



The Global Auction for Skills: implications for sector approaches to workforce development

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Existing Policy Assumptions

- Head and Body nations
- Global Knowledge Economy: Win-Win Scenario

“Once, we worried about a global arms race. The challenge this century is a global skills race and that is why we need to push ahead faster with our reforms to extend education opportunities for all.”

Gordon Brown.

Global Corporate Strategy and the Future of Skills – UK ESRC Project

- **Seven Countries** - Britain, China, Germany, India, Singapore, South Korea, and the United States.
- **Four Core Sectors** – Automotive, Financial Services, Electronics and Telecommunications

Company Interviews:

- 125 company interviews = 105 outside of UK.

Policy Interviews:

- 65 policy interviews = 43 outside UK.

Recent changes in the global productive system

- Extension of global markets - WTO
- Inclusion of emerging economies - China, Russia, India

Recent changes in the global productive system

- Changes in the organisation of production
- Phase 1 labour intensive industries relocated
- Phase 2 impact of new (IT) technology
 - Modularisation of production in manufacture
 - Modularisation of service delivery - financial factory

Recent changes in the global productive system

- Global supply of labour
- Global 'doubling' of tertiary level enrolments:
 - 33.4 Million (1995)
 - 62.9 Million (2005)
- By 2010, more than 90% of all scientists and engineers in the world will be living in Asia!!

US Business Roundtable 2005

Changes created conditions for strategic skill webs

- Changed nature of competition - quality and cost

‘We have to drive innovation, we have to be at the leading edge at reasonable cost...That’s it. And this can be transferred to the labour market. We have...to try to get higher skills at reasonable cost and high flexibility.’

Germany, Telecommunications TNC.

Evolution of skill webs

Phase 1 low skill webs 1980s/19990s

- High skilled work remained in home country
- Dependent on quality of national ET system
- Rewards determined by national IR system

Phase 2 strategic skill webs

- Competitive advantage - 'leverage' global supply of skills, knowledge, talent., etc.
- Internationalisation of skill strategies
- Value secured through skill webs

Features of strategic skill webs

1 Internationalisation of skill formation

- Skill formation increasingly detached from national VET system
- National IR systems less influence over rewards for skills
- Employers firmly in control as skills part of their competitive advantage
- Enables them to rapidly relocate production

Internationalisation of skill formation

Detaching skill formation from the national VET system

“..we know that of course a dual system was a fine thing a couple of years ago but now we have to learn that we have to speed up and that we have to bring vocational training to the next level.”

Head of Knowledge and Learning leading German motor vehicle manufacturer

‘We have an “inside out” model which is very clever. It gives us more flexibility over what to do where’

Senior Indian Manager, EU Electronics, Mumbai

Internationalisation of skill formation

On the availability of engineers:

“It’s not a problem to get enough highly educated people in these markets. The education level usually is very good. This applies, just to take these two examples to Russia, it also applies to China. [The] educational level is pretty high in particular in Russia where people are very well educated. Although they have to get accustomed to the, let’s say to the way business is done from a more Western perspective, that’s quite normal. The consequence for a country like Germany is, or for the Western countries, is that they have really to work hard to catch up.”

HR Vice-President of German engineering and IT company

Internationalisation of skill formation

In the service sector:

“We just have to move knowledge around, whereas if you are a car manufacture you have to move steel and parts of engines around and so you need a big plan of logistics of how you globally integrate your manufacturing plants. It is a pretty static thing, we can over night change everything. We had I would say 10 years ago nobody with global responsibility but now we have 2,000 managers who have their teams sitting in all time zones and I have my directors reporting into me sitting in New York, London, Sydney, Singapore or Frankfurt and their teams are also spread all over the world.”

Senior manager major global bank

Features of strategic skill webs

2. Relocation of knowledge production - choice of 'where to think'

- *Relocation/dispersion of R&D to emerging societies*
- *Reducing time to innovate*
- *Virtual teams*

Where to think?

Virtual teams speed up process

“Stuttgart, Mumbai and Los Angeles are in a 24 hour cycle, so we have round the clock. So there is a studio at Los Angeles the main part is at Stuttgart, in India we have some electronic design and other design parts, Italy we have some internal design, but they are connected and they are working 24 hours a day. In India people are working when it is night in Germany and German employees pick up the direction in the morning and continue.”

A leading German motor vehicle manufacturer

Where to Think?

Emerging societies rapidly building capabilities

‘What is really different here is research, we generate ideas for the frontline to use...These are the areas that we find that talent is delivering to an even higher standard than expected. We’re not doing those menial call centre type jobs. It’s global work and that’s where we think we’ve been able to add a lot more value than what was initially expected and that will continue.’

Senior Indian manager, US Bank, Mumbai

Features of strategic skill webs

3. Standardising knowledge work

- Global use of Digital Taylorism - what is it?
- Operates at different levels
 - Routine call centres
 - Credit transactions
 - Lawyers offices

Standardising knowledge work

(Knowledge Work to Working Knowledge)

‘Standardisation in terms of IT has become huge...not only standards for a single customer but across countries...technology is the ultimate equaliser...it will drive globalisation, drive change...I hope that people don’t get reduced to the state of drones...but I think increasingly employment will shrink.’

Chief Information Office, Financial Services.

Features of strategic skill webs

4. Managing knowledge work

- Differentiating the workforce 'A' 'B' and 'C' players
- 'War for Talent' - those with permission to think
- Corporate competences
- 3 types of webs transactional, transformative and transitional

Managing knowledge work

‘...you first of all have to globally identify your talent base...we were not sending what we call our A players overseas, we would send B and C players and guess what? You send a B and C player, they don’t actually help you at all in fact if anything they make things worse because the local nationals that get receipt of this hairy arsed American, people look at him and say “this is the best they have got, you know”.’

Director of HR, U.S. Automotive

Features of strategic skill webs

5. Delivering competitive advantage

- Employers secure greater control over skill formation - freeing themselves from constraints of national system ET systems
- Exploiting low cost high quality labour to reduce costs - High Skills Low Wages

5. Delivering competitive advantage

High skills low wages

‘There is so much pressure on management to show greater profitability they are now reducing the number of people in the USA and opening campus here and hiring people in India because they are cheaper. Accenture started out in 2001 with 200 people it’s now got 40,000 employees in India...and they are rapidly scaling up.’

CIO, US Company, Bangalore.

‘IBM workers in India earn an average \$5,000 a year compared with between \$50,000 and \$80,000 for a similar job in the US.’

Alliance@IBM Observer, 12/04/09

5. Delivering competitive advantage

- Employers secure greater control over skill formation -freeing themselves from constraints of national system ET systems
- Exploiting low cost high quality labour to reduce costs High Skill Low Wages
- Speeding up the creation of knowledge
- Reducing the cost of knowledge creation through new sources of high quality labour (R&D) - rationalising knowledge work (reducing intellectual component)

Skills strategies become new source of competitive advantage

The opportunities for companies to use skills in this way was not there 20 yrs ago

A word of caution

- Talking of trends - some trends well established - impact of high skills low wages, others just starting - Digital Taylorism.
- Limits to some trends, e.g. offshoring
- Need to separate these long term trends from impact of recession

Challenges to existing assumptions

- Speed of change.
- Older industrial countries lost advantage in generation of high skills.
- New economies will no longer follow traditional evolutionary path: China and India competing at low and high ends.
- End of head/body nations
- Internationalisation of skill formation means less reliance on national VET systems?

Technological advances will enable further relocation of production activities, “unbundling” the production chain to various places around the world

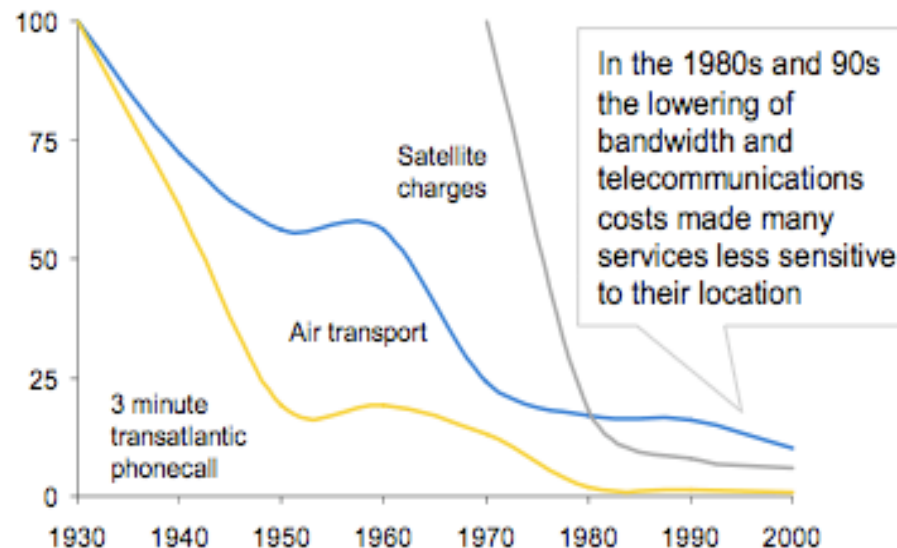
Drivers

Job opportunities

Technology & trade

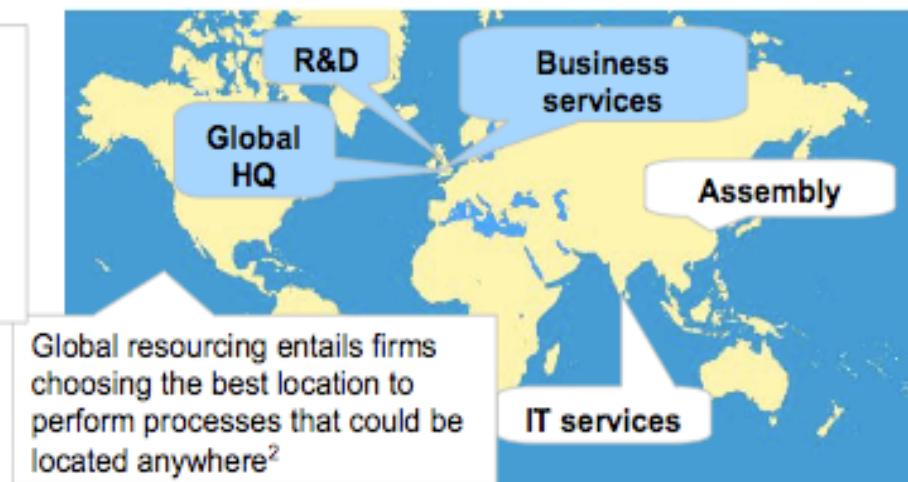
Advances in technology are driving down costs of global trade and production of goods and services

Cost of global transportation and communications, cost index, 1930 = 100¹



These developments are enabling firms' production to be increasingly globally dispersed

Illustrative globally fragmented value chain model



- A scenario has been identified by Krugman whereby more low skill intensive functions could increasingly be located in China and high skill-intensive functions located in already technologically advanced countries³
- As companies learn how to manage globally dispersed processes, location will matter less. Already many business processes can be performed remotely from their source markets⁴
- Estimates of the emerging global labour market in eight representative service sectors in 2008 suggests 160m jobs could be carried out remotely (about 11% of the projected 1.46bn service jobs worldwide)⁵

(1) Bussee (2003); (2), (5) MGI (2005) The Emerging Global Labour Market; (3), (4) Krugman (2007) Trade and Inequality revisited

Importance of sector approaches

- Responsive sector systems required to cope with sector differences in global markets
- Need for sector bodies to access knowledge of appropriate global market

Problems for sector skills system: facing in two directions

- Part facing global internationally traded markets.

How to support companies in fragmented niche markets?

What kind of support can be given to companies which wish to retain control of their skill formation strategies?

- Part facing domestic markets.

Less fragmented industrial structure but low value added

Maintain reliance on national VET systems for skills

Challenges for NZ sector skills system

- TNCs transforming demand for upper and middle level skills
- ITOs limited to supplying middle and lower skills
- To increase skills utilisation requires changes in management practices yet management training may be beyond ITOs reach?
- What are new areas where NZ can compete in global markets and how can they be supported?

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