalent to degree standards.

5. Some employers also highlighted the need for better soft skills and advanced English language skills among graduates while others complained of a shortage of IT skills. Thus, many of our interviewees agree that the financial services sector is able to take the lead and manage many specific aspects of its own skills and training issues. However, public policy is more important in terms of ensuring the quality of the nation's education. The Strategy for the Financial Services provides an effective mechanism for tackling these issues.

3.7.3 *Limits to Government Action*

1. What is characteristic of many of the larger companies, and especially the multi-national corporations we interviewed, is their desire to control their own skills agenda. For example, in responding to the pressures of the global market these companies need to drive their own skills agenda, and generally have integrated skills issues into their business processes. They have done this precisely because they see the skills of their labour force as an important part of their competitive advantage. There is some scope here for governments to influence them through regulations concerning the selling of financial products or risk management, but the major forces shaping their strategies are those associated with the behaviour of their competitors and customers in the global market. This may of course change as a result of the 2008 financial crisis but is still likely that the shaping of employee skills will still be seen as their responsibility.

2. Employers in the financial services sector have also been active in collaborating to resolve their own recruitment difficulties. Thus, trade bodies have already made a substantial contribution to help increase skill levels in the sector. For example, the Association of British Credit Unions Ltd (ABCUL) use education to raise awareness of the opportunities for small credit unions to merge as well as the need for greater professional skills, for which they provide a toolkit. To aid the development of the Credit Union Sector there is an annual training programme, facilitated through the Credit Union Foundation, and run at Edinburgh University, for 30 people for five days - three-quarters of the participants from the UK and the remainder from overseas. Here education is increasingly taking on a strategic role. Some of the major employers are also active in supporting Scottish Investment Operations (SIO) which delivers new qualifications for the industry and supports professional development, while the Securities and Investment Institution also helps with tailoring qualifications to the industry's needs. When all this is combined with the activities of those delivering the Strategy for the Financial Services, we can see a great deal of work being done by employers to cater for their own and the sector's skill needs.

3.8 Policy Challenges in the Five Sectors

So far the discussion in this report has concentrated on the ways in which the various levers that are available to government have been used to help shape the product market

and skill strategies of companies. In addition we have been able to highlight how, in the different sectors, employers have successfully engaged with the public sector to tackle such issues. What these and the subsequent results suggest is that concept of sector has an important analytic content. It means that when it comes to understanding the levers that government can utilise to shape the product market strategies of employers these are much more powerful in some sectors than others because of the nature of the sector. From the employers' point of view it means that in some sectors they are in a position to exercise much greater control over their product markets strategies than they are in others.

The results suggest that government levers and regulation are strongest in the Utilities sector where efficiency regulations have a powerful impact on companies' product market and competitive strategies. In addition, standards regulation also impact directly on the utilisation of skills within the companies we interviewed. From the employers perspective, they have less control over their product market strategies in this sector precisely because the efficiency regulations circumscribe their actions. Some of the larger companies at the leading-edge in the industry may have more income streams that are not subject to regulation than other companies, but all companies are subject to a greater or lesser extent to regulation.

In the Hotel and Food and Drinks sectors these efficiency regulations are absent giving employers greater freedom to control their

product market or competitive strategies. However, here standards regulations do provide the Government with some influence over the utilisation of skills within companies and thereby the quality of products in Food and Drink and the customer experience in hotels. However, in most of our cases employers had a high degree of freedom over how they designed and implemented their skill strategies. Where they were sometimes influenced was through criteria regulations but these were often developed in the private sector. What was evident is the potential impact of branding in these sectors, where public private collaboration was influencing product market strategies at both the national and local levels. In both these sectors there was considerable scope for the use of public sector levers to persuade and help companies change their product market strategies and improve skills utilisation.

In the public sub-sector of the creative sector, the Government had perhaps the highest potential degree of control of the competitive strategies of companies and organisations, both directly through the appointment of organisational leaders and through the criteria used to allocate grants. In addition, there was scope for the use of persuasion to help organisations improve skills utilisation. In the private sub sector there were few ways in which government levers could be used leaving employers with a higher degree of control over their product market strategies and utilisation of skills.

The Financial services sector is an interesting case because here the Government uses some efficiency regulation but also standards regulation to influence the strategies of employers. It is also the one sector where public private collaboration in promoting the utilisation of skills is most highly developed. Until recently, and at the time of the interviews, efficiency regulation was not strongly exercised, leaving the larger employers with a high degree of autonomy or freedom to control their own competitive and product market strategy. However, this is now changing and we can expect to see a higher degree of efficiency regulation in the future which may well impact on skills utilisation within the companies in the same way that it has done in the Energy and Utilities sector. If this is the case it would increase the scope for public policy to influence the skill strategies of some of the larger players in this sector. What this also highlights is the point that we made in our earlier discussion of the model we adopted to shape the design of this project, namely that product markets are constantly subject to change in ways in which we sometimes find hard to anticipate.

While these sector differences are important in revealing how policy interventions can impact on competitive and product market strategies, it also important that we highlight that within industry sectors there is also scope for variation in the extent to which employers control their product market strategies. In some establishments, which are part of MNCs, the local establishment may have little control over their product market strategy which is

determined by the Headquarters. However, this is not always the case. In two of our case studies in the hotel sector we found that local establishments of MNCs had significant control of their competitive strategy and were able to modify them to suit local competitive conditions. In other sectors where the firm was heavily dependent, as a sub-contractor, on a single customer, for example in the Utilities sector, then their scope for control over their product market strategy was often more limited.

4 The Link Between Product Market Strategies and Skills Utilisation

In this section we shift the focus to examine more closely on how skills are utilised within firms. Here, the first point to highlight is that there is no invariant relationship between a firm's competitive strategy and the use of skills. As our model suggested we found this to be a contingent relationship within companies. We had the example of a Food and Drinks company which shifted its product market strategy from being targeted at the premium drinks market to the luxury end of the market. This created pressure within the firm to ensure that the product was presented to the customer as perfectly as possible. To achieve this meant the systematic upskilling of the operatives to ensure consistency in the form in which the product was delivered to the customers. This in turn required the utilisation of a series of high performance working practices to deliver the skills and commitment necessary to achieve this objective. Another company had made a substantial investment

over time in the skills of its labour force in order to compete effectively at the leading edge of its market, using the skills of its labour force as a major source of its competitive advantage. Another had used a combination of investment in new plant as well as in the skills of the labour force to transform a traditional family baker into a major player in the bakery market, supplying quality major national retailers.

In the hotel sector, one of the case studies has used HPWPs to improve skill levels and deliver exceptional customer service which has sustained customer loyalty and placed a premium on their prices, creating a shift in their product market strategy. A small restaurant has also used investment in employee skills a major component of their transformation of small restaurant into one of the most prestigious restaurants and small hotels in the country. At the top end of the tourist market, one of the case studies sees the skills of their labour force as one of the most important components of their competitive advantage in the global market within which they compete. In both the utilities and financial services sectors leading companies that we interviewed say their investment in skills, especially those required to improve and sustain levels of customer service, was crucial to their business strategy of increasing market share.

The fact that this was not a deterministic, one-to-one relationship between high value-added product market strategies and the utilisation of high skills was illustrated by other case studies. In the Food and Drinks sector we had the case

of a company, with an excellent business reputation and selling premium quality products, which had a core of highly skilled personnel but whose operatives remained with relatively low-level skills. In the latter case management could not see the need to make any further investment in the skills of the operatives, as these were not seen as necessary to sustain its competitive strategy. We encountered similar examples throughout the other sectors. One of the banks we interviewed chose not to introduce sophisticated IT systems and undertake all the re-skilling that would have involved, as they were happy that their present business strategy was appropriate to their market. One of the food companies we interviewed was considering investing in machinery that would enable it to de-skill the production process because they had difficulties recruiting staff to train as skilled workers. In the hotel sector some companies were content that their relatively low level of training was delivering skills sufficient to meet the needs of their existing customers. It emphasises the point that our model contains, namely that employers have a large degree of choice about how they chose to utilise the skills of their labour force in their competitive strategy.

What the results suggested was that as the market pressures changed some employers were more willing than others to change their skill strategies in order that they could use the skills of their employees to achieve a competitive advantage. Some of the others could not see the need. What our results on the structure of product markets suggest is that

once conditions in the market change (and this may be partly through government regulation) then employers are under greater pressure to reconsider whether they can utilise the skills of their employees to help create a competitive advantage. Of course in some markets where employers operate under severe cost pressures this may lead them to seek to de-skill and so reduce labour costs. There is nothing determinate about the relationships we are observing here.

While it is important to stress the degree of choice employers have in their use of employees skills, it is also crucial to appreciate that in making these choices their decisions are conditioned by other factors. Here our model pointed to two major areas which influenced the utilisation of skills within the company, what we referred to earlier as the technical and interpersonal relations. Thus, within firms the technical relations, for example the technology they employ has a powerful and continuing influence on the types of skills that employers seek. If the company is using a basic mass production assembly line technology, as on a packing line, then that usually requires low-skilled labour. If, on the other hand, it is using sophisticated computing processes to deliver one-off solutions for customers it will require high levels of computing and problem solving skills. Similarly, when it comes to the interpersonal relations, if the company seeks only to utilise basic task skills it requires little in the way of training or human resource development practices to develop these. On the other hand, if it seeks to utilise the full range of the employees technical

and problem solving skills, it requires extensive training and personal development practices to support the necessary learning and to commit the employee to the goals of the organisation.

What our case studies suggested is that these two sets of relations differed significantly between the sectors. The Utilities companies utilised sophisticated capital intensive technology, both in the generation of energy and in the maintenance process, which required high levels of technical skill. The effect of this was to produce high skill levels among the labour force, reflected in the high level of qualifications that we noted earlier when discussing the characteristics of the labour force in this sector. In the hotel sector, by contrast, the use of complex technology was minimal and this was reflected in the low level of demand for skills on the part of the sector as a whole, employing a high proportion of young people with few skills. In the Financial Services sector the use of sophisticated IT systems led to a demand for a high proportion of professionals on the one hand and, a high proportion of sales and customer service staff with intermediate level skills on the other. In Food and Drink, the use of mass production technologies generates the demand for a high proportion of process and machine operatives with relatively low levels of formal qualification but, as we have seen, in some instances with relatively high levels of skills.

Although we had only a relatively small number of case studies, and a limited time to obtain data, we observed similar differences between the sectors in respect of the interpersonal relations, specifically those cases that generate higher levels of skill and

commitment. Thus, in the food and drinks industry where the employers sought to use the skills of their labour force as a source of competitive advantage, they made extensive use of techniques such as quality circles, technical training, mentoring, multi-skilling as well as information sharing and performance rewards designed to commit employees to the goals of the enterprise. These practices were designed to enhance the technical and problem solving skills of employees (Sung, Raddon and Ashton, 2008). In the hotel sector, where the technology was less sophisticated, the use of high performance practices was less to do with the acquisition of high levels of technical knowledge and more geared to the creation of problem solving teams, multi-tasking, and the use of practices designed to encourage staff to exercise their discretion when dealing with customers. In short these observations suggest that given the differences in the technical relations of those firms which sought to use the skills of their employees as part of their competitive strategy adopted different types of high performance working practices. If these observations are supported by further research then this will be important for those agencies such as the Sector Skills Councils which seek to help employers improve their utilisation of skills. It suggests that in this area there may be no one set of 'best' practices for all firms but rather different sets of 'good' practices for each sector.

Our case studies also supported findings from previous research, namely that employers can, through the use of HPWPs, utilise the same technology to develop much higher levels of skill among their labour force. Thus the

company we cited earlier in the food and drinks industry using the same mass production technology was, through the use of HPWPs, able to develop much higher levels of skill among the labour force. We observed the same phenomenon in the other sectors. This was a point raised by a number of our interviewees, especially in companies which had been successful in utilising the skills of their employees as part of their business strategy. What they stressed was that training was the start of the process and that there was far more to achieving the effective development and utilisation of employee skills than just training. Sustained improvements in performance required the implementation of a whole series of other high performance working practices if the full gains were to be achieved. In the Financial Services sector the function of transmitting this sector specific knowledge was performed by the HR Forum, but in the other sectors, although employers were aware of the need for this we did not uncover any similar grouping. There may be benefits in other sectors from similar groupings.

Having stressed the differences between the sectors that our model highlighted we should also point out that there were a number of findings that were common across the sectors. First, the importance employers attached to being in control of their own skills strategy. Whether this involved the de-skilling of employees or the up-skilling of employees or maintaining their current level of skills, employers were clear that this was their responsibility. However, this need to be in control of the utilisation of employee skills was

even more important for those employers in all sectors who sought to use the skills of their employees as a central component of their competitive strategy. Whether it was in multi-national banks or medium-sized food companies, large energy companies, small design companies or up market hotels, if the company saw their employees skills as central to their ability to compete in the market then they saw it as essential that they remained in control of the ways in which skills were formed and utilised within the workplace. While they were willing for the education and training system to deliver what they saw as basic skills, this was not the case with what they saw as the most important components of their skill strategy, where they always took the lead in resolving their skill issues in ways that are most appropriate to their needs.

The second finding that was common across all the sectors was that there were other factors driving up the demand for and utilisation of skills other than the pressures from their competitive or product market strategy. One of the most important of these was technological change. This as we have already alluded to was especially evident in the Utilities and Financial Services sectors. In the utilities sector a range of new technologies were demanding far more sophisticated skills among the workforce. Similarly, in the financial services sector new technologies have been introduced for information processing which demand new skills among staff. Likewise, other external conditions such as the need to secure renewable energy has seen new and alternative forms of energy production which require appropriate skills support.

5 Conclusions

At the outset we must remind readers that this research was only based on a series of 32 case studies. In some instances, where our observations have been supported by other research we have made that clear. However, the main results, concerning the importance of government levers in shaping product markets and the importance of sector differences in the ways in which employers utilise skills, must remain tentative until supported or refuted by further research. With this proviso in mind we see the following as the most important issues to arise from this project.

First, we would stress that with regard to their product market or competitive strategies and skills utilisation, employers wish to be in the lead as they see it as their responsibility. We have a number of case studies of employers who do not see any need for government help and who are perfectly happy with the skills of their labour force and their product market strategy. We also have others who, while they may request improvements in the supply of vocational skills from the education system, see their own skill strategies as something they wish to control. Indeed, they have taken a lead in formulating some very forward-looking skills strategies to support their own operation and expansion. For these employers who see the skills of their staff as part of their competitive advantage in the market, any attempt to try and control their use of skills by outside parties would be counter-productive. For others who wish to shift the product market strategy and make more effective use of the skills of their staff such help would be welcomed. To be

effective any policy initiatives have to be sensitive to these diverse requirements.

Against this background one of the most important findings to emerge is the importance of sector differences in the shaping of employers' product market and skill strategies. Sectors differed not just in terms of the characteristics of their labour force, but also in terms of the structure of companies and their links in the supply chain as well as their product market structures. Sectors differ also in the levers that are available to governments to influence firms product market strategies. These differences mean that there is no one way in which governments can exert their influence to help move companies in the direction of higher value added forms of production, no one silver bullet that will impact equally across all industries. Rather, there are a range of different ways in which governments and their agencies can, and do, exert their influence depending on the type of sector.

In some sectors government agencies have a direct impact on employers' product market and skill strategies while in others they do not. For example, in the utilities sector the UK Government, through its various agencies such as OFGEM and OFWAT regulate competition and so have a powerful influence in shaping (but not determining) the product market strategies of companies. Through their regulatory behaviour they also have a powerful influence on their approach to skills issues, their skill strategies. In the food and drinks sector there is no such regulation of competition, but there is regulation of employee behaviour through legislation such

as Health and Safety which affects employers' skills strategies. In the field of product branding, the Scottish national and local government agencies work collaboratively with employers in the hotel and tourism sector to promote the brand of Scotland as a quality tourist destination. In other sectors such as food and drink, where the brand is seen as the property of the firm, there is less direct collaboration in promoting the brand. However, this could change through the activities of Scotland Food and Drink which is encouraging employers to set a strategic direction for the industry.

Given the diverse ways in which governments can influence the product market and skill strategies of companies it is not possible or advisable in this section of the report to identify all the possible levers that could be used, as we have already listed these in the relevant section of each of the sector reports. Moreover, while the range of actions would be numerous they would be restricted to the insights we have gained from this particular research project and therefore not necessarily comprehensive.

Another finding that has arisen from this research is the importance of sector differences in the ways in which skills are utilised by firms. Our case studies suggest that not only may there be systematic differences between sectors in the demand for skills which stem from their technical relations or technology, but also in the management

practices (HPWPs) that are used to utilise those skills in order to generate improved levels of performance. If these are confirmed by further research then it suggests that the sectoral approach is not only a useful analytical device, it also has practical applications.

Another model is that provided by 'The Strategy for the Financial Services in Scotland'¹⁵. There, the Scottish Government and employers, in consultation with the unions have taken the lead to deliver an employer led organisation which has provided a vision for the direction of the industry, as an innovative, competitive and thriving international centre for financial services. To achieve this vision it has identified three objectives: to build the industry's profile beyond Scotland by marketing and communicating effectively, to seek improvements in the business infrastructure and finally to strengthen and develop a worldclass workforce. This strategy then enables those in both the public and private sector, concerned with providing help to the industry in the public sector, to identify where their input should be and what form it might take. A similar model has been developed for each of the sectors in the Netherlands by the Dutch government where their 'Knowledge Centres' (i.e. sector skills councils) deliver the skills required by each of the sectors and ensures that these are in accordance with employer needs (Sung et al, 2006).

¹⁵ *The Strategy for the Financial Services Industry in Scotland, 2008: Annual Report*, Scottish Government: Glasgow. <[www.scotland.gov.uk/financial services](http://www.scotland.gov.uk/financial%20services)>

In the public sector of the Creative industries the Government has already started to act directly, through its control of appointments and their grant awarding bodies, to shape the business and skills strategies of organisations.

In the other sectors there are the building blocks for such a strategy in Scotland, for example Scotland Food and Drink is developing a strategy for the food and drinks industry, Visit Scotland and the Scottish Tourism Forum are both concerned with aspects of a national strategy in the hotel sector. However, neither are charged with the need to develop an overall strategy for the sector.

While there are inevitable tensions involved in bringing together competitors in such organisations, there is also a strong will to co-operate in this area to improve the skills infrastructure in Scotland. Many of our interviewees identified the critical mass of a financial services centre in Scotland was the result of the 'collaborate and compete' principle adopted by employers in Scotland. There is also a realisation that it is not just a question of having the right skills in place but what is crucial is how those skills are used which is where the sharing of good practice can be very important. Here the HR Forum has an important role in sharing good practice among HR Directors.

What this research also suggests is that where such sectoral bodies were considered useful by employers, they would have some functions in common. For example, this could cover addressing the skills supply issues which we identified in the various industries, providing a focus for the dissemination of high performance working practices and improved

skills utilisation, working with the Sector Skills Councils to ensure that the education and qualifications system continues to meet employers' needs. There is also a need, highlighted across the case-study sectors (e.g. Finance, Hotels, Food and Drink), for a simplified system of signposting help, both for the delivery of public sector provision (courses) and qualifications and for help in implementing industry specific HPWPs.

Our results suggest some benefits of establishing a foci for good practice with regard to advice on the utilisation of skills. In the financial services, the HR Forum already fulfils the function of exchanging good practice on skills utilisation in the industry. However, in other sectors the issue appears more problematic. In utilities, and creative sectors the Sector Skills Councils are starting to adopt this role.

As our case studies have shown there are many areas where government, at different levels, and its various agencies impinge on the product market and skill strategies of individual companies. Some case-study sectors have identified potential ways forward, where a collaborative and co-ordinated approach has brought significant benefits.

One final policy challenge concerns the impact of the various government agencies which control the levers available to influence firms' product market strategies. These include reserved and devolved powers. This suggests there should be close collaboration with relevant UK bodies, such as the United Kingdom Commission for Employment and Skills, if the policy impact of these levers is to be maximised.

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Appendix A

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