Championing better work and working lives

Building our Industrial Strategy

Submission to the Department for Business, Energy and Industrial Strategy

Chartered Institute of Personnel and Development (CIPD)

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W cipd.co.uk **T** 020 8612 6200

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Introductory comments

This response does not answer every question set out in the Green Paper, however we have identified those that we have responded to.

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Our response

Question 1: Does this document identify areas of focus: extending our strengths: closing the gaps; and making the UK one of the most competitive places to start to grow a business?

The Industrial Strategy Green Paper does, broadly, identify the key areas required to achieve its objective of improving living standards and economic growth by increasing productivity and driving growth across the whole country. The proposed framework of a cross-cutting objective delivered through industry deals and with a strong local dimension to engage with SMEs and achieve a better regional balance is commendable. However, what it fails to do is to set out an overarching vision for the type of economy the Government wants to create and the desired strategic direction that UK industrial policy needs to take.

Instead, in the view of the CIPD we have too much of the same traditional narrow focus on high-tech manufacturing with yet another review of the creative sector, which it is hard to see serving much purpose. The apparent obsession with start-ups is also unhelpful – the challenge is not the quantity of new businesses set up, but the quality of both new and existing businesses and the barriers to the minority of SME businesses for whom growth is an important objective for the owner or owners. The need to move away from the country's traditional source of competitive advantage, based to a large degree on low costs and an efficient business environment, was emphasised by the government-commissioned Porter report on productivity more than a decade ago.

The report concluded:

> '*As countries develop and increase their prosperity, they have to upgrade their competitiveness. This upgrading process is especially evident in a transition, where the basis of a country's competitive advantage has to be redefined. Factors that were important for past success become barriers to further growth*.
>
> '*The UK has now reached such a transition point. Competing on relatively low input costs and an efficient business environment is no longer sufficient to achieve the levels of prosperity the country is aiming for. Lower taxes, less regulation, and even a smaller role for government are no longer the most critical elements for UK competitiveness…*'[1]

The UK already has low levels of labour and product market regulation and even lower corporate tax rates than at the time of the Porter report. As Porter noted, not only were the returns to such policies becoming exhausted, they are easily copied by other countries. Building competitive strengths in other areas, notably human capital, together with developing more areas of distinctive competitive advantage reflecting the shift towards a services-based economy is where future prosperity lies.

Porter emphasised the importance of government setting an over-arching policy consensus on the direction of travel for the economy to help underpin reform in the public sector and to encourage more companies in the private sector to choose to 'upgrade their strategies and invest in the business environment'. Successive UK governments have failed to do this, meaning there has been confusion and often tension in policy making over whether the UK takes a 'high road' or 'low road' model of competitive advantage. The 'high road' refers to a model where skilled workers deliver sophisticated, high-specification goods and services that are sold on the basis of their quality rather than their price, and where firms come to the UK because this is our model.

The alternative is a 'low road' model of competitive advantage, wherein a disposable workforce produces relatively standardised goods and services that are primarily sold on the basis of low price, and where firms come to the UK because it is a cheap place to do business.

If the UK economy really is to work for everyone and address long-standing challenges such as falling investment in skills, low or stagnating pay for too many people and our low productivity, then it is crucial that the industrial strategy sets out the ambition to take the 'high road'.

This ambition would provide an underpinning point of reference and help shape public policy across the whole range of policy areas needed to boost the UK's productivity and competitiveness post-Brexit, for example, on corporate governance or in relation to any recommendations emanating from the ongoing Taylor review of modern working practices. This is more challenging because the implicit focus of future 'high road' policies must also be on the demand side, rather than the more traditional focus on the supply side. The latter remains important in some areas, notably both physical and digital infrastructure, yet in other areas simply reinforcing the supply side can, at best, be wasteful and sometimes wholly ineffectual.

For example, increasing the supply of STEM graduates is attractive because the government has some obvious levers to pull, but it ignores the fundamental problem that many STEM graduates do not go into jobs that demand these skills because of better pay and prospects in other sectors and roles. Moreover, the UK's vocational training system is so weak that pushing more people through expensive university courses is often seen as the only solution. The Government's recent focus on encouraging more high level technical provision is welcome but does not get to the heart of the issue. Increasing skills supply will have little impact on performance and productivity unless there is a corresponding increase in demand for those skills.

The CIPD's submission is based on an assessment of the policy interventions required to encourage more organisations across all sectors to orientate towards a 'high road' model of competitive advantage. Evidence from the UKCES Skills Survey finds a strong association between the up-take of high performance working practices and more sophisticated product market strategies, suggesting the development of progressive people management practices and investment in skills are material to efforts to upgrade organisations' business strategies.

Our response is particularly focused on the issue of skills, focusing on what is required to ensure people have skills they need to get into and on at work, how to raise demand for investment in skills among employers and to improve the quality of work and how peoples' skills are utilised in the workplace through raising managerial quality.

Recommendations

- **Government should set out an over-arching ambition for the UK economy to take the 'high road' to competitive advantage and improving productivity. The 'high road' refers to a model where skilled workers deliver sophisticated, high-specification goods and services that are sold on the basis of their quality rather than their price, and where firms and investment are attracted to the UK and because this is our model.**

- **The Government should evolve sets of policies which focus on increasing demand among firms to adopt 'high road' solutions, including developing the skills of their workforces and investing in the latest wave of new digital technologies to complement the more established supply-side policies of the past.**

Developing skills

Question 11: Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?

We broadly support the Governments vision for the new technical education system, with the Green Paper rightly identifying the long-standing weakness in the UK's technical education system. However, whilst we broadly supportive of the reforms to streamline thousands of technical qualifications in 15 occupational routes and the inclusion of a substantial work placement to build relevant occupational skills, we clearly have a long way to go before it is on par with the academic pathway or that of the technical education system of many other European countries.

However, interviews with Enterprise Advisers involved in the Government's Careers and Enterprise Company, undertaken as part of our evidence gathering for this consultation, raised concerns about the ability of business to generate the volume and quality of work experience placements necessary to make the vision for technical education a success, particularly the context of additional pressures on resources in light of pension changes, the National Living Wage and the Apprenticeship Levy. One interviewee stated:

> *"There are businesses out there who would want to engage more and offer placements, but the introduction of the apprenticeship levy will make it more difficult, the business cost of administering it is already adding to headcount. It would be great if we could spend levy in more flexibly, such as work experience programmes or more general training programmes."*

In terms of weakness in current provision, there remain substantial challenges in relation to the quality of apprenticeships. Too much provision is still concentrated at qualification levels (Level 2) that do not provide a good return on investment for either the individual, the employer or the economy. Whilst the reforms of the qualifications themselves – from frameworks to standards – has produced many quality employer-led apprenticeships, at the same time there has been a proliferation of many narrow and overlapping standards, restricting the extent to which apprentices gain transferable skills. Last year the National Audit Office reported that by 2020 there may be as many as 1,600 standards in place compared with 224 apprenticeship frameworks. We recommend, therefore, the urgent review of all new apprenticeship standards and the removal of any narrow and overlapping ones. In addition, where Level 2 standards have been produced there should clear and justifiable rationale for their introduction relative to a Level 3 qualification.

The CIPD, along with influential bodies in the House of Commons such as the Public Accounts Committee and the Sub-Committee on Education, Skills and the Economy, have also voiced concerns over the potential negative impact of the apprenticeship levy. The Public Accounts Committee (PAC) warned the Government that the levy may encourage and providers to behave in ways that would undermine the objectives of the programme, colluding to recover the levy funds and share the costs whilst offering little genuine training.[2] CIPD research published last year highlighted the risk that the levy would divert spend away from other equally valuable forms of training and found that nearly one-third (29 per cent) of employers planned to offset the increased costs of the levy by rebadging existing training programmes so they can be accredited as apprenticeships.[3] The survey also suggested that the levy could also lead to employers to increasing the numbers of Level 2 apprenticeships (equivalent to five passes at GCSE), at the expense of Level 3 and above provision (equivalent to two passes at A-level), further devaluing the brand.

The Government must closely monitor the impact of the levy on employer and provider behaviour and take action to address any misuse of funds or evidence of other unintended consequences, for example, the levy taking money away from other equally valuable forms of training and development or an increase in the overall proportion of level 2 apprenticeships created, relative to those at Level 3 and above.

The Government should consider adapting the levy into a more flexible training levy to decrease the risk of employers rebadging existing CPD training as apprenticeships or reducing investment in other valuable forms of training.

The Green Paper rightly identifies the need for quality careers, advice and guidance to ensure that young people have better information about other non-graduate routes into the labour market. Careers advice and guidance has undergone considerable changes over the last few years, with the closure of Connexions and the devolution of the responsibility down to individual schools. The Careers and Enterprise Company is providing excellent support to a large proportion of schools and should be praised for the amount it has achieved in such a small space of time. However, whilst we recognise there has been progress since the damning 2013 Ofsted report which found that only one-fifth of schools were providing students with an adequate level of information and advice to support decision making, there is still a way to go. In particular, there is a need to amend the Common Inspection Framework to make clear that schools whose career provision is judged as 'inadequate' or 'requires improvement' cannot be judged as outstanding, as recommended by the Sub-Committee on Education, Skills and the Economy. The need for an enhanced focus on careers advice was echoed in the interviews we recently conducted with Enterprise Advisers:

> *"My belief is that their [schools'] priority is not in preparing kids for careers, it's all about exams and A-level results, because of that it is a real challenge to get into schools and set up meetings, it often took months for people to reply. Ofsted inspections need to have a much stronger focus on careers advice and guidance"*

While another Adviser told us:

> *"Apprenticeships are still not actively promoted; they talk about them now but there is still strong push for university."*

Alongside published destination, data should be improved to encourage schools to invest in and be held account for careers provision. In particular, there is a need to improve the quality, timeliness and the length of time young people are tracked for to ensure it is an effective incentive.

Recommendations:

- **The Government should urgently review all of the new apprenticeship standards and remove any narrow or overlapping standards. The Government should be clear that where standards have been created at Level 2 that there is a strong rationale for doing so.**

- **The Government should closely monitor the impact of the apprenticeship levy and business and provider behaviour to ensure that it achieves its desired policy objectives of increasing overall business investment in skills and the quality of apprenticeship provision.**

- **The Government should consider widening out the levy to a broader training levy to make it more flexible to employers' skills development requirements.**

- **The Government should amend the Common Inspection Framework to put a much stronger emphasis on careers advice and guidance. Any school whose career provision is judged as 'inadequate' or 'requires improvement' should not be able to be judged as 'outstanding' or a school judged 'good' if their careers guidance is 'inadequate' or 'requires improvement'.**

- **The Government should improve school destinations data, in particular the quality, timeliness and length of time a young person is tracked for, to ensure that it acts as an appropriate incentive to ensure schools invest in careers advice and guidance**

Question 13: What skills shortages do we have or expect to have in particular sectors or local areas and how can we link the skills needs of industry to skills provision by educational institutions in local areas?

Whilst skills shortages undoubtedly have a significant impact, it should be recognised that they affect only a small minority of businesses; the last Employers Skills Survey (UKCES) estimated that just 6% of businesses in 2015 had one or more skill-shortage vacancies (equivalent to 209,500 vacancies).[4] Indeed, UKCES found that the labour market was largely able to meet the recruitment needs of employers, with only around a third of vacancies being hard-to-fill. These hard-to-fill vacancies were largely caused by a lack of skills, qualifications or experience of applicants, however the quantity of applicants as well as contextual factors (such as pay and location) were also significant factors.

A far bigger and more challenging issue for the industrial strategy to address is skills deficit and skills utilisation within the workplace. UKCES found that around 14% of establishments had staff which were not fully proficient in their role, representing 5% of employment or just over 1.38 million people. According to UKCES, the extent of skills under-utilisation is an even greater problem, with three-in-ten employers reporting that they had at least one member of staff whose skills and qualifications were more advanced than required for their current role. In total, employers reported that 2 million workers, or 7% of the workforce, had both under-utilised skills and under-utilised qualifications. It is likely that these figure underestimate the scale of the challenge. For instance, UKCES found that employers who pursue High Performance Working (HPW) practices were more likely to identify skills gaps amongst their employees, probably due to having systems and practices in place to better allow them to identify them.

Evidence suggest that higher managerial quality is associated with lower skill mismatch and that difference in managerial quality can account for the negative association between under-skilling and within-firm productivity.[5] The Government should consider the role that improving leadership and people management practices in organisations could play in reducing skill-mismatch within the workplace.

There is other evidence that also suggests that a greater focus by policy makers on helping to improve the demand for skills among employers and raise the quality of people management and development practices would have significant benefits for individuals, organisations and the economy.

For example, the Government-commissioned reviews of the health of the working age population and employee engagement contain significant evidence which highlights the importance of progressive leadership and people management, flexible working and employee voice to employee engagement and wellbeing, as well as links to positive business outcomes. [6] [7]

Whilst improving managerial quality, of course, depends on the actions and decisions of employers, government can play a much stronger role in calling out this as national priority and working in partnership at a sector and local level with employers, trade unions and professional bodies to improve capability over time.

At a national level, the Government should establish a national strategy to increase the quality of leadership and people management capability across the economy and boost the uptake of high performance working practices, working in partnership with employers, professional bodies and unions at a local and sector level. The decision announced in the 2016 Autumn Statement to invest £13 million in creating a new business-led Productivity Council designed to support improvements in leadership and management is a good start, but nowhere near sufficient in itself.

Another way the Government can work with businesses nationally to improve their leadership and management capability is through promoting much better workforce or 'human capital' reporting by businesses. Measures should include diversity, recruitment and turnover, investment in training and development, as well as measures of employee engagement and wellbeing. This type of information can help business leaders understand more clearly the value that their people bring to the business and the type of investment in skills and people management practices that enhance employee engagement and wellbeing, and deliver better productivity.

However the current quality of human capital reporting in the UK is poor. CIPD research published in 2014 highlighted the lack of consistency with which human capital data is collected, analysed or reported both internally and externally.[8] Despite a significant body of research and government initiatives seeking to address this, such as the Accounting for People review in 2002, which all point to the need for better insight and reporting, too many business have very little transparency over their culture and how they recruit, manage and develop their people. Research published by the PLSA in 2015 found that there is very limited quantitative or qualitative reporting by companies on their approach to managing their workforce.[9] Of the companies in the FTSE 100 during 2014, less than half disclosed the levels of staff turnover, less than a quarter reported on their investment in training and development, while approximately only one-in-ten provided information about the composition of the workforce.

Further CIPD research found that while overall, the quality of human capital reporting by FTSE 100 organisations in annual reports had improved between 2013 and 2015, there remains a lack of consistency and little evidence of companies providing a common narrative.[10] This lack of insight on workforce investment and management means many organisations don't have the necessary information to enable them to drive productivity improvements. According to CIPD research a third of businesses don't measure their productivity, and many of those that say they do measure it appear, in practice, to be thinking about business performance more generally.[11] The recent introduction of the Gender Pay Gap Regulations is a recognition that better information and transparency can help shine a light on what organisations need to do to become more progressive and improve gender equality. However, organisations needs to be encouraged to develop measures more broadly on how they recruit, develop and manage their workforce, to help boost investment in skills, improve people management and, ultimately, productivity.

The Government can play a stronger role by actively promoting the development of better human capital reporting through setting voluntary human capital reporting standards on key measures such as on workforce composition, investment in training and development, recruitment and turnover costs, and employee wellbeing and engagement. This recommendation was supported by the recent Business, Energy and Industrial Strategy Select Committee report on corporate governance, which suggested that the forthcoming revision of the UK Corporate Governance Code should place greater emphasis on the need for organisations to improve their human capital reporting. The committee stated:

> *"We agree with the Chartered Institute of Personnel and Development (CIPD), who outlined a process of "human capital reporting" which includes a narrative on workforce composition, including diversity, recruitment and turnover; investment in training and development and measures of employee engagement and wellbeing."*[12]

The committee recommended:

> *"that companies should set out clearly their people policy, including the rationale for the employment model used, their overall approach to investing in and rewarding employees at all levels throughout the company, as well as reporting clearly on remuneration levels on a consistent basis. The FRC should consult with relevant bodies to work up guidance on implementing this recommendation for inclusion in the Code."*

The Government can also play a role in improving the quality of data available at a macro level to provide more clarity on the nature of the skills challenges facing UK plc. Our recent review of international evidence on the extent of over or under-skilling and over and under-qualification/education has highlighted the confusing array of methodologies and wide variation in estimates of the scale of the challenge. For instance, when looking at international estimates of over-skilling, you can get a range from 8% (OECD) to 34% (EWCS) to 50% (CEDEFOP), placing us either around the average or significantly above average in terms of incidence internationally.[13] There is a clear need for Government to develop better and more consistent measures of skills and skills mismatch at a national and international level.

Besides taking a lead and working in partnership with businesses at a national level to improve the quality of workforce reporting and UK skills statistics, the Government also can play a significantly stronger role in boosting the quality of leadership, people management and development at both a sector and local level. We explore these in more details in this submission's sections on *Cultivating world leading sectors* and *Supporting business to start and grow* below.

Recommendations:

- **The Government should establish a new a new national strategy to increase the quality of leadership and people management capability across the economy and boost the uptake of High Performance Working practices working in partnership with the UK Productivity Council, employers, professional bodies, unions and Growth Hubs and Local Enterprise Partnerships at a local and sector level.**

- **The Government should support efforts to increase investment in skills, improve people management and development practices and boost productivity by setting voluntary standards in human capital reporting. The Government can use its convening and communication powers to build a partnership with business, professional bodies and the investment community to catalyse action on this key agenda.**

- **The Government should lead by example and improve the quality of human capital reporting and transparency over organisational culture in the public sector.**

- **The Government should ask the Office for National Statistics to conduct an urgent review of training and skills statistics to identify the key indicators that provide meaningful insight on the UK's skills challenges to help government and employers understand where investments and interventions should be made.**

Question 14: How can we enable and encourage people to retrain and up-skill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?

Encouraging and enabling people to retrain and up-skill throughout their working lives is increasingly important and necessary in all sectors and in all geographic areas. The OCED has found countries with a higher participation rate in lifelong learning were associated with a lower skill mismatch, emphasising the importance of training beyond formal education to meet changing labour market needs.[14] The UK's ageing workforce and the impact of new technology on jobs and the labour market mean that people increasingly need to be able to up-skill and re-skill at different stages in their working lives.

Yet, our review of the international evidence suggests that employers in the UK are training less and spending less than other countries.[15] The Adult Education Survey (AES) provides a measure of participation in employer-sponsored training and shows that participation in the UK is significantly below that in most EU countries, with the UK ranked 24 out of 28 countries on job-related training. Participation in job-related learning in 2011 stood at 25%, down from 35% in 2007. Data from the Continuing Vocational Training Survey (CVTS) shows that employers spend less on training than other major economies and that the gap has widened since 2005: in 2010 the cost per training per employee was €266, compared with an EU average of €511. There is also clear UK-based evidence that employers in the UK are training less and investing less in their workforce than they were 20 years ago. Green et al have shown that participation in off-the-job training – which tends to be of a longer duration than training on the job – has fallen by almost 20% and that employer investment has suffered with a real terms cut of either 15% or 30% in the past decade, depending on the source you use.[16]

A key challenge for the Government is finding a mechanism to encourage and incentivise individuals and employers to participate in and invest in training to reskill and up-skill across their working lives. It should be noted that the lack of available opportunities are not the principle reason that adults do not engage learning; instead barriers to engagement include: access to finance; lack of time due to family or work commitments; and insufficient information of the types of training and the return on investment for different courses.

Financial incentives have been used in many other countries – including devolved nations of the UK – to overcome barriers and encourage individuals and employers to invest in skills. Whilst the discontinued Individual Learning Accounts (ILAs) model in England suffered from over-subscription and allegations of fraudulent behaviour, evaluation evidence from the still-active Scottish ILAs found that these challenges could be overcome by adjustments, including more stringent provider vetting. Evidence from the US highlights some of the benefits that a refreshed approach to personal learning accounts could bring in terms of encouraging participation, and better alignment between employer and employee skills requirements. For instance, the evaluation of the piloted Lifelong Learning Accounts (LiLAs) – a co-investment model between employers and employee – showed increased take-up and investment in training, and a better matching of skills development between individual and business needs. The Government should consider piloting a revised version of the Individual Learning Accounts, but with much greater scope for co-investment between employer and employee, combined with a high quality careers advice offer.

It is also crucial that the UK's Further Education system is properly funded following the FE area reviews to ensure that opportunities for lifelong learning are available for all. The Government should allocate a proportion of funding from its National

Productivity Investment Fund to support greater investment in lifelong learning and adult skills.

CIPD also supports the recommendation in the recent Independent Review of the State Pension age that that people should be able to access a mid-life career MOT and review which should be facilitated by employers and by the Government using online support and also through the National Careers Service.

Recommendations:

- **Five per cent of the Government's £23bn Productivity Fund should be allocated towards supporting skills development and life-long learning.**

- **Government should consider piloting a revised version of the Individual Learning Accounts, but with much greater scope for co-investment between employer and employee, combined with a high quality careers advice offer.**

- **People aged 50 and above should be able to access a mid-life career MOT and review which should be facilitated by employers and by the government using online support and through the National Careers Service**

Cultivating world leading sectors

Question 31: How can Government and industry help sectors come together to identify the opportunities for a 'sector deal' to address – especially where industries are fragmented or not well defined?

Question 33: How can the Government ensure that the 'sector deals' promote competition and incorporate the interests of new entrants?

Making skills central to sector deals

The Government has suggested that it would like to offer an industrial deal to sectors of the economy other than the traditional focus on high to medium-tech manufacturing, but that it is for sectors to demonstrate that they have the leadership and will to put forward a strategic plan. This is a sensible approach, and better than the traditional approach of limiting strategic support to the usual suspects or coming up with an arbitrary list of sectors deemed as more important for achieving the overall objective.

As the Government has rightly defined the overall objective as improving productivity across all sectors, it must follow that potentially all sectors should be encouraged to develop a strategic plan to fulfil that objective.

We have noted the critical comments on this aspect of the Green Paper from the House of Commons BEIS Committee. We agree with the Committee that in any industry deal or partnership there is a danger that it becomes a means of propping up incumbents rather than facilitating the entry of new firms who can challenge the existing order. However, this is more of an argument for the Government to be vigilant about the content and execution of the deals rather than an argument for not having them in the first place. We think it is essential to retain a strong sectoral focus, while being flexible on what constitutes a sector. Indeed, it is hard to see how any industrial policy could not have an industrial focus.

The need for such vigilance is reinforced by the latest OECD evidence which suggests that the OECD-wide slowdown in productivity is driven by a widening gap between a relatively small number of firms associated with the digital economy at the technological frontier and the rest.[17] The OECD suggests that some of this gap may be sustained by the emergence of ‘winner takes all’ markets among first adopters, but also that the new technologies require a wide range of complementary investments which are increasingly complex and challenging to manage successfully. The net result is that while technology spreads ever faster between countries, the rate at which it penetrates within economies has slowed down.

However, the Green Paper provides industry with little by way of guidance on what it would reasonably expect to see in an industry deal and what industry, having gone to the considerable effort of drawing up such a plan, could reasonably expect from government in return. Moreover, it is important that the process is seen as interactive. The Government cannot be the passive recipient of proposals which it then accepts or rejects on some arbitrary criteria, but rather an active partner in helping industry develop effective plans. It is equally important that any deal puts the onus for action on the industrial leadership with government assisting the process of change where it can make a difference, so that we avoid the construction of wish lists for government action.

It is, therefore, unfortunate that the Government has abolished the one body, UKCES, which would have been well-placed to take such discussions forward, especially as we argue below of the central importance of skills development and utilisation in any industrial deals.

We strongly agree with the BEIS Committee that skills development has to be at the heart of the industrial strategy. It is also an important element in the response to the productivity slowdown where, as we noted above, the divergence between a minority of high performers and the rest seems to be a common factor across the OECD. In a recent speech, Andy Haldane of the Bank of England speculated that part of the problem was the quality of management, especially in the UK, in part reflecting lower productivity in family-owned firms which are not run by professional managers.[18] This has recently been confirmed in an analysis by the ONS.[19]

By focusing on the long tail of underperforming firms, rather than just those at the technological frontier, Haldane suggests that even modest improvements could generate significant productivity gains. Some tools that can help with that are being developed by the Mayfield Commission as a common finding of surveys is that many firms may overstate or be unaware of their relative performance. Haldane suggest other possibilities are pairing technology leaders with under-performers in their supply chain or developing “virtual reality” tools which allow firms to test out at very low cost scenarios based on new technologies and business models.

It is unlikely that the quality of management has fallen significantly, but it is entirely possible that long-standing weaknesses have been exposed by the latest wave of technologies. It is also possible that the prolonged period of ultra-low interest rates has made it easier for average managements to secure decent returns without undertaking risky investments or make costly changes in business models. If the complexity of successfully introducing the latest technologies has also risen, then it is not surprising that firms are adapting at a slower rate than in the past.
Improving the quality of management has to be accompanied by an improvement in both skills utilisation and providing quality vocational educational and learning opportunities for the whole of the workforce. Investment in young people through quality apprenticeships is an essential long term investment, but cannot realistically be expected to improve productivity for decades to come. The Green Paper’s lack of new thinking on vocational skills for the over 25s and the promotion of lifelong learning is disappointing.

The Government’s National Productivity Investment Fund has many positive measures, but also lacks a skills focus, beyond some very welcome but modest funds allocated to initiatives to improve the quality of management and to support the establishment of a business-led UK Productivity Council. A small re-allocation of funds towards supporting skills development for lifelong learning beyond apprenticeships would go a long way to reserve the cuts made in this area since 2010. For example, 5% of the fund could provide about £1billion additional funding on skills and lifelong learning. We also note that the IFS has estimated that the apprenticeship levy will raise £2.8 billion in 2019-20, but anticipated government spending on apprenticeships in England is only expected to increase by little over £0.6 billion during the same period. It would be helpful, therefore, if the Government could set out more clearly what elements of the non-apprenticeship skills budget are being supported by the levy and ensure that any unspent money goes towards skills development.[20]

We think it would be helpful for the Government to issue much clearer guidance on what it is expecting to see in the first draft of new sector deals, what it can reasonably be expected to deliver in return, and what mechanisms at industry level need to be developed to make sure that an active partnership can be developed that leads to actual change. At the very least we would expect sector deals to answer some central questions, including:

- How the actions proposed support the primary mission of improving productivity over the medium term, including who will take them and when;
- What actions are to be taken to improve the provision and take-up of training, education, and learning opportunities for the sectoral workforce as a whole, including actions to improve the quality of management;
- What actions are being taken specific to improving productivity among SMEs, especially around improving HR capacity and investment and utilisation of skills;
- What mechanisms and initiatives are being taken to promote partnership working to develop agreed solutions to these challenges;

Recommendations:

- **All Sector Deals should be dependent on sectors setting out clearly how they propose to improve the provision and take-up of training, education, and learning opportunities for the sector workforce as a whole, including actions to improve the quality of management.**

- **Five per cent of the Government's £23bn Productivity Fund should be allocated towards supporting skills development and lifelong learning, part of which could be used to fund Sector Deal skills development initiatives.**

- **The Government should commit to using any underspend from the apprenticeship levy which does not go towards developing apprenticeships to help reverse the decline in investment in adult learning and provide more opportunities for people to take part in lifelong learning, including through sector deals. About £2bn funding raised by the apprenticeship levy, which is not currently forecast to go towards apprenticeships according to recent analysis by the Institute of Fiscal Studies, could be redirected for adult skills in this way.**

Supporting business to start and grow

Question 35: What are the most important new approaches to raising skills levels in areas where they are lower? Where could investments in connectivity or innovation do most to help encourage growth across the country?

Question 36: Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local initiatives?

Question 38: Are there institutions missing in certain areas which we could help create or strengthen to support local growth?

Building effective HR capability for SMEs at the local level

A key challenge for the Government is how to engage with SMEs in encouraging greater investment in skills, including investing more in new apprenticeships. National schemes have so far had limited traction. There exist a plethora of local based schemes aimed at business development, some of which include a skills element. However, few appear to have been assessed as to their effectiveness. There are also a wide range of institutions, whose efforts government have attempted to rationalise through “one stop shops”.

The recent report by the BEIS Select Committee on industrial strategy highlighted significant short comings in the available support for SMEs at a local level. It noted that the:

> *“Growth Hub network, which provides a gateway and advice service to many businesses seeking support, is providing a “patchy” service and that “there is a need to set a clear national direction and provide stronger support”.*

It goes on to comment:

> *“Furthermore, the Federation of Small Business told us that they have “consistently raised concerns over a lack of co-ordination and duplication of business support provision across both the public and private sectors, including the interaction between national and local schemes.”*[21]

There is no case for creating new institutions - if anything we need fewer institutions, not more, at local level. However, even more important is to ensure stability in the institutional structures we have, so we avoid frequent, disruptive and sometimes counter-productive changes that have characterised skills and business support under successive governments. There should be a complementary aim of concentrating scarce resources on fewer schemes that have proven that they can make a positive contribution to skills and business development. In this section we do not, therefore, offer yet another scheme, but a better and more effective way of delivering business support services at local level to SMEs in order to improve HR capability.

In 2015 the CIPD and JP Morgan Chase Foundation's New Skills at Work programme launched a joint initiative to develop innovative solutions to the long standing challenge of persuading SMEs to invest more in young people and make better use of the skills of their workforce. Evidence tells us that often the key barrier was lack of managerial competence and experience and HR capability and that better provision of face to face business support services could remedy these deficiencies. The initiative would also help identify ways in which SMEs could be empowered to take advantage of the current objective of giving employers at all levels ownership of skills development.

There have been previous action learning interventions designed to improve the utilisation of skills of SMEs. These include Scotland's *Skills Utilisation Programme*, Acas's *Innovative Workplaces Programme* and the DTI-funded *Shared HR Schemes* for small firms. All of these schemes were funded by government and positively evaluated but have not translated into any permanent development of this type of support for SMEs. However, all of these were distinct pilots which were not 'built in' to local skills policies and infrastructure, lacked coherent communication and marketing strategies and failed to utilise local networks.

We have completed three pilot projects in Stoke-on-Trent, Glasgow and Hackney. The outcomes have been evaluated by Manchester Metropolitan University, and the full report on the projects and the key findings will be available shortly. One of the most important findings is that most SMEs lack anything other than a rudimentary level of HR capability. Until this is addressed, the chances of significantly increasing SME engagement with apprenticeship programmes, better linkages to schools and colleges, or adopting other training initiatives designed to improve skills utilisation, is negligible.

Another important finding is that the delivery model adopted of locally based HR consultants offering face-to-face advice proved successful, not least because of its flexibility and because the consultants were well versed in local challenges and opportunities facing SMEs. However, the degree of success is dependent on their being a local infrastructure in place which provided an effective mechanism for engaging SMEs. Where such networks were relatively well-developed, as in Glasgow and Stoke, the initiative was more successful than in Hackney, where such networks were less developed. There may be particular challenges in London where local economies do not always follow local institutional boundaries very closely and where the local industry mix can be distinctive, with high rates of churn among the local firm population.

A further important finding is that the nature of business support for SMEs does not lend itself to quick fixes. The pilot projects ran for twelve months, and the evidence from participants is that in some cases this was not long enough to build up trust and reach SMEs who have not previously engaged with business support programmes. Glasgow has, nonetheless, decided to continue with its own funded programme adapting the People Skills approach, and we understand Stoke is also considering changes in its own support programmes. We suggest that at least three years would be needed in any follow up programme developing the new approach.

Our provisional estimate is that if the CIPD-JP Morgan delivery model were adopted by all LEPs, it would require initial funding of about £40 million per annum for at least three years. CIPD has an extensive network of HR consultant members in all regions who could help support the initial roll-out, together with other local sources of expertise. It is vital that independent evaluation is built into the initiative so that at the end of three years the Government has a sound evidence base on whether the positive findings from the pilots have been replicated in all areas. This would allow those areas where the approach has proved successful to scale up, and those areas where it was less successful to address the underlying structural weaknesses around effective engagement with SMEs.

Recommendation:

- **Government should allocate £40m* a year for the next three years to all Local Enterprise Partnerships (LEPs) to help them establish high quality HR business support services for SMEs to enable small businesses to raise the quality of their people management and encourage them to invest more in the skills their people.**

*This is based on the amount required to run the type of flexible HR business support model piloted by CIPD and JP Morgan Chase Foundation in Hackney, Stoke and Glasgow, across all 39 LEPs.

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