

## SUBMISSOIN FROM SCOTTISH ENTERPRISE

### 1. Introduction

Scottish Enterprise (SE) welcomes the opportunity to provide evidence to this important and timely inquiry. Employment, in particular good quality employment, is a key component of wellbeing<sup>1</sup> and it is fundamental to both Scotland's Economic Strategy and SE's Business Plan. Good quality employment can help tackle inequality and increase productivity and competitiveness, and can be achieved by focusing on the drivers of internationalisation, innovation, inclusive growth, and investment.

All four drivers make a direct, meaningful, contribution to boosting Scotland's productivity and competitiveness and creating high productivity/high pay jobs. Our Business Plan sets out our ambition to improve Scotland's productivity and international competitiveness and build a more cohesive, resilient economy that will deliver sustainable and inclusive economic growth and ensure opportunities for all.

To deliver on our ambition, we work collaboratively with businesses, sectors, academic institutes, local government and other partners here and internationally to strengthen our impact. Examples include:

- Working with companies to create jobs and adopt best employment practices in areas such as management development, leadership development, employee engagement and culture change
- Working with Industry Leadership Groups to develop strategies for sector growth, which respond to their specific challenges including those related to people such as leadership, talent attraction and retention.
- Joint working with Skills Development Scotland on Skills Investment Plans for Scotland's key industries
- Connecting local, regional and national economic development and expertise via Community Planning Partnerships
- Supporting the development of key initiatives such as Innovating Works (a pilot Workplace Innovation Consortium led by University of Strathclyde and a wide range of stakeholders<sup>2</sup>)
- The work of our subsidiary companies such as Investors in People Scotland, for example helping companies achieve Investors In Young People accreditation

The specific questions raised in the call for evidence are considered below.

### 2. What makes a job 'good' or 'bad'?

---

<sup>1</sup> To see the importance of employment to wellbeing see "[Understanding, measuring and promoting wellbeing in Scotland](#)", Scottish Universities Insight Institute, 2015

<sup>2</sup> The consortium brought together diverse academic expertise, industry experience, and was supported by STUC, SE, Skills Development Scotland and the Scottish Funding Council

Employment is a critical component of personal wellbeing. The quality of the job directly determines the extent of its positive impact on this.

No single factor can be used to determine job quality, and there is no agreed definition or set of characteristics. Another consideration is the extent to which assessing job quality is subjective, from the perspective of the employee<sup>3</sup>. However, research shows that wages are a contributing factor to job quality<sup>4</sup>, with other elements such as job security, opportunity to use and develop skills, autonomy and feeling involved in decision making also making a significant impact.

A framework to measure job quality is therefore essential if we are to assess whether a job is 'good' or 'bad', to ensure that we are comparing like-with-like, to measure the prevalence of different types of job in Scotland, and to understand the range of factors we need to focus on to reduce the number of 'bad' jobs.

This issue has been considered in many different ways and there are a number of models available, taking into account various elements contributing to job quality. **Innovating Works** suggested we consider job quality in the following way<sup>5</sup>:

- **Task factors** – including pace; opportunity to use and develop your skills; autonomy; challenge; discretion; ability to make a difference; and the physical working conditions
- **Employment factors** – including pay levels and progression; job and employment security; benefits (such as sick pay and pension arrangements); hours of work; and work-life balance
- **Workplace factors** – including perceptions of fairness and trust; confidence in the ability and integrity of colleagues and managers; perceptions of mutual respect; opportunity to contribute; and due process/procedural justice

In 'good' jobs the different elements combine in a way that allows individuals and organisations to flourish. In 'bad' jobs the elements combine to produce poor outcomes for both employees and their employer. Effective leadership is a critical driver in promoting the elements of good quality employment<sup>6</sup>.

### 3. Have jobs become better or worse since 2008?

The recession has impacted on job quality due to the resulting rise in unemployment, underemployment, insecurity, and reduction in incomes. However, as the economy strengthens, we expect that some of these challenges will be resolved naturally, for example the labour market is strengthening (rising employment and falling unemployment rates) and real wages are rising.

Some of the characteristics of the labour market reflect deeper trends in the economy and economic growth alone will not address them. For example, the

---

<sup>3</sup> "The challenge of job quality", Findlay, Kalleberg, and Warhurst, *Human Relations*, April 2013

<sup>4</sup> Although pay plays an important part in how low paid workers see a 'good' or 'bad' job, they often cite non-wage elements when asked what would improve their job – for example see "[What do low-paid workers think would improve their working lives?](#)", JRF, 2015

<sup>5</sup> "[Innovating Works](#)", Strathclyde University, March 2015

<sup>6</sup> "[Leadership and Management Skills in SMEs](#)", BIS Research Paper no.224, March 2015

number of people who are employed on zero hours contracts in Scotland was 60,000 (2.3% of total employment) in October to December 2014. This is up from 46,000 (1.8%) in the same period the previous year<sup>7</sup>. And whilst zero-hours contracts offer advantages for some employees - for example students who favour seasonal work - they can negatively impact on job quality<sup>8</sup>, through, for example underemployment and insecurity.

Deeper trends impacting on job quality and the economy which are worthy of consideration include job polarisation, skills underutilisation and employee engagement.

## **Job Polarisation**

Job polarisation is the term used to describe the increasing numbers of low-skill/low-wage and high-skill/high-wage jobs and the decreasing availability of middle ranking jobs. It is a well documented<sup>9</sup> phenomenon across many advanced economies and negatively affects wellbeing through its impact on earnings, mobility<sup>10</sup> and the effect it has on income inequality.

Our research shows that, between 2001 and 2010, the number of jobs in Scotland in medium-skill/medium-wage occupations declined (by 62,500), and the number in both the lower skilled (+46,000) and higher skilled (+118,500) occupation groups increased, leading to a more polarised labour market. Between 2011 and 2014, the number of jobs rose across the board, but the rise was highest in the lower and highest paid groups, indicating that the job polarisation trend has continued post recession<sup>11</sup>.

Job polarisation presents a particular challenge for young people. Lower paid occupations tend to have a higher proportion of young employees as over 20% of those in the lowest earning decile are aged 16 – 24 whereas the proportion in the highest earning decile is 2.2%<sup>12</sup>. The relative decline in middle ranking jobs makes the transition to better paying occupations more difficult.

## **Skills Underutilisation and Employee Engagement**

Skills underutilisation is another form of underemployment that can impact both on company performance<sup>13</sup> and the quality of jobs<sup>14</sup>. In 2013, 17% of staff in Scotland were over qualified or over skilled for the jobs they were in<sup>15</sup>.

SE led research<sup>16</sup> in 2010, with the support of Skills Development Scotland and the Scottish Government, to identify best strategies in skills utilisation among Scottish businesses. The research found that groups of practices were more effective than stand-alone practices, and that the exact mix which would generate the best results

---

<sup>7</sup> [“Working Together for a Fairer Scotland: Scottish Government Response to the Working Together Review”](#), Scottish Government, 2015

<sup>8</sup> [“Give and Take? Unravelling the true nature of zero hours contracts”](#), ACAS, 2014

<sup>9</sup> For example [“Are middle-paid jobs in OECD countries disappearing?”](#), ILO Working Paper, 2010

<sup>10</sup> [“The Hourglass and the Elevator – Labour market change and mobility”](#), The Work Foundation, 2011

<sup>11</sup> [“Scotland’s Labour Market: ‘job polarisation’ and inclusive growth”](#), Fraser of Allander Economic Commentary, 39(1), June 2015

<sup>12</sup> [“What should be done about rising unemployment in the UK?”](#), David NF Bell and David G Blanchflower, 2009

<sup>13</sup> See, for example, [“Engaging for Success”](#), MacLeod and Clarke, 2009

<sup>14</sup> [“Understanding, measuring and promoting wellbeing in Scotland”](#), Scottish Universities Insight Institute, 2015

<sup>15</sup> [“Employer Skills Survey 2013 Scotland”](#), UKCES, 2013

<sup>16</sup> [“Best Strategies in Skills Utilisation”](#), SQW Consulting, 2010

in terms of benefits to businesses and employees depended on individual businesses. The groups of practices identified were:

- **Employee Involvement Practices** – effective communication both up and down the hierarchy; level of discretion/autonomy.
- **Human Resources Practices** – effective recruitment practices; clearly defined job roles; supportive appraisal systems; in-house promotions; quality training.
- **Reward and Commitment Practices** – transparent and fair pay practices; flexibility.

The MacLeod Report<sup>17</sup> highlights the range of benefits to companies that have workplace practices that encourage effective skills use, for example 16% greater profit margin and 18% greater productivity.

Evidence suggests that only 12% of Scottish employers (in line with UK average) are 'higher performance workplaces', defined as having a general management and organisational approach which aims to stimulate more effective employee involvement and commitment in order to achieve high levels of performance<sup>18</sup>.

#### 4. What effect might low quality/low pay jobs have on the economy?

Low quality/pay jobs are symptomatic of low productivity, which holds back economic growth. The relationship also runs the other way. Labour productivity is a key determinant of wages and weaker productivity causes wages and living standards to stagnate. UK labour productivity growth has been flat since the 2008/2009 recession and the UK economy is now 15% below where it would have been if pre-crisis trends had continued. Scotland has performed slightly better than the UK since 2008 with productivity growing at an average of 0.6% per year, although growth lags pre-recession levels<sup>19</sup> and productivity levels and growth still lag many other OECD countries<sup>20</sup>.

Quality of employment varies across Scotland's sectors. The industry led strategies that set the route map for sector development reflect the importance of promoting high quality employment as a key driver of growth and a factor in moving up the value chain.

In sectors traditionally linked to low paid employment, such as Tourism and Food & Drink, strategies focus on improving their attractiveness as a career choice, the importance of increased skills. In others, where higher paid employment predominates, sector strategies still focus on increasing job quality. For example, the recent work of the Energy Jobs Taskforce emphasised the importance of long term investment in skills in the Oil & Gas sector, which has often relied on short term contractors.

---

<sup>17</sup> ["Engaging for Success", MacLeod and Clarke, 2009](#)

<sup>18</sup> [ibid](#)

<sup>19</sup> ["Labour Productivity", Scottish Government, 2015](#)

<sup>20</sup> ["Scotland Performs", Scottish Government 2015](#)

There is also evidence<sup>21</sup> that increased inequality resulting from high levels of unemployment, low quality employment and job polarisation, has an adverse effect on economic growth. For the UK, the research estimates that the cumulative growth rate between 1990 and 2010 would have been almost nine percentage points higher had income disparities not widened during this period. The research finds evidence that the main mechanism through which inequality affects growth is by undermining education opportunities for children from poorer socio-economic backgrounds, lowering social mobility and hampering skills development.

## **5. What can the Scottish Government and public policy makers do to improve job quality in Scotland?**

Our Business Plan is aligned with Scotland's Economic Strategy, providing a framework for how we help to create sustainable growth and ensure opportunities for all. Our support is tailored to the needs of the individual companies we work with, in line with their growth ambitions, for example our specialist staff working with companies to:

- develop workplace cultures and practices that encourage employee engagement and collaboration
- help them understand the potential of their workforce and make best use of this essential resource to deliver growth

A good example of this approach is Genius Foods, an Edinburgh based business:

### **GENIUS FOODS**

UK leader in the gluten-free bakery market with ambitious European growth plans. In 2013, following two acquisitions, the business grew from 20 to more than 400 employees.

This massive change represented both a challenge and an opportunity, with a need to invest in their staff and engage them in the Genius culture.

Working with Scottish Enterprise, Genius focused on the recruitment of key staff and restructured functions for the newly enlarged business – identifying a number of new roles in the process. Training was introduced for employees across all sites to improve ways of working and communication skills. Training spend increased from £82 per head to over £300.

A full review of pay and benefits was also carried out, with major improvements to the benefits package and an objective to achieve the Living Wage for all staff introduced. 85% of the workforce has now attained this level and it is anticipated all employees will earn at least the Living Wage by 2016. Other benefits, including increased holidays, shift pay, incentive schemes for all employees, life insurance and a new pension scheme, have also been implemented.

As a result of the changes, the business now has the right structures in place to continue to grow and thrive. They are now working on Modern Apprenticeships to

<sup>21</sup> [OECD "Trends in Income Inequality and its Impact on Economic Growth", 2014](#)

develop the necessary skill sets and identify management potential to develop future leaders of the company.

We are using emerging learning and thinking from **Innovating Works** to enhance our existing organisational development activity, helping businesses implement and develop a culture around continuous reflection, learning and improvements involving employees and managers at all levels. This is informed by a clear understanding of the complementary role played by other support agencies<sup>22</sup> ensuring we maximise the promotion of workplace innovation.

**Innovating Works** defined workplace innovation as getting the best from an organisation's key resources (people, processes and relationships) to deliver organisational objectives and improve the quality of work for employees. It is about enabling new ideas to be generated from within the organisation through high levels of collaboration that generate alternatives to 'business as usual'.

One of the critical factors in promoting workplace innovation is business leadership. In surveys of business leaders who have been supported by SE's leadership programme, the number reporting efficient internal communications rose 36%, the number who regularly consulted staff rose 28%, and the number who reported a high degree of employee collaboration rose 15%. In general terms, quality of leadership is what sets apart successful and ambitious growth companies from their competitors and we are extending our leadership development programme to support more businesses, as well as deepening the impact of leadership development among more established growth companies.

The Scottish Business Pledge<sup>23</sup> is a voluntary commitment for businesses to adopt measures that both support business growth and promote good quality employment. Paying the living wage is an essential component of the Pledge, alongside additional commitments<sup>24</sup> to enhance job quality. We are working with our customer base to promote the pledge and its business benefits.

To take one component of the Pledge, increasing opportunities for young people, we can identify the link between business growth and good quality employment. Young people are the future talent pipeline for employers and our work with businesses to encourage them to consider recruiting or up-skilling young people is part of an overall approach to help them think more strategically about their organisational development in pursuit of increased growth. Investing in young people may be in response to specific skills gaps in the business, for example Scotgrad helps businesses take on graduates to tackle specific growth projects where the business does not currently have capacity, or may be the longer term response to address succession issues in businesses with an ageing workforce.

---

<sup>22</sup> Including HIE, SDS, Business Gateway, Business Schools, and Higher and Further Education bodies.

<sup>23</sup> As announced in the Programme for Government 2014-15 and Scotland's Economic Strategy

<sup>24</sup> The other Pledge commitments are not using zero hours contracts inappropriately, making progress on gender balance and diversity, investing in young people, supporting progressive workplace policies, implementing an innovation strategy, exploring international opportunities, engaging with your community, and paying your suppliers promptly.

Through Regional Selective Assistance (RSA), we are attracting new investment and jobs to disadvantaged areas.

As well as having a positive impact on wage levels, jobs created through RSA can help address job polarisation. RSA investment tends to create jobs in the middle-paid occupations which are critical to job progression and career development. Between May 2014 and February 2015, 97% of the jobs that are planned to be created or safeguarded in the largest projects supported by RSA in the middle to high wage/high skill bands.

The companies and sectors we work with every day are already playing a crucial role in creating a productive and engaged workforce. Our role is to help them raise their ambitions further and realise their full potential to provide good quality employment with an engaged and productive workforce.

## **6. Conclusion**

We hope this submission will be useful to the Committee as you consider this important area and look forward to discussing these matters and to explore SE's work with our partners in more detail.