Skills in Focus

Product Market Strategies and Skills Utilisation

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About Skills in Focus

The Skills in Focus series is intended to support informed debate around current and future skills issues. The Skills Committee is jointly sponsored by the Scottish Funding Council and Skills Development Scotland. The Committee works closely with the Scottish Government, employers, business organisations and students to ensure that Scotland has the right high-level skills and an employable and adaptive workforce.

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Foreword

Dr. Janet Lowe CBE is Chair of the Skills Committee and a board member of both SFC and SDS.

The Skills Committee is a statutory committee of the Scottish Funding Council and is central to the work of Skills Development Scotland, advising both boards on skills needs of and policies for Scotland. In particular, the Skills Committee has been tasked with stimulating debate on skills issues and policy.

Professors David Ashton and Johnny Sung are internationally renowned experts on workforce development. In this Skills in Focus paper, they bring their expertise and knowledge to bear on the relationship between product market strategies and skills utilisation.

The paper consists of three sections:

1. A short review of differing approaches to product market strategies – a comparison between the economics & management studies view and the sociological view.
2. The development of a model, the Strategic Skills Model, which helps clarify the distinction between skill levels and skills utilisation.
3. Concluding thoughts on the potential implications for policy.

The main arguments put forward in the paper are that:

- A company’s product market strategy determines in what market(s) it seeks to compete. The company’s competitive strategy outlines how it will gain competitive advantage in this market.
- In practice, when a company determines its product market strategy, a balance is struck between the influence of internal decision-making and that of external factors.
- Empirical evidence shows that companies competing in international markets or exposed to foreign competition have a more highly-skilled workforce than would otherwise be expected. And research suggests that companies which improve their product specification have a consequent demand for a higher-skilled workforce – that is, that the requirement for a skilled workforce is largely a derived demand.
- There is a crucial distinction to be made between how the skills of the workforce are deployed (skills utilisation) and the skill levels of the workforce that are required (measured by their qualifications). Confusion arises when the term skills is used to cover both.
- This distinction between skill levels and skills utilisation is vital in examining causality – a company’s product market strategy largely determines the skills levels of the workers it requires, but with skills utilisation this relationship is often reversed: skills utilisation has a greater influence on the company’s competitive advantage.
The paper concludes that any public policy attempt to influence the *skill levels* required by companies, or how these skills are *deployed*, must retain a strong sectoral dimension and must seek to influence both product market and competitive strategy.

Skills utilisation is of critical importance to Scotland. I would like to extend my thanks to Profs. Ashton and Sung for their perceptive, constructive and expert contribution to the debate on this issue.

Dr. Janet Lowe  
Chair of the Skills Committee  
June 2011

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The views expressed in Skills in Focus are those of the author(s). They need not represent the views of the Skills Committee, its members or constituent organizations.
Introduction

The aim of this paper is to bring greater clarity into the policy debate on the relationship between product market strategies and skills utilisation. It is divided into three sections. The first seeks to clarify the use of terminology and highlights what are apparent contradictions in the research literature. The second presents a new framework for understanding the relationships involved and explaining existing research findings. The third part spells out the policy implications.

Part 1 Problems with the literature

There are currently two very different approaches to the analysis of product market strategies, one stemming from the economics and management science literatures and the other from the sociological literature. We highlight these here because they have very different implications for policy and because both the current approaches fail to deal with the part played by skills within these strategies. One person who has done a lot to advance our knowledge in these areas is Mason (2004, 2005, 2010) whose work we use to clear the way for a discussion of the relationship between product market strategies and skills. Here again we highlight what appear to be important contradictions in the literature concerning the nature of this relationship, contradictions which also have important policy implications.

Product market strategies and skill levels

Determinants of product market strategies

There are two problems associated with how we currently conceptualise the determinant of product market strategies (PMS). The first concerns the over-emphasis on the internal process of decision making within the firm. The second concerns the confusion over the role of skills.

The conventional approach in economics and management studies sees PMS as the outcome of rational processes of decision making that take place within the firm. They are seen to represent the outcome of choices made by senior management about the type of market within which the company seeks to compete. In the latest National Employers Skills Survey, these are defined in terms of “the quality and the range/volume of their offer; the extent to which it is price dependent and whether they lead the way within their sector in terms of developing new products, services or techniques” (NESS, 2010: 20). In management studies, the classical work of Miles and Snow (1978), defined company strategies in terms of categories such as analyser, defender, prospector and reactor. These were seen as having their origins in the decisions of senior managers’ strategies but also to have the capacity to endure through time. However, while Miles and Snow and Snow et al, (2005) acknowledge the role of the ‘external environment’ in influencing these decisions, their focus remained on the impact of these strategies on relationships within the organisation, arguing that “the choices which top managers make are the critical determinants of organizational structure and process.” Miles et al (1978: 548).
Within the Human Resource Management literature, the resource-based view of the firm (RBV) makes a significant contribution to our understanding of the role of skills in business strategy which they see as part of the firm’s competitive advantage. This tradition also sees strategy conditioned by the external environment, (Boxall and Purcell 2003) but focuses on strategy as emergent through time, as firms struggle to build their competitive advantage. Within sectors all firms are seen as having the same basic resources, “table stakes” e.g. access to the same technology, sector regulations and investors to satisfy, but their competitive advantage is seen to stem from their ability to develop unique capabilities which deliver a competitive advantage in the market. This is the one approach within this broader tradition that sees skills as one possible source of competitive advantage, which is an integral part of the business strategy.

Yet there is another, more sociological tradition of research into PMS and business strategy which sees them as primarily determined by institutional and cultural forces within the society more generally. The so called ‘Varieties of Capitalism’ approach therefore offers an alternative perspective emphasising the importance of ‘external institutional conditions’ in shaping product market strategies, with skill strategies as a function of these ‘external’ factors and with relatively little scope for employer autonomy and decision making (Whitley, 2005; Hall and Soskice 2001; Morgan et al, 2005). However, while this does serve to illustrate the impact of national institutions on strategy there are many examples of firms within the same industry and the same country which adopt very different strategies, as Cappelli and Crocker-Hefter (1996: 7-22) have shown with their paired comparisons of firms within the same sectors in the USA. Clearly, we cannot read off the firm’s use of skills from national institutions or external factors alone.

Mason’s work (2004, 2005, 2010) provides insights as to how this dilemma can be resolved. He argues, on the basis of his quantitative and qualitative work on the relationship between PMS and skills, that PMS choices within firms reflect their decision-makers’ evaluations of external market opportunities and how best to seek to exploit them. His analysis suggests that what is required is a conceptualisation of PMS that captures the internal processes, but is also sensitive to the impact of ‘external’ institutional and cultural forces.

These academic debates are not just of academic significance, they also have important policy implications. If the focus of the analysis is on the internal processes within the company then this is where we tend to look for policy interventions. If we adopt the alternative perspective then very different policy prescriptions are available, as the focus there is on using the institutional levers that are available to governments to change employer’s strategies. We follow up this discussion in Part 3.
Confusion over the role of skills

In addition to this confusion over the determinants of PMS, there is also a lack of clarity in the literature on the role that skills play in PMS. The work of Miles and Snow is notable for the lack of any attention paid to skills in their typology of strategies. Only the RBV deals with skills as a possible central component, with Boxall (2003), suggesting that the skills and human talent can play a central role in creating the firm’s core capabilities, especially in the knowledge intensive sectors where quality and or knowledge are important in competitive strategy (Boxall, 2003). The absence of skills as a central component of PMS may of course reflect the fact that until recently, with the growth of the so called knowledge economy, skills have not played such a prominent role, with authorities such as Keep and Mayhew (2001: 8) arguing that skills have traditionally been a “fourth order priority” for British business:

‘Moreover, research on the integration of HRM and personnel issues with strategic management indicates that in the vast majority of organisations, skills are normally a fourth order issue (Purcell, 1989). First order issues relate to product market and competitive strategies and strategic investment decisions (often mediated through portfolio planning systems), second order decisions cover internal operating structures (divisionalisation, the use of strategic business units, etc). HRM matters normally appear as third order decisions that follow on from decisions about first and second order strategies. Skills issues nest within HRM, often a relatively low level. Outside of a few areas, such as the performing arts, business consultancies and very knowledge intensive industries (such as high level software development), skills are rarely treated as the starting point for competitive strategies or impinge directly on other aspects of first order business planning.’

While acknowledging skills as a component of PMS, they relegate it to a minor role, apart from in the new knowledge-based industries. This is unfortunate as it these industries that have been of growing in importance in this last decade. In addition, research by Sung and Ashton (2005), and Sung et al (2009) has revealed instances of companies in more traditional and lower skilled sectors such as retail, hotels and manufacture that have placed skills at the centre of their PMS. Companies outside the knowledge-based sector have succeeded in placing skills at the heart of their competitive advantage. In view of this ambiguity there is clearly a need for a new conceptualisation of the part played by skills in the product market strategies of companies.

Relationship of PMS to skill levels

The other area where there is considerable ambiguity in the literature concerns the relationship between PMS and skills. The pioneering work of Mason (2004) had established a firm statistical link between product market strategies (PMS) and skills. However, from the outset it is important to recognise that what is meant here by skills is a combination of the level of qualifications of the company’s labour force and their earnings. For
this reason we refer to the relationships established by Mason as one between PMS and skill levels. In many respects, this is a measure of the stock of skills in the labour force.

Using the 2001 Employer Skills Survey, and the definition of PMS discussed above, he found that "All else being equal, high (low) workforce skill levels are positively associated with high (low) value added product strategies." (p. 3). Where firms were part of a larger group, competing through high value added skill intensive product strategies, further efforts to move up-market in response to competition were associated with disproportionately large increases in employers' demand for skills. Where they are competing through low value-added product market strategies then when they up grade their skills the impact on the demand for skills is relatively modest.

His results contained a number of findings that took our understanding of PMS further. One of these was the finding that high value-added product market strategies were positively associated with exposure to foreign competition, with the assumption being that foreign competition is one of the factors pushing employers to change their PMS in the direction of higher value-added goods and services. With regard to the distribution of PMS, he found striking within-industry and between-industry variations in the range of product market strategies adopted by firms. There were some industries characterised by firms with high spec PMS, others characterised by the clustering of low spec firms with others industries being characterised by a wide distribution of PMS.

These findings were by and large replicated in the analysis of the 2009 survey (Mason, 2010). The 2009 NESS used the same measures of product market strategy but slightly different measures of qualifications which Mason used to derive a similar wage-weighted skills index for each establishment that he had done for the 2001 survey. These results “... confirmed the 2001 results, namely product strategy positively and significantly related to skills. In 2001, a 10% increase in the product strategy index leads to an estimated 3.6% increase in the mean value of the skills index for all establishments. In 2009, a 10% increase in the product strategy index raises mean skill levels by 3.3.” (p. 16).

In the 2009 survey Mason again found that the measure of product strategy was also strongly and positively related to the type of market and to establishment size. Those competing in international markets were more likely to have higher skills than those competing in local markets. The other finding that is important to note is that the analysis of the 1999 data found that companies planning to move to higher value-added products expected new or additional skill requirements to arise as a result of the change in product specification. The causality appears to go from product specification to skills (Mason, 2005: 27).

Product market strategies and the utilisation

New light is shed on these results if we consider the findings of two other research groups which focus more broadly on firms’ overall business strategies of which PMS form only part. First Dench et al, (2000) studying 13 companies in the
food manufacturing industry had found that PMS were constantly being modified and crucially that it was the nature of the product that determined the type of technology used, and in turn it was this, the type of technology, that was the main factor responsible for the use made of employee skills. This suggested that the influence of PMS was mediated by the type of technology used by the firms, i.e. whether it was batch, mass or process forms of production.

In 2007, after researching smaller employers in the same (food) industry Edwards et al (2007:19) report that there was no relationship in his sample between PMS and skills use in firms.

What Edwards et al appear to be saying here is, contrary to their initial statement, that there is a complex relationship between a firm’s PMS and their use of skills. In those firms in the food industry with a weak market position, for example producing standardised goods for supermarkets using low paid, low skilled workers, there was little concern with the skills of their workers. However, among those with a stronger competitive position in their product market, some employers saw their competitive advantage to be derived from the skills of their workforce. Yet this was not always the case as others saw their competitive advantage to be a result of the uniqueness or strength of their product.

‘Turning to skill formation, our evidence supports the contention that there is little connection between firms’ product market positions and their approach to skills (Dench et al, 2000: 51). To be more exact, there were two patterns. Among those in relatively weak market positions, skills were relatively unimportant. Firms survived through the nature of the product, and they recruited low-skill workers who could carry out basic operations. As one manager put it, skills were not important to his competitive position. Among the stronger firms, there was rather more choice. Some saw the product as the key competitive advantage, and several were quite explicit that worker skills were not important. Others made skills more central. Among the latter group, a few had formal training plans in which the skills of each worker were recorded and future needs were identified.’
The important point about the findings from both Dench and Edwards is that they are talking about the ways in which firms make use of the skills of their employees. In his most recent work Mason (2010) also tackles this issue through his analysis of employers skill improvement and updating needs. Here he identifies through survey techniques, the type of skills that employers seek to improve, namely a wide range of technical and practical skills, generic skills such as team-working, problem-solving, communication and management and leadership skills and general Information Technology (IT) and computing skills.

It is therefore crucial that in future we differentiate the use of the term skill utilisation from skill levels. The former refers to the ways in which firms use the skills of their employees (or not). The latter refers to the qualification level from which the firm recruits its labour. The confusion arises when we use the terms skill to refer to both skill utilisation and (qualification) skill levels.

This distinction is also important when we come to discussing the direction of causation because as Mason has found the causation often runs from high value added PMS to higher levels of skill requirements. When it comes to discussing the relations between PMS and skill utilisation then the direction of causation is often reversed, as it is the skills of the employees that form the competitive advantage of the company or at least a significant and important part of it, a point we elaborate on below.

The other point we need to make about the concept of skills utilisation concerns its current usage. In both the academic and policy literatures it is usually used in a positive sense. By this we mean that it is used to denote the development of individual skills. Thus, in the academic literature it is used in debates over the use of high performance working practices (HPWP) which are often seen to be associated with the development of employees and to have positive benefits for the employee, as they tend to increase their range of skills and provide the opportunity for personal development and enhanced worker satisfaction (Hughes, 2008). This is also reflected in the policy literature. For example, the Scottish Skills Utilisation project defines skills utilisation as follows (Skills Development Scotland, 2010):

‘Effective skills utilisation is about:

“... confident, motivated and relevantly skilled individuals who are aware of the skills they possess and know how best to use them in the workplace

... working in workplaces that provide meaningful and appropriate encouragement, opportunity and support for employees to use their skills effectively in order to increase performance and productivity, improve job satisfaction and employee well-being, and stimulate investment, enterprise and innovation.”

It is not surprising then that the use of HPWP is often taken as an indicator of skills utilisation. As the 2009 UKCES report notes ‘HPW is believed by many to offer one important tool to achieve more
effective skills utilisation and secure competitive advantage.’ (UKES, 2009: 2).

However, the concern with ‘effective skills’ leads us to examine only those management practices which empower the individual and enhance organisational performance. Yet, for many employers they use management practices that deliberately limit the use of their employees’ skills. Historically, the introduction of mass production technology enabled Ford to de-skill the process of producing cars and substantially increase productivity. This is still the case for some employers today. Skill utilisation can be about lowering skill levels as well as increasing skill levels. Indeed, recent work on the skill strategies of multi-national companies (Brown et al., 2010) has shown that much of the knowledge work done by white collar workers is now being standardised and the routines and processes embodied in computer programmes, allowing companies to use less skilled and lower paid workers. If we are to fully understand the impact of PMS on skills utilisation, and develop effective policy interventions, we have to be able to account for strategies that de-skill as well as up-skill.

Part 2 A framework for understanding the relationship between product market strategies and skills utilisation

In this section we present a model that locates skills within the context of PMS and clarifies our thinking on the important distinction between skill levels and skill utilisation. This enables us to explain what have been seen as contradictory research findings.

The Strategic Skills Model

The strategic skills model (Ashton and Sung, 2006; Sung and Ashton, 2011) provides a framework for reconciling these apparently contradictory findings and points to important policy implications. The model starts with the firm’s business strategy which in turn shapes two other dimensions or relationships within the firm, what they refer to as the ‘technical’ and ‘interpersonal relations’ of production.

Business strategy is seen as being constantly negotiated over the medium term in a changing market environment, shaped by competitive pressures from other firms as well as a regulatory framework determined by government and its agencies (where it applies). Where it differs from the approaches discussed above is that the business strategy has two components. The first is the product market strategy, which determines what type of market it seeks to compete in, for example, high value-added as opposed to low-valued added, through the use of differentiated as opposed to standard products. The second is the competitive strategy which spells out how the company will seek to gain a competitive advantage in the type of market it has chosen to operate in.

Here there are a number of ways on which one can choose to compete. For example, it could be done through developing a unique product,
through the quality of its product or service or through producing the lowest cost product or service. It is here that there is also a skills component, if the company seeks to compete at the lowest cost the emphasis is on reducing the skill content and thereby the cost, if it is to compete through quality or the uniqueness of its product or service then it relies heavily on the skills of the labour force. It is here that skills become central to the competitive strategy whereas in the other case skills are a lower order priority. We illustrate this in Diagram 1.

**Diagram 1: The Components of Business Strategy**

Diagram 1 shows that business strategy is linked to the demand for skills in two ways. First, through the product market component to the technical relations and second through the competitive strategy to the interpersonal relations dimension (see Figure 1). The technical relations refers to the relationships within the firm which structure the type of technology and what that implies for the division of labour used in the production process. For example, if the firm wishes to produce high volumes of a standardised product or service, it will opt for a form of mass production technology or a call centre type of technology (its equivalent in the service sector). If the firm decides to produce complex products or services, it will opt for a system of or small batch or one-off craft production tailored to customer requirements, at the differentiated end of the technical relations.

Here we can observe the underlying mechanism that produces the results observed by Mason, as the use of mass production technology will enable the employer to contain costs through using low skilled, unqualified or lowly qualified labour. If the decision is to use one-off forms of production, tailored to customer needs, this usually requires a high level of technical knowledge on the part of the employee and the ability to tailor that product or service to the unique specification of the customer. In this case it requires highly skilled labour with high level qualifications.

It is these technical relations that mediate between the PMS and the skill levels of firms. Indeed, this is precisely what Dench et al (2000) observed in the food industry. This means that the part of the PMS dealing with how the company is going to add value, then determines the technical aspects of the production of a service or a product, the technology used and skill levels required to use it. Thus, the technical dimension deals with the ‘demand for skills’. This is reflected in the typical qualifications levels of employees in different industries in Scotland, for example in Food and
Drink, 59% of the workforce have level 2 or less while in Financial Services only 24% have level 2 or less and the vast majority have level 3 or above (Sung et al, 2009: 8).

**Figure 1: The Strategic Skills Utilisation model**

![Strategic Skills Utilisation model](image)

**Source: Adapted from Ashton and Sung (2006)**

The second component of the business strategy, the competitive strategy, is linked to the interpersonal relations (sometimes referred to as the social relations) that determines how skills are used within the firm. To understand whether and how skills are central or not to the competitive strategy we have to look at these interpersonal/social relations of production. The interpersonal relations determine how the employees are mobilised to operate the technology and function within the authority system of the enterprise. At one end of the spectrum (people focused) they include most of those human relations practices we refer to as high performance working practices (HPWPs) that are used to create people oriented skills, such as the problem solving, innovation and communication skills associated with the delivery of customised solutions to company’s IT requirements, or personal wealth management, where skills are central to the competitive advantage. Workplaces involving a people oriented skills strategy often develop skills beyond the immediate requirements implied by the technical relations.

At the other end of the spectrum management practices may be geared toward the creation and use of task oriented skills, for example the simple repetitive skills associated with assembly lines or call centres. In between these extremes as Figure 1 illustrates there a range of other positions at which skills contribute more or less to the firm’s competitive advantage.

Within the constraints provided by the technical relations the interpersonal relations determine how the skills of the labour force are utilised in the firm and contribute to performance. In order to enable greater skills utilisation, work design is often used to create an appropriate environment for high levels of employee involvement and the exercise of discretionary effort for which employees are then rewarded. This is the dimension that Edwards et al (2007) are referring to in their discussion of skills and why they can see skills as determining competitive strategy. It is also these interpersonal relations that are usually referred to in the policy literature on skills utilisation, but only those at the people focussed end.

In general, firms tend to combine technical relations characterised by mass production with task
oriented interpersonal relations, while more differentiated forms of production tend to be associated with people oriented interpersonal relations. However, this is not an inevitable association, as both sets of relationships have a degree of autonomy in relation to each other. For example, you can have a firm where the technical relations are shaped by a mass production technology, but which adopt more people oriented interpersonal relations in order to make more use of their employees’ skills in their business strategy and help deliver a competitive advantage in the market.

One such example is the Glenmorangie company (Sung et al, 2009), which traditionally had a premium product in the form of a malt whisky but the bottling was in a high volume plant employing semi-skilled labour. It had a relatively high wastage rate, poor labelling and a high level of losses through damage. In the past the company focussed on getting a high volume output with little concern for the presentation of the product. After being taken over Moet Hennessy, the new owners decided to shift the product from the premium to the luxury market. To do that they changed the design of the product and sought what they called “visual perfection” for the presentation of the bottles. They also sought to reduce waste from damage and increase the productivity of the line through eliminating down-time. This required substantial change in the attitude and skills of the labour force. It took over a year to get the right skills and attitudes in place, but now these skills of the labour force are crucial in sustaining the company’s competitive advantage in the market.

Without visual perfection in the presentation of the product, and the levels of efficiency in production they achieved, the company would be in danger of losing its market niche. The skills of the labour force are now a central component of their competitive strategy.

On the other hand you can have firms whose technical relations are characterised by differentiated forms of production but whose interpersonal relations are characterised by a task orientation. Barrett (2005) provides examples of a series of firms in the IT industry, where highly educated graduates are recruited and employed as professionals but subject to strict forms of control at work, with little support for personal or professional development. This places such companies more toward the task oriented end of the continuum than the people oriented end characteristic of such IT companies as DataConnection (now Metswitch Networks) (Sung and Ashton, 2005). This company also employs graduates who work as software engineers, but here their skills are seen as central to the business success of the company. They are innovators and they have an organisation designed to sustain innovation. Managers are responsible for the development of their team members, and are continually assessed in terms of their people management skills. There is a sophisticated system of knowledge management but individuals are continually supported in their learning, pushed by their managers beyond their comfort zones, given critical feedback and constantly encouraged to develop new ideas. The point is that even in knowledge intensive industries, in which the knowledge of the employee is the source of the goods or service they provide, some companies will choose to use that as the basis for producing a standard product while oth-
ers will seek to develop that expertise, create new knowledge and make that the basis of their competitive advantage in the market place.

It is this relative autonomy of the two sets of relations that enables individual firms to secure an additional market advantage by moving their interpersonal relations in the direction of a people orientation. The further the movement to the right in Figure 1, the greater the part played by skills in the competitive strategy.

What this also means is that skills utilisation is a relative concept, as the extent of any change in skill use depends on the relationship between the technical and interpersonal relations. Thus, in the case of Glenmorangie, a company using a mass production technology, the utilisation of some HPWPs undoubtedly increased the skills of the labour force, in terms of their technical knowledge of the production process, their teamwork and problem-solving skills, but they still remained machine operatives because there was no major change in the technical relations that would have transformed them into highly educated knowledge workers.

Another implication of the strategic skills model for our understanding of skill utilisation is that you do not need to rely just on HPWPs to increase levels of skill utilisation. Where interpersonal relations are task focused, where training is often ad hoc and little support is given to employees for their development, then the successful introduction of programmes such as IiP can ensure that all training needs are met and that employees have sufficient information about their role to function effectively in the company. This will not produce the shift in skill utilisation that the use of HPWPs produces but it does move the company further along the interpersonal relations dimension and thereby increase skills utilisation.

PART 3 Policy implications

Influencing product market strategies and the skill level of the labour force

In this section we argue that there are two separate but related components to any skills policy in this area, both of which require different types of policy intervention. As the strategic skills model shows, if you wish to change skill levels within the labour force then the most effective strategy is to target the product market strategy of the company. If this can be done then you can change the technical relations which will result in a substantial change in the level of skill demanded of the labour force. For example, the move from mass production to more differentiated products requires a substantial increase in the level of technical knowledge and skill on the part of the employee, the equivalent of moving from recruiting an unqualified or SVQ level two to an A level or graduate.

If you wish to change skill utilisation within the company you have to target the competitive strategy and change the interpersonal relations. The impact of changes in interpersonal relations is more variable, at one end of the spectrum this can be no more the introduction of more systematic training while at the other is can be the kind
of radical transformation in the use of skills that stems from the use of HPWPs.

The difficulty of changing the technical relations is illustrated by Mason’s (2005) more detailed analysis of 40 firms in four sectors; logistics, printing, plastics and insurance, illustrates. He found that there were substantial barriers to firms moving from medium value-added product market strategies to high value-added product market strategies, these included financial constraints necessary to acquire investment as well as the need to overcome skill deficiencies. Much depended on the quality of senior management to assess market opportunities, plan ahead and implement new strategy. He also noted that medium value-added companies had a big skill gap to overcome to move up-market as they had lower stock of higher level skills to start with. He concluded that their options were constrained by past choices, the skills of the labour force and the organisational culture which he refers to as a form of path dependency. In view of this he highlights the importance of governments providing information and ammunition to support change agents within the firm. While acknowledging the role of ‘external’ forces elsewhere in his work, in this paper he emphasises improving the supply of skills, thereby reducing any such barrier to attempts to move from medium to high value-added strategies.

However, if we focus less on the ‘internal’ management processes and more on the ‘external’ influences that shape a firm’s PMS then this reveals a number of other levers available to governments to shape the product market strategy and technical relations. By focussing on the dynamics of the product market in the food industry Dench et al., (2000) found that companies’ product market strategies were constantly being modified as a result of competition from other suppliers, the growing power of supermarkets and the changing pattern of demand such as the growing demand for convenience foods. In addition she also found that state regulations were an important influence.

The impact of government policies and regulations in shaping employers’ strategies is also shown through evidence from McKinsey’s (2010) international survey of companies. This revealed that of all the factors impacting on the company’s economic value in the next five years, the passing of laws and government policies was second only to customers in their effect, with over half of the companies reporting government action as having an impact on their economic value.

The research by Sung et al (2009) in Scotland, provides an insight how this government action shapes employers product market strategies. They focused on five sectors, (food, hotels, utilities, finance and creative arts) and identified a range of policy levers that were influencing the product market strategies of their case study companies. These were identified as: ‘efficiency regulation’, imposed by national regulators for the utility industries such as OFGEM which directly impact on the business strategies of companies in the energy industry; ‘criteria regulation’, which provides guidance, through the star rating system in the tourism industry, for employers who wish to move to the delivery of higher levels of service and provision; ‘branding’, whereby the government in asso-
ciliation with the private sector helps market the industry and finally to ‘direct action’ where the government, through its ability to control appointments to organisational leadership positions in the creative arts, can directly influence the business strategy adopted by the organisation. The extent to which these levers influence the five sectors is illustrated in Table 1 below.

What this evidence suggests then is that Mason’s findings should not lead to undue pessimism about the rigidity of companies’ product market strategies. There are many factors operating in different product markets, as Dench and Edwards found in the food industry, that are active in reshaping employers product market strategies and not least among these as Sung et al found are government policy and the levers at their disposal. What is crucial here is that the forces reshaping the market and the levers available to government differ across the sectors. Moreover, it is important to remember here that what these levers are helping produce is changes in the levels of skills demanded by employers. If you wish to influence the ways in which employers use the skills of their labour force then you have to adopt a different range of policy levers.

### Influencing the use of employees’ skills

Turning now to the employer’s use of skills, the strategic skills model highlights the need to distinguish between the use of skills as the central component of their competitive strategy and the everyday use of skills within the organisation, the interpersonal dimension.

As we have seen, companies can choose to use skills as their main competitive advantage or to use alternative factors such as design, the uniqueness of the product, or just low costs. As this is a major management decision, it is here that Mason’s argument about the need to support internal change agents is important. This is in fact one area where the government agencies such as the Department of Trade Industry and UKCES have already published a substantial amount of evidence on the impact of training and HPWPs while

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**Table 1: Strength of Policy Levers by Sector (Scotland)**

<table>
<thead>
<tr>
<th>Policy Levers</th>
<th>Hotels</th>
<th>Utilities</th>
<th>Finance</th>
<th>Food</th>
<th>Creative</th>
<th>Performing Arts &amp; Museums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency Regulation</td>
<td>Not applicable</td>
<td>Strong</td>
<td>Moderate</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Moderate</td>
</tr>
<tr>
<td>Criteria Regulation</td>
<td>Moderate</td>
<td>Weak</td>
<td>Weak</td>
<td>Weak</td>
<td>Not applicable</td>
<td>Moderate</td>
</tr>
<tr>
<td>Branding</td>
<td>Weak-moderate</td>
<td>Not applicable</td>
<td>Weak</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Direct Action</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Strong</td>
</tr>
</tbody>
</table>
Skills Development Scotland has published ‘Best Strategies in Skills Utilisation’. Such publications provide ammunition to the change agents within the organisation about the benefits of making skills central to the competitive strategy. These concern the market benefits of a creating a unique product or service which is difficult for competitors to copy. They also concern the “internal” benefits that can be derived from the use of HPWPs, namely higher levels of productivity that stem from a more flexible organisation and the ability to tap into the discretionary effort of the labour force (UKCES, 2010).

However, there is another proven method of influencing employers competitive strategy, that is likely to be far more effective, namely working with industry based organisations to influence their members. For example the Society of Motor Manufacturers and Traders (SMMT) Industry Forum, originally formed in 1996 through collaboration between government and industry, has been very successful in promoting the use of high performance working practices in the sector and its supply chain. The focus is on changing interpersonal relations by improving management practices. It has done this through the activities of consultants, accreditation, masterclass programmes, courses for employers and N(S)VQs in the form of the N(S)VQ in Business Improvement Techniques.

This form of intervention has the advantages that it comes from the employers’ own organisations and thereby has greater credibility. Not only does it highlight the advantages of making skills a central component of the company’s competitive advantage, it actually shows employers how to do this within the context of their own sector. Such a strategy enables the government, working through employers own organisations to introduce the latest techniques involved in the use of HPWPs. In Scotland the Financial Services Strategy group and the Scottish Tourism Forum provide such possibilities in other industry sectors.

A third set of interventions aimed at making skills play a more central role in the firm’s competitive strategy is through the type of interventions delivered through colleges. One example here is the Scottish Skills Utilisation, Business Improvement Techniques project currently being delivered through the West Lothian college.

By making the skills of the labour force the central component of the competitive strategy you thereby shift the company toward the people focussed end of the interpersonal relations dimension. Indeed, the use of HPWPs is perhaps the greatest stimulus that can be applied to the interpersonal dimension, but it is not the only one. UK governments already have a number of interventions in the form of programmes such as IiP which by ensuring that training is treated in a systematic manner, no matter where the firm is located on the interpersonal relations dimension. Even where interpersonal relations are task focussed, the use of IiP can ensure that at a minimum it is treated in a systematic manner.

The other major lever the government has to influence interpersonal relations, irrespective of where the firm is located on this dimension, is the use of regulations. As we have long known these
are one of the major factors driving training and skill formation in the workforce. These regulations stem from basic health and safety regulations which are applicable across all sectors, (but are more important in some sectors such as food than in others such as creative arts) to other more sector specific regulations. For example in the utilities sector the regulations concerning the handling of gas and electricity lead to the enforcement of relatively high level skill use among the labour force, thereby limiting the discretion of employers in their use of labour (Sung et al, 2009). All such regulations operate directly on the use employers make of their employees skills.

In conclusion, we would suggest that the impact of these various policy levers would be maximised if they were coordinated at the sector level and used in bundles, the constituent elements of which reinforce each other. The more they operate synergistically to support each other, the greater the potential impact on skills utilisation. This means having actions which impact on the product market strategy reinforced by actions which impact on the competitive strategy. And all of this driven by a sectoral approach which recognises the specific characteristics of each sector.

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References


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