

Future Skills Wales Additional Analysis 2006

Objective C: Areas of significant
change in skills needs and issues

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For and on behalf of Experian	
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Contents

Executive summary	1
Introduction	3
1 Employers' skills requirements	4
1.1 Overview	4
1.2 Hard-to-fill vacancies	4
1.2.1 Variation by sector	5
1.2.2 Variation by establishment size.....	5
1.2.3 Variation by subregions.....	6
1.2.4 Causes of hard-to-fill vacancies	6
1.3 Skills Shortage vacancies.....	7
1.3.1 Variation by sector	8
1.3.2 Variation by establishment size.....	8
1.3.3 Variation by subregion	9
2 Upskilling the Welsh workforce	10
2.1 Overview	10
2.2 Skills gaps	10
2.2.1 Variation by sector	10
2.2.2 Variation by occupation.....	11
2.2.3 Variation by establishment size.....	12
2.2.4 Variation by subregion	13
2.2.5 Skills lacking	13
2.3 Training the workforce	14
2.3.1 Variation by sector	15
2.3.2 Variation by occupation.....	16
2.3.3 Variation by establishment size.....	17
2.3.4 Variation by sub region	18
3 How do Welsh skills requirements compare to other nations?	20
3.1 Overview	20
3.2 Country-wide recruitment difficulties.....	20
3.3 Country-wide skill gaps.....	21
3.4 Country-wide training provision	21
4 Conclusions and policy issues.....	23
4.1 Summary of findings.....	23
4.1.1 Recruitment difficulties	23
4.1.2 Skills Gaps and Needs.....	23
4.1.3 Training Issues.....	23
4.2 Policy issues.....	23

Appendix A: Bibliography

Appendix B: Differences between questionnaires

Executive summary

The objective of this research paper was to explore areas of significant change in skills needs and issues between the three Future Skills Wales Skills Surveys undertaken in 1998, 2003 and 2005. In addition it sought to compare headline skills indicators for Wales against England, Scotland and Northern Ireland. Implications for skills policy are also considered.

In broad-brush terms Wales's position on skills appears to be improving over time with establishments reporting fewer hard-to-fill and skills shortage vacancies. In the case of skills gaps, although the changes over time are very slight, they are in an upwards direction (the situation is muddled slightly by changes in questionnaire wording).¹ Future surveys will indicate whether this represents a true rise in skills gaps or just minor fluctuation. However, whether a rise in skills gaps is negative or positive is to be debated: while skills gaps in certain industry sectors may indicate a poor quality workforce, in other sectors they may indicate an innovative and fast moving industry that requires continual upskilling of its workforce to compete effectively. It may also be the case that employers are becoming increasingly aware of the value of up-to-date skills and therefore perceive higher levels of skills gaps over time.

Hard-to-fill vacancies

The number of Welsh firms reporting hard-to-fill vacancies fell from 14 per cent in 2003 to 10 per cent in 2005. Smaller firms appear to have more hard-to-fill vacancies in relation to the size of their workforce than do larger firms. This may be due to the fact that small firms have fewer resources to spend on recruitment, and may offer lower benefit levels and fewer prospects for career advancement than large firms.

Skills shortage vacancies

The number of establishments in Wales reporting hard-to-fill vacancies that were a result of skills shortages (i.e. a lack of candidates with sufficient skills, experience, or qualifications) fell from seven per cent in 2003 to four per cent in 2005. As with hard-to-fill vacancies, it appears that the fall in skills-shortage vacancies has coincided with a tightening in the Welsh labour market, suggesting that there may have been a positive structural change in the labour market skills profile. In a similar fashion to hard-to-fill vacancies, skills shortage vacancies disproportionately affect smaller firms. The construction sector is particularly affected by skills shortage vacancies.

Skills gaps and needs

The proportion of establishments reporting skills gaps rose marginally from 18 per cent in 1998, to 19 per cent in 2003 and 20 per cent in 2005. In 2005, skills gaps were lowest in the Agriculture and Transport sectors and highest in the Production, Construction, Other services and Banking sectors. In respect of occupations, in 2005, gaps were predominantly reported for Sales and customer service occupations and Process, plant and machinery operatives. Conversely, in 2003, gaps were predominantly amongst Managers and higher order occupations. Problem solving, customer handling and communication are some of the pressing skills gaps for employers.

Despite communication and customer handling skills being some of the most pressing skills gaps, both these skills were identified by employers as being in the top five important skills in

¹ For details on the different wording used in questionnaires, refer to Appendix B

the 1998 and 2003 Surveys. The need for stronger customer service skills amongst employees reflects both the growth of the service sector and the increasing customer-service element of all businesses in the economy.

Training

The trend over time suggests that more organisations in Wales are engaging in training now than in the past: in 1998 48 per cent of establishments provided training; in 2003 the figure was 53 per cent; while by 2005 it had risen to 58 percent. Beneath the headline numbers, there is considerable variation by establishment size, sector and occupation. In 2005, while 9 in 10 establishments with more than 100 staff had arranged off-the-job training; amongst those with less than 10 workers only a half had done so. In terms of sector, Public administration/education/health is the top performer, with 88 percent of employers funding training. Agriculture, wholesale/retail and Hotels/catering remain the poorest performers, but employers in these sectors report major improvements in the training offer. Training investment is primarily made in managers. However, there is a welcome 5 per cent rise in the proportion of establishments offering training to elementary occupations, although these workers remain amongst the least likely to receive training.

Wales in comparison with the rest of the UK

Variation in survey sampling, questionnaire design and fieldwork timing makes comparison between Wales and the other nations inexact. However, on the basis of the numbers available, the proportion of establishments with vacancies was higher in Wales than England, Scotland and Northern Ireland. Hard-to-fill vacancies were higher in Wales than in other countries, although the gap with England has narrowed. Wales, along with other countries in the UK, saw hard-to-fill vacancies as a per cent of employment fall between 2003 and 2005.

The incidence of skills gaps appear to be falling in England and Northern Ireland, but rising in Wales, although this increase is marginal. Wales compares well for training, with a proportion of establishments that is higher than both Scotland and Northern Ireland, though lagging England.

Introduction

This report has been produced by Experian Business Strategies Division on behalf of the Future Skills Wales (FSW) partnership and undertakes further analysis of the FSW Skills Surveys to inform policy makers and providers about employers' and individuals' demand for skills.

We explore areas of significant change in skill needs and issues between the three all-Wales FSW Employer Surveys carried out in 1998, 2003 and 2005. The report examines changes in recruitment difficulties, skills deficiencies and training provision amongst Welsh establishments over time. The report also examines if Welsh trends in skills needs and issues between 1998 and 2005 are mirrored in the other UK countries and considers the potential reasons for any differences and similarities. Finally the implications that the findings have for learning and skills-related policy in Wales is discussed.

Report contents

The coverage of the report is as follows:

- **Chapter one** reviews establishments requirements for skills, identifying hard-to-fill vacancies, skills shortage vacancies and causes of skills deficiencies by sector, establishment size and geography.
- **Chapter two** looks at the scale of skills gaps within organisations, their causes; and examines the scale of training being undertaken by sector, occupation, establishment size and geography.
- **Chapter three** compare the skills picture in Wales to the other nations
- **Chapter four** concludes with the key findings together with policy implications arising from the work.

1 Employers' skills requirements

1.1 OVERVIEW

This chapter examines the recruitment problems faced by employers in Wales and how they have changed over time. Trends in both the occurrence of hard-to-fill vacancies, i.e. the proportion of establishments having had at least one problem vacancy, together with the density of hard-to-fill vacancies i.e. in relation to the size of the workforce both indicate falls. While we present, and discuss the findings of the 1998 questionnaire, the variations between this survey and 2003/2005 mean that direct comparison is not possible. These are summarised in Appendix B.

1.2 HARD-TO-FILL VACANCIES

Hard-to-fill vacancies are vacancies which surveyed employers report that they are having difficulties filling. Table 1.1 below shows the proportion of establishments reporting hard-to-fill vacancies in 2005 and compares this with results from 2003 and 1998.

Table 1.1: Hard-to-fill vacancies

	1998	2003	2005
Total number of HTF vacancies	-	25,326	13,242
% of establishments reporting HTF vacancies	30	14	10

Source: Source: *Future Skills Wales 1998, 2003, 2005*.

Notes:

'Total number of HTF vacancies' is created by multiplying the number of HTF vacancies recorded by the survey by a weighting that reflects the sectoral make-up of the Welsh economy.

'per cent of establishments reporting HTF vacancies' means the proportion of all establishments surveyed who currently say they have vacancies that are proving difficult to fill.

The evidence indicates that the total number of establishments experiencing hard-to-fill vacancies is declining. In 2005, the share of establishments reporting hard-to-fill vacancies was 10 per cent while in 2003 this stood at 14 per cent of establishments. Changes in the filtering and wording of the questions around hard-to-fill vacancies between 1998 and 2003 – 1998 asked all employers about hard-to-fill vacancies whereas 2003 asked only those recruiting – mean we cannot directly compare the results (questionnaire issues are discussed in Appendix B).

Decline in the extent of hard-to-fill vacancies reported can reflect the broader economic cycle rather than evidence the availability of more suitably skilled workers in the labour market. However, the evidence suggests that the decline in the number of hard-to-fill vacancies between 2003 and 2005 was accompanied by a fall in the unemployment rate in both absolute terms and as a percentage of the workforce². This would suggest that an easing of broader labour market pressures is unlikely to be responsible for the fall in the number of hard-to-fill vacancies and

² The 2003 survey was conducted between February and April 2003. The average claimant count in this period was 48,600 or 2.8 per cent of the workforce. The 2005 survey was conducted between March and May 2005 by which time the claimant count had fallen to an average of 41,300 or 2.3 per cent of the workforce.

that it is possible that there has been a positive structural shift in the supply of labour and skills in Wales.

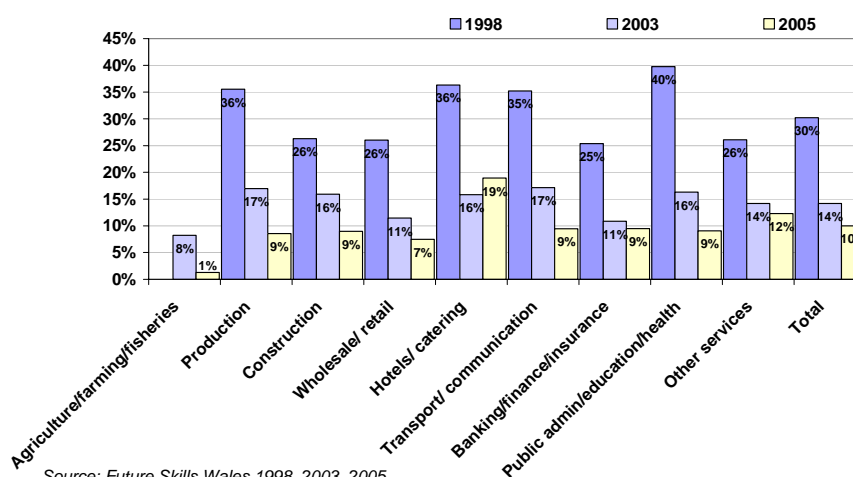
Hard-to-fill vacancies tend to form a very small proportion of employment, of the order of one to five per cent, but there are variations in the occurrence of hard-to-fill vacancies by sector, size of company, occupation and also location within Wales (see sections 1.2.1 to 1.2.4 below).

1.2.1 Variation by sector

Hard-to-fill vacancies fell across all sectors between 1998 and 2003. However, given changes in the questionnaire, in the discussion that follows we refer only to trends between 2003 and 2005.

Falls in the number of hard-to-fill vacancies took place between 2003 and 2005 (see figure 1.1 below). The only sector to show a rise in hard-to-fill vacancies over the period was Hotels/catering³. Hard-to-fill vacancies clearly represent a major challenge for the hotel/catering industry, with almost one-in-five establishments reporting at least one hard-to-fill vacancy in 2005.

Figure 1.1
Hard-to-fill vacancies by sector



Source: Future Skills Wales 1998, 2003, 2005.

1.2.2 Variation by establishment size

The larger the business, the more likely they are to report having one or more hard-to-fill vacancies. However, if we look at the extent of hard-to-fill vacancies relative to workforce, it is the smaller establishment that face greater challenges in filling vacancies.

Survey evidence from 2005 shows that eight per cent of micro establishments (those less than 10 employees) reported hard-to-fill vacancies, compared with 22 per cent of large establishments (100+ employees). This is largely a consequence of the fact that, given the larger size of the workforce, a larger company is more likely to have an open hard-to-fill vacancy at any given date.

In 2005 hard-to-fill vacancies as a percentage of the company workforce was much higher at smaller firms (a reported average of three per cent of the workforce for firms with less than 10

³ An increase in A8 migrant flows into Wales following EU accession is likely to have a positive impact on hard-to-fill vacancies in the hotel/catering industry in the years since the 2005 survey. Research indicates that hotels/catering is a major employer of migrant labour.

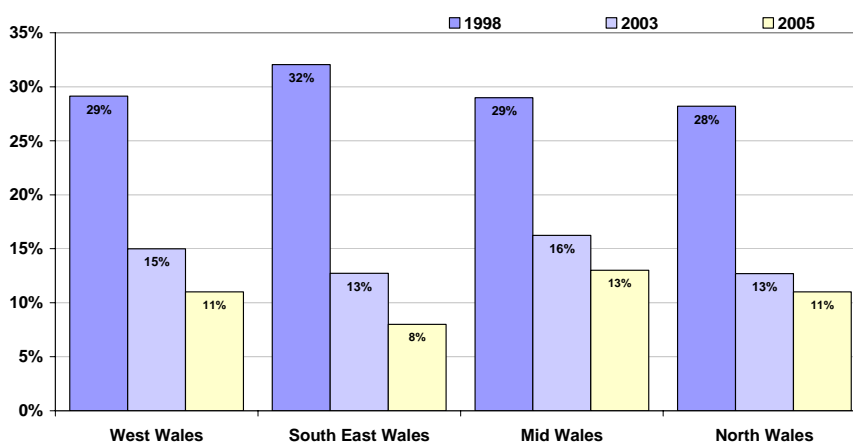
employees, but just one per cent of firms with 25 to 99 employees). In 2005, micro establishments accounted for 19 per cent of employment in Wales but 51 per cent of hard-to-fill vacancies. The 1998 and 2003 data showed a similar distribution of hard-to-fill vacancies. Therefore, survey evidence indicates that when vacancies arise in smaller establishments they are harder to fill than when they arise in larger establishments. Reasons for this may include the greater advertising resources and slightly higher level of pay at larger companies compared with smaller companies. In addition, the possible offer of an increased benefits package, including opportunities for career development and training may be an added draw for potential candidates.

1.2.3 Variation by sub regions

Again focussing on the trends between 2003 and 2005, the relative positions of the sub regions remain the same: more establishments in Mid Wales and West Wales report occurrences of hard-to-fill vacancies than do businesses in North Wales and South East Wales (see figure 1.2). Whilst hard-to-fill vacancies appear much higher in 1998 than subsequent years, changes in the questionnaire mean we cannot directly compare compare.

In 2005, 13 per cent of establishments reported hard-to-fill vacancies (16 per cent in 2003) in Mid Wales while in West Wales the figure was 11 per cent (15 per cent in 2003). In North Wales, hard-to-fill vacancies were reported by 11 per cent (13 per cent in 2003), while in South East Wales, the proportion was 8 per cent (13 per cent in 2003). South East Wales also saw the largest fall off in establishments reporting hard-to-fill vacancies, down five percentage points.

Figure 1.2
Hard-to-fill vacancies in the Welsh regions



Source: Future Skills Wales 1998, 2003, 2005.

1.2.4 Causes of hard-to-fill vacancies

The causes of hard-to-fill vacancies are wide ranging. A vacancy may be hard-to-fill because of demand-related issues, for example an employer may be offering insufficient pay or conditions to attract suitable applicants. Alternatively, a vacancy may be hard-to-fill because of supply-related issues, for example there are insufficient workers in the area with suitable skills and qualifications and who are looking for a new job.

Table 1.2 below presents the main causes of hard-to-fill vacancies as identified by surveyed employers in 1998, 2003 and 2005. These main identified causes are:

- A lack of skills
- Not enough people interested in the type of work
- Applicants lacking the motivation or right attitude
- Applicants lacking the relevant experience

The top two reasons, a lack of skills and not enough people interested in the type of work, remain unchanged between the 1998 and 2005 surveys, although the proportion of establishments citing these as the cause for hard-to-fill vacancies has fallen. A lack of motivation/appropriate attitude to work is also a major reason for employers finding some vacancies hard-to-fill.

Possibly reflecting the improving qualification profile across Wales, a lack of qualifications amongst applicants has fallen in significance as a cause of hard-to-fill vacancies. In 2005 it fell out of the top five causes of hard-to-fill vacancies (though it was present in 7th place), with 14 per cent of establishments reporting it as a cause of hard-to-fill vacancies. Between 2003 and 2005 there was also a decline in the percentage of establishments reporting lack of relevant experience as a cause of hard-to-fill vacancies, though it remains in the top 5. (Please note that percentages are not directly comparable as the list of causes of hard-to-fill vacancies varies across years).

Table 1.2: Causes of hard-to-fill vacancies (per cent of establishments)

Rank	1998 (%)	2003 (%)	2005 (%)
1	Not enough suitably skilled people locally (48)	Lack of skills (32)	Lack of skills (30)
2	Lack of applicants/people interested in this type of work (28)	Not enough people interested in type of work (25)	Not enough people interested in type of work (25)
3	Applicants lack the qualifications we want (18)	Applicants lack the relevant experience (23)	Applicants lack motivation/right attitude (21)
4	Applicants have poor motivation/attitude (16)	Applicants lack the qualifications (16)	Low number of applicants generally (18)
5	Company/industry doesn't pay enough (13)	Applicants lack motivation/right attitude (13)	Applicants lack the relevant experience (15)

Source: *Future Skills Wales 1998, 2003, 2005.*

1.3 SKILLS SHORTAGE VACANCIES

Skill shortages occur when employers are unable to find applicants with the skills, work experience or qualifications required for the job. In 2005, four per cent of establishments reported experiencing skill shortage vacancies. This has fallen from 2003 when seven per cent of establishments had reported skill shortage vacancies. This is against the context of a fall in the occurrence and density of hard-to-fill vacancies over the same period. In addition the fall may be attributed to a number of factors including the wider economic context, transformation in the industrial and occupational structure of Wales, and the impact of policy interventions.

1.3.1 Variation by sector⁴

Figure 1.3 shows the proportion of firms with hard-to-fill vacancies who attribute these hard-to-fill vacancies to skills shortages among applicants. In total the proportion of hard-to-fill vacancies attributed to skills shortages in the Welsh economy fell between 2003 and 2005.

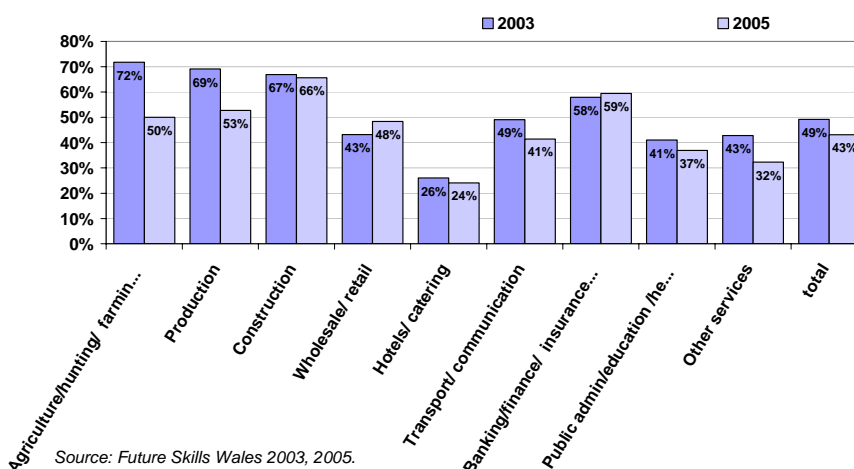
Sectors for which skills shortages are major causes of hard-to-fill vacancies, and which are above the average of 43 per cent in 2005, include:

- Banking (69 per cent)
- Construction (68 per cent)
- Production (63 per cent)
- Agriculture (50 per cent)
- Wholesale and retail (48 per cent)

Looking at change between 2003 and 2005, Production and Agriculture saw a substantial decline in the proportion of skills shortages, while they remain an issue for the Construction and Banking sector, and appear to be a rising cause of hard-to-fill in the Wholesale/retail sector. The Hotel and catering sector, which experienced some of the highest occurrences and densities of hard-to-fill vacancies, has the lowest reported skills shortages.

Figure 1.3

Skills shortage vacancies as a percentage of hard-to-fill vacancies



1.3.2 Variation by establishment size

As with hard-to-fill vacancies, the extent of skills shortages varies by establishment size. Survey evidence from 2005 shows that four per cent of micro establishments (less than 10 employees) had skill shortage vacancies, compared with 10 per cent of large establishments (100+ employees). However, since micro establishments employ fewer people it is clear they have a disproportionate share of skill shortage vacancies.

⁴ Skills shortage vacancy data is not available for 1998 on a basis consistent with Skills shortage vacancy data offered in 2003 and 2005. The 2003 and 2005 skills shortage definition includes vacancies unfilled due to a lack of candidates with necessary experience. The 1998 survey does not include this option, therefore figures from this survey are not comparable with later surveys.

In 2005, micro establishments accounted for 19 per cent of employment in Wales but 63 per cent of skill shortage vacancies. The 1998 and 2003 data show a similar pattern (see table 1.3 below). As with the data on hard-to-fill vacancies, the survey evidence on skill shortage vacancies indicates that smaller organisations tend to find it more difficult to fill their vacant positions and that a large proportion are due to skill shortage vacancies. Reasons for this may include the fact that smaller businesses have lesser training resources and are therefore more likely to be compelled to address skills shortages through recruitment and opposed to internal training, factors such as advertising spend and remuneration levels also apply (see section 1.2.2).

Table 1.3: % of establishments reporting skill shortage vacancies by establishment size

	2003 (%)	2005 (%)
1-9	5	4
10-24	10	5
25-99	12	8
100+	18	10

Source: Future Skills Wales 2003, 2005.

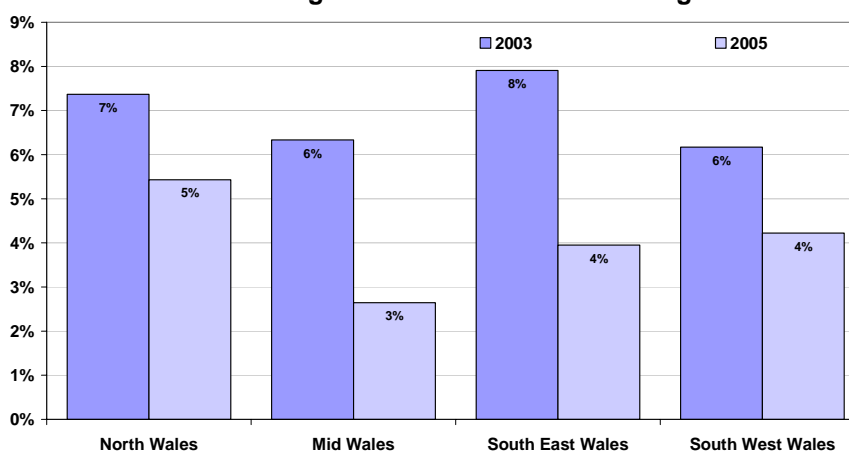
Notes: this data cannot be run for 1998 due to differences in survey construction.

1.3.3 Variation by sub region

In 2005, North Wales had the highest level of skill shortage vacancies at five per cent and Mid Wales had the lowest at three per cent (see figure 1.4 below). All regions saw a fall in skill shortage vacancies between 2003 and 2005, with the largest fall in South East Wales, down from eight per cent to four per cent, which reflects the fall in hard-to-fill vacancies.

Figure 1.4

Skills shortage vacancies in the Welsh Regions



Source: Future Skills Wales 2003, 2005. (1998 data not offered due to questionnaire structure)

2 Upskilling the Welsh workforce

2.1 OVERVIEW

The focus of this chapter is to examine organisational skills needs, in particular skills deficiencies or skills gaps facing employers in Wales and to examine if these deficiencies have changed in nature over time. Skills gaps are defined as the difference between the skills that employees have the skills required to do their job proficiently. The proportion of Welsh establishments reporting skills gaps has seemed to be fairly stable over time at around one-in-five. However, the type of skills employers reported as lacking changed over the same period. The levels of training provided by Welsh also establishments improved significantly.

2.2 SKILLS GAPS

Employers were asked about the level of skills amongst their current employees to find out whether there was a gap between the types of skills they currently hold compared to those needed to do their jobs proficiently. In 2005, 20 per cent of establishments reported a skills gap, marginally up on 2003 and 1998 (see table 2.1), indicative of a positive trend although further time series is needed to confirm the direction. Skills gaps measured as a percentage of the workforce also rose between 2003 and 2005. This statistic depends on how the size of the workforce is measured but there are clearly grounds for continuing to monitor skills gaps.

Table 2.1: Skills gaps (per cent of establishments)

	1998 (%)	2003 (%)	2005 (%)
% of establishments reporting skill gaps	18	19	20
Skills gaps as a % of the workforce	-	5.1	5.8

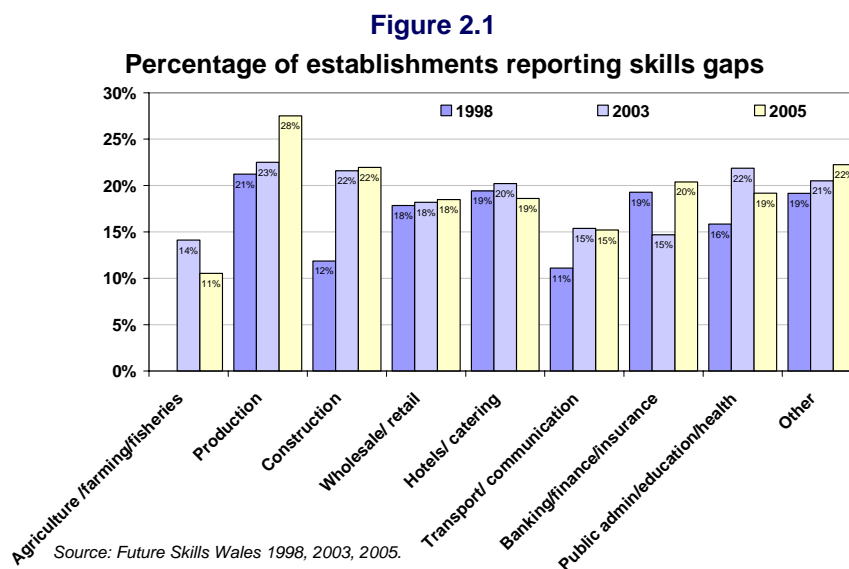
Source: Future Skills Wales 1998, 2003, 2005.

2.2.1 Variation by sector

In general, there appears to be a slight but upward trend in the numbers of establishments reporting skills gaps (see figure 2.1). Explanations vary from sector to sector but include hard-to-fill vacancies resulting in less than ideal candidates being taken on; technological and product innovation, market and legislative change requiring organisational adaptation and generating new skills requirements.

The number of skills gaps reported by establishments in the Agricultural sector appears to have fallen between 2003 and 2005. Reported skills gaps in establishments in the Production sector are higher than average and appear to have risen between 1998 and 2003 and between 2003 and 2005. The fact that this is set against a decline in manufacturing employment over the same period illustrates the fact that even industries with declining employment still have unmet skills needs, particularly as their contraction makes them less attractive to potential recruits. Furthermore, those production establishments that are successfully competing in a contracting market place may well be those innovating and requiring a greater range and level of skills.

The number of establishments reporting skills gaps in the Wholesale/retail trade and the hotel/catering trade appear to have remained fairly constant between 1998 and 2005. In the Transport/communications, Banking/finance/insurance, and Public administration/education/health sectors the number of establishments reporting skills gaps was slightly higher in 2005 than it was in 1998.



2.2.2 Variation by occupation

Table 2.2 below shows that there has been a marked change in the occupational distribution of skills gaps between 2003 and 2005. Higher order occupations have seen a fall in reported skills gaps, while lower order occupations have seen a rise.

In 2003 35 per cent of all skills gaps reported by employers were for the higher skilled occupations (Managerial occupations, Professional occupations, Associate professional and technical occupations), but by 2005 these occupations only accounted for 20 per cent of all skills gaps reported. At the same time the proportion of skills gaps accounted for by the lower skilled occupational groups (Sales and customer service occupations; Process, plant and machine operatives; Elementary occupations) rose from 35 per cent of the total in 2003 to 53 per cent of the 2005 total.

This quite significant inverting of the presence of skills gaps from higher order occupations to lower order occupations may indicate a number of factors at work. It is the higher order occupations that tend to benefit from training investment and there has also been awareness-raising around the need for skills development amongst those in leadership positions, which may now be paying dividends. Amongst the lower order occupations, the ‘batting average’ effect may be in operation: as the labour market has tightened, more marginal (less skilled or employable) workers have been drawn into the labour market – typically into the lower order occupations – and resulting in increased skills gaps amongst the workforce. Furthermore, the lower order occupations are far less likely to be in receipt of training. The more marginal workforce, coupled with lower levels of training delivered at this end of the workforce is likely to result in greater skills gaps, particularly as employer requirements for skills are rising.

Another factor we must bear in mind when interpreting this inversion is a change in the way the skills gap information was elicited between 2003 and 2005: the 2003 questionnaire asked how many staff members had skills gaps, while the 2005 survey asked how many were fully

proficient. In addition the 2003 survey asked about the skills gaps of one occupation chosen at random from those occupations present at the site while the 2005 survey inquired into the skills gaps present in all occupations on site. Both these changes are likely to have had an impact on the pattern of responses, although the extent to which this has altered employers' responses to skills gaps questions is an unknown.⁵ It is unclear why over a two to three year period a complete inversion should have occurred.

Taken on face value, the skills gaps findings for 2005 suggest that the greatest need for training to deliver the skills necessary to meet business requirements is amongst workers in the more routine occupations. That said, for strategic business purposes, employers will still – given straightened training budgets – choose to make the training investment in higher order occupations more likely to result in strategic change (see section 2.3.2).

Table 2.2: Distribution of skills gaps 2003 and 2005 (%)

Occupation	2003 (%)	2005 (%)
Managerial occupations	14	8
Professional occupations	14	7
Associate professional and technical occupations	7	5
Administrative and secretarial occupations	10	9
Skilled trade occupations	12	10
Personal service occupations	8	9
Sales and customer service occupations	15	24
Process, plant and machine operatives	11	17
Elementary occupations	9	12

Source: Future Skills Wales 2003, 2005.

Notes: The 1998 survey does not provide the necessary data to present this statistic.

2.2.3 Variation by establishment size

The survey evidence indicates that the likelihood of skills gaps occurring increased as the number of employees in an establishment increased, and is shown in table 2.3. In 2005, 19 per cent of establishments with between 1 and 9 employees reported skills gaps, this increased to 28 per cent for organisations with over 100 employees. In general terms more establishments are reporting skills gaps over time, particularly so amongst the larger establishments of 100+ employees. However, when skill gaps as a proportion of total employment is examined (the density of skill gaps) the occurrence of skill gaps is fairly consistent across different sizes of establishment.

⁵ Cognitive interviewing has found that whilst the term “skill gap” was generally understood properly by respondents, the term “fully proficient” was more ambiguous. Respondents seemed to perceive “fully proficient” as referring to a complete skill set, as opposed to being sufficient for the required job. This may therefore have biased the 2005 results upwards for lower skilled occupations.

Table 2.3: Skills gaps by establishment size (%)

	1998 (%)	2003 (%)	2005 (%)
1-9	17	18	19
10-24	19	21	23
25-99	22	23	23
100+	16	22	28

Source: Future Skills Wales 1998, 2003, 2005.

The presence of skills gaps, while problematic for an organisation, need not necessarily be a negative indicator. Businesses and organisations that are dynamic, expanding rapidly or adopting innovative processes or technologies, are more likely to experience skills gaps amongst their workforce than stagnant businesses. The issue is really whether businesses are able to close the gaps to keep up with change through training, and here large businesses perform better than their smaller counterparts: whilst 50 per cent of micro businesses offer off-the-job training, this figure rises to 90 per cent for organisations that have over 100 employees (see section 2.3.1 below).

2.2.4 Variation by sub region

In 2005, there was little sub regional variation in skills gaps (see table 2.4). In the other years of the survey, 1998 and 2003, there is slightly more variation although the lack of consistency in the picture suggests we should not read too much into the variations. For example, in 2003 South West Wales has higher numbers of establishments reporting skills gaps than the other sub regions; while in 1998 it is South East Wales. With the exception of South West Wales, the more consistent trend over time, across the sub regions is for a slight increase in reported skills gaps, which is in line with the marginal increase in skills gaps we see across the whole of Wales (from 18 per cent in 1998 to 20 per cent in 2005 and discussed in section 2.2)

Table 2.4: Skills gaps by subregion (%)

	1998	2003	2005
North Wales	16	18	20
Mid Wales	17	18	19
South East Wales	19	18	20
South West Wales	18	22	19

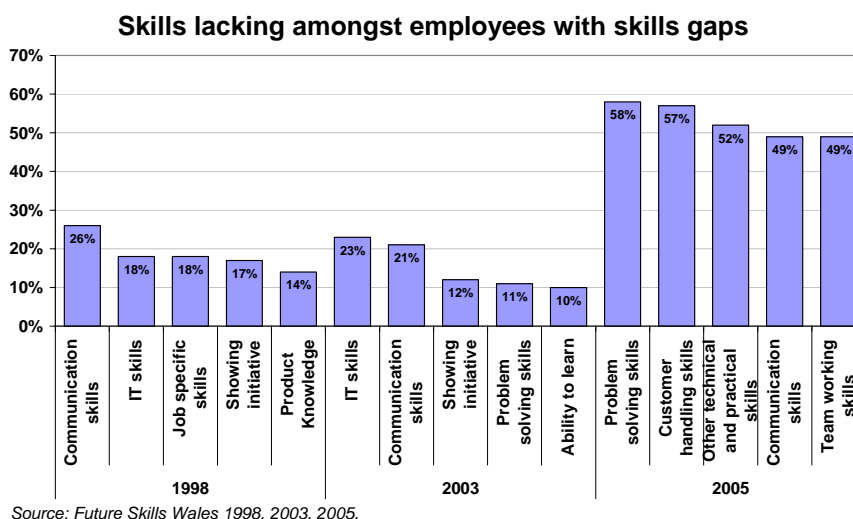
Source: Future Skills Wales 1998, 2003, 2005.

2.2.5 Skills lacking

Establishments which had skills gaps were asked to define what skills they felt needed improving for an occupation where employees were considered not to be fully proficient. In 2005, the skills most commonly reported as lacking were problem solving skills followed by customer handling skills. Over time communication skills have consistently been identified by employers as lacking/needing improvement (see figure 2.2 below). In Figure 2.2 the number of employees lacking, for example, communication skills appears to be much higher than in 2003

and 2005. This is likely to be a result of differences in the question structure and the way in which the figures were grossed up from the initial survey results.⁶

Figure 2.2



The skills that employers felt were most lacking in their employees were frequently also the skills that employers deemed the most valuable: in the 2003 survey, for example, the top five skills that employers believed were most necessary for their employees were *understanding customer needs*, *communication skills*, *the ability to follow instructions*, *flexibility* and *showing initiative*. Four of the top five skills employers valued in 2003 were the same as when the same question was asked in 1998. *Understanding customer needs* and *communication skills* were also the competencies that employers in 1998 and 2003 felt would be increasingly important for employees to master in future suggesting that as well as being current training need, these skills will continue to need upgrading in future.

2.3 TRAINING THE WORKFORCE

Training of the existing workforce is seen as vital to the UK's economic competitiveness and growth.⁷ Ideally, if the expectations of Leitch are to be met, the figure would stand at 100 per cent, i.e. all establishments training. Nevertheless, the trend over time suggests that more organisations are engaging in training than historically: in 1998 48 per cent of establishments provided training; in 2003 the figure was 53 per cent; while by 2005 it had risen to 58 per cent (see table 2.5).

In addition, the extent of training underway in Welsh establishments may be underplayed in that the focus of the survey is solely upon off-the-job training, as the more straightforwardly measurable aspect of training. In many organisations on-the-job training is also undertaken, and in many companies this is the main form of workforce development. For smaller firms in particular, employers can find it operationally difficult to release their workforce to train off site, and levels of off the jobs training in smaller establishments is well below levels in large (in

⁶ The 2005 survey asks employers about skills lacking in all the occupations they employ at that location. The 2003 survey selects an occupation at random from all the occupations at a location and asks only about the skill deficits of workers in this occupation.

⁷ The Leitch Review of Skills. (2006) *Prosperity for all in the global economy – world class skills (final report)*. The Stationery Office, Norwich.

2005 it was 50 per cent compared to 90 per cent in larger establishments), although the trend is upwards.

While the upward training trajectory is good news, for there to be real gains to competitiveness and productivity, an investment in true skills development is needed. Training investment to meet legislative requirements which is a significant part of off-the-job training delivered, is not likely to deliver the step change in business success desired, though obviously it is critical for operational survival.

Table 2.5: Off-the-job training provision

	1998 (%)	2003 (%)	2005 (%)
Proportion of establishments funded or arranged training for employees in the preceding 12 months	48	53	58
Proportion of establishments with less than 10 employees providing off the job training in the last 12 months	44	45	50
Proportion of establishments with more than 100 employees providing off the job training in the last 12 months	89	92	90

Source: Future Skills Wales 1998, 2003, 2005.

2.3.1 Variation by sector

The incidence of training provision varies significantly by broad sector, with sectors dominated by public sector organisations considerably more likely to provide off the job training than sectors that are dominated by the private sector: the sector most likely to offer off-the-job training is Public administration/education/health (see table 2.6).

Other sectors that were some of the best performers in 2005 in terms of engaging in off-the-job training were Banking/finance and insurance (60 per cent), Construction (58 per cent) and Other services sector (58 per cent). The poorest performer by a long way was Agriculture/farming and fisheries (30 per cent), followed by Transport and communications and the Production sector.

All sectors increased their provision of off the job training over time, the Production and Transport/communication sectors saw the smallest increase and the Construction sector the largest. However, the rise in training seen by the Construction sector is likely to be linked to new legislation on training requirements (for example the requirement for gas installation businesses to be CORGI registered from 1998 onwards).

Table 2.6: Off the job training arranged or funded in the last 12 months by broad sector

	1998	2003	2005
Agriculture/farming/fisheries	-	21 %	30 %
Production	50 %	53 %	53 %
Construction	39 %	49 %	58 %
Wholesale/ retail	39 %	43 %	48 %
Hotels/ catering	35 %	38 %	49 %
Transport/ communication	49 %	50 %	52 %
Banking/finance/insurance	55 %	58 %	60 %
Public admin/education/health	77 %	86 %	88 %
Other Services	43 %	53 %	58 %

Source: *Future Skills Wales 1998, 2003, 2005.*

2.3.2 Variation by occupation

The varying performance of different economic sectors in terms of providing off-the-job training for their staff is associated with the occupational make up of these sectors. Sectors dominated by the public sector such as health and education tend to have high proportions of managerial and professional staff. Data from the 2003 and 2005 skills surveys clearly shows that managerial staff are the most likely to receive training.⁸ In 2005 almost two thirds of managerial staff had received training in the previous twelve months (see table 2.7).

Administrative and secretarial staff was the second most likely category to have received training in both 2003 and 2005, followed by professional occupations. In general terms higher skilled workers are more likely to receive training. This is likely to be the result of companies focussing their training budgets on their most productive workers, despite the fact that skills gaps in the higher order occupations seem to be falling (see table 2.4)

The relatively lower level of training received by employees in the skilled trades, contributes to the poorer performance of the Construction sector which is one of the main employers of this occupational group (see table 2.6). Despite rising legislative requirements on the industry, the training of Skilled trades appears to be falling over time from 25 per cent in 1998, to 23 per cent in 2003, and 10 per cent in 2005. The proportion of small businesses in the industry and the extent of sub contracting contributes to the lower levels of training which means that the responsibility and costs for training tend to push down the line.

For the majority of occupations, trends in training between 2003 and 2005 are upwards: Managerial (54 to 65 per cent), Administrative and secretarial (30 to 35 per cent), and Elementary (11 to 17 percent) show jumps upwards; while Professional (24 to 25 per cent), Personal Service (10 to 12 per cent), Process, plant and machine operatives (7 to 9 percent) show more marginal rises; and Sales and customer service remains static over time (22 per cent). Falls in training are seen for Associate professionals (18 to 15 per cent) and Skilled trades (23 to 19 percent).

⁸ However, it is important to emphasize that the approach to managerial training, and the importance placed upon it by an organisation is vastly more important than the raw quantity of staff who have been on management training. For research on this issue see: Tamkin, P., Mabey, C., and Beech, D. (2006) *The comparative capability of UK managers*. SSDA Research Report 17. Available online at: http://www.ssda.org.uk/ssda/pdf/060424_per_cent20R_per_cent20Research_per_cent20Report_per_cent2017_per_cent20Exec_per_cent20Summary.pdf

Table 2.7: Occupational groups trained in firms that provide training 2003, 2005

	2003 (%)	2005 (%)
Managerial occupations	54	65
Professional occupations	24	25
Associate professional and technical occupations	18	15
Administrative and secretarial occupations	30	35
Skilled trade occupations	23	19
Personal service occupations	10	12
Sales and customer service occupations	22	22
Process, plant and machine operatives	7	9
Elementary occupations	11	17

Source: *Future Skills Wales 2003, 2005.*

Table 2.8: Occupational groups trained in firms that provide training, 1998

	1998 (%)
Managers & Administrators (include. Supervisors)	49
Professionals (eg. With degree type qualifications)	27
Associate Professionals (eg. Technicians, draught persons, nurses)	20
Clerical/secretarial (eg. Admin and clerks)	32
Craft and Other Skilled Manual Staff (eg. Construction workers, electronic trade workers, textile workers)	25
Personal & Protective Services (eg. Police, bar staff, catering and domestic staff)	14
Sales/Retail	21
Plant and Machine Operatives	11
Other Occupations (specify)	2

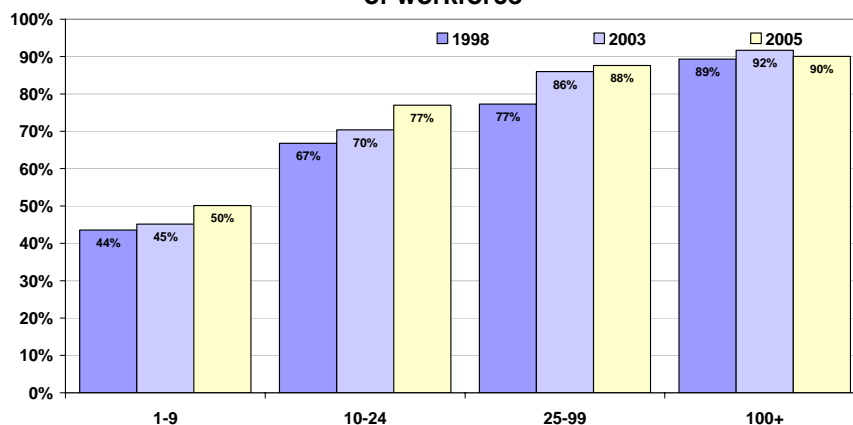
Source: *Future Skills Wales 1998.*

2.3.3 Variation by establishment size

As would be expected, a higher proportion of larger organisations provide training to their staff: in 2005, 90 per cent of organisations with 100 or more employees provided off-the-job training compared to 50 per cent of organisations with 9 or less employees (see figure 2.3). The trend over time is generally upwards: for establishments with 1-9 employees up by six percentage points; for those with between 10-24 employees up by 10 percentage points; and for those with 25-99 up by 11 percentage points. For establishments with more than 100 employees, the proportion of establishments training is high at 90 per cent, and though this represents a two percentage point fall between 2003 to 2005 it would seem to indicate a fluctuation around a plateau, rather than being an issue for concern.

Figure 2.3

Proportion of establishments offering off-the-job training by size of workforce



Source: Future Skills Wales 1998, 2003, 2005.

Among firms with more than 100 employees who provided training to at least one member of their workforce in 2005, 81 per cent provided training to their managerial staff (see table 2.9). Administrative and secretarial occupations were the second most likely occupational category to receive training and in larger firms this may reflect the need to keep up-to-date with technological and software advances around computer and telecommunications channels.

Table 2.9 Training provided by firms with 100+ employees

	2005 (%)
Managerial occupations	81
Professional occupations	55
Associate professional and technical occupations	44
Administrative and secretarial occupations	73
Skilled trade occupations	39
Personal service occupations	21
Sales and customer service occupations	37
Process, plant and machine operatives	34
Elementary occupations	39

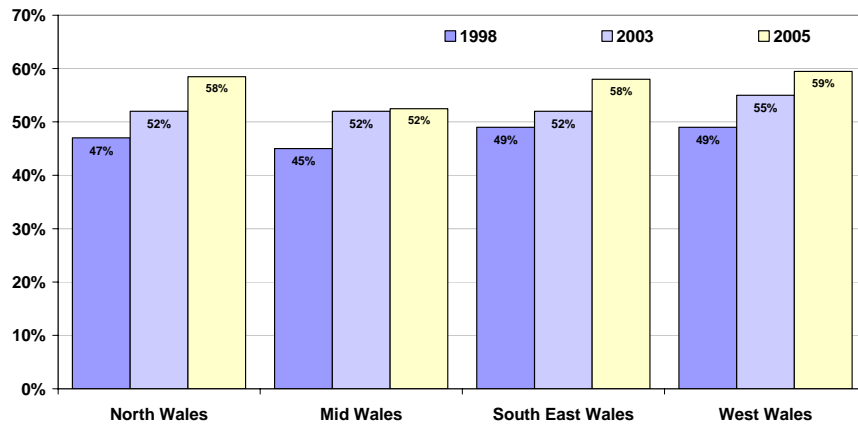
Source: Future Skills Wales 2005.

2.3.4 Variation by sub region

There is little variation in the provision of off the job training by subregion within Wales, although establishments in mid Wales are slightly less likely to provide training than establishments in the other subregions (see figure 2.4). This is due to the upward trend in training in the other sub regions, whilst the proportion of establishments training in mid Wales remained static between 2003 and 2005. These may reflect rural access problems to off the job training as well as the sectoral mix and size of businesses, but if future data reinforces this picture of stasis then there is a risk that the sub region will fall behind the rest of Wales.

Figure 2.4

Percentage of establishments offering off-the-job training by region in Wales



Source: Future Skills Wales 1998, 2003, 2005.

3 How do Welsh skills requirements compare to other nations?

3.1 OVERVIEW⁹

In many cases, comparisons between the headline statistics on skills mismatches in Wales can be made with that of England, Scotland and Northern Ireland. The results are not necessarily directly comparable as a result of variations in survey methodologies and different dates of fieldwork. Nevertheless, at a general level it gives an indication of the extent of the skills challenge facing employers in Wales relative to the rest of the UK.

3.2 COUNTRY-WIDE RECRUITMENT DIFFICULTIES

A comparison with the other countries shows that the proportion of establishments with vacancies was higher in Wales than England, Scotland and Northern Ireland (see table 3.1). In addition, the proportion of establishments with hard-to-fill vacancies was also higher in Wales than the other countries, although between 2003 and 2005 the level fell in Wales and the gap with England was narrowed.

The level of skills shortage vacancies in Wales fell to four per cent in 2005 and this was comparable to levels in England and Scotland. The level of skills shortage vacancies in England stayed stable at four per cent between 2004 and 2005. Northern Ireland still had a significantly higher level of establishments reporting skills shortages although these fell between 2002 and 2005.

In 2005 the density of recruitment problems (hard-to-fill vacancies as a percentage of employment) in Wales was 1.2 per cent. This is broadly similar to England and Northern Ireland and lower than Scotland. Hard-to-fill vacancies as a percentage of employment fell in Wales between 2003 and 2005, this trend was mirrored in other UK countries over a similar period. The level of skill shortage vacancies as a percentage of employment was broadly similar across all countries. The tendency in Wales for the greatest volume of recruitment difficulties to occur in smaller establishments was mirrored in the other countries.

⁹ Data for the home nations excluding Wales was sourced both directly from the Skills Surveys and the SSDA Matrix website (see bibliography).

Table 3.1: Recruitment difficulties in Wales, England, Scotland and Northern Ireland

	Wales			England		Scotland		Northern Ireland	
	1998	2003	2005	2004	2005	2002	2004	2002	2005
Per cent of establishments with vacancies	n/a	22	21	18	18	18	20	16	11
Per cent of establishments with hard-to-fill vacancies	30	14	10	8	7	10	n/a	10	6
Per cent of establishments with skill shortage vacancies	n/a	7	4	4	4	4	n/a	13	9
Vacancies as a per cent of employment	n/a	2.0	3.5	2.9	2.7	3.1	3.6	2.5	1.7
Hard-to-fill vacancies as a per cent of employment	n/a	2.0	1.2	1.1	0.9	1.4	1.7	1.5	0.9
Skill shortage vacancies as a percentage of employment	n/a	0.5	0.5	0.5	0.7	0.6	0.9	0.2	0.3

Source: Future Skills Wales 1998, 2003, 2005. England Employers Skill Survey 2004, 2005 Northern Ireland Skills Monitoring Survey 2002, 2005. Skills in Scotland 2002, 2004.

Notes: Data is not offered for some variables for Wales in 1998 due to differences in questionnaire design, and in establishing a consistent base figure for total Welsh employment in 1998.

3.3 COUNTRY-WIDE SKILL GAPS

In 2005, 20 per cent of establishments in Wales reported internal skills gaps, this figure is broadly comparable with the figure of 19 per cent in 2003 (see table 3.2). Comparing these results with the rest of the UK show that they are and broadly in line with Scotland and England. Northern Ireland appeared to have a much lower level of skills gaps but the Northern Ireland questionnaire is designed differently, making comparison difficult (see Appendix B). The trend in skills gaps appears to be falling in England and Northern Ireland but possibly rising in Wales (a single percentage point is too small a variation to be significant. Time will show whether this is a trend or an aberration).

Table 3.2: Skills gaps in Wales, England, Scotland and Northern Ireland

	Wales			England		Scotland		Northern Ireland	
	1998	2003	2005	2004	2005	2002	2004	2002	2005
Establishments reporting skill gaps (%)	18	19	20	20	16	16	21	13	9

Source: Future Skills Wales 1998, 2003, 2005. England Employers Skill Survey 2004, 2005. Northern Ireland Skills Monitoring Survey 2002, 2005. Skills in Scotland 2002, 2004.

3.4 COUNTRY-WIDE TRAINING PROVISION

Wales compares well with the Celtic nations in the proportion of establishments providing training, although less well against England. In 2005, 58 per cent of establishments funded or arranged off-the-job training for employees in the preceding 12 months (see table 3.3). This was considerably lower than in England (65 per cent in 2005), but higher than Scotland (46 per cent in 2004) and Northern Ireland (34 per cent in 2005). The difference in the amount of off-the-job

training undergone between nations is unlikely to be solely a result of differing survey methodologies between countries: data from the Labour Force Survey, for example, shows that employees in Northern Ireland are less likely to have received off-the-job training than elsewhere in the UK.

In addition, Welsh establishments increased the level of off the job training from 53 per cent in 2003 to 58 per cent in 2005, while Scotland and Northern Ireland saw a decline in the level of training provision.

Table 3.3: Training provision in Wales, England, Scotland and Northern Ireland

	Wales			England		Scotland		Northern Ireland	
	1998	2003	2005	2004	2005	2002	2004	2002	2005
per cent of establishments funded or arranged training for employees in the preceding 12 months	48	53	58	64	65	53	46	42	34

Source: Future Skills Wales 1998, 2003, 2005. England Employers Skill Survey 2004, 2005 Northern Ireland Skills Monitoring Survey 2002, 2005. Skills in Scotland 2002, 2004.

4 Conclusions and policy issues

4.1 SUMMARY OF FINDINGS

4.1.1 Recruitment difficulties

The survey evidence from the FSW Employers surveys for 1998, 2003 and 2005 suggest that recruitment difficulties amongst Welsh employers have declined. The number of establishments experiencing both hard-to-fill vacancies and skill shortage vacancies has declined. The proportion of hard-to-fill vacancies has fallen from 30 per cent in 1998 to 14 per cent in 2003 and then 10 per cent in 2005. Skill shortage vacancies also saw an improvement falling from 7 per cent in 2003 to only 4 per cent in 2005.

Despite an overall improvement in both hard-to-fill vacancies and skill shortage vacancies there remain specific areas in which recruitment difficulties occur. The greatest volume of recruitment difficulties occur within smaller establishments and this has persistently been the case between 1998 and 2005. This trend has also occurred in the other UK countries.

The Hotel and catering sector has had a high rate of hard-to-fill vacancies between 1998 and 2005; in 2005 it was the sector most severely affected by hard-to-fill vacancies, at 19 per cent. This was the only sector to experience a rise from the 2003 survey, with all other sectors experiencing a fall. The Public administration, education and health care sector saw the largest decrease at nine per cent, closely followed by Production and Transport and communication at eight per cent.

4.1.2 Skills Gaps and Needs

In 2005, 20 per cent of employers felt there was a gap between the skills their workforce currently has and the skills they need to meet their business objectives. The production sector was particularly affected and saw a significant increase in the level of skills gaps between 1998, 2003 and 2005. 19 per cent of employers in the production sector felt this would have a major effect on their ability to meet their business objectives. The survey evidence shows that skills gaps are more likely to occur as the number of employees in an establishment increases.

4.1.3 Training Issues

The overall picture regarding off-the-job training is positive, with employers in Wales reporting a consistent increase in training activity. 58 per cent of employers provided off-the-job training in 2005, a growth of ten percentage points since 1998. The survey results suggest that the level of off-the-job training funded by employers in Wales exceeds that of Scotland and Northern Ireland but still lags behind England.

The level of off-the-job training provision is heavily dependant on employer size and broad sector. The public sector dominated industries have consistently provided more training than the private sector; and large organisations provide more off-the-job training.

4.2 POLICY ISSUES

There are positive signs that collectively the skills needs and issues in Wales are being addressed. Analysis over time indicates that the trend in hard-to-fill vacancies and skills shortage vacancies is downwards, though the trends witnessed are not dramatic.

However, skills gaps remain a challenge with around a fifth of employers reporting that their workforce lacks an adequate proficiency to meet business objectives. Although an impressive number of firms are funding off-the-job training, this is not necessarily focused on the areas where skills gaps occur. This situation highlights the key importance of workplace learning, which can be achieved through coaching and mentoring on the job. As the economy and labour market becomes increasingly dynamic and fast-moving it is essential that such skills can be transferred across jobs.

Micro and small firms, in broad terms, face relatively greater challenges than larger firms in meeting their skills requirements. They are more likely to report hard-to-fill and skills shortage vacancies (although the majority of such vacancies are found within larger organisations that have greater employee numbers and recruitment requirements).

The importance of the training message is being heard with more employers investing in training now than previously. However, if one is more cynical, the majority of training is focussed on rudimentary areas like 'induction' and 'health and safety' to meet legislative requirements, rather than on the development of generic skills likely to enhance individuals' transferable skills sets, or employers' productivity levels.

Training is also more likely to be focussed on higher order occupations – managers and professionals - than elementary workers. Though there has been a rise in elementary workers receiving training, these are still amongst the least likely workers to be trained. Lower order occupational workers are unlikely to enhance their skills levels through formal training delivered in the workplace and will remain dependent on their own or public resources for upskilling and/or making the transition across sectors.

Continued effort is required to promote and support employer investment in off-the-job training, particularly in the declining production industry and in the low-waged hotel and catering industry. Small firms require encouragement, support and suitable delivery programmes to invest in training.

Appendix A

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- Data was also sourced from the Sector Skills Development Agency (SSDA) website. Users can register to use the Matrix free of charge at: <http://www.sdda.org.uk/>

Appendix B

Differences between Questionnaires

QUESTIONS REGARDING HARD-TO-FILL VACANCIES IN 1998, 2003, 2005

The question asked in 1998, and those asked 2003 and 2005 differed significantly. The key difference is that the 1998 question deals with all vacancies over a 12 month period. The 2003 and 2005 questions only deal with current vacancies. The lead up to the question in 1998 and those in 2003 and 2005 also differs. The questions are listed below, all text that is not in bold indicates instructions to the interviewer, and is not seen by the interviewee.

Question in 1998

The following questions are about recruitment practices at this location.

ASK ALL

Thinking about the last 12 months, in which occupations, if any, have you had hard-to-fill vacancies at this site? Please include all current hard-to-fill vacancies.

Question in 2003

The following questions are about recruitment practices at this location.

ASK ALL

How many vacancies, if any, do you currently have in this organisation?

IF RESPONDANT REPORTS AT LEAST ONE VACANCY AT Q15A

Q15b **Would you consider any of these vacancies to be hard-to-fill?**

Question in 2005

I would now like to ask you about vacancies at this establishment. How many vacancies, if any, do you currently have at this establishment for full or part time staff?

ASK ALL WITH VACANCIES AT C1

C2 IF C1>1: Are any of these vacancies proving hard-to-fill? / IF C1=1: Is the vacancy proving hard-to-fill?

QUESTIONS DEALING WITH SKILLS GAPS IN 2003 AND 2005 (WALES)

The differences between the question regarding the incidence of skills gaps in 2003 and 2005 may have affected the response, but probably not significantly.

Question in 1998

ASK ALL

I would like you to now think about your overall workforce. Would you say there is a significant gap between the type of skills that your employees have now, and those they need to meet your current business objectives?

INTERVIEWER NOTE: By significant I am referring to any skills gap that has had an impact on your establishment's ability to meet its current business objectives

Question in 2003

Q20 I would like you to now think about your overall workforce. Would you say there is a significant gap between the type of skills that your employees have now, and those they need to meet your current business objectives?

INTERVIEWER NOTE: By significant I am referring to any skills gap that has had an impact on this organisation's ability to meet its current business objectives.

Question in 2005

D1. Thinking about your current employees, would you say that there is a gap between the types of skills that your current employees have now, and those that your company needs to meet its business objectives?

If necessary: We are only interested in skills gaps that are holding back current business objectives for your company/ organisation

TYPE OF SKILLS GAPS EXPERIENCED BY EMPLOYERS

In 1998 and 2003 the list of types of skills gaps was not read out by the interviewer. In 2005 the options were read out by the interviewer. Listing the options aloud typically results in a much higher response rate – as was in fact seen in 2005 compared with 1998 and 2003.

QUESTIONS DEALING WITH SKILLS GAPS – COMPARISONS BETWEEN NATIONS

There are two basic models used for measuring the incidence of skill gaps:

- The single direct question approach.
- The proficiency question.

The first of these approaches is used in the surveys for Northern Ireland and Wales. Respondents are simply asked to say if there is a gap between the types of skills that employees at the establishment have now, compared to those needed to meet business objectives.

With the proficiency question approach, used in the surveys for Scotland and England, the respondent is asked to say, on an occupation by occupation basis, what proportion of employees at the establishment are “fully proficient at their current job”. In the Scottish survey, an establishment is identified as having a skills gap if any employee is not fully proficient.

In ESS 2001, the proficiency question is used to derive two measures of the existence of a skills gap. Under the broad measure, an establishment is identified as having a skills gap where less than all staff are considered to be fully proficient. In principle, this measure should be comparable to the Scottish skills gap measure.

With the narrow measure used in ESS 2001, an establishment is identified as having a skills gap where less than nearly all staff are considered to be fully proficient.

QUESTIONS DEALING WITH OFF-THE-JOB TRAINING – COMPARISON BETWEEN COUNTRIES

The problem that arises in comparing indicators between countries for the proportion of employees receiving training is that the probability of a non-response or missing data is correlated with establishment size; the larger the establishment, the more likely was it that the respondent was unable to say how many employees were in receipt of off-the-job training. It is possible to adjust for non-response. But from the perspective of comparing survey findings between countries, a uniform approach to this would be desirable.