

Skill Shortages & Development Discussion Paper

New Zealand, along with many other nations, is facing a range of skill shortages. The term 'skill shortages' can relate to a number of things, including:

- skill gaps (not high enough skill levels) versus skill shortages (not enough people with the right skills)
- short term skill shortages
- strategic skill shortages

Skill shortages can be of two interrelated kinds – insufficient people with the necessary skills, or skill gaps where there are new emerging skill requirements. They can also be short or long term in nature – which to some extent is dependent upon the time required to develop the skills in question.

Some causes of skill shortages

In some cases skill shortages will be rectified by market price signals. These are not, however, always effective (at least in the short term). Some of the reasons for this include:

- global labour market
- wage price inflexibility
- labour market barriers
- technological development
- underdeveloped lifelong education culture
- low skilled workforce
- unresponsive education and training providers
- insufficient incentives to offer training in key areas
- poor management / leadership capability in firms
- poor quality information about skill development services and their costs and benefits

In many areas the NZ labour market is a sub-set of the global labour market, which is increasingly characterised by the 'war for talent'. In a number of key areas NZ is increasingly having difficulty competing in this 'war'.

New Zealand is characterised by relatively price inflexibility in wages, particularly at the entry level. For a variety of reasons, including monetary policy, businesses are constrained in increasing wages (particularly at the lower skill levels where the return is lowest) in order to promote skill development. It is arguable that monetary policy over the last decade has contributed to economic instability, which would have negatively impacted on a range of investment decisions, including education and training.

Compliance costs of employment create a number of barriers to skill development and addressing skill shortages, particularly at the entry level. For example the current bill to remove the exemption from the minimum wage act for those in training will reduce the ability of firms to develop skills.

A major driver of skill gaps and thus shortages are improvements in technology and business / industry processes. These drive changes in the skill sets required. These changes would not be the problem that it is if New Zealand had a better developed lifelong education culture – within firms, across industries and throughout society.

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In addition to skills gaps, we have an existing problem of low skills and practical literacy amongst our population and workforce. 26% of our working-age population have no qualification at all, and a further 24% have only a school qualification.¹ Furthermore, the International Adult Literacy Survey indicated that 20% of the adult population had very poor literacy skills.² Unfortunately the problem is not getting much better. 20% of all school leavers in 2000 left school without any formal qualification at all – and 36% left with school certificate subjects or less. Those with low skills are least likely to avail themselves of the opportunity to improve skills, which exacerbates the problem. There are growing concerns about the underperformance of young men, who have traditionally been those who have gained technical skills.

As well as issues of quantity of people with educational qualifications, there are ongoing issues of the responsiveness of post-compulsory education and training providers to the needs of business and industry. This is partially a result of the incentives in the funding and regulatory systems for post-compulsory education, which do not encourage strategic responsiveness to the needs of business and industry. Many educational providers continue to operate in an 'institutional' manner, and have not developed their services to support a culture of ongoing / lifelong education which integrates work and learning.

It can also be argued that in some key areas, the incentives for providers to offer training has been poor. Funding for higher cost, technical areas of training has been arguably more constrained than that available for lower cost areas. There is also a poor perception of the value of training in technical skills and in the sciences.

On the other hand, there continue to be problems with the level of management skill and leadership within firms, particularly in small and medium sized enterprises (SMEs). This is a key limiting factor in the ability of industry to identify and deal with both strategic and short term skill shortages. It undermines the integration of skill, firm and industry development, and it creates difficulties for education and training providers seeking to be responsive.

Finally, there is poor quality information about skill development needs and services, both for firms, learners and providers. Firms do not have sufficient information about both the issue of skill development and about the range of services available to assist them. What information is available is not in a form which is useful to firms. Learners are faced with a similar plethora of information about education and training options, but little accessible information about labour market options. Providers have poor mechanisms for accessing information about labour markets and skill needs.

¹ OECD (2001) *Education at a Glance*, Statistics NZ (2000) *Household Labour Force Survey*.

² Ministry of Education (2001) *More than Words – the NZ Adult Literacy Strategy*.

Possible strategies

Some possible strategies to respond to these causes of skill shortages include:

global labour market	<ul style="list-style-type: none"> • Talent policy: immigration and education
wage price inflexibility labour market barriers	<ul style="list-style-type: none"> • Growth and monetary policy • Industrial relations policy
technological development underdeveloped lifelong education culture	<ul style="list-style-type: none"> • Industry training strategy • Strategic skill development • National skill standards and qualifications (NQF) • Individual learning records and plans
low skilled workforce	<ul style="list-style-type: none"> • Training opportunities / Youth training • Adult literacy strategy • Improved outputs from school system – improving national curriculum, school qualifications and teaching workforce
unresponsive education and training providers	<ul style="list-style-type: none"> • Tertiary Education Commission (TEC) • Charters & Profiles • Register of qualifications
poor management / leadership capability in firms	<ul style="list-style-type: none"> • Industry development strategies • Integrated skill and business development by Maori Business and industry co-operation • Management development initiatives
poor quality information	<ul style="list-style-type: none"> • Improved information for businesses • Improved information for learners

Talent policy

NZ would benefit from an integrated talent policy – which addressed issues of population, immigration, the 'NZ diaspora', and education and training in a coherent manner. Population growth would assist skill retention, as one of the key factors in the 'talent war' is depth of key industries and thus opportunities for skilled people. Establishing databases and linkages with skilled New Zealanders all over the globe will be an increasingly important component of such a strategy, as will creating opportunities for these individuals to return to New Zealand. Other innovative possibilities include linking export education and immigration policy – by offering residence to high-performing overseas students at the completion of their studies. NZ has grown its international student market dramatically in the past few years, and this is a major potential source of talent and contacts – both on and off shore.

Growth and monetary policy

A growth policy would provide a sound framework within which to consider issues of skill development. A critical part of such a policy would be identifying and supporting drivers of growth and identify and minimising barriers. The role of monetary policy in the area of skill development should be investigated.

Industrial relations policy

Care should be taken to ensure that industrial relations policy does not create unnecessary barriers to the promotion of skill development, particularly amongst the low skilled. Industrial relations policy will also affect wage price flexibility.

Industry training strategy

The industry training strategy should continue to be the key vehicle for skill development. This strategy has been extremely successful in improving levels of ongoing education and

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training over the last decade. The further integration of the industry training strategy with other aspects of education and training, including training opportunities / youth training, schools, and tertiary education providers is a critical aspect of improving skill development. The recent work of the forestry industry is a good example of this sort of integration.

Strategic skill development

The Government has already identified strategic skill development as a role for industry training organisations within the industry training strategy.

Strategic skill development should be linked to industry development strategies (see below). There will be the need to develop the capability of ITOs and the industries they service (including the capability of managers – see management development initiatives below).

National skill standards (NQF)

The continued development and refinement of national skills standards, and increased promotion of their use in both education and training, but also performance management and human resource planning will greatly assist in addressing skill shortages and facilitating skill development. The reasons for resistance to the use of national skill standards within traditional providers need to be identified and addressed.

The NQF provides a significant publicly accessible database of standards of performance which has the potential not only to assist firms in identifying skill needs and gaps – but also provide particularly SMEs with a ready-made performance and productivity improvement tool.

Individual learning plans and records

There is already a 'record of learning' for the NQF – but this should be expanded to provide a tool for individuals to plan as well as record their skill development. This should be integrated with better information on learning and labour market opportunities (see below).

Training opportunities / Youth training

These programmes need to be linked to strategic skill development, not simply to short term objectives such as getting those with low skills or who are unemployed into jobs. A key issue in this area is the motivation of those with low skills to undertake training in key areas. Information and linkages with industry through industry training organisations and related organisations are key in this area.

Adult literacy strategy

The adult literacy strategy should work across all other strategies. A key aspect is improving businesses and firms understanding of literacy issues, and creating better opportunities for them to access quality services which can assist them to address literacy problems amongst their employees. There is also the need to improving literacy among those who are unemployed, as this is a key barrier to developing wider skill sets and gaining employment.

Improved school outcomes

Improved outcomes from schools are a critical aspect of the overall skill development strategy. This will involve a range of changes, including streamlining the national curriculum (so that it identifies key literacy requirements, and focuses on essential skills and knowledge for each learning area), improving school programmes and qualifications (the NCEA provides a 'framework' for this, but further work is required), and improving teacher workforce quality. The goal should be the elimination of waste of talent in schools – all school leavers should end compulsory education with a formal qualification, and be ready for work or further study. This may require innovative solutions, such as much greater use of apprenticeships as part of the compulsory education system, and greater partnerships between businesses and schools.

Tertiary Education Commission

The establishment of the TEC, with its broad coverage including industry training, is a positive step. It will be essential that the TEC is clearly orientated towards ensuring that tertiary education providers are meeting both short and long term skill needs, and that they are increasingly offering services in a manner which integrates on- and off-job learning, and contributes to the development of a lifelong education culture.

Charters and Profiles

The Charters and Profiles that will be used by the TEC to promote greater responsiveness to the needs of stakeholders by tertiary education organisations will have to be clear and simple if they are to be able to perform this function. They should be designed in a consistent format (although the content may vary considerably) to enable external stakeholders and the TEC to make useful comparisons among providers. They should have a clear focus on identifying and meeting external stakeholder needs for skill development, and the process for developing and reviewing charters and profiles should include stakeholders such as business and industry.

Register of qualifications

The new register of qualifications should be used to facilitate the integration of the programmes offered by more traditional tertiary education institutions into a wider lifelong learning and skill development culture.

Industry development strategies

Skill development should form a part of wider industry development strategies. Such strategies will need to be developed by industry, with the support and assistance of Government.

Integrated skill and business development for Maori

There is a need for a clear focus on skills and business development for Maori – to raise both skill levels and increase the opportunities to make use of those skills. Both demand for skills and supply of skills within Maori communities need to be addressed, and the development of management capability for Maori business is a key aspect of this.

Business and industry co-operation

Government and business organisations should continue to foster business and industry co-operation, specifically in matters of skill development and addressing skill shortages.

Management development initiatives

A key component of any skill development strategy, and in many cases a necessary precursor to any technical skill development, will be the improvement of management and leadership skills in firms and large employer organisations. Unless managers and leaders understand issues relating to skills development and performance management, any skill development initiatives will have limited success.

Improved information for businesses

A key part of enabling business and industry to improve skills and address skill shortages is improved information about the range of services available – both in terms of diagnosis of skill issues, and education and training services to address any identified needs. Better use of inter-connected electronically available information, in a format usable by businesses, would be useful here.

Improved information for learners

Learners need improved quality of information from the time they begin to consider secondary education options, and continuing right through their working and learning lives. This includes information about both working and learning opportunities, and the match (or otherwise) between these and their current skills. This information would need to include sound information on wages and salaries, and how these are related to increasing skill levels.

Conclusion

The issue of skill shortages and development is complicated, and its 'resolution' will necessarily be ongoing. Addressing the issue requires a partnership between Government, business, industries, individuals and education and training providers.

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