Great job

Solving the productivity puzzle through the power of people

May 2019

People and Skills

The CBI is committed to driving up UK productivity. This report continues a series exploring how best to do that. In 2016 we examined regional productivity gaps and how to accelerate growth. In 2017 we identified the economic and firm-level characteristics that spur the diffusion of digital technology. In this report, we turn our attention to people. We focus on the leadership, management and working practices that mean businesses enable people to give their best. McKinsey & Co have again provided research and analytical support, which the CBI has then developed into recommendations and a campaign to stimulate action amongst our members.

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Executive Summary

Every business is wrestling with how to give people opportunities to deliver at their best. With good reason. The pace of change is intensifying and bringing with it demands for new skills. Fresh, bold ideas are important in a fiercely competitive world. And the war for talent is intensifying, with people actively choosing to work for companies where they can make a difference and have opportunities to develop.

This new CBI research identifies how firms can enable people to give their best and the difference it can make to company performance. As UK productivity flatlines and lags international peers, now is the time to act.

The results are compelling.

There is a huge prize from improving how businesses lead, engage and develop their people

- **It makes business sense.** Firms that lift their people management performance up from the lowest levels to the UK average can secure a massive 19% productivity uplift.
- **It makes reputational sense.** More than two-thirds of the public say that treating your staff well makes the single biggest difference to improving trust in business.
- **And it makes economic sense.** If the UK improved its performance on people management by 7%, £110bn could be added to the country's income. That's like adding the value of the UK's construction sector all over again.

Yet there are common barriers that hinder progress

- The hard truth is that UK firms tend to overestimate how well they lead, engage and develop their people, often because they do not have effective means to measure and benchmark their performance.
- Getting different parts of the business to pull in the same direction is another barrier, mainly because there is no shared view of the nature of the problem or what can be done to solve it.
- A further stumbling block is that leaders often underestimate how important their words and actions are in making good practices stick.
- A final complication is that the challenges firms face tend to be different depending on a business' size, which can make it harder for leaders to know what actions to take.

Adopting the habits of people-driven businesses will help all firms take their next step

The CBI has identified habits that can make a difference to how businesses lead, engage and develop their people. When great leadership, management, engagement, recruitment and development practices are second-nature, businesses do better. Benchmarking and being transparent about progress further catalyses action.

Habit 1: Leaders must make good people practices a shared priority across the business

- Leaders should set and be accountable for targets against their people strategy, and communicate progress
- Responsibility for people issues should be at Board level to help drive collaboration between HR and the rest of the business
- Leaders should tap into external networks and programmes to bring good practices on people strategy into their business

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Habit 2: Put people management on a par with commercial targets

- All line managers should have people management objectives with Key Performance Indicators (KPIs), and these should be given equal weight to commercial objectives when assessing their performance
- Ensure that your reward strategy for line managers is linked to their performance on people management

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Habit 3: Establish a shared purpose and recognise people's contribution towards it to boost engagement

- Involve staff in the design of the organisation's values and purpose, and act on feedback about how these are put into practice
- Managers should regularly recognise and praise their teams, and businesses should establish non-financial reward schemes for managers to reward top performers

Habit 4: Put people's skills and competencies at the heart of the recruitment process

- Review your selection processes to eliminate unconscious bias, and consider introducing name-blind CVs and applications
- Incorporate task or scenario-based assessments into selection processes to better assess people's skills and competencies

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Habit 5: Provide leading on-the-job development and support

- All line managers should be expected to provide regular, informal and strengths-based feedback
- Maximise on-the-job development opportunities through mentoring, coaching, project assignments, internal rotations or training led by more experienced staff

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Habit 6: Assess how your business is performing on people practices

- Set organisational KPIs on people issues and assess how different parts of the organisation perform against them
- Make use of existing benchmarks to assess how your people practices compare to others to help identify areas for improvement

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Habit 7: Effect change: be open about how your business is performing on people practices

- Regularly communicate with all staff about how you are performing against key people metrics
- Consider ways to publicly disclose your performance on key indicators of people management to strengthen accountability for progress

The CBI is stepping up to play a full part in enabling business to improve

This report launches a new campaign to encourage more businesses to adopt good people practices. Our goal is to demonstrate the different ways businesses can choose to adopt these habits, and to showcase some of the best ideas and approaches to inspire firms to take their next step. Keep up-to-date with our work at cbi.org.uk/our-campaigns/.

Given the prize at stake, government should leave no stone unturned in exploring all options for how it can help accelerate progress

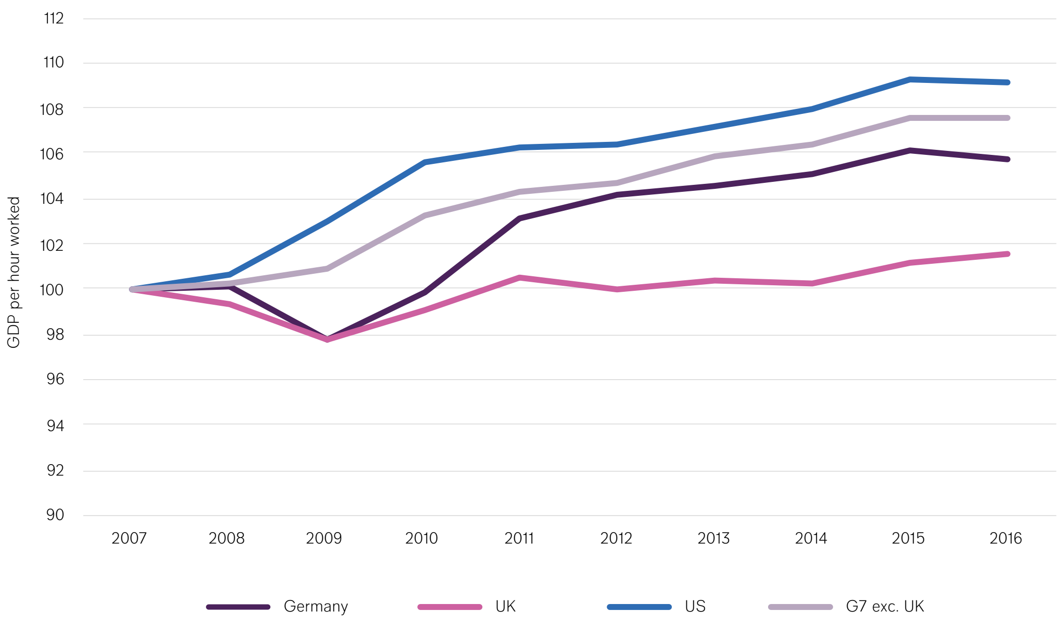
Many businesses are taking action and doing lots of this already. But the reality is that some firms have had improving how they lead, engage and develop their people on the backburner for too long. For others, diagnosing their current position and knowing where to start is the stumbling block. Given the scale of opportunity from getting this right, business and the government should work together to accelerate progress. Our ideas on ways to do this include:

- Creating a race to the top, which could be in the form of new charters, kitemarks or a competition
- Increasing opportunities for businesses to benchmark their performance and learn from others' success; and
- Creating the right incentives for firms to enable more staff to have a shared stake in the success of the business

With great people practices comes great productivity

The UK's approach to labour market policy has for many years rightly prioritised getting people into work. Unemployment is now at 3.9%, its lowest rate in three decades.[1] But simply creating jobs is not enough. Attention must turn to ensuring that jobs are good – where people are effectively led, engaged and developed so that they can give their best. Many businesses are doing just that. Yet not enough firms have prioritised how they enable people to give their best, resulting in the UK's performance on management lagging behind international peers. UK productivity increased just 3% between 2006 and 2016 – over 3 times slower than in the US. This has further widened the gap between the UK and our competitors, with UK productivity now 16% behind the rest of the G7.[2] The UK's performance on people management plays a big part in explaining this gap.

Exhibit 1 UK productivity has fallen further behind competitors in the last decade.



Source: ONS, International Comparisons of Productivity based on constant price GDP (£) per hour worked, index 2007=100, 2016

At the same time, the proportion of older people leaving work is increasing as the UK's population ages, and Brexit is already lowering the net number of people coming to the UK to work. This makes investing in how people are led and managed, and in the working practices which attract, develop and engage people more important than ever. By adopting the habits that deliver great people practices, firms can transform untapped potential into productivity, bringing both bottom-line and reputational benefits. There's a massive potential prize to the UK economy that's well within grasp.

To secure the UK's position as a global player after Brexit, business and the government must demonstrate that the UK can be the best place in the world to employ people and be employed. This goes to the heart of building an outward-facing, fair and thriving economy. And with businesses already facing immense competition for people and skills, there has never been a better time to get started.

Great people practices make business sense

A business' most important source of value is its people. 83% of firms say that not having access to the right skills is the primary threat to the competitiveness of the UK labour market.[3] In this environment, firms that attract and retain people by improving leadership and management, and the practices that develop and engage staff, do better.

Even small improvements in firms' people practices are associated with sizable productivity increases. This is because a business that performs in the lowest quartile on management can increase its productivity by a massive 19% by raising its management score to that of the UK median. Even a firm that performs at the median can increase its productivity by 12% by improving its management score to that of top-performing businesses in the highest quartile.[4]

There are also associated benefits that give firms a competitive advantage. The highest performing businesses on employee engagement – one of 7 areas that make firms' people practices great – see 22% higher profits than those with lower engagement, and businesses that develop the strengths of their staff have been found to reduce turnover by up to 72%.[5]

Great people practices make reputational sense

A business' reputation is their license to operate, and trust in business is the mainstay of responsible capitalism. Yet less than half of the British public trust UK business or think that the way it works today is good for society.[6] In this context, businesses that talk about how they treat staff and enable people to give their best do better, with 69% of the public believing that treating staff well is the primary way to improve UK business' reputation. This has increased by 9% since 2017.[7]

The way businesses lead, engage and develop people is similarly fundamental to how staff perceive their employer's reputation. Supporting staff's health and wellbeing and investing in training and career development are the top three issues people want their employer to focus on.[8] Separate research has found that over three-quarters of employees expect their employer to offer development opportunities and almost two-thirds expect their workplace to have a sense of shared values.[9]

Great people practices make economic sense

Raising the average quality of people management in UK firms by just 7% has the potential to add a massive £110bn to the economy – similar in value to the UK's construction sector.[10] Improving how businesses lead, engage and develop their people is a core part of raising UK productivity. It matters, because productivity growth is the only sustainable way to improve living standards. Many people are feeling their living standards squeeze despite being in work. Flatlining productivity is a major factor in stagnating wages, with people's take-home pay now 1% lower today, on average, than during the 2008 financial crash.[11] By adding to the UK's income, improving firm's people practices is part of building an economy where more people share in the prosperity business creates.

"Raising the average quality of people management in UK firms by just 7% has the potential to add a massive £110bn to the economy."

What's stopping business from turning ambition into reality?

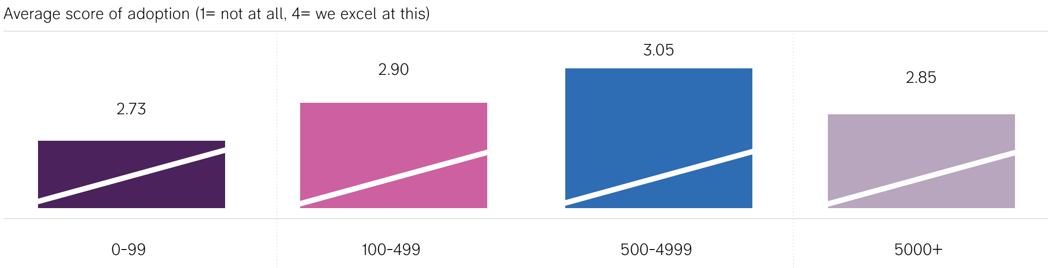
The UK has a longer tail of firms who haven't adopted great people practices. This means that while many firms have adopted world-leading people practices, the UK's overall effectiveness lags those of competitors like Germany and the US as a larger proportion of businesses haven't adopted these effective habits. If UK firms could match their performance on management to those in the US, the productivity of the UK workforce would jump by 12%.

Exhibit 2 Improving UK performance on management to the US average will boost productivity

Source: McKinsey, Distribution of businesses based on their mean management score in the UK, Germany and the US, 2014

Effective people practices are less likely to be adopted in smaller businesses. It is not the case, however, that the larger the business the more likely effective habits are adopted. Among very large firms, with more than 5,000 people, adoption tends to be 7% lower than in businesses with 500-5,000 people.[12] In this sized business, the adoption of habits improving people practices peaks, with adoption scores 12% higher than firms with less than 100 people.

Exhibit 3 The smallest and largest firms struggle most to adopt great people practices



Given the huge prize from improving how businesses lead, engage and develop their people, the CBI's research has for the first time sought to reveal the barriers preventing UK businesses from adopting great people practices. While most firms intuitively know it matters, not enough are taking effective action. We found that regardless of size and whatever stage a business is at, there are four common hurdles that may be holding them back.

Find out about our methodology

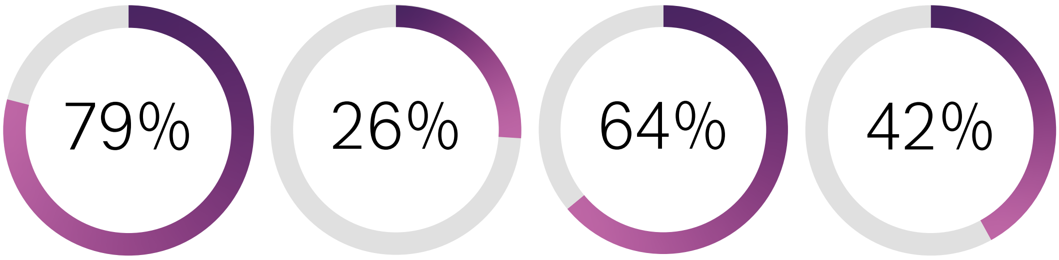
As part of our research, we surveyed a cross-section of 500 UK managers and conducted in-depth interviews with around 45 businesses to identify the extent and nature of good practice adoption in UK businesses, and understand what can stop businesses from improving their people practices. The results were weighted to be representative of the UK business population.

Barrier 1: Businesses overestimate how good they are

The hard truth is that UK firms tend to overestimate how well they, and the wider business community, performs. When the adoption of key indicators of good people practices is benchmarked against peers in Europe, the Middle East and Africa (EMEA), the UK performs at or below the EMEA median in 79% of cases. But ask UK managers whether their business has adopted good practices and they're overwhelmingly likely to give themselves a pass mark, with just 26% saying their business has adopted fewer than half of the practices identified.[13]

Likewise, at firm-level and irrespective of their size, businesses tend to overestimate how effectively they lead, engage and develop their people. UK managers are more likely to be satisfied with their business' overall performance on people issues than the management of specific areas. When asked how satisfied they were that their business was good at people development in general, 80% of UK managers said they were satisfied. This was 11% higher than their level of satisfaction with how far their business had adopted specific practices that enabled people's development. This suggests that firms need to accurately assess their adoption of good practices, even when they believe they do well in general.[14]

There is also an optimism bias among leaders. CEOs are far more likely than other managers to believe that their company has adopted effective ways to lead, engage and develop their people. 64% of CEOs think their business has a high level of good practice adoption, compared to 42% of other managers.[15]



79% of UK firms are performing below or in line with the EMEA median when you compare the indicators of good people practice…

…but 26% of UK managers say their business has adopted less than half of the practices identified.

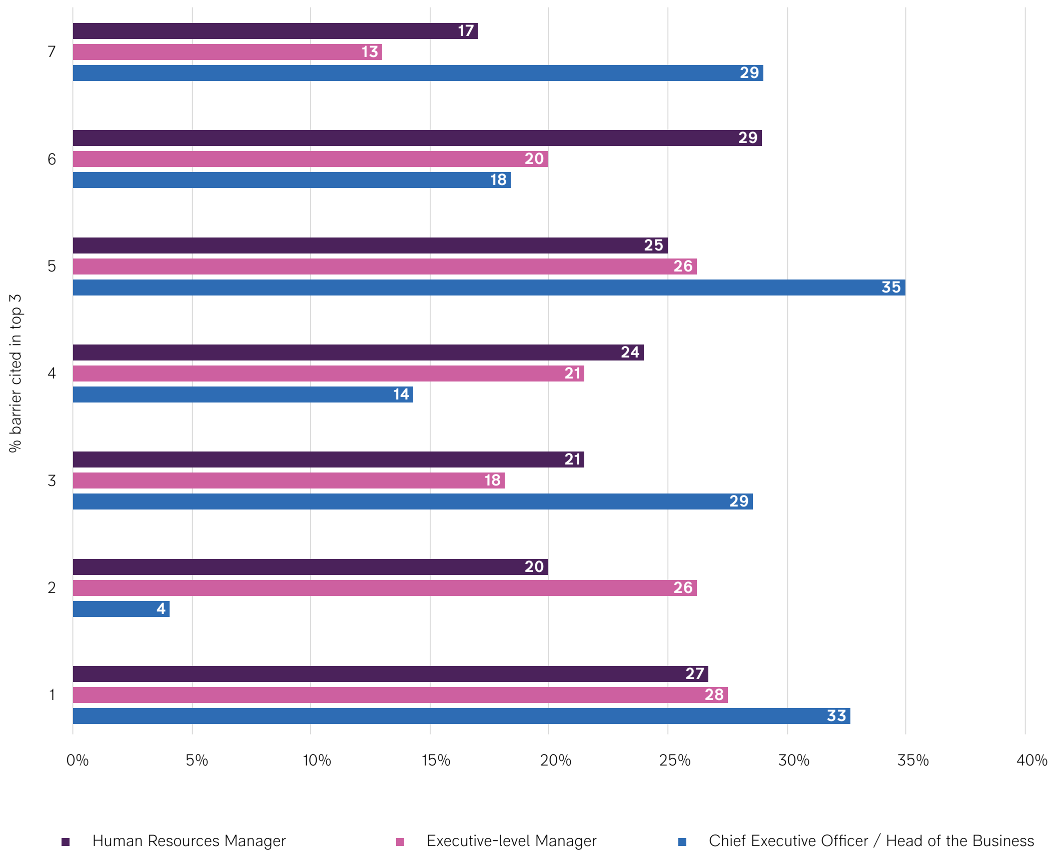
64% of CEOs thinks their business has a high level of good practice adoption…

…compared to 42% of other managers.

Barrier 2: There's no shared understanding of the problems

There are significant discrepancies in how different managers view what's stopping their business from adopting effective ways to lead, engage and develop their people. Communication is most commonly cited by UK managers as what would make the greatest difference to enable their business to improve its people practices. This suggests that in most businesses, different views about how the business is performing and what's holding back progress aren't discussed. Without initiating a shared dialogue, firms face inertia – affecting people's experience of work and business' bottom-line.

Exhibit 4 Leaders disagree about what's holding back their business' progress



Key:

1	Having more important things to worry about
2	Not believing there are benefits
3	Staff resistance
4	Expense
5	Not fitting the culture
6	Not following policies day-to-day
7	Risk

Source: Breakdown of reasons related to a lack of return on investment and organisational follow-through that managers in different roles give for what stops their business from improving its people practices. CBI & McKinsey, Survey of 501 UK Managers, 2018.
Firms of all sizes included.

A staggering 85% of UK managers cite barriers related to a low return on investment or poor organisational follow-through as among the top three reasons holding back their business' progress. But CEOs, Senior executives and HR managers view it in different ways – CEOs are motivated by risk, Execs by impact and HR by expense. At 29%, a significant proportion of CEOs believe that making changes to the organisation's people practices is too risky, in contrast with 13% of Execs. Yet only a very small proportion of CEOs, 4%, think there are no benefits to adopting good people practices, compared to 26% of Execs. A greater proportion of HR managers, at 24%, think that implementing good people practices is too expensive, compared to 14% of CEOs.[16]

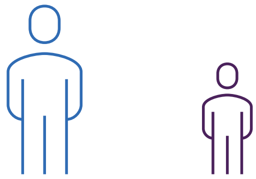
CEOs prioritise: Risk

29% of CEOs think that making changes to the organisation's people practices is too risky, compared to 13% of Execs.

Senior execs prioritise: Impact

26% of Executive managers think there are no benefits to adopting good people practices, compared to just 4% of CEOs.

HR managers prioritise: Expense



24% of HR managers say that implementing good people practices is too expensive, compared to 14% of CEOs.

What lies behind managers' concern about a lack of organisational follow-through is also different among CEOs, Senior executives and HR managers. 35% of CEOs say they are concerned that good practices don't fit the organisational culture, compared to 25% of HR managers. At 29%, a significant proportion of CEOs also say that concerns about staff resistance stops their business from adopting good people practices, compared with 18% of Execs. By contrast, 29% of HR managers are concerned that their business' people policies are not put into practice day-to-day, compared to 18% of CEOs.[17] Without a shared view of the challenges, it is far harder for a business to identify and tackle the barriers it faces with consistency from across the organisation.

CEOs prioritise: Culture

35% of CEOs are concerned that good practices don't fit the organisational culture, compared to 25% of HR managers.

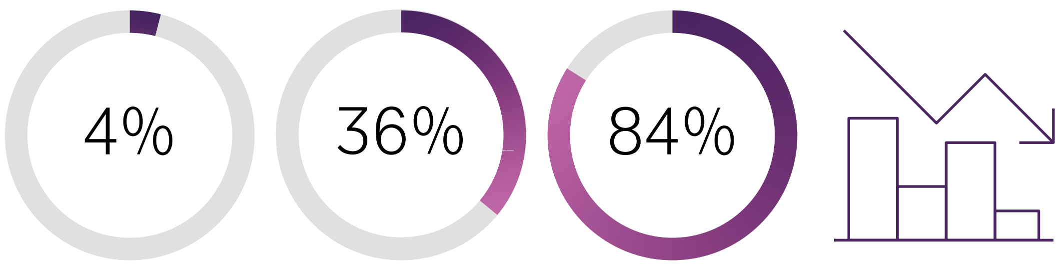
HR managers prioritise: Policies

29% of HR managers are concerned that people policies are not put into practice day-to-day, compared to 18% of CEOs.

Barrier 3: Leaders don't realise how important their role is

CEOs are overwhelmingly likely to be committed to improving the ways their business leads, develops and engages its people: only 4% of CEOs surveyed saw no benefits to introducing specific good people practices. Yet the perception that leaders do not value effective people practices was a top barrier for 84% of managers. At 34% and 36% respectively, a significant proportion of Execs and other managers cite this as holding their business back. It is also a view disproportionately cited by businesses with the lowest levels of good practice adoption.[18]

This suggests that some leaders may underestimate the value of role modelling and regular communication in promoting good people practices. The view that leaders do not value good people practices is disproportionately cited by managers in larger businesses, suggesting that regularly demonstrating or communicating the importance of people issues is harder where leadership and management structures are more complex.



Only 4% of CEOs say they don't believe there are benefits to introducing specific good people practices...

...yet 36% of other managers say that leaders not valuing these practices is holding their business back.

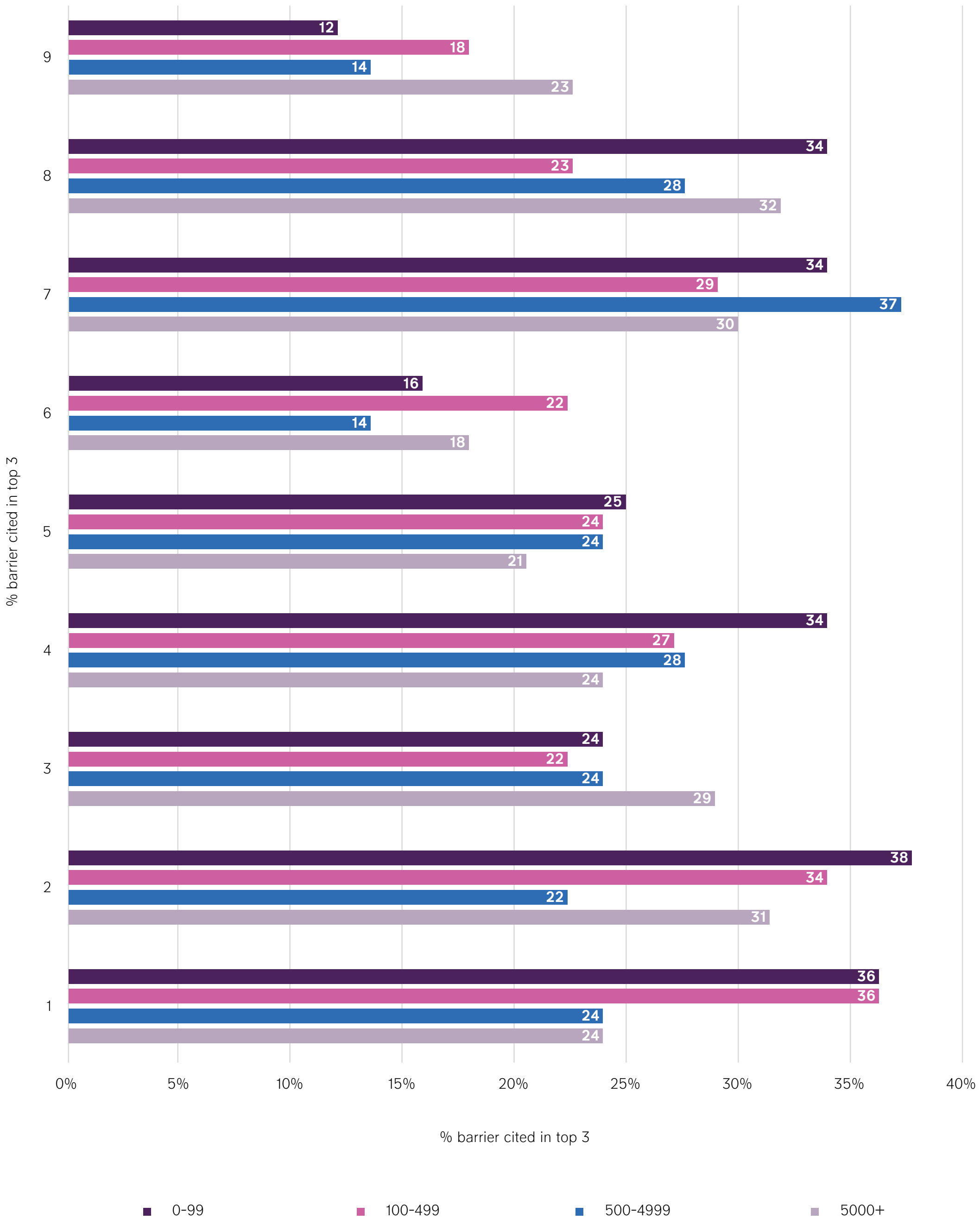
The perception that leaders do not value effective people practices is a top barrier for 84% of managers from firms of all sizes...

...and it is disproportionaly cited by businesses with the lowest levels of good practice adoption.

Barrier 4: Challenges can be different depending on a firms' size, making it harder to know what to do next

Each business faces different barriers to adopting habits that improve their people practices and establishing a shared organisational view of what these are is necessary for progress. Looking at the barriers that tend to affect organisations of different sizes can be a helpful starting point.

Exhibit 5 Different sized businesses face different challenges.



Key:

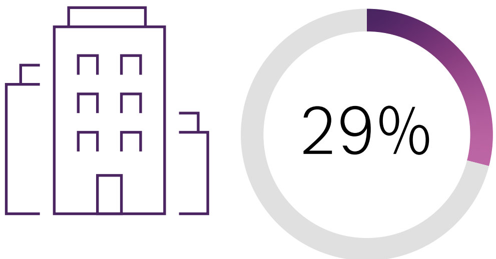
1	New information
2	Finding a problem
3	Comparing practices to others
4	Having more important things to worry about
5	Not believing there are benefits
6	Expense
7	Not being valued by leaders
8	Not being valued by managers
9	Poor collaboration between HR and the rest of the business

Source: Breakdown of the reasons UK managers in businesses of different sizes cite for what stops or prompts them to improve how they lead, engage and develop their people. CBI & McKinsey, Survey of 501 UK Managers, 2018

Smaller businesses are generally held back by concerns over the expense and value of good practices, and a higher proportion invest after knowing the benefits of improving people practices and what good looks like. In businesses with fewer than 500 people, 31% of managers say their business has more important things to worry about than implementing good practices, compared to 25% of managers in larger businesses. This makes the business case more compelling for smaller firms – 36% of small or medium-sized business managers, compared with 24% of managers in large or very large firms, say that receiving new information about what good practices look like, and their value, has led to them being adopted by their business.[19]

Larger businesses, by contrast, generally struggle with a lack of follow-through and tend to be more motivated by outperforming competitors. This is particularly pronounced for very large businesses – 23% of managers in firms with more than 5,000 people say that poor collaboration between HR and the rest of the business holds them back, compared with 14% of managers in firms with between 500 and 5,000 people. Comparing people practices helps, with 29% of managers in businesses with more than 5,000 people saying that they have adopted good people practices after knowing how their performance benchmarks against others, compared with 22% of managers in smaller businesses.[20] Highlighting the opportunity to keep pace with or outperform competitors on people issues is one strategy leaders can adopt to demonstrate and galvanise their commitment throughout the organisation.

36% of managers in small or medium-sized firms say that receiving new information about what good practices look like, and the value of these practices, has led to them being adopted by their business, compared to 24% of managers in larger businesses.



29% of managers in businesses with more than 5,000 people say that knowing how their performance benchmarks against others has led them to adopt good people practices, compared with 22% of managers in smaller businesses

"If UK firms could match their performance on management to those in the US, the productivity of the UK workforce would jump by 12%."

The habits of people-driven businesses

There is a huge productivity prize for firms and the UK from addressing the large proportion of businesses that underperform on people practices, and helping others go from good to great. Most businesses know it matters already. By understanding the hurdles that can hold them back from adopting good practices, businesses are more likely to turn ambition into reality. So how can firms take their next step?

Sharing the experiences of firms that effectively lead, engage and develop their people is key to inspiring others who have not yet realised their full potential. Through reviewing literature, survey and interview data, we have identified habits that can help businesses of all sizes improve their people practices. This forms the basis of a new CBI campaign that seeks to enable more businesses to improve by showcasing what's possible. The seven most effective habits that improve business' people practices are summarised below, alongside some of the different ways that firms can adopt each habit, with examples from those that have.

Organisational transformations are over 4x more likely to succeed when leaders role-model the desired changes.

1

Leadership

Effective leaders make better people practices a shared priority across the organisation. Developing a people plan, assessing how its implemented against stretching targets and role-modelling new ways of working is key. Improving the organisation's strategic capacity on people issues by making it a board-level responsibility and improving the collaboration between HR and the rest of the business are all ways leaders can improve their business' people practices.

44% of businesses say that effective line management is the single most important driver of employee engagement.

2

Management

Good line managers put good people practices into action day-to-day. Businesses need to create an environment in which managers can prioritise engaging and developing their team. Making effective people management the priority, not an added responsibility, and recognising and rewarding their performance as people managers are ways businesses can do so.

Firms in the highest quartile for employee engagement see absenteeism 41% lower and profits 22% higher than those in the lowest quartile.

3

Engagement

People are more engaged when they feel part of a business whose purpose they understand and when they feel their role contributes to it. This requires firms to promote inclusion, communicate their purpose and values and explain how each person's role contributes. Establishing a shared purpose and recognising people with non-financial rewards are key ways businesses can engage people at work.

Recruiting high performers has been found to generate 40% higher productivity in operational roles, 49% higher profit in management roles.

4

Recruitment

Effective recruitment practices are associated with hiring higher-performing and more productive people, lower turnover and higher returns. Businesses should standardise interview processes and can remove subjective criteria from selection processes or introduce scenario-based assessments as ways to ensure they hire from the widest pool of talent.

Businesses that develop their staff's strengths have been found to reduce turnover by up to 72%.

5

Development

On-the-job support is a particularly effective way to develop people. Businesses need to create an environment in which managers have time to give regular, informal and strengths-based feedback as it has the greatest effect on people's performance. People are more likely to make choices about and direct their own development when businesses are clear about the range of development options they offer. Project assignments, internal rotations or inviting more experienced colleagues to train team members are all ways businesses can develop people on-the-job.

25% of UK managers say their business improved its people practices because it compared them to other businesses.

6

Benchmarking

Businesses that benchmark their performance on people are better able to improve their practices. As a minimum, effectively measuring performance enables businesses to see where its people performance has improved or declined. Several benchmarks can then compare a firms' performance to others, helping businesses identify potential areas for improvement.

69% of the public believe that treating staff well is the primary way to improve business' reputation – those that publicly talk about how they develop and engage staff have a reputational advantage.

7

Transparency

Businesses that are transparent about their performance on people issues are more likely to be accountable for progress. Businesses must talk about their progress on people issues with colleagues to reinforceit as a shared priority. Publicly publishing a narrative statement about people issues, key people metrics or indicators like Employee Net Promotor Scores are all ways businesses can unlock the reputational benefits of transparency.

1

Leadership

Habit 1: Leaders must make good people practices a shared priority across the business

Leaders are at the heart of business improvements, setting the expectations and culture around what an organisation prioritises most – organisational transformations are over four times more likely to succeed when leaders role-model the desired changes.[21] By championing the importance of effectively leading, engaging and developing teams, those at the top establish people issues as a shared organisational priority. Leaders not valuing, or being perceived not to value, people issues is a common barrier to progress, particularly for larger firms. Effective leadership focuses on ensuring that people across the business know that leaders mean what they say. Having a clear plan and targets, role-modelling good practices, improving collaboration between HR and the rest of the business and tapping into external networks are all ways leaders can help make good people practices a strategic priority.

Developing and implementing a people strategy is only meaningful when backed up by stretching Board-level targets....

Establishing a plan to improve people practices that is owned by the Board signals its importance to the rest of the business. To be meaningful, its implementation should be reviewed against specific and stretching targets that are regularly assessed and revised. Without targets, it is very difficult for leaders to set expectations across the business, follow-through, and have a means to assess areas for further improvement. What gets measured, gets done. But UK businesses tend to take a less strategic approach to people management than their competitors. Despite a similar proportion of UK and US firms saying that having a people strategy is important, UK firms score nine points below the EMEA median and below both Germany and the US for their capacity to translate a strategy into specific goals and targets.[22]

Leaders must ensure their firm's people strategy has measurable targets for different parts of the business to maintain focus on people issues as a shared responsibility. Doing so promotes improvements – being able to identify a problem with their business' people practices was the most common reason managers cited for stimulating change, particularly those in businesses with less than 500 people.[23]

…and regular behaviour and communication that demonstrates leaders are committed to it

Leaders often underestimate the impact their championing of good people practices has over other parts of the business. Yet those that authentically talk about their commitment to people issues and role-model new ways of working have a notable impact on how likely other managers are to follow suit. Operations managers, like those in IT and procurement are especially likely to say that they have been prompted to adopt good practices after these have been role-modelled by their leaders and managers.

As well as behaviour, regular communication from leaders about the importance and impact of a business' people practices helps to ensure it is prioritised organisation-wide. CEOs are almost five times more likely than other managers to say they believe there are benefits to introducing good people practices.[24] Yet their values may not be being effectively communicated throughout UK firms. When asked what would make the greatest difference to the adoption of better people practices in their business, UK managers overwhelmingly cite better communication. 37% of managers that consider their business to have poor communication around people practices say that their leaders do not value good people practices, compared to 28% of managers who deem their business' communication to be good.[25]

Top tip:

Leaders should set and be accountable for targets against their people strategy, and communicate progress

Improving collaboration between HR and the rest of the business makes better people practices a shared priority

Managers with HR responsibility are often best placed to measure progress against targets and provide insight on good practices, making them invaluable in helping leaders deliver their business' people strategy. Yet those responsible for HR may be hampered in the support they can provide due to other demands. The average HR team says they spend six times longer than they would like on administrative functions and 60% less time on building their business' talent capabilities.[26] HR teams need the resource to ensure that day-to-day functions are not delivered at the expense of HR's strategic input.

Making people issues the responsibility of a board-level leader can improve collaboration between those responsible for HR and the rest of the business. This is vital to improve a business' people practices – particularly by helping to ensure that CEOs and HR managers have a shared perception of what barriers the business needs to overcome. As Lloyds Banking Group shows, firms can also integrate the HR function with the rest of the business to better utilise HR colleagues' time and expertise to inform the business' people strategy.

Case Study: Lloyds

Lloyds Banking Group is a leading UK based financial service group providing a wide range of banking and financial services, focused on personal and commercial customers. In the UK, the Group has around 65,000 staff. The organisation is currently on a three-year strategic journey to transform its way of working – changing how its people function works with the rest of the business is playing a critical role in this.

In spring 2017, Lloyds was considering how to change its people strategy and inspire the business to change its culture to drive higher engagement and improve performance and productivity. The business knew that finding the right leadership was key, so decided to introduce a new Head of HR who had a background in business, and customer services and a skillset in measuring investment and productivity.

Lloyds incorporated this into the new role of Group Director for People and Productivity. Bringing in a leader from a non-HR background has brought a fresh, customer centric perspective that has enabled the HR team to develop more innovative solutions to Lloyds' people agenda.

A similar approach to integrating HR with the rest of the business has been taken throughout the HR team. Lloyds now offers routes into the HR team for people without HR backgrounds through investment in technical HR training, claiming that a great attitude and a willingness to learn and grow are the primary enablers to joining the team.

The organisation has developed 32 people to become HR-professionals through its HR apprenticeship scheme. The team also includes around 55 strategic partners to advise on how different parts of Lloyds manages its talent and capability for the future. To enable the HR Partners to influence, coach and shape the people strategy across the business, they each have a seat at every executive leadership team and report into the business' People Director. Lloyds have seen that the introduction of these people partners has improved colleague performance across a range of different departments.

"Lloyds Banking Group is on a journey to fundamentally transform its ways of working. We are now over 12 months into our latest strategic cycle rethinking some of our people processes. As a result, we are redesigning our key colleague processes in the same way we would approach our customer's experiences."

Ceri Connolly, People Director, Lloyds Banking Group

Top tip:

Responsibility for people issues should be at Board level to help drive collaboration between HR and the rest of the business

Leaders can improve their business' people strategy by learning from peers

Through external networks and programmes, leaders can bring new ideas and good practices on people strategy back to their business. Aside from traditional leadership and management training courses, businesses increasingly recognise the value of peer learning. As Cumbria Crystal found, participating with organisations like Productivity Through People can give leaders a fresh perspective on their own organisation's people strategy through first-hand experience of businesses with world-leading people practices, and a network of other leaders seeking to make similar improvements.

Case Study: Cumbria Crystal

Cumbria Crystal is the UK's last producer of luxury lead crystal glassware, employing a team of 23 artisans. In 2017 its CEO, Chris Blade, took part in the first cohort of Productivity through People, a 12-month leadership and management programme co-delivered by GSK, Siemens, Rolls-Royce, BAE Systems, John Lewis Partnership, EDF Energy, Babcock International and Lancaster, Strathclyde, Bath and Aston Universities.

Chris dedicated two or three days a month to the programme, which includes peer mentoring and problem-solving, site visits, and available coaching from the programme's partnership businesses. For Chris, the benefits of accessing a varied network of business leaders who could challenge every aspect of the business' strategy and operations has been invaluable and remains so two years on.

Chris attributes much of Cumbria Crystal's success to Productivity through People which, over the 12-month period, doubled its turnover and trebled its margin. Alongside things like changing its customer experience through the introduction of glass-blowing workshops and an ecommerce platform, Productivity through People has helped Cumbria Crystal improve its people practices.

Steps like introducing an organisation-wide bonus scheme has increased collaboration between the manufacturing teams, and investing in development opportunities led to 35% of staff engaging in training programmes and staff being rewarded for new role responsibilities.

Chris acknowledges that it can be particularly difficult for leaders and managers in smaller businesses to participate in such programmes but says that organisations should not put off opportunities to assess the business' long-term performance over short-term pressures. Cumbria Crystal is now developing its Retail Manager through the Productivity through People programme.

Top tip:

Leaders should tap into external networks and programmes to bring good practices on people strategy into their business

"The amazing transformation, in all areas of the business, experienced at Cumbria Crystal is unlikely to have been as dramatic if it were not for the unique and supportive nature of this initiative. I'm frequently asked whether it's worth taking so much time out of the business, my answer 'can you afford not to?'"

Chris Blade, CEO, Cumbria Crystal

2 Management

Habit 2: Put people management on a par with commercial targets

If leaders set the priorities of a business' people strategy, managers put it into practice day-to-day. Managers have the single greatest impact on a person's experience of work. Businesses see effective line management as the primary driver of employee engagement – and more than two-thirds of firms say that improvements in productivity and performance are specific benefits of a more engaged workforce.[27] Yet just as UK firms' performance on indicators of good people practices trails behind competitors', the proportion of UK firms in the top categories for managerial performance is lower than in the US and Germany.[28] Businesses should create the environment in which line managers are able to prioritise how they engage and develop their team.

Valuing and rewarding people management sets the expectations for how line managers spend their time

Line managers that excel as people managers are more likely to lead happier, healthier and more motivated teams. Poor managers are the primary reason people are not happy in their jobs – cited by 49% of UK workers, up 17% on 2017.[29] Line managers have a difficult role, regularly caught between commercial demands, day-to-day management and the long-term engagement and development of teams. Two-thirds of managers say they struggle with stress and more than a third say they feel stress at least once during their working day when managing seven or more people.[30]

Managers can often be expected to prioritise commercial demands and have less time for people management. Of those surveyed, 9% say that their business does not evaluate leaders and managers against their performance on people management at all, or they don't know. And a further 27% only do so to some extent.[31] This suggests that while most businesses recognise the importance of line managers' people responsibilities, some do not consistently value and reward them for the time they invest leading, engaging and developing teams.

For those that do, many managers say that their business can struggle to put it into action. This is partly driven by expectations from the top – while CEOs are disproportionately likely to say that their business does evaluate against people performance, a massive 46% of managers think leaders in their business do not value this practice.[32] To overcome this challenge, leaders must be clear that focusing on people issues is not a secondary priority for managers by consistently giving equal weight to people management and commercial delivery in how managers are assessed. This can only work when managers' roles are designed so that they have time to deliver both objectives.

There are various systems businesses can put in place to demonstrate the organisational value of line managers spending time engaging and developing their team. One option is for businesses to get feedback from teams on how their manager does so, signalling its importance to the organisation. Other businesses, like the CBI itself, set explicit people management objectives against which managers are assessed, and for others, like Bristol Water, this is linked to managers' remuneration and reward.

Case Study: CBI

As well as being the voice of UK business, the CBI is a business itself – employing around 220 people. In 2017, it introduced people management Key Performance Indicators (KPIs) that have equal weighting with commercial objectives when assessing line managers' performance.

Every line manager has objectives relating to how they lead, engage and develop their team. These are set against an organisation-wide skills framework which sets out what good leadership and management looks like at the CBI. Each objective is annually assessed against success measures that could include team turnover or development, results of employee engagement or feedback from team members. CBI Directors and the HR team moderate all managers objectives and KPIs when they are set and assessed to ensure consistency and accountability across different parts of the business.

The CBI decided to take this step after information from employee engagement surveys and feedback in exit interviews showed that dissatisfaction with their manager was contributing to people's decision to leave the CBI and impacting staff engagement. Improving management skills and behaviours, such as effectively giving feedback and having development discussions, is now central to the CBI's People Strategy. In 2019, for the first time, the CBI linked managers pay to their performance on people management KPIs.

Since the introduction of KPIs on people, staff turnover at the CBI has dropped by 5%. Managers have been positive about the changes, saying that more tangible objectives have been helpful in enabling them to prioritise leading, developing and engaging their team. Colleagues also support the fact that specific KPIs mean that managers are now more accountable and better recognised for line management, which is the most significant part of their role.

> *"The CBI wants to recognise our people for not only what they do, but how they do it. Adding management objectives into our review process has enabled us to both recognise and hold managers accountable for good people management practices, which are essential to delivering the CBI's strategy".*
>
> Lauren Kane, HR Director, CBI

Case Study: Bristol Water

Bristol Water is a 170-year old utilities firm that provides water to 1.2 million people every day. Its mission is to deliver trust beyond its core public role of providing a safe and reliable water supply to have a positive social impact on local communities. To deliver a great customer and community experience, it has found that an organisational culture and values that puts people engagement and development at its core is vital.

To ensure that this is reflected in people's daily experience of work, Bristol Water has embedded organisational people objectives at every level of the business. It does so through bonus arrangements for staff that includes organisational goals, as well as personal goals linked to a set of cultural values.

The people plan includes increasing employee's engagement in and ownership of the organisation's purpose, developing a pipeline of future leadership talent and embedding organisational values into its recruitment processes to attract people to best deliver the organisation's goals. Values from the social history of Bristol Water have been published in the first ever social contract for a water company with its customers. The firm's people plan is strongly aligned to this and includes company funded volunteering days, an apprenticeship and graduate programme, schools' outreach and active employee participation to develop other great ideas to maximise Bristol Water's impact within its community.

The overall focus on people at Bristol Water has seen levels of employee engagement increase by 8% over the last year, measured by an annual survey that has a 92% response rate. Bristol Water has also seen an 11% increase in people's alignment with the company's strategy, which includes increases in reported wellbeing, sense of empowerment, customer focus and consistency in how organisational objectives are embedded across teams, and greater engagement with the organisation's values and purpose.

"Our people are proud to work for Bristol Water, an organisation with a strong heritage. They are excited to be part of new initiatives that have a positive social impact."

Geraldine Buckland, HR Director, Bristol Water

Top tip:

Ensure that your reward strategy for line managers is linked to their performance on people management

3 Engagement

Habit 3: Establish a shared purpose and recognise people's contribution towards it to boost engagement

There is a clear link between employee engagement and business performance – with firms in the highest quartile for engaging employees seeing 41% less absenteeism and 22% higher profits than those in the lowest quartile.[33] Yet the UK is still mediocre – staff engagement in UK businesses is 12% lower than in Dutch businesses who lead the pack.[34] If people's engagement at work is driven by how they are managed, it is reinforced by the wider organisational environment. A respectful and inclusive workplace is foundational to people's engagement and is an area on which UK businesses outperform EMEA peers. Businesses that communicate a clear vision and purpose, and explain how people's roles contribute, are more likely to have an engaged workforce. Yet this is commonly overlooked – around 60% of FTSE 350 firms do not talk about their business' purpose in their annual report.[35]

Businesses that uphold fundamental values and develop a shared purpose are more likely to engage their people

Respecting people underpins their engagement – 78% of people who report being treated poorly at work say it lowers their commitment to their employer.[36] As a baseline, businesses must take firm and consistent action against any behaviour that contravenes fundamental values of respectfulness and inclusion.[37] Beyond core values, businesses should develop a shared purpose, in consultation with staff, and recognise people's contribution towards it. A quarter of businesses say that developing company-wide values is a key driver of people's engagement.[38]

People are increasingly motivated by meaningful work – 32% of 'millennials', who became the largest group in the labour market in 2015, say that meaningful work is their top priority in their job.[39] Meaningfulness means the nature of the employee's work, but also its importance to their employer.

How line managers talk about the organisation's purpose, role model its values and show how people's work contributes to the business' success is central to this. It lies at the heart of why people should want to work for a business and is linked to why people should want to perform at their best, which 20% of people say their organisation does not currently motivate them to do.[40]

Developing core values and a shared purpose is key to effective engagement when done in collaboration with colleagues. Some firms, like Produmax, use opportunities like new premises, leadership team or commercial strategy to closely engage people on what they want to see from the wider organisational environment. To make this effective, it is important that businesses allow their values and purpose to evolve based on colleagues' feedback. The leadership team at AkzoNobel, for example, engaged face-to-face with a third of its UK workforce to ask what people valued and how they thought their role contributed to the wider organisation.

Case Study: Produmax

Produmax is a globally operating specialist manufacturing company that produces high quality machined components and assemblies in the aerospace sector.

Following early success, the firm began to find it difficult to scale up operations at its original site and there were concerns about the impact on existing contracts. The decision was taken to move to a new, larger site. However, both the move and the firm's growth posed new people management challenges for the company.

Produmax sought to closely engage staff in a key element of their change management strategy to develop a clear mission, vision, and set of values. A leadership group was formed involving colleagues from all areas of the business who shaped the vision for the company to become 'Engineering Superheroes'. The group suggested that Produmax crowdsource the business' values. Over 150 suggestions were made from which five values were chosen – Passion, Reliable, Dynamic, Freedom, and Ubuntu – a South African phrase meaning 'one team'.

Produmax has worked hard to ensure that its vision and values permeate into all aspects of working life. As well as designing working processes with values front of mind, the firm has also sought to reflect their values in the physical design of their new factory. Where the old site had multiple entrances for different groups of workers, the new site has a single entrance for everyone; glass has been used heavily throughout the factory to create visibility of the team at work; and a single communal space with free refreshments was designed to support collaboration and break down silos. The 'Engineering Superheroes' vision also features prominently throughout the factory with themed motifs and decorations.

This crowdsourcing approach has delivered extremely impressive employee engagement results for Produmax. In their recent employee engagement survey the firm achieved a 100% response rate and across the 12-question survey averaged a score of 84%. The firm estimates that they have seen a 38% increase in production and a doubled return on assets since developing their vision and values.

"Employee engagement is critical in driving productivity. Everyone has been involved in designing our values which now permeate throughout our processes. Engaging the team behind one vision and mission and working to these values is essential to delivering our growth strategy"

Mandy Ridyard, Co-Founder and Financial Director, Produmax

Case Study: AkzoNobel

AkzoNobel is a Dutch headquartered paints and coatings manufacturer that operates globally and employs around 35,000 people. In 2018 the organisation launched a new commercial strategy and knew that engaging colleagues in its design and implementation would be vital for its long-term success.

AkzoNobel introduced a new model, called 'scrums', to have the widest possible face-to-face engagement with its UK employees. The UK leadership team handwrote invitations to colleagues randomly selected to be representative across different divisions, sites and levels of the organisation to give feedback on what was successful and not so successful about the new strategy and shape the business' short- and medium-term people plans.

A third of AkzoNobel's UK workforce took part in 72 scrums which will be run again in 2019 with a different representative group of colleagues. AkzoNobel thinks that getting the entire leadership team out-and-about to discuss the organisation's purpose and strategy and how people's roles contribute towards it has really improved colleague engagement.

One area that AkzoNobel has focused on following the scrums is improving the organisation's recognition and reward of high-performers and those that demonstrate the organisation's values. It encourages its people to talk about their achievements on Yammer – a communication tool which can be seen by the whole organisation. The leadership team votes every month on outstanding achievements and recognises the individual with gift voucher and organisational mascot. This has resulted in more people saying they are encouraged to perform at their best.

Top tip:

Involve staff in the design of the organisation's values and purpose, and act on feedback about how these are put into practice

Recognising people's contribution means more than financial reward

People are motivated by different aspects of work. Most businesses focus on financial incentives as a means to engage their staff, with pay considered the second most effective driver of employee engagement.[41] But this results in some firms overlooking other methods of engagement that staff value. Employees say that praise from their immediate line manager is more effective than any financial incentive to motivate them in work.[42] Yet the use of non-financial incentives to highlight and drive individual performance is one of the least well adopted practices among UK businesses, with 37% of managers saying their business only uses them to some extent or not at all.[43]

Disconnect between the type of recognition and reward valued by businesses versus their staff appears to be borne out of UK firms' concern about the cost of non-financial incentives. 30% of managers don't see the return on investment of adopting practices like recognition rewards or other non-financial incentives. Yet many organisations view them as core to how they reward and retain staff. An experiment in 21 fast-food retailers found that the introduction of non-financial incentives increased profits by between 30-40% and, after six months, boosted productivity and profitability to the same extent as the financial incentives to which they were compared.[44]

Non-financial rewards can take many forms. As well as managers publicly praising people's performance and sharing positive customer or colleague feedback, some businesses encourage managers to recognise and reward their people with development opportunities like working on new projects, upskilling or shadowing leaders; while others offer perks like team treats, vouchers or gym passes. Adnams' CEO personally thanks and congratulates people on their performance and managers are encouraged to give people time off or opportunities to visit competitor sites and enjoy a meal out with family or friends.

Case Study: Adnams

Adnams is a Suffolk-based brewery, distiller of artisan spirits and importer of speciality wines, with a team of around 600 people. Adnams rewards and shows appreciation for its staff through a mix of pay and benefits, and non-financial rewards. It has found that recognising people's work, giving people perks or time off and giving people opportunities to learn boosts employee's engagement.

People are motivated differently so Adnams expects line managers to offer different types of non-financial rewards depending on what's most valued by their team members. Adnams ensures their line managers have the confidence and competence to do this fairly and then trusts line managers to use their discretion in how they use non-financial rewards to help engage their team.

The types of non-financial rewards managers commonly offer include paying for people to have dinner with a friend or family-member as part of a visit to a competitor site in work-time. Managers then ask people to share their opinion about any lessons Adnams could learn. People enjoy learning about the sector and another business, networking, making recommendations to the business and giving friends and family a glimpse into their working-lives.

Other perks include offering wine from potential new product lines for people to try at home, giving people time-off to do an activity they enjoy or inviting friends and family to use Adnam's onsite massage and aromatherapy centre at cost-price. Adnams also places a lot of value on publicly acknowledging and recognising team members. The CEO sends handwritten cards to congratulate people on promotion or top-performance and everyone can thank someone else in the business through the company's internal site.

Adnams has found that non-financial rewards can be small gestures, of low cost to the business and still highly effective. Encouraging managers to regularly recognise and reward people in this way develops a culture of recognition that drives engagement and productivity. The anecdotal feedback is overwhelmingly positive: every year Adnams' senior leadership team talks to staff directly through its 'listening forums' – staff appreciation and gratitude is the most frequently discussed theme, and people say that recognition for their work is among the highest things they value.

"The skill of the line manager is to identify the myriad of small things that motivate our employees and the role of the business is to ensure they are then able to offer them. Appreciation will drive engagement, which will in turn increase discretionary effort, which will then have a real impact on productivity".

Sadie Lofthouse, HR Director, Adnams

Top tip:

Managers should regularly recognise and praise their teams, and businesses should establish non-financial reward schemes for managers to reward top performers

4 Recruitment

Habit 4: Put people's skills and competencies at the heart of the recruitment process

Effective recruitment practices are strongly associated with better business performance. Not only is there a high cost for poor recruitment decisions, hiring high-capacity people and matching their skills to job needs has been found to considerably impact a business' productivity and profits. The average cost of replacing an employee is between 10%-30% of their salary.[45] Include wider impacts like lower productivity or staff turnover in the team, and the poor hire of a mid-manager with a salary of £42,000 is estimated to cost a business as much as £132,000 overall.[46] Get it right, however, and high performers have been found to generate 40% higher productivity in operational roles, and 49% higher profit in management roles.[47]

Assessing people's skills and competencies ensures businesses hire the best person for the job

UK businesses are significantly more diverse and inclusive than a decade ago, but there remains a long way to go. On average, managers say that actively changing recruitment practices to improve workplace diversity is the second least adopted of 21 good practices in UK businesses.[48] An experiment that sent out identical CVs and covering letters from white and ethnic minority British candidates found that, on average, ethnic minorities needed to send 60% more applications to receive the same number of positive responses.[49] This suggests that the typical ways UK firms recruit may not enable managers to hire people from the broadest pool of talent.

Many UK businesses still hire on the basis of CV screening and 'life-history' style interviews. These are particularly ineffective indicators of a person's performance if managers ask variable interview questions or assess candidates on subjective criteria like 'fit'. They can also overlook a candidate's broader skillsets – 63% of HR and hiring managers say that traditional techniques such as interview panels are ineffective at assessing candidates' soft skills. These include broader skills like resilience, communication and problem-solving, which 60% of businesses say are among their top three priorities for new talent.[50] Demand for such skills is likely to increase as more businesses digitise and automate their processes.[51]

Higher-performing people have been found to be 50% more productive than average performers.[52] Recruitment based on capability assessments is the most effective means to hire the best person for the job. Hiring practices that assess people's skills and competencies can include introducing 'on-the-job' or work-simulation style assessments and removing information about a candidate that does not pertain to their competencies (their name or university attended, for example) from the pre-screening process. Not only do capability assessments help to remove selection bias, they can also enable hiring managers to better match people's skills to those needed for the job. Businesses that identify candidate's skillsets during recruitment and match them to the job vacancy have been found to reduce turnover by 24% points compared to businesses that don't.[53]

Businesses should standardise recruitment processes, avoid interview questions that assess subjective criteria and make the business case for capability-based recruitment clear to managers to embed it as day-to-day practice. Some businesses, like the Association of British Insurers (ABI), have removed information from its hiring process that increases selection bias. While others, like EY, have introduced scenario-based assessment to give managers the best insight into how a candidate would perform in the role.

Case Study: ABI

The ABI is the voice of the UK's insurance and long-term savings industry – an inclusive and thriving sector that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation. The ABI itself directly employs around 95 people.

In May 2017, the organisation introduced blind recruitment with a view to increasing the diversity of people that they interview and hire. The ABI chose Applied as a recruitment platform to help them do this. Through the system, the ABI can pose a series of competency or scenario-based questions to applicants, rather than basing their decision on a traditional CV and cover letter. When the application window closes, the ABI forms a small group – usually the hiring manager, a member of HR and one or two others – to assess the responses and score them against standardised criteria. The system anonymises each response and randomises the order they are shown to each scorer which further removes the potential for bias. The top 4 or 5 scoring candidates are invited to interview, which is the first time ABI sees any information that can identify the applicants.

To date, the ABI has filled 21 positions using the platform. Initially, the firm mainly used the process for entry level positions but has more recently introduced it for some senior and managerial roles. Blind recruitment has increased the diversity of candidates across a range of metrics – 45% of the people ABI have hired are from BAME backgrounds and 36% received free school meals.

It has also reduced the number of interviews that need to take place, with ABI now conducting 4 for each position where previously there would be 6-8, and it has raised the quality of the candidates that make it to interview. The process has been viewed positively by ABI employees who are very supportive of the ABI's commitment to transparency and inclusion.

"Using blind-recruitment has made a huge difference to how we recruit. Not only are we confident we're being fair and removing any opportunity for bias, but we're getting to meet brilliant candidates who may not have been shortlisted on CV alone."

Emma Phillips, Head of HR, ABI

Top tip:

Review your selection processes to eliminate unconscious bias, and consider introducing name-blind CVs and applications

Case Study: EY

EY is a multinational professional services firm which provides assurance, tax, consulting, and advising services to companies. It is headquartered in London and employs 270,000 employees across its 700 global offices. Over the last 2 years, EY has improved its student recruitment process by introducing job simulation. The firm aims to ensure that it draws candidates from the widest pool of talent whilst also improving their recruitment experience.

One of the technologies that EY was keen to introduce to support recruitment at scale was video interviewing. While the tech is often valued by candidates for the flexibility it provides, EY wanted to ensure that it provided them with an insight into EY as a place to work.

EY worked with a third-party supplier to develop a system that would utilise video interviewing technology to simulate what a day at EY is like. They achieved this by engaging a range of managers from each service line to develop questions and tasks that are directly relevant to the role that candidates are applying for. This results in a win-win situation for the candidates and EY – the candidate gets a clearer idea of the variety of tasks that the role entails, and EY is able to focus more accurately on candidates' potential and specific competencies that are required.

This principle also feeds through into the subsequent recruitment stage which has replaced the final face-to-face interview. It involves a large cohort of candidates being brought together to take part in an assessment day where candidates complete tasks based on real EY business priorities. Candidates also frequently encounter a range of EY employees, including partners and senior managers, who contribute to their assessment. By exposing candidates to directly relevant tasks and people from the organisation, this creates an atmosphere that replicates an EY office. Having a range of people contributing to the final assessment of the candidates helps to remove unconscious bias from the process.

EY did see some initial internal resistance to the new processes, however the results and the advocacy from senior employees helped to overcome this. The firm now receives very strong candidate feedback at both recruitment stages and has seen a consistent increase in its net promoter score since the introduction of these practices.

Top tip:

Incorporate task or scenario-based assessments into selection processes to better assess people's skills and competencies

"We have seen video interviews become commonplace, but they can be a one-way street. EY combines this technology with work-simulation to ensure that our process is as much a learning experience as an assessment. This approach also helps all candidates to demonstrate their potential and removes bias from evaluation."

James Gordanifar, Associate Director - Student Recruitment, EY

5 Development

Habit 5: Provide leading on-the-job development and support

Effective development practices are vital to give the people that businesses recruit opportunities to deliver at their best. Having strong opportunities for development is increasingly core to people's expectations of work. A lack of career progression is among the top three reasons related to workplace practices that UK employees are unhappy in their jobs, cited by 30% of people.[54] And 80% of 'millennials' say that growth and development opportunities are very important to them in their job choices.[55] Good development practices are therefore an increasingly effective way for businesses to retain staff. Those that develop the strengths of their staff have been found to reduce turnover by up to a staggering 72%.[56]

Regular strengths-based feedback is the cornerstone to developing people

Giving feedback on each employee's performance is the primary and most consistent way managers can support the development of their team and recognise their contribution. Managers have many demands on their time so, to make feedback part of people's regular experience of work, it is vital that businesses value and reward the amount of time managers spend on it. This is most at risk when managers manage lots of people directly. 36% of UK managers say that their business has only developed a culture of feedback to some extent, or not at all. And it is disproportionately highlighted by those in businesses with less than 500 people.[57]

On average, 51% of managers give people informal feedback less than once a month, contributing to the picture that many UK businesses do not have a feedback culture.[58] Managers say that the number one barrier to improving a business' feedback culture is the fact that other managers do not value it. This suggests that many managers underestimate the value of feedback as a means of development, which has been found to increase people's effectiveness by 42%.[59] In fact, regular, fair, accurate and informal strengths-based feedback has the single greatest effect on improving people's performance.[60] The strengths-based nature of feedback is crucial: changing its regularity and formality isn't enough on its own. Feedback that focuses on people's performance strengths is significantly more effective than feedback that focuses on people's weaknesses and has been estimated to improve performance by as much as 90%.[61]

Many UK businesses follow the rhythm of annual performance appraisals. These can be an effective means for managers to provide structured strengths-based feedback and for colleagues to discuss what they would like to get out of their work. But businesses must set the expectations and give managers the capacity to give regular feedback in the interim. As well as boosting people's engagement and performance, it also gives managers and colleagues opportunities to discuss issues like health and wellbeing and caring responsibilities, which can have a huge impact on people's work life. Some businesses have done away with annual performance appraisals altogether in favour of processes that encourage more regular and informal 'real-time' feedback on personal and project performance.

Top tip:

All line managers should be expected to provide regular and informal strengths-based feedback

Stretching and supporting people on-the-job is often the most effective form of development

UK businesses primarily invest in staff development through training – 87% of UK employees are trained compared to the EU average of 61%.[62] Yet the amount businesses spend on on-the-job training and development decreased by £3m between 2011-2017, at the same time as off-the-job training expenditure increased by £7m.[63]

Ask staff what they perceive to be the most effective means for learning and development, and they are significantly more likely to cite on-the-job opportunities than internal or external training. In fact, staff consider on-the-job opportunities like project assignments and internal rotations to be top for both their efficiency and relevance.[64] Yet internal rotations are the least adopted of 21 indicators of good practices in businesses of all sizes. Managers are, on average, 21% more likely to say that their business excels at training than on-the-job support like internal rotations.[65] This suggests that there could be a mismatch in the development opportunities most UK businesses provide and how effective staff perceive the opportunities to be.

On-the-job opportunities like rotations and assignments are a core part of how companies like Atkins develop graduates and technical specialists. While many businesses, particularly smaller organisations, may not be able to formalise rotations or project-based working, explicitly encouraging people to seek out opportunities to get broader experience across teams is a powerful first step. Firms can encourage staff to look to businesses in their supply chain for secondment opportunities or can partner with businesses to develop regular secondment opportunities where these would be mutually beneficial.

Case Study: SNC-Lavalin's Atkins

Atkins, a member of the SNC-Lavalin group, is a multinational engineering, design and project management consultancy, with a strong culture of internal development.

The company – which employs around 10,000 people in the UK – gives its graduate programme members the opportunity to organise their own three-month placement with another part of the business, which is taken up by around a third of career starters. Atkins has embedded internal rotations within parts of its graduate programme which, as well as giving people a better understanding of areas in which they want to build their careers, also enables people to understand the full lifecycle of Atkins' projects and how their role contributes.

Atkins has enhanced its career development offer for graduates by partnering with its supply chain partners. For example, three construction companies and Atkins regularly run short-term 'graduate job swaps'. This enables both companies to develop their graduate civil engineers to chartered status. Atkins graduates need site experience to qualify, while the construction companies' civil engineers gain highly sought-after design experience by working at Atkins.

Atkins' focus on on-the-job development extends throughout the organisation. It has developed a careers portal in which all job opportunities are advertised internally. The leadership team has started to use monthly webinars to publicise job opportunities on major and international projects to ensure they are visible across the organisation. In some divisions, on-the-job development opportunities like internal rotations are even more developed. Leaders and managers in Atkins' 4000-people strong Transportation division now link opportunities in design roles in rail and road projects, which are typically considered traditionally separate disciplines in the sector.

Atkins has found that strongly promoting internal mobility has improved retention particularly at the point when graduates achieve their professional qualifications and are likely to consider broadening their experience with another employer. An internal move to another region or industry sector can be equally stimulating while maintaining continuity of employment. As well as retaining staff, Atkins benefits from people with a broader base of skills which is important for a business that operates across multiple disciplines.

"Developing brilliant people is a critical success factor in achieving our vision to be the premier engineering solutions partner. Our early careers programmes, delivered over many years, are a key ingredient to that success."

Phil Davis, Director Technical Development, HR Corporate Learning & Talent Development, SNC-Lavalin

As well as assignments and rotations, there are other ways businesses can enable staff to develop on-the-job. Advertising roles internally 'by default' is key, as is giving people the confidence to apply by clearly setting out what skills and competencies they need to move between job roles. Non-linear career paths are increasingly the norm, which can make development opportunities harder for people to navigate. Businesses that highlight the range of development routes they offer – particularly potential horizontal moves – make it easier for people to make decisions about their own development. The Midcounties Co-Operative, for example, has developed numerous guides that show possible routes through the business, from apprentice to senior leader, which help to facilitate people's development discussions with their manager.

Case Study: The Midcounties Co-Operative

Co-op Midcounties is the UK's largest independent Co-operative providing a wide range of services from to Food and Energy to Childcare and Healthcare in the local community. It has long focused on highlighting career routes in their business to support colleague's development.

Four years ago, the business introduced board games to help colleagues visualise their potential journey through the businesses and the skills they would need to progress, and more recently have developed a colleague learning zone. This features a variety of learning materials and guides to help all colleagues learn more about different skills and competencies to support their personal and professional development.

Led by the Head of Society Learning & Development, Co-op Midcounties is focused on embedding development throughout the colleague lifecycle through self-directed learning. This depends on providing all colleagues with a clear understanding of potential development pathways to give them information that enables them to drive their own learning.

Self-selecting appropriate learning activities is also encouraged within the management cohort through a modular approach to development, allowing people to access relevant training that has been identified through the performance review process.

Co-op Midcounties has also developed the Trading Places programme, which provides all managers with an opportunity to shadow their peers to address any development needs by learning from other managers' strengths. The programme is heavily endorsed by the Society's Executive and senior leadership and will be rolled out for all colleagues over the next few years.

"I am really keen to develop a true culture of learning at Co-op Midcounties, empowering all colleagues to take ownership of their own development and progression. Working alongside the Learning & Development colleagues across the Society to design, develop and deliver the best solutions to meet our colleagues' needs."

Rachel Seagrave, Head of Society Learning & Development, The Midcounties Co-Operative

Tapping into colleagues' experience to support other members of the team is also an effective and simple way to increase on-the-job development. This could be through mentoring or coaching, or more formalised training delivered by experienced staff. Some businesses, like Scottish Power, ask highly experienced people who want a phased retirement to train apprentices, transferring knowledge and skills to new members of the team while supporting older people to stay in work.

Case Study: Scottish Power

Scottish Power employs over 6,000 people and is the first integrated energy company in the UK to generate 100% green electricity. It provides energy to over 5 million customers and distributes electricity to and from 3.5m homes and businesses across the UK. As part of their approach to strategic workforce planning, Scottish Power introduced a legacy programme 18-months ago to give their older workers opportunities to help train the next generation of electricity network engineers.

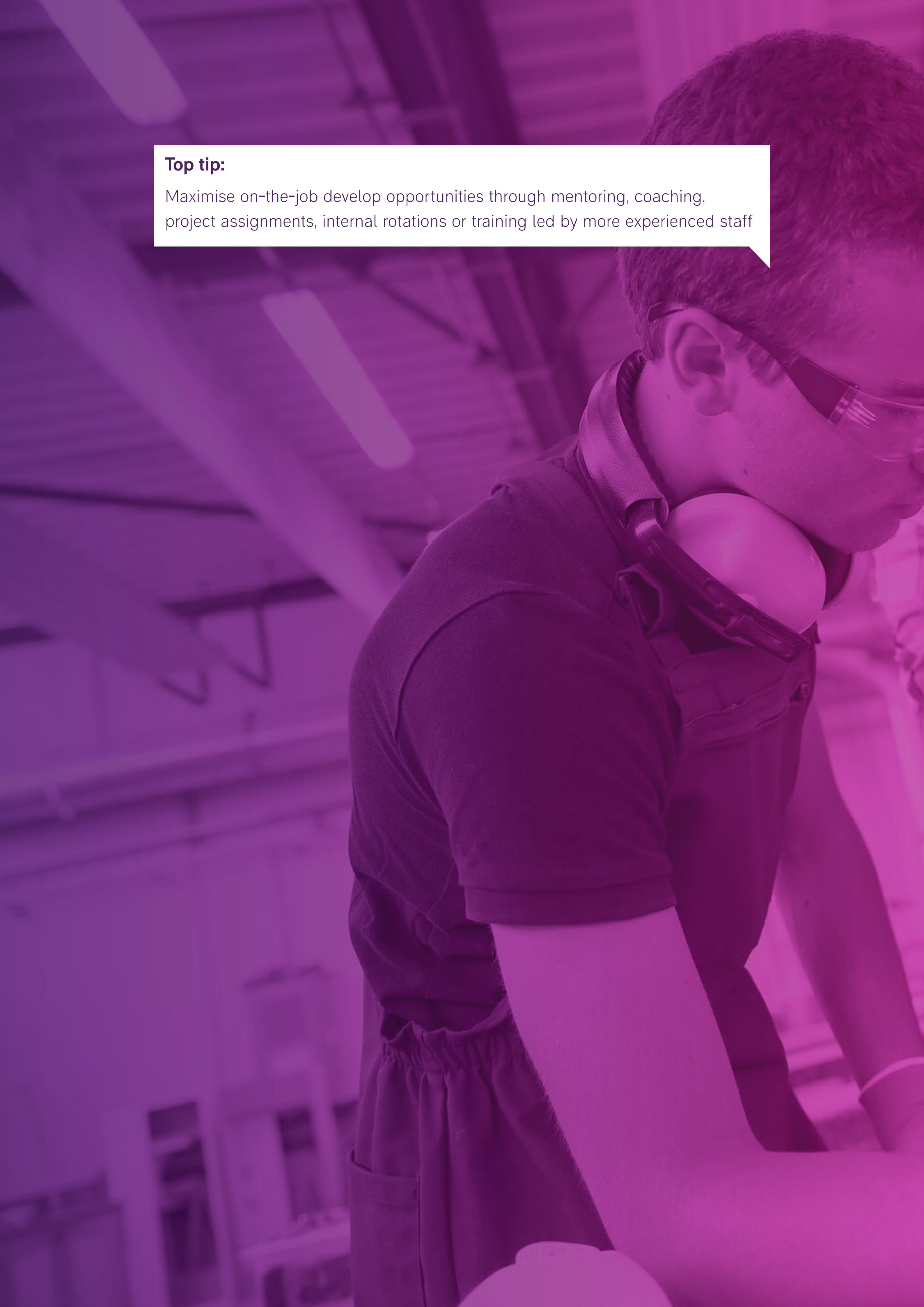
It did so because the technical nature of their engineering roles means that Scottish Power experiences a training and development lag when it brings in new recruits that can make it challenging to replace retiring workers. This has recently become more pronounced as flexible pension rules have seen workers considering earlier retirement.

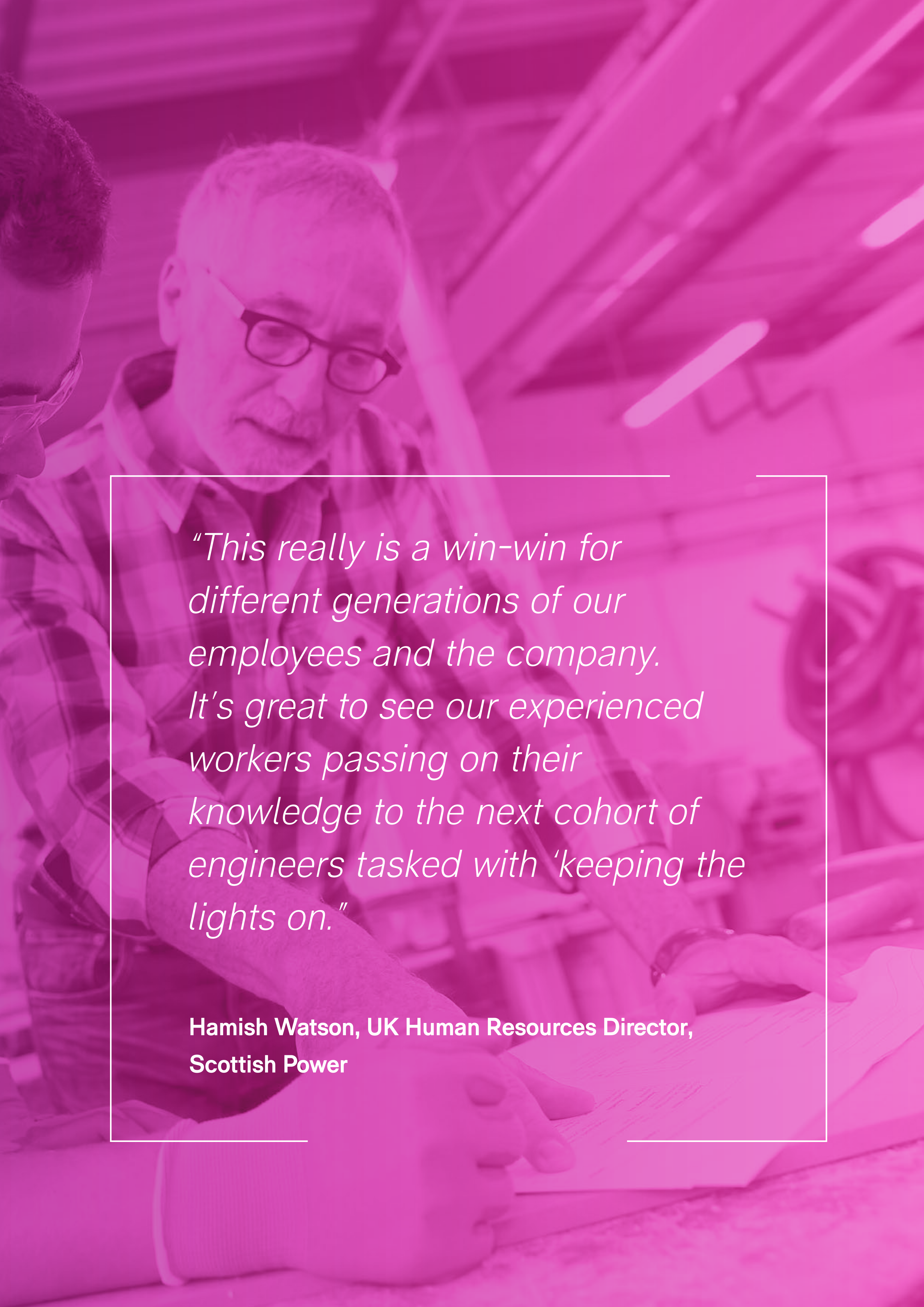
The organisation provides several routes for workers in or nearing retirement to support and develop trainees on a mutually agreed basis. This might involve moving from operational work to the firm's training centre for those who are considering retiring in a few years, phased retirement with part-time working, or returning to the workplace on an ad hoc basis to take part in apprentice's inductions, team briefings, or to talk to those on the graduate programme.

Early signals indicate that the new programme benefits everyone involved. The business retains institutional knowledge and enabling phased retirement has helped to reduce the impact of the training and development lag on performance. New trainees can engage with people who have uniquely relevant experience to give guidance on the job. The programme is also greatly valued by older workers who have often worked at Scottish Power for most of their working lives as they can maintain a connection to the company.

Top tip:

Maximise on-the-job develop opportunities through mentoring, coaching, project assignments, internal rotations or training led by more experienced staff





"This really is a win-win for different generations of our employees and the company. It's great to see our experienced workers passing on their knowledge to the next cohort of engineers tasked with 'keeping the lights on."

Hamish Watson, UK Human Resources Director, Scottish Power

6 Benchmarking

Habit 6: Assess how your business is performing on people practices

For a business to improve how they lead, engage and develop their people, there is considerable value in understanding the relative effectiveness of each step towards good practice. Businesses that identify where they perform well and not so well are better able to focus their resources on adopting practices that are likely to make the most difference. The starting point is for organisations to find a meaningful way to measure their performance on people issues and assess how far organisational objectives are being met. Benchmarking performance is an important aspect of assessment that organisations can overlook. It is a particularly effective way for businesses to avoid overestimating their performance on people issues, which is a common barrier to progress. Those that most effectively benchmark look at their performance on key people metrics relative to competitors to kick-start change.

Establishing ways to measure performance is the starting point…

There are several well-established people metrics that can enable organisations to assess how effectively their leaders and managers recruit, engage and develop staff. But UK businesses can struggle to effectively measure their people performance because of poor analytics capabilities, which lags those of competitors. There is a difference of 25% points in how advanced UK managers think their business' people analytics are compared to managers in South East Asia.[66] Only 20% of UK businesses have standardised HR analytics which they use to make business decisions.[67] This suggests that many UK firms are changing their management, engagement and talent practices without targeted insight or knowing their long-term effect. The use of predictive HR analytics among UK businesses is as low as 4%.[68]

Investment in organisational capital, like people analytics capabilities, is associated with better business performance. But it can be an outlay too great for businesses that don't already have the necessary systems. Businesses can instead increase the number of datapoints they hold on people issues by capturing staff feedback, as well as traditional metrics like the number of people leaving or being absent from work. Engagement pulse-checks are an effective way for organisations to gauge colleague's sentiment and measure indicators of the effectiveness of good practices. Many organisations, for example, ask colleagues about the organisation's people strategy, core values and purpose, and learning and development offer.

...and is most meaningful when internally or externally compared

If robust data enables businesses to see where its people performance has improved or declined, benchmarking provides businesses with the greatest insight to identify potential areas for improvement. Firms should benchmark their relative people performance against different parts of the business, such as location, department or level, to identify drivers of high performance that help to embed improvements and avoid pockets of good practice. Firms like IBM have developed predictive analytics to assess performance across different parts of the business to help improve its retention.

Managers in very large firms are more likely than those in smaller firms to say that comparing their people practices to others prompted them to improve.[69] External benchmarks are often the most effective tools to help businesses know what 'good' looks like. Firms can use Be the Business' self-assessment tool to benchmark their performance on people practices and see how they can improve. Investors in People's Jumpstart is a specific tool for start-ups and small businesses to measure and develop a culture that gets the best out of people. As Ricoh found, benchmarking their performance on people against Investors in People's accredited good practices spurred them on to make changes. Similar accreditations from CIPD and CMI, and other benchmarks, like the Sunday Times Top 100 Employers lists, can also give businesses a platform to publicise their successes in leading, engaging and developing their people.

Case Study: IBM

IBM is a technology and services company serving enterprises of all sizes, which has created its own predictive analytics tool to make better people decisions.

In 2012, IBM created the Proactive Retention programme which identifies employees with the highest probability of leaving IBM, while maintaining employee privacy. It is based on both the individual's probability of leaving and the ROI associated with a salary increase. The programme is designed to change employee behavior and reduce voluntary attrition. Proactive Retention recommends potential recipients but ultimately, the manager decides if individuals should receive the increase.

This is part of IBM's new talent management approach which is underpinned by predictive analytics. Managers previously had access multiple, disparate systems across several platforms to find out about the compensation, project assignments and career interests of their team. Now an automated "FitBit-like" experience gives all IBM managers "manager nudges" if they choose to use them.

These help managers support their team's career development by making recommendations for job matching to help facilitate career conversations, goal setting and feedback discussions. They also allow managers to receive information like: Who hasn't taken time-off and is in danger of burning out? What job opportunities are available to this employee? Who should take courses to update their skills?

This new approach has encouraged managers to take steps that improve the employee's experience and lead to happier, more successful teams. Since the start of the Proactive Retention Programme, it has been scaled world-wide and the cognitive model continues to learn and understand patterns of attrition. It has saved IBM about $300M by avoiding costs of hiring and training replacements.

"To win in the market, it's important for businesses to create an environment that builds, retains and cultivates talent. At IBM, we've seen first-hand the benefits of investing in and scaling the integration of AI in HR. This includes our AI-powered tools that are empowering managers to make better decisions, and ultimately providing a better employee experience."

Anshul Sheopuri, VP, Data, AI & Offering Strategy, HR, IBM

Top tip:

Set organisational KPIs on people issues and assess how different parts of the organisation performs against them

Example: Be the Business

Be the Business is a business-led campaign to companies across the UK improve their performance. It was set up in by the government and leading businesses in November 2017 to address the UK's productivity puzzle. Be the Business has developed a self-assessment tool that enables businesses to benchmark their productivity against that of their peers. This can provide businesses with insight about how well they compare to other businesses in their industry. After the initial benchmarking process, businesses are invited to complete a survey which will give the tool a more detailed picture. Based on results, the tool can then signpost businesses to relevant resources and opportunities that could help business leaders to consider practical steps they could take to improve.
Find out more at bethebusiness.com

Example: Jumpstart

Investors in People created Jumpstart® for start-ups and small businesses to develop a culture that improves their people practices. In Jumpstart firms can choose from nine goals to work towards, including 'creating an empowered team' and 'embracing change'. Jumpstart recommends activities and tasks to help firms achieve their goals, with expert advice and guidance. It links with Slack, and every few weeks firms can send out a survey, to get feedback from their team. The responses are gathered in Jumpstart and firms can review their progress over time and understand how changes are affecting their team.
Find out more at investorsinpeople.com/jumpstart/

Case Study: Ricoh

Between 2007 and 2011, Ricoh went through a period of significant change with the integration of five organisations into one. At the end of that period, Ricoh had an unsuccessful assessment with Investors in People, which benchmarks firms against an accredited framework of good people practices. Taking this on as feedback rather than a critique, Ricoh decided to use this to engage more with their people.

Sharing their results with the whole organisation, continuing to conduct employee engagement surveys and related focus group discussions to gather feedback, and working with their Employee Forum allowed Ricoh to make three key changes. First, it introduced Leadership Training for first level managers based on Investors in People's results and employee feedback. Second, it focussed on developing a unified reward and benefits package by being transparent with their people about previous variances which had resulted from the differing terms and conditions of the merged organisations. Third, it developed new ways of working which focused on employee's contribution and accelerated a culture of trust throughout the organisation.

Ricoh thinks this has enabled it to continue to change rapidly as its market place and the world of work continues to transform. As a result of the information it received about its people practices via Investors in People and employees' feedback, the changes Ricoh made were recognised in 2014 as it was awarded the Gold mark of excellence with Investors in People.

Top tip:

Make use of existing benchmarks to assess how your people practices compare to others to help identify areas for improvement

"Our relationship with Investors in People began in 2011, when we started to benchmark ourselves more and look externally for ways to enhance our business. It has been invaluable in widening our horizons and helping us to shine a spotlight into areas where relatively simple changes are producing significant results."

Rebekah Wallis, Director, People & Corporate Responsibility, Ricoh UK, Ireland & Nordics

7 Transparency

Habit 7: Effect change: Be open about how your business is performing on people practices

Firms are increasingly transparent about how they do business, from who their suppliers are to how they operate, which has had a positive impact on business change. This in part reflects growing pressure from the public, shareholders and the government for businesses to demonstrate their contribution towards better social and environmental outcomes. On people issues, transparency has sharpened business' attention on diversity and inclusion through the introduction of gender pay gap reporting. Its impact has gone beyond what is mandated of businesses – 40% of UK firms say they now use additional data not required by the legislation to better understand the causes of the gender pay gap in their organisation.[70] And 342 smaller businesses, including the CBI, voluntarily published their gender pay gap in the second year of mandatory reporting for larger businesses.[71] Businesses that are transparent about their progress on people issues are more likely to set stretching people objectives and be accountable for their performance.[72] There is also significant trust and reputational benefits for businesses that are open about progress – the public consistently say that treating employees well is the number one way to improve business reputation.[73]

Talking about progress against your people strategy reinforces it as a priority

Businesses must be transparent about their progress on people issues with colleagues. Doing so is the most effective way to overcome the perception that leaders do not value good people practices, which is a common barrier UK businesses face. Leaders and managers that openly talk about people issues also strengthen staff engagement around making better people practices a shared priority. To maintain people's trust and confidence in a business' people strategy, leaders and managers must be transparent about performance and how it will be improved where staff have been asked for their feedback.

There are a number of mechanisms businesses can adopt to improve transparency with staff about people issues. Many businesses use all-staff meetings, webinars or representative staff groups to discuss the organisation's people strategy. Annual employee engagement surveys are increasingly being replaced with regular pulse-check questionnaires which businesses can more quickly analyse, benchmark and communicate with colleagues. Zurich has taken this approach and is now trialling an app that asks people what emotion best describes their mood and shows how this relates to the rest of the organisation in real-time.

Case Study: Zurich

Zurich is a multinational insurance firm with around 4,500 people in the UK. Zurich's UK Internal Communications team has been using Impulse for the past 12 months – a survey that asks people what emotion best describes how they are feeling at work and benchmarks their answers relative to the rest of the organisation.

This enables Zurich to gather and share information about people's levels of engagement in real-time. Zurich surveys people after events and initiatives because it thinks Impulse better equips the organisation to quickly find out more about and respond to people's feedback. By using Impulse, Zurich has found that instantaneously communicating results about people's sentiment at work shows that the organisation is serious about listening to how they feel.

Zurich has moved towards simpler and more frequent communication with staff about people issues. In 2018, Zurich replaced annual employee engagement surveys with twice-yearly pulse-check questionnaires that measure the business' Employee Net Promoter Score (ENPS). This asks people about their willingness to recommend Zurich as an employer as an indication of their wider engagement.

It found that ENPS was a more effective way to engage with staff – not only did the previously lengthy employee engagement survey have a lower participation rate, the results took more time to analyse before they could be communicated. Zurich has found that using a regular ENPS survey makes it clearer for the business to start to show staff how engagement results can change.

Moving to regular ENPS pulse-checks has also meant that the HR team does not have to spend as much time administrating a lengthy survey and can instead focus on improving the business' working practices. This includes supporting every leader to deliver on their objective of improving the organisation's ENPS.

"Through Zurich's #yousaidwelistened campaign, we have developed a rhythm of continual conversation around feedback and improvement. By demonstrating what we have done, and how it has come from feedback, we hope to continue on our engagement journey, both improving survey participation and the volume of positive feedback."

Steve Collinson, Head of HR, Zurich UK

Top tip:

Regularly communicate with all staff about how you are performing against key people metrics

Going public with progress strengthens accountability and can improve business reputation

Few UK businesses currently consistently talk publicly about their people practices, yet it can be the differentiator of those that are employers of choice.[74] While references to human capital, or people, have increased in FTSE 100's annual reports overall by 18% since 2006, the number of references has decreased in a third of companies.[75] This suggests that although some businesses are talking more about their people practices, an increasing number are not doing so at all. Yet sites like Glassdoor and Rate My Employer demonstrate a growing appetite for transparency in the jobs-market, which businesses should embrace.

Communicating performance on people issues with employees, customers and shareholders, as well as making it public, makes businesses more accountable for progress. There is a range of information businesses can share to demonstrate their performance on people issues. Some organisations publish a narrative report that outlines the business' people objectives, its progress and how it plans to drive improvements. Others, like Good Energy and Deutsche Bank, publish key indicators of good people practices, which can include employee engagement scores or key measures on recruitment and retention, development and progression and diversity and inclusion.

Case Study: Good Energy

Good Energy is a leading renewable energy supplier based in the South West, employing a team of over 300 people. It is a highly purpose driven organisation, with four key values: to be Straightforward, Fair, Inclusive, and Determined. The first three cover how it engages with its customers, business partners and employees. Determined reflects the founding purpose to tackle climate change.

Aligned to this, Good Energy places a high importance on having highly engaged employees. It believes that regularly measuring engagement and publishing data builds transparency, trust, and a culture of always listening, learning and adapting. This, in turn, creates the best environment for its people to perform.

Good Energy measures employee engagement every six months, benchmarking performance against other suppliers in the sector. This information is shared with all employees and used to create an ongoing dialogue and actions on where to improve. Over 10% of its non- managerial employees act as 'culture champions', playing an active role in creating and embedding workplace improvement initiatives.

All its employees participate in a collective company bonus scheme, designed to reward performance against a balanced scorecard of metrics that include employee satisfaction and engagement. Good Energy aims to maintain employee engagement levels at 80% and above and shares this, along with several other key people metrics such as employee turnover, with all employees every month as part of keeping them informed of overall business progress.

Good Energy reports on its people metrics and progress, including its engagement scores, to customers, shareholders and the public in its annual progress report. This makes commercial sense as customers increasingly don't just purchase based on an organisation's products or services, but on the basis of their ethos and ethics too.

"We know many Good Energy customers and shareholders value the fact that our energy and services are provided by highly engaged, skilled people, who are paid fairly (we are a Living Wage employer) in our Wiltshire based HQ. We care deeply about transparency not only because it is the right thing to do, but we know it helps build trust among employees and creates a better working environment."

Fran Woodward, Director of People & Culture, Good Energy

Case Study: Deutsche Bank

Deutsche Bank is a leading European bank with global reach that has published a comprehensive annual HR report since 2013. It publicly outlines the bank's people priorities and how they fit within its wider strategy and includes several metrics that show progress on areas like recruitment, diversity and inclusion, development, engagement, leadership and succession.

In its HR report the bank decided to be transparent about key employee statistics because it saw it as facilitating change. Since it started reporting, the bank has improved its data collection and measurement processes to ensure that the metrics it reports against provide the most accurate insights into what it is like to work at Deutsche Bank. Every employee is notified about the reports release, and this year the Global Head of HR took the opportunity to promote its publication in a 'town-hall' style discussion with UK-based line managers to underline the progress and priorities for further improvement. The report is also available externally on the bank's website, along with other key annual reports, and is proactively shared with key stakeholders.

Deutsche Bank sees many benefits to being transparent around key HR metrics. The HR report is an attraction tool which provides candidates with a unique insight into the bank's priorities and culture. This has resulted in reputational benefits, as the bank regularly receives positive feedback from graduate level candidates who want to work for an organisation that values transparency.

Public reporting has also driven internal change. Leadership backing for the report and the ability to benchmark different parts of the business means that Deutsche Bank's people strategy is a business-wide agenda. Managers also have far more clarity about what they are being measured against, which drives greater accountability and has resulted in managers playing a more prominent role in determining and driving changes to improve recruitment, development and engagement within their teams.

These views are also consistent with Deutsche Bank's latest employee survey results which show that an increasing number of employees in the UK feel there is greater consistency between the bank's senior leaders' words and actions.

Top tip:

Consider ways to publicly disclose your performance on key people metrics to strengthen accountability for progress

"Consistent, easy and accessible reporting has had a positive impact on employees across the bank. Our goal has evolved from trying to interpret and understand the data to focussing on learning from the insights and progressing action plans aligned to the data insights."

Rachel Blanshard, Head of Human Resources, Deutsche Bank

What can business and government do to accelerate progress?

Boosting UK productivity through better people practices is an agenda for business to lead. It is up to individual firms to improve how people are led and managed, and to invest in the working practices that develop and engage people in their organisation. But given the size of the prize from getting this right, anything the government and others can do to help more businesses to take action needs exploring. We suggest three ways that could accelerate progress: fostering a race to the top among businesses leading the way, increasing opportunities for businesses to benchmark their performance and learn from others, and promoting employee engagement by incentivising employees to have a shared stake in a business' success.

Kick-start a race to the top

Many businesses are top of the game when it comes to leading, engaging and developing their people. Key to unlocking the benefits for the UK economy is for more businesses to follow suit. Comparing their practices to others has a significant effect on spurring businesses on to adopt better ways to lead, engage and develop their people. To make comparison with others effective, business needs to know what good looks like. This report is a starting point but, in collaboration with existing campaigns like Be the Business, more research is needed to uncover examples of good practice to create a toolkit of ideas that firms can implement in their business.

Business supports the government's focus on 'good work'. Employers overwhelmingly want to create a workplace that provides opportunities to develop, recognition for hard-work, a voice on the issues that matter and a safe and inclusive environment. Developing a shared understanding of 'good work' and metrics that assess national performance is key to creating a toolkit of ideas that both business and the government backs. The CBI and other business organisations want to work with the Industrial Strategy Council to establish metrics that work across the economy. Although these are unlikely to be relevant at company-level in every instance, national metrics could help firms set their own success measures against the habits that make them and the UK more productive.

To further kick-start progress, business and the government should create a race to the top so that businesses are incentivised to prioritise improving their leadership, engagement and development practices. Commitments and kitemarks like the Women in Finance and Race at Work Charters demonstrate that competition drives change.[76] In 2019, 42% of signatories to the Women in Finance Charter have met or exceeded their target for female representation in senior management, and a further 47% are on track to do so.[77] The Race at Work Charter celebrates the Best Employers for Race and continues to drive progress at the very top – in 2018, 96% of these firms had appointed a senior Executive or board-level representative for race, up 12% on the previous year.[78] Similar competition is needed to stimulate more firms to lead the way on the leadership, management and HR practices that improve people's daily experience of work. Business should step in to develop ways to celebrate the firms that give people opportunities to deliver at their best, ensuring the UK is known as a great place to hire people and be employed.

Recommendation:

The government should work with business to create a race to the top which incentivises businesses to adopt effective people practices and celebrates their achievements

Local forums can increase opportunities to benchmark and share good practice

Many businesses are top of the game when it comes to leading, engaging and developing their people. Key to unlocking the benefits for the UK economy is for more businesses to follow suit. Comparing their practices to others has a significant effect on spurring businesses on to adopt better ways to lead, engage and develop their people. To make comparison with others effective, business needs to know what good looks like. This report is a starting point but, in collaboration with existing campaigns like Be the Business, more research is needed to uncover examples of good practice to create a toolkit of ideas that firms can implement in their business.

There is little regional variation in how businesses perform on the adoption of good people practices, which suggests that there is a lot of value in businesses in the same region learning from each other.[79] Local Enterprise Partnerships (LEPs) and Mayoral Combined Authorities have significant regional reach that, with government investment to facilitate a network, research good practices and share existing benchmarks, could spur more businesses to adopt effective people practices. Encouraging firms to benchmark themselves against Be the Business' industry level data through local forums could improve the consistency of people practices across the UK and deepen policymakers' insight into areas that businesses need further support to improve.

The recently announced UK Shared Prosperity Fund is intended to support locally delivered activities that improve regional productivity. The link between how businesses lead, engage and develop their people has significant implications for firm-level and economy-wide productivity. The government should recognise the value of peer-learning as a vehicle to drive progress and, as they design how funding is allocated, look favourably on applications for this kind of support. Enabling LEPs, Combined Authorities and business membership organisations to draw on the Shared Prosperity Fund to deliver business-led peer learning would create the space for business to innovate its own solutions to improve people management – an issue that has so far received little attention in the UK's productivity debate.

Recommendation:

The government should back locally delivered business forums through the UK Shared Prosperity Fund that enable firms to benchmark and share what works to improve how they lead, engage and develop their people.

Having a shared stake in success can help to boost employee engagement

Engaged employees are fundamental to a business' success and there are many ways that businesses can boost employee engagement. Feeling that pay is fair has a strong impact on engagement, which can be achieved in a number of ways. One of the most common is to reward employees with a share of overall company profits or success to offer people a financial stake in the business. Creating variability in pay will not always boost engagement as many employees place greater value on stability in their earnings. But it is an option that should be available where it has advantages for both employers and employees. This, alongside other measures, can help to create a workplace where people feel valued and recognised for their contribution to the long-term success of the businesses, and feel as though they share in the prosperity business creates.

At a time when income inequality in the UK is higher than the OECD average, giving employees a stake in business success can be an important part of creating an economy of shared value.[80] The ways in which businesses offer that stake are incredibly diverse – including share options or ownership, profit sharing and bonuses, or employees owning most of the business. Without a one-size-fits-all solution, and recognising that it will not always improve engagement, each business needs to be able to choose whether and how to do so.

Many businesses are already leading the way on adopting these types of measures. Almost 90% of all large companies in the UK have some form of employee share scheme.[81] But the government can support businesses to take these steps, particularly when they are transitioning from one ownership structure to another and for smaller businesses where the complexity of the tax and regulatory landscape is a constant challenge.

More work is needed before the next Autumn Budget by both business and the government to identify how the take up of existing schemes can be improved, and how it can be made easier for businesses to offer a financial stake in the business as part of their wider strategy to engage employees. This means showcasing the breadth of models businesses use and identifying those that miss out on government incentivisation. Boosting employee engagement and creating an economy of shared value underpins the UK's prosperity, and is an issue on which business wants to innovate solutions in partnership with the government.

Recommendation:

The government and business should better understand the current landscape for offering employees a financial stake and ensure there are sufficient incentives and information for businesses to adopt such measures by the 2019 Autumn Budget.

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