



UNIVERSITY  
of  
GREENWICH

The Business School

**Employer engagement: a human resource management  
perspective**

Dr Patrick McGurk\*

# Working Paper

**No:** WERU7

**Year:** 2014

**Abstract** — *This paper asks which types of employers, under which conditions, are most likely to engage with active labour market policy (ALMP) initiatives that seek to reduce unemployment. With reference to strategic human resource management theory, it is proposed that: i) organisations that rely heavily on a large supply of low-wage, low-skill labour for their core operations are most likely to engage; and ii) of such organisations, those that place a strategic premium on customer service are more likely to develop strategies to retain and internalise the long-term unemployed as core employees. The paper tests this theoretical proposition by drawing on secondary data to map out the general picture of UK employer engagement, and by analysing a small number of interviews with employer engagement managers in welfare-to-work organisations. The paper finds strong support for the first proposition, but more qualified support for the second. Related to the second proposition, the paper suggests that, in practice, employers implement three principal engagement strategies: i) new facility resourcing; ii) decentralised externalisation; and iii) mid-range internalisation.*

**Keywords:** employer engagement, active labour market policy, welfare-to-work, human resource management, human resource strategy

---

\* Affiliation, Address, e-mail: University of Greenwich Business School, Department of Human Resources and Organisational Behaviour, Work and Employment Research Unit (WERU), p.mcgurk@gre.ac.uk

## **Employer engagement: a human resource management perspective**

### **Introduction**

This paper draws on human resource management (HRM) theory to investigate why private sector employers engage with active labour market policy (ALMP). It introduces new unofficial data on employer engagement by sector and proposes a novel three-fold typology of engagement strategy.

ALMP encompasses the various supply- and demand-side measures used by governments in their attempts to reduce unemployment. On the supply side of the labour market are measures such as publicly-funded and -supported training and job search activity, intended to improve the quality of the workforce and connect jobless individuals to vacancies. On the demand side are measures such as government-sponsored apprenticeship schemes, intended to encourage employers to train and recruit unemployed people (Bartik 2001). ‘Employer engagement’ is therefore a policy goal that is mainly associated with the demand side of ALMP.

There has been much academic research into the effectiveness of ALMP measures and the experience of jobseekers and government agencies involved in implementing ALMP programmes (*c.f.* Osterman 2008, Gregg 2011). However, there is a dearth of research specifically devoted to the demand side, that is into the experience of employers and what motivates them to engage. There is a growing need to understand better the strategic organisational reasons for their engagement. Which types of employers are most likely to engage, and under which conditions? Is employer engagement merely tokenistic and short-lived, or is it sustained due to deeper strategic reasons?

This paper posits that employer engagement with ALMP may be best understood by reference to strategic HRM theory. It is proposed that the strength of an employer's engagement may be explained by the organisation's human resource (HR) architecture (Lepak and Snell 1999). The specific proposition is that: i) organisations that rely heavily on a large supply of low-wage, low-skill labour for their core operations are most likely to engage with ALMP initiatives; and ii) of such organisations, those that place a strategic premium on customer service are more likely to develop strategies to retain and internalise recruits from ALMP programmes as core employees. In short, the paper investigates the business case for employer engagement by considering the implementation of human resource strategy at organisational level.

The paper performs an exploratory test of the two propositions by mapping out the general picture of employer engagement with recent ALMP initiatives in the UK and analysing the experience of actors at local level. It does this by interrogating new unofficial secondary data on the key sectors and types of organisations that have engaged with ALMP initiatives, combined with a small number of interviews with employer engagement managers in welfare-to-work organisations. The paper finds strong support for the first proposition that employer engagement is associated with low-wage, low-skill firms, but weaker support for the second proposition, that employers seek to retain ALMP recruits as core employees. Related to the second proposition, the paper develops a new three-fold typology of employer engagement strategy. The three strategies, which vary in prevalence, are identified as: i) new facility resourcing; ii) decentralised externalisation; and iii) mid-range internalisation.

## **Employer engagement as a feature of active labour market policy**

Employer engagement is not clearly defined in the academic literature. The use of the term is mainly confined to policy discourse, but this rarely examines the specific question of 'engagement with what?' Osterman's (2008) categorisation of demand-side ALMP levers allows this question to be sensibly approached. From among the full range of measures, three main sets of policy levers specifically aimed at engaging employers may be identified: i) community benefit agreements (CBAs); ii) labour market intermediaries; and iii) sectoral programmes. The three sets of policy measures will now be considered in turn.

### *Community benefit agreements*

CBAs are associated with large development projects which require local planning approval. When, for example, a new industrial or retail complex is being proposed, the local authority "negotiates with the developer regarding first source hiring, wage standards, and other topics such as parking, affordable housing and recreation" (Osterman 2008: 219). Such cases are common in urban regeneration projects, through which local authorities use their leverage to require or at least encourage new local employers to recruit a minimum proportion of their staff from among the local unemployed population. Typically, CBAs lead to partnerships between the incoming employers, the local authority and its employment and skills agencies to prepare local unemployed people for the forthcoming job vacancies through employability skills-training and interview coaching. Another important feature of CBAs is often the guarantee of job interviews to unemployed candidates who successfully complete the pre-employment training programme (Gregg 2011).

In the UK, CBAs have been strongly identified with 'Section 106' agreements (replaced in 2010 by the Community Infrastructure Levy). Such agreements enable local planning

authorities to recoup the external costs of development projects by placing obligations on developers to contribute to the local infrastructure and service requirements. The use of these agreements to secure local employment has varied considerably across the country, and summary data is unavailable. Some notable examples exist, however, such as the Westfield retail complex next to London's Olympic Park, in which approximately 2000 of the eventual 10,000 retail staff were trained and recruited through a local employment and skills partnership in one of the country's most economically disadvantaged areas (Rogers 2012, Westfield 2012).

Successful employer engagement through CBAs seems to depend on securing a strong initial commitment by incoming businesses to local employment and then sustaining a positive working relationship between the local stakeholders. But, as Osterman (2008: 219) points out, CBAs are often limited and highly localised in their scope and impact. Indeed, the much-feted 'London Employers Accord', in which London businesses entered into voluntary agreements on training and employment as part of the procurement process for 2012 Olympic contracts, turned out to be little more than a 'gentleman's agreement'. The number of Olympic contractors who signed up to the initial Accord was sharply below expectations (London Assembly 2007:15) and the overall recruitment of local people by employers attracted through the Olympic Games has been well below target (BBC News, 9 August 2012).

### *Labour Market Intermediaries*

Intermediaries for employer engagement are typically publicly-funded agencies that connect individual jobseekers with employers. Osterman (2008) distinguishes between active and passive intermediaries. Passive intermediaries are "effectively ... just bulletin boards,

providing matching services for firms or workers"; at most they "take job orders from firms and try to find and train employees to fill them" (221). Active intermediaries, on the other hand, "provide a range of services to employers, including what might be termed "HR Consulting" ... [and] work with individuals providing training and placement for the client firms" (221). The more active approach seeks to "appeal to firms as a business proposition, not as a charity, public relations, or welfare effort" (220). In practice, intermediaries can demonstrate both passive and active characteristics. For example, in preparation for the 2012 Olympics, the London Borough of Newham created two local intermediaries: 'Workplace', which acted as an essentially passive intermediary by matching unemployed individuals with Olympic jobs; and 'Skills Place', which acted as a more active intermediary, providing training and employment preparation, particularly for the retail employers moving into the Westfield complex.

The most successful examples of engagement in the US, according to Osterman (2008: 24-29), are in the work of active intermediaries with large healthcare employers. This applies also to a lesser extent to larger employers in the retail and hospitality sectors. With particular regard to healthcare, it is suggested that strong engagement may be largely explained by the sector's historical difficulties with recruitment and retention, as well as by employers' strategic concerns with consistency and quality of service. Active intermediaries may help such employers identify and develop suitably qualified labour for the longer-term, as an alternative to their usual *ad hoc* approach to resourcing. More specifically, it is seen as significant that healthcare providers tend to be i) locally rooted, ii) have relatively well-established and influential HR functions and iii) operate relatively tall 'career ladders'. By way of explanation: local rootedness helps foster a longer-term perspective on workforce development; established HR functions provide a degree of expertise in designing and

implementing effective recruitment and development activities; and recognised career ladders in the sector, structured around vocational qualifications frameworks and the accompanying opportunities for promotion, incentivise both employers and employees to invest in longer-term employment. Under such conditions, active intermediaries can then offer a publicly-funded service to employers to connect them to large supplies of unemployed labour and works with their HR teams to meet their recruitment, development and customer service needs.

In contrast to large healthcare, retail and hospitality employers, small- to medium-sized enterprises are found not only to account for smaller baskets of vacancies, but also to engage on a more sporadic and *ad hoc* basis. Yet even among the larger and the most committed US employers, engagement is often "very slow and incremental" (Osterman 2008: 224). The sparse evidence from the UK supports this overall picture: the more active intermediaries, which involve employers in providing targeted training and work experience, are apparently rare, though they tend to be more successful than passive ones in their placing of individuals into sustained employment (Meadows 2006: 30-31).

### *Sectoral programmes*

Sectoral programmes offer the same services to employers as intermediaries but specialise in a particular industry. According to Osterman (2008: 221), sectoral programmes "seek to develop deep knowledge of the markets, technology, and labour market circumstances of the industry, and through this knowledge contribute to both the human resource and economic growth and development needs of the industry". In the UK, sectoral-level initiatives date back to the late-1960s and the Industry Training Boards. These were tripartite corporatist bodies, involving the state, businesses and trades unions, and the Boards held statutory levy-

raising powers on businesses to promote employment and skills. The various replacements since, including the Manpower Services Commission of the 1970s and the Training and Enterprise Councils the late 1980s and early 1990s, became increasingly voluntarist and ‘business-led’, rather than tripartite. The latest manifestation is the Sector Skills Councils, the most active of which are in the care, construction, retail and hospitality sectors.

Overall the reforms of the training system in the UK have led to a fragmented and variable provision of activities (Grugulis 2005: 55). Within this landscape, however, there is some evidence to support the view that sectoral-level initiatives, due to the ‘deep knowledge’ of specific industries, are more effective than non-sector-specific intermediaries. For example, Meadows (2006: 8) observes relatively high success rates among programmes that involve employers directly in candidate-screening and in the design and implementation of training, thereby tailoring programmes to the needs of the sector. Yet, as in the US, wide-ranging, systematic evidence of the overall effectiveness of sectoral programmes is thin, despite their popularity among policymakers (cf. Osterman 2008: 227). Osterman notes some success in creating career ladders, especially in the US healthcare sector and to an extent in retail and hospitality, but points out that most employer engagement has amounted to only short-term investments in training, with the large majority of employers either unwilling or unable to offer substantial career ladders for entry-level workers (2008: 225–226). In view of such pessimistic accounts, it is not surprising that some UK commentators have emphasised ‘employer disengagement’ rather than employer engagement (Brockmann, Clarke and Winch 2010).

In summary, the strongest employer engagement is likely to occur through sustained CBAs, active intermediaries and well-suited sectoral programmes. But even the cursory review

above has highlighted common problems of short-termism and sporadic commitment by employers. As Osterman (2008: 224) argues, there is often a clear, long-term business case for engagement, in the potential reductions in employee turnover and its associated impact on recruiting costs and customer service. Yet, he observes, "it is only when management "gets religion" that there is an opportunity to work with firms, and the task propagating religion and selling it within the organization is slow and difficult" (2008:230-231).

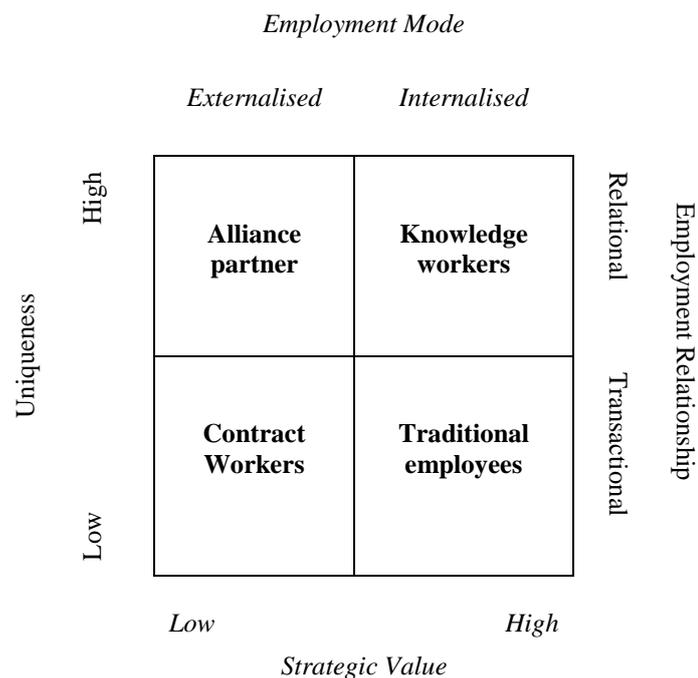
The question is which types of employers are most likely to 'get religion'? Osterman's suggested combination of factors in the case of healthcare – recruitment and retention problems, a need for quality customer service, geographical immobility, an influential HR function and recognised career ladders - provides a starting point for conceptualising the strategic reasons for employer engagement with ALMP. Does this combination hold true across other sectors? Are there are other possible explanations for variation in employer engagement within the same sector? For a deeper consideration of these questions, it is necessary to turn to firm-level theories of human resource strategy.

### **Employer engagement and human resource strategy**

Lepak and Snell (1999, 2002) advance a firm-level theory that conceptualises a variety of ways in which different employee groups are managed within the same organisation. This theory may be developed to consider the strategic management of recruits from ALMP programmes as a specific employee group within an organisation. In other words, the theory may be developed to build a strategic model of employer engagement.

Lepak and Snell argue that, while the management of human capital is crucial to any organisation's competitiveness, organisations may be expected to employ different 'bundles'

of human resource practices depending on their business strategies. The authors distinguish between the ‘value’ of the human resources and their ‘uniqueness’. On the one hand, the tasks performed by employees may have either a high or low value to the organisation with respect to their centrality to the core operation of the business. On the other, the skills of employees may be of either high or low uniqueness with respect to their availability on the labour market. This combination of high/low value and high/low uniqueness produces a four-part ‘architecture’ of HR practice, as depicted in the matrix in Figure 1. With regard to unemployed people participating in ALMP programmes - those with the least bargaining power as they seek to enter or re-enter the labour market - it is most relevant to concentrate on employers’ strategies towards workers of low uniqueness (in the bottom row of Figure 1).



**Figure 1. HR architecture** (after Lepak and Snell 1999, adapted from Martin and Hetrick 2006)

Employees who are neither unique nor of high strategic value to the organisation (in the bottom left quadrant) may be termed 'contract workers'. These workers are “employed on a contract for services basis, either through outsourcing or, if remaining on a contract of employment, on the strict basis of payment for work done” (Martin and Hetrick 2006:183). Unskilled operatives and 'temps' are likely to fall into this category of employees. These employees are externalised, as they may be provided by agencies and are therefore not offered development opportunities beyond basic organisational requirements. The relationship with the employer is likely to be transactional, consisting of standardised and routinised work tasks that are closely monitored by managers.

Employees who are not unique, but of high strategic value to the organisation (in the bottom right quadrant), may be termed 'traditional employees'. These workers are highly important in terms of performing core operations and thus adding value for the organisation, although their skills are readily available in the open labour market. They might, for example, be operatives, sales staff or junior managers and supervisors. Such employees are internalised in that they are likely to be on permanent and secure contracts, and provided with development opportunities. But there is likely to be a transactional relationship with the organisation, with less emphasis on securing their identification and commitment to the organisation (Martin and Hetrick 2006:182).

This categorisation of employee groups has implications for the theoretical question of employer engagement. It may be argued, with regard to ALMP initiatives, that employers with a strategic preference for employees of low uniqueness (traditional employees and contract workers) are most likely to offer entry-level job opportunities to participants in

ALMP programmes. Of course, some employers may engage with ALMP initiatives for reasons other than business efficiency, such as for corporate social responsibility, while remaining primarily interested in ‘knowledge workers’ and/or ‘alliance partners’ (in the top two quadrants of Figure 1). But, as argued in the previous section, there are good strategic reasons for low-cost and/or customer service-orientated organisations to want to engage in the recruitment and retention of a publicly-funded supply of low-skilled labour.

Assuming that the business case for employer engagement is essentially concerned with a firm’s preference for employees of low uniqueness, the next question is whether employers prefer contract workers or traditional employees. This decision rests upon whether employers view participants in ALMP programmes as potential employees of low or high strategic value, and thus whether they choose to externalise or internalise this source of labour.

Transaction cost economics suggests that a firm will contract out its labour when the ‘transaction costs’ of maintaining and supervising the contract are lower than the ‘bureaucratic costs’ of internal staffing (recruitment costs, training, compensation and benefits *etc.*) (Lepak and Snell 1999:35). Because publicly-funded and -administered sources of labour should reduce the transaction costs to employers of managing contract workers, this increases the likelihood of engagement with ALMP initiatives by employers who have a strategic preference for contract workers or who simply seek to fill temporary staffing shortages in low-skill, generic roles. Indeed, such employer behaviour has been highlighted by critics of neoliberal ‘workfare’ reforms in the UK that require benefit claimants to take up low-wage or unpaid insecure work, thereby effectively creating an ‘industrial reserve army’ (Grover 2005).

However, the view of employer engagement as an opportunistic externalisation strategy, in which employers take advantage of workfare, overlooks the potential strategic benefits of internalisation. As Lepak and Snell (1999: 35) note, "employees can add value if they can help firms offer lower costs or provide increased benefits to customers". Thus, it is argued, internalisation may be expected when the benefits of reduced employee turnover and the associated consistency in customer service outweigh the accrued bureaucratic costs of increased internal staffing. Lepak and Snell (2002:536) place a particular importance on customer service, which accounts for six of their twelve measures of strategic human resource value. In their empirical test of the architectural model, they find that "Rather than turning over their entire workforce to contractors ... [some] firms are taking steps to ensure they identify and retain those workers who are most critical to their competitiveness".

Strategies for the identification and retention of low-skill yet strategically valuable employees have been well documented in the UK context, particularly in the retail sector where the quality of customer service is central to competitive strategy. For example, Gratton (2003: 123) reports how the UK's largest retailer, Tesco, researched and segmented its workforce into five distinct employee groups. One of the five was the 'work to live' group, identified as mainly long-serving women over 35 years old, uninterested in promotion and willing to do repetitive tasks in return for secure employment close to their home (also cited in Martin and Hetrick 2006:198-200). As with the other four employee segments, Tesco went on to develop tailored strategies to motivate and retain its 'work to live' segment as a means of achieving consistency in customer service (*ibid.*).

Similar employee segmentation and retention strategies have been observed among employers to whom diversity in the workforce constitutes an important dimension of their

customer service. So Foster (2004: 442) describes how the retailer Marks & Spencer's introduced strategies to recruit ethnic minority staff "in an effort to lose its white, middle-class English image", and how the do-it-yourself (DIY) store B&Q targeted older recruits because they "found that older staff were more likely to have owned a house and carried out home improvements than younger employees and therefore in a position to offer DIY advice to customers". Strategies of this kind are familiar as part of 'business case for diversity', which advocates the recruitment and retention of customer-facing staff who share the visible characteristics of the community being served (*ibid*; see also Ozbilgin, Mulholland *et al.* 2008; Inge 2012). The real extent to which such strategies are implemented in organisations remains, however, an open question (Ozbilgin, Mulholland *et al.* 2008; Kossek and Pichler 2007).

With regard to ALMP initiatives, it is important to investigate the possibility that low-wage, low-skill employee segmentation strategies represent a significant motivation for employer engagement. To this end, strong and sustained employer engagement may be reinterpreted as a process of strategic investment of internalisation and development (*c.f.* Lepak and Snell 1999: 40). Such a process would involve participants of ALMP programmes being recruited either directly as traditional employees, or as contract workers who are then identified and retained as traditional employees. This would require employers to form ongoing partnerships with active intermediaries, likely as part of CBAs and sectoral programmes. In contrast, weak employer engagement would be represented by occasional dealings with passive intermediaries for the purposes of recruiting temporary contract labour.

The spectrum of weak-to-strong employer engagement may be modelled by combining Osterman's typology of demand-side ALMP measures with Lepak and Snell's HR



strategic premium on customer service are more likely to develop strategies to retain and internalise recruits from ALPM programmes as core employees.

### **Evidence of employer engagement**

This section presents some initial findings in relation to the two propositions above. The first subsection addresses the question of *which types* of employers are most likely to engage with ALMP initiatives, while the second subsection addresses *how* these employers engage with regard to firm-level human resource management practices. In the first subsection, summary data from the internal documentation of England's main welfare-to-work organisations are analysed by sector to draw inferences about the most engaged types of employers. In the second subsection, the results of seventeen semi-structured interviews with employer engagement managers across twelve welfare-to-work-organisations are analysed.

#### *Which types of employers engage?*

The most appropriate way of analysing the type of employers engaged in ALMP initiatives is by sector. This is because low-paying sectors are easily identifiable and, in the absence of data on ALMP-engaged employers, these sectors may be used as a proxy indicator of groups of firms with preferences for low-wage, low-skill employment (*c.f.* Osterman 2008: 206-207).<sup>1</sup>

The definition of low-paying sectors used in this paper is that of the UK's Low Pay Commission (LPC), which identifies "occupations or industries ... containing a high number or proportion of low-paid workers" (Low Pay Commission 2013: 209). Low-paid workers are defined as those paid at or below the National Minimum Wage. In its 2013 report, the LPC

---

<sup>1</sup> The other main indicator of low-wage employment is firm-size, as small and medium-sized enterprises (SMEs) are known to pay relatively low wages in comparison to large firms (Osterman 2008: 206-7). However, nowhere is such data on ALMP-engaged employers systematically collected.

(2013: 22) finds that “the largest numbers of minimum wage jobs in our low-paying industries are in *hospitality, retail and cleaning*. Together these accounted for about 54 per cent of the 1.4 million minimum wage jobs in the UK” (emphasis added). In hospitality and cleaning, low-paid jobs accounted for around a quarter of all jobs in these sectors, while in the retail sector 11 per cent of all jobs were low-paid. Beyond hospitality, retailing and cleaning, the other eight low-paying sectors, accounting for about 21 per cent of minimum wage jobs, are identified as: *social care; leisure, travel and sport; food processing; agriculture; childcare; hairdressing; and employment agencies*. *Security* had featured as a low-paying sector in the previous year’s report, but earnings in the sector increased sufficiently in 2012 to lift it out of the low-paying category, even though they were still below the median level (Low Pay Commission 2013: 211, 221-22).

The available data on employer engagement with ALMP initiatives, though very patchy, strongly mirrors those of the LPC’s low-paying sectors. There are three main agency groups in England through whom employers can engage (Scotland, Wales and Northern Ireland operate variations on the English model). All three act as brokers for the implementation of CBAs, labour market intermediaries and sectoral programmes. The first is represented by the national government Department for Work and Pensions (DWP), which administers the government employment services agency Jobcentre Plus. The second group comprises welfare-to-work providers, commissioned by the DWP to deliver employment and skills programmes for the long-term unemployed. The largest of such programmes is the 2010 Coalition Government’s ‘Work Programme’, which commissions eighteen welfare-to-work providers, known as ‘prime contractors’, sixteen of which are private companies. The membership organisation for these providers is Employment-Related Services Association (ERSA). The third may be termed ‘local partnerships’. These are primarily local authority-

led, but are typically a mixed economy of employment and skills agencies, welfare-to-work providers, voluntary sector organisations and private-sector employers working in partnership to deliver both self-funded and commissioned employment and skills programmes. There are many overlaps between the activities of these three groups of agencies; indeed the agencies often work with the same unemployed ‘clients’, so training and job outcomes are effectively shared rather than attributable to only one agency. Nonetheless, an analysis that broadly separates out the activities of the three groups of agencies enables a rough national picture of employer engagement to be built up.

The first group, DWP, represents the largest agent of ALMP. It administers a network of Jobcentre Plus offices across thirty-seven districts to supplement a national digital job-matching service, seeking to fill some 500,000 job vacancies from among the some 1,500,000 registered jobseekers in the UK (Office for National Statistics 2013). The DWP also manages a number of ‘accounts’ with employers and trade bodies, through which it aims to match local labour market demand more closely with supply, thereby taking a more ‘active’ intermediary approach. For each account, a dedicated DWP manager arranges for the provision of services such as training and work preparation activities, commensurate with the basket of vacancies offered by the employer. Although the employer accounts necessarily vary in number and size over time and across regions, recent internal documentation shows that the DWP's top three sectors for national employer accounts - retail and wholesale; hospitality, leisure, travel and tourism; and facility management – correspond closely to the LPC’s top three low-paying sectors of hospitality, retail and cleaning (cleaning is included within facility management).

More detailed sectoral data is available from ERSA, which recently surveyed its prime contractors to identify the sectors of employers which were most engaged in the Work Programme. The prime contractors received 1.161 million referrals of longer-term unemployed people from Jobcentre Plus between June 2011 and March 2013, placing approximately 10 per cent of them in jobs over the course of one year (Inclusion 2013). The ERSA sectoral data strongly mirrors the LPC's low-paying sector data, but with some interesting differences<sup>2</sup>. The survey by ERSA in June 2013 returned data from fourteen of the eighteen prime contractors. It identified each contractor's 'Top-20' employers in terms of number of job placements since the inception of the programme. These employers are grouped by sector in Table 1.

Sector	No. employers	No. Job Starts
Retail	35	6,637
Services	34	1,175
Recruitment	21	2,085
Hospitality	19	929
Deliveries and warehouse	16	2,365
Health/social care	13	Data unclear
Manufacturing	10	169

**Table 1. Most popular Work Programme employers by sector**  
(Source: ERSA documentation 2013)

Table 1 shows that retail firms are by far the most engaged type of employer in the Work Programme, while the other two main low-paying sectors, hospitality and cleaning, also appear to account for a large amount of employer engagement (cleaning is included in the 'services' category in the ERSA data). Nevertheless, hospitality and cleaning do not rank as

<sup>2</sup> The ERSA sectoral data is not directly comparable with those on the DWP's national employer accounts, because the Work Programme areas are regional rather than national. Despite this, broad comparisons of the most important sectors are possible to infer.

highly in the ERSA data as they do in the LPC's rankings of low-paying sectors. Instead, two other sectors are notable by their inclusion in the ERSA data. Firstly, deliveries and warehouse employers, while smaller in number than for other sectors, account for the second largest number of job placements. Secondly, the recruitment sector (employment agencies) accounts for the third-largest number of top-20 employers and job placements. Although precise conclusions cannot be drawn from this data about the types of employers in these two sectors, it may be inferred that they are responsible for providing a large number of temporary jobs. This is significant as temporary jobs are twice as likely to be low-paid than permanent jobs (Low Pay Commission 2013: 20). Deliveries and warehouse employers are not large employers in the economy ('Transport and Storage' employs less than five per cent of the UK workforce (Office of National Statistics 2013)), yet they clearly account for a large number of the Work Programme job outcomes. Similarly, recruitment agencies tend to specialise in placing individuals in 'temp' jobs across a large number of employers. While it is possible that these employment agencies are also providing large baskets of permanent jobs with single employers (Stanworth and Druker 2006), it is reasonable to assume that the *ad hoc* temping service traditionally provided by employment agencies is very significant as part of the Work Programme.

A finer-grained picture of sectoral differences may be gained from the internal documentation of one of the prime contractors. While there are geographical differences between the prime contractors (because the number of regions in which they are permitted to operate is restricted), such localised data can provide some rich insights. In 2012/13, records from one of the Work Programme providers show that, of the 205 employers providing job placements, thirty (15 per cent) accounted for 3314 of the 6919 job placements (48 per cent). Among these top-30 employers, fifteen were recruitment agencies, accounting for 49 per cent of the

total job placements, and eleven were retailers, accounting for 35 per cent of the total job placements. Five supermarkets alone accounted for 63 per cent of the retail job placements. This picture of one Work Programme provider's activities strongly reinforces the conclusion that employer engagement is dominated by retail employers (particularly supermarkets) and by recruitment agencies, specialising in low-paid and temporary employment.

Employer engagement with local partnerships, as the third main avenue for employers, is much harder to quantify and generalise. By nature it is smaller-scale and localised and summary data is unavailable. There are, however, some indications that local partnerships are more likely to engage a wider range of employers beyond the low-paying sectors. An important example of this is 'Ready for Work', the employment and skills programme run by Business in the Community, a membership organisation of approximately 500 private businesses interested in corporate responsibility. The programme runs in twenty different cities and placed 302 long-term unemployed people into jobs out of 758 registered clients between July 2009 and July 2010 (Inge 2012). Among the employers who have offered jobs are a management consultancy, a bank, a law firm and a pharmaceuticals company (Inge 2012: 6), although precise details of employers and the number of jobs provided by each are not given.

The involvement of employers in higher-paying sectors is, however, plainly not the norm. Their engagement is on a far smaller scale compared to the lower-paying sectors, and it is reasonable to conclude that it is driven more by corporate responsibility motivations than by core human resource strategy. One exception to this might be the retailer M&S (formerly Marks & Spencer), whose 'Marks and Start' scheme for the long-term unemployed unusually resides within its HR function rather than its corporate social responsibility function (Jones,

Nathan and Westwood 2004). The program has a high overall job placement rate compared to other ALMP initiatives and represents a significant source of recruitment for the company. There are also indirect but less measurable benefits for the company's existing staff, in terms of their self-development as coaches and 'buddies' to the new, inexperienced recruits. But at only approximately 300 recruits per year (Jones, Nathan and Westwood 2004: 51), the relative numbers of employees sourced in this way are still small for a large national retailer. It is fair to surmise that the strategic benefits of 'Marks and Start' have more to do with enhancing corporate reputation than with HR efficiency and effectiveness.

The above review of the available evidence of employer engagement in the UK strongly supports the proposition that ALMP initiatives engage employees with a preference for low-wage, low-skill labour. This is unsurprising, given that high-wage, high-skill employers are unlikely to engage on a large scale with the unemployed on the open labour market. It has nevertheless been worthwhile to present some reasonably hard if unofficial data in what has hitherto been something of a data-free zone. Much of the reason for the lack of data on employer behaviour relates to the nature of the welfare-to-work industry, which uses very precise and detailed measures of benefit claimants and their job placements for funding purposes, but has no immediate incentive to keep detailed records on the employers who provide the jobs. Yet it is impossible to draw any firmer conclusions about employers' motivations without delving below the crude indicator of sectoral affiliation. The different ways in which employers engage and the extent to which they may invest in development and retention are questions addressed in the following subsection.

### *How do employers engage?*

The qualitative evidence on which this subsection is based comes from seventeen semi-structured interviews with employer engagement managers from across twelve welfare-to-work organisations. As the main interface between employers and ALMP initiatives, employer engagement managers are expert witnesses of employers' activities and motivations and the issues and challenges they face in the recruitment and retention of unemployed people. There were multiple interviewees (i.e. 2-3) in four of the organisations. Of the twelve organisations, four operate nationally, two are regional government organisations, and the remaining six are prime contractors for the Work Programme. Interviewees and their organisations were selected using an opportunistic, snowballing approach. Four of the seventeen interviews were conducted by phone, the rest face-to-face. In all cases, interviews lasted around forty-five minutes and detailed notes were taken.

Analysis of the interviews identifies three main ways in which employers engage with ALMP initiatives: i) new facility resourcing; ii) decentralised externalisation; and iii) mid-range internalisation.

#### i. New facility resourcing

A significant element of employer engagement is concerned with the core staffing of large, new facilities as part of Section 106 or other local partnership agreements. This is most associated with new store openings in the retail sector. However, three of the twelve organisations interviewed also highlighted the importance of partnerships with housing associations for the new-build or refurbishment of residential properties. While such partnerships are largely the domain of local authorities, some prime contractors estimate that

involvement in the staffing of new facilities accounts for up to thirty per cent of their activities.

The other defining feature of employer engagement in the staffing of new facilities is the involvement at corporate strategic level. Particularly in the retail sector, centralised strategies for staffing new stores have become highly developed. Tesco, for example, has a dedicated new store opening team to negotiate local labour clauses and to work with local partners on the preparation, training, interviewing and recruiting of large numbers of unemployed people, typically amounting to at least fifty per cent of the new store's staff. Local area and store managers then become closely involved in the implementation stage. Housing associations appear to use less formalised strategies for staffing new facilities, but are notable for the involvement of their own unemployed residents in the resourcing of new-build or refurbishment projects. This has the additional advantage to housing associations of helping to meet their contractual commitments with the local authority for the training of unemployed residents.

In both these examples, a strategic choice is being made out of enlightened self-interest. While the pre-employment training is state-funded, the private employer incurs some bureaucratic costs in the coordination of the partnership and the time committed by local managers. But the benefits of public investment in the workforce, combined with the reputational enhancement through involvement in local partnerships, may be assumed to outweigh the accrued bureaucratic costs. In contrast, disengaged employers may be assumed to make the calculation that the bureaucratic costs of committing to a partnership will outweigh the benefits and that engagement is not commercially worthwhile. As one regional employer engagement manager complained, some retailers set up in the local area but express

the attitude of 'why can't they [unemployed people] just go to the Jobcentre like everybody else?'

Although engagement in local partnerships is a question of strategic choice, it is nevertheless bounded by the regulatory leverage exerted by local authorities and by the immobility of the new facility. As one employer engagement manager explained, her local authority sought to emphasise to new employers the importance of avoiding the opportunity costs of *not* engaging with the local partnership, and at least being seen to meet their moral and quasi-legal commitments to the local authority, customers and residents.

Sustaining local recruitment strategies beyond the initial investment is, however, a different matter. Data on sustained employer engagement is sparse, principally because local labour clauses only require the tracking of job placements up to the first six months after pre-employment training. In their interviews, however, a number of employer engagement managers questioned the longer-term commitment of large firms to local recruitment strategies, observing that after their initial investment in the new facility, employers reverted to their centralised online resourcing methods. As one prime contractor representative put it: "They [employers] may ring-fence vacancies for LTUs [long-term unemployed people], but this can be artificial and just be quota-filling in order to satisfy the Section 106".

ii. Decentralised externalisation

The lion's share of employer engagement activity is accounted for by 'decentralised externalisation'. This is characterised by the staffing activities of small business units within large companies, for example the local branches of retail chains. Decentralised externalisation manifests itself in the ongoing provision of small baskets of low-paid

temporary jobs with variable hours to meet short-term, local staffing needs. Prime contractors estimate that such job placements account for at least seventy-five per cent and up to ninety per cent of their activities. Involved here is a classic externalisation strategy by employers, in which the risks and transaction costs are minimised through the public provision of pre-trained, pre-paid contract-type workers, to whom the firm has minimal obligation.

As a dimension of ALMP, it is important to recognise that this type of strategy is implemented at the discretion of local managers. It runs in parallel to the centralised activities of the strategic resourcing function at the company's head office. A commonly-cited example was of the local retail store manager, 'who needed ten people on Monday morning for a couple of weeks'. Vacancies for core jobs in such organisations, on the other hand, tend to be advertised and administered via the company website. At most, the recruitment of staff via local ALMP programmes may be endorsed at strategic level. This is the case with the national retailer, WHSmith, whose central HR function certifies one of the Work Programme prime contractors, whose employer engagement officers are then endorsed to approach the company's local branch managers about job placements. Yet the actual recruitment decisions remain decentralised, meaning that the quality of the relationship between the local partners is crucial for successful engagement. As one national-level employer engagement manager observed, although one may be engaging with large corporates, job placement activity on the ground is "like working with SMEs". Similarly, one prime contractor described how they had recently filled ten vacancies with a regional group of amusement arcades; this was considered 'a bulk vacancy' by the prime contractor, as it was normal to deal with only one or two vacancies at a time with any particular employer.

A more radical form of externalisation is represented by the growing involvement of

recruitment agencies as part of the labour supply chain. The significance of the recruitment sector as a group of employers in the welfare-to-work industry has been noted in the previous subsection. The detailed picture is however very obscure. Although participants on ALMP programmes may sign contracts of employment with recruitment agencies, their end-destinations and conditions of employment are unknown. At best there are anecdotal examples of placement into temp jobs in cleaning, security, food-packing and warehousing. The commercial advantages to the end-employer are clear: by sourcing labour through a second intermediary, the risk of taking on an inexperienced recruit is transferred to the recruitment agency, with which it has a service contract rather than a contract of employment. From the recruitment agencies' point of view, participants of ALMP programmes represent an additional source of labour supply, for whom the transaction costs of recruitment may be outweighed by the premium it charges to employers for their labour. Indeed, one employer engagement manager related how some recruitment agencies had begun to seek additional revenue from prime contractors in return for taking registered Work Programme participants onto their books.

Decentralised externalisation is therefore the weakest but apparently most prevalent form of employer engagement. This is partly due to the strategic choices being made by employers in low-paying sectors, but it may also be encouraged by institutional factors. Specifically, the commercial incentives, inherent in the design of the Work Programme, may have encouraged welfare-to-work providers to behave in a short-termist fashion. The payment-by-results system of funding the prime contractors has had the effect of directing immediate resources towards the 'quick wins' of placing their clients into jobs as soon as possible rather than invest in longer-term investment in training and qualifications to prepare them for more sustained employment. In short, the Work Programme incentive system has arguably encouraged more

passive than active intermediary behaviour. This may yet prove to be a temporary issue, as the Work Programme does contain considerable incentives for placing clients into sustained employment for two years. At the time of writing, however, it is too early to judge whether a significant number of sustained jobs will be achieved, even if early indications are far from optimistic (Newton *et al.* 2012: 111).

### iii. Mid-range internalisation

There is a small amount of evidence of a third type of employer engagement, positioned between the staffing of new facilities and decentralised externalisation activities. This may be termed ‘mid-range internalisation’, to characterise the recruitment and retention strategies used by middle-to-large sized employers in low-paying sectors with a strategic interest in customer service. Mid-range is also an appropriate term to describe the requirement for skills that are above those required by the basic tasks performed by contract workers but below those required by more formal qualifications such as apprenticeships.

The main examples of mid-range internalisation were again to be found in the retail sector, but among companies with smaller store units and/or regional chains. Such companies are less likely than the largest national retailers to rely upon highly-developed and centralised online recruitment systems, which serve to bypass ALMP initiatives. At the same time, however, these companies are sufficiently large to offer baskets of vacancies to welfare-to-work providers and to be interested in a cheap source of local labour in order to staff a significant part of their core workforce. As discussed above, to source staff from among the local customer base can be strategically valuable in terms of customer service. For example, one of the retailers in question, the Co-op, names its strategy 'community resourcing' to emphasise the locally-rooted and ongoing nature of its involvement.

Other examples of mid-range internalisation include employers in the social care sector and the entertainment sector (specifically casinos). Such employers are distinguished by their requirements for basic but formally recognised qualifications that regulate work in their sectors. So, for example, social care qualifications and gaming-licences require a degree of investment in training and certification before participants of ALMP programmes may practice as employees. From the employer's point of view, welfare-to-work providers bear the costs of such training, but it makes sense to engage with the design and organisation of the training and the screening of candidates. The investment of the employer's time incurs some costs, but these may be recouped by internalising the ALMP recruits and integrating them as strategically valuable core employees. More advanced qualifications, however, such as National Apprenticeships<sup>3</sup> require considerably more investment and the navigation of more complex regulations. These qualifications may therefore be relatively unattractive to the mid-range employer and the welfare-to-work provider who is able to raise revenue more quickly and securely by placing candidates in less regulated jobs.

Due to the more tailored approach, mid-range internalisation by employers is most likely to be engaged in by active intermediaries and as part of sectoral programmes. It is important, however, not to overstate this type of employer engagement in practice. The overall evidence suggests that employer engagement in the UK is weak, both in terms of the short-termism involved in new facility resourcing and in terms of the poor quality jobs generated through

---

<sup>3</sup> The number of people starting the new National Apprenticeship Scheme (NAS) was 520,600 in 2011-12 (BIS Data Service, cited in Evans 2013). However, the government's own review estimates that 68 per cent of NAS placements were in fact created for existing employees (BIS 2013:7), suggesting approximately 167,000 externally-created placements. It is estimated that overall 66 per cent of these externally-recruited apprentices were retained as employees (BIS 2013:9). However, other data on NAS placements in government departments, accounting for 12 per cent of all placements (BIS 2013:19) show that only 10 per cent of externally-sourced apprentices were offered jobs at the end of their scheme (Williams 2013). Either way, overall NAS job outcomes appear to be significantly lower than those of the Work Programme, which registered 123,000 job outcomes in 2012-13 (Inclusion 2013), although some of the Work Programme job outcomes may originally derive from apprenticeship placements.

decentralised externalisation. The cursory examples of mid-range internalisation cited above are small-scale and specific, and therefore only a minor part of the bigger picture of employer engagement.

## **Conclusion**

This paper has investigated the business case for employer engagement with ALMP in both theory and practice. Using Osterman's (2008) typology, employer engagement has been identified via community benefit agreements, labour market intermediaries and sectoral programmes. The paper has mapped these three types of employer engagement onto Lepak and Snells' (1999) HR architectural model. This enabled the conceptualisation of 'weak' employer engagement as the occasional provision of short-term and temporary contract worker-type jobs, and 'strong' employer engagement as the recruitment and retention of ALMP-participants into the organisation's core workforce. Based upon this combined model, two theoretical propositions were made: firstly, that employer engagement is more likely among firms with strategic preferences for employees of low uniqueness ('contract workers' and 'traditional employees'); and secondly, that engaged employers with a strategic interest in customer service are more likely to internalise ALMP recruits as traditional employees.

While it has not been possible to draw firm conclusions from the available evidence, secondary data lends strong support to the first proposition that the lowest-paying sectors of the economy dominate engagement with the main ALMP agencies in England. With regard to the second proposition, there is little evidence arising from the primary data of ongoing internalisation of ALMP-recruits, even in sectors expected to be strategically concerned with customer service, such as retail. There is some indication of internalisation in the initial staffing of new facilities, but most evidence points to weak employer engagement in the form

of decentralised externalisation. The only evidence of stronger, more sustained employer engagement is in the mid-range internalisation strategies by employers with a strategic interest in basic but locally-based customer service and sector-specific skills.

This small finding regarding the potential significance of mid-range internalisation strategies is nevertheless interesting for empirical and practical reasons. From an empirical point of view, it suggests that greater contextualisation is needed to understand the business case for sustained employer engagement. Osterman (2008: 229) has suggested a combination of contextual factors that encourage engagement, most observable among healthcare companies in the US. This paper echoes and extends Osterman's analysis by suggesting some other important factors relating to employers' internal organisation and stage of development and to institutional incentives for welfare-to-work providers.

Specifically, Osterman has proposed (though not in this order) that strong employer engagement depends on: i) recruitment and retention problems; ii) geographical immobility; iii) an established HR function; iv) a need for quality customer service; and v) recognised career ladders in the sector. The findings of this paper suggest that, in a UK context, factors iv) and v) may be more significant than factors i), ii) and iii). Mid-range internalisation, argued here to be the strongest type of employer engagement, is indeed associated with a firm's strategic need for customer service skills and/or the existence of career ladders in the sector, as represented by intermediate vocational qualifications. At the same time, however, mid-range internalisation appears common in the retail sector, in which employers are not notably faced with significant recruitment and retention problems or with geographical immobility. Moreover, mid-range internationalisation appears to occur in organisations with semi-established rather than mature HR functions. In contrast to the larger corporate

employers, whose HR teams appear to bypass ALMP initiatives in favour of their own resourcing systems, mid-range internalisation employers seem to supplement their own HR functions with the services provided by intermediaries. This suggests that two key factors for strong employer engagement are, firstly, customer service as a strategic imperative and, secondly, an intermediate stage of corporate development.

In all, however, the empirical base of this paper is limited. Much more detailed, firm-level research is required to investigate the HR practices of engaged employers, such as in Gerards, Muysken and Welters (2012) longitudinal study of Philip's employment scheme in the Netherlands. Also, rather than elicit views about employers' behaviour indirectly from employer engagement managers at welfare-to-work providers, it will be important in further research to elicit views directly from employers (as in Thompson, Newsome and Commander's (2013) study of employers' attitudes towards migrant labour across the supermarket supply chain industry in Ireland).

In terms of the practical implications of this paper, the finding on mid-range internalisation is interesting because it suggests that this model of human resourcing may be the most fertile ground for strong employer engagement. When seeking examples of strong employer engagement, therefore, policymakers and the welfare-to-work industry might be well advised to look to the HR practices of mid-sized retail chains interested in locally-based customer service, and to sectors in which investment in basic qualifications is required.

### **Acknowledgements**

The author wishes to thank WERU colleagues Lisa Schulte, Paul Field, Professor Geoff White and Professor Ian Greer for their helpful comments on earlier drafts of this paper.

## References

- Bartik, T.J. (2001) *Jobs for the Poor: Can Labor Demand Policies Help?* New York: Russell Sage Foundation.
- BBC News (2012) 'London 2012: Olympics jobs legacy 'falls short', available at: <http://www.bbc.co.uk/news/uk-england-london-19184807> , accessed on 16 July 2013.
- BIS (2013) *Apprenticeships Evaluation: Employer*, BIS Research Paper No. 123, August 2013, London: Department for Business, Innovation and Skills.
- Brockmann, M., L. Clarke and Winch, C. (2010) 'The Apprenticeship Framework in England: a new beginning or a continuing sham?' *Journal of Education and Work*, 23(2): 111-127
- Evans, J. (2013) *Apprenticeship Statistics*, Standard Note SN/EP/6113, 8 February 2013, London: House of Commons Library.
- Foster, C. (2004) 'Gendered retailing: a study of customer perceptions of front-line staff in the DIY sector', *International Journal of Retail and Distribution Management*, 32 (9): 442-447.
- Gerards, R., J. Muysken and R. Welters (2012) 'Active Labour Market Policy by a Profit-Making Firm', *British Journal of Industrial Relations*, Advanced Online Publication (doi: 10.1111/j.1467-8543.2012.00915.x), 8 October 2012.
- Gratton, L. (2003) *The Democratic Enterprise: Liberating your Business with Freedom, Flexibility and Commitment*, Harlow: FT Prentice Hall.
- Gregg, P. (2011) 'Job Guarantees for the Unemployed: Evidence and Design', in Marsden, D. (ed.) *Employment in the Lean Years: Policy and Prospects for the Next Decade*. Oxford: Oxford University Press, 56-70.
- Grover, C. (2005) 'New Labour, welfare reform, and the reserve army of labour', *Capital and Class*, 27:17, 17-23.
- Grugulis, I. (2007) *Skills, Training and Human Resource Development: A Critical Text*, Basingstoke: Palgrave Macmillan.
- Inclusion (2013) *Work Programme statistics: Inclusion analysis*, 27 June 2013, London:

Centre for Economic and Social Inclusion.

- Inge, N. (2012) *Social Return on Investment of Ready for Work*, London: Business in the Community.
- Jones, A., M. Nathan and A. Westwood (2004) *Marks and Start: Opening the door to employment?*, January 2004, London: The Work Foundation.
- Kossek, E.E. and S. Pichler (2007) 'EEO and the Management of Diversity', in Boxall, P., J. Purcell and P. Wright (eds.), *The Oxford Handbook of Human Resource Management*, Oxford: Oxford University Press, 251-272.
- Lepak, D. and S.A. Snell (1999) 'The strategic management of human capital: determinants and implications of different relationships', *Academy of Management Review*, 24, 1-18.
- Lepak, D. and S.A. Snell (2002) 'Examining the Human Resource Architecture: The Relationships Among Human Capital, Employment, and Human Resource Configurations', *Journal of Management*, 28(4), 517-543.
- London Assembly (2007) 'London Olympic Games and Paralympic Games: The employment and skills legacy', Report by the Economic Development, Culture, Sport and Tourism Committee, Greater London Authority, March 2007, available at: <http://legacy.london.gov.uk/assembly/reports/econsd/games-skills-legacy.pdf>, accessed on 16 July 2013.
- Low Pay Commission (2013) *National Minimum Wage Low Pay Commission Report 2013* (Cm 8565), April 2013, London: Her Majesty's Stationery Office.
- Martin, G. and S. Hetrick (2006) *Corporate Reputations, Branding and People Management: A Strategic Approach to HR*, Oxford: Butterworth-Heinemann.
- Meadows, P. (2006) *What works with tackling worklessness?* London: London Development Agency.
- Newton, B., Meager, N., Bertram, C., Corden, A., George, A., Lalani, M., Metcalf, H., Rolfe, H., Sainsbury, R. and K. Weston (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, Department for Work and Pensions Research Report No 821, November 2012, London: Department for Work and Pensions.
- Osterman, P. (2008) 'Improving Job Quality: Policies Aimed at the Demand Side of the Low-Wage Labor Market', in Bartik, T.J. and S.N. Houseman (eds.) *A Future of Good*

*Jobs? America's Challenge in the Global Economy*, Michigan: W.E. Upjohn Institute for Employment Research.

Ozbilgin, M., G. Mulholland, A. Tatli, D. Worman (2008) *Managing Diversity and the Business Case*, London: Chartered Institute of Personnel and Development.

Office for National Statistics (2013), 'nomis official labour market statistics', available at [www.nomisweb.co.uk](http://www.nomisweb.co.uk), accessed on 1 August 2013.

Rogers, S (2012) 'London Olympics 2012: where does the money come from - and where's it being spent?' *The Guardian Online*, available at:

<http://www.guardian.co.uk/sport/datablog/2012/jul/26/london-2012-olympics-money> , accessed on 26 July 2013

Stanworth, C. and J. Druker, (2006) "Human resource solutions?: Dimensions of employers' use of temporary agency labour in the UK", *Personnel Review*, 35 (2): 175-190.

Thompson, P., K. Newsome and J. Commander (2013) '“Good when they want to be”: migrant workers in the supermarket chain', *Human Resource Management Journal*, 23 (2), 129-143.

Westfield (2012), 'Westfield Sustainability Report 2012: Case Study on The Development of Stratford City', available at: <http://westfield2012.sustainability-report.com.au/development-stratford-city>, accessed on 26 July 2013.

Williams, M (2013) 'Nine out of 10 government apprentices dropped after placements' *Guardian Careers Website*, available at <http://careers.theguardian.com/government-apprentices-employment-placement> , accessed on 22 October 2013.