

Factors Responsible for Mismatch between Demand and Supply of Requisite Skill in India

Dr. Alpa Sethi

Assistant Professor, ALS

Amity University, Gwalior, Madhya Pradesh

(alpa Sethi9@gmail.com)

Abstract

India is one of the youngest nations in the world with more than **54%** of the total population below 25 years of age. India's workforce is the second largest in the world after China's. While China's demographic dividend is expected to start tapering off by 2015, India will continue to enjoy it till 2040. However, India's formally skilled workforce is approximately **2%** - which is dismally low compared to China (47%), Japan (80%) or South Korea (96%). This paper will throw the light towards what factors creating gap between demand and supply of requisite skill and what type of skills are in demand in labour market.

Key words- India, Skill Development, Requisite Skill Set

Introduction

Skills and knowledge are the driving forces of economic growth and social development for any country. Globalization, knowledge and competition have intensified the need for highly skilled workforce in both the developing and developed nations as it enables them to accelerate the growth rate of their economy towards higher trajectory. Today all economies need skilled workforce so as to meet global standards of quality, to increase their foreign trade, to bring advanced technologies to their domestic industries and to boost their industrial and economic development. Even, it has been observed that countries with highly skilled human capital tend to have higher GDP and per capita income levels and they adjust more effectively to the challenges and opportunities of the world of work. In this regard, Ruttia Bhula & Paitoon Kripornsak (2008) revealed that the demand for high-skilled workers in the globalization is rationalized into 2 ways: trade hypothesis, and technical-change hypothesis. The first concept assumes that an increase in the relative demand for quality goods and services requiring high skilled workers further pushes the demand for high-skilled workers. On the other hand, the lower demand for low-skilled workers is due to a decrease in the demand for goods and services provided by them. This implication is called the trade hypothesis. The second explanation is that a technical progress leads to a change in

production process and organizational changes. The progress enhances the working process and the labour relation through the information and communication technologies. The technological change increases the demand for high-skilled workers economy wide. This implication is known as the Skill Biased Technical Change (SBTC) hypothesis.

Furthermore, today, companies are also requiring their workers to have higher levels of skills to enable them to engage in innovation, improve the quality of products/services, and increase efficiency in their production processes or even to the point of improving the whole value chain process. According to UNESCO Global Monitoring Report (2012) In developing countries skills gaps constrain companies' ability to grow where they operate. The concerns employers face difficulty in filling vacant positions because of two reasons: 1) skills shortages (i.e. not enough graduates at a particular level of education or in the right field of study) and 2) skills mismatch (i.e. whether young people are educated or not, they lack the skills to fill the position).

India is a fast developing country and moving progressively towards becoming a 'knowledge economy'. From primary sector of agriculture, India is stirring to secondary sector of manufacturing, construction and also tertiary sector of trade, transport and finance. Its workforce is second largest in the world after China. Over 65% of India's large population is below 35 years of age and working age group of 15-59 years is increasing steadily. India has the advantage of productive workforce over the world as 12.8 million young people newly entering the labour market every year (GOI 2011a) but the government recognizes that the country faces a serious skills shortage, as the majority of these new labour market entrants are likely to remain unskilled. So, it becomes increasingly important that the country should focus on advancement of skills as it is a viable strategy for bringing advanced technologies to their domestic industries, expanding their foreign trade, and thereby boosting industrial and economic development; the availability of skilled workforce in a country is a key determinant for MNCs for investments. Moreover, skilled workers increase the efficiency and flexibility of the labour market as well as help to remain competitive and achieve sustainable growth.

Over the last two decades, developing countries especially India has primarily focused on basic education, particularly primary education, since the 1990. Though basic education has expanded considerably in recent decades but still graduates of who are entering into the labour market have found themselves inadequately equipped with the skills that industry demands. This stress that skill building is necessary to improve efficacy of human capital and as a result, India is looking for reform their education systems, to upgrade the skills of their workforces and have recently shifted their focus, away from basic education and back to technical and vocational education and training because ultimately, each country's prosperity depends on how many of its people are in work and how productive they are, which in turn rests on the skills they have and how effectively those skills are used.

But recent data has shown that our education system and vocational training programmes have not been able to provide the adequate size of skilled manpower. That's mean that our government is putting effort in skill development but still results are not fruitful.

Moreover instead of lots of policy and budget allocation for skill development announced by our government, there is still imbalance between demand of requisite skill and supply of skill. This project will throw light on what factors are responsible for such imbalance.

Review of Literature

Tim Goles et al (2011) in their paper proposed a typology of IT skills. For that, researchers gathered the data of 96 IT managers and executives through structured interview on the basis of qualitative and quantitative analysis. As a result they refined and confirmed the six categories of skills: foundation skills, operational skills, essential skills, project management skills and problem / opportunity skills.

Vikhe Gautam V et al (2014) in their research found the skill gap analysis in between academia and industry. Further they also revealed that there is a perceptual gap between the human resource manager and the directors or training and development officers over employability skills. Moreover they suggested that if both industry and academia get collaborated then it will be beneficial for both.

Aya Okade(2012) reviewed the current state of education , skills development and employment for Indian youth. Researcher also examined various constraints that challenge Indian young people like the size of the youth population, and the hierarchical and segmented nature of both the labour market and society as a whole. Moreover, researcher also revealed that India is suffering from a serious shortage of skilled workers because of limited access to education and skills training, high rates of school dropout, and large mismatches in the labour market. Furthermore, this paper also identified an enormous skills gap in India between what industries demand based on recent rapid economic growth and the skills that young people acquire through vocational training.

Amitendu Palit (2009) in his ISAS working paper analyzed the current skills development capacity in India by examining the technical training infrastructure of the country. He also identified the deficiencies of the system and outlines the latest policy initiatives for building skills. Moreover, he suggested that there is a huge scope for foreign technical training providers in playing an active role in India's skills-building efforts.

Vandana Saini (2015) in her study found that both the government & its partner agencies have undertaken various measures/ initiatives for the effective implementation of the skill development system in the economy, but still faces a number of unresolved issues/challenges that need immediate attention of the policy makers. Furthermore, researcher suggested that skill development initiatives of the government should focus on these obstacles and develop the programs accordingly to resolve these hurdles for the complete success of the skill development initiatives.

Josh Healy et al (2011) in their NILS working paper series said that Australian economy like other countries suffering from the problem of skill shortage and there is little evidence about their prevalence, causes and consequences. For that, researchers used econometric methods to analyse the Business Longitudinal Database, an Australian panel data-set with information about skill shortages in small- and medium-sized businesses in Australia .They used this information to explored the incidence of skill shortages and the business attributes that are associated with them. Moreover they also identified which businesses face more complex skill shortages, as measured by the number of different causes reported simultaneously.

Furthermore they also examined how this complexity affects businesses' responses to skill shortages and aspects of their subsequent performance. As a result they found that complex skill shortages are more likely than simpler (single-cause) skill shortages to persist and to trigger defensive responses from businesses. Even they rejected the conception of skill shortages as a homogenous phenomenon, and demonstrate the importance of distinguishing between skill shortages according to whether they have simple or complex causes.

Marco manacorda et al (2007) proposed a conceptual framework for analysing the labour market consequences of changes in relative demand and supply of different skills. They used a simple model to show how a one-dimensional index of the gap between the demand and the supply of skills can be derived and computed, and that cuts through the problem of assuming comparability of educational classifications across countries and over time. Moreover, researchers also showed that how one can use data on changes in labour force shares, employment rates and relative wages by education to provide a measure of the extent of skill mismatch in the economy that is comparable across countries with different measures and levels of educational attainment. They found an increase in skill mismatch in the US and the UK during 1980s and 1990s but not in the Germany and France. Researchers also mentioned that there was no rise in the Netherlands and Italy until the late 1980s but some subsequent increase in the 1990s. So, this suggested that the labour market problems of the continental European countries are not primarily caused by the interaction of an increase in skill mismatch with rigid relative wages.

Dutch Social Economic Council (SER, 2002) said that the employability of low skilled workers is a mutual responsibility for the firms where they are employed and the workers themselves. This means that firms should be encouraged to invest in HRM practices that may contribute to the employability of low-skilled workers and that workers should be stimulated to make use of the facilities available to them. Moreover, apart from the tax discounts for investments in low-skilled workers skill development, the government should make it easier for workers who left initial education without any diploma to obtain a certificate of a vocational course later in their life. The latter should be stimulated by creating an assessment system that enables low-skilled workers to demonstrate the skills they acquired by experience. Such a system of competence certificates enables workers to substitute some of the modules of a vocational education by the skills they learned on the job. This might encourage them to participate in training courses for the modules that complete their vocational certificate.

Thijs Van Rens (2015) in his CAGE/SMF paper series studied US data and revealed that 60% of employer of US believe that there is a skill gap because of major 3 reasons 1) workers do not adjust to changes in skills demand by acquiring the skills they need to find a job 2) firms do not adjust to changes in skills supply by creating jobs that utilise the skills that are available in the labour market 3) wages do not reflect skills shortages by creating incentives for workers to acquire scarce skills or abandon occupations where wages are falling due to an abundance of skills. Furthermore researcher suggested that increased emphasis on scarce skills in schools, colleges and universities will not help to reduce the skills gap. Students have a choice about what skills they acquire, and whether they use these skills on the labour market. As long as wages do not reward certain skills, they will either chose not to acquire these skills, or even if they do, they will find employment in other occupations.

Davos-Klosters (2014) in his WEF/GAC report mentioned that the skills mismatch entails a significant aggregate loss in human capital investment and productivity. Many employers still report difficulties in finding the required talent. In the short term, a key driver of skills mismatch is the limited job opportunities available in many (especially advanced) economies, which are pushing many individuals to accept mismatched and lower-quality jobs. At the same time, firms facing difficult economic conditions may be required to reduce training and recruitment expenditures, which can exacerbate skills shortages and mismatch within the workplace. Furthermore researcher suggested that a diverse set of long-term policies and priorities are needed across different countries in the fight against skills mismatch. Overall skills development and matching policies should be seen as an integral part of a broader set of actions that include employment, industrial, investment, innovation and environmental policies. Moreover, a shared understanding and commitment on behalf of all relevant stakeholders – education providers, firms, trade unions, public employment services and governments – is therefore a necessary ingredient for reducing skills mismatch by reinforcing links between educational systems and labour markets.

Factors behind Imbalance

There are several factors which create imbalance between demand of skill and availability of skill. Some important factors are following:

1. Demand and supply gap

Cultural diversification, global market, skill based need of industry and collaborative work patterns of industry are powerful factors which influences the success or failure of contemporary corporate (Weisman, 2000). In this highly competitive world the corporate require the candidates who are full equipped with employability skills such as Communication Skill, Learning Skill, Team Building Skill, Adaptability Skill, Responsibility Skill, Interaction (Networking) Skill, Proactive Skill, Appearance Skill, Task Perseverance Skill, Operational Skill, Creativity And Problem Solving, Work Performance Skills, Techno Savvy skill (D. Kumar & V. Jain (2010), they also focus on global perspective of students (Barret and Beeson, 2002) and social responsible outlook (Mumford et all, 2000). But many corporate have huge expectation gap in context with employability skills with management institutes.

2. Ineffective ITIs:

India does not have enough ITIs to accommodate the many new young entrants. ITI training has largely been supply-driven rather than demand driven. The centrally-fixed and highly-standardized curriculum provides little flexibility to respond to local demands for specific skills or to the structure of local industry and labor markets. Moreover, vocational training has been slow to respond to industry's changing skills needs. Lastly, limited budgets have meant left facilities and equipment at most ITIs inadequate and outdated.

3. Less in-firm Training

According to Asian Development Bank 2008, little formal in-firm training occurs in India, partly because most firms are small and operate in the informal sector. However, some private leading firms, such as Tata Motors and Bosch, have their own training

institutes, with state-of-the-art training facilities and excellent training programs for their employees. Only 17% of manufacturing firms in India provide any training for employees

4. Inability to align to labour market requirements

The bias of the higher education system towards arts, science and commerce has affected employment prospects by not equipping students with the skills appropriate for industry and professional occupations. This bias and the resultant distortion could have been corrected by a matching expansion in technical education capacities. Unfortunately, such capacities have not expanded by the extent that is desired.

5. Skill disparity between states

There exist wide gaps between the different states of the country with respect to institutional capacities in technical education. The gaps have led to disparities within the labour market. Industrial and technical employment has been much higher in some states and regions of the country compared to others. A greater availability of better skills in some parts of the country has created differences in skill premiums between regions. These disparities are unfortunate as they have the potential of creating social tensions and unrests.

6. **Geographical Problem:** It is another serious problem plaguing the labor market and has more serious impact in larger economies like India as the geographical set-up or outreach of the people for skills in India are uneven and in dismal share:

- The states with much higher economic growth rates have more new jobs with lower rate of labour-force while on the other hand; the states with slower economic growth rates have higher population growth rates with fewer new jobs. Thus laggard states need to rely on migrant workers so as to cope with this challenge.
- Majority of formal institutions are located in urban areas as compared to rural areas and even private sector institutions are also reluctant to operate in rural areas. Hence, large proportions of rural population do not have any formal vocational training institutions.
- Districts notified as backward have serious paucity of formal skill training as majority of skill development institutions in these locations emphasized only on basic livelihood skills and that is generally provided by NGOs or provided by other agencies as a part of social development programs. Therefore, these types of skills are often not formally assessed and as a result are not recognized for employment by industrial sectors.

Requisite Skill Set

Some analysts suggest that basic reading, writing and arithmetic skills are no longer enough for workplace performance (Carnevale *et al.*, 1990), but they are the starting point. Further it was found that there are new or changing competencies which are highly valued in the labour market. In addition to basic foundation or core skills based on formal education and literacy, other non-academic skills are being widely included in the literature as important and as part of a multidimensional vision of skills (Stasz

and Brewer, 1999). In hiring decisions, employers say they give as much attention to workplace competencies as they do to technical skills. However, most of the available surveys refer to hiring at a particular level, requiring a given level of education as a first prerequisite. From this perspective, the focus on intra-personal and workplace competencies should be seen as supplementary to the established educational requirements. In the United States, a qualitative survey on firms' recruitment strategies for entry-level jobs found that not only mathematical and English skills were required for today's entry-level jobs, but intra-personal skills were also quite important (Rosenbaum and Binder, 1997). Based on data from the National Employer Survey (run in 1994 and 1997), shows that among the hiring criteria for potential employees, intra-personal and communication skills were the highest ranked, followed by work experience. In the United Kingdom, employers reported that communication skills, learning ability, problem-solving skills, team work and the capacity for self-management were more important than technical, ICT or numeracy skills as criteria in the recruitment of graduates (Hesketh, 2000). Employers placed high importance on inter-personal and intra-personal skills and gave rather less weight to narrower, learned skills. According to the employers surveyed, initiative, motivation and communication skills were considered as particularly relevant, because a motivated new hire easily could obtain the necessary specific skills through training or on-the-job experience (Industry in Education, 1996).

Conclusion

The country presently faces a dual challenge of severe paucity of highly-trained, quality labour, as well as non-employability of large sections of the educated workforce that possess little or no job skills. The skill development issue in India is thus pertinent both at the demand and supply level. To meet the demand side challenge, consistent efforts are being made towards expansion of economic activities and creation of large employment opportunities. On the supply side, a simple look at the projected youth population provides a fair reason to believe that India has the strength to cater to this demand. It is very important that developing countries should give more focus towards skill set of youth. India needs to monitor their efforts which have been put by the government.

References

- Vikhe, G.V., Agarwal, P.(2014). Industry-Institute Employability Skill Gap Analysis. *International Journal of Research and Development*, 3(4), 16-19
- Goles, T., Hawk, S., Simon, C.J., Kaiser, M.K., & Beath, M.C.(2011). A Typology of Requisite Skills for Information Technology Professionals. *Proceedings of the 44th Hawaii International Conference on System Sciences*
- Okada, A. (2012). Skills Development for Youth in India: Challenges and Opportunities. *Journal of International Cooperation in Education*, 15(2), 169-193.
- Palit, A. (2009). Skills Development in India: Challenges and Strategies. ISAS Working Paper
- Saini, V. (2015). Skill development in India: need, challenges and ways forward, *Abhinav*

National Monthly Refereed Journal of Research in Arts and Science, 4(4), 1-9

Healy, J., Mavromaras, K., & Sloane, J.P. (2011). *Adjusting to Skill Shortages: Complexity and Consequences* NELS working paper series No 171

Klosters, D. (2014). *Matching Skills and Labour Market Needs Building Social Partnerships for Better Skills and Better Jobs*, Global Agenda Council on Employment

Rens, V.T. (2015). *Skill Gap: it is a myth?* Social Market Foundation, CAGE

Rosenbaum, J.E. and binder, A. (1997), "Do Employers really Need more Educated Youth?", *Sociology of Education*, Vol. 70, January, pp. 68-85.

Hesketh, A.J. (2000), "Recruiting an Elite? Employers' perceptions of graduate education and training", *Journal of Education and Work*, Vol. 13, No. 3, pp. 245-271.

