



**DESIGNING LOCAL SKILLS STRATEGIES:
EMERGING FINDINGS FROM THE OECD STUDY**

Extract from the interim report

15 January 2008

For a full version of the interim report, or if you wish to reproduce, copy, transmit or translate this report please contact: Elisa.Campestrin@oecd.org

INTRODUCTION

1. The promotional slogan of the state of Maryland's Workforce Investment Board (GWIB) is 'Workforce Development is Economic Development'. The sentiment behind this, that economic development should increasingly focus as much on human resources and skills as on infrastructure and inward investment - is increasingly apparent across all OECD countries. On the other side of the world in Australia, the primary goal of the regional development agency in Griffiths, New South Wales is now 'building workforce skills and education', followed by 'taking a proactive regional approach to meeting infrastructure needs' and 'implementing regional sustainability/growth management'.

2. The increasing priority given to human resource development is understandable given that skills are more and more in demand within the knowledge economy. It is estimated that by 2010 almost half of the net additional jobs created in the European Union will require people with tertiary-level qualifications; just under 40 per cent will require upper secondary level and only 15 per cent basic schooling (Tessaring and Wannan, 2004). This trend is already having an influence on employment levels - on average in OECD countries, 84 per cent of people who have achieved a tertiary education qualification are in employment. By contrast, only 56 per cent of people without even an upper secondary qualification have jobs (OECD, 2006a). In the United States, the median weekly earnings of college-educated workers are 73 per cent higher than those of high school-educated workers, and the gap is even larger for those who dropped out of high school. In Germany the last five years have also seen an above-average decrease in employment amongst people without vocational training under 30. From 2002 – 2006 the decrease of all employees nation-wide amounted to – 4.4 per cent, while for those without vocational training it was – 13 per cent. These trends were noticeable all over the country but in particular in the old industrial regions and other regions affected by structural change.

3. Today's knowledge economy is also characterised by rapid skills obsolescence. As business needs evolve at the local level, demands are placed on vocational education and training systems to evolve their curricula, but such systems (many of which are relatively centralised in OECD countries) find it difficult to adapt at the required pace. At the same time, many localities within OECD countries are experiencing problems of skill shortage due to an aging population. The ratio of older inactive persons per worker is expected to almost double from around 38 per cent in the OECD area in 2000 to just over 70 per cent in 2050. This is not only a problem affecting OECD Countries: the BRICS (Brazil, Russia, India, China and South Africa) will also undergo significant population aging over the next two decades, reflecting both lower fertility rates and improved longevity. In countries such as the United States the impact of demographic change is made worst by the approaching retirement of the post war 'baby boom' generation: America's 500 biggest companies will lose half their senior managers over the next 5 years¹. This is resulting in both labour shortages and skills shortages: when people retire they also take their skills and experience with them.

4. A further issue leading to the increasing importance, but also increasing complexity, of human resources issues is the rising degree of human mobility. Legal international immigration has more than

¹ The Economist, October 7th 2006 p.4.

tripled in OECD countries over the twenty years leading up to 2004 (1984-2004) and continued to rise by 10-11 per cent in 2005 (OECD, 2007)². In addition the decline in inter-regional migration observed in many countries since the 1970s seems to have halted in most cases, with gross flows increasing in some countries (OECD, 2005). When people move, they take their skills and competences with them. This has an important impact, not only on the localities that they leave behind (which may suffer due to a 'brain drain' or loss of skills) but also on the localities in which they arrive, which have to consider new ways of adapting the skills brought by migrants to the characteristics of their local labour market. At the same time, the people who do not move, particularly those at the lower end of the skills ladder, may find themselves in competition for jobs with newly arrived populations that are willing to accept poorer employment conditions as they make sacrifices on the road to becoming integrated in a new country.

5. While employers may look to new arrivals as a useful means of tackling skills shortages, local residents in direct competition for low skilled jobs may not be so positive about these new influxes. The problem is exasperated because local employment and training services are not sufficiently flexible to recognise and adapt the skills and competencies brought by new arrivals, meaning that they remain in low skilled employment even if they have additional skills and competences to offer the local labour market. Unless local policy makers take a longer term view and ensure that both local workers, local youth and unemployed and new immigrants have sufficient opportunity to maximise their potential within education and training systems, the positive economic impacts of mobility may be offset by problems of social cohesion at the local level, and a general waste of human talent.

6. In some localities employers are themselves pushing for change, in the best cases working together to offer customised training relevant for their industry. Where such training is targeted towards medium skilled employees in the labour force this can help people of all skills levels, increasing productivity and incomes, and opening up opportunities for lower skilled people at the bottom of the training ladder. However in many OECD countries, employers take a back seat. Globally the most productive jobs are increasingly those that are the most knowledge intensive. Indeed, a recent study has shown that a rise of 1 per cent in literacy scores relative to the international average is associated with an eventual 2.5 per cent relative rise in labour productivity and a 1.5 per cent rise in GDP per head (Coulombe, Tremblay and Marchand, 2004). However employers can also achieve competitive advantage through keeping skills levels, and therefore salaries, at a minimum.

7. The phenomena known as the 'low skilled equilibrium' – where a low intensity of skills supply is met by a low intensity of skills demand - can affect not only localities but whole countries. Paradoxically in such situations 'skills shortages' are still frequently reported, but in fact represent 'labour shortages' where employer cannot find labour willing to fill certain lower skilled positions because of poorer employment conditions. Frequently local policy makers become diverted towards 'fire-fighting' to fill such labour shortages, without an eye to the longer term strategic need to improve the quality and knowledge intensity of the employment on offer and increase the attractiveness of the labour market to residents and newcomers alike. This is particularly challenging for local policy makers as it requires encouraging local employers to make a step change towards introducing new technology and changing working processes.

8. These competing demands and concerns present a major challenge to local actors seeking to develop local skill strategies and invest in their future labour force. With limited resources, local actors need to establish priorities to ensure that concerted local action can have a real impact on the labour

² Overall, for the seventeen countries for which there exist comparable data on 'permanent-type' legal immigration, inflows increased by about 11 per cent in 2005 relative to 2004. Among the other OECD countries, there was an increase of about 10 per cent between 2004 and 2005, largely due to greater inflows in Spain. At the same time, high temporary movements were observed in countries such as Australia, Canada, New Zealand.

market. However what should local priorities be? The attraction and integration of new talent? The retention of existing skilled workers? The education and training of future generations of youth in the needs of the local labour market? The integration of disadvantaged groups who are currently outside the labour force? Or up-skilling the current labour force and working with employers to move towards more knowledge intensive forms of production? While national policy will have a role to play, much of the responsibility for a number of these actions will fall squarely on the shoulders of local and regional actors.

9. Their task is not an easy one. In order to make the right decisions, and effectively balance interventions, policy makers need to have a detailed understanding of the skills supply and demand in their local labour force – what is known as the local ‘skills ecology’. They also need to have some foresight as to the likely industrial sectors and types of employment opportunities which will dominate in years to come. Such information is difficult to collect, and even more difficult to effectively analyse. Once priorities have been set, local actors need to have the power to influence education and training policy (which as noted above is often managed nationally) and effective ways of working in partnership, given that skills are a transversal issue addressed by policy makers in the fields as diverse as education and training, employment, economic development, social development and entrepreneurship.

10. The LEED Programme has been looking at cases of localities (in the Americas, Asia, Australasia and Europe) that have developed a joined up strategic approach on such issues³. The study explores localities which have developed area based skill strategies (the High Talent Initiative in Shanghai China for example, and the Regional Skills Alliances in Michigan) while also looking at innovative responses to particular issues (such as attracting new talent and upgrading the skills of local workers). The resulting report will provide direction for national policy makers seeking to support local actors, while at the same time providing advice to local policy makers seeking the best means to design a local skills strategy appropriate to their own local situation and taking a broad breadth of issues into account.⁴

11. Designing a strategy requires a three stage process: identifying the local context, deciding what weight to give the different elements of the strategy and deciding which instruments to use. After setting out the initial findings, the remainder of the report looks at each of these issues in turn.

³ For a full list see Annex 1 of the first interim report.

⁴ This is the first interim report drawing on the results of the analysis, which focuses on the process of designing local skills strategies. A second interim report, to be released in June 2008, will look in particular at designing local skills strategies in areas that are losing skills due to high emigration.

EMERGING FINDINGS

This summary briefly outlines the main initial findings of the study so far, concentrating on five strategic emerging issues:

1) Defining the problem - accessing relevant information and data

Rationale A key element to the development of effective local skill strategies is to correctly define the local 'skills ecology'. Local areas show great variation in terms of the concentration of skills in the labour market, and the types of skills demanded by local employers. In order to plan targeted approaches to addressing local skills issues, local actors therefore need to understand their locality: are there high skills demand and skills gaps? Or is the locality experiencing a low skills equilibrium? Or is there in fact a surplus of skills that are not being absorbed effectively by the labour market?

Case examples Of the skills strategies reviewed, most gave prime importance to the collection of local labour market information. For example the 'regional skills partnerships' and new 'city strategies' in the United Kingdom are intended to be based on an 'evidence based approach'. In Michigan in the United States, 13 new 'regional skills alliances' have been given access to disaggregated labour market information collected by the state as a basis for identifying key local opportunities and threats. In Gandia, Spain, one response to an influx of new immigrants has been to set up a local labour market observatory to more accurately understand the demand structure in the local labour market.

Obstacles The type of sophisticated data required to target skills needs and forecast future industrial change remains a 'black box' for many local strategies. Most local actors do not have the access to sufficiently detailed information or analytical capacities to make forecasts, or indeed acquire a comprehensive understanding of current demand. Confidentiality clauses can be particularly restrictive in allowing policy makers access to information about local businesses and individual jobseekers, and national information is frequently not disaggregated to a sufficiently low level to inform strategies. In the absence of such data, localities often have to resort to frequent, and costly, local surveys which quickly go out of date.

Lessons In the longer term, it will be important that local actors have access to more disaggregated labour market data in order to develop the sophisticated tools required for evidence based skills strategies. In the meantime, those localities struggling with a lack of data will need to work in close partnership with regional and national actors when mapping local supply and demand and anticipating future industry growth. Working with regional and national actors is also important in understanding how the local skills ecology and demand structure fits within the wider economic fabric. In the case of the Michigan Skills Alliances, for example, while the state provided technical assistance and data, it did not intervene in the decisions of the local partnerships on the choice of key priority sectors. Leaving these decisions to the local partnerships followed the premise that local entities know their needs and can derive appropriate courses of action to address them. However, the state did not make any systematic effort to determine whether or not the bottom-up approach was consistent with a top-down skills gap analysis at the state level, which may lead to problems of over supply in certain areas in the future.

2) Getting the right balance

Rationale When developing strategies to improve the skills base, local actors need to decide on shared priorities and objectives. A review of local practice in OECD countries reveals that these priorities are likely to be grouped under three lines of action: ‘attracting and retaining talent’, ‘upgrading the skills of the existing workforce’ and ‘integrating disadvantaged groups into the labour market’. There exist a number of policy trade offs and synergies between these different priorities which means that ideally they need to be considered together as part a balanced approach. Localities that are experiencing skills shortages through demographic change, for example, are increasingly resorting to the attraction of new talent to meet immediate needs. However, it is important that such localities do not ignore other potential local pools of talent including existing residents who have been disadvantaged in the labour market system. Such groups may take longer to be trained and integrated to meet local skills needs, but bringing them into the workforce development system will be vital in order to avoid the development of a two speed economy involving the ‘skills rich’ and the ‘skills poor’. Similarly, if localities focus only on upskilling the unemployed, and do not work with employers to address skills levels within the workforce itself, they may miss problems of low skilled equilibrium and fail to work towards the more long term goal of raising local skills demand and hence local productivity.

Case examples Many of the strategies analysed were focusing on at least two of the above three elements, ‘attraction and retention’, ‘integration’ and/or ‘upskilling’ even if it was not always clear that they had given a great deal of thought to balancing out the different elements. In South East Lincolnshire in the United Kingdom, for example, a region which is characterised by low skilled equilibrium, more traditional activities to train and better integrate the unemployed are now being complemented by investment in a new Food Industry Technical Training Partnership to upskill local workers and raise local productivity. Similarly, in Griffiths, New South Wales, a local strategy to attract skilled immigrants through recent Australian regional migration programmes is being matched by actions to promote multiculturalism and better integrate newcomers, which is proving crucial to increasing retention rates. Two of the case studies which most clearly showed the benefits of taking a balanced approach were the Michigan Skills Alliance and Shanghai Talent Strategy. The majority of the 13 skills alliances developed in the state of Michigan, for example, are focusing on all three elements. In Shanghai, likewise, while an initial strategic approach in the late 1990s focused purely on attracting and retaining high skilled talent, a new revised strategy in 2003 has taken a much broader focus, including the implementation of programmes to upgrade the skills of workers and better integrate rural low skilled migrants into the city’s labour market.

Obstacles In terms of resource investment, some areas of action, such as the reform of the vocational training system and integration of disadvantaged groups, are more costly and time consuming than others, reducing the attractiveness of these options and restricting the ability of local actors to take a fully balanced approach. In Shanghai, for example, programmes focusing on the attraction and retention of talent represent only 1 per cent of the overall education budget of the city, while the funding put into upgrading of skills of the local labour force required considerably more resources (30 per cent of all tax revenues from the local educational surcharge in addition to municipal unemployment funds). This may explain the reluctance of local actors to get involved with addressing certain more entrenched issues, particularly where local resources are scarce.

Lesson Creating balanced strategies requires a holistic approach to skills and the need to make trade offs in terms of developing and resourcing policies. Some lines of action, particularly the integration of disadvantaged groups, may prove more resource intensive and take longer to achieve. However, to develop localities where all local residents are able to maximise their skills and fuel local productivity growth, it is important that localities do not focus on ‘quick fixes’ but invest in the long term. This may require providing incentives for local actors to work towards longer term goals, especially where the performance targets associated with public programmes are relatively short term.

3) Joining up disparate services

Rationale A recurring theme within the local skills strategies reviewed is a focus on linking up fragmented local training delivery systems. In many of the case study areas, a variety of different providers (colleges, private training institutions, the public employment service) are delivering courses in ‘silos’ that did not effectively link together. However in labour markets characterised by rapid turnover and skills obsolescence, bringing together these disparate elements into a joined up network is crucial to helping people to build on their learning over time and develop longer term careers. In particular, basic skills and occupational skills are often delivered separately, which means that lower skilled people are not offered the ‘bridges’ they need to train towards higher skilled occupations. Further, it is not only education providers that need to link up. The case studies highlight that skills level can be seen as a highly dependent variable, being linked to a variety of other factors such as: lifecycle mobility, quality of life, level of cultural integration and openness to diversity, house prices and accessibility. The breadth of issues being considered within local skills strategies means a broad network of local players need to work together, not just those directly working on education and training issues.

Case examples An attempt to develop a more joined up approach to skills issues was a key aspect of the skills strategies analysed in Manchester, Michigan, Gandia, Mississippi and Shanghai. For example, in Michigan, it was recognised that while the existing local education and workforce development systems were relatively strong, not enough had been done to link these systems together and provide adult careers advice and better market training and employment opportunities to local people, on a sector by sector basis. A key result of the skills development strategy developed by Shanghai municipal government in 2003 was a consolidation of the piecemeal job training initiatives which previously existed in the city into a systematic programme with clear objectives over the short and long terms. The new ‘city strategy’ being delivered in Manchester (part of a new national pilot programme) is also based on the idea that local partners can deliver more if they combine and align their efforts behind shared priorities, and are given more freedom to try out new ideas and to tailor services in response to local need.

Obstacles Perhaps the most crucial factor in the achievement of a joined up local approach is the availability of flexibility to local actors in the delivery of relevant policies. In order to work effectively in partnership, local actors need to have sufficient authority within their own policy sector to actively influence the delivery of services. Indeed local flexibility in delivery was particularly crucial to the success of a number of the local skill strategies. In Mississippi, local tribal control over training and education activities played a significant role in allowing the Choctaw tribe to develop a coherent workforce training system that was responsive to change and able to fuel dramatic growth in the local economy. In Shanghai, the power invested in the municipality to make education and training decisions was one factor which enabled them to take a holistic and balanced approach. The case of London is illustrative, however, of the problems of developing skills strategies where local actors do not have sufficient power to influence all component parts of the skills development system. A new employer led London Skills and Employment Board chaired by the Mayor offers considerable promise for the city, particularly as the Mayor has simultaneously been given statutory duties to promote skills. However, the board has been granted little responsibility for employment services, reducing the number of elements that can be meaningfully included in the capital’s new skill strategy.

Lessons It is clear that local policy makers need to work closely together to address the multifaceted nature of the skills issue. Effective joint working, however, depends on sufficient flexibility within the implementation of policies by local actors to support integrated decision making at the local level. This may require the devolution of authority for decision making in several different policy areas (education, employment and economic development) which national and regional policy makers may find difficult to achieve, except perhaps in larger cities which may have greater capacity to deliver.

4) Working with the private sector

Rationale In order to produce real change in local labour markets, skills strategies need to work at the interface between supply and demand, and as such require close working between public sector actors and employers. This is important both at the strategic stage (when the presence of employers on partnerships and boards can be invaluable to identifying current and future skills needs) but also at the implementation stage, where private sector brokers, for example, may be able to manage interventions in a way which reflects the ways of working and motivations of business and therefore more effectively meets business needs.

Case examples In Michigan the regional skills alliances have strong private sector representation on their boards. This has led to both ‘business led’ strategies and ‘business led’ solutions (e.g. employer based marketing strategies and skills upgrading programmes). Public sector efforts to address skills issues in New South Wales, Australia have also been complemented in the Mackay region by a private sector initiative in which an industry cluster has taken the lead in addressing skill shortages. In Ottawa, Canada, a private sector run board proved valuable in reinserting dislocated hi-tech workers into the labour market, where the local employment service was not seen as having sufficient understanding of the skills and competences of this category of workers following the burst of the dot-com bubble. In Penang in Malaysia, a private run training initiative has also proved crucial to maintaining the region as the electrical and electronics hub of Malaysia, while in addition formalising a skills transfer process between larger international conglomerates and smaller local companies by tapping into the expertise of the former to provide recognised training programmes.

Obstacles Private sector representatives on skills partnerships may be more motivated by addressing immediate skills needs than by working towards longer term strategic goals. In regions which are not experiencing immediate skills shortages, public sector actors may find it harder to bring private sector representatives on board. In addition, public actors may underestimate the amount of work associated with ensuring that companies offer skills training to their staff, particularly SMEs. Public investment may be required, for example in helping industry clusters and brokers to develop. In addition, industry does not necessarily have a good understanding of the different characteristics of disadvantaged groups, the type of jobs adapted to their abilities, or the type of mechanisms to guarantee their success.

Lessons While employers, business representatives and private sector brokers can prove invaluable partners in implementing skills strategies, public sector actors need to be aware that there are limits as to what they will wish to focus on. Demand led partnerships in particular may have a tendency to focus on short term solutions rather than longer term goals, and may fail to help disadvantaged groups that need a greater level of support to become reintegrated into the labour market. Government actors can therefore play an important role in encouraging other local stakeholders to work towards longer term objectives, and in educating industry from both private and public sectors on the skills available from disadvantaged groups and the advantages of their employment.

5) Anticipating change

Rationale The issue of anticipating change and future growth is also clearly important for the success of local skills strategies. Even with adequate information and analysis it is difficult to predict future skills demand, and in the absence of such knowledge, local skills strategies may work best through promoting ‘flexible specialisation’ or rather ensuring that the labour force has a broad range of skills which can be adapted as industries evolve. The European Commission’s IDELE project (2004) has, for example, identified that where a broad range of complementary skills and competencies exist in a locality, with a strong generic knowledge element (e.g. communication, leadership and entrepreneurial skills), there is greater scope to absorb local shocks.

Case examples The ability of the Choctaw Tribe to anticipate and quickly respond to change has been crucial to its success, for example. In terms of increasing the adaptability of the labour force itself, the United States federal ‘careers clusters’ programme, which is being adopted and customised by many states and regions, provides a valuable means of grouping shorter term training courses into a flexible learning system which people can tap into over their life time.

Obstacles Local partnerships responsible for delivering skills strategies can sometimes become locked in particular patterns of working which prevent change. This is particularly a risk in the case of partnerships that focus on supply issues and do not connect adequately with local demand. However, ‘demand led’ partnerships can also be at fault where they respond to shorter term skills gaps without seeing the ‘bigger picture’ of how a local economy fits within broader regional, national and global trends. At the same time, some degree of continuity is important in creating long lasting change. One aspect of the Shanghai strategy which has helped the city to build concrete and durable outcomes has been its sustainability over time, with the same overall strategy being updated and consolidated three times since the 1990s. In London, in contrast, the introduction of a number of different types of partnerships and structures over a similar period has reduced the long term impact of each approach. An obstacle to creating flexibility in the labour market as a whole, is the fact that training systems often focus mainly on youth and the unemployed, thereby not providing an opportunity for the adult workforce to access training courses to build and adapt their skills over their life time.

Lessons Skills strategies need to be subject to regular review and adjustment according to new and evolving analysis of the local and regional – but also global – economy. It is also important that the institutions and partnerships responsible for delivering local skills strategies do not remain ‘reactive’ but continually assess how a local area can build on its comparative advantages to respond to wider trends. Within the wider education and training system, ensuring that short term training courses are linked into a broader flexible learning system will be crucial to developing a local community that retains specialised skills but is also flexible and adaptable to change.