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### Skills and Performance

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#### *Summary*

*The motivation behind skills development in the last decade has been strongly influenced by the belief that it contributes to performance. This paper explores some of the problems that exist in establishing a causal link between skills and organisational performance and, in the process, attempts to re-establish skill as a frame of reference in its own right rather than as a contributor to management goals.*

#### Introduction

It has become an accepted truism that the way to succeed for individuals, organisations and nations, is through skills based competition. Yet job growth, work design and organisational practice consistently fail to follow this route. Management rhetoric accepts that skill development is the only acceptable route to prosperity. Management practice lags behind.

This choice may deserve some sympathy. Despite the fact that commentators from government ministers to established journalists endlessly repeat the truism that skills equal performance hard evidence on the exact links is difficult to find. The proxies used in existing studies are rarely satisfactory, focussing as they do on either discrete aspects of work (which are difficult to disentangle from other parts of the production process) or single measures of productivity (which present only a partial picture of performance) (for an excellent overview of this see Keep, Mayhew and Corney 2002). There are

three main reasons for the difficulties in establishing a link. Firstly, organisations are complex social systems and it is unlikely that there is a single generic cause of productivity and profitability. Secondly, there are a number of ways in which firms can succeed, including deskilling and work intensification. Thirdly, skill is not simply an input to organisations' productivity.

## Skills

Skill is complex. It may be possessed by individuals, through qualifications, experience, expertise or attributes. It is built into jobs, the successful completion of which may demand autonomy, decision making, technical know-how or responsibility. And it produces, and is itself the product of, status.

Essentially skill is part of a social system; and skilled and expert work is a product of the way different parts of this system relate to one another. Few of these elements are static: firms may change their strategy, individuals can gain expertise and the status of groups and occupations may change over time. To add to the complexity, highly skilled workers may be found in organisations where strategies concentrate on cost cutting, just as low-skilled and tightly regulated employees are hired to work in technologically sophisticated workplaces.

## Performance

Performance too is not readily defined or measured, at least in the sense that there is no one single measure of organisational performance. For organisations in the private sector there are a range of financial ratios including share price, profits, turnover, dividend yield and dividend cover. Specialists in employment might also assess absenteeism, staff turnover, staff costs and the presence or absence of various human resource practices (although strictly speaking these tend to be inputs, rather than outputs). For individuals, performance measures might include pay rates, job satisfaction, status, career opportunities, working conditions, levels of control and discretion or management style. While national governments, for their part, might be interested in the extent to which firms contribute to civil society, employment growth and investment plans.

Each of these three parties have different understandings of, and interests in, performance and their perspectives are not readily reconcilable, at least in ways that could influence practice. A multi-stakeholder audit might provide a basis for exploring these different notions of performance but its use is likely to be limited to analysis since few employers would abandon simple metrics such

as share price or bottom line profits (which affect their survival) in favour of wider measures of performance (which do not).

## Skills and Performance

Given the complex nature of skill and the diverse definitions of performance the difficulties involved in establishing a link are hardly surprising. There is a wide body of research measuring the impact that particular employment practices have and in these the definitions of both employment practice and performance vary. Studies explore human resource management, high involvement management practices, high commitment management practices, high performance work practices and high performance work systems. The first of these, human resource management, is easily the best known, yet even here there is no consensus on what constitutes 'real' human resource management. In an examination of the four most widely cited studies, Dyer and Reeves (1995:658) found only formal training common to all. Moreover the labels used in many of these studies are wide ranging and the same practice can take very different forms in different organisations. Most provide so few details of the variables that it is difficult to gauge the extent to which practices really do match.

Performance measures also vary. In the majority of the empirical work performance is taken to mean productivity, self-reported employee productivity or labour productivity. But it has also been taken to refer to: product quality, various financial measures, pay rates, turnover, efficiency (including labour efficiency), machine efficiency, scrap rates, labour turnover, job creation, absenteeism, perceived organisational performance and perceived market performance.

It is not only the large number of measures and the variety of proxies used that raise questions about the link between skills and performance. Most of the research on this issue is quantitative. Some studies rely heavily on single respondents within an organisation, who may not be competent to judge both performance and people management practices. There is a risk of bias towards the dominant occupational group and studies may omit groups such as contingent workers (even when these form a majority of the workforce). Surveys usually lack a longitudinal element and so assumptions about causal links between the variables chosen may be debatable. Moreover, assumptions about causality seem to depend more on the specialism of the manager concerned (with personnel managers praising human resource practices and production managers attributing success to production techniques) than any robust evidence one way or another. The general conclusion of these studies (and given their number and variety we make this generalisation with caution), is that there is a link between human resource management and performance,

although the link is tenuous and it is difficult to say whether these various bundles of practices are the cause or the beneficiary of profits.

Almost all studies focus on organisational performance and the gains that accrue to firms rather than the benefits for individuals. Employees' gains are usually assumed to be the same as those of their employers. One of the few studies where workers' benefits have been considered is that by Applebaum and her colleagues (2000) who examine the rewards of the workers in forty manufacturing facilities in the US. Their results demonstrate positive outcomes, including higher pay rates, but, as the authors themselves acknowledge, these results may be confined to the plants studied and in services the picture is far more complex and may not be as positive.

Finally, the majority of the existing studies are about employment practices as a whole rather than specifically focussed on skills. It can be argued that skills are the litmus test of human resource management and that without skills other building blocks such as performance related pay or employee involvement make little sense (Keep and Mayhew 1996). However, intuitively attractive as this link is, the evidence suggests that the presence or absence of human resource management is management's choice rather than the inevitable result of a high-skill strategy. Sophisticated human resource management may also be implemented in workplaces that compete on low skills (often to distract employees from the alienating nature of their work).

The most positive data on the link between skills and performance seems to come from manufacturing. Detailed and comparative studies of biscuit making by Mason, Van Ark and Wagner (1996) show that workplaces which produced complex, high quality biscuits also employed vocationally qualified bakers. Workers were able to take charge of several production lines at once as well as assuming responsibility for product quality. The costly and labour intensive aspects of production were those which added value, such as fillings, decoration and packaging. Research into other manufacturing firms confirms this link between high skill and high quality, small batch production (Arthur 1999)

In the service sector, however, links between skill and quality are much harder to gauge. Product quality is itself very hard to measure and the (different) skills required may be equally elusive. Good service may be equated to the number of staff available rather than their individual capabilities and Lloyd's (2003) research into the fitness industry found that, while technical skills formed part of work processes, 'soft' skills, including the ability to please customers were far more highly valued.

This raises a number of issues for any debate on skill and performance. The first, as Keep and Mayhew (1999) point out, is that it is not clear whether improvements in the process of being served are increases in specification or

delivery to specification. It may be that improvements in customer service reduce complaints or increase repeat business but these links are speculative ones. Moreover, while the literature on skill and employment practices generally supports a link to performance, the few studies that concentrate on customer service seem to contradict this link.

### Skill or Performance

The fact that the links between performance and skills are tenuous is a problem when the main impetus to increase skills, as well as one of the main forces legitimising them, is the positive effect they are assumed to have on corporate performance. Yet such an association is not straightforward, not because skills cannot raise organisational performance but because they are one way of competing rather than the way of competing. Firms which focus on low skills production may be highly competitive. As Keep, Mayhew and Corney (2002) point out, Easyjet the low cost carrier thrives while Swissair, which won awards for its service levels, collapses. Our central point here is not that firms cannot, do not or will not in the future compete on the basis of low skills (they can, do and clearly will, often very successfully). It is that each way of competing has very different implications and that privileging organisational performance may blinker observers to the fate of the other parties involved.

We would like to argue that society would improve if there were fewer low paid workers and that national competitiveness would be more sustainable if firms concentrated on high margin, high quality goods that could be less readily outsourced to developing nations and that individual workers would also gain. Highly skilled workers tend to be paid more, they are more likely to benefit from human resource practices than their unskilled peers, highly skilled work is less vulnerable to being outsourced.

This current over-emphasis on firm-level results may lead us to neglect the other parties to the employment relationship. That in searching for a link between skills and business performance we neglect the very real advantages that accrue to individual workers or societies through high skills production. Mere organisational success is hardly enough for sustainable prosperity.

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