People at the heart of the recovery

The 2020 CBI/Pertemps Employment Trends Survey results and what they mean for business

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People and Skills

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For further information, contact:

Kevin Cooke, Head of PR & Communications
T: +44 (0)1676 525250
E: kevin.cooke@pertemps.co.uk
W: www.pertempsnetwork.com

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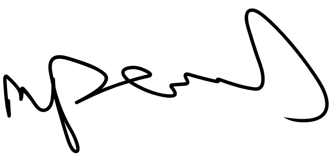
The health and economic impacts of the global coronavirus pandemic have shaped UK employment trends in 2020. It has been a year in which businesses and government took extraordinary steps to protect jobs. Unemployment would have been much higher without the Coronavirus Job Retention Scheme. This survey highlights the difficult steps companies have taken such as temporarily cutting hours and various forms of pay restraint, often agreed in consultation with their workforce and trade unions. It also shows companies taking new steps to support their workforce with their health and wellbeing, particularly mental health.

Despite positive news about the approval of vaccines, the pace with which this will allow a full reopening of the economy is uncertain and higher unemployment is expected for the next few years. 2021 will also be a year of adapting to a new trading relationship with the EU. Businesses have been clear though, that their ambition is to aim higher than simply getting back to where we were pre-crisis. Building Back Better means learning lessons from this crisis to make workplaces more inclusive. For many companies, more regularly offering a hybrid of time working at home and time in a shared workspace is a prominent example.

Given this mix of uncertainty and opportunity, it's unsurprising that the top business priorities for 2021 include high levels of employee engagement, business transformation and retaining talent.



Matthew Percival
Director, People and Skills, CBI

Foreword Pertemps

During the Coronavirus pandemic, the recruitment industry has played a pivotal role in mobilising the UK economy and workforce. Businesses have maintained composure in the face of uncertainty and have been essential in supporting the nation in the fightback against Covid-19.

The labour market has suffered a heavy strain throughout 2020, but a two-speed recovery is emerging, with 51% of firms expecting to maintain or increase their permanent recruitment in the next 12 months.

Businesses are bolstering their efforts to protect jobs through flexible working arrangements, pay and restructuring operations as they continue to manage change. Young people have been hit hardest during this pandemic, so it's encouraging to know that businesses are still favouring apprenticeships and traineeships, as well as utilising the government's kickstart scheme.

For many years, we have worked with businesses across the UK to promote the benefits of diverse workforces and improved engagement. I am therefore delighted to see that organisations continue to place employee engagement at the top of their agendas with over a third of organisations having increased their D&I efforts, while 62% have maintained their focus. Events in recent months have seen an increased focus on race as employers bolster their efforts to understand the issues ethnically diverse employees face. Other voices need to be heard and be represented at all levels and meaningful action needs to follow.

It is likely that there will be difficult times ahead; the hiring market has changed, with unemployment on the rise, but as the labour market constantly changes, we will adapt, reshape and prosper in the ever-changing economic landscape.

Carmen Watson

Chair and Managing Director, Pertemps Ltd

Survey results at a glance

The employment trends survey 2020

- The survey was conducted between 17th August and 4th September 2020.
- 248 businesses, of all sizes and sectors across the UK, responded in total.

A two-speed jobs market is emerging from the coronavirus pandemic

- Over one in three respondents (35%) expect to grow their workforce in the next 12 months, a lower percentage than in 2019 (43%).
- Meanwhile, 27% of respondents anticipate that their workforce will be smaller next year – giving a balance of +7%.[1]
- As expected, following the coronavirus pandemic, respondents' hiring expectations are weaker compared to 2018 (+34%) and 2019 (+28%) but remains in positive territory.
- The balance of large business respondents expecting to grow headcount compared with those who expect it to shrink was +11% compared to +6% for SMEs.
- Just over half (51%) of respondent firms expect to maintain or increase their permanent recruitment in the next 12 months while 46% plan to either reduce permanent recruitment or not recruit at all.[2] This balance of +5% compares to a balance of +56% in 2019. When looking at temporary recruitment, the balance is -5% in 2020 compared to +25% in 2019.

Businesses are taking all the steps they can to protect jobs amidst the crisis

- A third of respondent firms (33%) expect to freeze pay for their employees at their next pay review, while nearly three in ten (29%) expect to raise it in line with inflation.**
- In light of the coronavirus pandemic, half of respondents are taking steps to protect jobs and reduce redundancies. Within this group, nearly half of respondent firms (46%) have reduced working hours while 43% have reduced bonuses. Meanwhile, a quarter (26%) have reduced overtime and pay premiums.
- Looking ahead, the same proportion of firms are planning to take steps to protect jobs in the future (50%). Within this group, 37% are considering reducing working hours while 34% are considering reducing bonuses.
- Of those impacted by the National Living Wage, just over one in three respondent firms (34%) think that the Low Pay Commission should take a cautious approach to increasing the National Living Wage in 2021, with larger firms being more cautious than SMEs (40% and 32% respectively). Over one in four respondents (27%) are calling for a freeze.

Restoring labour market competitiveness will be crucial in the post-Covid world

- Nearly two-thirds of respondent firms (63%) say that the UK labour market has become either a slightly less attractive or a much less attractive place to invest and do business over the past five years, continuing the declining trend from previous years.**
- Nearly six in ten respondents (57%) believe that the UK labour market will become either a slightly less attractive or a much less attractive place to invest and do business in the next 5 years, with just below a quarter (24%) expecting it to become either slightly more attractive or much more attractive.**
- The main current threats to the UK's labour market competitiveness are believed to be access to skills (54%), the ability to move UK-based workers across the EU (53%), and access to labour supply (36%).**
- Businesses expect these challenges to grow in the years ahead with the ability to move workers across the EU (61%), access to skills (59%), and access to labour supply (46%) identified as the key threats to competitiveness over the next five years.
- Nearly half of respondent firms (47%) don't fully understand the new points-based immigration system and don't know how much preparatory work will be required to use it, while one in three (31%) understand it but would have to undertake some preparatory work to use it. Fewer than one in ten firms (8%) understand the new immigration system and are well prepared to use it.**

** means that 'don't know' responses were included from the data analysis*
*** means that 'don't know' responses were excluded from the data analysis*

Diversity and Inclusion remains a priority for UK businesses despite the crisis

- Following the coronavirus pandemic, nearly three quarters of respondents (74%) expect flexible working to become more common within their organisations.
- Nearly four in ten respondent firms (38%) have either significantly increased or slightly increased their focus on Diversity and Inclusion over the last 12 months, while the rest (62%) reported no change.
- When asked, 45% of companies have taken new steps to address the experiences of BAME employees in the workplace. The most commons steps are to start internal processes to assess recruitment, retaining and progressing BAME employees (17%), organise internal activities to raise awareness (14%) and to have established or increased companies' engagement with their internal BAME employee network (12%).

Transforming businesses to adapt to a new normal will be a top priority for UK firms in the years ahead

- Effective line management (53%) and shared company-wide values (52%) are cited as the top drivers behind employee engagement. Flexible working practices (35%) are also seen as important.
- Because of the pandemic, employers changed their approach to employee engagement with over 8 in 10 respondents (82%) having increased communication to keep in touch with employees and more than 6 in 10 (64%) having increased flexible working arrangements to prioritise staff's work-life balance. Over half of respondent firms (54%) have increased their mental health and wellbeing assistance for employees.
- Respondent firms expect their top three priorities for the year ahead to be maintaining or achieving high levels of employee engagement (55%), business transformation or restructuring (48%), and retaining talent (40%).

The Employment Outlook

The impact of the pandemic is being felt in the labour market with unemployment and redundancies on the rise

Key findings

- Unemployment is the highest in three years while the annual increase in redundancies was the largest in more than a decade
- Employment continues to fall, with the decline mainly driven by workers aged between 16 to 24 years old
- The total number of weekly hours worked during the July to September period remain 12% below their level a year ago
- In the quarter to October 2020, the number of vacancies was 525,000, a significant increase from the record low in the three months to June

The labour market continues to deteriorate, with unemployment and redundancies rising sharply

The COVID-19 pandemic has severely impacted the labour market. Lockdowns in spring have fed through to headline labour market indicators and tighter restrictions in October and November are likely to hit the labour market further. But the introduction and extension of the Coronavirus Job Retention Scheme has been crucial to protecting jobs and cushioning the overall impact of the pandemic on the labour market. Still, employment itself significantly fell by 164,000 in the three months to September 2020, compared with the previous quarter while unemployment increased sharply by 243,000 and stood at 1.62 million during the same period. From a historic low, the unemployment rate has risen back to levels last seen in mid-2016 **(Exhibit 1.1)** while redundancies increased substantially by 195,000 on the year to September 2020. The annual increase of redundancies was the largest since February to April 2009 **(Exhibit 1.2)**.

Exhibit 1.1 Unemployment rate (%, 2006 to 2020)

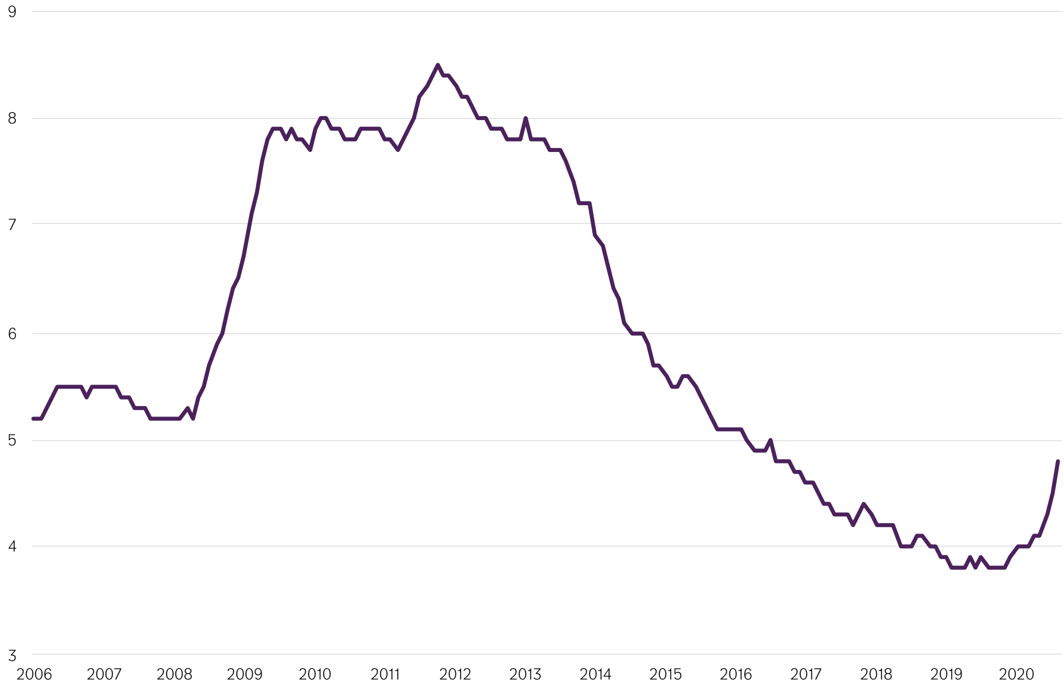


Exhibit 1.2 Redundancies rate (January 1996 to September 2020)

Young people are amongst the hardest hit by the coronavirus pandemic

The employment rate fell by 0.6 points in the quarter to September 2020 to stand at 75.3%. This decline was mainly driven by those aged 16 to 24 years (-176,000), with a steep drop of 136,000 for those aged 18 to 24 years **(Exhibit 1.3)**. Despite a partial economic recovery over the summer as lockdown restrictions were eased, only a net figure of 1,000 people moved from unemployment back into work between Q2 and Q3. Job creation is likely to slow again as restrictions are tightened. With many roles for young people concentrated in sectors which had been worst affected by the pandemic such as hospitality, retail and leisure. This is particularly important because of the scarring impact unemployment can have on the long-term career prospects of young people. It makes schemes like Kickstart and support for training essential. The prospect of finding a new job for young people is gloomy as the number of vacancies hasn't recovered to pre-pandemic levels **(Exhibit 1.4)**.

Exhibit 1.3 Employment level for young people (16-24 year-olds, January 2018 to September 2020)

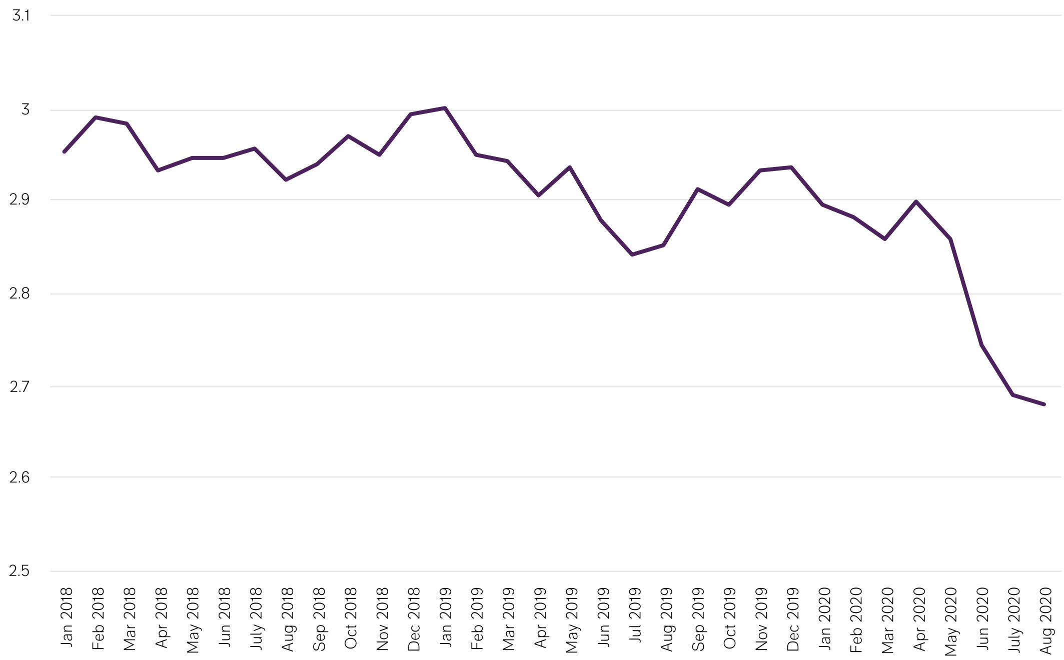
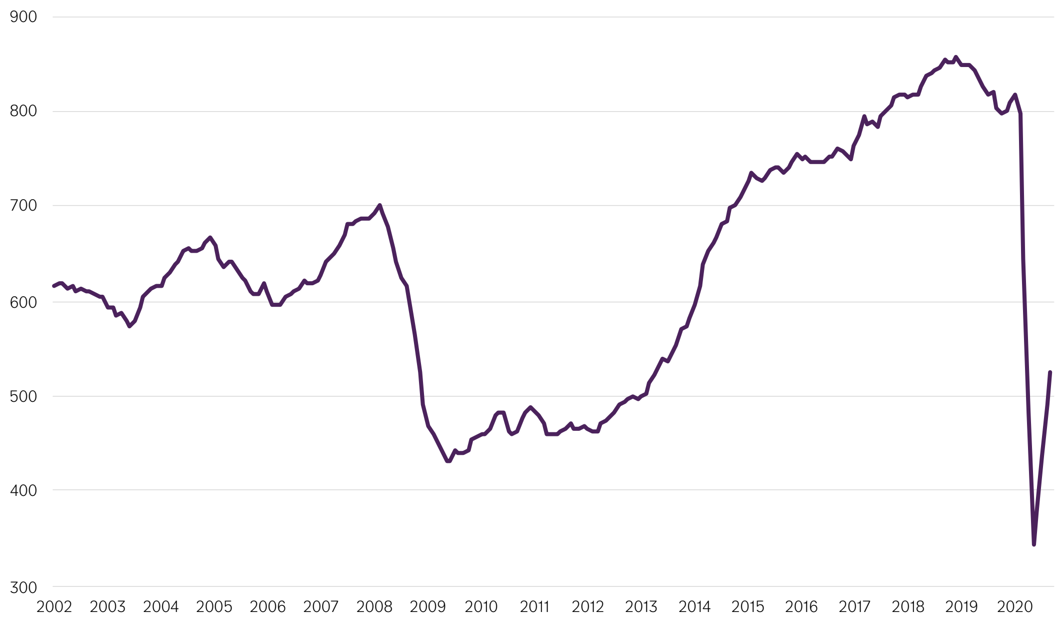
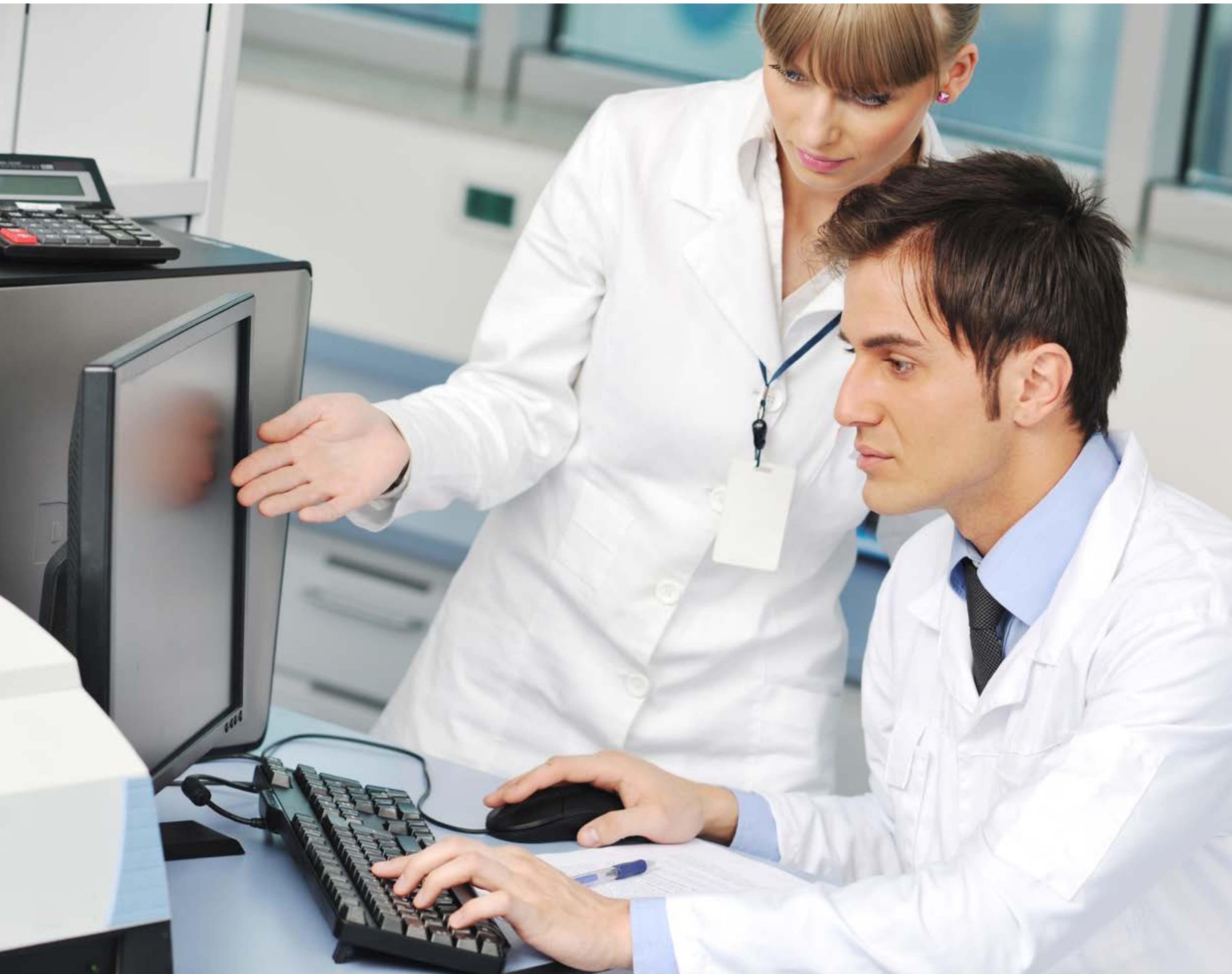


Exhibit 1.4 Vacancies (2002 – 2020, 000s)





A two-speed jobs market is emerging from the coronavirus pandemic

Since our last Employment Trends Survey the world has changed. The coronavirus pandemic hit and impacted our lives, jobs and livelihoods in an unprecedented way. It has affected the economy and the labour market with a speed and severity that is unlike anything we have seen before. The government reacted quickly by introducing the Job Retention Scheme (JRS) which has cushioned the overall effect of the pandemic on the labour market. And businesses have taken all the steps they can to protect jobs from reducing hours, bonuses and pay. Unsurprisingly, businesses' expectations for generating more jobs in the next year are weaker in line with the economic conditions. But a two-speed jobs market is emerging – on balance more firms expect to grow their workforces over the next twelve months, but fewer than in previous years. Larger firms are slightly more positive than smaller ones. In the longer term, ensuring a sustainable basis for firms to employ people will be integral to rebuilding the labour market post COVID-19.

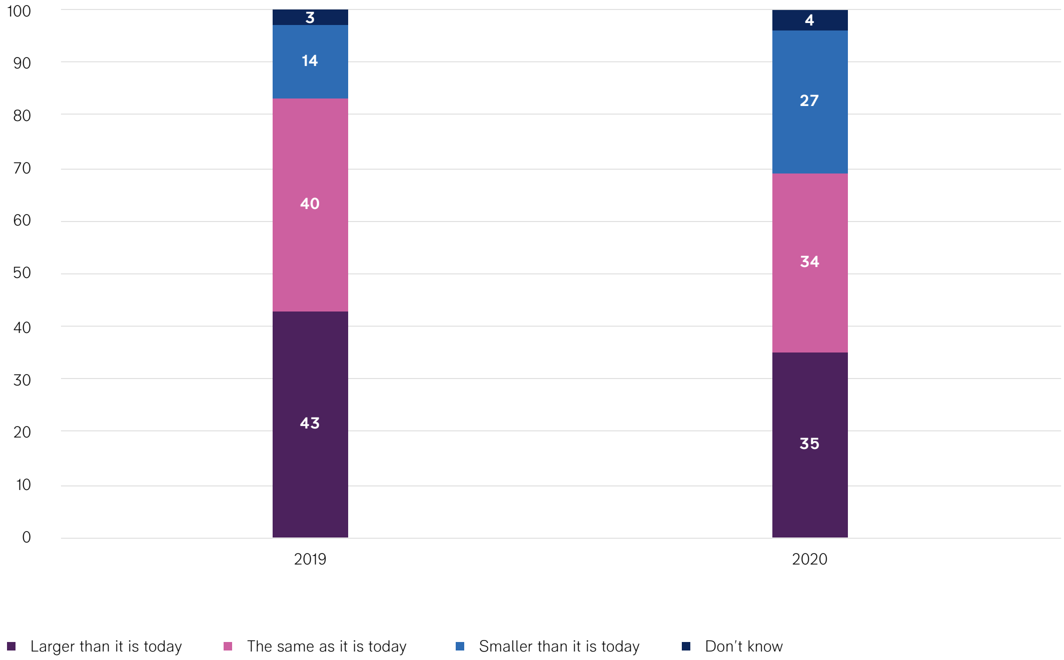
Key findings

- Over one in three respondents (35%) expect to grow their workforce in the next 12 months, a lower percentage than in 2019 (43%).
- Meanwhile, 27% of respondents anticipate that their workforce will be smaller next year – giving a balance of +7%.[3]
- As expected, following the coronavirus pandemic, respondents' hiring expectations are weaker compared to 2018 (+34%) and 2019 (+28%) but remains in positive territory.
- The balance of large business respondents expecting to grow headcount compared with those who expect it to shrink was +11% compared to +6% for SMEs.
- Just over half (51%) of respondent firms expect to maintain or increase their permanent recruitment in the next 12 months while 46% plan to either reduce permanent recruitment or not recruit at all.[4] This balance of +5% compares to a balance of +56% in 2019. When looking at temporary recruitment, the balance is -5% in 2020 compared to +25% in 2019.

Despite the jobs crisis, one in three businesses expect to increase headcount over the next year...

Over one in three respondents (35%) expect to create additional jobs over the next 12 months and a similar proportion of firms think that their workforce will stay the same size **(Exhibit 2.1)**. When this survey was conducted the economy was re-opening after a period of lockdown and many firms were already looking at creating new jobs. The introduction of additional measures throughout the Autumn to contain the virus may have delayed or changed this positive picture.

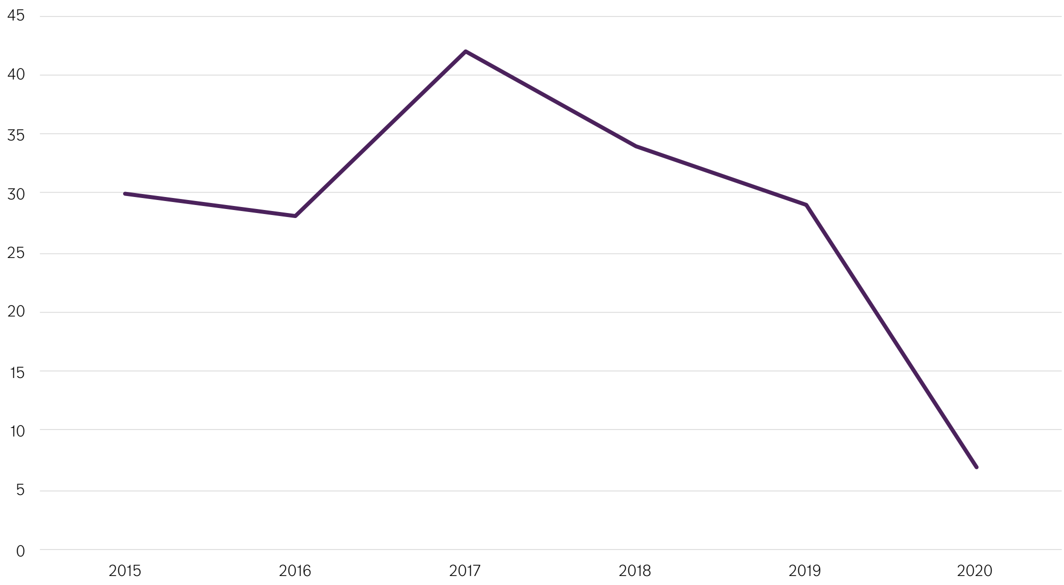
Exhibit 2.1 Expected size of workforce in 12 months' time (%)



...but many firms are planning to reduce the size of their workforce

Unsurprisingly, over a quarter of firms (27%) expect their workforce to be smaller – up from 14% in 2019. The balance of firms expecting their workforce to grow compared with those that expect it to shrink was reported at +7%, compared to +29% in 2019 **(Exhibit 2.2)**. The shift in businesses' hiring decisions for next year is a sign of how severe the impact of the pandemic has been on the labour market. Continued support for businesses to get to the other side of the crisis and reaching a deal with the European Union will contribute to building confidence in the recovery phase.

Exhibit 2.2 Positive balance of firms expecting workforce growth 2015 – 2020 (%)



Larger firms are more positive than small ones in terms of jobs creation

Large businesses are more optimistic about jobs growth than their smaller counterparts. Among larger businesses, a balance of +11% expect to take on more employees in the coming 12 months, compared to a +6% balance for SMEs.

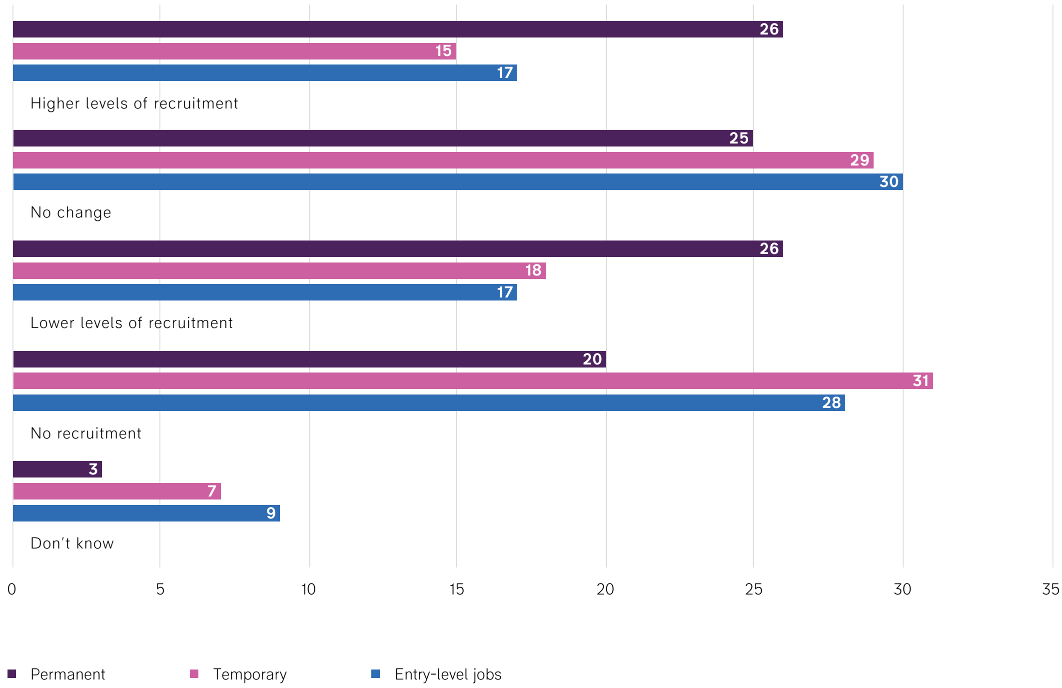
Permanent jobs expectations are still in positive territory…

We asked firms to indicate their hiring expectations for permanent, temporary, and entry-level positions for the year ahead. Over half of firms (51%) expect to maintain or increase their permanent recruitment in the next 12 months and 46% planning to either reduce permanent recruitment or not recruit at all. This balance of +5% compares to a balance of +56% in last year's survey **(Exhibit 2.3)**.

...but temporary positions growth could be negative in the next 12 months

Whilst expectations for permanent roles remains positive, expectations for temporary jobs appear to have turned negative, with more than four in ten firms (44%) expecting to maintain or increase their temporary recruitment while nearly half of businesses (49%) are planning to either reduce recruitment or not recruit at all in the next 12 months. This balance of -5% in 2020 compares to a balance of +25% in 2019' survey.

Exhibit 2.3 Plans for recruitment over the next 12 months (% of respondents)

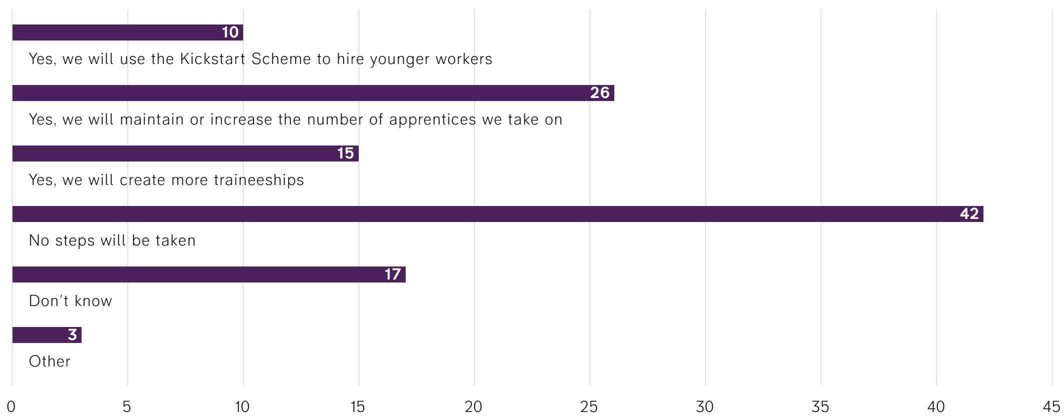


Nearly half of firms are planning to take steps to support young people to navigate a difficult labour market

Recognising the big impact that the pandemic is having on younger workers, we asked businesses to tell us their approach to recruitment for entry level jobs. Similar to the figures for permanent and temporary jobs, 45% of businesses said that their approach to recruitment will be to reduce levels of recruitment or to not recruit new entry-level staff at all.

In this year's survey we also asked businesses whether they were planning to take any steps to support young people throughout the coronavirus pandemic crisis. Over four in ten respondents firms (42%) expect to take steps to support young people in the year ahead, with one quarter of businesses (26%) maintaining or increasing the number of apprenticeships for young people and over one in ten (15%) creating more traineeships. One in ten firms (10%) intend to use the Kickstart Scheme to create additional jobs for young people **(Exhibit 2.4)**.

Exhibit 2.4 Steps to support young people (%)



"Continued support for businesses to get to the other side of the crisis and reaching a deal with the European Union will contribute to building confidence in the recovery phase."

Businesses are taking all the steps they can to protect jobs amidst the crisis

The government support schemes have been lifesaving for businesses while the economy has faced restrictions. As lockdowns began to ease and flexibility within the JRS was introduced, many firms bolstered their efforts to protect jobs and livelihoods by getting people back to work with reduced hours and bonuses to avoid redundancies and offset unpredictable demand and uncertainty around the evolution of the pandemic. While encouraging news about the development of vaccines helps businesses to see a beginning of the end of this crisis, it is still unclear to them exactly how long they will need to keep operating with social distancing restrictions. They are also considering the extent to which changes in customer behaviour during this crisis will persist, requiring permanent changes to ways of working. Businesses are faced with tough decisions over the next year with the options much more limited for smaller firms. Ensuring financial support is available to business until the battle against the virus is over will be crucial to recover quicker.

Key findings

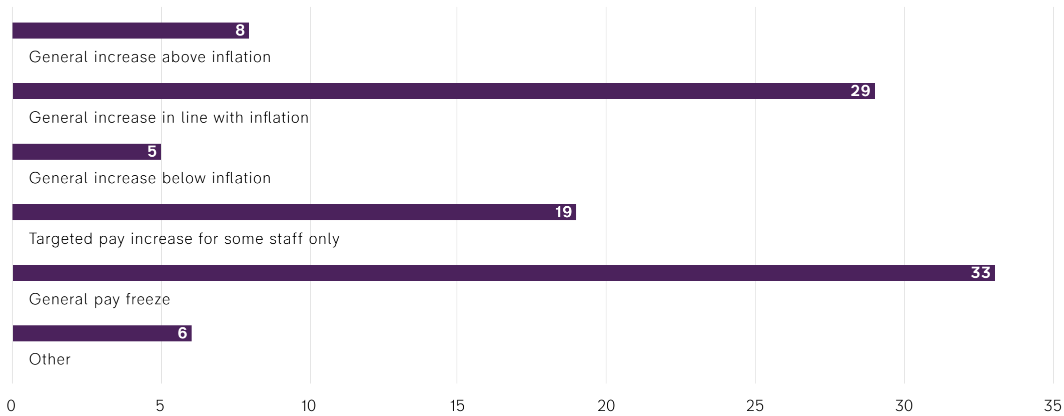
- A third of respondent firms (33%) expect to freeze pay for their employees at their next pay review, while nearly three in ten (29%) expect to raise it in line with inflation.**
- In light of the coronavirus pandemic, half of respondents are taking steps to protect jobs and reduce redundancies. Within this group, nearly half of respondent firms (46%) have reduced working hours while 43% have reduced bonuses. Meanwhile, a quarter (26%) have reduced overtime and pay premiums.
- Looking ahead, the same proportion of firms are planning to take steps to protect jobs in the future (50%). Within this group, 37% are considering reducing working hours while 34% are considering reducing bonuses.
- Of those impacted by the National Living Wage, just over one in three respondent firms (34%) think that the Low Pay Commission should take a cautious approach to increasing the National Living Wage in 2021, with larger firms being more cautious than SMEs (40% and 32% respectively). Over one in four respondents (27%) are calling for a freeze.

** means that ‘don’t know’ responses were included from the data analysis*
*** means that ‘don’t know’ responses were excluded from the data analysis*

Businesses look to freeze pay as they struggle with costs...

In an attempt to preserve jobs, this year's survey reveals that a third of firms (33%) are planning to implement a freeze across all roles at their next pay round, up from 5% in 2019. Meanwhile, nearly one in ten firms (8%) plan above inflation increases and nearly three in ten (29%) aim to raise pay for their employees in line with inflation, down from 14% and 54% in 2019 respectively **(Exhibit 3.1)**.

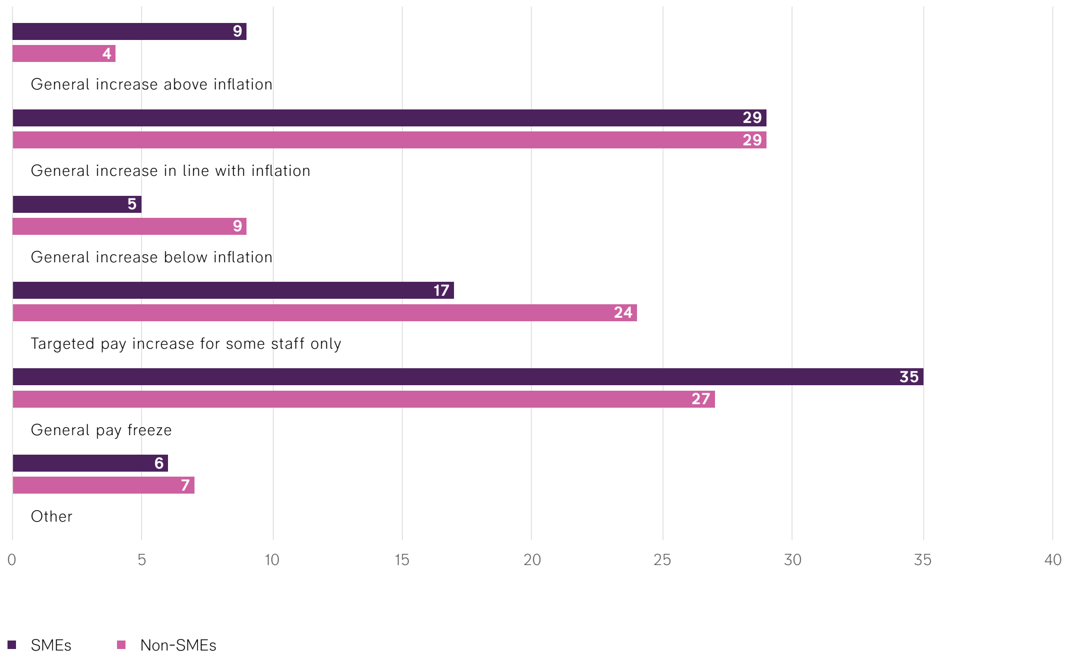
Exhibit 3.1 Firms' approach to their next pay review (% of respondents)



...with smaller companies having to be more cautious in the next pay round

When looking at company size, more than a third of small and medium sized firms (35%) are planning to freeze pay compared to 27% of larger companies. SMEs tend to have smaller margins and therefore to preserve as many jobs as possible they are being very cautious in their approach to their next pay review. Nearly a quarter of large companies (24%) are planning to give a targeted pay increase for some staff only compared to 17% of small and medium ones. Larger firms have a greater ability to be more strategic about where they can afford to award pay rises compared to smaller ones **(Exhibit 3.2)**.

Exhibit 3.2 Firms' approach to their next pay review by company size (% of respondents)



Firms have already taken a range of alternatives to avoid redundancies...

In light of the coronavirus pandemic, half of respondents (50%) have taken steps to protect jobs and ensure redundancies are their last resort. Of those that took steps, in line with flat or very low demand due to social distancing, nearly half of respondent firms (46%) have reduced working hours, while over two in five (43%) have reduced bonuses. Reducing overtime and pay premiums was an option taken by over a quarter of firms (26%) and over one in ten (13%) reduced basic hourly pay. A smaller proportion of firms opted for reducing benefits like annual leave (6%) and pensions contributions (6%) **(Exhibit 3.3)**.

When looking at company size, two thirds of large companies (66%) have reduced bonuses compared to 35% of small and medium-sized ones. Smaller firms operate with small margins therefore offering bonuses to employees is much less common and more dependent on economic conditions **(Exhibit 3.4)**.

Exhibit 3.3 Steps taken to protect jobs (% of respondents)

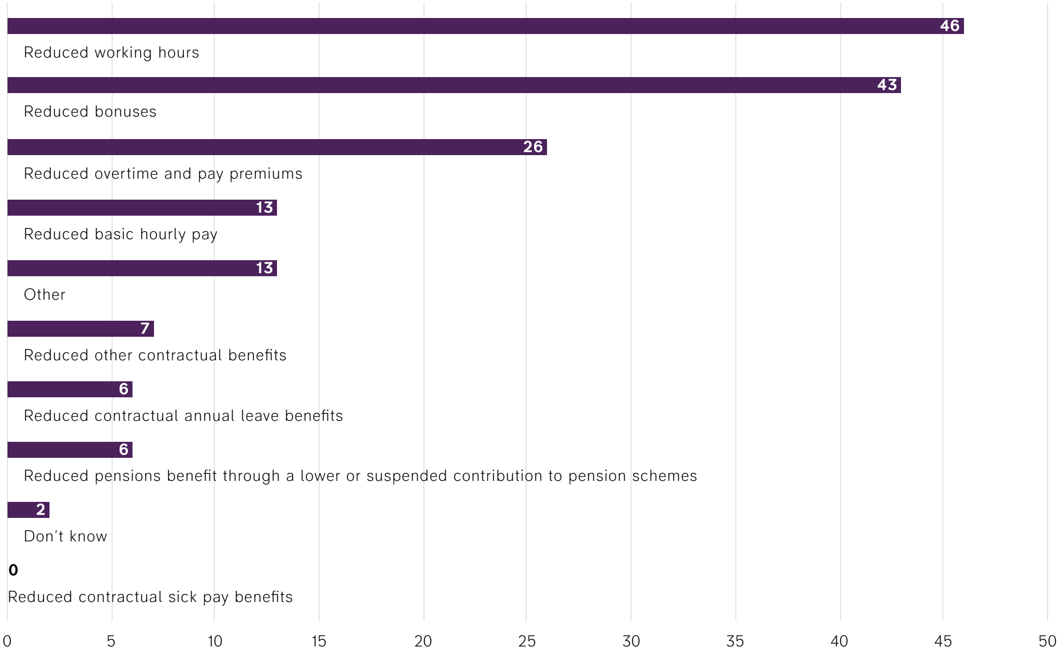
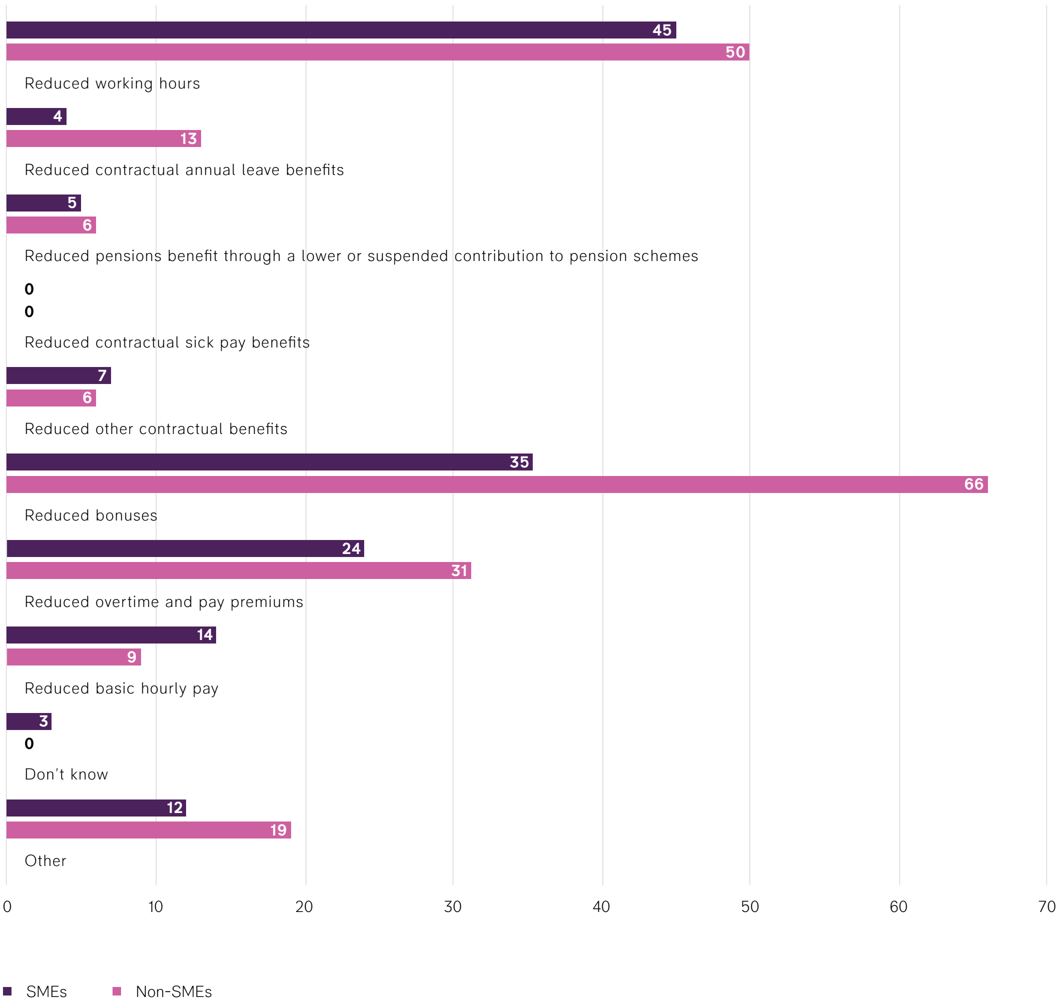


Exhibit 3.4 Steps taken to protect jobs by company size (% of respondents)



...and will continue to take steps in the future to protect as many jobs as possible

Consistent with the steps that companies have already taken, nearly four in ten respondent firms (37%) are considering reducing working hours in the near future while just over a third (34%) are planning to reduce bonuses.** When asking about the future, nearly two in five (18%) firms ticked the 'don't know' option, suggesting how the uncertainty about the future and the evolution of the virus is weighing on businesses' ability to plan **(Exhibit 3.5)**.

To protect jobs in the future, large companies are planning to take more structural changes to save costs than their smaller counterparts. Big firms are more likely to reduce pensions contributions than SMEs (18% vs 3%) and 14% are planning to reduce contractual sick pay benefits compared to 0% of SMEs **(Exhibit 3.6)**.

Exhibit 3.5 Steps that companies will take in the future to protect jobs (% of respondents)

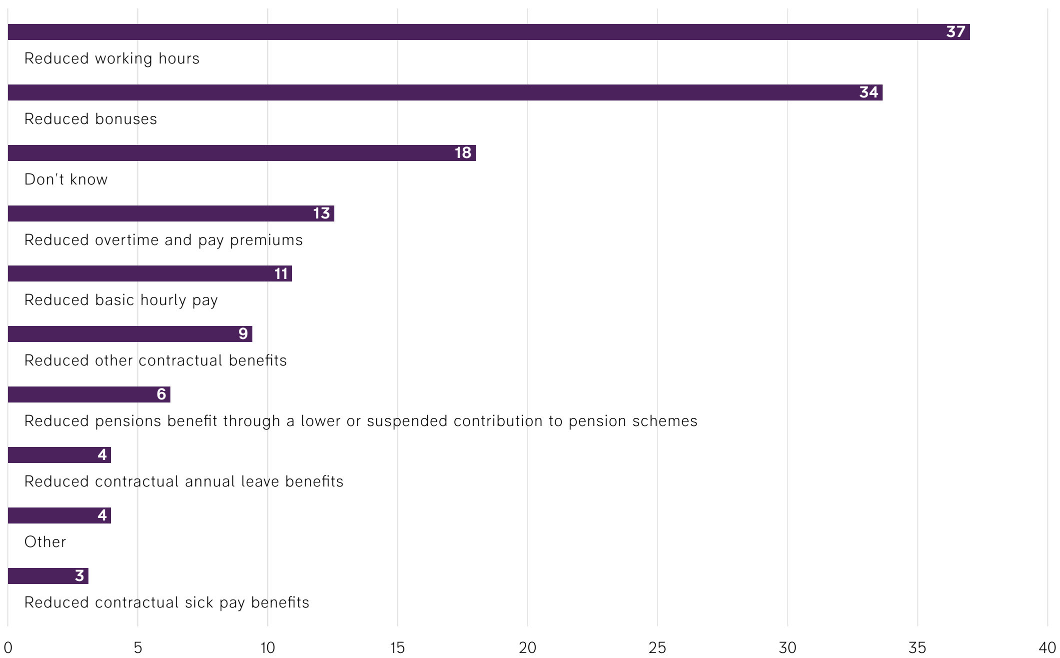


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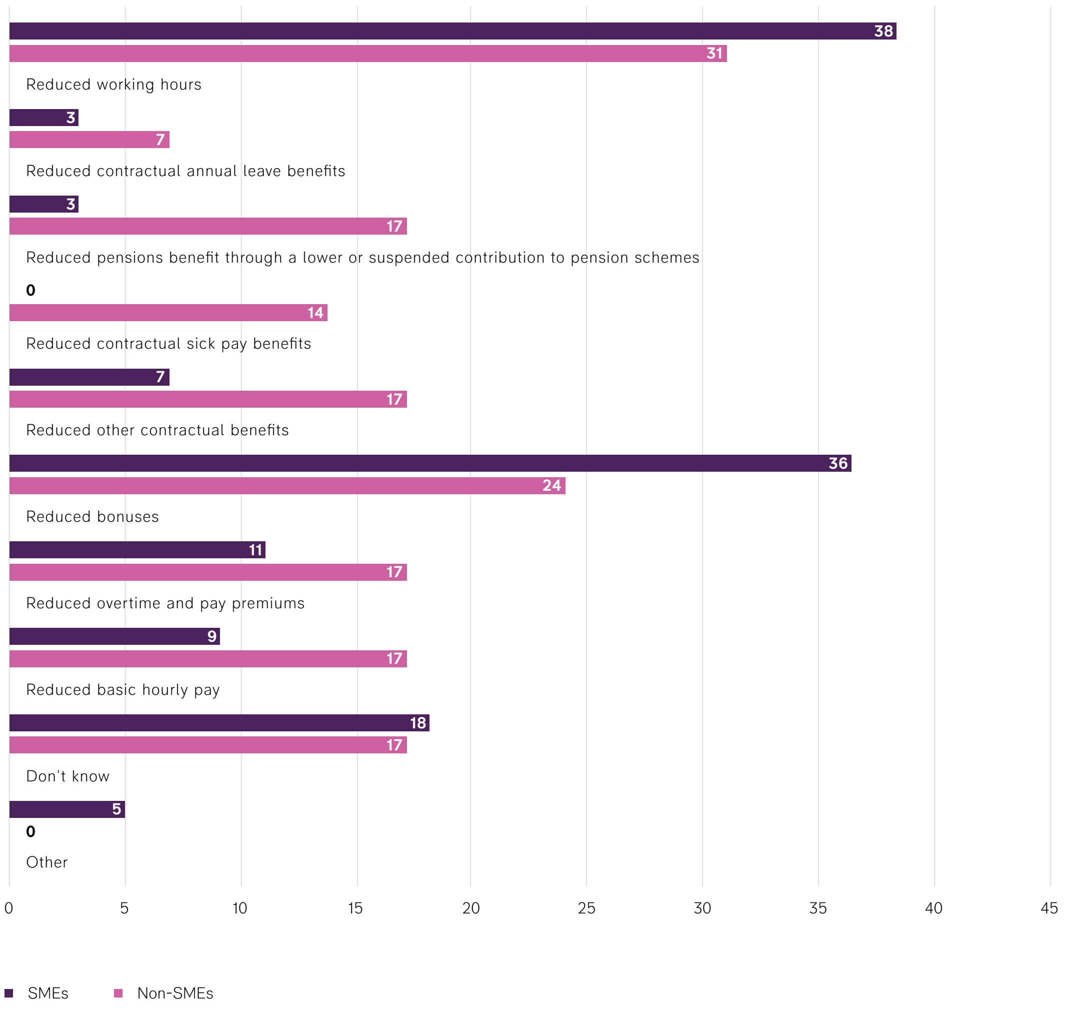
Exhibit 3.6 Steps that companies will take in the future to protect jobs by company size (% of respondents)



Firms are urging the Low Pay Commission to pull the emergency brake on the National Living Wage and take a cautious approach for the 2021 rate...

When the National Living Wage (NLW) was introduced in 2016 the Government asked the Low Pay Commission to recommend increases to reach a target of 60% of median earnings by 2020, which represented a radical change to how the LPC used to set increases – free from political targets. In last year's general election, both UK's main political parties promised a more ambitious target and only a few weeks before the pandemic hit, the Chancellor announced its ambition of ending low pay by setting a new target for the NLW to reach two-thirds of median earnings by 2024.[5] Both targets – the one set in 2016 and the one set in 2020 – were subject to sustained economic growth, which under the Government's fiscal rule definition represents an increase of GDP of above 1%.

In this year's survey we asked businesses about the approach that the LPC should take towards the different minimum wage rates. Unsurprisingly over three in five (62%) businesses are asking the LPC to either freeze the rate for 2021 or implement a cautious increase.[6] Only 36% of businesses think the LPC should increase the NLW rate for 2021 as planned **(Exhibit 3.7)**. These responses are informed by the knowledge that the NLW is a relative target, creating a natural stabiliser. Larger firms are being more cautious than smaller ones in regard to the NLW – with 40% of them calling for a cautious increase compared to 32% of SMEs. Businesses think that the current economic conditions are enough evidence for the LPC to pull the emergency brake but still recommend the Government to increase the 2021 NLW rate in line with inflation to protect the real wages of the lowest paid.

...with SMEs being more cautious than larger firms as the minimum wage rate lowers

Interestingly this trend doesn't replicate for the other rates. When breaking down the survey's data by size of the employer for those who are affected, as the minimum wage rate lowers the percentage of SMEs calling for a freeze increases. For the 21-24 years-old rate, nearly one in three (30%) is calling for a freeze compared to just 16% of larger firms. For the 18-20 years-old rate, 28% of SMEs call for a freeze compared to just less than one in ten (8%) of larger businesses **(Exhibit 3.8)**. Due to smaller margins, smaller firms tend to use minimum wage rates more than larger firms and this may explain why they are being more cautious than large firms.

Exhibit 3.7 Business' views about LPC's approach to the minimum wage (% of respondents)

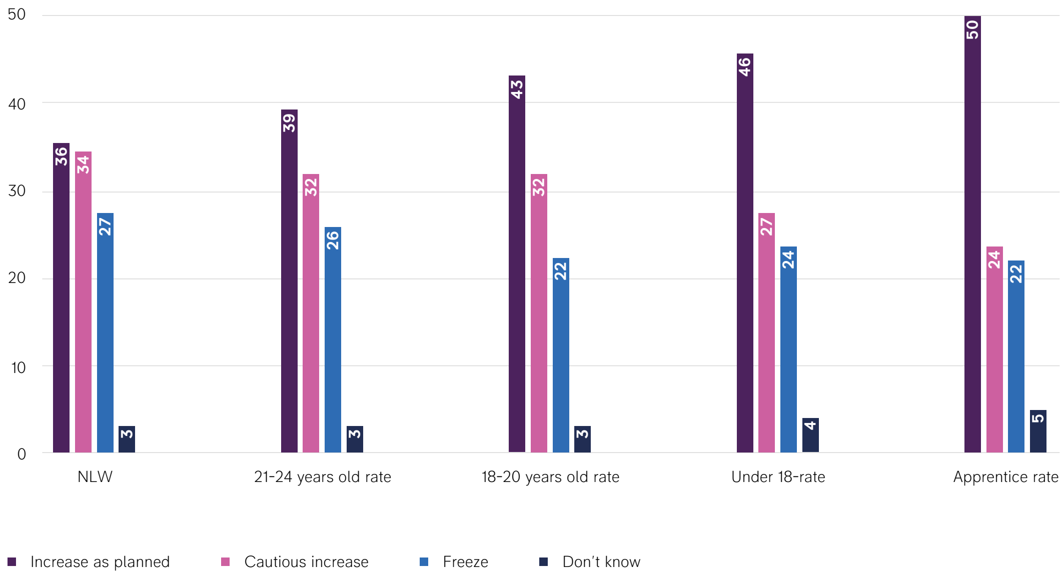
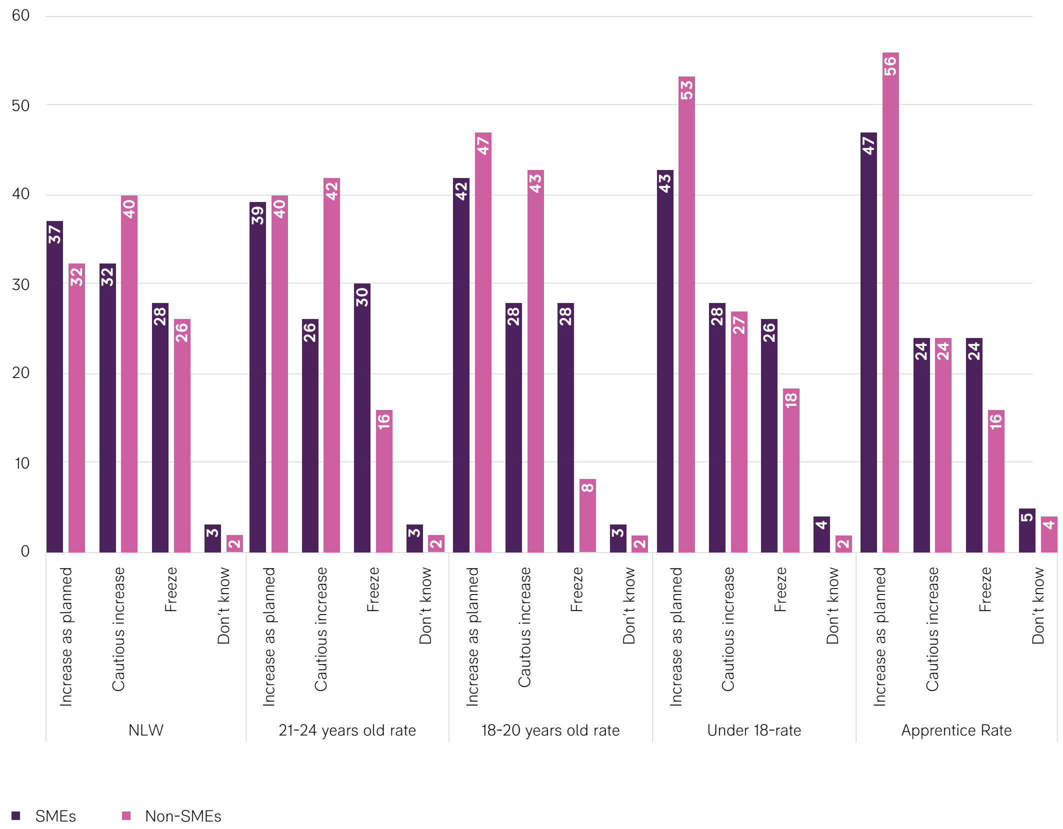


Exhibit 3.8 Business' views about LPC's approach to the minimum wage by company size (% of respondents)



The government's objective of ending low pay should remain a priority despite the economic fallout

Business shares the ambition for a thriving UK economy that supports rising wages, particularly for the lowest paid. The National Minimum Wage (NMW) has been hugely successful at increasing wages without damaging employment prospects and has been resilient throughout the financial crisis. But the National Living Wage, however, is a much more rigid policy that hasn't proven it can protect workers during a recession in the way that the NMW has. This is the time for the Low Pay Commission to play a key role in counterweighting politicised targets by gathering evidence from employers, unions and academics on the potential effect that an uplift of the rate in 2021 as planned before the pandemic hit could have on jobs. Because the NLW is linked to median earnings, there's a natural stabiliser of it. Median wages have fallen because a big proportion of workers were put on furlough throughout the pandemic earning 80% of their normal wages, however, under new projections, businesses will still struggle with the costs of an increase above inflation. Many firms that used the JRS during the crisis didn't have to implement the 2020 minimum wage uplift – as the guidance stipulated that for the calculation of the 80% the 2019 rate applied. For these companies there could be two increases of the rate in the period of six months and at a time when their ability to trade is restricted or demand is subdued. Protecting as many jobs as possible and allowing the economy to recover to later catch up with the 2024 target should be LPC's priority.

Restoring labour market competitiveness will be crucial in the post-Covid world

The UK has long been an attractive place to create jobs, attract investment and start and grow a business, but over the past five years this perception has been declining and it's expected to continue deteriorating. Concerns about the future relationship with the European Union, labour mobility and how labour market regulation will evolve in a post-Covid world are weighing on business' confidence in the competitiveness of the UK labour market. The economic and social consequences of the coronavirus pandemic are yet to be seen. This is the opportunity for the UK to rebuild a better Britain where flexibility works for both business and workers and where a sustainable basis for job creation is guaranteed.

Key findings

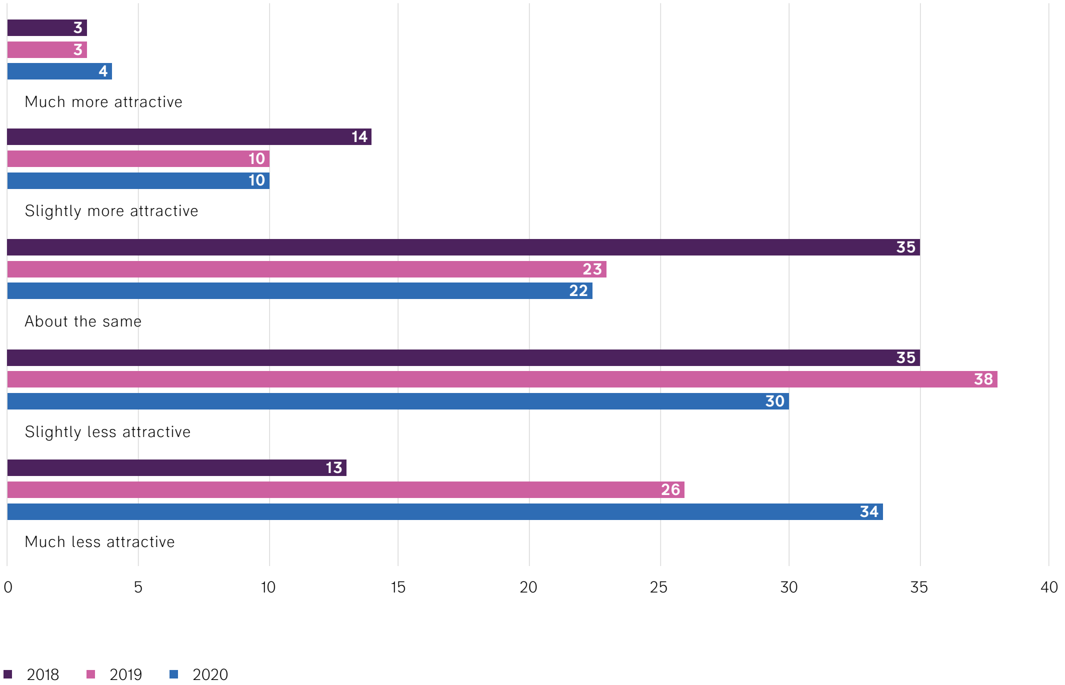
- Nearly two-thirds of respondent firms (63%) say that the UK labour market has become either a slightly less attractive or a much less attractive place to invest and do business over the past five years, continuing the declining trend from previous years.**
- Nearly six in ten respondents (57%) believe that the UK labour market will become either a slightly less attractive or a much less attractive place to invest and do business in the next 5 years, with just below a quarter (24%) expecting it to become either slightly more attractive or much more attractive.**
- The main current threats to the UK's labour market competitiveness are believed to be access to skills (54%), the ability to move UK-based workers across the EU (53%), and access to labour supply (36%).**
- Businesses expect these challenges to grow in the years ahead with the ability to move workers across the EU (61%), access to skills (59%), and access to labour supply (46%) identified as the key threats to competitiveness over the next five years.
- Nearly half of respondent firms (47%) don't fully understand the new points-based immigration system and don't know how much preparatory work will be required to use it, while one in three (31%) understand it but would have to undertake some preparatory work to use it. Fewer than one in ten firms (8%) understand the new immigration system and are well prepared to use it.**

** means that 'don't know' responses were included from the data analysis*
*** means that 'don't know' responses were excluded from the data analysis*

The attractiveness of the UK as a place to invest and do business continues to decline...

Consistent with a trend that began in 2016, this year's survey shows that overall, nearly two-thirds of respondents (63%) believe that the UK has become less attractive in the past five years – a marginal improvement since 2019 (65%). But while in 2019 over a quarter (26%) believed that the UK was a much less attractive place to do business, this jumped to over a third (34%) in 2020 – making firms more pessimistic about the past than before. There are fewer companies that think that the UK has become slightly less attractive – three in ten (30%) in 2020 compared to nearly four in ten (38%) in 2019. Perceptions of the UK labour market as a factor in investment and job creation decisions have worsened **(Exhibit 4.1)**.

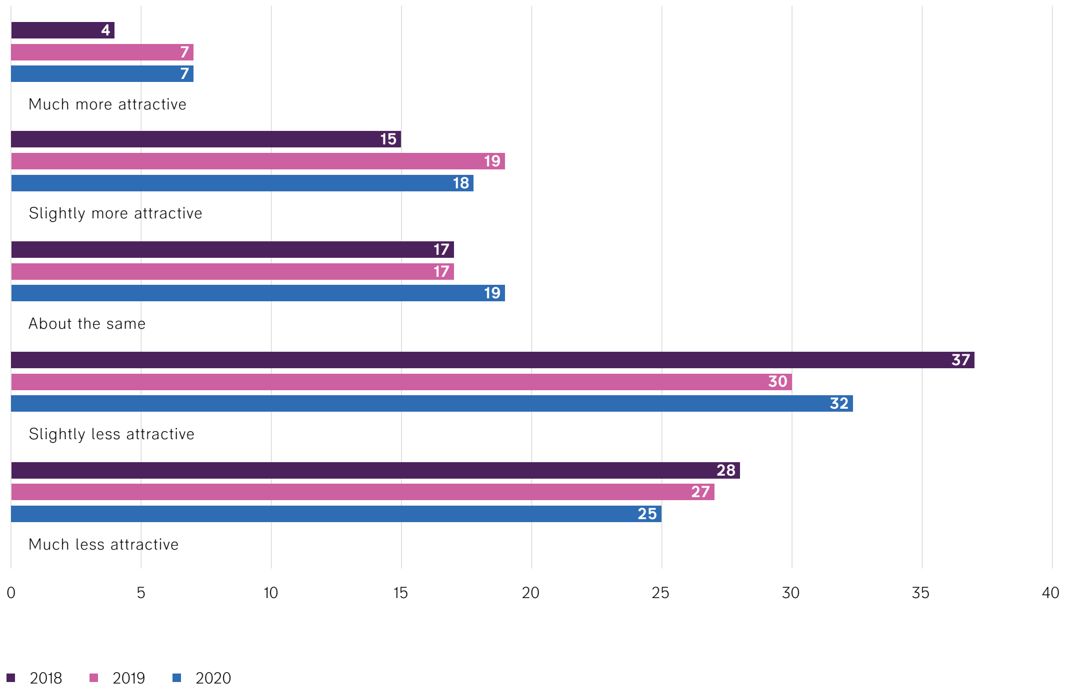
Exhibit 4.1 The UK as a place to invest/ do business over the past five years (%)



...and firms remain gloomy about the UK's labour market attractiveness in the future

When looking towards the next five-year period and consistent with figures in 2019, businesses continue to be pessimistic about the attractiveness of the UK labour market **(Exhibit 4.2)**. Nearly a quarter of respondent firms (24%) think that the UK will become more attractive but nearly three in five (57%) still feel it will be less attractive over the next five years. As the UK emerges from the pandemic, the economic restart affords an opportunity to think longer-term and utilise the restart to build back a stronger, fairer and more resilient economy by putting in place the key policy foundations to rebuild and restore business confidence in the strengths of the labour market.

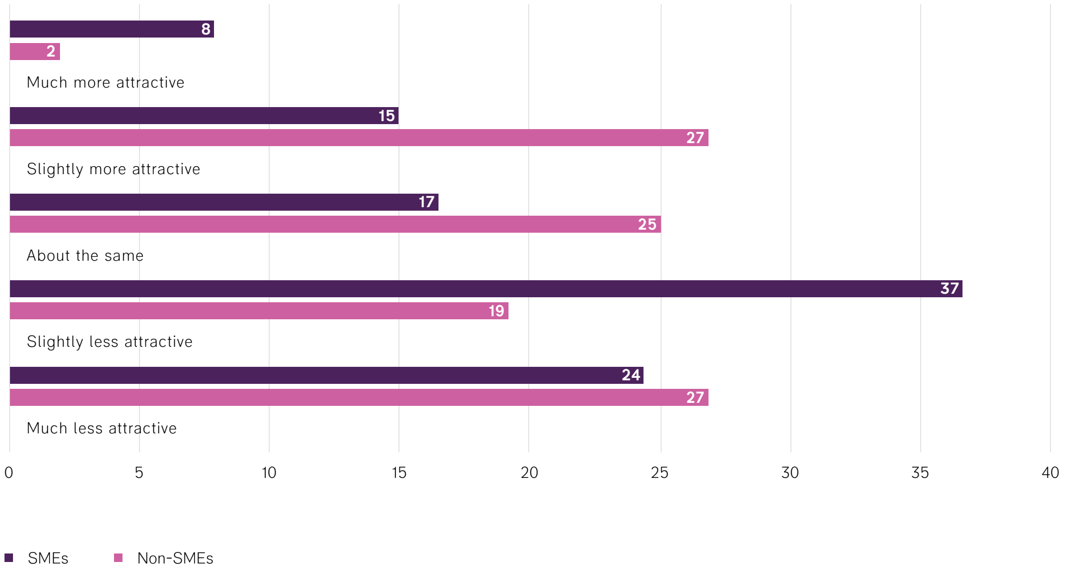
Exhibit 4.2 The UK as a place to invest/ do business in five years' time (%)



Concerns are more widespread among smaller firms

Looking at the results across different sized companies shows that small and medium firms are more concerned than larger ones about future labour market attractiveness – with over three in five respondents (61%) thinking that the UK will become a less attractive place to invest and do business, with just under a quarter (23%) thinking that it will be more attractive. This result gives a balance of -38%.[7] When looking at bigger firms, nearly one in three respondents (29%) believe that the UK will become a more attractive place to invest and do business in five years' time compared to 46% that think it will be a less attractive one – giving a balance of -17%. The impact that the pandemic has had on smaller firms due to cash pressures and less ability to shoulder economic shocks is making smaller firms less optimistic about the future – with many still in survival mode **(Exhibit 4.3)**.

Exhibit 4.3 Expectations for the UK's attractiveness as a place to invest/ do business over the next 5 years (% balance by company size)



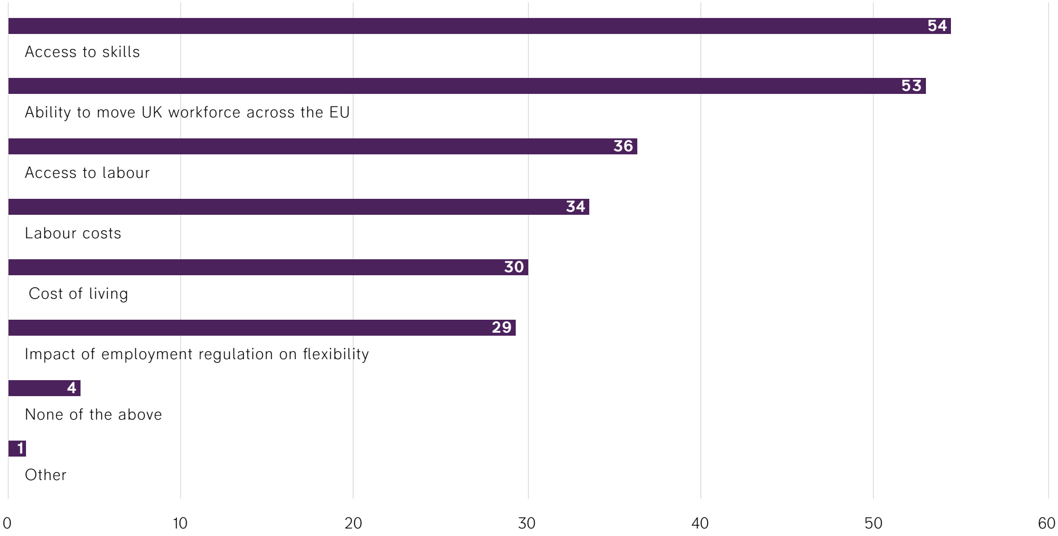
Access to skills and people continue to be a key concern for UK businesses...

For the seventh successive year access to skills is the key concern for UK firms, with more than a half (54%) telling us that it currently threatens the UK's competitiveness, although this is down from 2019 (72%).** **(Exhibit 4.4)**. In the current labour market that is radically different to the one a year ago, firms are still concern about the access to the right skills. This matches the CBI Learning for Life report which highlights that reskilling is one of the biggest issues facing the UK.[8] Even before the pandemic, it was clear that the world of work in 2030 was going to look considerably different to today. Whether this is an opportunity to level up the economy or entrench inequality depends on how successfully business and government collaborate to create news learning opportunities for workers at all stages of their careers. According to research conducted before the onset of the pandemic, upskilling and retraining people to give them the skills they will need to succeed will cost an additional £130billion by 2030. The Covid-19 crisis has intensified this challenge and has made covering this cost much more challenging for government, business, and individuals. Adult learning is one of the defining issues of our age, and the countries that get it right will have an exceptional competitive advantage as the global economy recovers. This could be a huge opportunity, or the catalyst for unemployment, skills mismatches, and growing inequality.

** means that 'don't know' responses were included from the data analysis*
*** means that 'don't know' responses were excluded from the data analysis*

It's not only about the right skills but also the right people. Over a half of firms (53%) cite the ability to move UK workers across the EU as a key threat to competitiveness – up from 48% in 2019. The lack of clarity about moving the UK workforce across the EU possibly reflects ongoing uncertainty around how easy it will be to deploy workers overseas in the future and around the future relationship with the EU.

Exhibit 4.4 Current threats to UK labour market competitiveness (%)

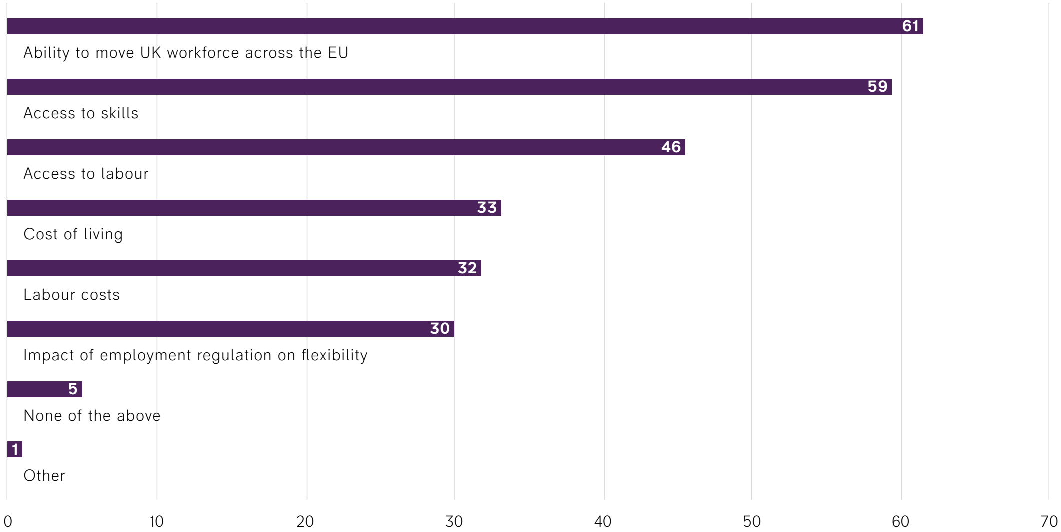


...and it's time now to rebuild our flexible labour market as these threats look to become more pronounced in the future

The same set of concerns are front of business minds when we asked them to consider threats to UK competitiveness in the next five years **(Exhibit 4.5)**. Ability to move UK workforce across the EU (61%), access to skills (59%), and access to labour (46%) represent the three most frequently reported threats. ** The aftermath of the coronavirus pandemic is an opportunity to rebuild a framework that ensures that businesses can access the skills and labour they need to meet their immediate and emerging needs. It is vital to strengthen a flexible labour market that enables business investment and job creation and where the cost of employment is affordable. This is particularly important if we consider that labour costs have been a consistent feature on firms' list of threats to competitiveness. The cost of employment has been rising for several years, driven by a range of policy decisions and structural factors, holding investment back. In a labour market with high unemployment and fewer vacancies available it is crucial to create the conditions and incentives for business to hire as many people as possible without adding extra cost pressures on them.

** means that 'don't know' responses were included from the data analysis*
*** means that 'don't know' responses were excluded from the data analysis*

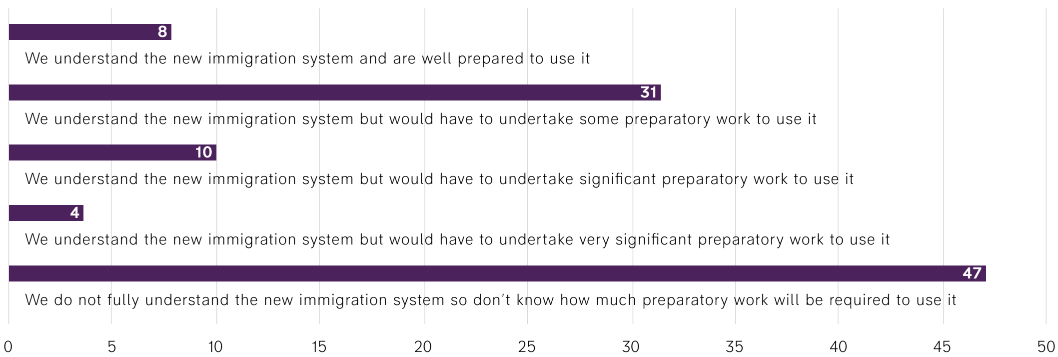
Exhibit 4.5 Threats to UK labour market competitiveness in five years' time (%)



Businesses don't understand and aren't prepared for the new points-based immigration system that comes into force in January 2021…

We asked businesses to tell us their level of readiness to use the new points-based immigration system that comes into force in a couple of weeks. Nearly seven in ten (69%) businesses are going to be affected by the new system while just over three in ten (31%) firms won't be using it as they don't intend to employ workers from outside the UK. Of those affected by the new system, it is perhaps unsurprising to see that nearly half (47%) don't understand it and therefore don't know how much preparatory work will be required to use it given that the full detail of the new system had not been provided by government at the time of surveying. Over one in three firms (31%) understand the system but would have to undertake some preparatory work to use it, while one in ten business respondents (10%) would have to undertake significant preparatory work to use it. Less than one in ten firms (8%) that intend to use the new system understand it and feel they are prepared to use it **(Exhibit 4.6)**.

Exhibit 4.6 Businesses' preparedness for the new immigration system (%, excluding don't knows and not applicable)



…and SMEs are significantly more likely to be feeling more uncertain than larger firms.

When looking at company size, of those affected by the new system, nearly three in five micro firm respondents (58%) with between 1 and 49 employees and over a half of medium companies (51%) with between 50 and 249 employees don't understand the new immigration system and therefore don't know how much work it will require to use it. These firms are less likely to have access to HR teams or be able to afford legal assistance to help them understand, prepare for, and use the new immigration system. Larger businesses are better off in comparison with small ones, however, there is still a large proportion of companies that can't comment on the system as they don't understand it.

To support firms with their preparations the CBI & Deloitte recently published *To the point*,[9] a practical guide to preparing for the new immigration system.

Providing guidance and tools to help companies navigate the new immigration system must be a priority for government in the short term…

It is important that the government provides ongoing support for businesses after the 1st of January – when the system takes over from Free Movement – because, even though demand for labour is subdued now as a result of the COVID-19 pandemic, more firms anticipate needing to hire workers from overseas in the future, particularly as unemployment falls again. With nearly half of firms (46%) reporting access to labour as a future threat of the UK's labour market competitiveness, the new system needs to be as easy and accessible as possible for companies to navigate in order to grow and create more jobs.

...but in the longer term, the new system must respond to the needs of UK employers by providing them with the skills that aren't readily available domestically

The system will be launched in a very different labour market to what was expected before the start of the pandemic. With access to skills and the ability to move workers around the EU featuring heavily in businesses' list of current and future concerns, building an immigration system that delivers both now and in the long term is vital for the recovery. Where skills are not available domestically, or easily trained, the new immigration system should provide another route for businesses to access them. Otherwise it could damage the UK's growth, competitiveness, and productivity, and may lead to jobs being moved abroad if firms can't access the skills they need. A regularly reviewed shortage occupations list has an important part to play in ensuring that the new system continues to respond to economic needs. Not implementing the Migration Advisory Committee's most recent recommendations for additions to the shortage occupations list is a concerning development.

The government has always intended for there to be a range of improvements and additions made to the system after its initial introduction, including many that the CBI has argued in favour of for many years. For example, taking steps to improve and simplify the Sponsor Management System would make the visa system much more accessible, vastly enhance the user experience, and likely lead to less errors. It is important that this next the next phase of improvements is expedited to ensure that the system is modernised and simplified quickly.

Diversity and Inclusion remains a priority for UK businesses despite the crisis

The pandemic has accelerated changes in the way we work, from flexible working to digital skills to prioritising mental health and wellbeing. In previous economic downturns diversity and inclusion efforts have stalled. But currently, we are seeing the opposite trend: more firms increasing their focus on diversity and inclusion despite the crisis. But this is not a time to be complacent. As we seek to build back better, people will be at the heart of the recovery agenda. Turning the crisis into an opportunity to build a more equal and fairer society where diverse workforces and inclusive workplaces are the norm should be a business priority.

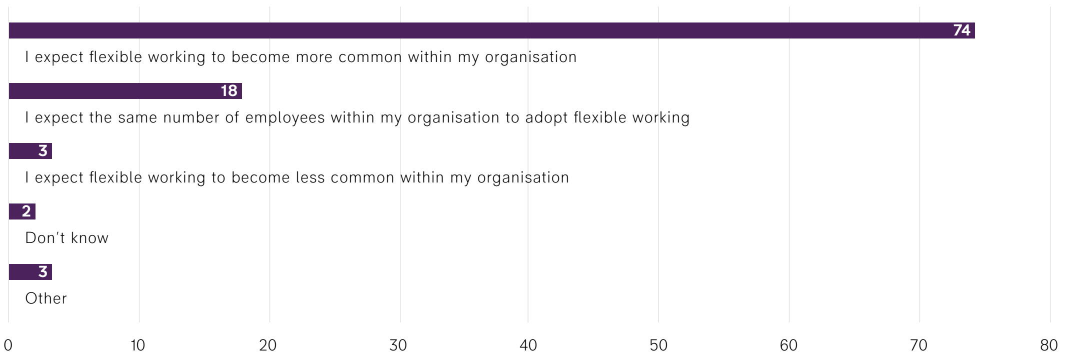
Key findings

- Following the coronavirus pandemic, nearly three quarters of respondents (74%) expect flexible working to become more common within their organisations.
- Nearly four in ten respondent firms (38%) have either significantly increased or slightly increased their focus on Diversity and Inclusion over the last 12 months, while the rest (62%) reported no change.
- When asked, 45% of companies have taken new steps to address the experiences of BAME employees in the workplace. The most commons steps are to start internal processes to assess recruitment, retaining and progressing BAME employees (17%), organise internal activities to raise awareness (14%) and to have established or increased companies' engagement with their internal BAME employee network (12%).

A hybrid model of working is emerging from the coronavirus pandemic that will bring benefits and challenges for employers and employees

Businesses have adapted to the crisis in different ways, including a shift to remote working, and encouraging flexible working patterns amongst their workforce. As we emerge from the crisis, nearly three quarter of respondents (74%) expect flexible working to become more common within their organisations, while nearly two in five firms (18%) expect the same number of employees to continue using flexible working arrangements. The latter shows that many businesses had previously embraced flexibility within their organisation, recognising the importance that it has for employees to be able to balance their commitments in and outside of the workplace. Just 3% of firms expect flexible working to become less common within their companies **(Exhibit 5.1)**.

Exhibit 5.1 Likelihood of employees making flexible working requests (%)



Greater productivity and wider access to talent are some of the benefits of a new hybrid working model...

New ways of working render a new experience for many employers and employees, and bring unique opportunities and challenges. Businesses should be prepared for the fact that many employees will want to permanently adopt some degree of hybrid remote working when offices fully reopen. With more personal time and removing the stress of the commute, many employees have reported equal or higher levels of productivity, and this has been felt on the employer side too. Given the economic downfall as a result of the crisis, offering employees the flexibility to work in a way that allows them to be most productive will be crucial in building back the economy and contributing to reserve a sluggish productivity growth over the last decade.

Embracing flexible working and remote working also helps businesses attract and retain the right people. Having a remote working policy that's put into practice, and a culture that encourages it is an effective way to widen the pool of people they want to attract and helps them to build more diverse and inclusive workplaces. Before the crisis, 81% of people said that they were likely to choose an employer that offers a more flexible working package.[10] This figure is likely to be higher now that remote working has proved to be possible. It has also been found that companies that allow a remote working experience have 25% less employee turnover compared to those that do not allow remote working.[11]

...but on the flipside managing staff remotely and ensuring employees' mental health and wellbeing will be challenging

A hybrid model of working presents new challenges, and as many employees will be working this way once this crisis is over, businesses will need tools to navigate and adapt to this new reality. Many employers will need to consider how their legal obligations to ensure a safe working environment change and what their duty of care looks like. Working from home is an extension of the traditional workplace environment, so employers need to consider remote working policies and procedures to ensure staff's health and wellbeing and manage any difficulty effectively.

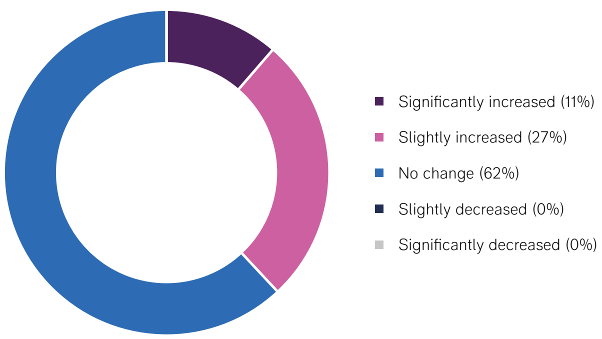
There are mental health challenges too. Some employees may struggle to separate work from home life, or balance childcare and caring responsibilities, while others may be at risk of feeling isolated as a result of limited social contact. As more employees choose to work from home, employers will need to consider the ways in which they support employees' mental health and wellbeing in this new context.

Businesses will also need to consider how the relationship between employer and employee will change in this 'new normal'. With more people working from home, managers will need to adapt to managing individuals and teams who they may rarely see face to face, or teams consisting of a mix of remote workers and office workers Employers will need to be mindful to ensure that their employee engagement practices are as inclusive and fair as possible.

Nearly four in ten businesses have increased their focus on Diversity and Inclusion despite the pandemic…

When the pandemic began businesses still had a long way to go on Diversity and Inclusion. There was still lack of female and BAME representation in senior leadership and key executives roles in FTSE companies, for example. The gender pay gap in the UK is yet too wide and mandatory ethnicity pay gap reporting hasn't yet been introduced. In June, for example, all-male boards returned to the FTSE 350 dealing a blow to gender diversity. And earlier this year the government announced the suspension of gender pay gap reporting with no date for reintroduction. There is a real danger that the pandemic could reverse the progress that companies have made on this agenda because their priority since the onset of it has been to keep as many jobs as possible while navigating the uncertainty associated with the crisis. Therefore, to better understand how the pandemic is impacting the diversity and inclusion agenda we asked businesses how their focus on D&I has changed over the last 12 months. Nearly four in ten firms (38%) have either significantly increased or slightly increased their focus on D&I while the rest (62%) reported no change **(Exhibit 5.2)**. When looking at the different protected characteristics and how companies' approach to them have changed over the past 12 months, we see that about a third of business respondents (34%) have either slightly increased or significantly increased their approach to race while three in ten (30%) have done so for gender. These figures are lower when looking at age, disability, and sexual orientation – two in five (21%) respondents having increased their focus on these characteristics over the last 12 months **(Exhibit 5.3)**.

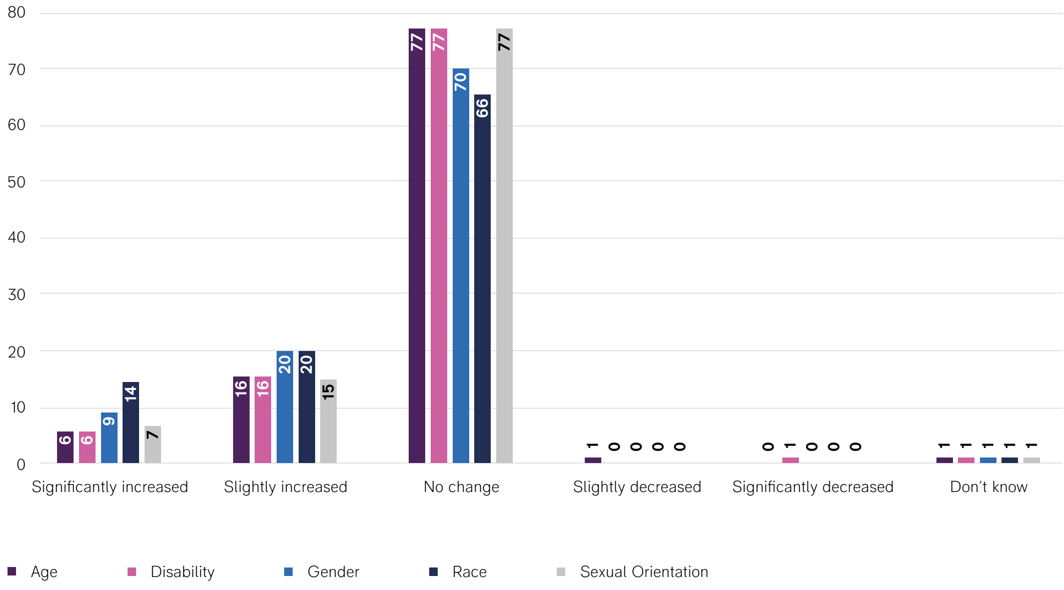
Exhibit 5.2 Businesses' focus on D&I over the last 12 months (%)



...with larger firms being more able to increase their focus on this agenda than smaller ones

When breaking down the data by company size, larger firms have had greater capacity to increase their focus on the diversity agenda with over six in ten (62%) saying that they have either significantly increased or slightly increased their effort compared to 31% of smaller companies. This picture replicates when looking at different strands of diversity with nearly three in five larger firms (59%) having increased their focus on race compared to over a quarter (26%) of SMEs that having done so. In terms of gender, also nearly three in five big companies (57%) have increased their focus on it throughout the last 12 months compared to one in five of smaller ones (21%). Smaller firms are less able to invest time or resources in building their diversity and inclusion agenda. While larger businesses have often hired somebody specifically to work on diversity and inclusion issues, the vast majority of small businesses don't have full-time Human Resources support.

Exhibit 5.3 Businesses' focus on different protected characteristics over the last 12 months (%)

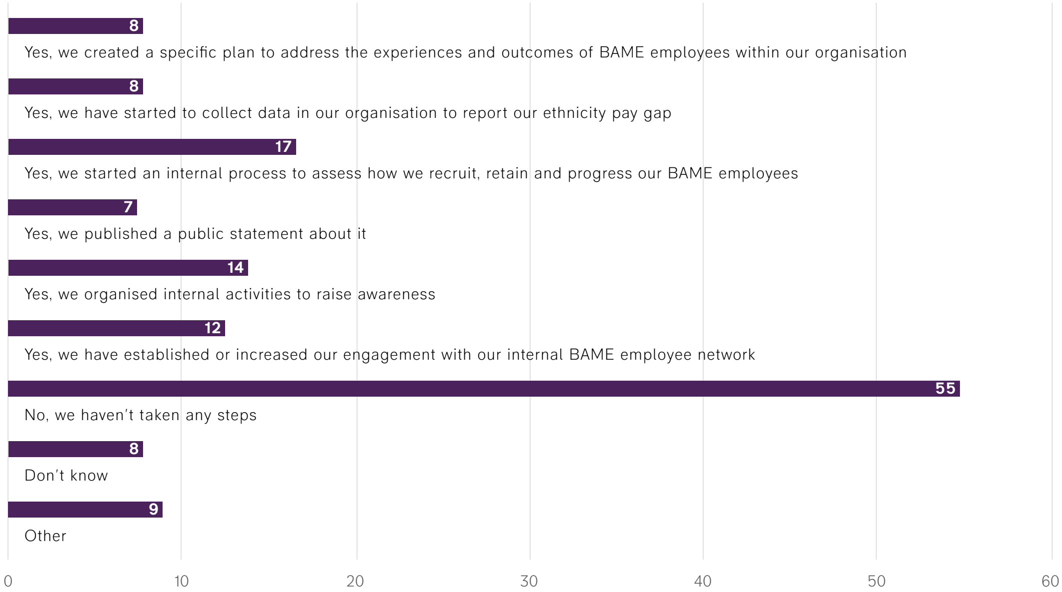


Businesses want to do more to support the experiences of BAME colleagues in the workplace

The killing of George Floyd and the global Black Lives Matter protests have shone a harsh light on the prevalence of racism and racial injustices abroad and in the UK. The coronavirus pandemic has also exacerbated existing inequalities with BAME communities being hit hardest. Businesses have a crucial role to play when it comes to stamping out existing biases and racism in the workplace and many are already taking action.

Nearly two in five firms (17%) have started internal process to assess how they recruit, retain, and progress BAME staff, while 14% of companies organised internal activities to raise awareness of the experiences of Black, Asian and minority ethnic colleagues inside and outside the workplace. More than one in ten firms (12%) have established or increased their engagement with their internal BAME employee network. These networks can be very helpful in understanding how different colleagues experience their lives outside and at work. A specific plan to address the experiences of BAME employees has been the action taken by 8% of firms, while the same proportion (8%) have started to collect data in their organisations to report their ethnicity pay gap. 7% have published a public statement on the issue **(Exhibit 5.4)**. Progress has been made over the years, but not enough. Countless examples of prejudice remain, affecting black and ethnic minority people in their daily working lives. Business must do more and as the UK moves into economic recovery, policies and behaviours that reverse trends in unfairness and inequality are essential.

Exhibit 5.4 Steps taken to address experiences and outcomes of BAME staff (%)



Transforming businesses to adapt to a new normal will be a top priority for UK firms in the years ahead

The pandemic has changed how businesses engage with their staff and will impact the way in which they operate in the future. From offering mental health support to providing remote learning opportunities to staff on furlough, businesses have proven why they are a force for good by stepping up and supporting employees, communities and the whole nation throughout the biggest health and economic crisis in a century. But as social distancing measures continue and the prospects of the economic recovery still look very gloomy, they are also thinking about restructuring their businesses.

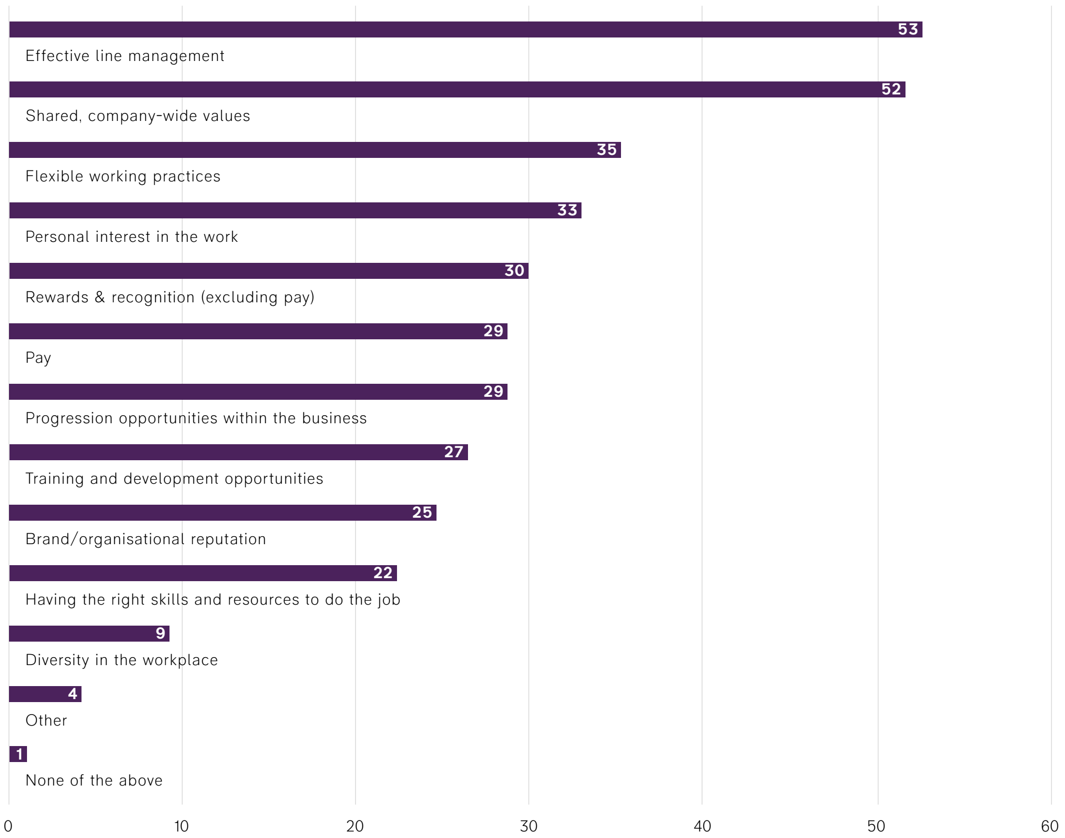
Key findings

- Effective line management (53%) and shared company-wide values (52%) are cited as the top drivers behind employee engagement. Flexible working practices (35%) are also seen as important.
- Because of the pandemic, employers changed their approach to employee engagement with over 8 in 10 respondents (82%) having increased communication to keep in touch with employees and more than 6 in 10 (64%) having increased flexible working arrangements to prioritise staff's work-life balance. Over half of respondent firms (54%) have increased their mental health and wellbeing assistance for employees.
- Respondent firms expect their top three priorities for the year ahead to be maintaining or achieving high levels of employee engagement (55%), business transformation or restructuring (48%), and retaining talent (40%).

Effective line management and sharing company values are the top drivers behind engaged employees

We asked businesses to identify the three key drivers of employee engagement in their organisation and more than half of respondent firms (53%) identified effective line management as the top driver for the fourth year in a row. Businesses recognise the benefits that improving people practices can bring to the performance of their organisations and how crucial this is to keep staff engaged with the company – in particular in what has been an extraordinarily difficult year. Sharing company values jumped from 32% in 2019 to 52% in 2020 showing the importance that is for employees to work in companies where their values are reflected. Up and down the country, we saw businesses stepping up to support employees, customers and communities impacted by the pandemic, reinforcing why they are a powerful force for good. The pandemic has shown that when faced with a crisis; business, government and communities can mobilise quickly to partner and provide mutual support and common solutions, and this is something employees value **(Exhibit 6.1)**. Flexible working practices is the third top driver to keep staff engaged according to more than a third of respondents (35%).

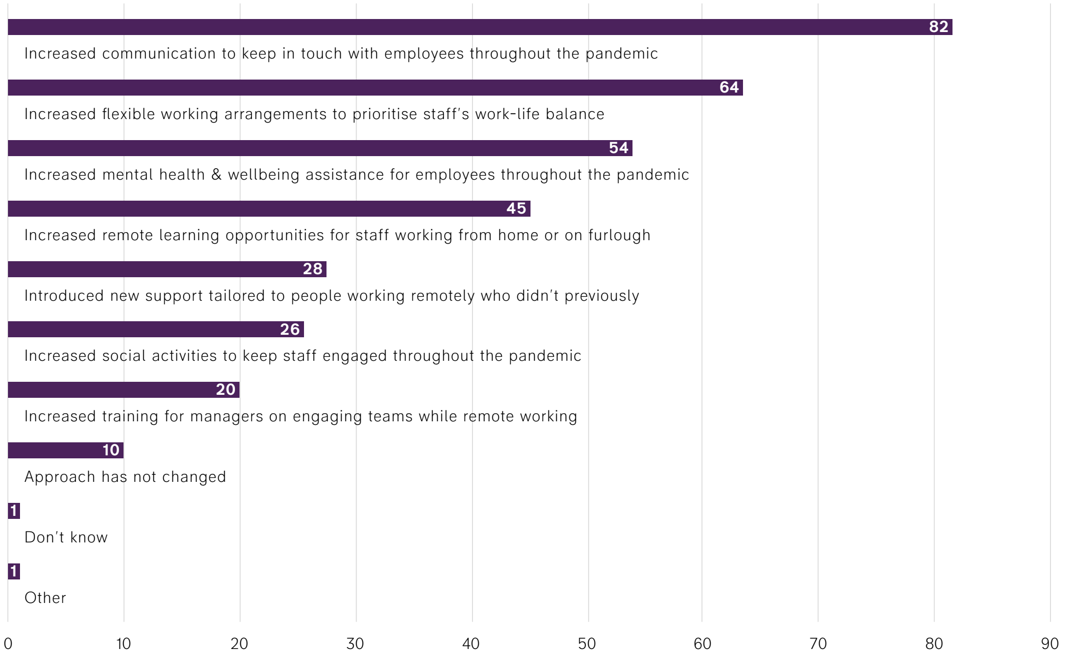
Exhibit 6.1 Drivers of engaged employees (%)



Employers have stepped up and supported their staff throughout the pandemic

There's no single job that hasn't been affected by the pandemic. More people working from home, a big proportion of employees are still on furlough and key workers in hospitals, supermarkets, pharmacies, among others never stopped going to their workplaces. Naturally, this has impacted the way employers engage with employees. Therefore, we ask businesses how their approach to employee engagement has changed throughout the pandemic. And unsurprisingly more than eight in ten firms (82%) have increased communication with their staff to keep in touch with employees while almost a third of firms (64%) increased flexible working arrangements to prioritise their staff's work-life balance. More than half of firms (54%) have increased their mental health and wellbeing assistance for employees throughout the pandemic and nearly half of firms (45%) have increased remote learning opportunities for those working from home or on furlough **(Exhibit 6.2)**.

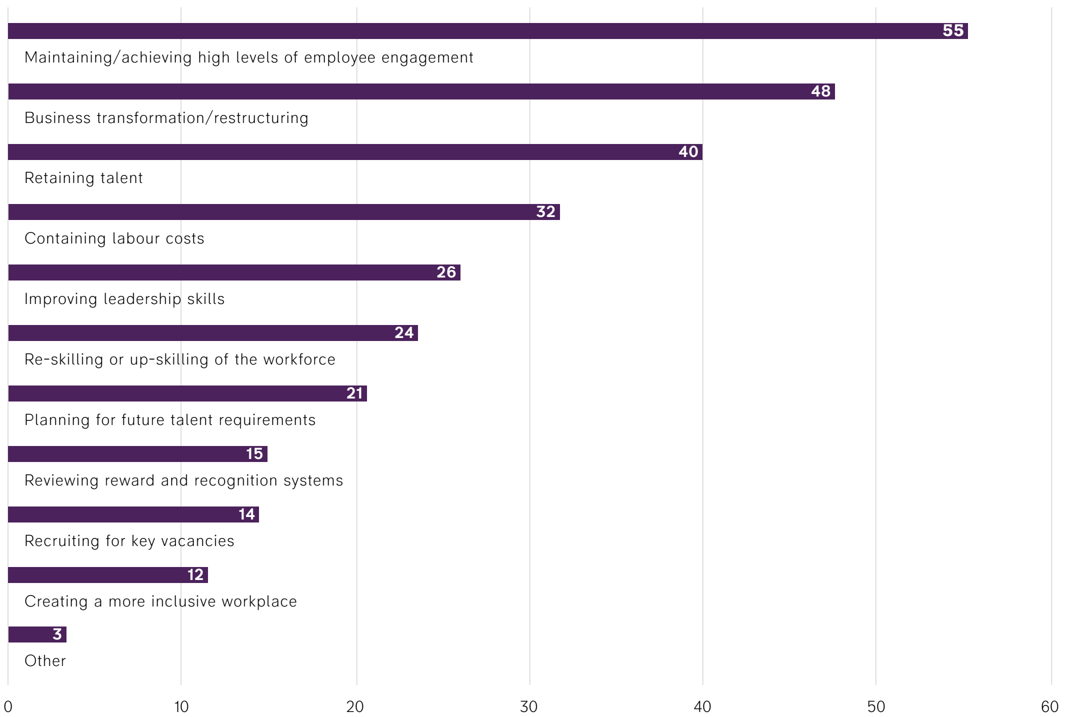
Exhibit 6.2 Business' approach to employee engagement in light of the coronavirus pandemic (%)



Engaging employees, transforming businesses and retaining talent will be the workforce priorities for firms in the next 12 months

We asked businesses to indicate their top three workforce priorities for the year ahead. Achieving or maintaining high levels of employee engagement continues to be the top-cited priority with over half of respondent firms (55%) saying that it will be a key focus for the year ahead. Unsurprisingly nearly half of firms (48%) will be looking to transform or restructure their business in the next 12 months – an increase from 37% in 2019 **(Exhibit 6.3)**. This could be seen in both a positive and negative way. Many businesses are already transforming their businesses and are planning to do so in the next year. Lower consumer demand, social distancing measures and other restrictions in place and a difficult economic context are impacting their operations and resulting in restructures. Reducing the number of hours, bonuses and pay of staff are some of the actions businesses are taking to protect jobs but if the economy doesn't pick up and restrictions are not lifting businesses will need to think about longer-term restructures that might involve fewer number of staff or even the closure of the business. But transformation can also be seen in a positive way – many businesses have said they don't want to return to where things were before but instead implement hybrid model of working, increasing their work on diversity and inclusion, and build a fairer society. They want to build back better.

Exhibit 6.3 Workforce priorities in the coming year (%)



Overview

This year's survey was carried out in the period 17th August to 4th September 2020. There were 248 respondent businesses in total.

Sectoral analysis

Respondents were drawn from all parts of the private sector **(Exhibit 7.1)**. Manufacturing companies made up the largest single grouping (30%), followed by other service activities (15%), and professional, scientific, and technical activities (12%)

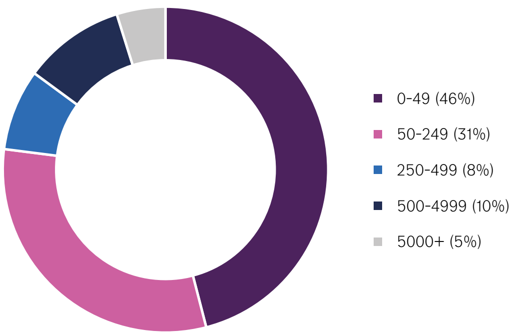
Exhibit 7.1 Respondents by economic sector (%)

Sector	%
Accommodation and food service activity	2
Administrative and support service activities	2
Arts, entertainment and recreation	4
Construction	5
Education	4
Electricity, gas, steam and air conditioning supply	1
Financial and insurance activities	5
Human health and social work activities	1
Information and communication	6
Manufacturing	30
Professional, scientific and technical activities	12
Transportation and storage	2
Water supply; sewage, waste management and remediation activities	2
Wholesale and retail trade, repair of motor vehicles and motorcycles	8
Other service activities	15

Respondents by company size

This year's survey had a 78% of responses from SMEs (less than 250 employees) and a 22% of large firms (250 or more employees) **(Exhibit 7.2)**. Looking at the different ends of the spectrum, small businesses made up nearly half of the responses (46%) while one in twenty firms (5%) were a very large company with over 5,000 employees.

Exhibit 7.2 Respondents by number of employees (%)



Respondents by region

Most respondents had employees based in several regions of the UK **(Exhibit 7.3)**. Just over three in ten (31%) of respondent companies had employees based in London whilst just over a quarter had employees in the South East (27%). A quarter of respondent companies had employees based in the South West (25%).

Nearly half of all companies (44%) had employees based in the devolved nations.

Exhibit 7.3 Respondents with employees in a given UK region (%)

References

1. A ‘balance’ is the difference in percentage points between the percentage of firms answering “up” and the percentage answering “down” (for example, if 30% of firms say that they expect their workforce to be large, 60% unchanged, and 10% that it will be smaller, the balance statistic is +20%).
2. The remaining 3% of respondents stated ‘don’t know’.
3. A ‘balance’ is the difference in percentage points between the percentage of firms answering “up” and the percentage answering “down” (for example, if 30% of firms say that they expect their workforce to be large, 60% unchanged, and 10% that it will be smaller, the balance statistic is +20%).
4. The remaining 3% of respondents stated ‘don’t know’.
5. At the time of the announcement, two-thirds of median wages represented £10,69 per hour.
6. The figure excludes those that cited ‘doesn’t affect my business’.
7. A ‘balance’ is the difference in percentage points between the percentage of firms answering “up” and the percentage answering “down” (for example, if 30% of firms say that they expect their workforce to be large, 60% unchanged, and 10% that it will be smaller, the balance statistic is +20%).
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11. OWLLabs, State of Remote Work (2017)

About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

CBI Council in numbers

1000+

Committee and Council representatives

28+

Regional and National Council and sector based Standing Committees

50%

Representatives of the CBI Council at C-Suite level

80%

Of the CBI Council from non-FTSE 350 businesses

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Produced by Eugenia Migliori and the People and Skills team
To share your views on this topic or ask us a question, contact:

Eugenia Migliori
Principal Policy Adviser
eugenia.migliori@cbi.org.uk