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CBI/Harvey Nash employment trends survey 2012

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About the sponsor:

Harvey Nash has supported many of the world's leading organisations to recruit, source and manage the highly-skilled talent they need to succeed in an increasingly competitive and technology-driven world. With 4,000 professionals in 40 offices across the USA, Europe and Asia the group has the reach and resources of a global organisation, while fostering a culture of innovation and agility that empowers its people to respond to constantly changing client needs. We work with clients, both large and small, to deliver a portfolio of services: executive search, professional recruitment and outsourcing.

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Foreword

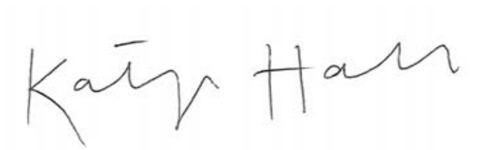
These are challenging times for UK businesses. With strong headwinds continuing to affect the UK economy, firms are operating amid considerable uncertainty. Growth slowed at the end of last year and has yet to return, with significant downside risks for the foreseeable future driven by the position in the eurozone. Fragile consumer confidence and the turmoil in the eurozone are weighing heavily on firms. Despite these unpredictable circumstances, this survey shows that the UK's labour market is holding up well under the strain, with new jobs being created in growth-generating roles.

This is possible because of a relentless focus on competitiveness. In the face of fierce international competition and difficult domestic conditions, pay reviews are again characterised by restraint. Caution is no longer a one-off approach: instead it defines the 'new normal', where firms are keeping a tight control on labour costs and targeting reward on outstanding individual contribution.

Business needs the government to match this competitive edge. The flexibility of the UK's labour market has been an asset to our economy and will be essential to future growth.

But as the employment relationship has become more flexible and individualised, there has also been a surge in employment regulation, which has been increasingly prescriptive in nature. Seventy percent of our employment regulations have been introduced since 1997. To boost firms' appetite for hiring this burden on business must be reduced.

If regulatory reform is to be a reality, the first priority should be a fresh start for the tribunal system. The government has recognised the need for reform but it needs to be bolder, so that tribunals are able to provide the effective, affordable and quick means of justice that was originally intended. Turning to individual legislation, the impact of the Agency Workers Regulations just six months on from introduction is clear. The results of this survey show that the regulations are damaging the UK's labour market and acting as a brake on jobs at the very time when firms need to be able to hire flexibly. So a radical approach is needed – nothing short of challenging the underlying directive will reverse the damage to this vital sector.



Katja Hall
CBI chief policy director

Foreword

Businesses are focused on the future. In recognition of the unsettled economic environment, the recruitment outlook – while positive – is cautious. The survey shows that more companies are looking to take on permanent employees than plan to reduce their hiring, suggesting that businesses are optimistic about their prospects in the coming year. Fluctuations in pay and recruitment freezes over the past 12 months reflect the macroeconomic position, but despite that, businesses are positioning themselves for growth in the future.

Confidence is strongest where it is matching growth prospects, in particular the knowledge economy – where highly skilled individuals will find openings in the science, IT and high-tech industries. Opportunities in digital media and evolving technologies are encouraging businesses to pursue growth in these areas, with developments such as East London's Tech City leading by example. Education and skills investment should be shaped around the high-growth industries where the UK has strengths to be exploited in emerging, fast-growing economies.

To take advantage of opportunities in the coming months and years businesses are committed to finding the right people, with the right skills for their organisations. Competitiveness is crucial and companies report strategic hiring plans, centred around highly-skilled individuals, professional and sales roles. There is encouragement for those entering the jobs market that businesses continue to invest in the next generation of talent, with prospects for graduates and apprentices both positive.

The value companies place on their people is reflected in the commitment to effective employee engagement, which remains the top priority among business leaders. The good communication and collaboration that characterised employee relations during the recession is being maintained, and the impact of this in the workplace is evidenced by reported high levels of morale.

Albert Ellis
chief executive officer, Harvey Nash Group plc

Overview

The fifteenth employment trends survey

- The survey was conducted in March and April 2012
- There were 319 respondents, employing 1.9 million people between them
- Respondents came from businesses of all sizes and sectors across the UK
- The survey was completed by senior executives. In small and medium-sized companies this tended to be the managing director, chief executive or chairman. In larger firms, it was the human resources director or equivalent.

Companies take a cautious line on hiring

- Firms are expanding their hiring cautiously, with a positive balance of +12% of organisations reporting their intention to increase recruitment of permanent staff over the next six months – a similar level to a year ago but down on autumn 2011
- Recruitment prospects for temporary workers are much less positive, with a fifth of firms planning to increase temporary recruitment (20%) and just under a fifth expecting a reduction (-19%), producing a positive balance of only +1%
- Graduate job prospects are improving, with a positive balance of +11% anticipating higher graduate recruitment in the next six months, a balance maintained from autumn 2011
- The expansion in apprentice numbers looks set to continue, with +18% of respondents planning to increase their recruitment
- The focus for firms' recruitment is on the key roles for generating growth: highly-skilled professional positions, sales and customer services staff and technical specialists.

Pay restraint is a response to the search for competitiveness

- Reflecting challenging market conditions and the need to safeguard jobs where possible, a fifth of businesses (20%) are planning a pay freeze when the next pay review falls due – similar to the level (23%) in spring 2011
- Among firms planning to raise pay, a cautious approach predominates, with nearly half (48%) intending to implement a modest increase either below RPI inflation or targeted only on specific staff
- Just 3% of businesses plan to award a pay increase above RPI inflation, while a quarter (26%) intend to match RPI inflation
- The cautious approach companies are taking – the new normal – is a realistic response to the need to remain competitive in global markets.

Getting young people into work

- There will be job opportunities for unemployed young people in the coming year, with over half (51%) of firms expecting to have roles available which could be suitable for an unemployed 16-24 year-old
- The main obstacles to unemployed young people securing those job openings are identified by businesses as lack of appropriate skills (49%)
- Providing an incentive for firms in the shape of the Youth Contract subsidy will help improve the job prospects of this group, with almost half (48%) of respondents saying this would encourage them to hire unemployed young people.

Tackling the burden of employment regulation

- Over half (56%) of businesses believe the UK has become a less attractive place to invest and do business over the past five years
- There is cautious optimism about the next five years, however, with two fifths (43%) of firms seeing the UK becoming a better location for business in the future
- Two thirds (67%) of businesses cite the burden of employment regulation as a threat to UK labour market competitiveness, although they are hopeful this can reduced over the next five years. This is likely to be a response to the government's programme of employment law reform
- Over two fifths (44%) of businesses surveyed have faced employment tribunal claims in the past 12 months
- Firms are facing increasing numbers of weak and vexatious claims, with over a third (34%) of claims withdrawn by the applicant
- Even though firms are four times more likely to win a case at a hearing than lose, employers are choosing to settle to minimise disruption, with a quarter (26%) doing so even when advised that they would win.

Building on the UK's strengths as a place to invest

- Losing the UK's working time opt-out would have an impact on nearly three-quarters of businesses (73%), with close to half (46%) saying it would be severe or significant
- Two thirds (66%) of companies believe its loss would damage employee relations by restricting individual choice and more than half (58%) say it would reduce their capacity to respond to growth opportunities
- Businesses are concerned about the international impression created by the work permit cap, with a third (34%) believing it has had a negative impact on perceptions of the UK as a place to invest
- Global firms need flexibility to transfer their staff internationally: over a quarter of firms currently use or have used the intra-company transfer route (28%) and new restrictions on this would force many of these companies to move projects elsewhere (38%).

Agency Workers Regulations hitting work opportunities

- Six months on from the introduction of the Agency Workers Regulations, almost half of firms (46%) report that their business has been affected
- With new bureaucratic burdens increasing the costs and complexity of using agency staff, the most common response of businesses has been reduced use of agency workers (57%) and one in twelve firms (8%) have stopped using agency workers altogether
- Companies have had to adapt their resourcing plans, with over a third using more fixed-term contracts (36%) while others are adopting alternative models of temp use such as the 'Swedish derogation' model of paying between assignments, in return for no equal treatment rules on pay or managed service contracts (27%)
- The regulations are having a detrimental impact on work opportunities, with more than one in ten firms (12%) reporting a lower overall headcount and one in six (17%) increasing overtime amongst existing staff rather than use agency temps.

Without the DRA firms face big challenges

- More than eight out of ten firms (84%) have been affected by the abolition of the default retirement age
- Over half of affected firms recognise the business benefits of retaining the skills and knowledge of older workers (57%) but there is concern about the knock-on effect on younger employees as a result of fewer promotion opportunities (55%)
- A lack of clarity about the plans of older employees is creating problems for two thirds of firms over workforce and succession planning (67%) – the government has done little to help this, in terms of supporting firms to manage age issues with confidence. A protected space for conversation about retirement is required
- Not surprisingly given the personal and legal sensitivity of the issue, more than half of respondents (56%) are concerned about the ability of line managers to deal with declining performance among ageing employees.

Employee engagement is essential for business success

- Two thirds of businesses (67%) report the employee relations climate in their organisation as either co-operative or very co-operative and just one in 20 (5%) says it is adversarial
- While four out of five (81%) non-unionised businesses describe their current employee relations climate as co-operative or better, just under half (49%) of those recognising a trade union for collective bargaining do so – and more than a fifth (22%) of these anticipate the climate will become more adversarial in the coming year
- Employee morale is generally fairly high, with two fifths of firms (40%) reporting morale in their organisation as high or very high
- Most companies (85%) are confident their employees recognise the need to contain costs and adapt patterns of work in response to market pressures
- The top people priorities for businesses in the next 12 months are securing high levels of employee engagement (60%), containing labour costs (48%) and recruiting to key vacancies (38%).

1 The employment landscape

The 2012 employment trends survey was conducted against the backdrop of economic uncertainty as disruptive headwinds continue to buffet the UK. While official data has presented a gloomy overall picture of the economy, business surveys suggest growth in key sectors, and private sector hiring was very positive in Q1 of 2012, which the last employment trends survey pointed towards.

The economic outlook is uncertain with significant downside risks

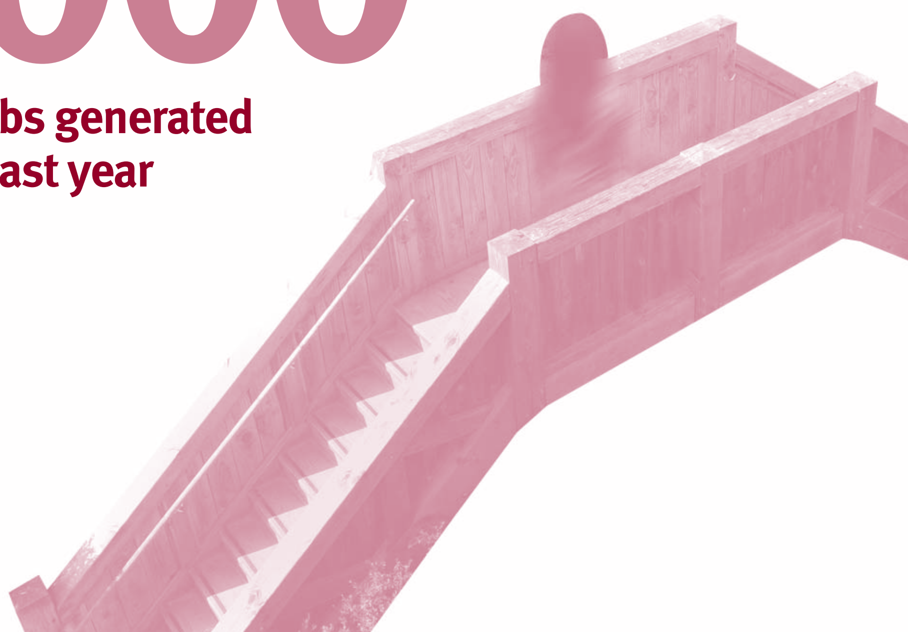
Since the publication of the CBI/Harvey Nash employment trends survey in November 2011, the fragile and uneven nature of the UK's economic performance has been clear. Consecutive contractions in Q4 of 2011 and Q1 of 2012 have placed the economy back in a technical recession, but taking a broader perspective across the past year shows growth was essentially flat.

Behind this headline data there are mixed messages about activity in the economy. Business survey data indicates that confidence in some important sectors is improving and that a persistent downturn should not be in prospect. The latest CBI data finds business activity picking up in the manufacturing[1] and services sectors.[2]

The greatest threat to the UK's future economic stability comes from a worsening of the situation in the eurozone. As the UK's largest export market, serious disruption there would inevitably hit UK growth prospects and business sentiment will not substantially improve until a durable solution to the euro crisis is found. Given the mixed picture that we have seen in 2012 so far, the CBI's central economic forecast has been downgraded to growth of 0.6% for 2012, with growth predicted to return in the latter half of the year and climbing to 2% in 2013.[3]

320,000

The number of additional jobs generated in the private sector in the last year



The labour market is relatively robust....

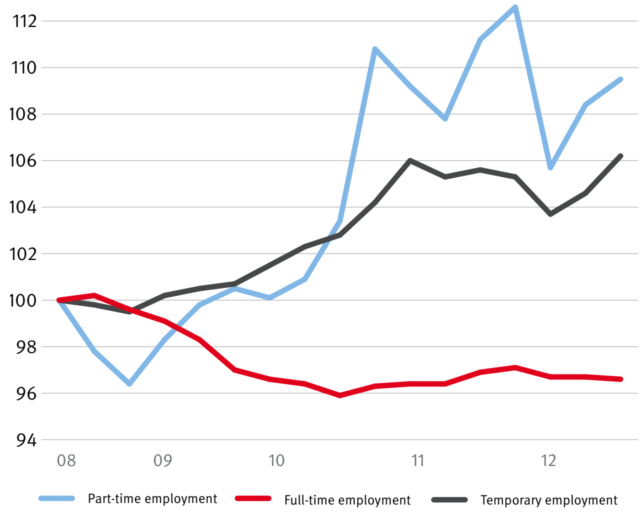
The performance of the UK's labour market in recent years has been surprisingly strong, by comparison with the recessions of the 1980s and 1990s. During the 1980s downturn, for example, output fell by 4.6% and the corresponding fall in employment was 2.4%, whereas in 2008/09 output decreased by a greater proportion – dropping by 6.3% – but the fall in employment was limited to 1.98%.[4] Since the end of 2012 the employment rate has been rising again, due to private sector employment increasing at five times the rate which it has been declining in the public sector.

This better performance was achieved through businesses and employees working together. Working collaboratively with their employees, private sector firms adapted patterns of work – introducing measures such as flexible working hours or offering voluntary sabbaticals – so that as many jobs as practicable could be preserved. In many firms these initiatives led to a greater number of employees working part-time (**Exhibit 1**), so the numbers of hours worked fell more steeply than levels of employment. Minimising jobs losses in this way enabled people to remain active in the workplace, ensuring their skills were kept up and boosting their employment prospects in the long term.

...and the UK has a strong track record on job generation...

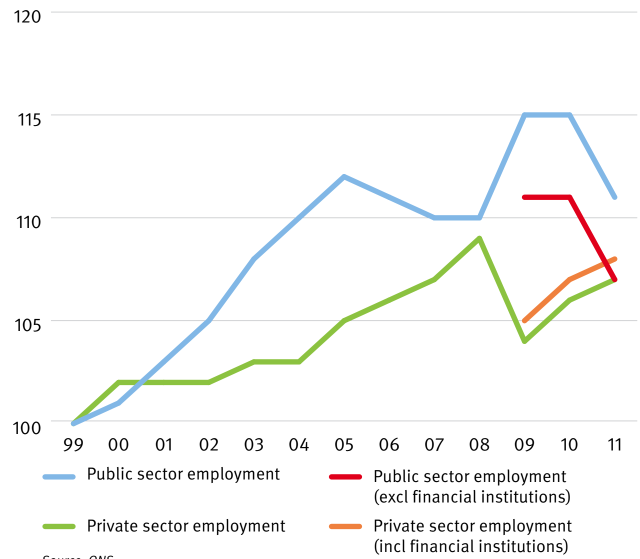
With the exception of 2009, the private sector has created additional jobs every year since 1999. Since December 2009 a total of 892,000 new employment opportunities have been created in the private sector, with 320,000 additional jobs generated in the past year alone despite flat economic growth. This scale of job creation will help to provide opportunities as the public sector headcount contracts, and over time will play an essential part in rebalancing the UK economy (**Exhibit 2**).

Exhibit 1 **Change in the make-up of the workforce (Jan 2008=100)**



Source: ONS

Exhibit 2 **Change in employment by sector (1999=100)**



Source: ONS

...so the UK compares well with other major economies

Placing the UK's labour market performance within an international context highlights its relative success in terms of labour market response to the downturn (**Exhibit 3**). In the UK and the US, the short-term drop in the employment rate in 2008/10 was more significant than in countries with more stringent employment protection, such as France. While the less flexible French labour market saw employment levels decline by only 1%, France entered the recession with a much lower rate of employment.

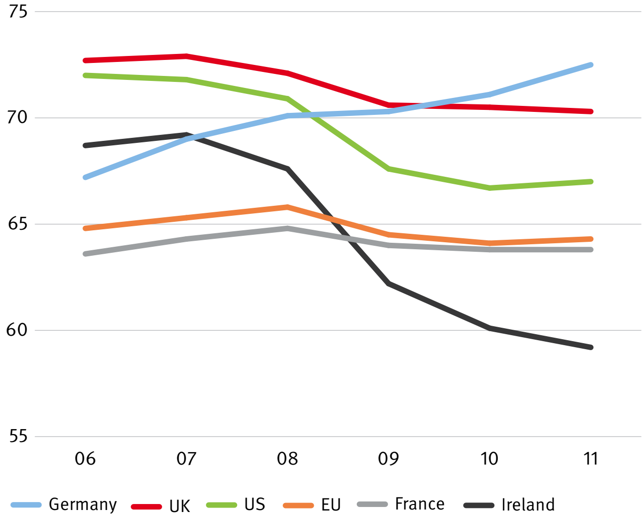
By 2011, the overall French employment rate stood 6.5 percentage points below that of the UK and 3.2 percentage points below that of the US. The UK model of flexibility enabled businesses and their employees to work together to preserve jobs during the depths of the downturn and subsequently to generate new jobs more rapidly as companies adapted to the challenging economic environment. The strong German performance reflects high levels of productivity, a remarkably successful export achievement and flexibility injected into their labour market by reforms in the decade before 2008.

Unemployment levels are the other side of the employment coin (**Exhibit 4**). The UK entered the recession with a low level of unemployment by the standards of most EU member states. By 2011, unemployment in the UK remained below the EU average (at 8% compared to 9.7%) and far below the levels of troubled economies such as Spain (21.7%) and Ireland (14.4%).

The UK faces a future challenge on productivity...

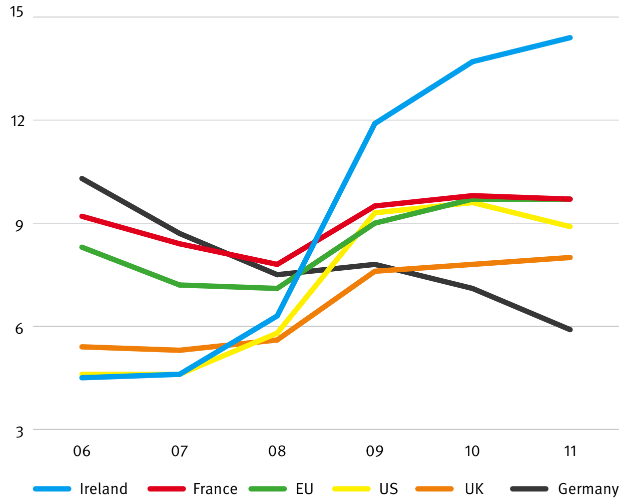
One significant hiring trend – during and since the recession – has been the growth in part-time work. Initially extension of part-time working was used by firms to retain staff, whose jobs might otherwise have been lost as the economy slowed down. Part-time work has grown so the number of part-time workers now stands at 7.9 million, 6.8% above pre-recession levels.[5] It is clear that when firms look to hire in the current uncertain economic conditions they are doing so cautiously. It was only in April 2012 – several months after an improvement in other data – that we saw a rise in full-time job creation.

Exhibit 3 **International comparisons of employment rates (%)**



Source: Eurostat, ONS

Exhibit 4 **International comparisons of unemployment rates (%)**



Source: Eurostat

As a consequence of the downturn and its impact on the make-up of the workforce, output per worker has fallen and unit labour costs have increased (**Exhibit 5**). Although output has improved from the low level it reached during the recession, at the end of 2011 it was still below the levels of 2007, while unit labour costs had increased by 13.7% over the same period. The assumption has been that as the economy began to grow again productivity would improve and these trends would be reversed. However, the recovery has not yet been strong enough for this to be realised.

...so pay restraint is the essential 'new normal'

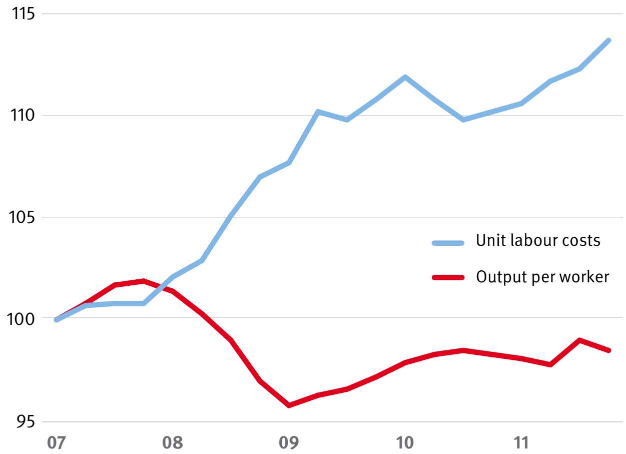
With firms facing tough economic conditions and fierce international competition, pay constraint has become the 'new normal'. While the proportion of pay freezes in operation has fallen since 2009, containing labour costs is among businesses' top priorities. The resulting caution will continue to characterise companies' approaches to pay for the foreseeable future. The UK needs to improve productivity and competitiveness if it is to move towards conditions for higher pay growth in the longer term.

Youth unemployment is a serious challenge

There were a relatively high number of vacancies in the economy during the recession and the figure has remained at a similar level since (**Exhibit 6**), indicating that firms were hiring throughout the downturn and are continuing to do so. However, during the same period unemployment rose to more than 2.6 million and – most worryingly of all – youth unemployment rose above one million.

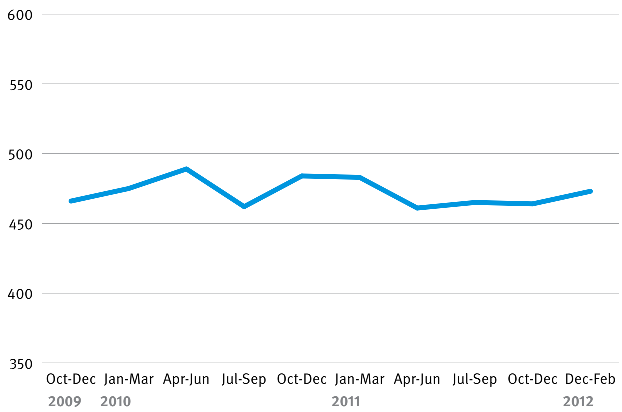
The challenge in the post-recession labour market is to equip jobseekers with the skills and experience to enable them to take up those opportunities, preventing long-term damage to the life chances of individuals who are not currently able to engage effectively with the labour market. It is particularly important to achieve this in the case of young people, as research indicates the deep, scarring effect of unemployment at a young age.[6]

Exhibit 5 **Change in productivity and unit labour costs (2007=100)**



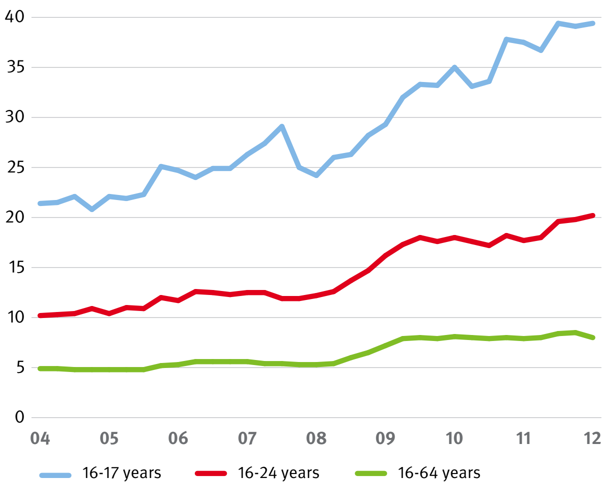
Source: ONS

Exhibit 6 **Vacancies 2009-2012 (000s)**



Source: ONS

Exhibit 7 **UK unemployment by age cohort (%)**



Source: ONS

The UK's youth unemployment issue pre-dates the recession – it has been rising since 2004 and when the economic crisis struck this pre-existing problem was exacerbated (**Exhibit 7**). In the short-term, urgent action to address the cyclical problem is needed to prevent a 'lost generation' developing. Key to this is helping young people into their first job to build their skills and confidence. Given the disadvantages facing young people in the labour market, the CBI proposed an incentive for firms taking on an unemployed youth. The idea was taken up by the government in April 2012: the Youth Contract provides £2,275 for each individual hired via the Work Programme.

In the longer term, action in the education and welfare system is needed to tackle the structural issues that lie behind youth unemployment. While a return to growth will boost hiring and business confidence, it will not remove the barriers that prevent young people from entering the jobs market successfully, such as a shortfall in the basic skills which businesses require. In 2011, 41% of those taking GCSE maths failed to achieve a grade A*-C and 35% did not achieve those grades in English. Improving levels of attainment in schools is critical to enable more young people to make a successful transition from school to the workplace. Equipping them with skills as well as good quality careers advice and relevant work experience is essential.[7]

"Urgent action is needed to prevent a 'lost generation' developing"

2 The fifteenth employment trends survey

Now in its fifteenth year, the employment trends survey has charted the shifting patterns of employment and workplace practices through changing political and economic times. It has monitored the way businesses have responded to the extremely tough and volatile economic conditions of recent years. This latest instalment looks at how businesses are preparing to meet today's challenges and positioning themselves for renewed economic growth: preserving the flexibility of the UK labour market is crucial in that process.

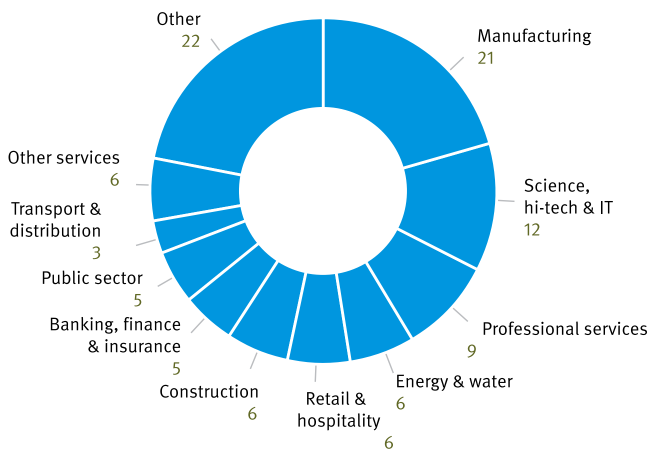
This report continues the CBI's survey partnership with Harvey Nash. Since the 2008 recession, the employment trends survey has been published twice yearly to map more closely the impact of the downturn on firms and the steps they have taken to prepare for growth in the times ahead. The surveys have tracked the ways in which firms have responded to these exceptionally difficult conditions, as they have focused on securing growth and retaining their essential talent.

The employment trends surveys in 2010 showed that recruitment standstills and pay freezes were starting to ease as firms positioned themselves for anticipated economy recovery.[8] During the following year these conditions continued to improve, albeit slowly, with the private sector leading a gradual recovery in the jobs market during 2011.[9] Six months on from our autumn 2011 survey, this report looks at the extent to which these trends in the labour market have been maintained.

Responses to the survey

This survey was conducted in March and April 2012. There were 319 respondents in all, employing almost two million people between them, equivalent to nearly 8% of all employees in employment in the UK.[10] The questionnaire was completed by a senior executive. In small and medium-sized businesses this tended to be the managing director, chief executive or chairman. In larger organisations it was usually the human resources director or equivalent.

Exhibit 8 **Respondents by economic sector (%)**



Sectoral analysis

Respondents were drawn from all sectors of the economy (**Exhibit 8**). Manufacturing firms make up one in five of the respondents (21%) while science/hi-tech and IT companies constitute one in eight (12%) of the sample. In line with the autumn 2011 survey, public sector bodies account for 5% of respondents. The single largest group of participants (22%) are classified as 'other' and include education providers, trade bodies and charitable organisations as well as multi-sector firms.

Respondents by company size

Companies of all sizes participated in the survey – a fifth (19%) employ fewer than 50 staff and a similar proportion (17%) have over 5,000 employees (**Exhibit 9**).

Official data suggests that, in line with most surveys, larger organisations are over-represented, with the majority of UK businesses employing fewer than 50 people.[11] However, since larger firms employ two fifths of the workforce, the survey is indicative of overall employment views and practices. Using the official definition of small and medium-sized enterprises (those with fewer than 250 employees), SMEs account for 37% of respondents – much in line with the levels in previous employment trends surveys.

Respondents by region

Most respondents have employees in more than one region of the UK (**Exhibit 10**). Half of all respondents have at least part of their workforce in London (51%) and two fifths (42%) have employees in the South East. Beyond those regions, the most common locations are the East Midlands, North West and Scotland (36%), while a fifth (21%) have employees in Northern Ireland.

Exhibit 9 **Respondents by company size (%)**

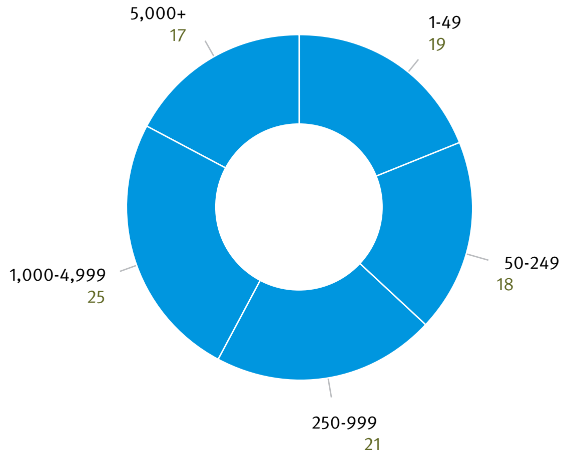
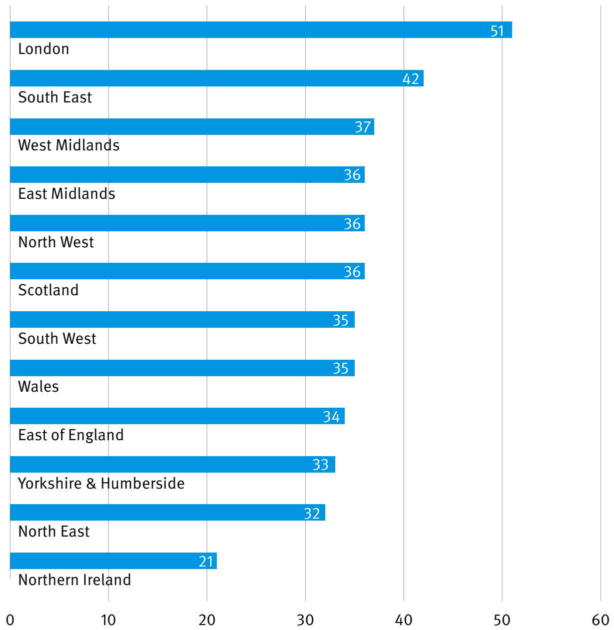


Exhibit 10 **Respondents by region (%)**



3 Companies take a cautious line on hiring

Despite the challenging economic environment, the private sector labour market has so far proved more robust than might have been expected, with private sector employment growing. Our results show there is cautious optimism about the coming year, as businesses overall anticipate expanding their workforces. Companies are investing for the future through increased recruitment of graduates and apprentices. Firms know the road to recovery will not be smooth, so they are carefully targeting their recruitment to position themselves to seize growth opportunities.

Key findings

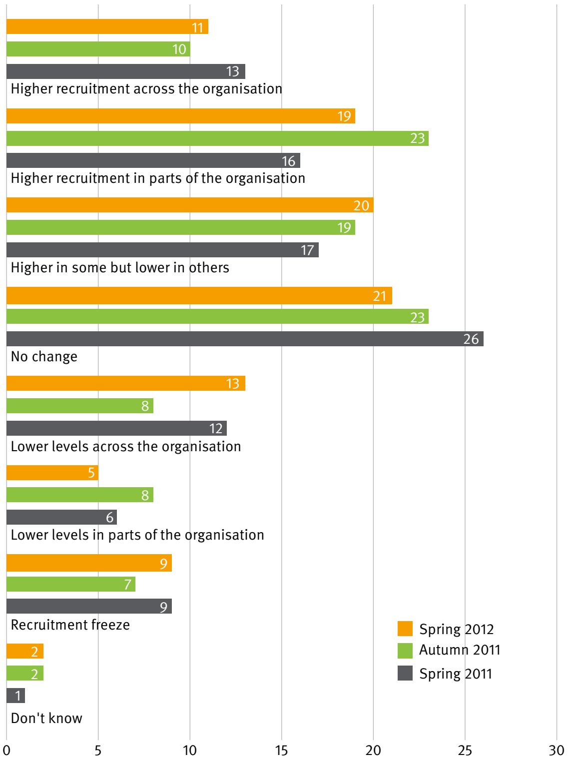
- Firms are expanding their hiring cautiously, with a positive balance of +12% of organisations reporting their intention to increase recruitment of permanent staff over the next six months – a similar level to a year ago but down on autumn 2011
- Recruitment prospects for temporary workers are much less positive, with a fifth of firms planning to increase temporary recruitment (20%) and just under a fifth expecting a reduction (-19%), producing a positive balance of only +1%
- Graduate job prospects are improving, with a positive balance of +11% anticipating higher graduate recruitment in the next six months, a balance maintained from autumn 2011
- The expansion in apprentice numbers looks set to continue, with +18% of respondents planning to increase their recruitment
- The focus for firms' recruitment is on the key roles for generating growth: highly-skilled professional positions, sales and customer services staff and technical specialists.

Recruitment prospects are mixed, with permanent jobs opportunities opening up...

Continuing economic uncertainty has caused firms to reintroduce a note of caution to their recruitment plans. But even with the slow and uneven economic recovery we have been experiencing, employment in the private sector has continued to rise as chapter 1 showed, offsetting much of the decline in public sector jobs.

Overall, more firms are expecting to increase their levels of recruitment of permanent staff in the next six months than are expecting to reduce them. Almost a third of businesses (30%) expect to increase their recruitment of permanent staff across all or parts of their organisation in the next six months (**Exhibit 11**). In contrast, under a fifth (18%) of firms are planning lower recruitment across all or parts of their organisation, giving a positive balance of +12% on recruitment plans.

Exhibit 11 **Plans for permanent recruitment – next six months compared to previous six months (%)**



These results, however, suggest a modest drop in confidence since last autumn's survey. At that stage 33% of respondents expected higher recruitment and 16% were planning lower levels of recruitment over the coming months, giving a higher positive balance of +17% at that time. The latest figures are similar to the recruitment outlook a year ago, when the balance between higher and lower recruitment intentions was +11%. The results point to firms' nervousness about the fragile nature of the economic situation, particularly bearing in mind events in the eurozone.

As to be expected, there is more optimism about job prospects in those sectors with stronger immediate growth potential. Among science, hi-tech and IT firms, for example, recruitment intentions are more positive (a positive balance of +15%) than across the economy as a whole. The UK will need to exploit its strengths in these and other knowledge-based businesses more fully to take advantage of demand from emerging economies if we are to generate new jobs on a greater scale.

....but a small uptick in recruitment freezes

The proportion of companies planning a recruitment freeze has risen slightly since autumn 2011, returning to the levels recorded a year ago (**Exhibit 12**). Nearly one in ten firms (9%) plans a recruitment standstill in the coming six months, up from one in 14 respondents (7%) in the autumn. While these proportions remain much lower than the levels (61%) reached during the depths of the recession in the spring of 2009, the findings suggest that the weak economic recovery – with many firms facing extremely tough trading prospects – is dampening recruitment intentions for some firms.

Temporary recruitment remains subdued...

Temporary work allows firms to meet their staffing needs flexibly and is a key contributor to the attractiveness of the UK's labour market. At times of economic uncertainty, we would normally expect to see expanding use of temporary staff.

A large proportion of firms (66%) will be changing their levels of temporary recruitment in the coming six months, compared to the previous six months (**Exhibit 13**). A fifth of firms (20%) are planning to increase recruitment of temporary workers – up from one in six (16%) who were expecting higher temporary recruitment in the autumn. However, with almost a fifth (19%) of firms planning to cut back their recruitment of temporary workers across all or parts of their organisation in the next six months, the balance between higher and lower recruitment is just +1%.

Exhibit 12 **Organisations planning recruitment freeze over the next six months (%)**

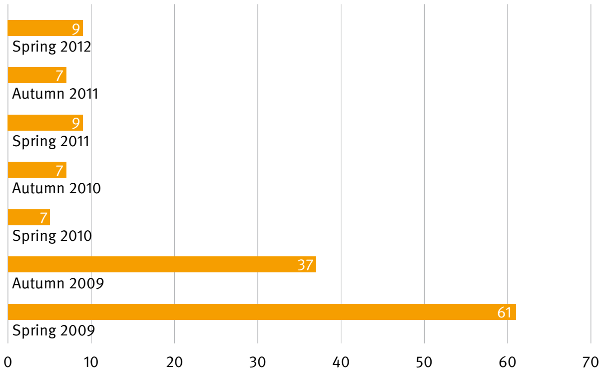
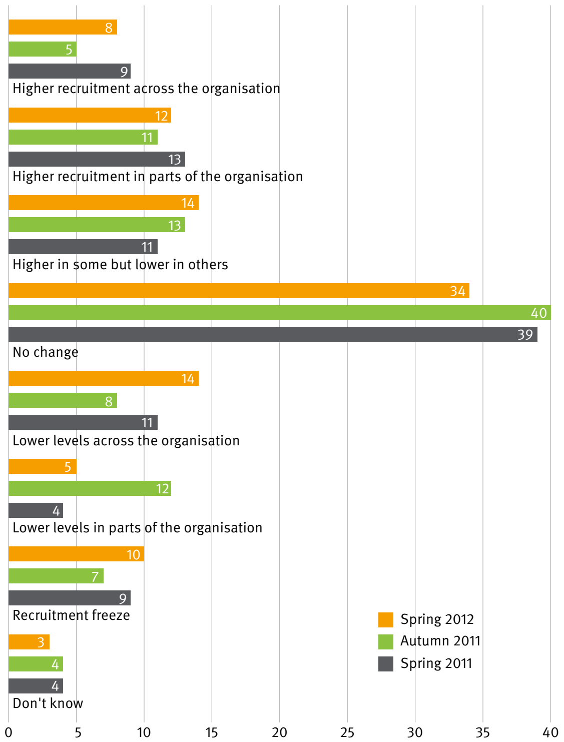


Exhibit 13 **Plans for temporary recruitment – next six months compared to previous six months (%)**



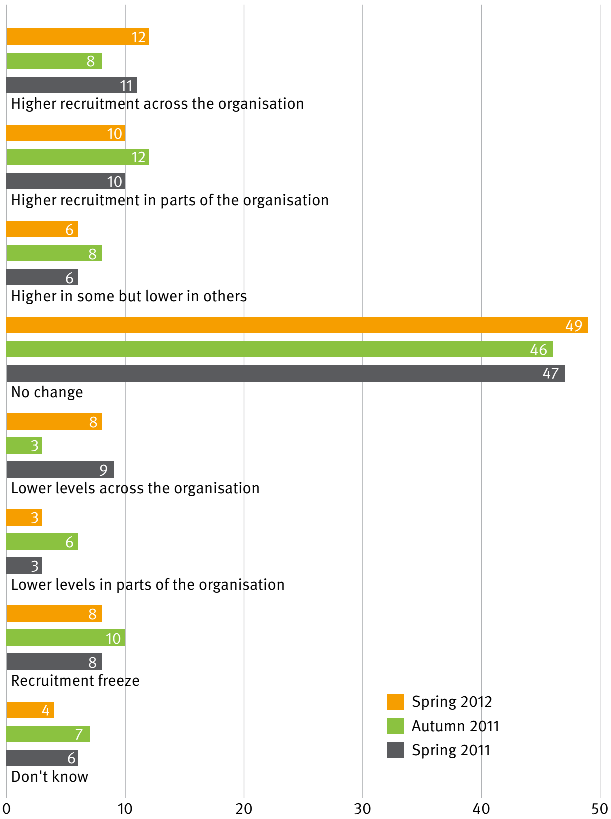
While this is a small improvement on our results in autumn 2011 when the balance was negative (-4%), it is far from the surge in new temporary job openings we might have hoped for at this stage. The relatively slow growth in temporary jobs may well reflect not only the uncertainty of economic prospects but also the dampening consequences of introduction of the Agency Worker Regulations in October 2011. As chapter 8 demonstrates, the regulations have curbed firms' use of agency staff – one major variety of temporary work – at a time when businesses most need this type of flexibility.

...while the outlook for graduates is slowly improving

Job prospects for graduates are continuing to improve, but once again businesses remain cautious. Almost half of respondents (49%) are not planning any change to their levels of graduate recruitment in the coming six months compared to the previous six months (**Exhibit 14**). Where firms are planning to change their recruitment, however, over a fifth (22%) are anticipating higher levels of graduate recruitment and only just over a tenth (11%) a reduction, giving a positive balance of +11%. The proportion of organisations planning a freeze on graduate recruitment has edged down from one in ten (10%) to one in 12 (8%).

These findings suggest firms are looking to focus on developing their future talent. At +11%, the overall balance between higher and lower planned graduate recruitment in this spring's survey is at the same level as last autumn and up from +9% in spring 2011.

Exhibit 14 **Plans for recruitment of graduates – next six months compared to previous six months (%)**



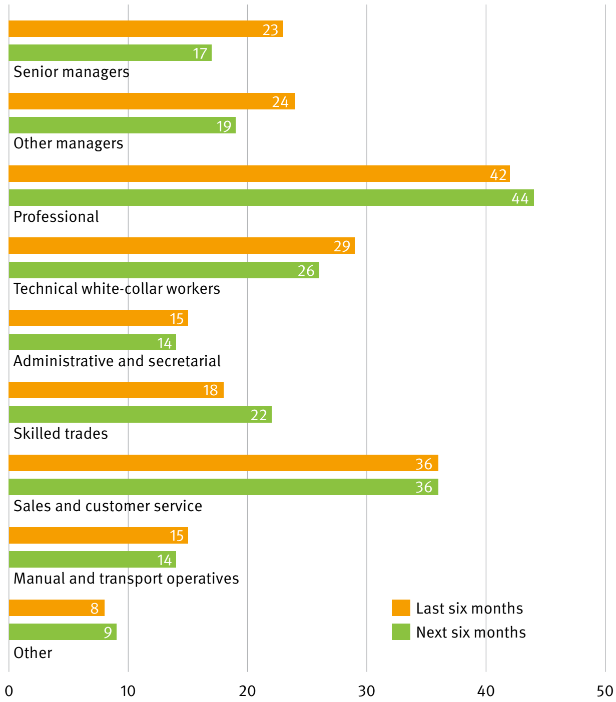
Firms are investing in skills

The expansion of apprenticeship programmes has been one of the success stories of the current government. The number of people starting government-backed programmes has soared by over 60% since 2009-10 to reach more than 450,000 in 2010-11.[12] Moreover, the prospects for further expansion are encouraging: our survey shows over a quarter of firms (27%) plan to increase their recruitment of apprentices over the next six months (**Exhibit 15**). This is three times more than number of organisations planning to reduce their number of apprentice hires (9%), producing an overall recruitment balance of +18%.

The growing availability of apprenticeships is particularly widespread among larger organisations, where a third (34%) are planning to recruit more apprentices in comparison to just one in six SMEs (15%). There is a big challenge in ensuring more of these apprentices are at the higher skill levels, while the government should also focus on delivering simplification to the system that will help boost SME provision.[13]

Exhibit 15 **Plans for recruitment of apprentices – next six months compared to previous six months (%)**

Exhibit 16 **Past and future recruitment by employee category (%)**



Recruitment is growth-focused

Firms are recruiting selectively to support business strategies focused on growth. We asked participants about the skills of those people they have been recruiting in the past six months and those they will need in the next six months. The findings show that skilled professionals are the most sought-after category, reflecting the fact that higher-level, sector-specific skills will act as a prime driver of UK economic growth (**Exhibit 16**).

Those able to fill professional roles will be in greatest demand in the coming months, with more than two fifths of firms (44%) reporting plans to recruit to these roles, up from the 42% who have already been recruiting professional staff in the past six months.

Sales and customer service staff have a key role to play as firms look for new market opportunities in the recovery. These are widely sought, with a third of firms (36%) recruiting for these posts in the past six months and the same proportion (36%) looking to do so in the future. Managers and technical white-collar employees have also been in demand in the past six months and look set to remain so.

These results provide further evidence of the changing balance in the UK labour market, with those jobs requiring the highest levels of education and skills – including 'soft' social skills – increasing in numbers. Looking to the future, the findings also highlight the importance of driving up standards and levels of attainment in our schools and colleges.

“Firms are recruiting selectively to support business strategies focused on growth”

4 Pay restraint is a response to the search for competitiveness

Firms are taking a cautious approach to pay as they seek to stay competitive in the face of tough domestic trading conditions and ferocious competition in international markets. Pay restraint seems to be becoming established as the 'new normal', with most organisations planning to raise pay by less than inflation as measured by the retail prices index (RPI). Businesses – and increasingly employees – are well aware that higher pay can be earned in the longer term only by improving productivity and competing more effectively.

Key findings

- Reflecting challenging market conditions and the need to safeguard jobs where possible, a fifth of businesses (20%) are planning a pay freeze when the next pay review falls due – similar to the level (23%) in spring 2011
- Among firms planning to raise pay, a cautious approach predominates, with nearly half (48%) intending to implement a modest increase either below RPI inflation or targeted only on specific staff
- Just 3% of businesses plan to award a pay increase above RPI inflation, while a quarter (26%) intend to match RPI inflation
- The cautious approach companies are taking – the new normal – is a realistic response to the need to remain competitive in global markets.

A fifth of firms plan to freeze pay…

In the depths of the recession in 2009, more than half (55%) of businesses were operating a pay freeze as part of their steps to safeguard jobs and contain costs (**Exhibit 17**). Subsequently, pay freezes thawed rapidly, so by the autumn of 2010 only one in seven firms (14%) was still planning a pay standstill at their next review.

Since then, the proportion of businesses operating pay freezes has fluctuated. Our latest findings show one in five firms (20%) is planning to apply a general pay freeze when the next pay review falls due. Pay freezes are particularly widespread among SMEs, with 31% planning no pay increase at their next review compared with 14% of larger firms planning a standstill on pay.

3%

Proportion of firms planning a general pay rise above RPI inflation

Exhibit 17 **Firms planning a pay freeze (%)**

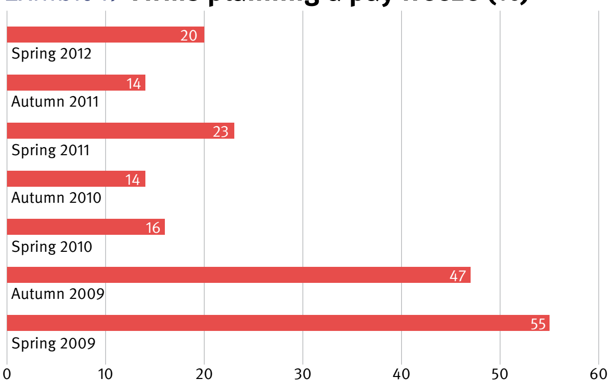
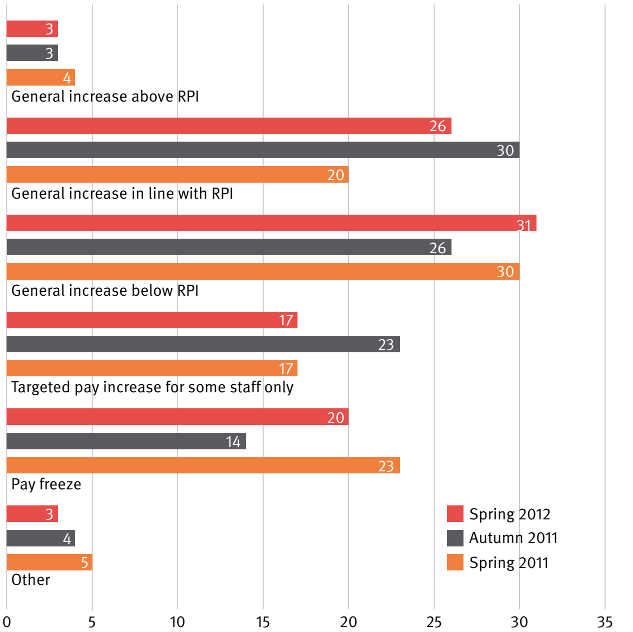


Exhibit 18 **Firms' approach to next pay review (%)**



Just over one in four firms (29%) intends to award employees pay increases that match or exceed the level of RPI inflation – slightly lower than the one third (33%) of businesses planning pay increases at this level in autumn 2011. The fact that most firms are not intending to match RPI inflation – which has declined fairly steadily over the past year – indicates that containing labour costs remains a priority. This continues the patterns seen in earlier surveys (**Exhibit 18**), suggesting that caution on pay is becoming embedded as the new normal.

Pay caution reflects global realities

The UK cannot expect to compete as a leading location to employ people and generate jobs purely on the basis of labour costs (**Exhibit 19**). But nor can the UK cut itself off from the realities of competing in a globalised economy – it is essential that British businesses and the government should not push up labour costs relative to other economies, so risking damage to competitiveness. It is only by raising productivity and competing more effectively that we can afford to pay ourselves more in the future.

...and a cautious approach is the new normal more generally

Among those organisations that intend to increase pay at their next review, caution is the keynote (**Exhibit 18**). Asked to describe their planned approach, nearly a third of firms (31%) are planning a general increase below the level of RPI inflation for their workforces and around one in six businesses (17%) intend to target pay increases on only some key employees. By adopting this strategy these businesses can reward individual contributions and respond to any pay pressures for particular skilled employees without driving up labour costs across the board.

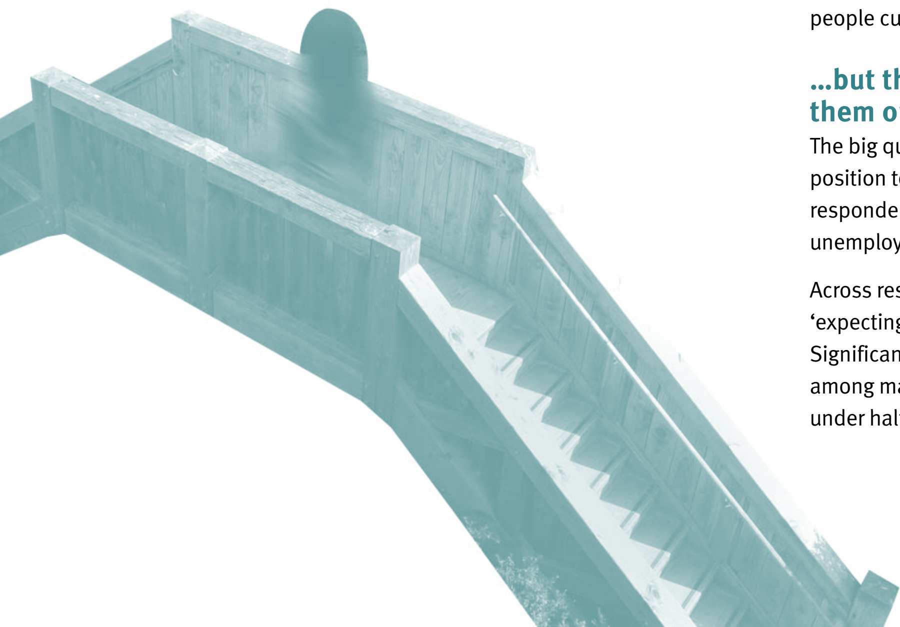
Exhibit 19 **Hourly compensation costs in manufacturing (USA = 100)**

	1997	**2010**
Germany	126	126
France	108	117
USA	100	100
UK	80	85
Singapore	53	55
Czech Republic	14	33
Brazil	31	29
Mexico	15	18
Philippines	6	5
China (2008)	–	4

Source: US Bureau of Labor
Note: Compensation costs include all earnings, benefit costs and social insurance changes

5 Getting young people into work

Business has long been concerned about the UK's youth unemployment problem, which pre-dates the recession. Since 2004 the level of unemployment amongst 16-24 year-olds has been rising, pointing to the structural nature of the problem. But with the economic downturn the scale of the challenge has increased, as young people find it harder to gain their first step on the jobs ladder. Demand-side initiatives – such as the Youth Contract – will help encourage firms to recruit from this group, but they must run alongside efforts to equip young people with the essential competencies.



Key findings

- There will be job opportunities for unemployed young people in the coming year, with over half (51%) of firms expecting to have roles available which could be suitable for an unemployed 16-24 year-old
- The main obstacles to unemployed young people securing those job openings are identified by businesses as lack of appropriate skills (49%)
- Providing an incentive for firms in the shape of the Youth Contract subsidy will help improve the job prospects of this group, with almost half (48%) of respondents saying this would encourage them to hire unemployed young people.

Youth unemployment has been on a rising trend

With 1.01 million young people not in employment, education or training, the scale of the unemployment challenge among the under-25s is clear.[14] Even before the economic downturn firms were concerned about the worsening trend of youth unemployment,[15] but the recession exacerbated this long-term problem.

Many businesses will have roles suitable for young unemployed people...

For the coming year the survey results offer some encouragement to young job seekers. Over half (51%) of businesses say they will have roles suitable for unemployed people aged 16-24 in the next 12 months (**Exhibit 20**). These opportunities will be in companies of all sizes, with a third of SMEs (32%) identifying roles that could be filled by those in this age cohort. In bigger organisations there will be a greater number of openings, with two thirds of larger businesses (63%) expecting to have roles suitable for young people currently out of work.

...but there are significant barriers to taking them on...

The big question is whether young unemployed people will be in a position to compete effectively for these opportunities. We asked respondents about the main obstacles to them taking on unemployed 16-24 year-olds (**Exhibit 21**).

Across respondents as a whole, a third of businesses (36%) cite 'expecting to have no business need to recruit' as an obstacle. Significantly the more commonly cited barriers are weaknesses among many young people in terms of their employability: just under half of respondents (49%) identify a lack of applicants with

Exhibit 20 **Employers expecting to have roles suitable for unemployed young people in the coming year (%)**

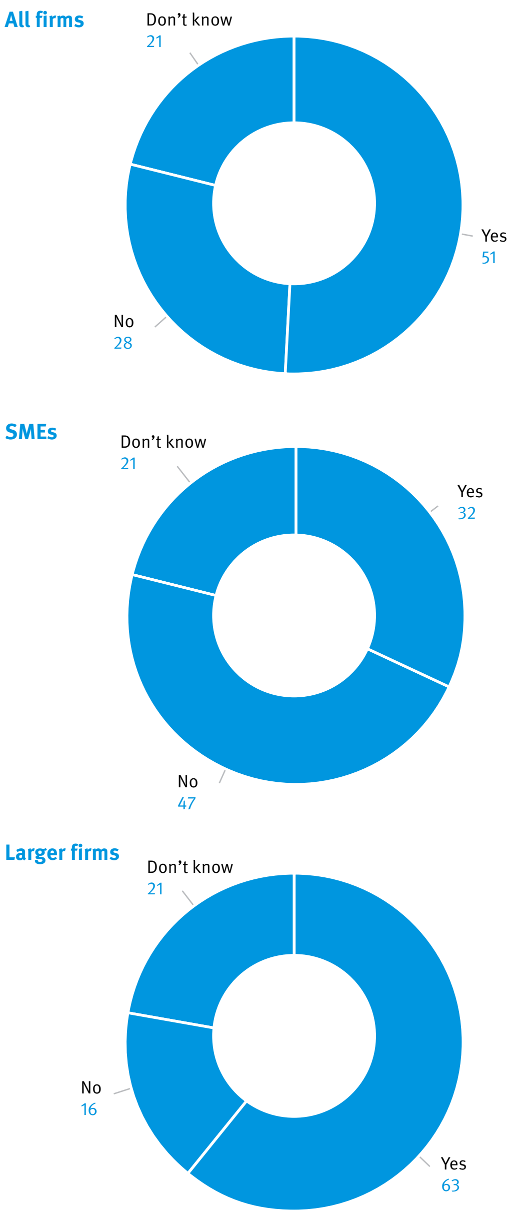
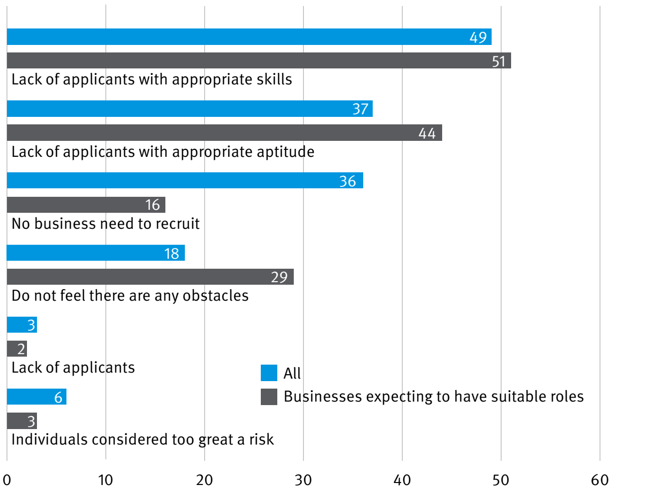


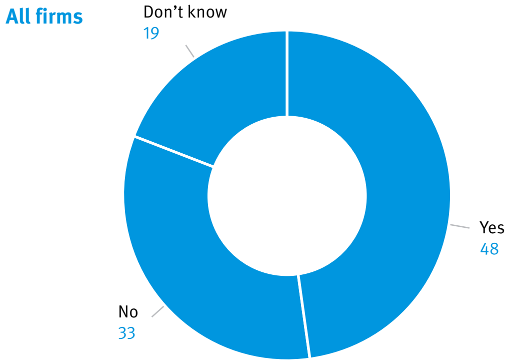
Exhibit 21 **Main obstacles to taking on unemployed young people (%)**

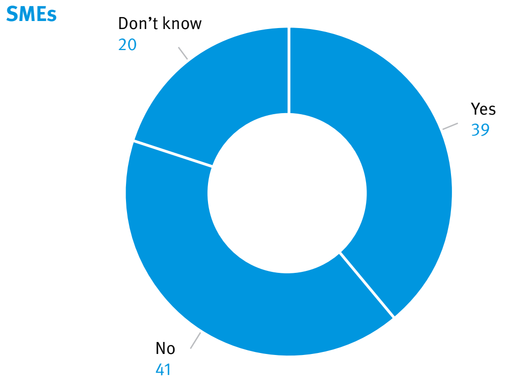


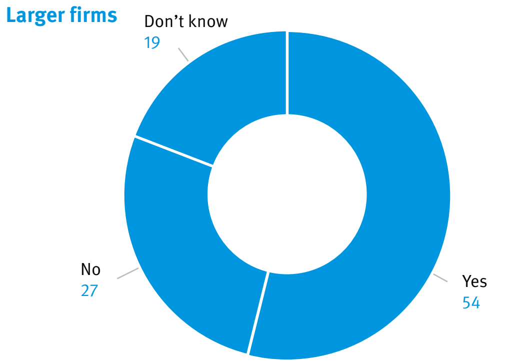
appropriate skills while more than a third (37%) point to the lack of appropriate aptitude as a major barrier. Looking at only those firms expecting to have roles in the coming year suitable for unemployed young people aged 16-24, concerns about employability are even greater (with 51% seeing lack of appropriate skills and 44% lack of appropriate aptitude as main obstacles).

To prevent young people from being locked out of the labour market, these barriers must be addressed. This will require action by business and government, as well as by organisations in the welfare and education systems. The CBI's *Action for jobs* report, the second of the *Getting the UK working* campaign, recommended practical steps that can be taken to tackle youth unemployment.[15] Strengthening engagement between schools and businesses is essential to improve young people's employability skills so they are ready for the world of work – indeed, businesses see action on this as the top priority for secondary schools and colleges teaching 14-19 year-olds.[17]

Exhibit 22 **Would the youth contract encourage you to take a chance on a young unemployed person? (%)**







...so businesses need incentives to take a chance on hiring unemployed young people

Hiring an individual who has relatively poor skills and lacks labour market experience is costly for a business in terms of lost productive time. As a result, firms are often reluctant to recruit a young unemployed person who will need lots of time and support from other experienced employees to develop their skills and workplace knowledge.

Recognising the problem, the government has recently launched the Youth Contract subsidy, developed from an idea in the CBI's *Getting the UK working* report. This provides a £2,275 incentive to help cover the costs of hiring an unemployed 16-24 year-old. Although it is very early days, the signs are that the scheme will play an important role in opening up new job prospects for young people. The survey asked whether the upfront cash payment provided by the Youth Contract would encourage respondents to take a chance on a young unemployed person. About half (48%) said that it would (**Exhibit 22**).

Behind these figures there are big differences between firms depending on their size. Larger firms are more positive about the scheme, with over half (54%) of those employing over 250 people saying they would be encouraged to recruit from this cohort because of the Youth Contract, compared with two fifths (39%) of SMEs. With a fifth of businesses in both groups (19% and 20% respectively) unsure, the government will need to focus on raising awareness of the scheme and targeting SMEs in particular to explain the potential benefits the programme can offer these businesses.

6 Tackling the burden of employment regulation

An essential element in securing sustainable economic success is for the UK to position itself as one of the best locations in which to invest and do business. The UK's flexible labour market has long been central to attracting international investment and boosting job creation, but the burden of employment regulation is a threat. To boost growth and stand out from global competitors, more action is needed on the government's deregulation plans. Businesses are optimistic that this can be achieved but the government must act quickly – starting with the employment tribunal system where reforms are long overdue.

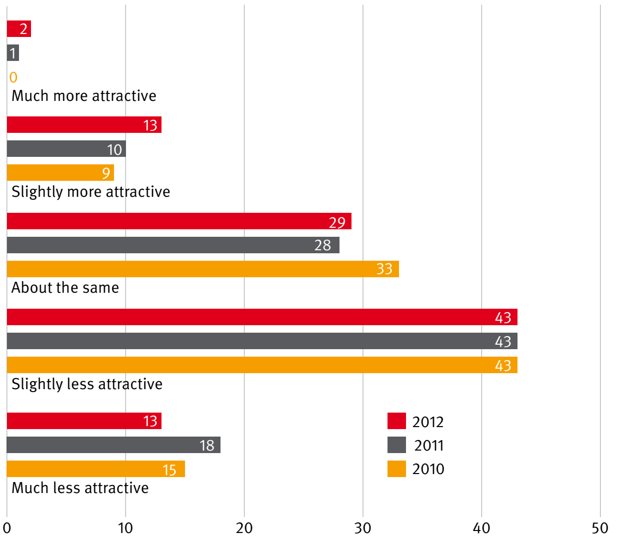
Key findings

- Over half (56%) of businesses believe the UK has become a less attractive place to invest and do business over the past five years
- There is cautious optimism about the next five years, however, with two fifths (43%) of firms seeing the UK becoming a better location for business in the future
- Two thirds (67%) of businesses cite the burden of employment regulation as a threat to UK labour market competitiveness, although they are hopeful this can reduced over the next five years. This is likely to be a response to the government's programme of employment law reform
- Over two fifths (44%) of businesses surveyed have faced employment tribunal claims in the past 12 months
- Firms are facing increasing numbers of weak and vexatious claims, with over a third (34%) of claims withdrawn by the applicant
- Even though firms are four times more likely to win a case at a hearing than lose, employers are choosing to settle to minimise disruption, with a quarter (26%) doing so even when advised that they would win.

34%

Proportion of tribunal claims withdrawn by applicant

Exhibit 23 **The UK as a place to do business over the past five years (%)**



Companies question the attractiveness of the UK as a place to do business

To generate long-term growth and rebalance the economy, the UK must be seen as an attractive investment location. It is worrying then that over half of firms (56%) think the UK has become a less attractive place to invest over the past five years when considering employment regulation and the labour market generally, while fewer than one in six respondents (15%) believes the UK has become a more attractive place to invest and do business (**Exhibit 23, page 25**). This gives an overall negative balance of -41%, which is an alarming verdict on the performance of the UK relative to other potential business locations.

With the need for private sector investment to drive the recovery, this result is a clear indication that the government needs to take action. It is notable, however, that the trend of business sentiment has been improving over the past few years, though at a slow rate. Continued – and faster – progress will require a focus from the government on competitiveness.

There is cautious optimism about the future

When asked about the prospects for the future, businesses are more positive (**Exhibit 24**). Considering employment regulation and the labour market, just over two-fifths of employers (43%) expect the attractions of the UK to improve in the coming five years, while

Exhibit 24 The UK as a place to invest/do business in five years' time (%)

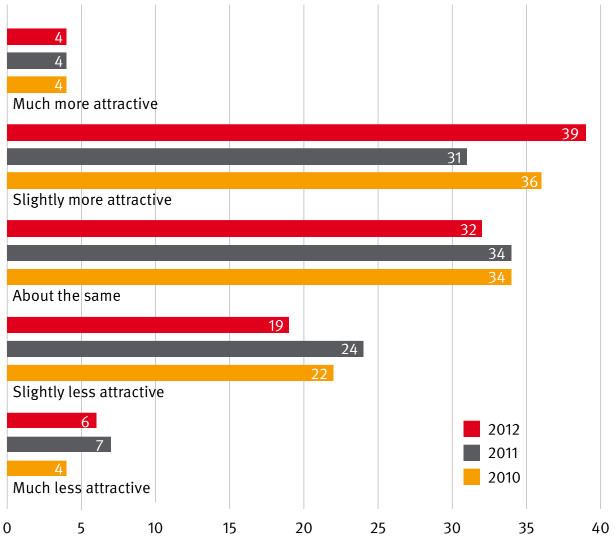
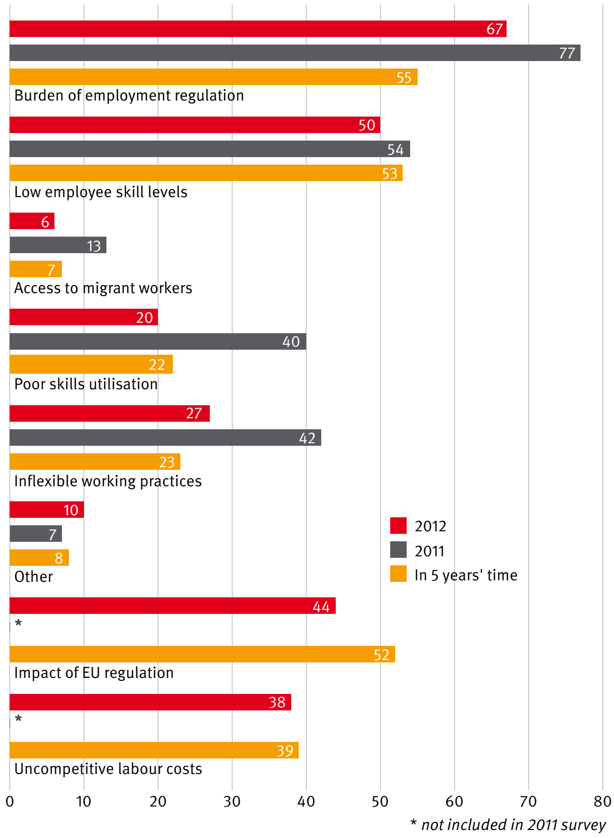


Exhibit 25 Threats to UK labour market competitiveness (%)



a quarter of companies (25%) expect a deterioration in its attractions as a location to invest and do business, giving a positive balance of +18%.

That this year's results are more positive than the 2011 survey can be ascribed to the welcome steps the government has taken to show the UK is open for business. Action to make the tax system more competitive in this year's budget, through lowering corporation tax and the personal top rate, will help the UK remain attractive as an employment location to high-performing businesses and talent. The challenge for the government will be to deliver improvements in regulation and the labour market to build on the current optimism.

Exhibit 26 **Employment law review: an opportunity for positive reform**

An effective framework of employment law underpins a successful labour market, giving companies the confidence to hire while protecting vulnerable workers from exploitation. However, the increasing burden of compliance on firms in the UK – especially SMEs – threatens labour market flexibility and acts as a barrier to doing business. The review of employment law is a welcome opportunity to update the system so it reflects the modern workplace and enhances the competitiveness of the UK as a place to invest and create jobs.[20]

The government should be looking to:

- Undertake radical reform of the employment tribunal system. Looking beyond simple tweaks and improvements to review the operation of the system as a whole
- Reverse the damage done to the UK's agency sector by the Agency Workers Regulations. Initially, the focus should be removing gold-plating of the directive from the UK regulations but in the long term the government need to challenge the basis of the original directive
- Speed up the process of collective redundancy consultation to 30 days. This would provide enough time for proper consultation and allow an employer to make swift decisions, giving staff certainty about their future
- Simplify the rules around the harmonisation of terms in TUPE transfers. The current rules are overly bureaucratic and hamper effective management and good employee relations
- Encourage simple, fast resolution of disputes through the use of compromise agreements – thereby removing the need to resort to an employment tribunal.

Employment regulation is a threat to labour market competitiveness

The cumulative effect of employment regulation has significantly increased in recent years, with 107 of the 152 employment regulations in the UK having been introduced since 1997. The cumulative cost of these laws on British business amounts to more than £100bn[18],which is equivalent to the cost of employing an additional 400,000 people on average earnings.

The impact is reflected in the survey findings, with the burden of employment regulation cited once again as by far the biggest threat to the competitiveness of the UK's labour market (**Exhibit 25**). Two thirds of respondents (67%) cite it as a threat. Concern about regulation extends across companies of all sizes, with SMEs and larger organisations alike identifying it as the greatest threat.

The government has accepted the need for reform in this area and is undetaking an employment law review. This is likely to be reflected in the improvement in sentiment since the 2011 survey.

Having committed to taking action, the government must deliver on its promise

On taking office, the coalition government committed to examining the regulatory framework of employment law in recognition of the need for reform. Business leaders are hopeful that the government will take action to reduce the burden of regulation, something that shows up strongly in our survey.

Responding to consultations on employment tribunal fees, collective redundancy handling and TUPE regulations, the CBI has pressed the government to act swiftly to give firms more confidence by making it easier for companies to take decisions and act in the best interests of their businesses (**Exhibit 26**). In recognising the problem and proposing reforms, the government has offered employers some encouragement: while businesses continue to see employment law as the major threat to UK labour market competitiveness in five years' time, the proportion citing it as a future threat (55%) is lower than the proportion seeing it as a current one (67%). If business optimism about labour market reforms is to be realised, it is vital that the government does not baulk at implementing much needed changes.

Stemming the flow of regulation from Brussels

The 'one in, one out' rule was intended to limit the introduction of new regulations by insisting that for each new one, government departments would have to remove another of equal impact. However, this measure is limited to domestic legislation so it has not addressed the flow of regulation from Brussels.

More than two fifths (44%) of respondents identify EU regulation as a current threat to competitiveness and businesses expect this to get worse, with over half of respondents (52%) anticipating it will be a threat in five years' time. It must be an absolute priority for the UK government to ensure that we do not find ourselves in a position where EU social policy is acting as a brake on jobs.

Low skills and labour costs are a persistent problem

The perceived weakness of the UK's skills base is reflected in the second most commonly cited concern: low employee skill levels. Half of businesses (50%) believe that low employee skills levels threaten UK competitiveness and will continue to do so in the coming years (53%), highlighting the need for urgent action.

Steps to improve underpinning standards of education and levels of skill will become all the greater in the future as the shape of the UK jobs market changes. CBI research has shown that over the coming years a rising proportion of jobs will require more – and higher levels of – skills and companies are far from confident that their future demand for people with suitable levels of education and skills will be met.[19]

More than a third of businesses also see uncompetitive labour costs as a threat now and in the future (38% and 39% respectively). As firms seek to maintain a competitive edge and contain these costs, the more cautious approach to pay of the last couple of years will become established as the new normal. Chapter 4 makes clear the scale of the international challenges the UK faces on labour costs and these results also highlight the need for restraint on pay and costs required by employers, employees and government.

An effective framework of employment law underpins a successful labour market, giving companies the confidence to hire while protecting vulnerable workers from exploitation. However, the increasing burden of compliance on firms in the UK – especially SMEs – threatens labour market flexibility and acts as a barrier to doing business. The review of employment law is a welcome opportunity to update the system so it reflects the modern workplace and enhances the competitiveness of the UK as a place to invest and create jobs.

The employment tribunal system is overwhelmed and struggles to deliver justice

The threat of employment tribunal claims undermines business confidence and deters firms – particularly SMEs – from hiring new staff. The number of employment tribunal claims has soared since 2004/05. It peaked in 2009/10 and fell back slightly in 2010/11, but remains 150% higher than in 2004/05. In line with this pattern, the proportion of respondents who have faced claims is a little lower this year (at 44%) than in the 2010 and 2011 surveys, but remains higher than in 2008 and 2009 (**Exhibit 27**)

Exhibit 27 **Companies facing at least one ET claim in the past 12 months (%)**

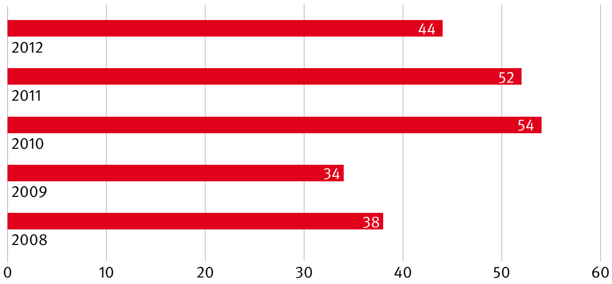
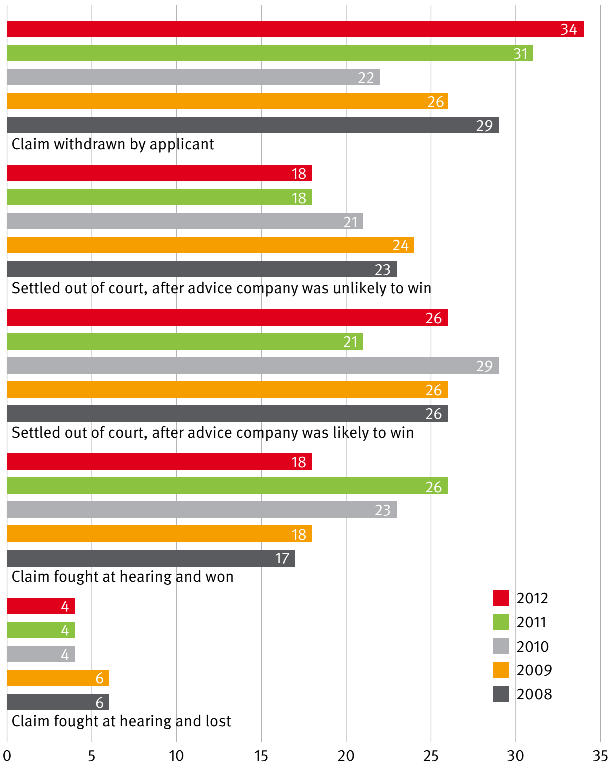


Exhibit 28 **Outcomes of tribunal claims in the past year (%)**



The system has been unable to cope with the increase in claims and the number of case disposals has been running more than a 100,000 below the total number entering the system since 2007.[21] As a result of the growth in claims – in which multiple claims have been a major factor – there is now a huge backlog in the system with over a half a million outstanding cases at the end of 2011. Businesses report that the system is costly and slow, with the latest data indicating a 34-week wait for a hearing despite a target for 75% of cases to be heard within six months or less.[22]

A third of employment tribunal cases are withdrawn...

The survey results point to the weakness of many claims. Over a third (34%) were withdrawn by the applicant – the highest proportion in the past five years (**Exhibit 28**). While many of those bringing claims eventually come to accept the weakness of their case, a considerable amount of management time and energy is consumed dealing with them. As an employer navigates the employment tribunal system, attention is diverted from achieving future growth with potentially huge impacts on their business. It is little wonder that smaller businesses see taking on extra employees as a risk, holding back jobs growth in consequence.

...but the system deters firms from fighting cases that they'd be likely to win

As in previous surveys, the proportion of claims settled despite the business being advised that they would win at a hearing remains high: more than a quarter (26%) of claims were handled this way, up from a fifth (21%) last year. Relatively few companies choose to fight claims at tribunal, even though the survey results show that they win over four times as many cases as they lose when opting to do so – 18% compared to 4%.

Settling a claim is a business decision. Concerns about the inconsistency of tribunal decisions have led many businesses to lose faith in the system. Firms choose to settle as a more cost-effective and less time-consuming option, even though it does nothing to deter the growing culture of claims.

Bold action is needed to improve the tribunals system

The government has recognised the tribunal system needs reform so it works for all users. In *Settling the matter*, the CBI called for a package of measures to speed up the tribunal process, reduce costs and make the system fairer.[23] The government have made commendable efforts to try and improve the system, with a number of proposals in *Resolving workplace disputes* which the CBI strongly welcomed. But given the limited progress since, there seems little prospect that the scale of change the system requires can be delivered. Therefore if the problems that plague tribunals are to be resolved, a new system should be built from first principles, focusing tribunals on dispute resolution rather than legal process (**Exhibit 29**).

To make it easier for employer and employee to agree to settle a claim without having to engage with a tribunal, the CBI has long called for simplified compromise agreements and the overturning of case law in Mezzotero v BNP Paribas.[24] These would allow for honest conversations to agree mutually acceptable terms for ending an employment relationship without the threat of a tribunal claim so the CBI has welcomed the government's announcement that settlement agreements will be introduced. Discussing the possibility of a compromise agreement before a formal dispute has begun – and parties are entrenched in their opposing positions – should make it much easier to reach an amicable settlement.

Exhibit 29 **The case for an alternative approach to employment tribunals**

When first created, the UK's tribunal system was intended to be 'easily accessible, speedy, informal and inexpensive'.[25] Today's system fails to meet those standards. While the government has made some welcome steps towards reform of the system, a more radical approach is necessary.

A reformed system should seek to address the current problems and focus on the substantive issues in dispute, rather than legal process and 'tick box' compliance. It should deliver greater consistency across the system, ensuring users can expect similar outcomes wherever the case is heard.

Such a system should cut costs for the users and taxpayers alike. To that end the CBI is working on proposals to achieve these improvements and restore business confidence in the system.

7 Building on the UK's strengths as a place to invest

The modern employment relationship in the UK is characterised by flexibility in a variety of forms. This benefits businesses and employees alike and is vital for the UK to attract international investment and talent. In the face of intense global competition, the regulatory framework should help, not hinder, the UK's ability to win business and jobs. Retaining the working time opt-out is an essential component of that flexibility. Another is making it easy for firms to bring key people into the UK – and ensuring this is seen as a simple process.

Key findings

- Losing the UK's working time opt-out would have an impact on nearly three-quarters of businesses (73%), with close to half (46%) saying it would be severe or significant
- Two thirds (66%) of employers believe its loss would damage employee relations by restricting individual choice and more than half (58%) say it would reduce their capacity to respond to growth opportunities
- Employers are concerned about the international impression created by the permanent migrant cap, with a third (34%) believing it has had a negative impact on perceptions of the UK as a place to invest
- Global firms need flexibility to transfer their staff internationally: over a quarter of firms currently use or have used the intra-company transfer route (28%) and new restrictions on this would force many of these companies to move projects elsewhere (38%).

The working time opt-out is vital to competitiveness...

Successive CBI surveys have demonstrated the importance businesses attach to retaining the UK's individual opt-out from the 48-hour maximum working week. The opt-out provides essential flexibility to the benefit of employee and employer alike. For the individual employee, it gives the freedom to choose when they want to be available for work, while it enables businesses to operate a flexible workforce which can be critical to their performance.

Retention of the opt out is therefore vital. Overall, nearly three quarters of companies (73%) report that its loss would have an impact on their business (**Exhibit 30**). Moreover, the tough economic climate has increased the importance of retaining the opt-out: the proportion of businesses reporting its loss would have a severe or significant impact has climbed from just over a third (35%) of firms in 2009 to nearly half (46%) today.

As global competition becomes ever more intense, the ability of UK businesses to adapt quickly and be able to respond flexibly to customer demand and market opportunities is crucial.

Exhibit 30 **Business impact if the UK lost the working time opt-out (%)**

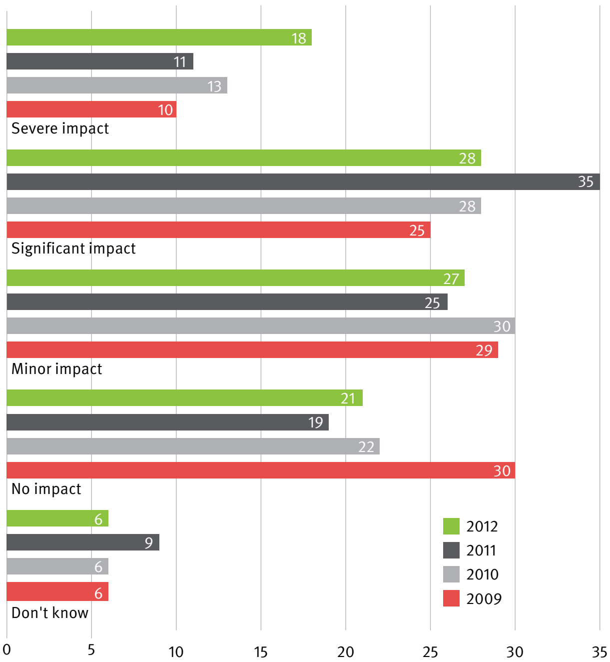
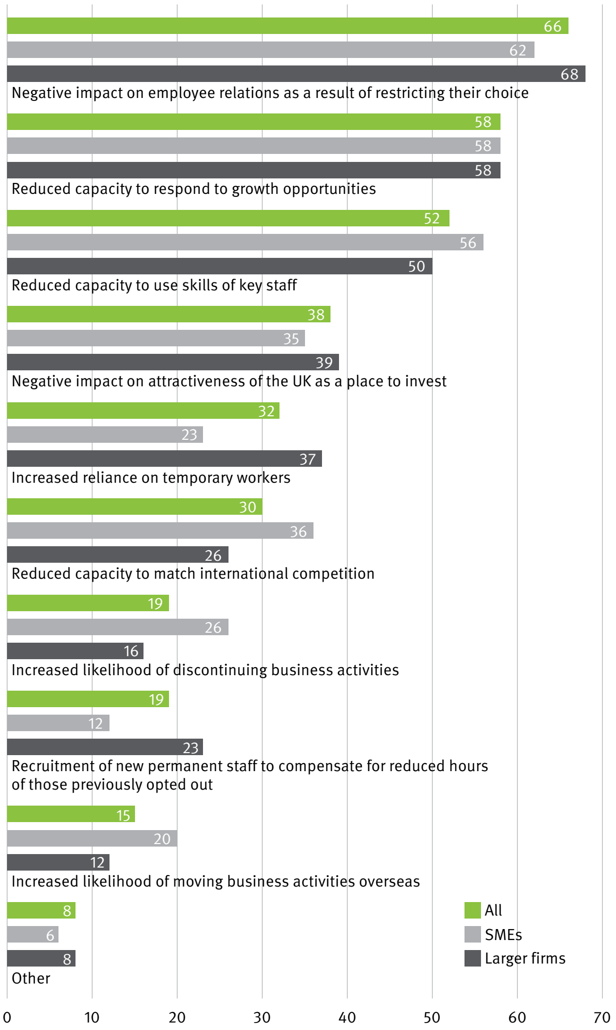


Exhibit 31 **Nature of impact if the UK lost the working time opt-out (%)**



Almost three fifths of firms (58%) believe losing the opt-out would diminish their capacity to respond to growth opportunities (**Exhibit 31**). Given the uncertain economic outlook and the need to safeguard future competitiveness, it is essential the government protects those levers of flexibility available to businesses – including the opt-out.

… and employees want to retain the freedom to make their own choices

The single most frequently cited impact of losing the opt-out is that it would have a negative effect on employee relations as a result of restricting employees' choice of a working pattern that suits their lifestyle (66%). Its removal would adversely affect a wide range of employees, ranging from those who want to boost their earnings to meet their ambitions and better provide for their family to those employed in industries with cyclical peaks and troughs, who understand the need to work longer hours at some times to counterbalance those periods when business demand is lower.

Loss of the opt-out would deprive employees of the freedom to make these types of choices, and firms recognise the potentially damaging consequences.

Loss of the opt-out would hit some firms particularly hard

The results show variations as to how firms would be affected by loss of the opt-out according to their size. More than three quarters of larger companies would be affected (79%) compared with two-thirds of SMEs (65%), but the impact on SMEs of loss of the opt-out would be particularly serious in key respects. For example, over a third of small firms (36%) believe it would reduce their capacity to match international competition, compared with a quarter (26%) of larger businesses. With a smaller pool of employees to spread work across, it would be more difficult for smaller firms to flex existing resources.

Firms of all sizes are concerned that they would have a reduced capacity to use the skills of key staff (52%) and believe losing the opt-out would make the UK a less attractive place to invest (35% of SMEs and 39% of larger organisations). Moreover, while a fifth (19%) of firms say they might respond by taking on extra permanent staff, the same proportion (19%) say loss of the opt-out would increase the likelihood of discontinuing certain business activities and more than one in eight (15%) report it would increase the likelihood of moving operations overseas. Loss of the opt-out could therefore be a serious threat to jobs.

The opt-out must be retained as a permanent provision of the Working Time Directive

At a time when the future of the Working Time Directive is once again under consideration, the government has an essential role to play in ensuring that the future of the opt-out is secure. Constant speculation that further limitations may be placed on its use, or that it might be removed altogether, are damaging to investor and business confidence. Firms need to be able to plan ahead, confident that they will be operating within a stable regulatory framework.

Competing on the world stage requires global talent...

With international capital and talent increasingly mobile, the UK must ensure it is an attractive location to invest and do business. The UK starts with some important advantages derived from its legacy as an industrial, commercial and financial powerhouse, including having many more international firms headquartered here than would be expected from the size of the economy.[26] But Britain's advantage will be imperilled unless businesses are able to employ the right people with the right skills.

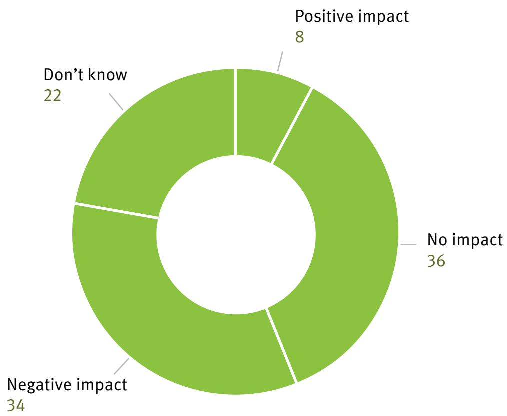
The UK's flexible labour market, where firms can hire UK and EU employees while adding skilled personnel from overseas, has made the UK a good location for international projects. While skills constraints must be addressed in the longer term in the UK, businesses also need the flexibility to fill key skilled vacancies from elsewhere. And any international business in the UK must be able to transfer staff between locations according to business need.

The introduction of a permanent cap on work permits in April 2011 caused concern among businesses that they would not be able to access global talent. The decision to prioritise skilled tier 2 migration and exempt intra-company transfers from the permanent cap helped reduce the anticipated negative impacts of the cap and allowed firms to bring in key staff during 2011.

After the first year of operation, we asked respondents what impact they believe the introduction of the permanent cap has had on the perceptions of the UK as a place to invest. A third (34%) told us that it is having a negative impact on impressions of the UK, compared with fewer than one in twelve (8%) who think it has had a positive impact, a negative balance of -26% (**Exhibit 32**).

These results highlight that it is not just the practical operation of the cap which the government must manage but also the perception of it. Continual changes to the work permit system over the past two years have been challenging for businesses because of the upheaval and uncertainty generated. In a global economy where operations can be located virtually anywhere, the UK will lose out to other investment locations unless businesses are confident they can secure essential talent to grow. The decision to set the level of the permanent cap for two years will help to reassure investors they will be able to access that talent, and the government must recognise the need for longer-term stability and predictability in the system.

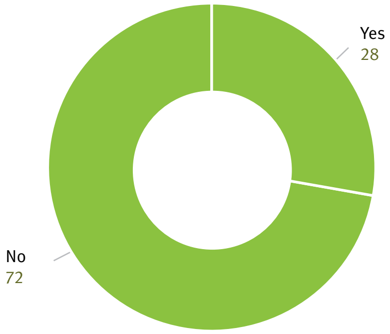
Exhibit 32 **Impact of the permanent migrant cap on perceptions of the UK as a place to invest (%)**



...and the flexibility to transfer key staff internationally

Global businesses need to be able to transfer knowledge and expertise within their organisations. The intra-company transfer (ICT) route allows firms to manage business strategy and operations globally by accessing expertise from their organisation , supporting investment and jobs in the UK. Over a quarter (28%) of firms have previously used or currently use the ICT route (**Exhibit 33**). This flexibility is particularly important in certain industries, with over half of science, hi-tech and IT firms (53%) reporting use of ICTs – sectors which are critical to the UK's economic recovery and future rebalancing.

Exhibit 33 **Organisations making use of the intra-company transfer route (%)**



“The UK’s flexible labour market has made it a good location for international projects”

In order to maintain the UK’s competitiveness, the flexibility of the ICT route must be retained. By enabling businesses to transfer staff to the UK for a short time – whether to complete a specific project, to train or be trained – ICTs play a valuable role in businesses and key sectors. As a result of their temporary status in the UK, it was right not to include such employees in the government’s permanent migrant cap.

Were any further restrictions to be made to the ICT route, there would be a detrimental impact on investment in UK. If faced with the prospect of a tightening to this route, almost two fifths of firms (38%) that have used or are using ICTs say they would move projects elsewhere and close to a third (29%) would move entire business departments out of the UK.

8 Agency Workers Regulations hitting work opportunities

In October 2011 the Agency Workers Regulations (AWR) came into force, giving agency workers equal working and employment conditions with the employees of a client firm. Despite a 12-week qualification period before the rules apply, the regulations impose direct costs and compliance and administrative burdens on firms, as well as increasing the risk of tribunal claims. These regulations are damaging labour market flexibility at a time when effort should be focused on getting more people into work. At the very least, an urgent review of the regulations is needed to remove gold-plating and lessen the negative impact. But a bolder approach is ultimately required if we are to undo the damage to this vital sector.

Key findings

- Six months on from the introduction of the Agency Workers Regulations, almost half of firms (46%) report that their business has been affected
- With new bureaucratic burdens increasing the costs and complexity of using agency staff, the most common response of businesses has been reduced use of agency workers (57%) and one in twelve firms (8%) have stopped using agency workers altogether
- Companies have had to adapt their resourcing plans, with over a third using more fixed-term contracts (36%) while others are adopting alternative models of temp use, such as the 'Swedish derogation' model of paying between assignments in return for no equal treatment or managed service contracts (27%)
- The regulations are having a detrimental impact on work opportunities, with more than one in ten firms (12%) reporting a lower overall headcount and one in six (17%) increasing overtime amongst existing staff rather than use agency temps.

Exhibit 34 **Firms impacted by the Agency Workers Regulations, by company size (%)**

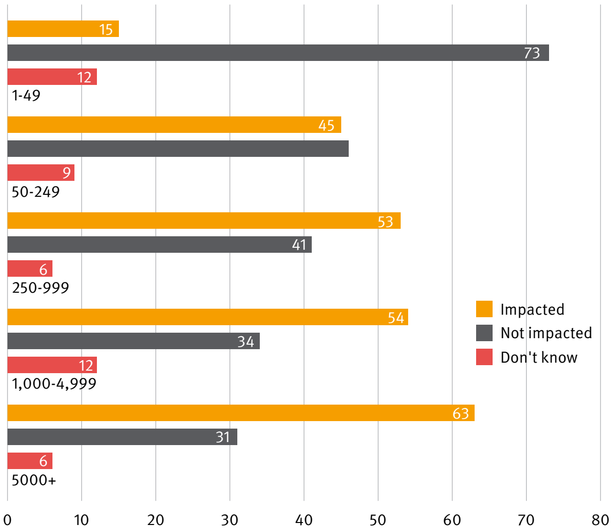
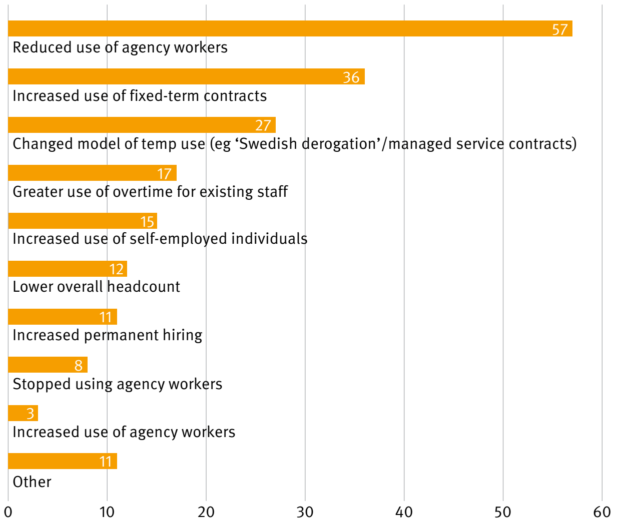


Exhibit 35 **Nature of the impact of the Agency Workers Regulations(%)**



The regulations have hit nearly half of firms

Agency working is one of the key forms of flexibility that characterise the UK labour market. Agency work benefits the individual by providing employment to suit their lifestyle and circumstances, with the ability to work when and where they choose. For young people, agency work provides a route into the labour market, enabling them to build up skills and experience. For older workers it can provide flexibility prior to and/or following retirement. For the client businesses, agency workers are a vital resource to call on when needing to meet a finite demand for specific skills or labour. The introduction of the AWR has fundamentally changed the employment landscape – affecting agency workers, the hiring businesses and employment agencies alike.

Asked about the effect of introduction of the regulations, almost half (46%) of businesses say there has been an impact on their business (**Exhibit 34**). The regulations have affected firms of all sizes, with the impact especially pronounced among firms employing over 5,000 people, where almost two thirds (63%) report an impact on their business.

The AWR have reduced opportunities for agency temp staff…

Prior to the introduction of the AWR, the relationship between the client business and the agency worker was clearly defined and straightforward. This has now changed. By conflating the rights and responsibilities of each party, the regulations have made the business decision to use agency temps much more complex. The costs of using agency staff have risen, with higher direct costs associated with offering terms equal to those of permanent employees in some cases, but more importantly the considerable compliance burden and vastly increased risk of tribunal claims in all cases.

The most commonly cited impact of the AWR is for firms to reduce their use of agency workers (**Exhibit 35**). In organisations affected by the rules, over half (57%) have responded by using fewer agency staff since October 2011, so reducing work opportunities for agency temps. While one in seven firms (15%) is hiring more self-employed individuals to provide temporary cover, almost one in 12 businesses (8%) has stopped using agency workers altogether.

The CBI opposed the EU directive implementing these regulations because of the detrimental impact it would have on the UK's labour market and the ability to create jobs. According to the government's own figures, the AWR impose an estimated cost on UK business of £1.8bn a year.[27] Our findings demonstrate the serious impact the regulations are having on labour market flexibility and work opportunities, with just 3% of firms reporting an increased use of agency workers.

… as companies are changing their approach to using temporary staff

Businesses have started looking for alternative forms of flexible employment as they reduce their use of agency workers. Current economic uncertainty means that firms should favour temporary employment rather than taking on staff permanently, given the significant downside risks facing the UK. As a result, overall recruitment of temporary workers has picked up following a steep decline at the end of last year.[28] But rather than bring in agency staff as they might have done previously, firms are changing their approaches in terms of the types of temporary staffing they use.

The survey results indicate how firms are adapting their resourcing plans in the light of the regulations. More than a third of respondents (36%) report an increase in the use of fixed term-contracts, while other companies are adopting alternative models to their former practices for temps (27%). These include the so-called Swedish derogation model in which an agency employs an individual directly, rather than as a casual worker, contracting them out to the client employer and then keeping them on as an employee between temporary assignments. Other employment businesses are providing managed service contracts – where entire service activities, not just the workers, are delivered to the client business. While firms adopting these approaches have found ways to meet their staffing requirements, these methods are inherently sub-optimal, involving greater costs or less flexibility for both parties involved.

An ambitious approach to the regulations is required at the earliest possible opportunity

Most worryingly at a time of high unemployment, many firms have a lower overall headcount than previously as a result of the AWR. Nearly one in eight firms (12%) reports a lower overall headcount as a consequence of the regulations, compared with 11% who are hiring more staff on a permanent basis. One firm in six (17%) reports it is making more use of overtime amongst existing staff in response to the regulations.

Agency work can provide an important stepping stone for individuals into permanent employment – especially important when the economic climate means the number of permanent opportunities is limited. Moreover, it allows individuals to choose a working pattern that suits their personal situation, for example one compatible with studying or caring or taking on additional work to generate extra income in difficult times.

In gold-plating these regulations, the UK risks damaging the employment prospects of agency staff in the long term as well as holding back economic recovery by reducing labour market flexibility. The government missed the opportunity to get the regulations right before they were implemented. It must review them at the earliest possible stage to ensure this vital segment of the labour market is not permanently undermined (**Exhibit 36**).

However, in and of itself, this will not be enough. These regulations were crafted from a directive that was not drafted with the UK agency sector in mind. Having fought the directive for a long time, the UK government should not now accept its existence as a permanent part of EU employment law. A concerted effort is required to challenge the directive and its premise in Brussels if we are to maximise the benefits of this vital sector of the economy.

Exhibit 36 **Removing goldplating from the Agency Workers Regulations**

The impact on the UK's competitiveness of the original directive behind the AWR has been made much worse because the regulations were gold-plated by the government at the time. By introducing additional provisions, the UK goes above and beyond what is required by EU law. While a proactive approach to these rules would have been much more effective, a post-implementation review could help to remove some of the administrative burden and complexity, reversing some of the damage incurred by the UK labour market. In particular, the government needs to:

- Simplify the definition of pay for the purposes of establishing equal treatment, which currently contains multiple clauses and runs to two pages of regulation. This includes a complex assessment of the 'quality' of work which entails a costly, bureaucratic process. The directive allows member states to set pay as they see fit and government research prior to the introduction of the AWR showed temporary staff receiving 94% of the pay of comparable employees,[29] therefore an hourly wage should be used to make calculating and administering pay much easier

- Remove the complexity of the operation of the qualifying period. One day's work in a week counts as a week towards the 12-week qualifying period – and it is only reset after six weeks without returning to the same job. In activities where one-day placements are common, this could theoretically mean that a single temp could qualify towards 30 different sets of equal treatment, despite never developing a long-term relationship with a hirer. This provision increases the record-keeping burden significantly.

9 Without the DRA firms face big challenges

In April 2011 the government removed the Default Retirement Age (DRA), so there is no longer an automatic expiry of the employment relationship as a result of age. This change is a fundamental shift in employment arrangements. Navigating the sensitive issue of retirement without the DRA poses challenges for businesses and employees alike. A year on from the change firms remain concerned about how to handle the process, which is not surprising given the legal implications. Having received little support from the government, businesses have been forced to look to the courts for guidance – but this will not fill the vacuum left by removing the DRA. A long-term solution is required.

Key findings

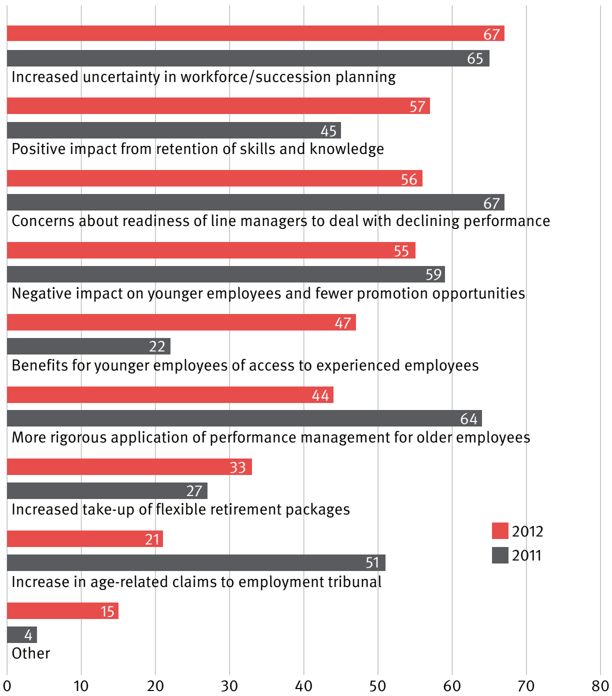
- More than eight out of ten firms (84%) have been affected by the abolition of the default retirement age
- Over half of affected firms recognise the business benefits of retaining the skills and knowledge of older workers (57%) but there is concern about the knock-on effect on younger employees as a result of fewer promotion opportunities (55%)
- A lack of clarity about the plans of older employees is creating problems for two thirds of firms over workforce and succession planning (67%) – the government has done little to help this, in terms of supporting firms to manage age issues with confidence. A protected space for conversation about retirement is required
- Not surprisingly given the personal and legal sensitivity of the issue, more than half of respondents (56%) are concerned about the ability of line managers to deal with declining performance among ageing employees.

Abolition of the DRA has had a significant impact on the majority of firms

A default retirement age was previously a standard feature of employment arrangements, with four out of five businesses (79%) reporting they operated a contractual arrangement of this type prior to removal of the DRA.[30] In last year's survey on the eve of abolition of the DRA, three quarters of businesses (76%) said removal of the DRA would have an impact on their operations.[31] One year on, more firms have been affected than had expected to be – more than eight out of ten (84%) respondents report impact on their business.

The varied repercussions of a complex policy change like removing the DRA are reflected in the range of both positive and negative impacts identified by affected businesses (**Exhibit 37**). While firms can benefit from retaining the skills and expertise of their older employees, there are potentially serious implications in relation to occupational health and safety – both for individual older employees and their colleagues – in addition to the legal complexities now confronting companies. This tension is reflected

Exhibit 37 **Nature of the impact of abolition of the DRA (%)**



in our latest survey findings, where negative impacts are more frequently cited (79%) and more likely to be described as significant or severe (45%) than positive ones (68% and 24% respectively).

Businesses recognise that older workers have much to offer...

The benefits of keeping older employees in the workplace are well understood by businesses. When asked about the nature of the impact that removing the DRA has had on their business, over half (57%) of those affected say it has led to better retention of skills and knowledge, although less than of fifth of those companies consider it has a positive impact to a significant or major extent on the firm (**Exhibit 38**).

Businesses recognise the advantages of having a blend of age and experience within the workforce. Close to half of businesses (47%) report that their younger employees benefit from having access to experienced employees. But while firms clearly support the general policy of encouraging longer working lives, making this decision unilateral for the employee hamstrings succession planning.

...but are concerned about how to manage retirement discussions...

At present a legal vacuum exists for managing older workers and how to apply age discrimination rules, so businesses are finding it increasingly difficult to discuss the sensitive issue of retirement openly and honestly with their staff. As a result, two thirds of companies (67%) report problems with increased uncertainty over workforce and succession planning, of which a third (32%) rate the impact on their business as being significant or severe (**Exhibit 39**).

Uncertainty about the intentions of older workers affects the ability of an employer to plan the recruitment and development of new talent, and over half of affected businesses (55%) are concerned about the negative impact on promotion opportunities for younger workers. Where projects are being planning on a five or ten-year horizon, this lack of certainty is potentially very damaging.

...and need the government to give certainty that they can operate retirement ages

For businesses and individuals, the topic of age and performance is a highly sensitive one that is difficult to approach. The DRA provided a framework to retire an employee with respect and dignity whose performance, for reasons beyond their control, had started to wane. Without this option companies are uncertain about how best to manage the retirement process, in particular the prospect of having to initiate poor performance procedures against long-standing employees. Over half of businesses (56%) are concerned about the readiness of line managers to deal with a decline in performance due to age, with more than a fifth (23%) reporting this is having a significant or severe impact on their business (**Exhibit 40**).

Exhibit 38 **Positive impact from retention of skills and knowledge (%)**

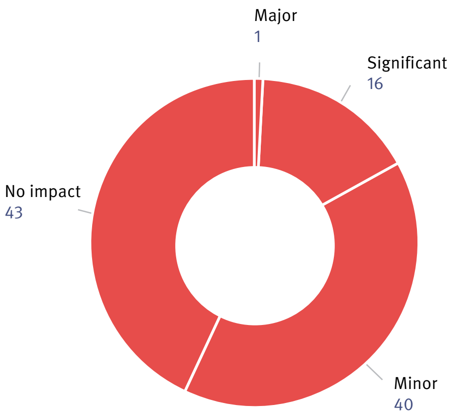


Exhibit 39 **Increased uncertainty in workforce/succession planning (%)**

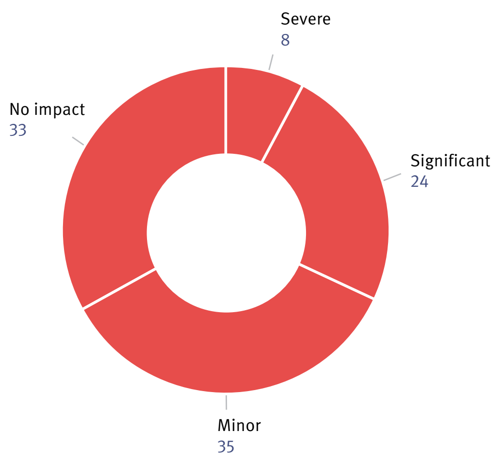
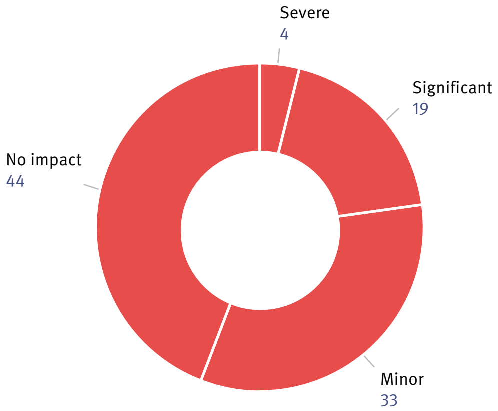


Exhibit 40 Concerns about readiness of line managers to deal with declining performance (%)



Unease about the impact of this process on an older employee coming to the end of their working life was summed up by one respondent employer: *"Previously when people retired from the business there was a celebration of all the years worked; yet now more people will have to be managed out due to ill health which concerns me as it ends a successful career on a low."*

Recent court rulings, such as the Seldon case[32], have suggested that companies can justify operating retirement ages on certain grounds. These include preserving the dignity of older workers by not having to performance manage them out of the business as well as ensuring there is a steady flow of promotion opportunities for younger employees. However, these rulings have provided little in the way of reassurance. Businesses wanting to know with confidence that a retirement age is legitimate will have to go through a long, costly legal procedure in order to justify each retirement.

In the light of these rulings, the government must move swiftly to create a safe space for retirement discussions by producing better guidance on when a retirement age is justified. It should also introduce provision for protected conversations at the earliest possible opportunity (**Exhibit 41**).

Exhibit 41 The case for protected conversions

To solve the problem of how retirement conversations should be conducted in the absence of the DRA, in March 2011 the CBI put forward a proposal to the government for 'protected conversations'. A safe mechanism is needed so an employee's retirement plans can be discussed openly, without the risk of the discussion leading to an age discrimination tribunal claim. The government has accepted the need for such a system and has promised a consultation on proposals later this year.

Introducing a mechanism for 'protected conversations' would allow either party – employer or employee – to initiate a discussion. Companies could find out about an employee's future plans to help them manage succession and employees would be able to talk about the options available for winding down or redesigning their job, without this being held against them and used as a reason for dismissal.

CBI members' preferred way of establishing this protection would be through legislation, allowing an employer to initiate a discussion about employees' retirement plans when they reach a certain age. This would begin with an initial request for information by the employer with a view to a discussion taking place. Both would need to be exempt under the age discrimination provisions of the Equality Act 2010 and would need to be explicitly permitted in law.

10 Employee engagement is essential for business success

Good communications and high levels of employee engagement helped many businesses to come through the recession with fewer jobs lost than during previous downturns. With the easing of the immediate crisis, businesses are prioritising action to maintain the levels of employee engagement and morale in the coming year. The employee relations climate is generally co-operative, but continuing economic uncertainty could strain relationships in the coming year, particularly in organisations recognising trade unions where there are concerns the climate could become more adversarial.

Key findings

- Two thirds of businesses (67%) report the employee relations climate in their organisation as either co-operative or very co-operative and just one in 20 (5%) says it is adversarial
- While four out of five (81%) non-unionised businesses describe their current employee relations climate as co-operative or better, just under half (49%) of those recognising a trade union for collective bargaining do so – and more than a fifth (22%) of these anticipate the climate will become more adversarial in the coming year
- Employee morale is generally fairly high, with two fifths of firms (40%) reporting morale in their organisation as high or very high
- Most companies (85%) are confident their employees recognise the need to contain costs and adapt patterns of work in response to market pressures
- The top people priorities for businesses in the next 12 months are securing high levels of employee engagement (60%), containing labour costs (48%) and recruiting to key vacancies (38%).

60%

Employers prioritising high levels of employee engagement in the coming year

Exhibit 42 **Businesses' view of the employee relations climate in their workplace (%)**

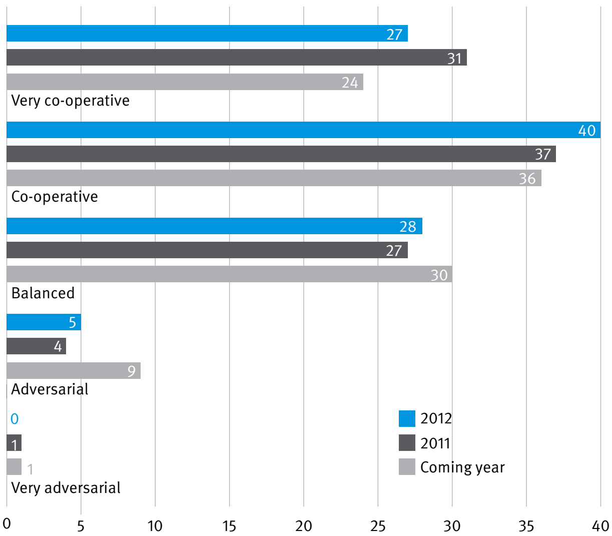


Exhibit 43 **Current employee relations climate in workplace, by union recognition (%)**

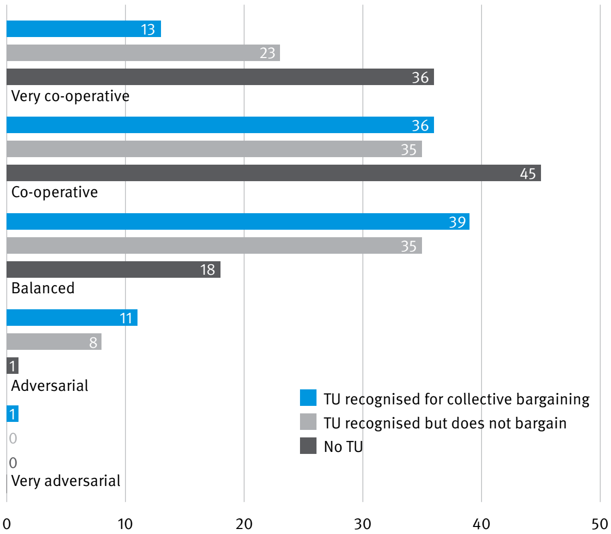
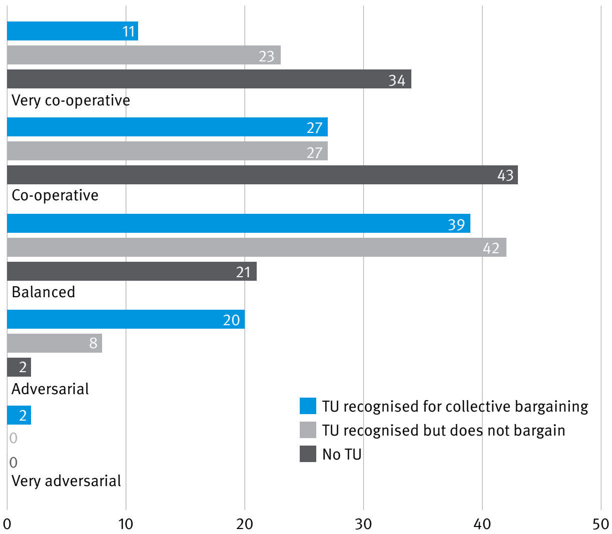


Exhibit 44 **Future employee relations climate in workplace, by union recognition (%)**



The employee relations climate is co-operative...

Positive relations between businesses and employees characterised the recession in the UK, helping to limit the number of job losses and contain unemployment below the levels that had been expected.[33] Maintaining this atmosphere of co-operation will be essential as businesses position themselves to compete in a tough international marketplace to generate growth for the long term. For the private sector, the new normal is the challenge of succeeding in a much more competitive world and meeting rising customer expectations. In the public sector, it involves doing more with less to deliver 21st century public services.[34]

Last year companies told us that employee relations were broadly co-operative overall, with two thirds (68%) reporting that in their organisation the employee relations climate was either co-operative or very co-operative (**Exhibit 42**). That positive climate has been maintained, with two thirds (67%) of respondents again reporting that the employee relations climate in their business is either co-operative or very co-operative. Only one in twenty firms (5%) reports an adversarial climate and no respondent describes the relationship as very adversarial.

The overall balance between co-operative and adversarial relations therefore currently shows a positive balance of +62%, similar to the levels of 2011 (+63%). These results reflect the investment firms have made in engaging with employees to ensure they are informed about the business and involved in planning for the future.

...but there could be some difficulties in the year ahead

Looking ahead, expectations for the employee relations climate in the coming year are not quite so positive. One in ten companies (10%) anticipates an adversarial (or very adversarial) climate – a doubling of those reporting this type of climate at present.

The overall balance between co-operative and adversarial relations is expected to fall from +62% this year to +50% over the next 12 months. While this is still a remarkably positive result given the pressures on businesses and employees, it suggests that employers need to work on maintaining the collaborative atmosphere and sense of common purpose achieved during the recession to ensure these do not weaken in the face of continuing economic uncertainty.

Organisations recognising trade unions are concerned about the year ahead

When asked to assess the current and future employee relations climate within their organisation, the assessments depend in part on the nature of the relationship that they have with their workforce. Where trade unions are recognised, firms' views on the current climate and their expectations for the coming year are generally less optimistic than among those who engage directly with their workforces without union presence.

Four out of five (81%) non-unionised businesses describe their current employee relations climate as co-operative or better and just 1% as adversarial (**Exhibit 43, page 41**). In contrast, among companies who recognise unions for collective bargaining, just under half (49%) describe the climate as co-operative or better and one in eight (12%) report an adversarial or very adversarial employee relations climate.

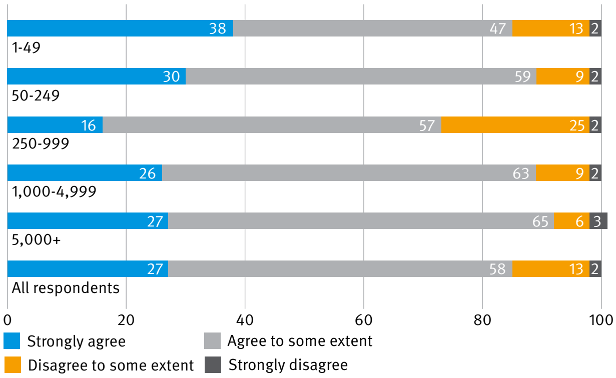
Asked about the year ahead, three quarters (77%) of non-unionised organisations expect the co-operative climate to continue, and just 2% anticipate an adversarial one (**Exhibit 44, page 41**). Within organisations that engage in collective bargaining there is less optimism about the future. Less than two fifths (38%) expect a co-operative or very co-operative relationship in the coming year and there is a sharp increase to more than a fifth (22%) in the proportion expecting a more adversarial climate in their organisation.

Most companies believe their employees see the need to confront tough economic conditions

During the recession there was an unprecedented level of engagement and co-operation between firms and their employees in the private sector which helped to maintain positive workplace relations and contain the number of job losses. Particular efforts were made to communicate with employees so they understood the state of business and the context of the difficult decisions being taken, as well as involving them in shaping the organisation's response.

We asked business leaders if they feel employees in their organisation recognise the need to contain costs and adapt patterns of work to changing circumstances as we enter recovery. The results (**Exhibit 45**) are strikingly positive, with 85% of respondents agreeing, at least to some extent, that their workforce understands these pressures and only 15% disagreeing, giving a positive balance of +70%. This is only slightly lower than the levels found by the spring and autumn 2010 surveys (positive balances of +78% and +72% respectively) when the worst depths of the recession were a very recent memory. Firms recognised the value of effective communication and upped their game during the downturn: these results show the improvement has been maintained.

Exhibit 45 **Since the recession, employees have recognised the need to reduce costs and adapt patterns of work, by company size (%)**

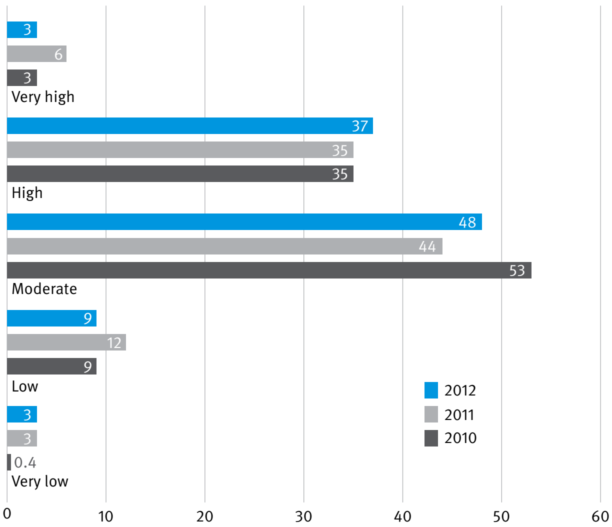


A large majority of companies of all sizes say that since the recession employees have recognised the need to contain costs and adapt their work patterns. It is the smallest firms, however, where changes in trading conditions tend to be most rapidly visible to employees, that report strongest agreement with the view that employees recognise the pressures (38% strongly agree among those employing under 50 people).

Employee morale is holding up

Across responding organisations as a whole, levels of employee morale are holding up despite the troubled times (**Exhibit 46**). During the recession employee morale was surprisingly resilient, with almost half of respondents (44%) to the spring 2010 survey reporting high or very high levels of employee morale. This had dropped to 38% by the autumn of 2010 but it has not declined further since then, despite the continuing tough economic conditions. In this year's survey, two fifths (40%) of employers report employee morale as being high or very high.

Exhibit 46 **Businesses' view of employee morale in their organisations (%)**



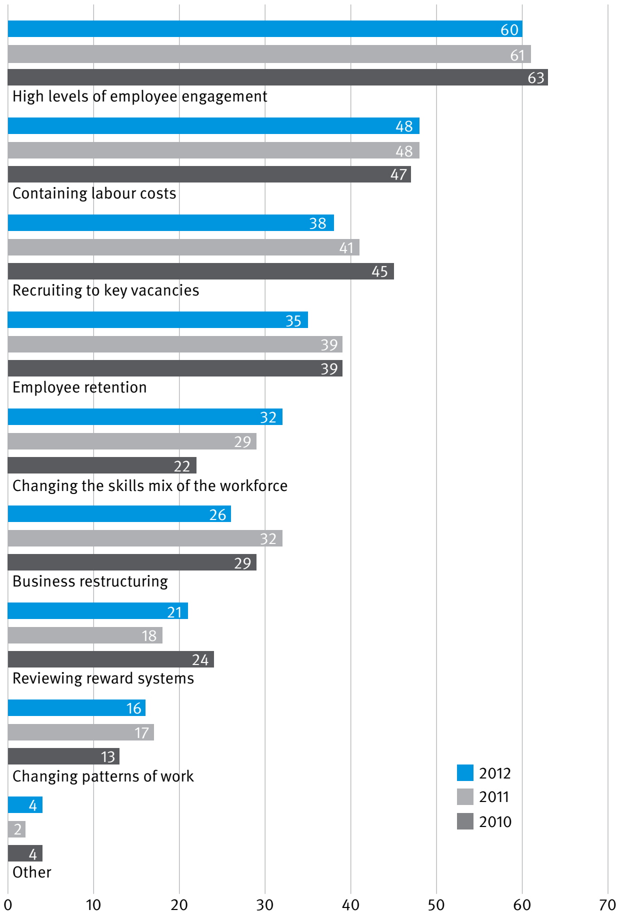
Our latest results show a fall in the number of organisations reporting low or very low morale, leaving an overall balance between those reporting high or low levels of morale of +28%, a small improvement since spring 2011 (+26%). Given the critical importance of people as a source of competitive advantage, companies will be keen to maintain and build on this track record.

Employee engagement tops the employer priority list...

Our survey asked participants to identify their top three workforce priorities for the coming year, when the recovery is expected to gather pace after the slow start. The value of harnessing employee commitment which our surveys recorded during the recession is not being forgotten as firms look towards recovery: nearly two thirds of firms cite high levels of employee engagement as one of their top priorities (60%), making it by far the leading focus for businesses (**Exhibit 47**).

Sustaining and further improving levels of employee engagement will be essential to ensure that employees feel they understand why the company is taking tough but necessary decisions and how they can contribute to the organisation's success. Businesses recognise their competitive advantage lies in their people and how

Exhibit 47 **Top three workforce priorities in the coming year (%)**



they apply their talents. The importance attached to employee engagement continues the pattern seen in previous surveys since the recession, with businesses repeatedly making it their top priority.

...and tough trading conditions require a focus on labour costs...

Close to half responding organisations (48%) cite containing labour costs as a priority, making it the second most important item. Its prominence is symptomatic of the difficult economic climate in which firms are operating.

While the recovery remains fragile firms are wary about adding to costs, and looking to the medium and longer term they know they have a tough competitive challenge to meet that necessitates keeping labour costs under firm control, as outlined in chapter 4. Raising levels of employee engagement while maintaining a tight grip on labour costs will be a continuing test for firms and one which requires skilled people management.

...and having the right people in place

Ensuring the right people with the right skills are in post is essential for firms to position themselves for growth. In the months ahead, recruiting to key vacancies ranks high on companies' priority list, with almost two fifths (38%) citing this as among their top concerns.

But businesses are not only focused on bringing in new talent. They are concerned as well to retain the skills of employees already in post in the time ahead as the recovery begins to gain traction. Firms will be targeting retention of existing staff as opportunities emerge among competitors, with over a third (35%) listing employee retention as a priority in the next year. Many will also be looking to change the mix of skills in their workforces to fit with evolving business needs (32%).

Exhibit 48 **Planning for a successful Olympics**

Across the country, businesses are busy preparing for the 2012 Olympic and Paralympic Games. With the eyes of the world on the UK it is not only the athletes that have been planning meticulously to ensure they can perform at their best: businesses and their employees have been doing the same.

Companies recognised that the unique nature of the Olympics will present a challenge as they look to continue to deliver goods and services to their clients throughout the period of the games. While there are tremendous commercial opportunities afforded by the games, firms recognise that they will have to be flexible if they are to manage additional congestion and the desire of many employees to soak up the atmosphere of the games.

With businesses in London set to be most seriously affected in the period of the Games, it is not surprising that two thirds of companies in London (66%) are planning, or discussing, changes to their working patterns.

But with events set to take place in venues outside the capital – as well as employees wanting to follow or attend events – businesses across the country have recognised that there will be an impact on their staff. In all regions of the country more than half of all firms were either planning or discussing workforce changes for the Olympic Games at the time of the survey.

Given the pressure on transport networks during the Games businesses are providing flexible solutions so that core activities will be maintained and employees can avoid the busiest travelling times. Most commonly, firms across the country are offering to their employees flexible working hours (75%) and the option to work from home (72%). Where the nature of the business does not allow work to take place off-site, businesses are developing clear policies on watching the Games during work hours (45%) and making other changes to shift patterns (42%) to accommodate the events.

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