

PEOPLE AND PARTNERSHIP

CBI/PERTEMPS NETWORK GROUP EMPLOYMENT TRENDS SURVEY

DECEMBER 2016



Sponsored by

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About the sponsor

As the UK's largest privately-owned recruitment agency, Pertemps Network Group (PNG) is firmly established as a leader in workforce talent solutions. In 2016 it was named the highest placed recruiter in the Sunday Times Grant Thornton Top Track 250.

Formed in 1961, it comprises Pertemps and Network Group – the former offering over 100 nationwide branches as well as outsourced managed solutions, and the latter made up of agencies operating in niche sectors including IT, legal, finance, healthcare, education, medical, construction, manufacturing and engineering.

All members of PNG are committed to delivering exceptional solutions tailored to the specific needs of UK businesses.

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Foreword

The UK economy has many great strengths that we should be proud of. Employment sits at the heart of this: our record employment rate, supported by our flexible labour market, has given us a solid platform for the growth and prosperity that will be so important in all our regions as we exit the EU.

It is encouraging that the underlying strengths of our economy look set to support further jobs growth into next year in all parts of the UK. Similarly, in the short term, businesses are working hard to support pay with a majority able to pay in line or above RPI next year. But it is clear from the results of this survey that businesses have real concerns about the medium term and the impact leaving the EU may have on the perception of the UK as a place to invest and do business.

As we enter a new phase of UK-EU relations, it is imperative that employers are supported effectively so our labour market continues to perform. There is a clear opportunity for government to work in partnership with business to position the UK as an attractive global hub, and to build an economy that shares the benefits of growth with all, across places and sectors.

To deliver this vision, business and government must work together to set out the new industrial strategy, ensuring that it supports the future success of the labour market.



Josh Hardie

Deputy director-general
CBI



Foreword

Despite a year dominated by uncertainty and a changing landscape, optimism among recruiters is relatively high as we prepare to enter 2017. The employment market is now very much back to pre-referendum levels and outlook for the coming year is positive with all the signs pointing towards further increases in people finding jobs, particularly on a permanent basis.

It goes without saying that we all need the UK to remain 'open for business.' The survey results show very little sign of the skills shortage easing, and employers are increasingly concerned about where they will find the future talent essential to fill crucial roles. It is pleasing to note that opportunities for apprenticeships are on the rise yet this is unlikely to dramatically help the situation in the short term. I believe recruiters have a vital role in helping employers place those hard-to-fill roles as partnership working may hold the key to improving job skills and employability.

It is also pleasing to note the high percentage of businesses that recognise diverse and inclusive workforces are paramount to a sustainable growth and employment market. As a diversity leader, Pertemps is working tirelessly with our partners to ensure companies are not excluding potentially important talent. Any uncertainties that still exist cannot prevent the UK from continuing to offer an inclusive jobs markets that provides opportunities to all.



Carmen Watson

Managing director and chair
Pertemps Network Group



The employment trends survey 2016

- The survey was conducted between August and October 2016
- There were 353 respondents, employing more than 1,195,000 people between them
- Respondents came from businesses of all sizes and sectors across the UK.

Flexibility continues to support employment growth

- Almost all businesses (97%) continue to regard the flexible labour market as essential to job creation
- For the fourth year running, further jobs growth lies ahead in all regions
- Small and medium-sized firms are leading the way with a positive balance of +32% expecting to add jobs in the next 12 months.

Businesses are working hard to raise pay

- Businesses are taking a steady line on pay but over half of respondents (57%) plan a pay award for their employees in line with inflation or above
- The introduction of the living wage in April affected half of respondents (50%). Two in five (41%) absorbed the extra cost, while more than one in four (26%) raised prices
- Looking ahead to 2020, three in ten (30%) plan to accept a reduction in profits while a fifth (18%) are considering reducing employment.

Businesses are worried about the longer-term attractiveness of the UK labour market

- The pattern of optimism about the attractiveness of the UK as a business location found by our surveys in recent years has dropped away in the 2016 survey
- Half of firms (50%) believe the UK will become less attractive over the next five years, with fewer than three in ten (29%) expecting it to become a more attractive location
- The biggest worries for the future are around access to highly skilled migrants (58%), skills gaps (58%) and access to sufficient labour to fill shortages (50%).

Agile and inclusive workplaces are key enablers of business success

- More than three quarters of businesses (76%) see achieving a diverse and inclusive workforce as important to their future success
- The most widely identified benefits to businesses of inclusive practices are an increase in skills and capabilities (73%) and increased ability to attract and retain staff (60%)
- Most businesses (67%) report there are still obstacles to implementing fully inclusive workplace practices.

Employee engagement and access to the right people are essential

- Businesses are keenly aware of the value of employee engagement. Top ranked benefits include improved productivity and performance (73%) and increased customer and client satisfaction (57%).
- In the coming year the top workforce priorities for businesses are achieving and maintaining high levels of employee engagement (48%), retaining talent (41%) and improving leadership skills (37%)
- The future migration system must be responsive to economic need and provide access to both labour (46%) and skills (40%).



*Our flexible labour market
has given us a solid platform
for growth and prosperity in
all our regions.*



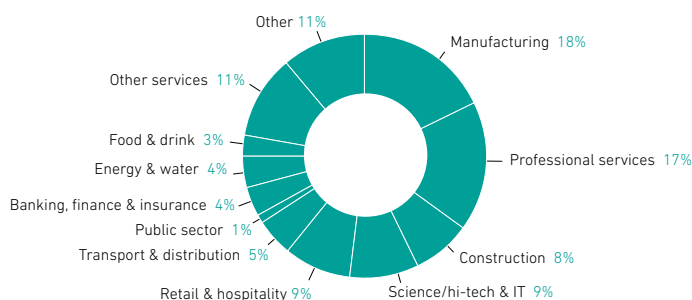
The employment trends survey 2016

This year's survey was carried out in the period August to October 2016. There were 353 respondent businesses in total. Their combined workforces amounted to more than 1,195,000 people, equivalent to 4.5% of all employees in employment in the UK.¹

Sectoral analysis

Respondents were drawn from all parts of the private sector (**Exhibit 1**). Manufacturing firms made up the largest single grouping (18%), followed by professional services firms (17%). Organisations classed as 'other services' (11%) or 'other' (11%) together accounted for over a fifth of responses. These included businesses engaged in activities as diverse as education, sport, media, property and environmental services.

Exhibit 1 Respondents by economic sector (%)

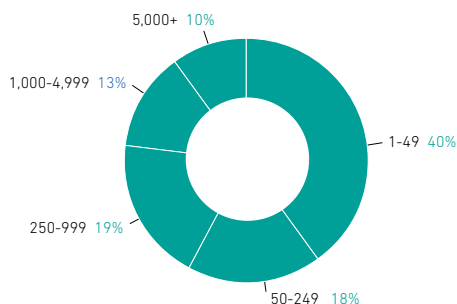


Respondents by company size

Two in five respondents (40%) were small businesses employing up to 49 employees while one in ten respondents (10%) were very large businesses employing more than 5,000 employees (**Exhibit 2**).

Medium-sized businesses (MSBs) employing between 50-499 employees accounted for more than a quarter (29%) of participants.

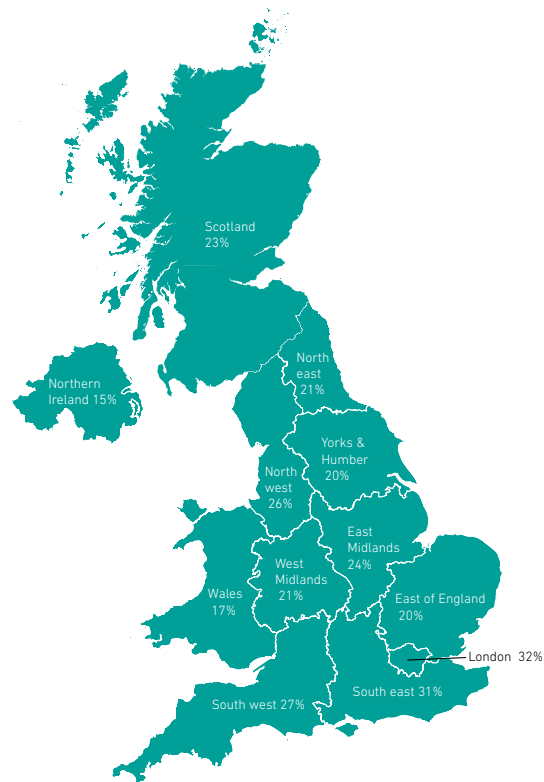
Exhibit 2 Respondents by company size (%)



Respondents by region

The majority of respondents had employees based in several regions of the UK (**Exhibit 3**). Nearly a third had employees based in London (32%) and/or the south east (31%). In all, more than a third of participant businesses (34%) had at least some employees based in Scotland, Northern Ireland and/or Wales, where devolved parliaments or assemblies have an important role in policies affecting businesses.

Exhibit 3 Respondents by region (%)



The employment landscape

Key points

- More people in the UK are in work than ever before with the employment rate at a record high and the unemployment rate is at an 11-year low
- The UK has performed well when compared to its G7 peers, closing both the employment and unemployment rate gap
- But a boost in productivity is needed to underpin faster, sustainable improvements in wages.

Employment is at record levels...

More people are in work than ever before. Over the last 12 months the number of people in employment rose by a further 461,000. The employment rate now stands at 74.5% – the joint highest since comparable records began in 1971. Over the same period, unemployment has fallen to 4.8%, an 11-year low, and fewer people are working part-time or on a temporary basis when they would rather be in full-time, permanent roles.²

The UK's jobs performance also compares well internationally. In 2015, the last year for which comparable data is available, the UK had the third highest employment rate in the G7 at 72.7% (**Exhibit 4**). The employment rate in the United States (68.7%) was 4.0 percentage points lower than the UK with only Germany (74.0%) and Japan (73.3%) outperforming the UK.³

The UK has performed well in reducing the levels of unemployment in the same period. While Japan continues to have the lowest unemployment rate (3.4%), the gap to the UK's unemployment rate of 5.7% is narrowing (**Exhibit 5**).⁴

Exhibit 4 We are improving on strong performance (%)

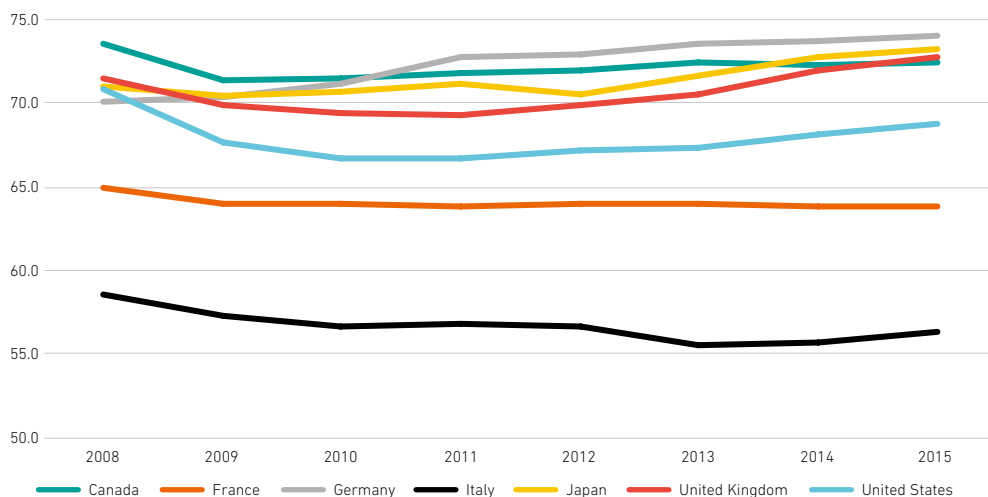
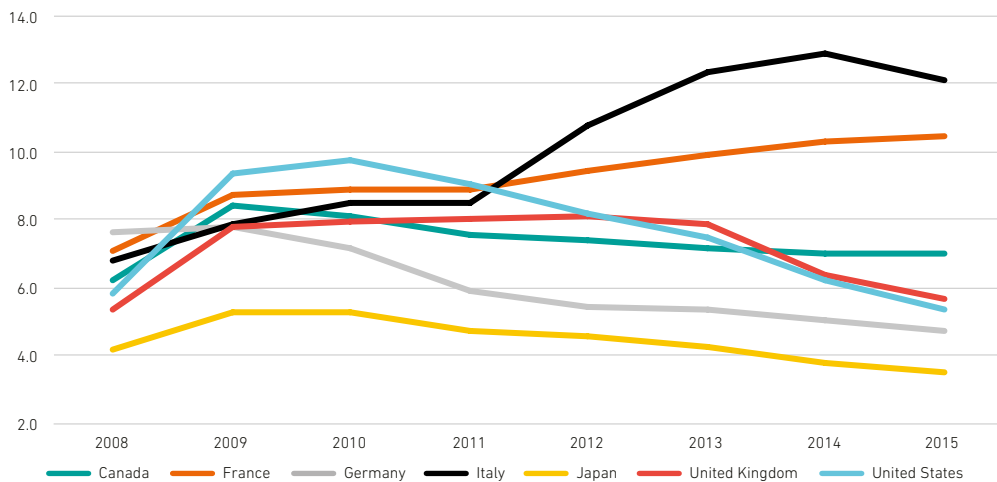


Exhibit 5 UK unemployment (%) continues to fall**...but slow productivity growth continues to constrain pay growth**

UK productivity performance continues to be lower than most of the G7, and lacklustre progress since the financial crisis means that output per hour is 17.4% lower than it would have been had the pre-recession pace been maintained.⁵

Both government and business must work together to raise productivity in the UK. The Mayfield Review set out a roadmap for business-led solutions that government must continue to back.⁶ There is scope for productivity improvements to be made across the business landscape. Companies of all sizes are making decisions on a daily basis, from training staff to investing in a new piece of software, which can lead to real productivity gains.

The strong link between productivity and the reward employees receive means that limited productivity growth continues to act as a brake on faster pay growth.⁷ At 2.4%, average weekly earnings growth remains below its pre-recession levels.⁸ Low CPI inflation has meant that wages have stretched further at the till, but pay growth will need to be higher to maintain rising living standards if, as is expected, inflation is higher in 2017.

The varied responses of businesses to the introduction and future path of the national living wage – which we discuss in chapter 3 – highlights the importance of productivity to sustainable wage growth. The workforce is the main driver of productivity and growth, and creating inclusive workplaces in which everyone can give their best each day must be central to efforts to improve productivity. Equipping employees with the right skills and then better engaging them will raise organisational and individual performance.⁹

Flexibility continues to support employment growth

The UK's successful track record of job generation seems set to continue in the short term, underpinned by the flexibilities available in the UK labour market. Maintaining this growth in the longer term will depend on businesses having confidence they can recruit the right people to fill the new roles.

Key findings

- Almost all businesses (97%) continue to regard the flexible labour market as essential to job creation
- Further jobs growth lies ahead in all regions and for the fourth year running, the biggest growth in job opportunities will be for permanent roles (with a balance of +19%), while graduate roles and apprenticeships are also being created
- Small and medium-sized firms are leading the way with a positive balance of +32% expecting to add jobs in the next 12 months.

A flexible labour market has supported our record jobs creation...

The flexibility of the UK labour market has long been one of our major competitive advantages, supporting employment and acting as a magnet for foreign investment. In the three months to September 2016 employment hit a high of 31.8 million – up by more than almost half a million on a year earlier.¹⁰

Businesses are keenly aware of the value of flexibility. In all, 97% of our respondents see a flexible workforce as important to the competitiveness of the UK's labour market and the prospects for business investment and job creation. Over half (53%) see flexibility as vital, in line with the results in recent years.

97%

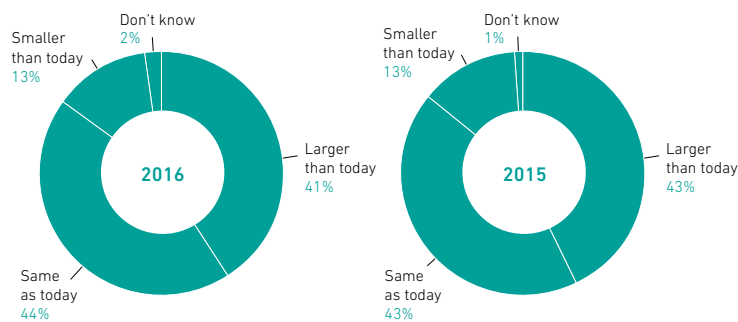
of firms believe a flexible labour market is vital or important

Businesses expect to create more new jobs in the year ahead...

More than two in five respondent businesses (41%) expect to increase the size of their workforces over the coming 12 months (**Exhibit 6**). Almost the same proportion (44%) anticipate no change, while only one in eight businesses (13%) expects their workforce to be smaller in 12 months' time. These figures mean a positive balance of +28% of companies expect to have more employees in a year's time. The positive balance of hiring intentions for the year ahead is only marginally less strong than in our 2015 results (when it stood at +30%).

Job creation in the coming year will be spread across all sizes of businesses and regions, but seems set to be strongest among small and medium-sized businesses. In all, two in five small and medium-sized firms (40%) expect to take on more people and just 8% anticipate a cut in their workforce, giving a positive balance of +32%.

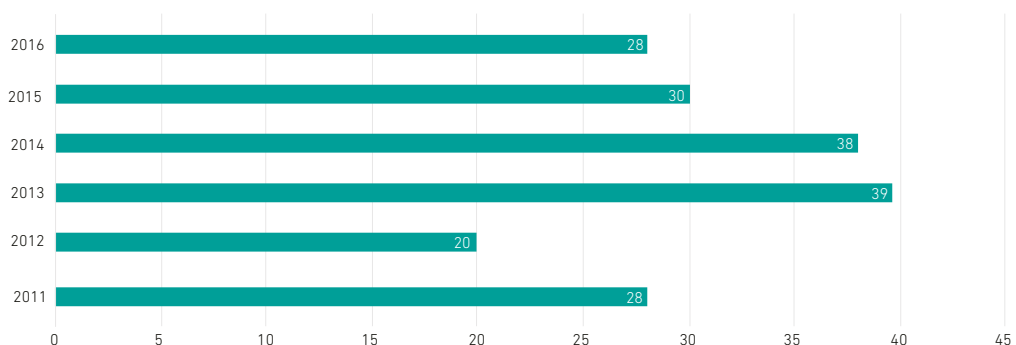
Exhibit 6 Expected size of workforce in 12 months' time, all respondents (%)



...building on the track record of job creation in recent years

The positive hiring intentions of respondents to the 2016 survey build on the exceptional track record of jobs growth over recent years (**Exhibit 7**). The positive balance of firms expecting to add employees over those expecting to shed jobs has stood at +20% or more every year since 2011. Our latest results extend the run of job generation.

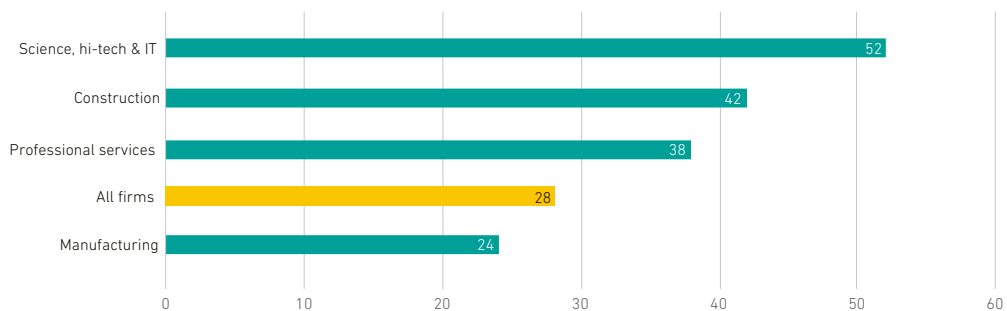
Exhibit 7 Positive balance of firms expecting workforce growth 2011-16 (%)



Construction and knowledge sectors lead on jobs growth

Almost every part of the private sector expects to add new jobs in the coming 12 months. But the pace of job generation is expected to be particularly strong among firms in science, hi-tech & IT and in the construction sector with positive balances of +52% and +42% of respondents respectively expecting to have larger workforces in 12 months' time, (**Exhibit 8**). The pace of workforce expansion is also expected to be rapid in professional services: more than two in five firms (46%) believe they will have more employees in a year's time, with just 8% expecting to shed employees, giving a positive balance of +38% of businesses anticipating extra hiring.

Exhibit 8 Positive balance of firms expecting workforce growth by sector (%)



Permanent job openings will outstrip temporary recruitment and the positive trend remains for graduates

For the fourth year running, our survey shows there will be growth in job opportunities for permanent roles overall (**Exhibit 9**). A balance of +19% intend to increase the number of permanent jobs, down on the +24% reporting increases in 2015. Growth in graduate roles also remains strong (**Exhibit 10**), with a balance of +16% looking to raise the number of graduates they recruit – the same rate of growth as in 2015. But a significant proportion anticipate no change in either permanent recruitment (42%) or graduate roles (48%).

Exhibit 9 Plans for permanent recruitment over the next 12 months (%)

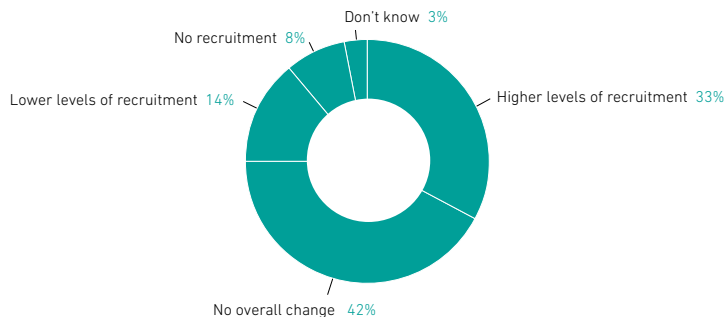
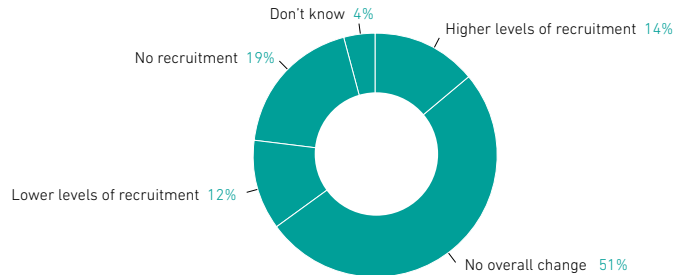


Exhibit 10 Plans for temporary recruitment over the next 12 months (%)

Some businesses are expecting change in temporary job openings in the year ahead however the majority (51%) anticipate no change (**Exhibit 11**). Overall +2% anticipate expanding their temporary hiring over the coming year. This is in line with the trend of recent years that has seen expectations for temporary hires fall from +16% in 2014.

...and the drive for more – and better – apprenticeships should help meet skill needs

This year's survey results provide further encouraging evidence on the commitment of business to expanding the number of apprenticeships (**Exhibit 12, page 16**). Nearly a third of participant firms (30%) plan to expand apprentice recruitment in the next 12 months. Just 4% of businesses are planning to cut back in the coming year, giving a positive balance of +26% planning to increase their number of apprenticeship openings. This builds further on the expansion in apprentice hiring in earlier years.

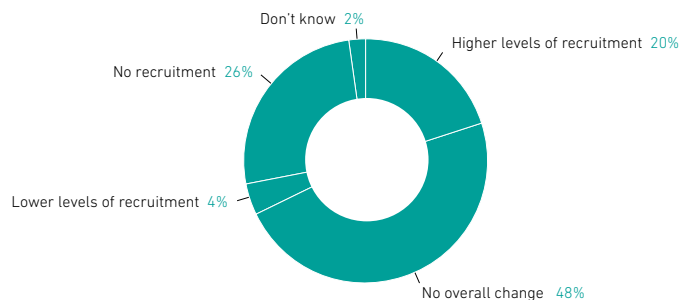
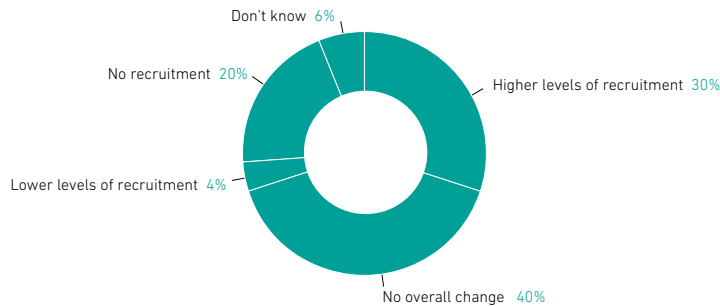
Exhibit 11 Plans for graduate recruitment over the next 12 months (%)

Exhibit 12 Plans for apprentice recruitment over the next 12 months (%)

As these findings show, businesses are already active and investing in apprenticeships. Companies could do more and many want to do more – but it is important that reforms build on what works and are undertaken in collaboration with business. With the introduction of the apprenticeship levy from April 2017, more firms will be looking to increase the number of apprenticeship opportunities they offer, however business engagement in the final stages of design – and throughout the transition – will be critical in ensuring the system delivers the best outcomes for apprentices, businesses and the economy.

CBI research has shown that many businesses are being forced to consider a decrease in the level of investment in non-apprenticeship training or rebadge schemes as apprenticeships as a result of the levy policy in its current form.¹¹ The findings call into question whether the policy will lead to increased business engagement with apprentice-level training overall while driving up costs – and underline the need for a more flexible system.



*For the fourth year running,
permanent jobs are set
to grow.* 



Businesses are working hard to raise pay

After an initial shock, the economy has stabilised following the vote to leave the EU. While the long-term future relationship with the EU is unknown, most businesses expect to be able to raise pay in the coming year in line with inflation. The impact of political interventions such as the national living wage will need to be carefully monitored, with many firms already warning of the consequences.

Key findings

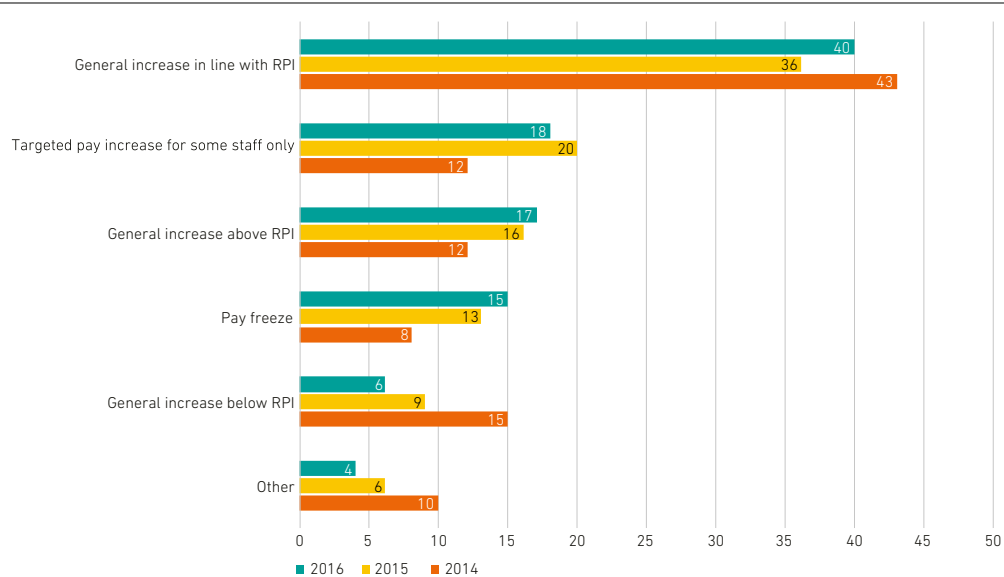
- Businesses are taking a steady line on pay but over half of respondents (57%) plan a pay award for their employees in line with inflation or above
- The introduction of the living wage in April affected half of respondents (50%). Two in five (41%) absorbed the extra cost, while more than one in four (26%) raised prices
- Looking ahead to 2020, three in ten (30%) plan to accept a reduction in profits while a fifth (18%) are considering reducing employment.

Business takes a steady line on pay

Prudence on paybill costs has underpinned the strong employment growth the UK has experienced since the 2008-09 downturn. As businesses shape their plans in the face of new uncertainties after the Brexit vote, the impact of labour costs on competitiveness is a major factor in employers' minds.

Businesses are continuing to take a steady line on pay (**Exhibit 13**). Most respondents plan a pay award for their employees in line with inflation as measured by the RPI (40%) or better (17%). This is similar to the pattern of last year.

Around one in five firms (18%) will be targeting pay rises on particular groups of staff. As competition for talent and skills intensifies, it is perhaps not surprising that many businesses feel they must focus available pay budgets where they can achieve the greatest impact for the organisation. The proportion of firms planning a pay freeze has risen a little (to 15%), reflecting the intense competitive pressures on businesses and concerns about future prospects.

Exhibit 13 Firms' approach to their next pay review (%)

The national living wage is an unprecedented intervention in the labour market...

The CBI shares the government's desire to deliver a high-wage economy which boosts prosperity. But the introduction of the national living wage (NLW) from April 2016 has changed the way pay is set in the UK and is a challenge for many companies.

Half of our survey participants (50%) report that the NLW had an immediate impact on their business in April 2016. Two in five (41%) of these are currently absorbing the extra costs by accepting reduced profits, with potential consequences for future investment, while more than one in four (26%) is having to raise prices (**Exhibit 14, page 20**). This will contribute to an unwelcome boost to inflation at a time when the decline in the sterling exchange rate is starting to bite in the wake of the Brexit vote.

Nearly one in five (18%) is increasing automation in response to the 2016 rate and almost as many (16%) are offsetting the costs of the NLW through changes in the wider reward package of their employees, through actions such as revising other payments or benefits.

57%

will match or exceed RPI in 2017

Exhibit 14 Response to the introduction of the national living wage (%)*	
No action – absorb costs	41
Raise prices	26
Increase automation	18
Offset costs through changes to wider reward package	16
Increase investment in training	15
Restructure business model	15
Change payment premiums	14
Change shift patterns	13
Reduce employment	11
Reduce employment	11
Reduce rate of pay growth for rest of the workforce	11
Reduce number of pay grades	9

* Based on those respondents affected by the NLW

...so the impact of this measure will need careful monitoring

As further increases on the path to 2020 take effect over the coming years, the proportion of our respondents expecting to be affected rises to over half (52%). Of those firms with more than 250 employees, close to two thirds are likely to be impacted (62%).

Among those who expect to be affected on the path to 2020, under a third (30%) plan simply to absorb the cost by accepting reduced profits (**Exhibit 15**). Almost as many intend to raise prices (28%) and increase automation (28%). Around one in five (21%) will be looking to manage the additional costs of the NLW by making changes in the overall reward package. Slightly smaller proportions are planning to cut back on jobs (18%), revamp their business models (18%) and increase their investment in training (18%) to enable increases in productivity. Plans to boost automation are noticeably more widespread among larger employers (with 40% of affected firms with more than 250 employees intending to increase automation).

If the UK's economic success is not to be undermined in the years ahead, the government must be prepared to monitor and – if necessary – alter its plans for implementing the NLW. Businesses want to see the independent Low Pay Commission (LPC) continue to set the NLW at a level which reflects labour market conditions and the wider performance of the economy. They should also have a clear role in the future of the NLW – measuring increases against economic conditions rather than a target.

Exhibit 15 Planned responses to the the national living wage up to 2020 (%)*

No action – absorb costs	30
Raise prices	28
Increase automation	28
Offset costs through changes to wider reward package	21
Reduce employment	18
Restructure business model	18
Increase investment in training	18
Reduce hours	16
Change payment premiums	14
Change shift patterns	13
Reduce rate of pay growth for rest of the workforce	12
Reduce number of pay grades	12

* Based on those respondents affected by the NLW



*Economic conditions – not
a target – should determine
the future path of the NLW.*



Businesses are worried about the longer-term attractiveness of the UK labour market

In recent years the UK has become increasingly attractive as a place to invest and do business. But as the UK begins the process of leaving the EU, there are concerns across the business community that the UK's attractiveness as a location to do business could be undermined in the years ahead. These concerns highlight the imperative for government to work in partnership with business as they embark on the process of negotiating a new relationship with the EU.

Key findings

- The pattern of optimism about the attractiveness of the UK as a business location found by our surveys in recent years has dropped away in the 2016 survey
- Half of firms (50%) believe the UK will become less attractive over the next five years, with fewer than three in ten (29%) expecting it to become a more attractive location
- The biggest worries for the future are around access to highly skilled migrants (58%), skills gaps (58%) and access to sufficient labour to fill shortages (50%).

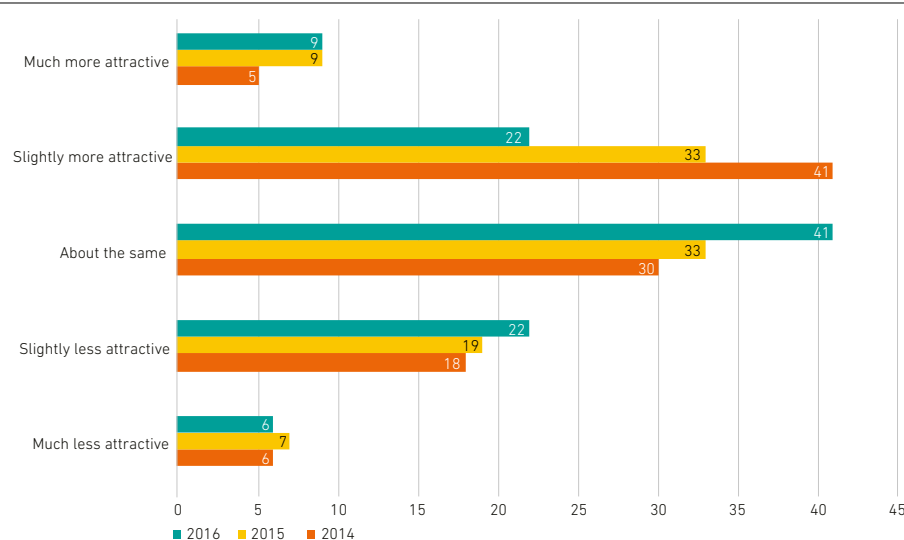
In recent years the UK has increasingly been seen as a good place to do business

Ensuring the UK is an attractive place to invest and do business is essential for sustained economic growth, job generation and prosperity. And in recent years the UK has increasingly come to be perceived as a desirable business location (**Exhibit 16**).

Against a backdrop of economic upturn, close to half of businesses (42%) in 2015 considered the UK had become a more attractive place to invest over the previous five years. With just 26% of respondents viewing the UK as having become less attractive, a positive balance of +16% of businesses rated the UK as having become a better place to invest and employ people.

That confidence is now being called into question...

In 2016, following the EU referendum, this trend of improvement in perceptions of the UK as a business location has started to erode. In this year's survey the numbers viewing the UK as having become a better place to do business over the past five years have dropped to a positive balance of only +3%.

Exhibit 16 The UK as a place to invest/do business over the past five years (%)

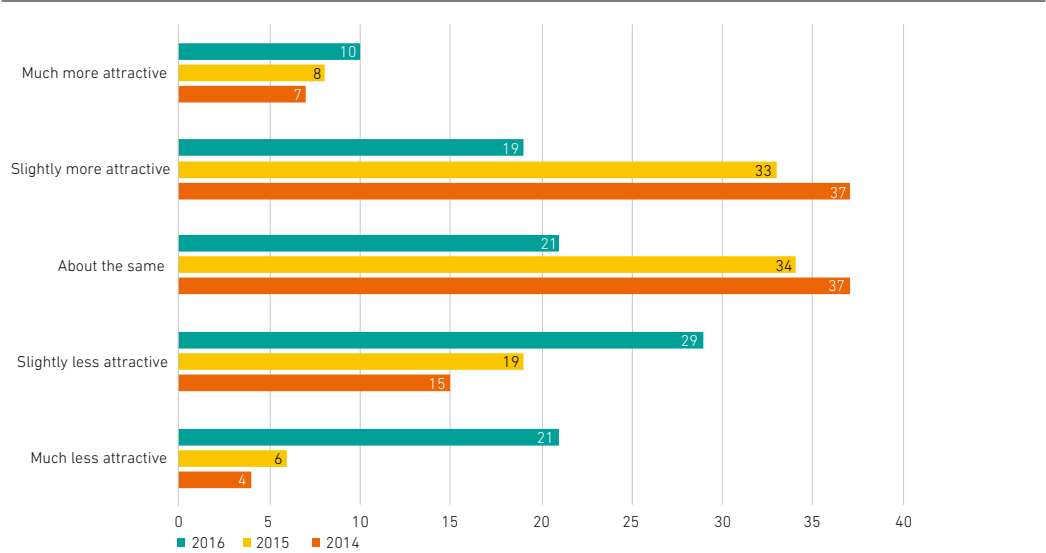
...and there are concerns about the UK's future as a business location

When asked about their expectation of the UK as a place to invest in five years' time, confidence significantly drops away (**Exhibit 17, page 24**). Half of our respondents (50%) expect the UK to become a less attractive location to invest and do business, with a fifth (21%) anticipating that the UK will be much less attractive.

Overall, the balance of respondents expecting the UK to be a more attractive place to invest and do business in future has flipped from +16% in our 2015 survey to a negative figure of -21% in this year's results. Among those with workforces of 5,000 and more, the balance of firms anticipating that the UK will be a less attractive location to employ people in five years' time stands at -27%. It is even higher among those with 1,000 to 4,999 employees at -48%.

This scale of change is unprecedented in our annual surveys. And it is a deeply concerning development. Confidence about the future is the essential underpin for investment, innovation and job generation. Maintaining a close partnership between business and government is vital in this environment. The CBI has welcomed steps taken to date by the government to create an effective and open dialogue with the business community. This must continue to ensure that the UK remains an outstanding location in which to do business. The CBI welcomes the progress government has made on creating an effective and open dialogue with the business community on Brexit related matters. This cooperation must continue and be further intensified to ensure that the UK remains an outstanding location in which to do business.

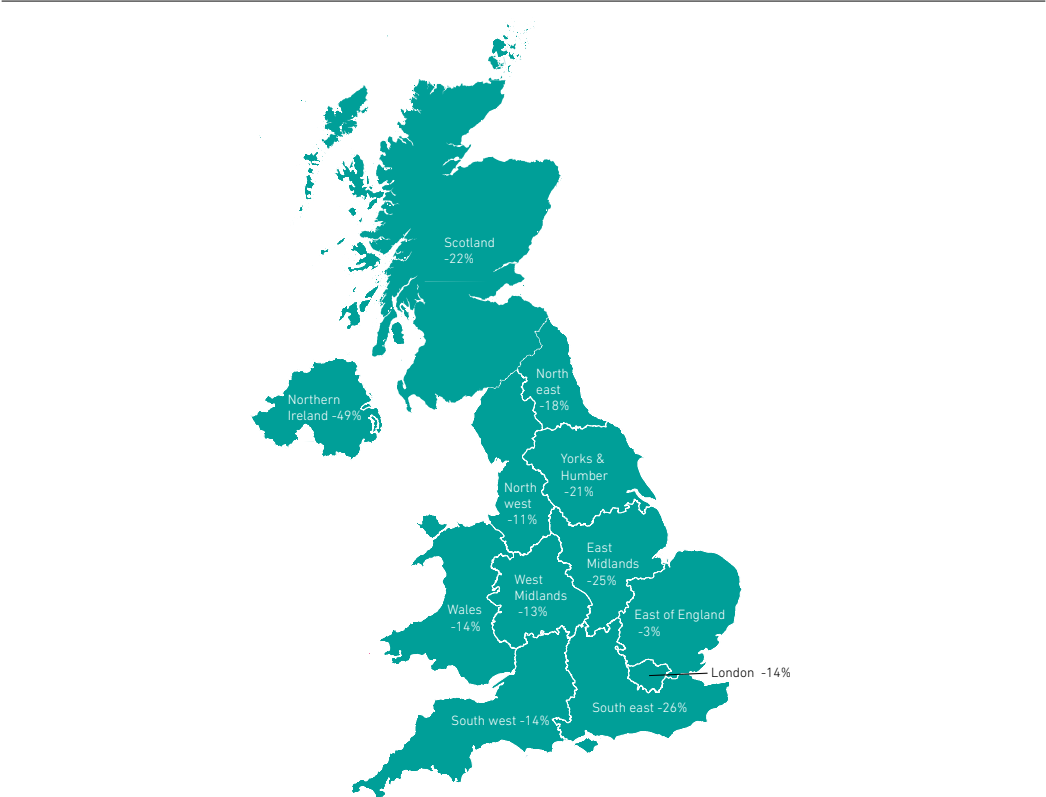
Exhibit 17 The UK as a place to invest/do business in five years' time (%)



Businesses in every region believe the UK will be a less attractive location

In every part of the UK, more businesses expect Britain to be a less attractive location to invest and employ people in five years' time than believe it will become more attractive (Exhibit 18). The scale of those negative expectations ranges from a modest balance of -3% among firms in the east of England to an alarming -49% in Northern Ireland.

Exhibit 18 Negative balance of expectations by company location (%)

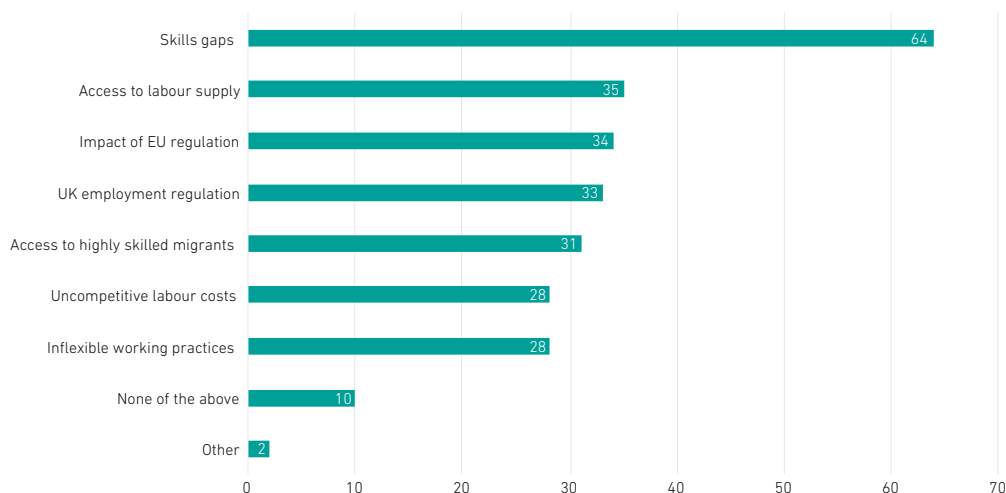


Skills gaps are the leading concern for businesses

We asked respondents what they see as the current weaknesses that threaten the UK's competitiveness as a place to employ people (**Exhibit 19**). Topping the list are concerns about finding enough people with the right skills. Nearly two thirds of respondents (64%) highlight skills gaps as a threat to the UK's current labour market competitiveness, while more than a third (35%) point to concerns about their access to labour supply. These concerns represent the other side of the coin of the UK's success in recent years in generating new jobs. Following the referendum result and the likely restriction of free movement, we asked businesses about access to labour supply as well as access to skilled migrants. In the current environment, concerns about labour supply outstrips employment regulation.

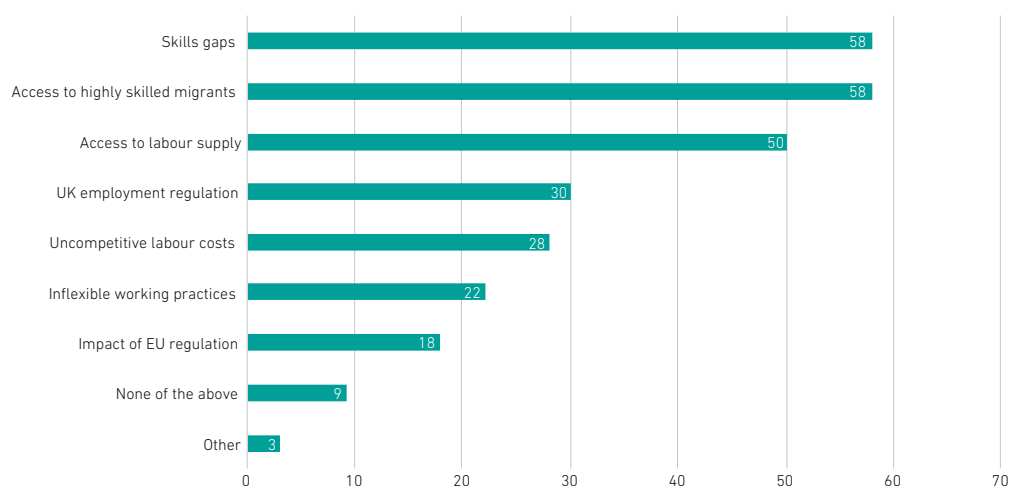
Regulation from Brussels (34%) and domestic employment regulation (33%) are still seen as threatening the UK's current competitiveness as businesses continue to work through the apprenticeship levy and wait for further clarity on holiday pay. But these rank only just ahead of worries about businesses being able to access the highly skilled migrants they need (31%).

Exhibit 19 Current threats to UK labour market competitiveness (%)



Ensuring businesses can access enough people with the right skills must be the top priority

When asked to identify the most likely future threats to the UK's competitiveness and attractiveness as a place to employ people, businesses highlight worries about accessing enough people with the right skills (**Exhibit 20, page 26**). Over half of respondents believe that restricted access to highly skilled migrants (58%) and skills gaps in the workforce (58%) will be the most significant threats to the UK's competitiveness in five years' time. And half of businesses (50%) are concerned about future access to labour supply more generally.

Exhibit 20 Threats to UK labour market competitiveness in five years' time (%)

These widespread worries need to be addressed urgently. The level of skills required in our growing economy is rising. By 2024 most jobs are expected to require at least a Level 4 qualification (such as a BTEC professional diploma).¹² The UK's education and skills systems need to respond by opening up more routes to higher skills alongside existing degree courses.¹³ But it is also essential that British businesses can continue to draw on talent from overseas. The UK's departure from the EU must not imperil future economic success by leaving businesses facing shortages of people in the right numbers and equipped with the right skills.

Regulation and labour costs also pose future threats

The burden of employment regulation is not expected to disappear as a threat to the UK's competitiveness as a place to employ people in five years' time. Nearly a third of businesses (30%) see UK employment regulation as likely to be a threat in the future and 18% still expect EU regulation to be an issue.

These results point to an expectation among some respondents that regulation from Brussels will fall away in the coming years as a consequence of leaving the EU. While it is not yet clear what the future relationship between EU social policy and UK employment law will look like, the announcement of the Great Repeal Bill was welcomed by businesses as it will provide greater certainty for employers and individuals that existing employment rights will remain in place for the foreseeable future.

One of the consequences of both the impending labour shortages feared by firms and the burden of red tape is the risk of driving up labour costs to uncompetitive levels. More than one in four respondents (28%) expects this to be a threat to the UK's competitiveness in the future. At the same time many firms also face hefty legacy costs from defined benefit pension schemes which will weigh on them for years to come. In addition, both the new apprenticeship levy and the national living wage are raising costs. This all adds up to a worrying cost handicap at a time when UK firms will need to be winning new business in intensely competitive markets across the world in the wake of Brexit.



Agile and inclusive workplaces are key enablers of business success

Creating inclusive and engaging workplaces can help firms up their game and become more internationally competitive. How successful businesses are in unlocking the talents of their employees can make the critical difference between thriving and stagnating. The business case for diversity is clear – but it is not always easy to achieve in practice. The barriers identified by respondents in their drive to become more diverse take many different forms.

Key findings

- More than three quarters of businesses (76%) see achieving a diverse and inclusive workforce as important to their future success
- The most widely identified benefits to businesses of inclusive practices are an increase in the skills and capabilities they can draw on among employees (73%) and increased ability to attract and retain staff (60%)
- Most businesses (67%) report there are still obstacles to implementing fully inclusive workplace practices, with workplace culture and the mind-set of management topping the list (43% and 42% respectively).

Businesses are well aware of the value of a diverse workforce...

More than three quarters of businesses (76%) see achieving a diverse and inclusive workforce as important to their future success, with nearly a third (29%) regarding it as vital. They recognise that inclusive businesses perform better economically as well as socially.¹⁴

People are at the heart of virtually every business. It is often said that the workforce is a business' greatest asset. And firms are missing an opportunity if their actions – how they lead, manage, support and develop people – don't back this up effectively. They need to focus on helping every person reach their best level of contribution.

76%

of firms believe a diverse and inclusive workforce is vital or important

...and they have been taking steps to build more inclusive workplaces

The great majority of firms (77%) have taken action in the past five years to build more inclusive workplaces (**Exhibit 21**). Among these businesses, the most frequently cited steps are the introduction or extension of flexible working opportunities (61%) and investment in training line managers to reinforce awareness of diversity issues (57%). Other actions taken by more than half of these firms are improved progression opportunities for staff (56%), introduction or improvement of family-friendly policies (53%) and reviews of recruitment practices (51%).

Initiatives in all these areas are important to ensure that there are no unnecessary obstacles holding people back in their careers and their ability to progress at work. Businesses want to be able to make best use of all the talent available to them, as well as recognising the social and moral case for maximising inclusivity in the workplace.

Exhibit 21 Steps taken to increase diversity over past five years (%)*	
Introduced/extended flexible working opportunities	61
Invested in training for line managers	57
Improved progression opportunities for staff	56
Introduced/improved family-friendly policies	53
Reviewed recruitment practices	51
Outreach activity with young people/local community	41
Increased monitoring and data collection	35
Improved board-level diversity	34
Progress against internal targets	26
Progress against external voluntary targets	11
Other	2

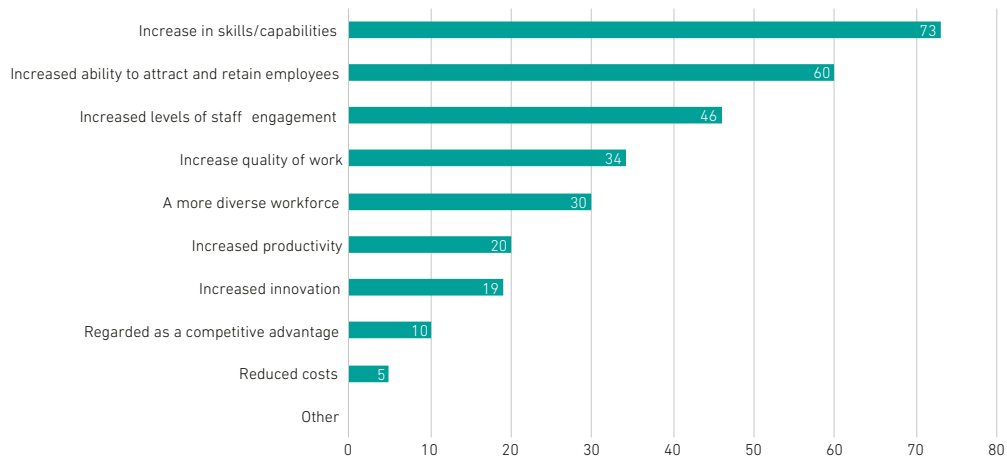
* Based on those taking some action

The business case for inclusive workplace practices is clear...

When asked to identify the three main benefits to the business of inclusive practices, the top responses centre on maximising talent and contribution (**Exhibit 22, page 30**).

The single most widely identified benefit reported by respondents is an increase in the skills and capabilities they can draw on among employees (73%), followed by an increased ability to attract and retain staff (60%). Almost half of those identifying benefits also point to improved levels of employee engagement (46%). More than a third (34%) see increased quality of work as a main benefit.

These responses show the business case for inclusive workplace practices is clear and well recognised among employers.

Exhibit 22 Main benefits of inclusive workplace practices (%)*

* Based on those identifying some benefits

...but businesses still face challenges in making workplaces fully inclusive

Most businesses (67%) report there are still obstacles to implementing fully inclusive workplace practices (**Exhibit 23**). Workplace culture and the mind-set of management top the list of obstacles (43% and 42% respectively). Changing attitudes and challenging preconceptions are widely recognised as slow, difficult processes, but bringing about positive changes in mind-sets is the essential underpin for effective delivery of inclusive policies.

Developing the right infrastructure to support flexible working is also seen as a widespread barrier to greater diversity and inclusivity (by 40%). The challenges can range from shaping more flexible work patterns that are compatible with business operating needs and customer demands, to developing secure but accessible IT networks. Many businesses are also concerned about the potential extra costs of diversity initiatives (29%) and risks to the continuity of key business activities (28%).

Experience has shown that none of the obstacles are insuperable. With the right commitment, effective planning and ongoing monitoring, businesses can achieve a step-change in the drive towards diversity and inclusivity (**Exhibit 24, page 32**).

Exhibit 23 Obstacles to more inclusive workplace practices (%)

* Based on those reporting one or more obstacles



Exhibit 24 Time for action: the business case for inclusive workplaces

Earlier this year the CBI published ten recommendations suggesting practical approaches that can help businesses of all sizes and in all sectors to make their workplaces more inclusive – whether that be taking their first step or continuing on their journey.¹⁵

- 1** *Businesses should recognise the impact their workplaces have on productivity – good employee relations will make workplaces more inclusive and help everyone perform at their best.*

- 2** *Businesses should set tailored, voluntary targets to improve diversity and hold leaders responsible for plans to achieve them.*

- 3** *Businesses should develop the language and tools to discuss inclusion with confidence – partnerships with outside organisations can help.*

- 4** *Businesses need to work collaboratively and share good practice to improve inclusion across their sector.*

- 5** *Where possible, businesses should offer flexible working in future job adverts.*

- 6** *Businesses should consider using name-blind recruitment and extending competency-based assessment to challenge unconscious bias.*

- 7** *More businesses should develop long-term partnerships with schools, colleges and universities to attract people from underrepresented local communities to their sector.*

- 8** *Businesses should commit to helping staff develop their careers and make people planning as important as financial planning in leadership discussions.*

- 9** *Managers' performance appraisals must give weight to their roles in developing staff as well as short-term commercial performance.*

- 10** *More businesses should find appropriate mentoring, sponsorship and networking opportunities for staff's long-term development.*



Employee engagement and access to the right people are essential

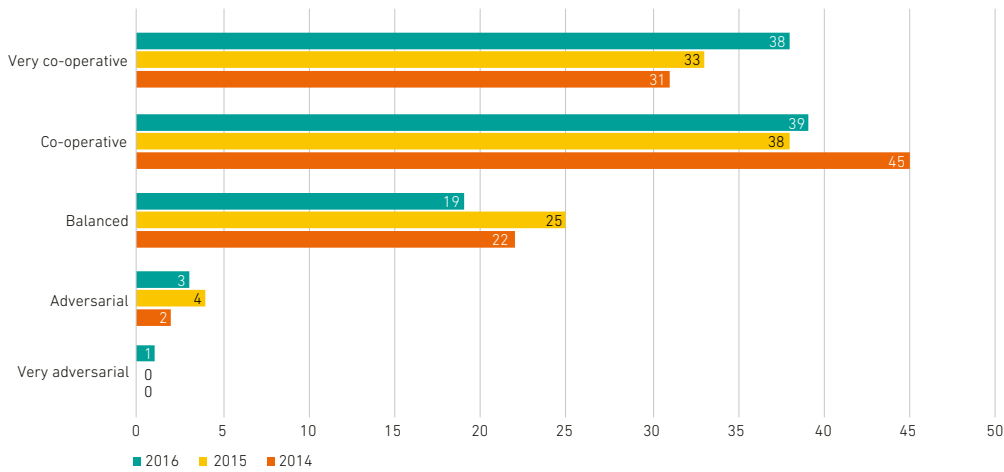
People are at the heart of virtually every business – and firms recognise the need to engage their commitment as fully as possible. Businesses also need access to talent if they are to thrive, but there are worrying signs the door is being closed to international skills and overseas workers. It is critically important that the UK's future migration system enables businesses to access the right people with the right skills at the time they are needed.

Key findings

- Businesses are keenly aware of the value of employee engagement, pointing to benefits including improved productivity and performance (73%), increased customer and client satisfaction (57%) and improved employee retention (44%)
- In the coming year the top workforce priorities for businesses are achieving and maintaining high levels of employee engagement (48%), retaining talent (41%) and improving leadership skills (37%)
- The future migration system must be responsive to economic need and provide access to both labour (46%) and skills (40%).

Businesses expect the positive climate of employee relations to continue

Since the economy returned to growth, businesses have reported an increasingly positive spirit of partnership and cooperation in employment relations (**Exhibit 25**). In all, more than three quarters of all firms (77%) assess their employee relations climate as co-operative or very co-operative. Looking to the year ahead a similar proportion anticipate maintaining this positive climate (76%). These results echo our positive survey findings on expectations in recent years which have been fulfilled.

Exhibit 25 Employee relations climate in the workplace (%)

High levels of employee engagement yield major benefits...

As highlighted in the previous chapter, businesses are keenly aware of the value of an inclusive and engaged workplace. When we asked businesses about the benefits of high levels of employee engagement nearly three quarters of respondents (73%) see improvements in productivity and performance as one of the main benefits flowing from engaged employees. And over half (57%) point to increased customer and client satisfaction (Exhibit 26).

At a time when businesses are increasingly concerned about skills gaps, there are also important advantages to be gained in terms of improved employee retention. Just under half of respondents (44%) point to this as a benefit stemming from strong employee engagement, and over a third (36%) see engagement as reducing absence and boosting employee wellbeing.

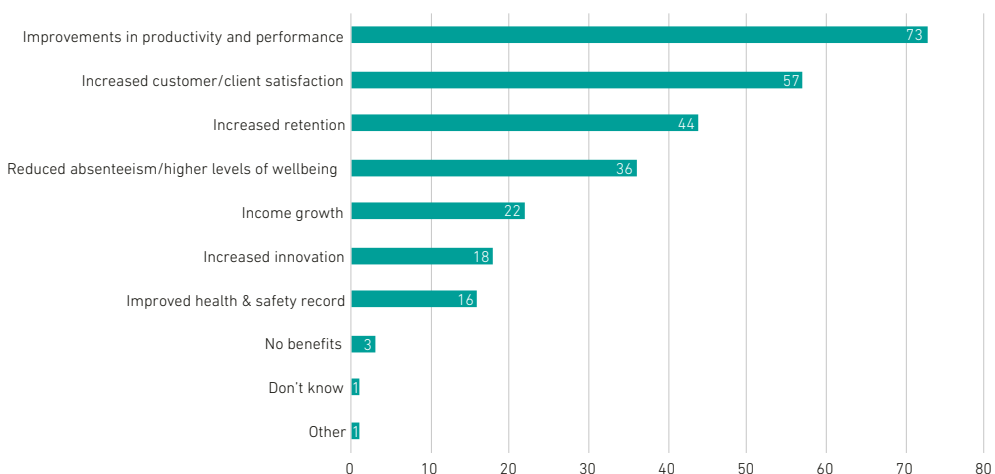
Exhibit 26 Main benefits of engaged employees (%)

Exhibit 27 Main drivers of employee engagement(%)*	
Effective line management	41
Shared, company-wide values	38
Personal interest in the work	34
Having the right skills and resources to do the job	27
Flexible working practices	24
Brand/organisational reputation	22
Progression opportunities within the business	22
Rewards and recognition other than pay	21
Pay	20
Training and development opportunities	18
Diversity in the workplace	7
Other	3

...and there are clear routes to strengthening employee engagement

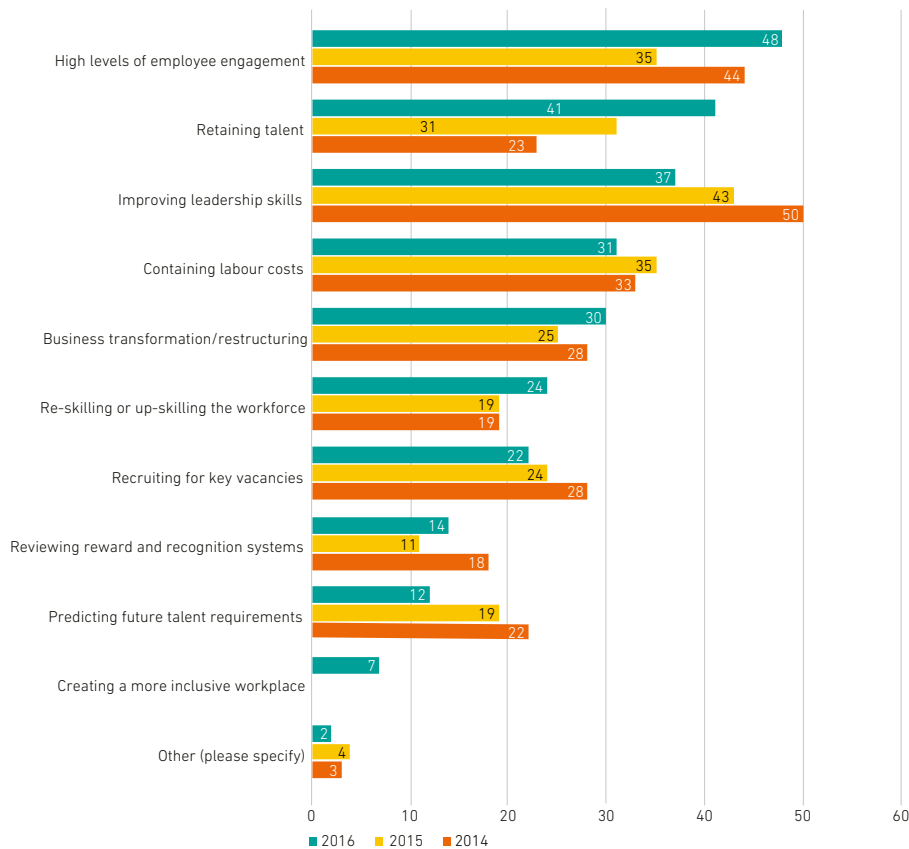
We asked respondents to identify the three key drivers of employee engagement in their business (**Exhibit 27**). The results show there is no single magic bullet. Instead, a mix of approaches seems called for.

More than two in five businesses (41%) point to the importance of effective line management in fostering employee engagement. Almost as many businesses (38%) identify shared, company-wide values as an important factor in employee engagement, generating a climate of shared commitment. Personal interest in the work, leading to a clear sense of worthwhile purpose, also emerges as a powerful driver (cited by 34%). Having the right skills and aptitudes is essential to get into work, and once in a job supporting individuals to use and develop their skills is another important driver of engagement (27%).

The top priorities for business are better employee engagement, talent retention and leadership

Our survey asked respondents to identify their top three workforce priorities in the coming year (**Exhibit 28**). Over the years achieving and maintain high levels of employee engagement and improving leadership skills have been listed as top priorities – this year is no different with 48% and 37% citing these respectively as priorities.

Retaining talent has edged into the top three this year (cited by 41%). At a time when so many businesses are concerned about skills gaps and future labour supply (see chapter 3), firms are inevitably keen to hold onto as much talent as they can. Nearly one in three identify containing labour costs (31%) and business restructuring to meet the UK's changed economic circumstances as priorities (30%). As we saw in chapter 2, future labour costs are an increasing concern for businesses. The UK cannot risk a return to the days of internationally uncompetitive labour costs.

Exhibit 28 Workforce priorities in the coming year (%)

And we must have a migration system that allows business access to the right people at the right time

An essential feature of the flexible labour market is that firms should be able to access enough people with the right skills at the time they need them. And that includes the capacity to draw on people and skills from overseas when necessary. Businesses fear that flexibility is now under threat.

Businesses highlight worries about accessing enough people with the right skills as the biggest threats to the UK's future competitiveness and its attractions as a place to employ people (**Exhibit 19, page 25**). Nearly six in ten businesses (58%) are concerned about future access to skilled migrants, the same proportion see future skills gaps as a threat, and half (50%) are worried about future access to labour supply. These concerns must be addressed effectively if they are not to hold back investment and growth. That means getting the UK's migration system right for business is critically important.

Businesses are clear about their priorities

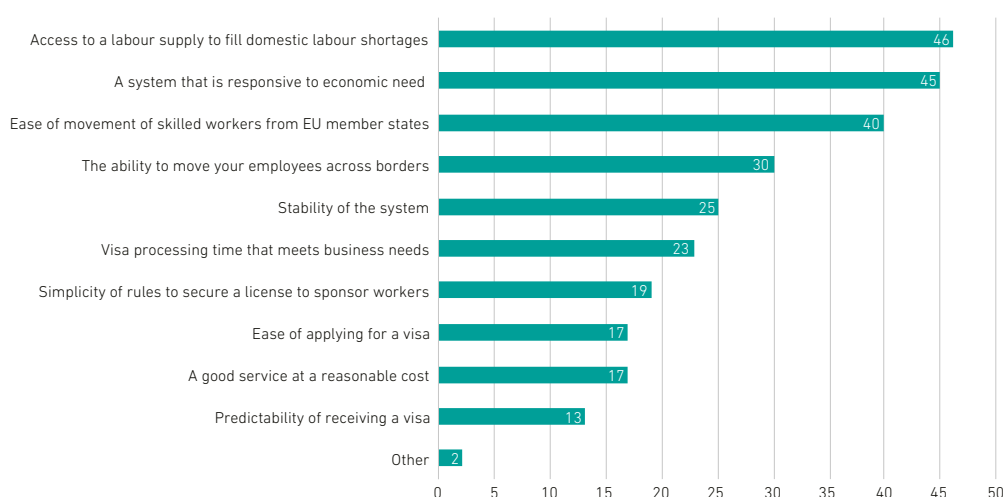
Businesses are realistic about the need to strike a balance in our migration system and respond to public concern about the social impacts of immigration. But for employers, migration is the most critical people and skills issue flowing from the decision to leave the EU. Replacing free movement with a model that balances economic need with political priorities will be a significant challenge. Any new system must be informed by – rather than imposed on – businesses.

Businesses have clear priorities about what they want to see from a future migration system (**Exhibit 29**). When asked to identify the three most important principles, access to people to fill labour shortages (46%), a system that is responsive to economic need (45%), and ease of movement of skilled workers from EU member states (40%) top the list for businesses. Nearly a third (30%) also point to the importance of being able to move their employees across international borders – a priority for more than half of respondent firms (52%) with more than 5,000 employees.

These results clearly show the importance to business both of labour in terms of adequate numbers and the mix of skills. The need for a long-term agenda to address skills issues in the domestic labour market is well recognised, and business does not see migration as a substitute. However, with the employment rate at a record high, it is simply unrealistic to suggest that people sourced from the domestic labour market could take over all the work currently being done by migrants.

In a globally connected economy, the reality is jobs can be situated in almost any country. The CBI has put forward practical proposals for the competitive migration system the UK needs if it is to attract the investment and jobs that will be the foundation of future prosperity.

Exhibit 29 Business priorities for the migration system (%)



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