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Industrial Strategy

CIPD submission to the Business, Innovation and Skills Select Committee

**Chartered Institute of Personnel and Development (CIPD)
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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 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.

Introduction

This submission to the BIS Committee's inquiry on industrial policy from the CIPD looks at four main issues: the scope of industrial policy; the role of skills policy; the need for a workplace dimension; and extent to which such policies can and should be developed at the regional and local level.

The scope of industrial policy

Industrial policy has no single definition and has been defined internationally in both very narrow terms and very broad terms¹. The primary purpose of a strategy is to improve both the structure and the performance of certain aspects of the economy. Structural improvements might, for example, be aimed at increasing the share of faster-growing, higher-productivity and export-orientated industries. This could also have some broader impacts, such as increasing the rate of productivity growth and helping reduce regional imbalances.

UK industrial policy has historically focused mainly on the manufacturing sector. In more recent times it has been extended to cover a wider range of industries, though not always consistently. The industrial strategy of 2010-2015 also promoted a number of key technologies where the UK had some scientific advantage, as well as a number of sectors identified as having a strategic partnership with government².

If industrial policy is too narrow it is unlikely to have much impact on the overall performance of the economy. Too broad, and some might argue that industrial policy in effect becomes a label for all policies that might affect industry. In practice, industrial policy has become much more focused on broader horizontal policies, such as promoting technological innovation and Research & Development across sectors, but also much wider policies such as skills, investment in the infrastructure, corporate governance, trade policy and the regulatory environment³.

The CIPD favours this broader type of industrial policy for three reasons:

Firstly, a broader focus is more likely to have impacts on the scale required to influence national economic performance. High and medium-tech manufacturing, for example, while very important, accounts for 2 per cent of employee employment, while wholesale and retailing accounts for 16 per cent of employee employment.

Secondly, it is hard to devise a consistent set of criteria to justify which sectors are to be favoured over others, and even harder to ensure it remains relevant and up to date. Change is driven by the often unpredictable rise and fall of industries responding to global markets and new technologies, and new activities often cut across boundaries, for example, the rise of the gig economy. In particular, automation is in the process of changing the nature of employment and the workplace across the economy. Too narrow a focus would restrict the ability of government to support employers across a wide range of sectors to adapt to such technological changes in a way that complements and enhances the contribution of their employees rather than by diminishing – or even replacing – the skills of the workforce.

The retail industry is a good example of how these changes are affecting long-standing industries. The British Retail Consortium estimates that nearly a million jobs could be lost in the sector by 2025 as a result of new technology changing the face of the retail workplace, the need for greater labour productivity, and the shopping habits of consumers.

Thirdly, there is a constant danger that policies which brand certain sectors as strategically important will cross the boundary between legitimate long-term support and national interest concerns to become protectionist and anti-competitive.

We suggest, therefore, that the primary focus of a new industrial policy should be to develop horizontal policies to improve competitiveness, productivity, and performance across as wide a range of industries as possible.

This is not to say, however, that sectoral perspectives should be neglected. The way in which these horizontal policies are implemented should have sufficient flexibility across and within industrial sectors, as sectors can face very different market conditions, including global competitiveness, different workforce structures and practices and perceptions of national interest. That flexibility will also matter for local and combined authorities which are being given more and more control over their regional economies, in particular on issues such as skills.

There has to be a degree of judgement in deciding where to prioritise efforts, such as whether the Government can make a difference and the extent to which there are sufficiently strong and representative stakeholder institutions to meaningfully engage with government, for example through the Automotive Council.

Skills policy and the workplace

We want to focus in particular on the contribution of skills policy and to make the argument for a significant focus on the workplace as part of the implementation of the Government's industrial policy.

Why skills and the workplace matter

Firstly, there is a clear link between skills development and productivity growth. As the recent joint paper on productivity from the DWP and BIS Committees has showed, the contribution from skills improving the quality of labour may have contributed up to twenty per cent of productivity growth before 2008 and has continued to make a positive contribution since 2008. A significant part of the UK's low productivity levels, compared with some other major OECD economies such as Germany, can be attributed to poor workforce skills development.⁴

Secondly, skills are complementary to many other aspects of industrial policy designed to encourage innovation and investment. Efforts to increase the adoption of new technologies and best work practices will be frustrated by inadequate skills development and poor use of skills in the workplace. Moreover, the prevailing lack of focus and demand for vocational skills is, in turn, linked to business strategies adopted too much in the past across industry

which rely on plentiful supply of low-skilled labour, lack of investment in the workplace and in jobs, and even on low value-added products and services and do not rely on building up workplace skills. These business strategies are associated with lower productivity.⁵

Thirdly, if the supply of labour from overseas is to be constrained as a result of Brexit, part of the response from UK firms should be to increase domestic training effort. However, we have concerns this may not be the case. A CIPD survey from 2014 found that firms who employ migrants are more likely to offer work experience, internships, and apprentices than those who do not⁶. Some organisations will step up investment further, but it cannot be assumed that this will be sufficient to offset fully the loss of imported experience and skills or address the lack of suitable applicants in some local labour markets.

Moreover, our latest Labour Market Outlook survey for summer 2016 shows a net decline in employer intentions on training investment attributable to Brexit.⁷ Of those employers who responded just after the Brexit result, 21 per cent said they intended to cut training investment in response and 7 per cent said they would increase investment. We will repeat the question in future surveys to see if the balance changes as employers make more considered assessments.

Investing in world-class vocational education and training

The CIPD is currently undertaking a major review of skills policy, including how the UK compares with other major OECD economies, which we will publish later this year. However, as previous reports by the BIS Committee have highlighted, we know there are significant shortcomings on vocational education and training for both young people and for older workers.

The OECD's 2014 synthesis report on vocational and educational training system describes it as a "hidden world", reflecting a tendency in many OECD countries to overlook the importance of this part of the education and training system.⁸ This problem appears to be especially acute in the UK. The OECD review of vocational skills in England, published in 2013, noted there was insufficient provision, both relative to other countries and to potential demand, and that the role of workplace based training needed to be expanded within post-secondary vocational training⁹.

There is, of course, no doubting the excellent job that the vast majority of Higher Education (HE) institutions do in educating students to a high standard. However, the imbalance of provision means that we are increasingly starting to resemble a university mono-culture, where the university route remains the preferred option for most to obtain qualifications. However, our research has shown that this may not be making the right returns for the UK's economy, with 58.8% of graduates currently working in traditionally non-graduate jobs, meaning the UK economy is failing to create enough high-skilled jobs for graduates.¹⁰ The CIPD will be publishing a report shortly which sets out some proposals to develop a number of high-quality alternative routes to employment.

Some of the current initiatives being pursued by government to address these weaknesses, such as the Apprenticeship Levy, have good intentions but there are significant doubts about whether the approach will have the impacts the government wants. These are set out in the CIPD submission to the then-BIS.¹¹

Recent restructuring of government and public policy institutions has seen responsibility for skills policy move to the Department of Education through the Skills Funding Agency and the UK Commission on Education and Skills (UKCES) has been abolished. It remains to be seen how far this helps or inhibits the integration of skills policy within industrial policy, which are now sitting in two different government departments. It would be reassuring to see a clear statement from the Government that this is the intention, and even more practical steps towards that end.

Promoting lifelong learning

There also appears to be an institutional gap in addressing the training and development needs of workers outside the current vocational education system and it is not clear how this will affect the effective engagement of employer organisations and other institutions at the national strategic level. There is a danger that the current structures will concentrate on training provision for those under 25 while paying insufficient attention to skills development for the rest of the workforce.

Evidence from the OECD suggests that higher participation in lifelong learning is associated with lower skills mismatch, as training beyond formal education can address changing labour market needs.¹² The same OECD research finds that the UK could benefit from a 5% productivity gain if the level of skills mismatch were reduced to OECD best practice levels.

A stronger public policy focus on lifelong learning is also required in response to the challenges of rapidly evolving new technology and automation which will require people to re-skill or up-skill in order to ensure they remain employable and employers are able to access the skills they need.

The UK's ageing population and workforce together with changes to retirement provision will also require people to work longer and adapt to technological changes or to changes in their physical or mental capacity at different stages of their working lives, which also highlights the need for greater investment in lifelong learning.

Developing a workplace based approach

It is clear that a significant part of the current productivity paradox lies in what is happening in UK workplaces and this is one reason why it has proved difficult to understand entirely

why the productivity slowdown since 2008 has been so persistent.¹³ We need a better understanding of what is happening in the UK's workplaces and the development of levers to influence workplace behaviour in ways which improve productivity performance. There are a number of challenges, in particular, that are specific to the workplace and which affect UK PLC's performance considerably.

For one, the UK suffers in the number of jobs that offer progression. For example, according to the latest British Social Attitudes Survey, around 70 per cent of people in work in 2015 said they wanted a job that offered progression, but only 30 per cent said the job they were in offered it. Without progression, workers miss out on the opportunity to improve the quality as well as the quantity of employment through skill acquisition, renewal and development.

A major challenge is the quality of management in UK businesses. According to the World Management Survey, the UK scores about average in terms of the quality of its managers but, unlike the US, it has a long tail of underperforming businesses. The previously cited OECD study on skills mismatch finds that better managerial quality is associated with lower skill mismatch, which is identified as material to improving labour productivity. The term 'managerial quality' encompasses a wide range of human resource management (HRM) practices, including leadership and people management, work organisation, job design, flexible working and training and development. An increasing body of evidence suggests improving HRM practices is linked to higher levels of employee engagement and wellbeing and positive organisational outcomes.^{14 15}

Improvements in such HRM practices are also key to creating more flexible and inclusive workplaces which support the development of a more diverse workforce. Attempts by policy makers to address gender inequality, increase the proportion of under-represented groups in employment, or respond to the challenge of the UK's ageing workforce, will be undermined unless there is a wider uptake amongst employers of progressive HR and people management practices.

How industrial policies improve workplace practices

A recent review has concluded that: "*any attempt to re-balance the economy or develop an industrial strategy without taking into account the workplace will almost certainly end in failure*".¹⁶ The 2015 CIPD report on productivity concluded that:

*"One area that appears to have suffered from fragmented responsibilities is productivity in the workplace. Adoption of high performance working practices is not as widespread in the UK as appears to be the case in Germany, the Netherlands and the Nordic countries – countries with a long tradition of public authorities, employers and employees working together to improve the quality of work and encourage workplace innovation."*¹⁷



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Past industrial policies have typically had limited direct reach into the workplace, partly because it has proved hard for government to find appropriate levers. Policies have tried more conventional levers with mixed results: for example, we have hugely increased the supply of highly educated labour over the past decade but there are significant concerns that the skills they bring are being poorly used¹⁸. There is widespread agreement that improving supply has reached the limits of effectiveness, and what is needed is an equally significant focus on the demand for skills and that in turn will have to be workplace-driven. Similarly, the UK appears to have a high rate of investment in ‘intangibles’, including design and software as well as R&D¹⁹. Yet the outcomes in terms of higher productivity growth have been poor. In short, significant investment is going in, but relatively little appears to be coming out.

However, there are a number of options the government could consider:

Firstly, BEIS could give a stronger emphasis in future developments of support services for SMEs to strengthening people management competencies, especially around the effective use and development of skills. The CIPD has, in partnership with JP Morgan Foundation, been piloting the provision of HR support to SMEs in a number of locations which has produced some valuable insights, including the critical role of local authorities with strong linkages to local businesses working closely with Chambers of Commerce and other local institutions. These linkages create what we have called “supportive skills eco-systems” at the local level.²⁰ We will be publishing an assessment shortly.

Secondly, the BEIS could revisit the experience of the old DTI’s Partnership Fund to see whether more direct support for partnership working between employers, unions, and employees in order to improve business performance and the quality of work could be developed, drawing on the lessons from previous rounds²¹.

Thirdly, BEIS could give more direct support and encouragement to building recent initiatives. For example, Acas’s *Building productivity in the UK* identifies seven levers of workplace productivity, including well-designed work, improving the skills of line managers, managing conflict, fairness, employee voice, and high trust and gives practical advice to businesses on how to improve in each of these areas.²² Another example is the work that has been led by Sir Charlie Mayfield of the John Lewis Partnership, in conjunction with some of the UK’s most senior business leaders. Together they have investigated a number of aspects of productivity in the workplace, including management skills and digitisation, and put forward a number of recommendations for businesses and Government.²³

Promoting best practice through strategic partnerships

These are all areas which CIPD has also actively promoted through our membership base and through wider public dissemination, for example, through our recent 2015 report, *Productivity: Getting the best out of people* which explores the relationship between productivity and how people are managed.²⁴



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However, more could be achieved if a mechanism existed to help stimulate and co-ordinate these efforts through strategic partnerships to agree common messages and dissemination strategies and develop innovative new approaches. We have experience of joint working with other organisations – for example, in 2009 the CIPD and Acas published a joint guide on better management practices and in 2015 we developed a joint initiative with UKCES and others, *Valuing Your Talent*, on the role of investment in people and better measurement and insight for business success.^{25 26} This experience tells us that much more could be done by taking these bilateral arrangements one step further.

The Government could help facilitate discussions between social partner organisations such as the CBI and TUC, professional bodies such as the CIPD, and other membership and network based organisations on workplace productivity. These organisations, between them, know a great deal about the workplace, have extensive contacts and networks to assist dissemination and implementation, and have many insights into what may or may not work at the sectoral and local levels.

Building an informal coalition of this sort could be an invaluable source of informal advice to help governments develop policies which could reach a much wider audience and influence what happens at the workplace level. It could broker new and innovative approaches. For example, the CIPD is building up an extensive network of workplace based volunteers from the HR community to coach young people and help improve basic employability skills with support from the DWP and others.

The regional and local dimension

Industrial policy has, in the past, tried to strike a balance between regional balance and the national and sectoral focus of most industrial policy measures. The local dimension is likely to be of particular importance in influencing the workplace behaviour of SMEs, which can often remain relatively untouched by national and sectoral schemes. We have highlighted the important role in building local eco-systems of support for SMEs, both as a result of our 2015 survey on productivity and the workplace and the People's Skills pilot projects reported on earlier in this report undertaken in Hackney, Stoke, and Glasgow focused on improving SME use of skills²⁷. The key conclusion so far is that localities with good connections with their local business communities and effective employer bodies such as the Chamber of Commerce can deliver these support programmes, but other localities will struggle. The focus of policy therefore needs to be twofold – to strengthen local capabilities as well as developing and scaling up national support policies based on the lessons from this and other such programmes.

Conclusions

In this submission we have argued for a broad industrial policy to focus mainly on horizontal strategies and policies that impact on a wide range of sectors focused on improving the UK's competitiveness, productivity, and performance. The implementation of these measures should be flexible and delivered through sectoral and local bodies. We think there is a strong case to ensure the integration of industrial policy and skills policy, focused on improving the provision and quality of vocational education and training for the workforce as a whole. We also think it is essential to have a workplace dimension to industrial policy and have suggested some ways in which the government can help influence workplace outcomes.

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¹ <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7682>

² Advanced manufacturing (including life sciences); knowledge services such as finance, business services, “the information economy”, and higher education, and “enabling sectors” such as construction and energy. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34607/12-1140-industrial-strategy-uk-sector-analysis.pdf

³ Distinctions between horizontal and vertical or sectoral policies are not always clear-cut, and this seems to be especially true for policies around education and vocational training and education.

⁴ <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmbis/565/565.pdf>

⁵ <http://www.cipd.co.uk/publicpolicy/policy-reports/productivity-getting-best-out-of-people.aspx>

⁶ <http://www.cipd.co.uk/pressoffice/press-releases/cipd-migration-300914.aspx>

⁷ <http://www.cipd.co.uk/publicpolicy/policy-reports/productivity-getting-best-out-of-people.aspx>

⁸ <http://www.oecd.org/edu/skills-beyond-school/Skills-Beyond-School-Synthesis-Report.pdf>

⁹ <http://www.oecd.org/edu/skills-beyond-school/ASkillsBeyondSchoolReviewOfEngland.pdf>

¹⁰ <https://www.cipd.co.uk/publicpolicy/policy-reports/overqualification-skills-mismatch-graduate-labour-market.aspx>

¹¹ https://www.cipd.co.uk/Images/consultation-response-apprenticeships-levy-employer-owned-apprenticeships-training_2015-october_tcm18-14041.pdf

¹² <http://www.oecd.org/eco/growth/Skill-mismatch-and-public-policy-in-OECD-countries.pdf>

¹³ <http://www.bankofengland.co.uk/research/Documents/workingpapers/2014/wp495.pdf>

¹⁴ <http://engageforsuccess.org/nailing-the-evidence>

¹⁵ <http://engageforsuccess.org/wp-content/uploads/2015/09/wellbeing-and-engagement-04June2014-Final.pdf>

¹⁶ <http://www.acas.org.uk/media/pdf/o/8/The-UK-Productivity-Puzzle-is-employment-relations-the-missing-piece.pdf>

¹⁷ https://www.cipd.co.uk/binaries/productivity_2015-getting-best-out-of-people.pdf

¹⁸ <https://www.cipd.co.uk/publicpolicy/policy-reports/overqualification-skills-mismatch-graduate-labour-market.aspx>

¹⁹ The UK also appears to have a high rate of investment in human capital, but this may not be the same as actual investment in workplace based training.

²⁰ <http://www.cipd.co.uk/research/smes/people-skills.aspx>

²¹ http://www2.warwick.ac.uk/fac/soc/wbs/research/irru/publications/recresrep/dti_partnership_exec_summary.pdf

²² <http://www.acas.org.uk/media/pdf/7/9/Building-productivity-in-the-uk.pdf>

²³ <https://howgoodisyourbusinessreally.co.uk>



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²⁴ http://www.cipd.co.uk/binaries/productivity_2015-getting-best-out-of-people.pdf

²⁵ <http://www.acas.org.uk/index.aspx?articleid=2390>

²⁶ <https://www.cipd.co.uk/hr-resources/valuing-your-talent.aspx>

²⁷ <http://www.cipd.co.uk/research/smes/people-skills.aspx>