

People Development And Closing The Skills Gap

A SKILLS-FIRST APPROACH TO ACHIEVING GROWTH



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Manufacturing Insights Report

FOREWORD

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Manufacturing businesses know that to compete in today's global markets they must operate efficiently in every way and a crucial part of this involves investing in the right people, with the right skills, at the right time. This skills-first approach will be essential to achieving growth in the future.

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Ever wished you could see into the future? For manufacturers, the ability to see how the skills needs of their organisation might change in the future is becoming essential.

Keeping pace with market changes is increasingly important. Innovative new entrants, equipped with technological know-how and skills in areas such as automation and 3D printing are demonstrating their ability to disrupt marketplaces quickly and irrevocably. To avoid being left behind, manufacturers need to be continuously reviewing their business model and prioritising people and skills development at every opportunity.

Finding the right people with the right skills to support their growth plans is not easy however. Gone are the days when well-trained candidates queued up for interviews whenever a position became available. Identifying the skills needs of the business and where to find them requires strong leadership and management focus.

Rather than leaving the problem of access to skills to chance, a well-considered 'people strategy' that is aligned with business objectives can help manufacturers to plan ahead to strengthen their workforce and drive growth. But where should they start and how can they turn their investment in skills into a competitive advantage?

Buying more time will certainly help. Handling day-to-day people matters such as recruitment, induction, appraisals, payroll, disciplinary and grievance issues can be incredibly time-consuming for growing businesses and make it hard for managers to look further ahead. Some companies may find that outsourcing some of these functions can free up the management time needed to implement a more strategic, skills-first approach.

Sitting back and doing nothing is no longer an option. To stay competitive, manufacturers must take charge of people management and develop a strategy to ensure they have access to the skills they will need tomorrow.

Caroline Milton
Head of Manufacturing



THE BIG PICTURE

A Widening Skills Gap

A widening skills gap is threatening to undermine the achievements of manufacturers in the UK; preventing their growth and pushing them back down the value chain.

For some time, manufacturers in the UK have been trailing those in other parts of the world in terms of productivity growth and this has enabled competitors to strengthen their market position. Added to this, uncertainty about where future growth will come from and higher employment costs are making it harder for UK based firms to fight back.

The lack of technical skills among applicants, cited by



of employers is the main driver behind recruitment difficulties for manufacturers

Source: EEF Skills Report 2016

To make matters worse, employers in the sector are becoming increasingly frustrated about the lack of skilled candidates in the employment pool. The latest [EEF Skills Report 2016](#), entitled 'An up skill battle', found that over a third of vacant industry roles are now considered 'hard to fill' and 67% of employers cite a lack of technical skills among applicants as a primary cause of recruitment difficulties.

The report notes that reduced access to candidates with STEM (Science, Technology, Engineering and Maths) qualifications and training could cause the skills gap to worsen in the future. To avoid this, employers need to invest in developing skills inside their own organisations instead of solely relying on the education system to deliver what they need.

The nature of the skills that manufacturers will need in the future is shifting and many are finding that it is becoming more difficult to recruit people to fill certain roles. Most companies require competent sales staff with the people skills necessary to present the product offering in a compelling way; build relationships and close deals effectively. However, increasingly, these same members of staff need to have sound technical knowledge and be able to explain in detail how each product performs and the benefits it brings.

“Finding recruits with the right mix of technical knowledge and people skills is a growing problem.”

Caroline Milton

Demand for high value skills is changing too. Specifically, demand for production and process engineers is expected to exceed demand for mechanical engineers in the next three years, according to the EEF report. In addition, intense competition and market disruption in the sector is driving the need to continually reinvent, innovate and develop products. This requires a dedicated workforce with the right technological and creative skills developed through strong leadership as companies aim to put in place future focused management teams that are capable of shaping the business for the future.

How to put in place an effective people strategy

Keeping sight of how the skills needs of the business might change in the future is an essential part of any people strategy.

Most manufacturing businesses have a five year plan underpinned by clear business objectives. These goals typically include areas such as increasing turnover and an intention to grow the customer base. All too often, the need to invest in people and skills development on an ongoing basis is either overlooked or attributed secondary importance.

Forward thinking manufacturers recognise that prioritising people and skills can have a direct impact on business performance and help to boost the firm's competitiveness. To secure board level buy in, it is important for managers to demonstrate how investing in people development will have a direct impact on productivity and financial performance.

Behind every successful people strategy is an engaging and appealing employer brand. But building one can be difficult, particularly if the HR team lacks the support of senior management or there is resistance to change.

“Outsourcing an audit of the organisation’s culture and values with a view to finding and implementing the right solutions, including a common set of behaviours, can help to remove barriers to change and create a workplace that is more likely to attract and retain talented people.”

Ed Hussey

How to create an effective people strategy

Understand your goals

The first step to developing a people strategy is to make sure you can clearly define the vision, values and objectives of the business. The people strategy will need to directly support the goals of the organisation.

Assess your skills needs

Carrying out a detailed assessment of the current and future skills needs of the organisation will help to clarify the upskilling challenge that lies ahead. Do you need more technical skills and if so, when? Will you need different skills in the future?

Back up your plan

To be successful, the business must be prepared to invest time and money to ensure the plan is delivered efficiently and given the priority it deserves. It may be helpful to outsource to a HR focused project manager who is responsible for implementing the plan and reporting on skills related issues directly to the managing director.

Keep it under review

In today's fast moving markets, even the best laid plans are subject to change. It is important to keep the skills needs of the organisation under constant review and carry out regular assessments to check if things have changed.

How strong is your employer brand?

Do you know enough about what attracts people to your organisation or what drives them away? Now is the time to find out. Qualitative research can be extremely enlightening; helping to uncover organisational strengths and weaknesses that you may not have been aware of.

Planning to meet your needs

Once you know what skills you need now and in the future, you need to decide how to address each one. Will you be able to fulfil the requirement by developing existing staff, or will you need to hire in the necessary skills and if so, where from? Will strategic alliances help you access the best solutions? Do you need to incentivise or reward key members of staff to encourage loyalty? There is no one-size-fits-all plan and every business will need to consider its own specific requirements.

Use metrics

To ensure the business is achieving optimum value from its people strategy, metrics can be used that link to business objectives. For example, initiatives that are designed to retain and motivate talented people would be expected to deliver an improvement in 'profit per employee' rates. To help drive development, individual KPIs should also be set based on the tasks and responsibilities they undertake and the results achieved.

Improving access to talent

There is much that can be done to improve access to talent at every level. Manufacturers must listen, learn and take action.

Recognising the need to embrace technology, many manufacturers are already weighing up how investment in 3D printing systems, additive manufacturing techniques or other disruptive technologies could open the door to new market opportunities. They may be reluctant to take the leap, however, perhaps due to a lack of funding or maybe a lack of vision.

Seeing the potential of such future focused investments requires a strong management team that is flexible to change and willing to listen to younger people within the business who may be more in tune with how markets are evolving and the opportunities that might exist.

“Listening to younger people, who are moving up the organisation, is a practical way for businesses to improve access to talent within their organisations.”

Caroline Milton

• Knowledge Transfer Partnership (KTP)

Finding engineers with the right experience and market understanding can be challenging and costly. However, there are government backed programmes that can help. Run by Innovate UK, the Knowledge Transfer Partnerships (KTP) programme is designed to help businesses across the UK to innovate and grow by helping to enrich the skills base and give them access to relevant cutting-edge research activity.

Part funded by a grant, each programme links the business with a university and a graduate involved in a specific research project for up to three years. On average, businesses participating in the programme achieve an increase in annual profit of more than £1 million and they benefit from access to value-added skills that they might lack in-house.

• Apprenticeship Schemes

Manufacturing businesses may wish to consider growing their own engineering talent by setting up an apprenticeship scheme and, if appropriate, seeking the approval of the Institution of Engineering and Technology (IET). There are a number of routes to take depending on the size of the business. For example, manufacturing businesses with up to 50 employees can take on apprentices aged 16 to 24 years and receive a government grant of £1,500 per apprentice. Depending on resources available to the business, outsourced services could provide support in this area.



of companies use employer and public funding to deliver apprenticeship training

Source:
EEF Skills Report 2016



of employers fully fund apprenticeship training themselves.

Source:
EEF Skills Report 2016

The EEF's report indicates that most manufacturers are already offering apprenticeships at a variety of levels and in the past year there has been an increase in the number of positions offered in both engineering related and non-engineering related areas. In most cases, businesses are part funding these training initiatives themselves.

From April 2017, the way apprenticeships are funded is changing. As part of a move to create three million apprenticeships by 2020, the government is introducing the new Apprenticeship

Levy. Targeting mainly larger businesses, firms with wage costs of £3 million or more will be required to pay a 0.5% payroll tax to fund the levy and each will receive an allowance to offset the levy and pay for training.

- **Other opportunities**

Depending on the location of the business, it may also be possible to tap into local initiatives that are providing support in helping to develop skills to meet the needs of local employers.

Three million extra apprenticeships by 2020

Source: [England Apprenticeships: Our 2020 Vision \(2015\)](#)

Whatever action is taken to gain access to talent, it is important that employers look beyond tried and tested recruitment channels. Those that take steps to address diversity issues by seeking talent in new or unexpected places may find that these recruits add significant value to their organisation. Working with not-for-profit organisations, local schools and training colleges and gaining access to projects run by local authorities can help to open up new employment channels and enrich talent recruitment programmes.

Training and Rewards

The key to staff loyalty

In today's fast moving markets, it is vital for employers to invest in training and put in place an attractive reward and remuneration package to motivate staff and earn their loyalty.

Changing attitudes to employment mean that most people no longer expect to be in the same job for life. According to a study commissioned in 2015 by the Association of Accounting Technicians, the average British worker will have six job roles in their lifetime.

To meet the challenge of increasing worker mobility, employers must set aside resources to fund continuous staff development and training programmes. Any investment in training will help to up skill the workforce and will also be perceived by individual workers as a workplace benefit; helping to inspire their loyalty.

Some business owners are reticent about investment in training however, because they worry about skilled employees being poached by other companies. If they are concerned about this, it is possible to include clauses in employment contracts that would allow them to recoup some of the cost of training. Implementing a people strategy that works at several levels, including a component on staff retention, will also encourage key members of staff to stay put.

• Types of Rewards

Manufacturers looking for other ways to improve staff retention and loyalty should consider putting in place a flexible benefits package. It is often the simplest of lifestyle related perks that are most highly valued by employees. For example, a worker with children might appreciate access to childcare vouchers, whereas a worker without children might find the option to buy or sell holiday most appealing, or access to private healthcare provision. By mixing and matching the right flexible benefits, it is possible for employers to tailor the package to their workforce.

While it is obviously based on giving cash rewards, introducing a bonus scheme is another way that employers can reward and incentivise individual workers. By taking care to structure the bonus scheme, based on key markers and KPIs, it is possible to tailor the scheme to meet the needs of the business and each individual worker.

• Tax Efficient Rewards

To incentivise key members of staff who are stepping up to a strategic management role, manufacturers may wish to consider introducing a share incentive scheme, such as an Enterprise Management Incentive (EMI) scheme. Such schemes allow a company to grant options over shares to key employees, which they can exercise as they wish at the end of a pre-agreed time period. Once exercised, these share options give the employee a real stake in the business, which they can benefit from over time, and this can help

to encourage their loyalty. To get optimum value from these schemes, it is important for employers to communicate regular updates about the value of share options so employees appreciate their value.

Finally, most workers value recognition and introducing an internal awards scheme can be an effective way of providing this in a more structured way.

*“Share incentive schemes can be a valuable tool to
incentivise talented people in a tax-efficient way.”*

Andrew England

AFTERWORD

There is much that manufacturing businesses can do to close skills gaps and improve their growth potential.

Implementing an effective people strategy, which is designed to develop and retain skills, is a good place to start.

Of course, we understand that delivering the recommended changes may require support and our expert business advisers are here to provide a guiding hand.

CONTACT

For more information about outsourced HR services, adopting a tax-efficient structure or putting in place a flexible benefits package, contact the [Manufacturing Sector Team](#) at Menzies.



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