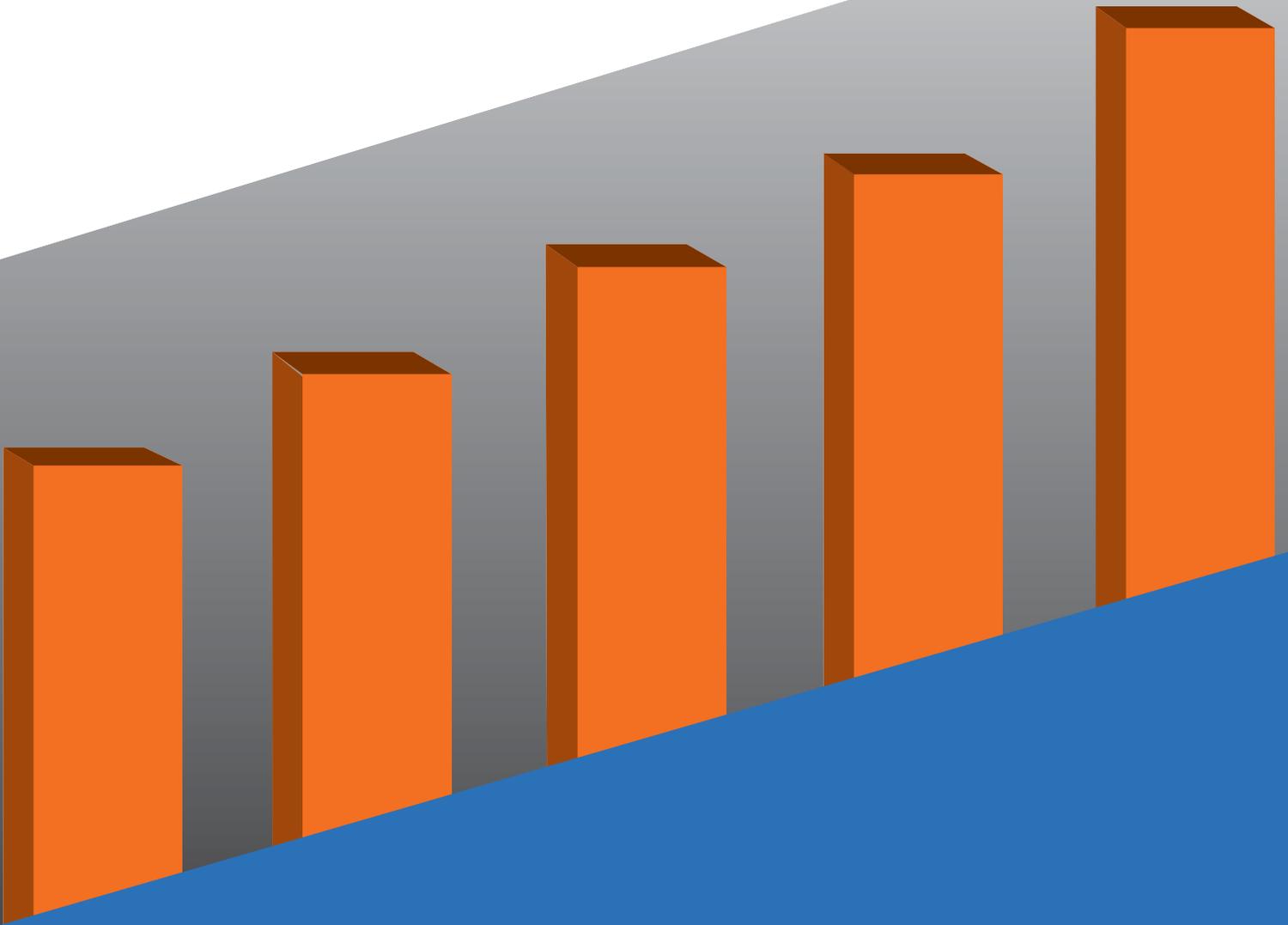


ON THE UP

CBI/ACCENTURE EMPLOYMENT TRENDS SURVEY 2013



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Katja Hall

FOREWORD



Job prospects are on the up, with the improved economic situation beginning to flow through to the labour market. While the performance of the labour market has been remarkably robust over the past few years, for the first time since the onset of the recession in 2008 a majority of businesses surveyed expect to create jobs in the next 12 months. This recovery is broad based, with employment set to grow in all parts of the UK and businesses of all sizes adding employees.

Our flexible labour market, underpinned by a competitive regulatory framework, is key to the UK's attractiveness as a place to do business. Flexible contracts have helped save jobs through tough economic times and have enabled businesses to respond rapidly to growth opportunities more recently. In all, 97% of firms believe that a flexible workforce is either vital or important to the competitiveness of the UK and prospects for business investment and job creation – on no other issue does our survey produce such unanimity of views. It's clear that pay restraint is also supporting employment growth. And while the rate of pay rises may edge up next year, sustained growth must come first to protect jobs.

Opportunities are opening up for young people, but too many face barriers to entering and progressing in the workplace. It's vital we take action to make sure that our schools system equips all young people with the knowledge, skills, attitudes and attributes they need to succeed in work and life.

And skills should remain a focus after school, too. As emphasised in our recent *Tomorrow's growth* report, the key to addressing this is expanding partnership-based provision, with greater levels of business involvement with colleges and universities, as well as boosting apprenticeships.

Finally, we need to ensure growth makes a difference for everyone. Firms are taking action to tackle the obstacles that hold some people back, to make sure that everyone has the chance to get in and get on at work. Drawing on talent from diverse sources provides a competitive advantage for the UK economy, as well as enabling individuals to play their full part and realise their potential.

A handwritten signature in black ink that reads "Katja Hall".

Katja Hall
CBI chief policy director

Olly Benzecry

FOREWORD



As we publish this survey, the UK is in recovery and there is a real sense of optimism, even if we all understand that the journey is unlikely to be a 'straight line'. The world remains a volatile place.

Recovery though doesn't mean the job is done. Part of the original rescue plan for the UK was to create more balance. More balance of exports to imports and certainly more to emerging markets, more balance of successful sectors, more balance of prosperity across the UK geographically, more business investment in proportion to consumer or government spend and more infrastructure investment. We have made progress helped by the focus on trade, industrial strategies and so on.

If anything, it is essential in recovery that we accelerate our efforts.

This survey reminds us all that sustaining growth and achieving the balance we seek is more dependent on improving the skills base of our workforces than ever before.

The good news story in this survey is the business commitment and investment in training, in apprenticeships and in vocational qualifications. Equally important is businesses working with schools and universities to help improve employability through our talent 'supply chains'.

Businesses do complain about the lack of skills in the UK to meet demands for growth – and it is refreshing that business is matching the political drive to raise standards and solve the issues of employability.

Too many young people remain trapped in low-skilled, short-term jobs – or in a vicious cycle of no experience, no job. There remains a gap in the kind of technical and industry skills we need to keep growing. This survey reminds us that we are making progress, and we must make sure that we don't lose momentum now.

Olly Benzecry
Accenture UK managing director

Overview



The 2013 employment trends survey

- The survey was conducted in September and October 2013
- There were 325 respondents, employing more than one 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.

Private sector job prospects on the up

- Over half of employers (51%) expect their workforce to be larger in 12 months' time than it is today, while just 12% expect it to be smaller – a positive balance of +39%. This compares to a positive balance of +20% at this point last year
- Private sector jobs growth is expected in every part of the UK, with the positive balance of businesses expecting to grow their workforce ranging from +38% in the East of England to +52% in Yorkshire and Humberside
- Jobs for permanent staff are increasing more rapidly than temp posts, with a positive balance of +18% of businesses expecting to expand permanent hiring and +14% expecting to grow their temporary workforce over the coming year
- Job prospects for graduates are picking up, with a positive balance of +20% of organisations planning to increase their graduate hiring during the next 12 months
- Firms are also rapidly growing their apprentice numbers, with a balance of +34% of respondents planning higher levels of recruitment
- While recruitment agencies are the single most widely used source of new staff (72%), online recruitment via firms' own websites (68%) and other job sites (59%) have become major avenues. But personal contact is still important, with over half of businesses recruiting through employee referrals as well as other channels

- The proportion of firms planning to freeze pay at the next review has dropped to a new low (8%), half the level of a year ago
- Businesses are taking a cautious approach to pay rises: more than a third of firms (39%) are planning an increase below RPI inflation or targeting an increase on certain staff only, while two in five (42%) expect to match RPI inflation. Only 7% intend to raise pay by more than RPI
- Higher pay is inseparable from higher productivity. Less than one firm in eight (12%) sees the living wage concept as a good idea which should be made mandatory and applied to all businesses regardless of their circumstances.

Making the UK a better place to do business

- Assessments of the UK as a place to invest and do business are improving (from a negative balance of -41% last year to -2% in 2013) but there is some way to go before businesses turn strongly positive
- Many more firms expect the UK to become a better location for business in the future than expect it to become a less attractive place to invest and employ people, producing a positive balance of +31%
- Almost every business (97%) sees flexible employment patterns such as use of agency workers and zero-hours contracts as either vital or important for the UK economy
- Flexible employment arrangements enable businesses to cope with fluctuating demand (87%) and to respond rapidly to growth opportunities (81%) while opening up work opportunities for those who don't want a full-time job (65%) and acting as a stepping stone into work for those from vulnerable groups (58%)
- The biggest current threats to flexibility and UK labour market competitiveness come from the burden of employment regulation (68%) and weaknesses in levels of skills across the workforce (65%)
- Businesses are not optimistic that these will be tackled, with 62% believing employment regulation will still threaten UK labour market competitiveness in five years' time and 61% thinking that low skill levels will remain a drag on the economy.

Shaping the regulatory framework for competitiveness

- Losing the UK's working time opt-out would have an impact on nearly four fifths of businesses (79%), with half (51%) saying it would be severe or significant
- Two thirds (68%) of those foreseeing an impact believe loss of the opt-out would damage employee relations by restricting individual choice on work patterns and more than half (58%) say it would reduce their capacity to respond to growth opportunities
- UK visas and immigration services must continue to improve service standards, with three quarters of businesses who use the service reporting no change in performance in the past 12 months
- Nearly two thirds of firms (61%) are coping without a fixed age of retirement but close to a third (31%) need to retire employees but feel there is too much risk and uncertainty for them to do so
- Among those businesses reporting impact from the Agency Worker Regulations, well over half (59%) have reduced their use of agency workers
- Four in ten firms (39%) have faced employment tribunal claims in the past year
- Many of these claims have been weak, with over a third (35%) withdrawn before a hearing and employers winning the vast majority of claims that reached a tribunal hearing
- To avoid distraction, time loss and the reputational damage of being accused, businesses settled more than a quarter (27%) of claims despite being advised that they would win the case at a tribunal hearing.

Getting young people into work

- New job opportunities will open up for young people in the coming year, with four in five firms (81%) expecting to have roles available which could be suitable for a 16-24 year old seeking work
- The main obstacles to unemployed young people securing those job openings are identified by businesses as lack of appropriate skills (67%) and weaknesses in appropriate aptitude and behaviours (63%)

- Employers highlight the need to strengthen young people's skills (51%) and build better links between business and education (51%) to improve their job prospects
- Businesses are taking active steps to develop informal engagement with schools (73% already have links or are considering their development) and to provide work experience opportunities (48% provide waged work experience or internships and 43% offer unwaged work experience)
- Nearly half of firms (44%) provide traineeship programmes of some type for young people to help them gain the range of skills needed at work.

Maximising talent for the future

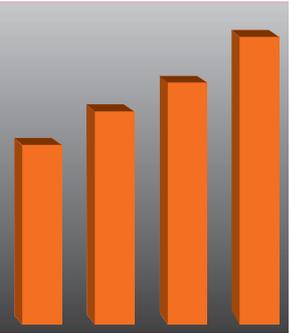
- To improve the prospects for those from disadvantaged backgrounds, businesses highlight as top priorities the need to align the focus of the education system more closely with the behaviours and skills required by employers (64%) and to raise standards across the education system (48%)
- Businesses too have an important part to play by increasing access to vocational training and apprenticeships (45%) and improving access to high-quality work experience (26%)
- Most firms (59%) report that there are obstacles to developing as diverse a workforce as they would wish, with insufficient numbers of people from diverse backgrounds in their sector or profession cited as the most common issue (69%)
- Other impediments to greater diversity include working cultures (29%) and stereotyping (27%), pointing to the need to work on changing attitudes
- Businesses are actively boosting gender diversity among those who will be their future leaders, with more than half (51%) of firms using or considering mentoring schemes to inspire future leaders.

Employee engagement is essential for business success

- The proportion of businesses assessing the employee relations climate in their organisation as either co-operative or very co-operative has risen to a new high (72%), with just one in 20 (5%) saying it is adversarial
- There is still scope for further improvement: while a positive balance of +74% of non-unionised businesses describe their current employee relations climate as co-operative or better, a balance of only just over half (+51%) of those recognising a trade union for collective bargaining do so
- Businesses are optimistic about the year ahead, with a positive balance of +70% expecting their employee relations climate to be co-operative or better, up from a balance of +50% in 2012
- Employee morale is on a rising trend, with nearly half of firms (49%) reporting morale in their organisation as high or very high, up from 40% in 2012
- Organisations see high levels of employee engagement as business-critical, with major benefits in the shape of improved productivity and performance (87%) and increased customer and client satisfaction (66%)
- Key drivers of employee engagement are shared, company-wide values (cited by 41%), career opportunities and scope for people to progress (40%), personal interest in the work (37%) and effective line management (35%)
- The top people priorities for businesses in the next 12 months are improving leadership skills and capabilities (60%) and securing high levels of employee engagement (54%).

The employment landscape

SECTION 1



The 2013 employment trends survey was conducted at a time when economic recovery was becoming more firmly rooted. While output growth so far largely reflects the strength of the services sector, both manufacturing and construction are also now starting to make positive contributions. The expansion in private sector job numbers over the past few years has more than offset the decline in public sector jobs, pushing employment to record levels. Although there are still downside economic risks, the flexibility of our labour market has once again proved its value in enabling the UK to adapt rapidly.

Key points:

- Economic recovery has finally taken hold and the prospects are for growth to accelerate, but GDP is still 2.5% below its pre-downturn peak and there are a range of downside risks
- The UK labour market proved resilient during the downturn as a result of its flexibility and more than a million new jobs have been generated since 2010
- The number of full-time jobs is rising fast, up by more than 400,000 over the year to the three months ending September 2013
- The UK's jobs performance compares well with other major economies, with an employment rate in 2012 of 70.1% compared to 64.1% across the EU and unemployment at 7.9% compared to an EU average of 10.5%
- The number of young people not in education, employment or training (NEET) remains too high at more than one million and we need action to tackle the problem at source in education
- Productivity stagnated during the downturn. Productivity increases are the only sustainable route to increases in pay and living standards.

The economic outlook is brightening

After the steep downturn of 2008/09 and a long period with little improvement, economic recovery has finally taken hold. The economy is growing at its fastest pace in six years.¹ GDP increased by 0.8% in the third quarter of 2013 following two consecutive quarters of positive growth. As the governor of the Bank of England has put it, 'you don't have to be an optimist to see the glass is half full.'²

While the picture is improving, there are still plenty of challenges and risks ahead. GDP remains some 2.5% below its pre-downturn peak in Q1 2008. The eurozone crisis has abated but is still far from fully resolved, while the downside risks to growth in emerging markets have increased. Eventually monetary stimulus will end and interest rates will have to return to more normal levels. And business investment in the third quarter was 6.3% below the level of even a year ago. Business investment is expected to support growth to a greater extent in 2014 and 2015, but it is unlikely to return to its pre-crisis peak in that period.

Reflecting this balance of pressures, the CBI's central economic forecast³ is for GDP growth to accelerate from 1.4% in 2013 to 2.4% in 2014 and 2.6% in 2015. Encouragingly, at the same time inflation is likely to moderate further, with the annual rise in the CPI forecast to average 2.5% in 2014 and 2.1% in 2015.

The UK labour market has been resilient...

The UK labour market has proved remarkably resilient both during the downturn and in the subsequent years of fragile and uneven recovery (**Exhibit 1**). Since 2010 employment has been rising. More than a million new jobs have been generated in the period since then, increasing employment from 28.84 million in Q1 of 2010 to 29.95 million in the three months to September 2013. Employment has risen by 378,000 in the past year alone.⁴ The employment rate, however, is yet to fully recover.⁵

The growth in jobs has been generated solely by the private sector. With the exception of 2009, the private sector has created additional jobs every year since 1999. In contrast, there have been continued reductions in public sector employment since 2010 as part of the necessary rebalancing of public finances – down by more than 100,000 over the year to June 2013.⁶ People working in the private sector now make up 81% of all those in employment.

...and more full-time jobs are now being created

The strong jobs performance in the UK in the face of the downturn was achieved by businesses and employees working together. Among the initiatives taken to preserve as many jobs as practicable was a move to a greater number of employees working part-time, so hours worked fell more steeply than levels of employment. Minimising jobs losses in this way enabled people to remain active in the workplace, maintaining their skills and boosting long-term employment prospects.

As the economy resumes growth, more full-time jobs are being created (**Exhibit 2**). In the three months to September 2013, the number of people working full-time was up by 412,000 compared with a year earlier, while the number working part-time showed a decline, falling by 35,000 over the same period.⁷

Exhibit 1 Movements in GDP and employment (Jan-Mar 2008 = 100)

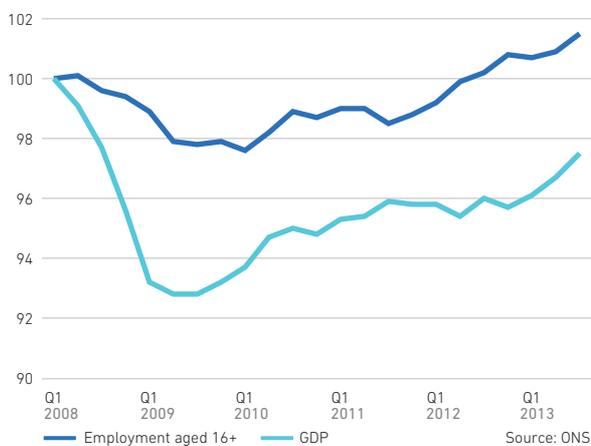
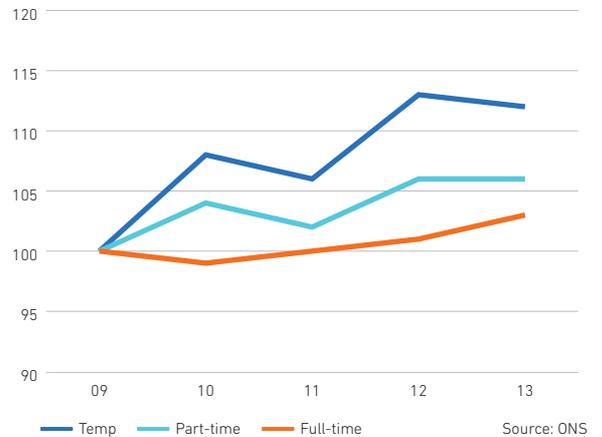


Exhibit 2 Change in the make-up of the workforce (July-Sept 2009 = 100)



There is, however, still further to go in opening up opportunities for people who want full-time jobs to move across from part-time work. In all, a third of men (33%) working part-time in the three months to September 2013 and more than one in eight women (14%) said they were doing so because they could not find a full-time job.⁸ But there is widespread recognition that the best chance of securing the next step in a career – whether transferring from part-time to full-time work or moving to a better paid job – is by gaining and using skills in the workplace.

The UK’s performance on jobs compares well with other major economies...

The strong performance on job preservation and job generation becomes even clearer when the UK is compared with other leading economies. The UK employment rate of 70.1% in 2012 is well ahead of the average for the EU as a whole (64.2%) and better than that achieved by the USA (67.2%) in 2012 (**Exhibit 3**).

Keeping down levels of unemployment minimises social and personal damage and makes better use of the nation’s resources. The UK entered the recession with relatively low levels of unemployment by the standards of most EU member states and it has maintained that position in the subsequent period (**Exhibit 4**).

By 2012, unemployment in the UK stood at 7.9% compared to an EU average of more than 10%. During 2013 unemployment in the UK has continued to fall, dipping to 7.6% of the economically active population by the three months to September 2013.

Exhibit 3 International comparisons of employment rates (%)

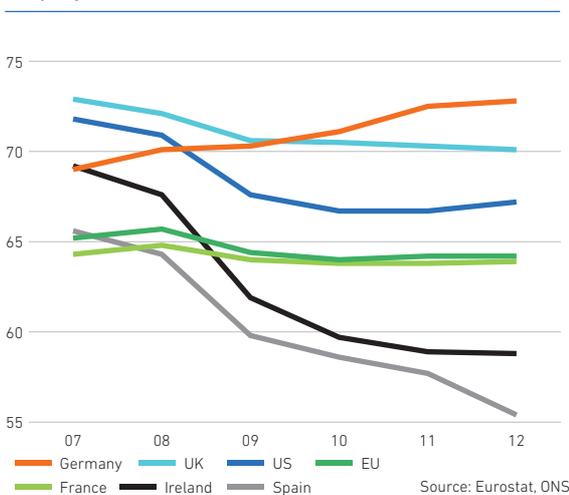


Exhibit 4 International comparisons of unemployment rates (%)

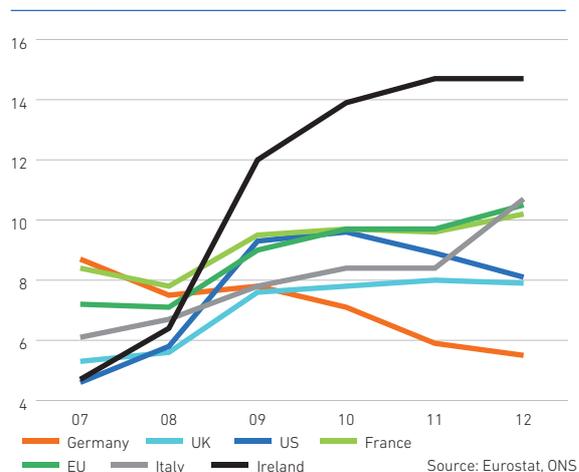
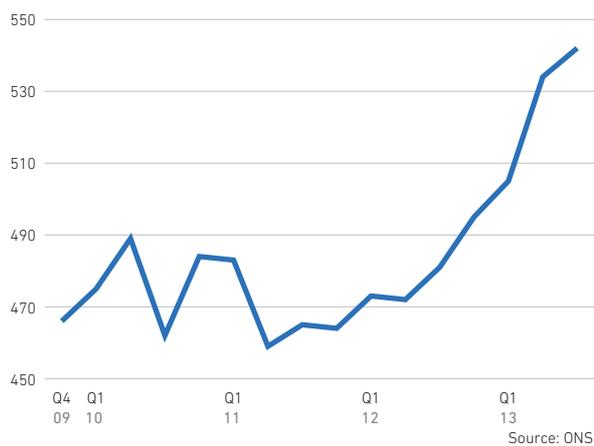


Exhibit 5 Vacancies 2009-2013 (000s)**Exhibit 6 UK unemployment by age cohort (%)**

...but youth unemployment remains a challenge

Even in the depths of the downturn there were close to half a million reported job vacancies, and the number rose to more than 540,000 by the third quarter of 2013 (**Exhibit 5**). Firms continued hiring people in large numbers throughout the recession. During each quarter of the past year, over 500,000 people have moved from unemployment into work while just over 400,000 have moved from jobs into unemployment.⁹

Some groups of people continue to find themselves unable to take part effectively in the labour market. There are still nearly one million more people out of work than in the run up to the financial crisis (**Exhibit 6**) and more than 450,000 have been unemployed for over two years.¹⁰ Most worrying of all 1.07 million young people aged 16 to 24 were not in education, employment or training (NEET) in the three months to September 2013.¹¹

The challenge in the post-recession labour market is to engage the long-term unemployed and NEETs to help them develop the skills and work experience needed to take up the new opportunities opened by the return to economic growth. The first essential step into the workplace can then lead to further progression in due course.

The UK's youth unemployment problem pre-dates the recession and it needs to be tackled at its root in our education system. The CBI has highlighted the urgent need to face up to the long tail of low achievement in our schools, where too many children fall behind and never catch up.¹² In 2013 more than a third of pupils (36%) in England did not achieve a grade A* to C in English while 42% missed the benchmark in maths.¹³ But educational improvement is not only about academic results. Businesses want young people who are rigorous, rounded and grounded.

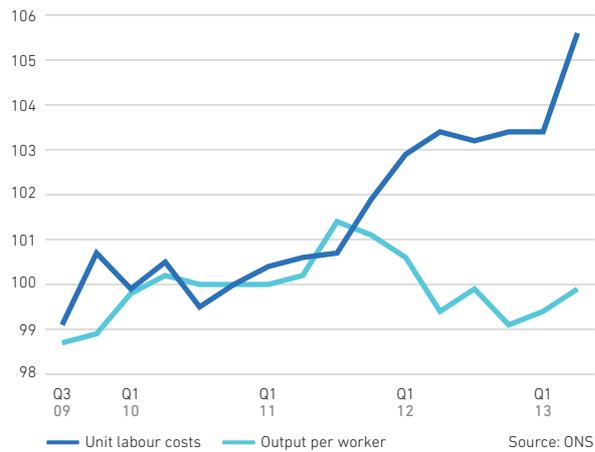
This requires more to be done in developing their skills, knowledge, behaviours and attitudes essential for success in work and life. We have yet to achieve a whole education system which ensures all our young people develop to their full potential, and this demands changes to the way schools are empowered, judged and governed.

Young people also need effective support to help them make the transition into their first job or training place. Equipping them with good quality careers advice and relevant work experience is essential. More than nine in ten young people feel they are not provided with all the information they need to make informed choices on their future career.¹⁴ The great majority of employers believe the quality of careers advice is currently not good enough and young people are not having sufficient opportunities to gain work experience.¹⁵

The UK needs to start boosting productivity...

As a consequence of the downturn and its impact on the make-up of the workforce, output per worker fell and unit labour costs increased, albeit at a modest rate thanks to measures to reduce hours – particularly increased part-time work (**Exhibit 7**). Although output is now rising encouragingly, the UK needs to raise productivity too if it is to maintain competitiveness and improve living standards in the years ahead. Achieving this requires a combination of investment and more and better use of skills.

Exhibit 7 Changes in whole economy productivity and unit wage costs (2010 =100)



...only then can pay and living standards improve

In the face of fierce international competition and tough economic conditions, restraint on pay has rightly come to be accepted as an element of the 'new normal'. It has played an important part in maintaining high levels of employment in difficult circumstances. Over the year to September 2013, average regular weekly pay rose by 0.8% across the economy as a whole while average weekly earnings including bonuses rose by 0.7%.¹⁶

“ The UK needs to raise productivity if it is to maintain competitiveness and improve living standards ”

The employment trends survey 2013

SECTION 2



Now in its sixteenth year, the employment trends survey has charted the shifting patterns of employment and workplace practices under successive governments and through fluctuating economic conditions. The survey has monitored trends from the outset of the Blair government through the economic shocks of 2008-09 to the current upturn. The latest edition of the survey looks at how businesses are reshaping their workforces and patterns of working to respond to the improving economic conditions, while recognising that international competition will intensify in the period ahead.

This year's survey has been conducted in partnership with Accenture, the technology, consulting and outsourcing specialists. The survey was conducted in September and October 2013. There were 325 respondents in total, employing more than a million people between them. The combined workforce of respondents was equivalent to over 4% of all employees in employment in the UK.¹⁷ The survey was completed by a senior executive in each organisation. In larger firms it tended to be the human resources director or equivalent. In smaller and medium-sized enterprises it was usually the managing director, chief executive or chairman.

Sectoral analysis

There was a wide spread of responses across all sectors (**Exhibit 8**). As in previous years, manufacturing firms made up the largest single category, accounting for one in four respondents (25%). Professional services firms (10%) and businesses in the construction sector (10%) were also well represented, while organisations classed as 'other services' (15%) or 'other' (11%) accounted for just over a quarter of responses. These included higher education and healthcare providers, media and broadcasting organisations, charities and waste management firms.

Exhibit 8 Respondents by economic sector (%)

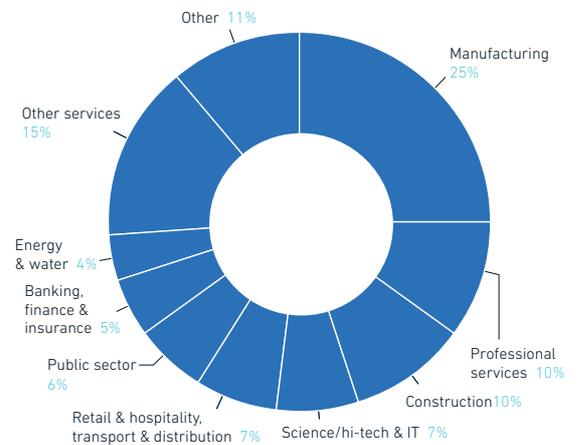
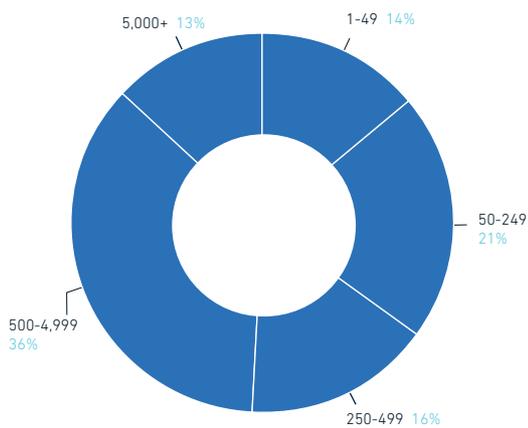


Exhibit 9 Respondents by company size (%)

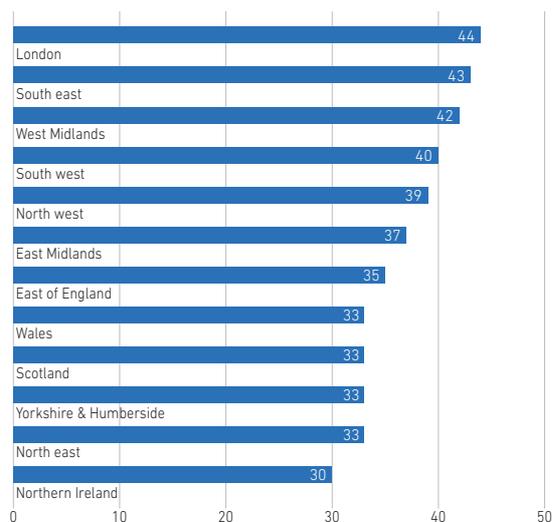


Respondents by company size

Businesses of all sizes took part in the survey. While one in seven respondents (14%) employed fewer than 50 people, a similar proportion (13%) employed more than 5,000 (**Exhibit 9**). Overall, medium-sized businesses (MSBs) employing 50 to 499 employees made up over a third of respondents (37%). While MSBs represent only a fraction of all companies, they drive a substantial proportion of overall economic activity, employing 16% of all employees and accounting for 23% of private sector revenue.¹⁸

Using the official definition of small and medium-sized enterprises (SMEs) as organisations with fewer than 250 employees, SMEs accounted for 35% of respondents. Although larger firms with 250 or more employees are over-represented in the sample, as they employ nearly half (49%) of all private sector employees,¹⁹ the survey reflects overall employment practices and employer views.

Exhibit 10 Respondents by region (%)

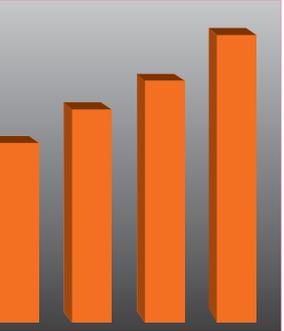


Respondents by region

The majority of respondents had employees based in several regions of the UK (**Exhibit 10**). Respondents most commonly had employees based in London, with over two fifths (44%) having at least some employees located there. After London and the south east (43%), the most common locations were the West Midlands (42%), the south west (40%) and the north west (39%).

Private sector job prospects on the up

SECTION 3



Private sector employment has been growing fast, with more than 900,000 new jobs generated over the two years to June 2013.²⁰ Our survey results indicate that this is set to continue: for the first time since the recession, a majority of businesses expect to expand their workforces in the coming year. At the same time, firms are keeping their pay costs under control, with more than 90% intending to raise pay by no more than is needed to match inflation.

Key findings:

- Over half of employers (51%) expect their workforce to be larger in 12 months' time than it is today, while just 12% expect it to be smaller – a positive balance of +39%. This compares to a positive balance of +20% at this point last year
- Private sector jobs growth is expected in every part of the UK, with the positive balance of businesses expecting to grow their workforce ranging from +38% in the East of England to +52% in Yorkshire and Humberside
- Jobs for permanent staff are increasing more rapidly than temp posts, with a positive balance of +18% of businesses expecting to expand permanent hiring and +14% expecting to grow their temporary workforce over the coming year
- Job prospects for graduates are picking up, with a positive balance of +20% of organisations planning to increase their graduate hiring during the next 12 months
- Firms are also rapidly growing their apprentice numbers, with a balance of +34% of respondents planning higher levels of recruitment
- While recruitment agencies are the single most widely used source of new staff (72%), online recruitment via firms' own websites (68%) and other job sites (59%) have become major avenues. But personal contact is still important, with over half of businesses recruiting through employee referrals as well as other channels
- The proportion of firms planning to freeze pay at the next review has dropped to a new low (8%), half the level of a year ago
- Businesses are taking a cautious approach to pay rises: more than a third of firms (39%) are planning an increase below RPI inflation or targeting an increase on certain staff only, while two in five (42%) expect to match RPI inflation. Only 7% intend to raise pay by more than RPI
- Higher pay is inseparable from higher productivity. Less than one firm in eight (12%) sees the living wage concept as a good idea which should be made mandatory and applied to all businesses regardless of their circumstances.

Most businesses expect to create new jobs in the coming year...

Job prospects in the private sector have risen to their best level since the onset of the recession in 2008-09. Over half (51%) of respondent businesses expect to expand their workforce in the next 12 months (**Exhibit 11**), up from a little over a third (35%) a year ago. Only one in eight businesses (12%) expects their workforce to be smaller in 12 months' time and just over a third of firms (37%) anticipate no change in its size. Overall, this produces a positive balance of +39% of companies expecting to increase the size of their workforce.

This finding is by far the most positive result since the start of the recession. It builds on the trend of positive hiring intentions found in our previous surveys (+20% in 2012), which have subsequently resulted in the robust rise in private sector employment. The strengthening positive balance gives further backing to the view that sustained economic recovery is finally under way.

Exhibit 11 Expected size of workforce in 12 months' time: 2013 and 2012 compared (%)

All respondents 2013

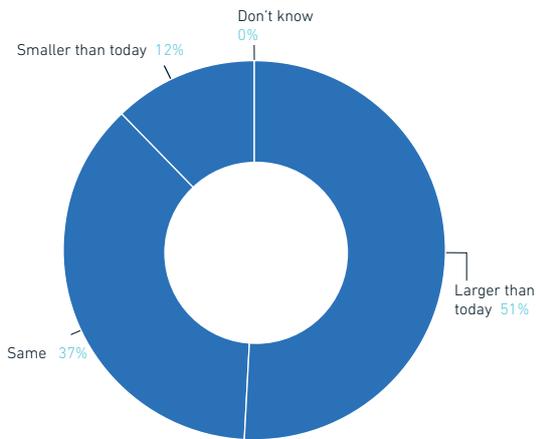
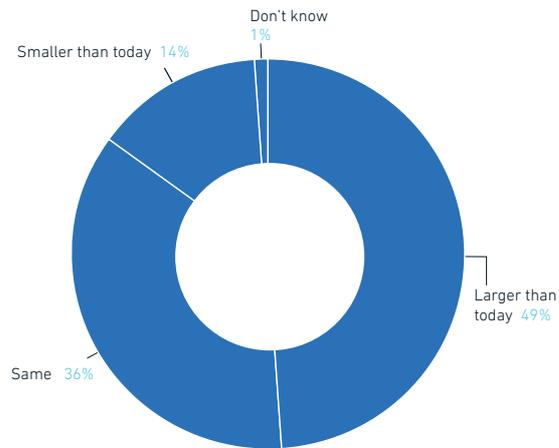


Exhibit 12 Expected workforce changes in manufacturing (%)



All respondents 2012

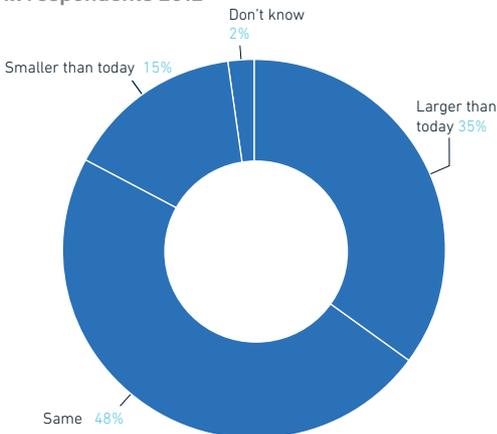
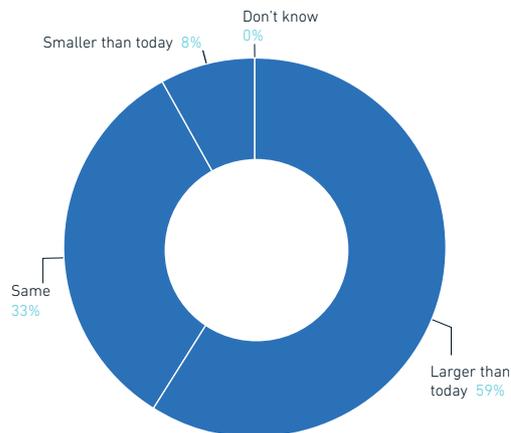


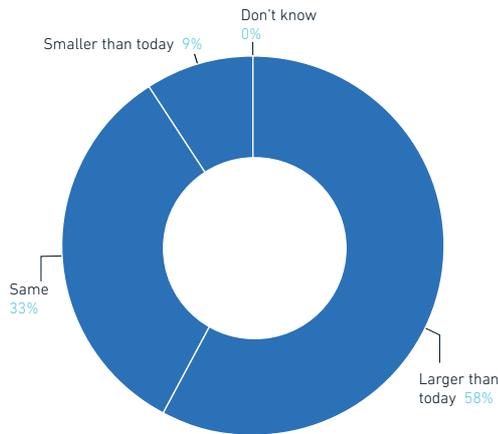
Exhibit 13 Expected workforce changes in construction (%)



A particularly encouraging finding is that there are improving employment prospects across virtually all parts of the private sector. Among manufacturing companies a positive balance of +35% expect to have a larger workforce in a year's time (**Exhibit 12**). Construction companies anticipate even stronger jobs growth, with a positive balance of +51% expecting to increase their workforce in the coming 12 months (**Exhibit 13**).

As the UK continues the move to become a knowledge-based, high-skill economy, growing innovative sectors is critically important. Taking together responses from the science, hi-tech and IT sector and from professional services as a proxy measure for the knowledge industries, our results point to increasing job opportunities, with a positive balance of +49% expecting to grow their workforce in the year ahead (**Exhibit 14, page 18**).

Exhibit 14 Expected workforce changes in knowledge industries (%)



Note: Combined results for science, hi-tech & IT and professional services

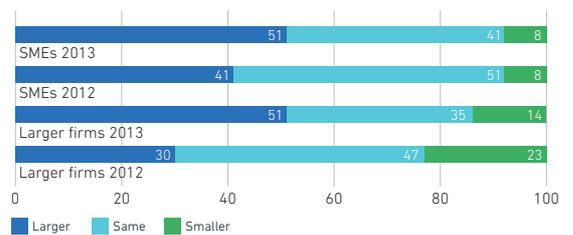
...with businesses of all sizes adding employees...

In the autumn of 2012 it was smaller and medium-sized businesses in particular which were expecting to drive job creation over the next 12 months (**Exhibit 15**). Our latest survey finds a majority of larger firms (51%) as well as SMEs (51%) expecting to expand their workforce over the coming year.

Across organisations employing fewer than 250 people, only one in 12 (8%) anticipates reducing their number of employees. With just over half (51%) expecting to grow their workforce and 41% not anticipating any change, a positive balance of +43% expect their workforce to grow over the next year. This represents a further increase on the +33% positive balance last autumn.

Among larger firms, there has been a striking rise in the proportion expecting to grow their number of employees, up from a positive balance of +7% in the autumn of 2012 to +37% in the latest survey. These results suggest that the strong private sector employment growth we have seen over the past year is gathering further momentum.

Exhibit 15 Expected size of workforce in 12 months' time, by company size (%)



...and private sector employment set to grow in all parts of the UK

A positive balance of employers across all regions of England and in the devolved nations expect to increase the size of their workforce during the coming year (**Exhibit 16**). Yorkshire and Humberside tops the list for job growth expectations, with a positive balance of +52% of businesses expecting to add employees. At the lower end of the scale, a positive balance of +38% of firms in the East of England anticipate growing workforce numbers.

Exhibit 16 Positive balance of firms expecting workforce growth, by region (%)

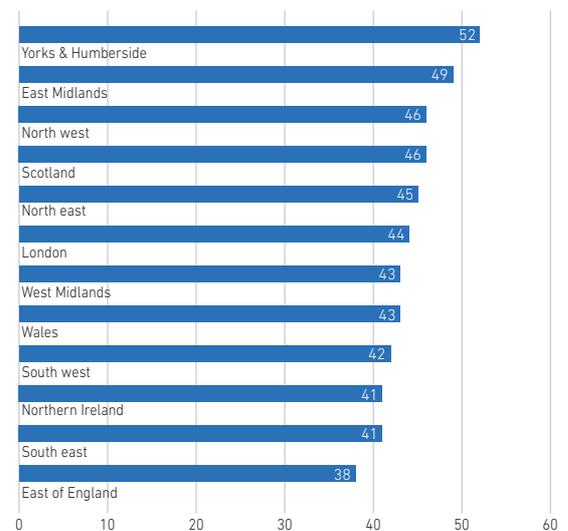
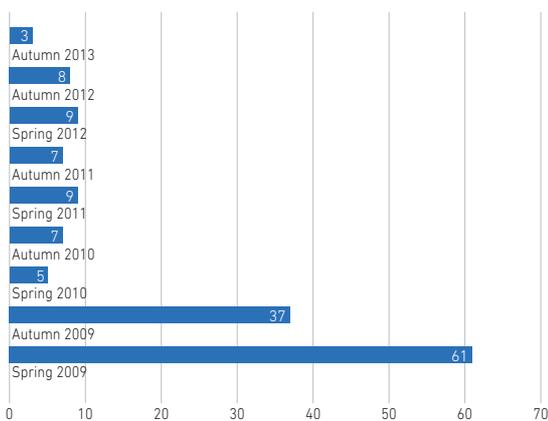


Exhibit 17 Organisations planning freezes on recruitment of permanent staff (%)



Recruitment freezes are hitting a new low...

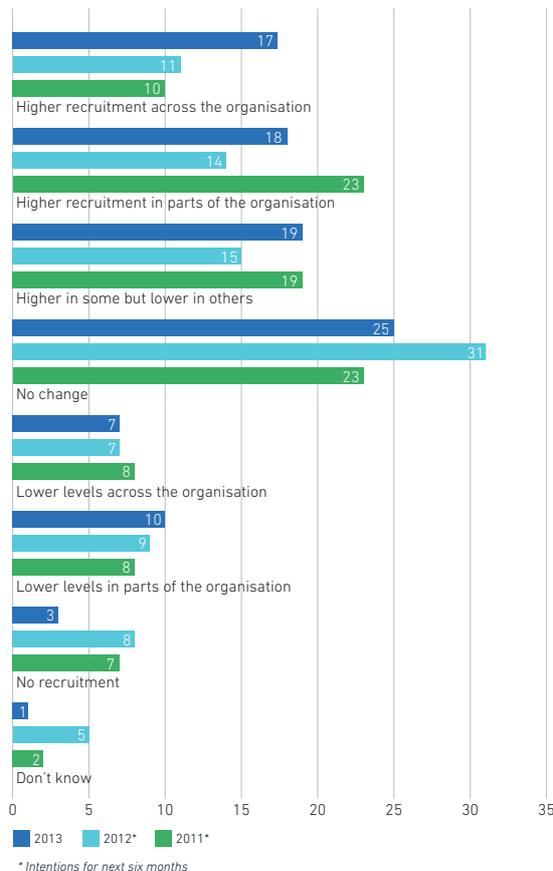
Asked about their plans for recruiting permanent staff during the coming year, only 3% of organisations report that they intend to operate a recruitment freeze (Exhibit 17). This represents a drop of more than half since the autumn of 2012, taking recruitment freezes to their lowest level since the onset of the recession.

... with permanent jobs growing faster than temporary posts

More than a third of businesses (35%) plan higher recruitment of permanent employees across all or some parts of their organisation in the next 12 months (Exhibit 18). With only about one in six (17%) anticipating lower levels of recruitment across all or parts of the business, this gives a balance of +18% planning to increase recruitment to permanent posts.

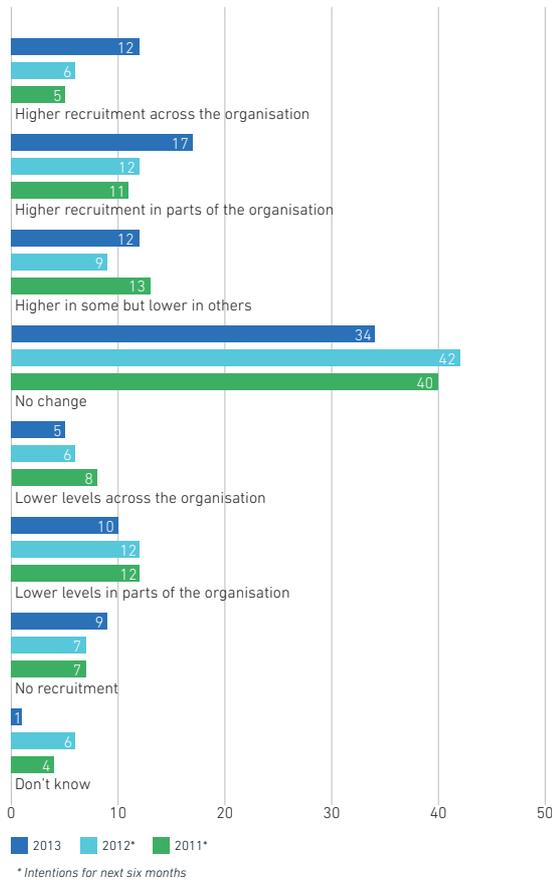
These findings point to growing business confidence. The latest positive balance result on recruitment intentions compares with a balance at only half that level (+9%) in the autumn of 2012 when employers at that time were asked about their plans to recruit to permanent jobs in the coming six months.

Exhibit 18 Plans for permanent recruitment – next 12 months compared to past 12 months (%)



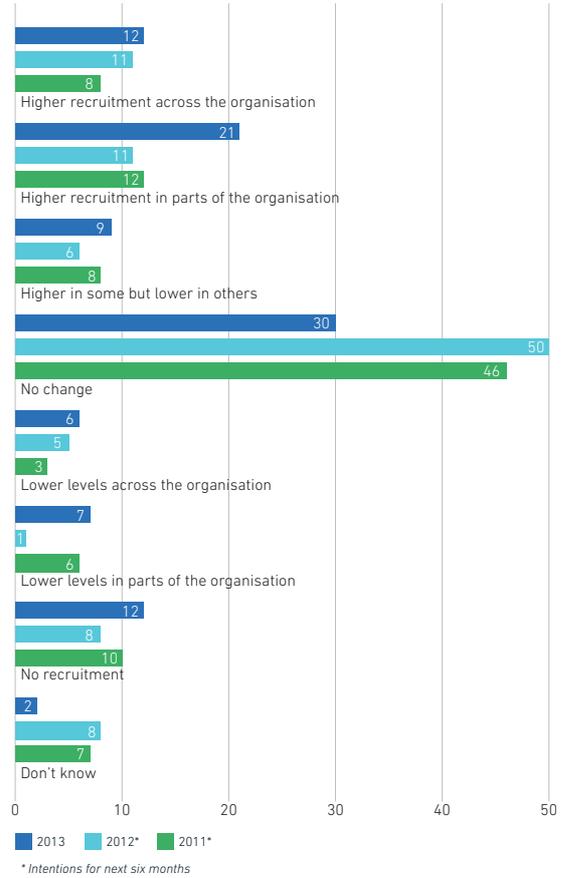
Recruitment of temporary workers – traditionally seen as one of the leading indicators of economic and labour market performance – is also on the rise, but not as strongly. The flexibility of temporary workers, enabling firms to adapt staffing rapidly to changes in the volume of activity, has been crucial during periods of economic uncertainty and in the past the number of temporary posts has risen rapidly in the early stages of recovery.

Exhibit 19 Plans for temporary recruitment – next 12 months compared to past 12 months (%)



The pattern seems to have altered since the recession of 2008-09. Of firms planning changes to their level of temporary recruitment in the next 12 months, 29% are expecting higher levels of recruitment across all or some of their organisation (Exhibit 19). At the same time, 15% are intending to reduce their temporary hiring in the coming year, producing a +14% balance between higher and lower recruitment of temps – a lower level of increase than the +18% expected change in permanent hiring.

Exhibit 20 Plans for graduate recruitment – next 12 months compared to past 12 months (%)



Graduate job prospects are improving as firms build future talent pools

Job prospects for graduates continue to pick up (Exhibit 20). A third of businesses (33%) intend to increase their graduate recruitment across all or parts of the organisation during the coming year while one in eight (13%) plan a reduction, giving a positive balance of +20%. This compares with a positive balance in our autumn 2012 survey of +16% of organisations intending to increase graduate recruitment in the next six months.

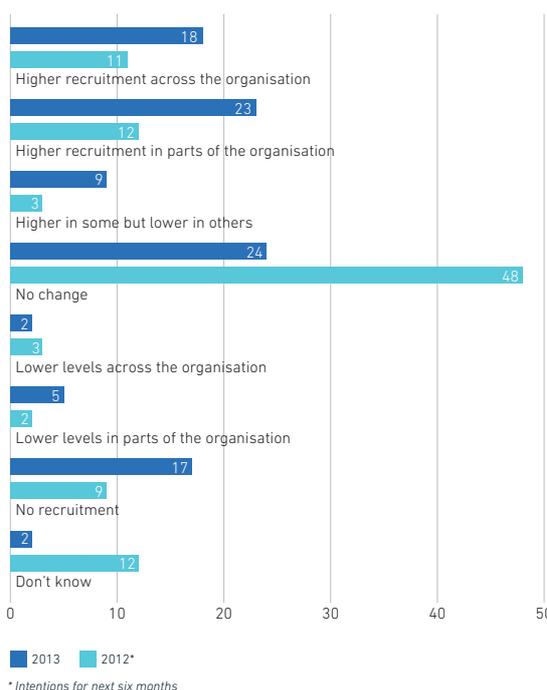
The improving job prospects for graduates reflect both growing confidence among firms and recognition of the need to expand their pools of future talent. CBI research has consistently shown that the biggest growth in demand in the next few years will be for higher-level skills and for leadership and management skills.²¹ However, the same research has shown that businesses in many sectors – particularly engineering, hi-tech, IT and science firms – are not confident there will be sufficient people available with the right skills to fill these jobs.

Businesses' commitment to apprenticeships will strengthen the UK skills base

The government has rightly aimed to expand and strengthen apprenticeships. Employer commitment remains strong, with almost half a million starts so far in 2012/13, a rise of 195% overall since 2002/03.²² Provisional figures for this year show a modest decline in Level 2 starts, possibly because of new quality tests and the introduction of traineeships as a new pre-apprenticeship offer. Higher apprenticeships are making up some ground – starts increased by over 300% since 2010/11 – but this is from a very low base: they still make up less than 2% of starts overall for 2012/13 so far.

Our 2013 survey results indicate that employer commitment to apprenticeships will grow. With two fifths (41%) of respondent businesses reporting that they intend to increase apprentice recruitment over the next 12 months and just 7% planning to cut their apprentice intakes, a positive balance of +34% intend to increase their recruitment (**Exhibit 21**). This is nearly twice the level of the +18% positive balance found by the autumn 2012 survey.

Exhibit 21 Plans for apprentice recruitment – next 12 months compared to past 12 months (%)



The combination of technical and work-based learning in an apprenticeship makes it a particularly effective form of workforce training, but there is still more to be done to boost businesses' participation. While nearly half of larger firms (45%) intend to increase their recruitment of apprentices during the coming year, only a third (33%) of SMEs plan to do so.

The government's implementation of Doug Richard's recommendations²³ should see the creation of a simpler, more relevant apprenticeship programme and we hope this will encourage more firms to invest in apprenticeships. A priority for the reforms must be the creation of a wider skills ecosystem that supports firms of all sizes to offer apprenticeships. Local brokerage, such as Apprenticeship Training Agencies (ATAs) and Group Training Associations (GTAs), in particular can play an important role in shielding SMEs from the bureaucracy involved in taking on an apprentice.

There are varied avenues into work

Employers use a wide variety of mechanisms in their quest to attract prospective employees with the right skills and attitudes (**Exhibit 22**). While recruitment agencies are the single most frequently used source of candidates (by 72% of businesses), the striking feature of our results is the importance today of the internet and other new media. With the proportion of households with internet access climbing from just 9% in 1998 to well over 80% today,²⁴ more than two thirds of businesses (68%) report that postings on their own website are one of their most frequently used recruitment channels. This is closely followed by postings on other job websites (56%). These results highlight the extent to which the 'digitally excluded' can be at a disadvantage in the jobs market.

Personal contact and networks still count for a lot. Over half of businesses (56%) often recruit through referrals from existing employees, while more than two in five (42%) frequently use careers fairs and similar events as channels for recruitment.

Exhibit 22 Recruitment channels in most frequent use (%)

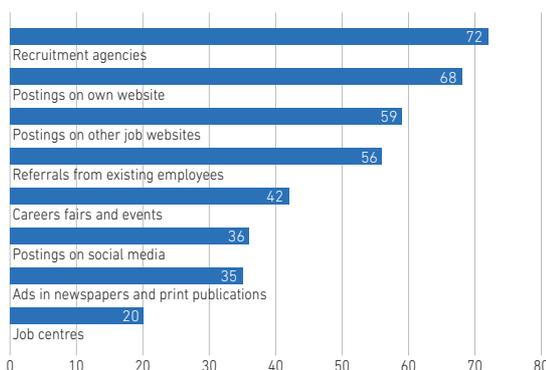
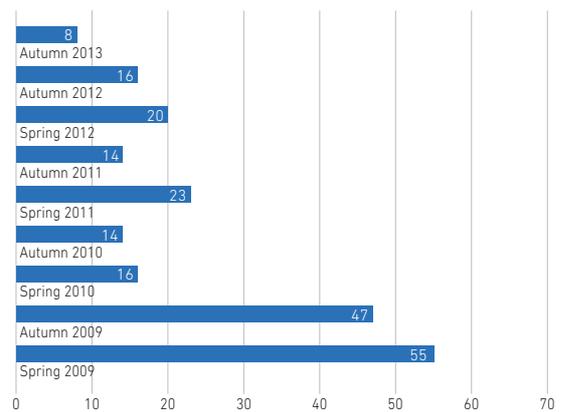


Exhibit 23 Firms planning a pay freeze (%)

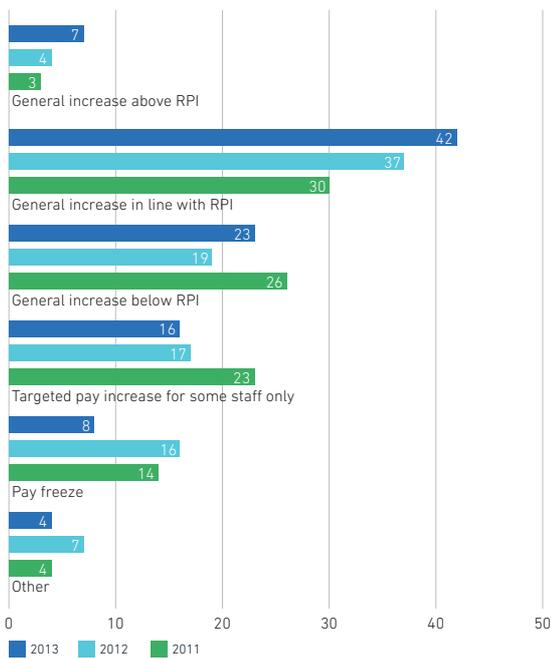


A cautious approach to pay has become established as 'the new normal'...

Successful containment of paybill costs played a major part in limiting job losses during the recession and accelerating the rise in employment during the early stages of the recovery. Continuing to contain those costs will be critically important as the recovery gathers pace. Firms recognise this imperative, with containment of labour costs ranking as one of the top three priorities for the year ahead across businesses (section 8).

The signs are that a cautious approach to pay has become established as 'the new normal' since the recession. The pay freezes that characterised the depths of the downturn have thawed as trading conditions have improved. During 2009, half of businesses were freezing pay (**Exhibit 23**). By autumn 2012 the proportion of businesses intending to operate a pay freeze at their next review had fallen to 16%. Our latest results show it has now halved to one in 12 firms (8%) as economic conditions ease.

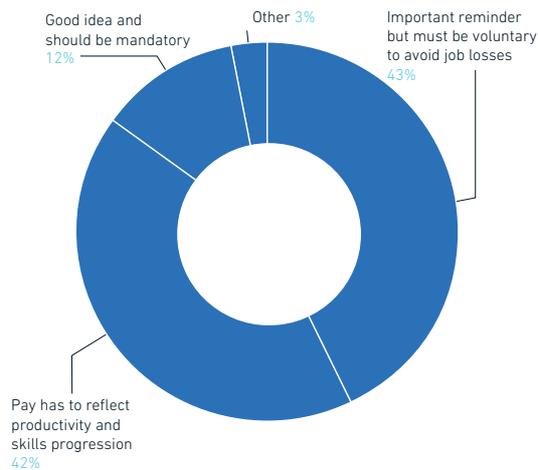
Exhibit 24 Firms' approach to their next pay review (%)



Employers have not lost sight of the need for restraint. When asked to describe their approach to the next pay review, more than a fifth of respondents (23%) are planning a general increase below the level of RPI inflation (Exhibit 24). A further 16% will be targeting pay rises on specific employees only, allowing them to recognise outstanding contributions and reward particular skilled individuals without pushing up their labour costs across the board.

Against a backdrop of improving economic conditions and relatively low Inflation, two fifths of businesses (42%) expect to be able to raise pay in line with RPI inflation, but fewer than one in 12 firms (7%) anticipates making a pay award above that level.

Exhibit 25 Employer views on living wage campaign (%)



...and that cautious, individualised approach needs to apply in mandatory wage setting too

In the light of the recent publicity around the concept of a 'living wage' going beyond the minimum wage set by the independent Low Pay Commission, we asked business for their views on the campaign (Exhibit 25). The results show businesses are conscious of the pressures on employee household incomes since the onset of the recession, but care is needed in framing responses that do not distort the wider labour market or risk adding to unemployment.

Less than one firm in eight (12%) sees the living wage concept as a good idea which should be made mandatory and applied to all businesses regardless of their circumstances. Two in five firms (43%) see debate on the living wage issue as an important reminder of the cost of living pressures on their employees, but believe the decision on whether to sign up to the campaign must be voluntary if job losses are to be avoided. A similar proportion of businesses (42%) believe that the emphasis should be on boosting productivity and building skills to enable people to secure jobs and progress at work. Higher pay is inseparable from higher productivity and adding more value.

Making the UK a better place to do business

SECTION 4



A key contributor to economic success is for the UK to be one of the best locations in which to invest and do business. Flexible employment arrangements are essential for UK business success, attracting international investment and boosting job creation. Yet the burden of employment regulation and weaknesses in our skills base put the UK's position at risk for the future – and businesses are not optimistic that these weaknesses will be tackled in the years ahead.

Key findings:

- Assessments of the UK as a place to invest and do business are improving (from a negative balance of -41% last year to -2% in 2013) but there is some way to go before businesses turn strongly positive
- Many more firms expect the UK to become a better location for business in the future than expect it to become a less attractive place to invest and employ people, producing a positive balance of +31%
- Almost every business (97%) sees flexible employment patterns such as use of agency workers and zero-hours contracts as either vital or important for the UK economy
- Flexible employment arrangements enable businesses to cope with fluctuating demand (87%) and to respond rapidly to growth opportunities (81%) while opening up work opportunities for those who don't want a full-time job (65%) and acting as a stepping stone into work for those from vulnerable groups (58%)
- The biggest current threats to flexibility and UK labour market competitiveness currently come from the burden of employment regulation (68%) and weaknesses in levels of skills across the workforce (65%)
- Businesses are not optimistic that these will be tackled, with 62% believing employment regulation will still threaten UK labour market competitiveness in five years' time and 61% thinking that low skill levels will remain a drag on the economy.

Assessments of the UK as a place to do business are improving...

To generate long-term growth and rebalance the economy, the UK must be seen as an attractive investment location. Aided by growing confidence in prospects for the economy, business assessments of the UK as a place to invest and do business are improving, but there is a still long way to go.

Last year over half of firms (56%) felt the UK had become a less attractive place to invest over the previous five years when considering employment regulation and the labour market generally, while fewer than one in six respondents (15%) believed the UK had become a more attractive business location (**Exhibit 26**). This gave an overall negative balance of -41%. The past year has seen attitudes becoming much less negative. While a third (33%) of firms believe the UK has become a less attractive place to invest over the past five years, almost as many (31%) now rate it as more attractive than five years ago, shrinking the negative balance to -2%.

With the need for private sector investment to drive the recovery, this result is a clear indication that the government cannot afford to relax its efforts to make the UK an attractive location in which to invest and employ people. It is, however, making headway.

...and optimism about the future is rising

When asked about the prospects for the future, businesses have become increasingly positive over recent years (**Exhibit 27**). Our latest results show close to half of employers (48%) expect the

Exhibit 26 The UK as a place to invest/do business over the past five years (%)

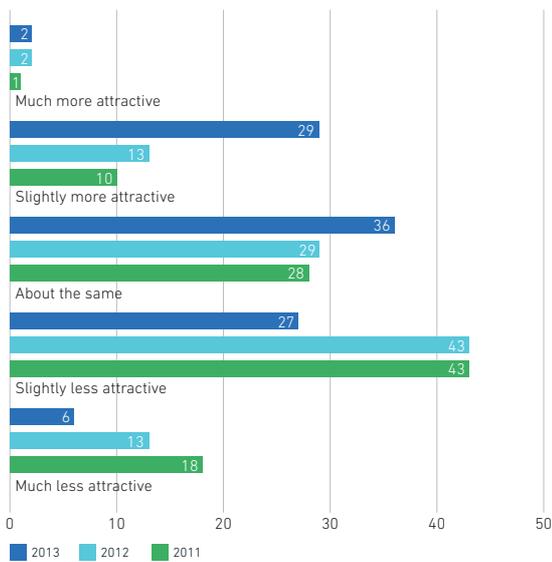


Exhibit 27 The UK as a place to invest/do business in five years' time (%)

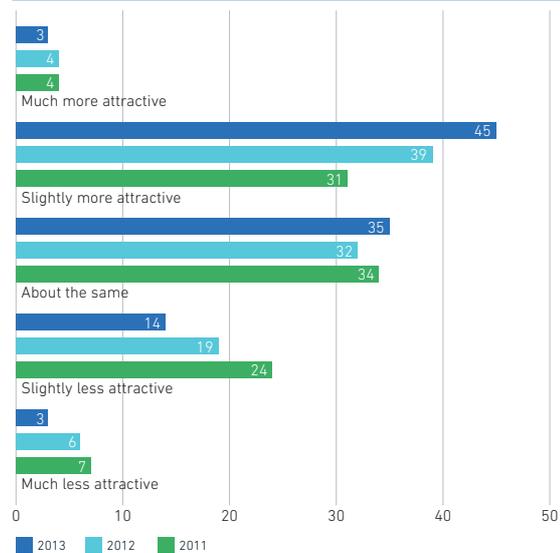
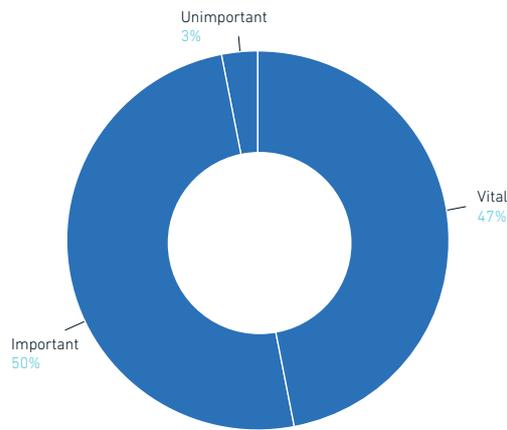


Exhibit 28 Importance of flexible employment patterns for the UK economy (%)

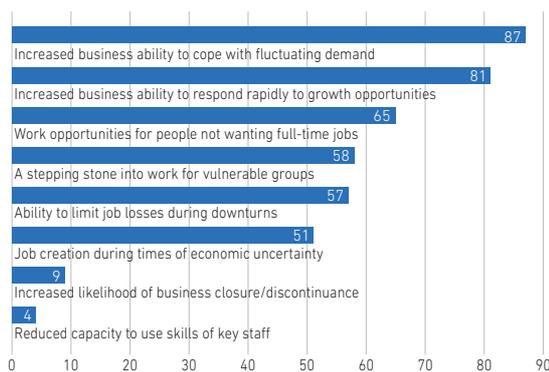


attractiveness of the UK to improve in the coming five years considering employment regulation and the UK labour market, while under a fifth of companies (17%) expect a deterioration in its attractiveness as a location to invest and do business. This gives a positive balance of +31% believing the UK will be a better location in five years' time. This result represents a marked advance on the +18% positive balance last year.

The challenge for the government will be to deliver improvements in regulation and the labour market to build on the current optimism.

Almost all respondents say flexible employment arrangements are essential for UK business success...

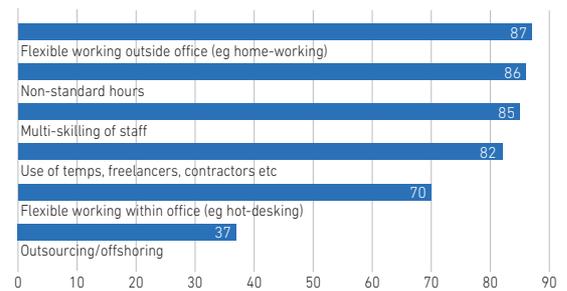
A prime advantage of the UK as a location for businesses to invest and generate jobs is the flexibility of employment arrangements by comparison with other potential locations, particularly in other leading EU economies. In all, 97% of firms believe that a flexible workforce is either vital or important to the competitiveness of the UK labour market and the prospects for business investment and job creation (**Exhibit 28**). On no other employment issue does our survey produce such unanimity of views across business.

Exhibit 29 Impact of flexible employment patterns (%)

The ability of firms to use agency workers, zero-hours contracts and other flexible employment arrangements enables them to adapt work patterns to meet fluctuations in demand and customer needs. This has been central to the success of the UK in limiting job losses during the recession and achieving rapid employment expansion more recently. Across respondents, nearly nine in ten businesses (87%) cite the ability to cope with fluctuating demand as an important benefit of a flexible workforce (**Exhibit 29**). More than eight in ten firms (81%) believe the capacity to respond rapidly to growth opportunities – for example through use of agency workers – is another important benefit.

...and have important benefits for employees too

The benefits of flexible employment arrangements are not solely on the employer side. Two thirds of respondents (65%) see an important role for them in creating employment opportunities for people who are unable to work full time or who don't want a full-time job. They can also act as a stepping stone into the labour market for those who find it difficult to secure work, including many young people and those who have been long-term unemployed (cited by 58%).

Exhibit 30 Forms of flexible resourcing in use (%)

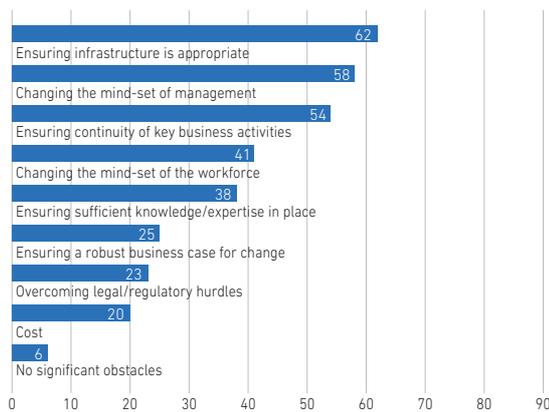
Over half of businesses (57%) point to the capacity of flexible employment arrangements to limit job losses during downturns. Over half (51%) also see flexibility as minimising unemployment by allowing jobs to be created where there is not sufficient or sustained demand to justify permanent recruitment. This flexibility is particularly important in boosting employment during the early, uncertain stages of an economic recovery.

Flexibility in the workplace takes many forms...

While much of the discussion of employment flexibility focuses on different forms of employment contracts, flexibility in the workplace takes other forms too (**Exhibit 30**). Increasingly, there is flexibility over the location for work, with nearly nine in ten respondents (87%) reporting remote, mobile or home working by at least some staff. The time when work happens is another area of flexibility, with 86% of businesses having at least some staff on non-standard hours as a result of seasonal working, compressed hours, job-sharing or flexi-time.

Raising employee skills levels through multi-skilling can give an important boost to productivity. More than eight in ten organisations (85%) operate this type of flexibility to at least some extent, with almost as many businesses (82%) also reporting use of temps, freelancers and contractors to cope with fluctuations in activity levels and the periodic need for specialist skills.

Exhibit 31 Obstacles to implementation of flexible working practices (%)



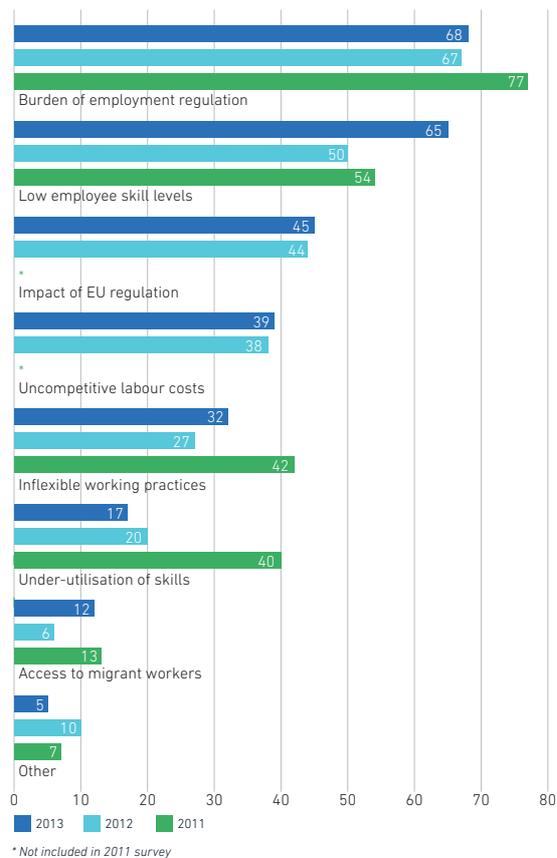
...but implementing flexibility is rarely easy

Asked about the main obstacles to overcome when implementing flexible working practices (**Exhibit 31**), respondents highlight the issue of ensuring their corporate infrastructure is appropriate to meet the challenge of changed working arrangements (cited by 62%). Other leading challenges are human ones – changing the mind-set of managers to manage new approaches effectively (58%) and changing the mind-set of employees (41%). During any programme of change, ensuring the continuity of key business activities is always a concern (cited by 54%) and one that needs to be managed successfully.

Employment regulation could jeopardise labour market competitiveness...

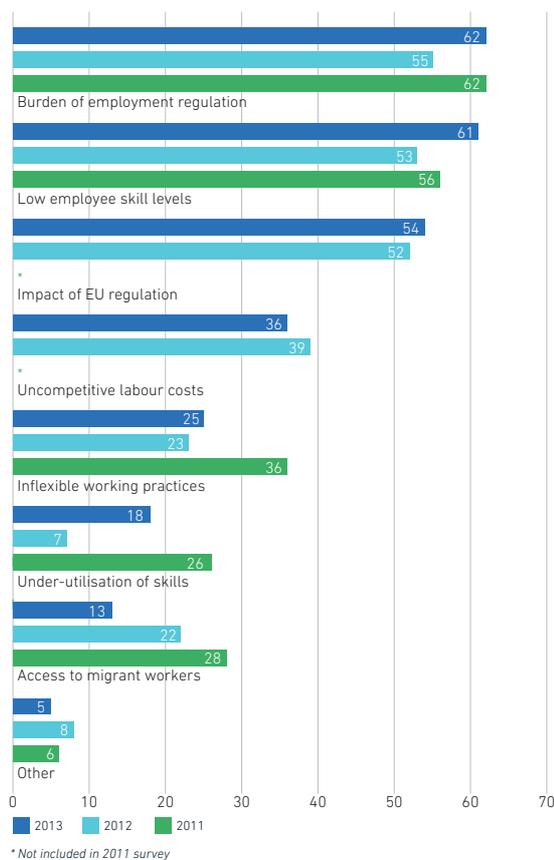
There are widespread worries among employers that increased regulation may reduce flexibility and impose new obligations that damage the attractiveness of the UK as a place to invest and generate jobs. Two thirds of businesses (68%) see the burden of employment regulation as the biggest threat to the competitiveness of the UK’s labour market (**Exhibit 32**). Concern about regulation extends across companies of all sizes, with SMEs and larger organisations alike identifying it as the biggest threat. Close to half of firms (45%) are also concerned about the impact of EU measures on the UK labour market.

Exhibit 32 Current threats to UK labour market competitiveness (%)



We have seen some progress on reducing the existing regulatory burden in key areas – for example the government has extended the qualifying period for unfair dismissal and started the process of reforming employment tribunals. However, there is no room for complacency. There has been very limited progress on important areas such as the Agency Workers Regulations and default retirement age. New threats are also emerging from recent court rulings, exposing employers to significant new liabilities in relation to holiday pay and collective consultation when making redundancies.

Exhibit 33 Likely threats to UK labour market competitiveness in five years' time (%)



...with skill shortfalls also seen as a problem

The other threat to labour market competitiveness identified by nearly two thirds (65%) of UK businesses is the weakness of the skills base across the British workforce as a whole. Concerns about skills are not new, but as we seek to rebalance the economy towards higher-skill, higher-value, export-oriented activities it becomes ever more urgent to raise levels of skill across the board. As section 3 showed, businesses are expanding their intakes of apprentices and graduates as part of this drive, but there is a lot more to do to raise standards in our schools, colleges and training systems as well as within individual firms.

Employers are concerned these problem areas will not be tackled

When asked about what they believe are most likely to be the weaknesses threatening the UK's competitiveness in five years' time, the results show businesses are not optimistic about the likelihood of significant action to tackle current threats. The proportion of businesses viewing employment law as the major threat to UK labour market competitiveness in five years' time stands close to two thirds (at 62%), the same level as two years ago (**Exhibit 33**). The proportion perceiving regulation emanating from the EU as a likely threat in five years' time also remains above 50%.

Nervousness about the likely future impact of skills shortfalls within the UK workforce seems to be intensifying as the recovery gathers momentum. The proportion of respondents seeing low levels of skills as a likely threat to the UK's competitiveness as a place to employ people has climbed from just over half (53%) last year to 61% in the latest survey: many firms are not confident they will be able to draw on migrant workers to plug skill gaps. Nearly one in five (18%) sees access to migrant workers as potentially a problem for them in five years' time, up from the 12% who see it as a current issue.

Some firms are already finding their growth comes at the cost of hiring from essential partners, as firms chase the same scarce skills – a problem that will become more acute as the recovery gains momentum.

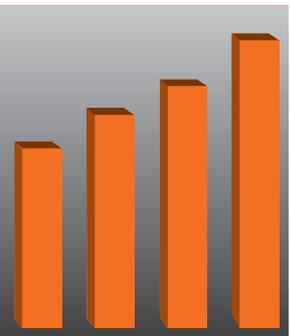
Pressures on labour costs need to be managed for the long term

The risk of uncompetitive labour costs is a threat that never disappears. More than a third of businesses view these costs as a weakness for the UK both now and in the future (39% and 36% respectively).

As firms seek to maintain a competitive edge and contain these costs, the more cautious approach to pay that has become established since the recession is continuing to underpin employment growth. The results reported in section 3 indicate employers are resolved to maintain moderation, but doing that successfully also requires future reviews of the national minimum wage to be handled sensitively and no costly new obligations introduced that would have the effect of ratcheting up paybills.

Shaping the regulatory framework for competitiveness

SECTION 5



Modern employment relationships in the UK are characterised by flexibility and choice in a variety of forms. This benefits businesses and employees alike – and it’s an essential ingredient in helping the UK to attract international investment and talent. In the face of intense global competition, the regulatory framework should be designed to help, not hinder, the UK’s ability to win business and jobs. Retaining the working time opt-out is one vital component of that flexibility, together with making it easier for firms to bring key people into the UK. Predictability is also important for businesses, whether in deciding when it is appropriate to retire an employee or in assessing whether an employment tribunal claim is likely to be upheld.

Key findings:

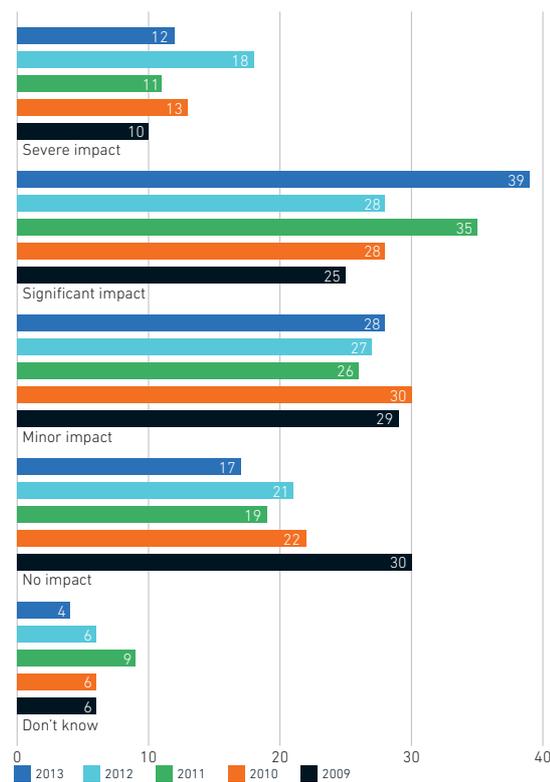
- Losing the UK’s working time opt-out would have an impact on nearly four fifths of businesses (79%), with half (51%) saying it would be severe or significant
- Two thirds (68%) of those foreseeing an impact believe loss of the opt-out would damage employee relations by restricting individual choice on work patterns and more than half (58%) say it would reduce their capacity to respond to growth opportunities
- UK visas and immigration services must continue to improve service standards, with three quarters of businesses who use the service reporting no change in performance in the past 12 months
- While nearly two thirds of firms (61%) are coping without a fixed age of retirement, close to a third (31%) need to retire employees but feel there is too much risk and uncertainty for them to do so
- Among those businesses reporting impact from the Agency Worker Regulations, well over half (59%) have reduced their use of agency workers
- Four in ten (39%) have faced employment tribunal claims in the past year
- Many of these claims have been weak, with over a third (35%) withdrawn before a hearing and employers winning the vast majority of claims that reached a tribunal hearing
- But to avoid distraction, time loss and the reputational damage of being accused, businesses settled more than a quarter (27%) of claims despite being advised that they would win the case at a tribunal hearing.

The working time opt-out is essential to UK business competitiveness

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 success in difficult trading conditions.

Our survey results show the importance businesses attach to retaining the UK’s individual opt-out from the 48-hour maximum working week. Nearly four in five respondents (79%) report that its loss would have an impact on their business (**Exhibit 34, page 30**). Moreover, the tough economic climate has increased the importance of retaining the opt-out: the proportion

Exhibit 34 Business impact if the UK lost the working time opt-out (%)



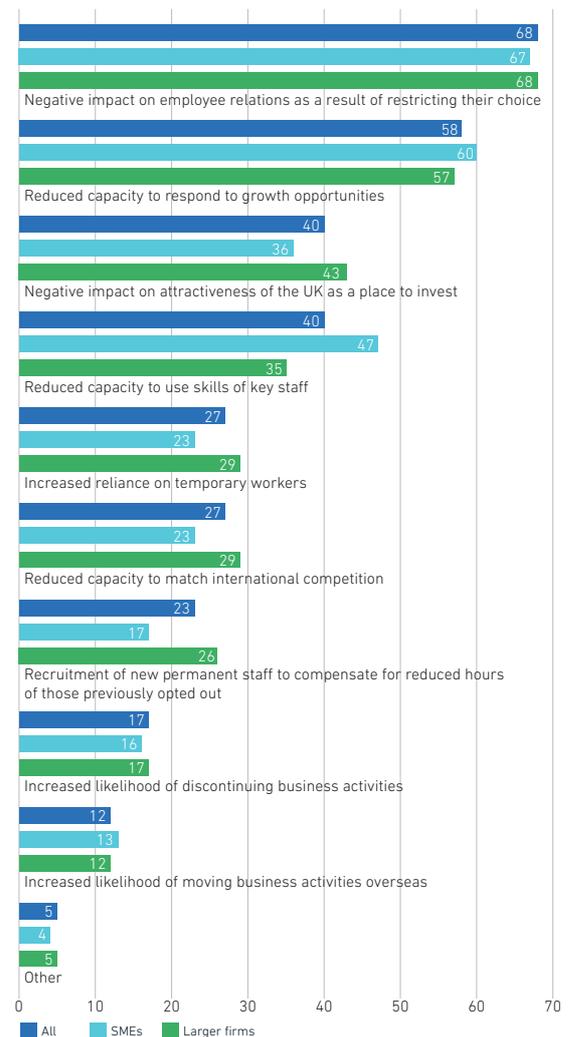
of businesses reporting that its loss would have a severe or significant impact has climbed from just over a third (35%) of firms in 2009 to more than half (51%) today.

Losing the opt-out would damage employee relations and growth opportunities...

If UK businesses and employees were to lose the opt-out, it would have a range of damaging consequences (**Exhibit 35**).

The single most frequently cited impact 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 (68%). Its removal would adversely affect a variety of employees, ranging from those who want to boost their earnings and better provide for their families to those working in industries with cyclical peaks and troughs, who well understand the need to work longer hours at

Exhibit 35 Nature of the impact if the UK lost the working time opt-out (%)



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.

As global competition becomes more intense, the ability of UK businesses to adapt quickly and to be able to respond flexibly to customer demand and market opportunities is crucial. Almost three fifths of firms reporting an impact (58%) believe losing the opt-out would diminish their capacity to respond to

growth opportunities. As the UK returns to the path of sustained economic growth, it is critically important that the government should protect flexibilities such as the opt-out that are essential underpins.

Any threat to the opt-out could also have damaging consequences for inward investment to the UK. Two in five firms (40%) believe its removal would have a negative impact on the attractiveness of the UK as a place to invest.

Our results show that those who suggest removal of the opt-out would generate extra jobs are on weak ground. Under one in four firms reporting a potential impact (23%) say they would respond by taking on new permanent staff, while almost as many (17%) report that loss of the opt out would increase the likelihood of their discontinuing some business activities.

...and would hit some firms particularly hard

The results show loss of the opt-out would affect firms of all sizes. More than four in five larger companies would be affected (86%), with over half reporting that the impact would be significant or severe. Among SMEs, the proportion reporting an impact is only a little lower (at 78%), with just under half (49%) saying the effect would be significant or severe.

Were the opt-out to be removed, it would hit SMEs in terms of their ability to make full use the skills of key staff harder than larger businesses (47% of SMEs cite this as an impact as compared to 35% of larger firms). This potentially bigger impact is perhaps unsurprising given the smaller workforces of SMEs, making it more difficult for them to flex their people resources.

With their greater experience of alternative overseas locations as sites for investment, larger firms are more likely than SMEs to highlight the potentially negative impact of loss of the opt-out on the attractiveness of the UK as a place to invest. In all, more than two in five larger firms (43%) see this as a consequence as against a third (36%) of smaller firms.

The working time opt-out must be recognised as a permanent provision

The future of the individual opt-out from the Working Time Directive repeatedly comes under review. 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.

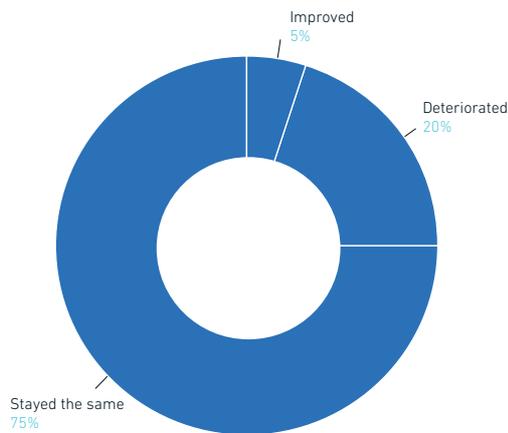
The government has an essential role to play within the EU in bringing this uncertainty to an end and ensuring that the future of the opt-out is secure for the long term. Member state leaders and governments must restore the principle of subsidiarity in EU policymaking by signalling to the Commission that it should refocus its activities based on a more limited interpretation of its remit. Until this is fully restored, there should be a moratorium on any new regulation where adequate legislation already exists or there is a strong argument for national decision-making, including in the area of social and employment law. The opt-out from provisions of the Working Time Directive should be made permanent.²⁵

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 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. Any international business in the UK must be able to transfer staff between locations according to business need.

Exhibit 36 Quality of service provided by UK visas and immigration (%)

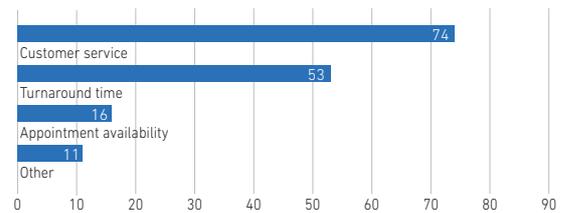


The complex process of securing visas and permits to bring in people from overseas has long been a cause of concern to many businesses. It also affects perceptions of the UK as a place to invest and do business. Our survey last year showed the introduction of the permanent cap on work permits was seen by a third of businesses (34%) as having a negative impact on impressions of the UK, compared with fewer than one in twelve (8%) who thought it had a positive impact, producing a negative balance of -26%.²⁷

...but visa and immigration processes must show faster improvement

In March the newly formed UK Visas and Immigration (UKVI) brought UK Border Agency functions back into the Home Office, with an aim of improving customer satisfaction and high-quality decision making. While, anecdotally, performance appears to be slowly improving, the evidence shows that the service still faces significant performance challenges (**Exhibit 36**). Among organisations that have employed workers from outside the European Economic Area (EEA) over the past 12 months, three quarters (75%) have yet

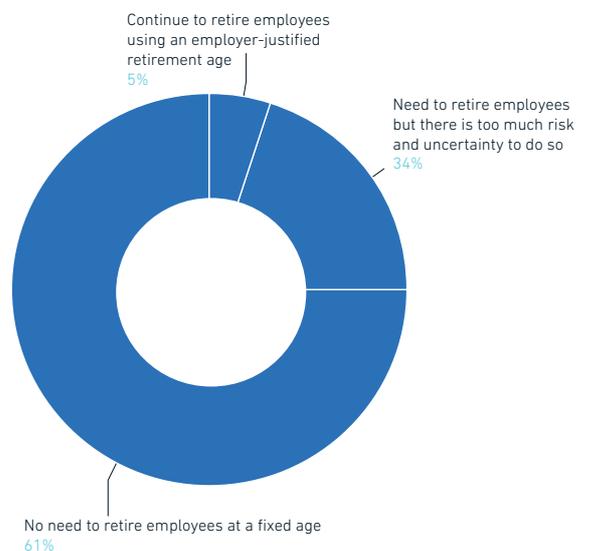
Exhibit 37 Issues with UK visas and immigration (%)



to see any change in performance. One in 20 (5%) businesses report that the quality of service has improved while one in five reports that the quality of the service has deteriorated (20%).

The leading area of deterioration has been in customer service (74%), but over half of businesses (53%) with experience of the service also point to the length of turnaround times in dealing with applications (**Exhibit 37**). To deliver a customer-focused approach UKVI must continue to improve customer services and communications and speed up processing times.

Exhibit 38 Responses to phasing out the default retirement age (%)



Abolition of the DRA leaves many firms facing risk and uncertainty

In April 2011 the government removed the Default Retirement Age (DRA), ending the automatic expiry of the employment relationship as a result of age. This was a fundamental change in employment arrangements. It has posed challenges for businesses and employees alike in navigating the sensitive issue of retirement without the DRA.

Businesses recognise the advantages of having a blend of age and experience within the workforce. Younger employees can clearly benefit from having access to experienced employees. A mixed-age workforce can also be important in responding effectively to varied customers and clients. Just under two thirds of respondents (61%) report that their businesses have no need to retire employees at a fixed age, so they are coping with the new arrangements (**Exhibit 38**).

A small proportion of firms (5%) are continuing to retire employees using an employer-justified retirement age. Often this is based on specific safety obligations. Over a third of businesses (34%), however, report that they need to retire employees but feel unable to do so because of the surrounding risks and uncertainty over the legal position. While firms support the general policy of encouraging longer working lives, making this decision unilateral for the employee hampers succession planning and ultimately can push firms into triggering poor performance procedures.

A legal vacuum exists over managing older workers and how to apply age discrimination rules. Businesses find it difficult to discuss the sensitive issue of retirement openly and honestly with their staff. Having received little support from the government, they have been forced to look to the courts for guidance – but a long-term solution is required, as the CBI has repeatedly argued.

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 they want to avoid having to end otherwise successful careers on a low, with employees dismissed using performance procedures.

Clarification on how and when employers can use an employer-justified retirement age to retire people is vital. Employers also need a safe mechanism for initiating frank discussion about retirement, allowing retirement and succession plans to be discussed openly.

The agency worker regulations have curbed use of agency staff

The biggest impact of the Agency Workers Regulations (AWR) has been to reduce the use of agency staff across firms. Just under half of respondents (46%) report that the AWR have had an impact. Among these, over half (59%) have reduced their use of agency workers (**Exhibit 39**). Around a third of firms (36%) have increased their use of fixed-term contracts as an alternative to using agency

Exhibit 39 Impact of Agency Worker Regulations (%)

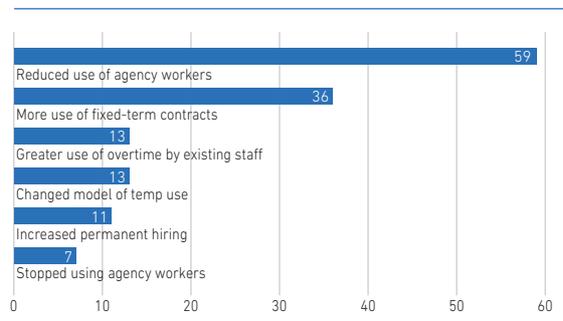


Exhibit 40 Ensuring agency work supports job creation

The primary impact of the AWR has been an increase in the cost of accessing flexible resourcing models, rather than substantial improvements in the position of agency workers. While the CBI would like to see the directive significantly reformed or overturned, there are also a number of areas where the UK regulations have gone above and beyond what is required by directive. Easing burdens at UK level would reduce compliance costs and support job creation, without undermining the position of temps. CBI members believe that:

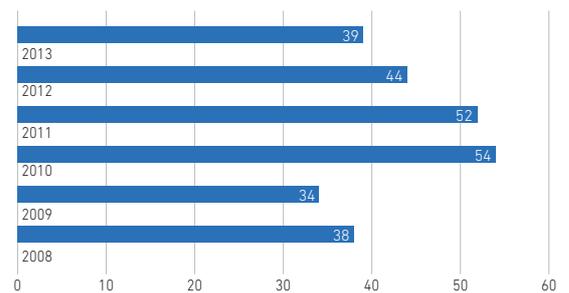
- The definition of pay and basic working conditions needs to be simplified
- Pay between assignments must be retained as a permanent provision of the regulations.

staff, while one in eight (13%) have resorted to more overtime working by their existing staff. A similar proportion have changed their model of temporary staffing, such as moving to managed service contracts or using the 'Swedish derogation' model of paying between assignments. The AWR need to be revised if they are to support job generation (**Exhibit 40**).

The employment tribunal system faces a growing load of multiple claims

Fear of employment tribunal claims holds back business confidence and acts as a drag on firms – particularly SMEs – hiring new staff. While the proportion of respondents who have been the subject of employment tribunal claims has eased back from a peak of more 50% in 2010 and 2011, none the less nearly four in ten firms (39%) have faced claims in the past year (**Exhibit 41**).

Exhibit 41 Companies facing at least one ET claim in the past 12 months (%)



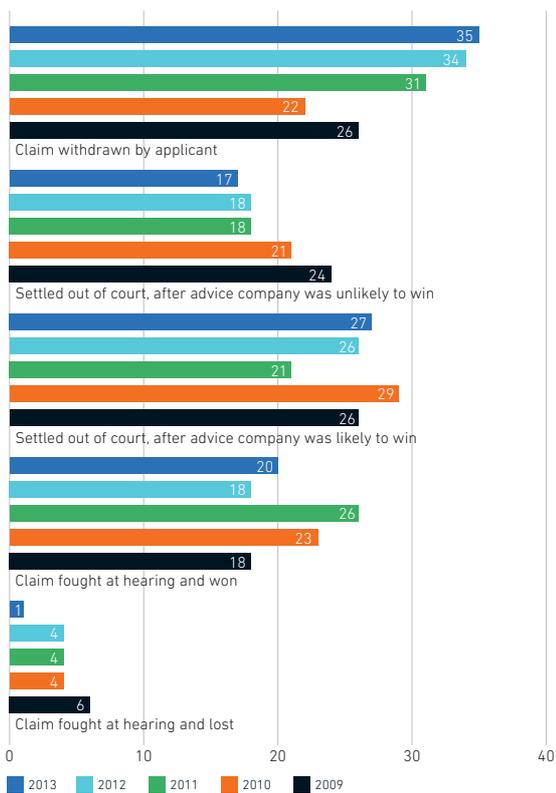
The employment tribunal system is facing major problems in handling the volume of cases, leaving many businesses confronting long periods of uncertainty, tying up management time and running up costs. In the three months to June 2013, only half of cases were cleared within 46 weeks or less, 16 weeks longer than last year.²⁸ On average, cases were taking a troubling 102 weeks to clear.

The rising average time taken to resolve cases is driven by the increasing tendency for multiple claims to be lodged – claims by a number of individuals that are managed together but counted as individual claims. In the quarter to June 2013, the tribunal caseload for multiple claims was up by 13%, while the caseload for single claims fell by 12%. By the end of June, the total caseload outstanding was above 600,000, with two thirds being multiple claims.

A third of employment tribunal cases are withdrawn...

The survey results point to the weakness of many claims. In 2013 over a third (35%) of claims were withdrawn by the applicant (**Exhibit 42**), and the proportion of withdrawn claims has been climbing steadily over recent years. While it is encouraging that so many of those bringing claims eventually accept the weakness of their case, a lot of management time and attention is tied up in dealing with them.

Exhibit 42 Outcomes of tribunal claims in the past year (%)

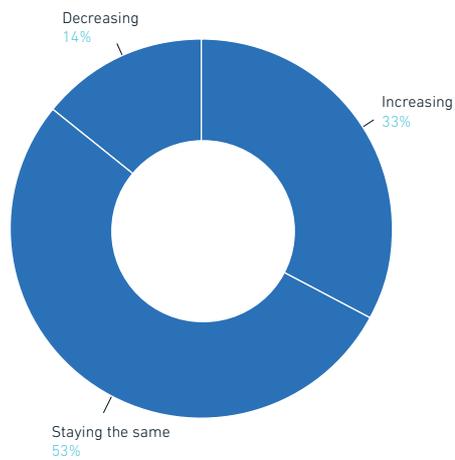


At a time when the economy is on the path to sustained recovery, weakly founded tribunal claims are a serious distraction from pursuing new business opportunities. It is little wonder that smaller businesses see taking on extra employees as a risk, holding back jobs growth in consequence.

... but many firms settle cases that they'd be likely to win

Partly to avoid distraction, time loss and the reputational damage of being accused, many firms continue to settle claims despite being advised that they would win at an employment tribunal hearing. According to our survey results more than a quarter (27%) of claims were handled this way last year.

Exhibit 43 Time taken to resolve employment tribunal claims



Settling a claim is a business decision, reflecting concerns about the inconsistency of tribunal decisions that have undermined faith in the system as well as representing a more cost-effective and less time-consuming option. It does nothing, however, to deter the growing culture of claims.

Relatively few companies choose to fight claims at a tribunal. Where they do so, however, they are far more likely to win than lose. Last year, respondents fought and lost just 1% of claims, compared with the 20% they fought and won.

Going through the tribunal system is not a rapid process. When those respondents who defended claims at a hearing were asked about the length of time to resolution, a third (33%) said it was increasing, twice the proportion (14%) that said the timescale was decreasing (**Exhibit 43**).

Bold action is needed to improve the tribunal 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. The government has made commendable efforts to try and improve the system, with a number of proposals in *Resolving workplace disputes* which the CBI strongly welcomed. But aspects of the most difficult challenges – like the legalistic culture of tribunals – need to be addressed through more radical changes to complete the reform process. 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 44**).

Exhibit 44 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'.²⁹ 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.

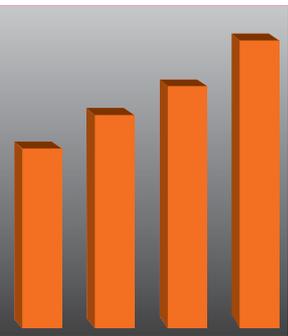
A reformed system should seek to address the current problems and focus on the substantive issues in dispute, rather than legal process and 'tick box' compliance. It should deliver greater consistency across the system, ensuring users can expect similar outcomes wherever the case is heard.

Such a system should cut the costs for the users and taxpayers alike.

“If the problems that plague tribunals are to be resolved, a new system should be built from first principles”

Getting young people into work

SECTION 6



To compete successfully in global markets, UK businesses need to be able to draw on all available talent. And in the interest of individuals and society, everyone must have the chance to develop their potential and make the most of career opportunities. To achieve this, there is a pressing need to help young people make more effective transitions into work. Increasing numbers of job openings are becoming available, but we need to ensure young people have the skills, attitudes and behaviours to benefit from them.

Key findings:

- New job opportunities will open up for young people in the coming year, with four in five firms (81%) expecting to have roles available which could be suitable for a 16-24 year-old seeking work
- The main obstacles to unemployed young people securing those job openings are identified by businesses as lack of appropriate skills (67%) and weaknesses in appropriate aptitude and behaviours (63%)
- Employers highlight the need to strengthen young people's skills (51%) and build better links between business and education (51%) to improve their job prospects
- Businesses are taking active steps to develop informal engagement with schools (73% already have links or are considering their development) and to provide work experience opportunities (48% provide waged work experience or internships and 43% offer unwaged work experience)
- Nearly half of firms (44%) provide traineeship programmes of some type for young people to help them gain the range of skills needed at work.

The recession particularly affected young people's prospects...

Even before the economic downturn firms were concerned about the extent of youth unemployment.³⁰ As businesses cut back on their recruitment from 2008 onwards, the recession exacerbated this long-term problem. In the three months to September 2013, unemployment among the under-25s stood at 965,000 – up from 747,000 in the same period in 2008.³¹

...but more opportunities are now opening up for young people

Our survey results offer encouragement to young job seekers for the coming year, in step with the improvement in job prospects across the economy reported in section 3. Over four in five businesses (81%) say that in the next 12 months they will have roles suitable for people aged 16-24 seeking work (**Exhibit 45, page 38**). This represents a substantial increase on the 2012 results, when half (51%) of firms expected to have roles available.

These opportunities will be in companies of all sizes. Two thirds of SMEs (68%) expect to have vacancies that could be filled by those in this age cohort, more than twice the proportion in the 2012 survey (32%). An even higher proportion (89%) of larger organisations expect to have roles suitable for young people seeking work in the year ahead, up from just under two thirds (63%) in 2012.

Exhibit 45 Firms expecting to have entry-level roles suitable for young people in the coming year (%)



Too many young people face significant barriers to work

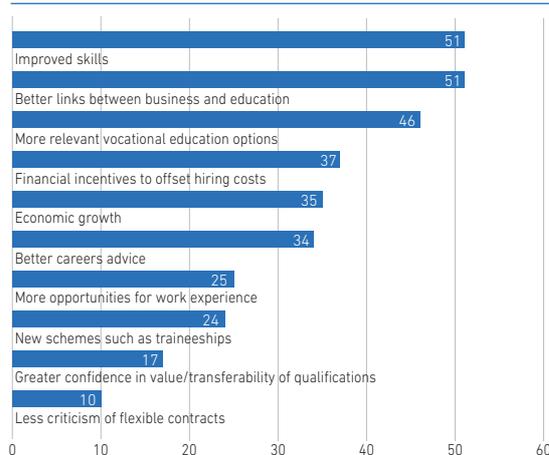
The big question is whether young people will be in a position to secure these openings in competition with older, more experienced candidates. We asked respondents whether they see any obstacles to them taking on out-of-work 16-24 year-olds and, if so, what they identify as the main barriers (**Exhibit 46**).

Among respondents pointing to obstacles, firms highlight two areas of weakness as the main barriers. Both of these relate to young people's work readiness: around two thirds of respondents identify a lack of young applicants with appropriate knowledge and skills (67%) and a lack of applicants with appropriate aptitude and workplace behaviours (63%). Looking at only those firms expecting to have roles in the coming

Exhibit 46 Main obstacles to taking on out-of-work 16-24 year-olds (%)



Exhibit 47 Action to help overcome obstacles to employing young people (%)



year suitable for unemployed young people aged 16-24, concerns about work readiness are even greater (with 70% pointing to a lack of appropriate skills among young applicants and the same percentage to weaknesses in their aptitude and behaviours as main obstacles).

Changes in the education and skills system could make a big difference...

When asked about actions that could help overcome the obstacles to young people's employment prospects (**Exhibit 47**), businesses highlight the importance of improvement in their skills (51%) and the potential benefits of better links between business and education (51%). These results emphasise the need for action to raise the skill levels attained by young people throughout our school, college and training system (**Exhibit 48**). The evidence consistently shows investment in education enhances productivity, results in a higher probability of being employed and makes individuals less at risk of low income and poverty.³²

Respondents also rate making more relevant vocational education options available to young people as important (46%). The jobs of the future will increasingly require higher skills. Anticipated changes to occupational structure mean that by 2020 nearly

Exhibit 48 First steps: A new approach for our schools

One year on from the publication of our *First steps* report, we have assessed the government on the success of its education reform programme against the five key proposals:

- Developing a clear statement of the outcomes that all schools should deliver
- Empowering school leaders and teachers
- Closing the attainment gap at primary level
- Aligning the curriculum and examination at secondary level with the desired outcomes
- Encouraging business engagement.

While some progress has been made in key areas, the government still needs to do more to clearly specify outcomes and ensure schools are held accountable for how these outcomes are delivered, via new-style Ofsted narrative reports and inspections.

half of all employment will be for highly-skilled roles. Meeting this challenge will require us to maximise the potential of different routes into higher-skill roles, particularly vocational and technical pathways. A key starting point has to be maximising the potential of new gateways to higher skills beyond academic A-levels. This could include the new Tech-Level recently announced by the government, and boosting Advanced-Level Apprenticeships.³³

Taking on young people inevitably imposes costs on business, so more than a third of respondents (37%) believe financial incentives could help, as of course would strong economic growth to create more jobs (35%). Better careers advice also has an important role to play (cited by 34%). The quality of careers advice has long been viewed by employers as not good enough, needing to move from information

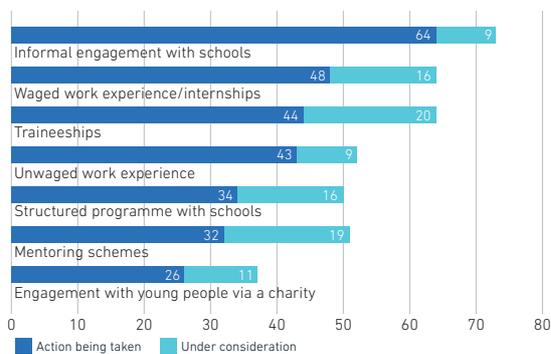
provision to helping young people navigate information in ways that leave them inspired and set them on practical paths towards career goals.³⁴ In today's increasingly complex jobs market, swift action should be taken to ensure careers advice is a priority.

...and employers too have an important part to play

Employers recognise that there is an important role for them to play in improving the work prospects of young people. Exposure to the workplace is the single, most important contribution business can make to getting young people ready for work. As our survey results show, many are already taking action and more are currently considering initiatives (**Exhibit 49**).

Almost two thirds of respondents (64%) report that their business already has informal engagement with schools such as going into schools to give talks, and more firms (9%) are considering becoming involved in this way. Nearly three quarters (74%) of larger firms are already engaged informally with schools, but SMEs too are active, with just under half (46%) reporting informal engagement with one or more schools and others considering becoming engaged (11%). This type of involvement can play an important part in raising young people's aspirations, opening their eyes to opportunities and making them aware of the value of what they can learn at school.

Exhibit 49 Employer plans to boost young people's work prospects (%)



As well as informal engagement directly with schools, half of respondent businesses are currently involved in structured programmes with schools (34%) or have their involvement under consideration (16%). Programmes of this kind are often geared to encouraging young people to study specific subjects, such as science, technology, engineering and/or maths (STEM) or to develop skills, aptitudes and attitudes by working with programmes such as 'Business Class'.

Providing work experience placements is another major area of businesses' activity in helping young people make a smooth transition from education into work. Just under half (48%) of firms provide waged work experience and internships, with others (16%) considering doing so, and over half provide unwaged work experience opportunities (43%) or are considering doing so (9%). Practical experience of this type can be invaluable in helping young people understand the skills and behaviours that are essential for success in any workplace.

Further valuable support, particularly for those from disadvantaged backgrounds, can be provided through mentoring and similar schemes. Almost a third of

firms (32%) report their involvement in mentoring and many others (19%) have it under consideration. Schemes of this type can be important in raising aspirations: boosting confidence and helping young people develop the personal skills needed for work and life.

Traineeships give the chance to develop essential skills

Nearly half of businesses (44%) report they are already providing traineeship programmes of some type and more (20%) are considering doing so (Exhibit 49, page 39). These include a number taking part in the government's new traineeships initiative (Exhibit 50).

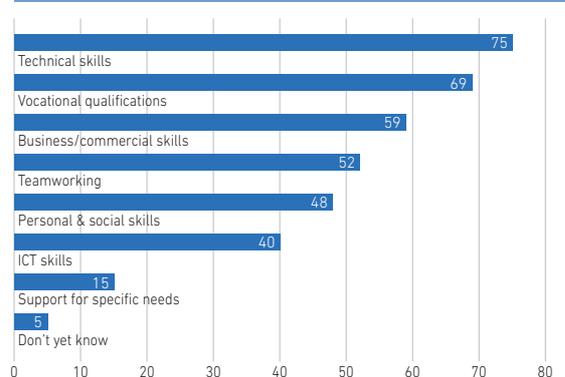
While the form of traineeship programmes varies (Exhibit 51), three quarters (75%) focus on equipping young people with technical skills, in many cases accredited via vocational qualifications (69%). There is also a strong focus on business, commercial and enterprise skills (59%), teamworking (52%) and the personal and social skills young people need to be effective in a work setting (48%).

Exhibit 50 The traineeships model

The government has developed a new traineeships model that aims to equip young people (aged 16-24) with the skills and experience they need to secure an apprenticeship or other work. With the first programmes launched in September 2013, traineeships target young people aged 16-24 who are work-focused but lack the skills to secure a job or an apprenticeship.

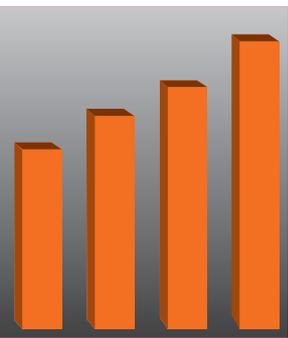
A traineeship will include intensive work-preparation training, work placements and basic English and maths. Lasting at least six weeks, the duration and any additional content remains flexible according to the support needed by the learner. Securing business involvement in the design and delivery of programmes is essential to their success in delivering relevant training and securing job outcomes.

Exhibit 51 Content of traineeship programmes (%)



Maximising talent for the future

SECTION 7



Businesses are keenly aware that the talent of individual employees – combined with their positive engagement – can give an essential competitive edge. Making the most of all the potential talent in our society is therefore a business issue. There is also a social and moral case for ensuring that opportunities to progress are open to all, regardless of their background, gender or ethnicity. More action is needed by both government and businesses to tackle the obstacles that hold some people back, ensuring everyone has the chance to get in and get on, playing their full part and realising their potential. Greater diversity needs to be developed at all levels, including in the pipeline of future business leaders.

Key findings:

- To improve the prospects for those from disadvantaged backgrounds, businesses highlight as top priorities the need to align the focus of the education system more closely with the behaviours and skills required by employers (64%) and to raise standards across the education system (48%)
- Businesses too have an important part to play by increasing access to vocational training and apprenticeships (45%) and improving access to high-quality work experience (26%)
- Most firms (59%) report that there are obstacles to developing as diverse a workforce as they would wish, with insufficient numbers of people from diverse backgrounds in their sector or profession cited as the most common issue (69%)
- Other impediments to greater diversity include working cultures (29%) and stereotyping (27%), pointing to the need to work on changing attitudes
- Businesses are actively boosting gender diversity among those who will be their future leaders, with more than half (51%) of firms using or considering mentoring schemes to inspire future leaders.

Engaging talent is critical for growth

The UK needs to make the most of every ounce of potential if it is to match international competition and stay on the path to sustained growth. In the search for an edge, businesses are always looking for the best person to fill any role, seeking out talent as a prime source of competitive advantage – and that means accessing and developing talent in every part of our society.

All people need clear pathways to enter the labour market and progress and develop. If the UK is to make the most of the potential that everyone's talent can deliver, it is important to understand the nature of any barriers and how they can be overcome.

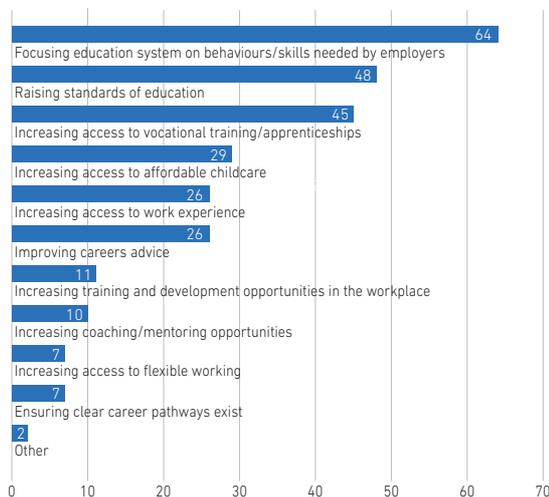
The education system must help young people prepare for working life...

The foundations for people’s working lives are laid during their time at school. Action at this stage is essential to help prepare those from disadvantaged backgrounds to be able to make the best use of opportunities in working life.

Two thirds of businesses (64%) believe there is a need to align the focus of the education system more closely with the behaviours and skills required by employers as one of the top priorities (Exhibit 52). This goes beyond developing academic knowledge and vocational skills to include the types of attitudes and aptitudes appropriate for the workplace. Those from a disadvantaged background often have limited role models to draw on to help form their understanding of working life, so schools and colleges must address the challenge, backed by strong government support.

At the same time nearly half of respondents (48%) identify as one of their top three priorities the need to raise standards of education broadly in order to benefit those lacking advantages. Raising educational standards equips people to pursue opportunities that are otherwise closed to them.

Exhibit 52 Priorities for government and/or businesses to help people from disadvantaged backgrounds progress in work (%)



Young people – and those who missed out on opportunities earlier in life – also need to have access to training openings and to be helped to make informed decisions about how best to develop and maximise their talents. Just under half of businesses (45%) see increasing access to vocational training and apprenticeships as a priority means of helping those from disadvantaged backgrounds. People also require help and guidance in selecting the right avenue to pursue, so more than a quarter of firms (26%) see improving careers advice as one of the top priorities.

...and businesses can help open eyes and doors

Businesses have an important part to play in improving careers advice for young people through their involvement with schools (see section 6). There is an equally important role for them in giving young people the chance to experience working life. For those from disadvantaged backgrounds, however, access to high-quality work experience can be very limited, so more than a quarter of respondents (26%) believe increasing their access to work experience should be a major priority.

For those already in the workplace, training and development opportunities can open new avenues to career progression (11% see this as one of the top priorities). A similar proportion of businesses (10%) recognise the role that increased coaching and mentoring opportunities can play in helping those from disadvantaged backgrounds develop the confidence and attitudes to progress in working life. These types of support are especially valuable for individuals without access to pre-existing networks or role models who can act as a source of inspiration or guidance.

The practical problem of affordable childcare needs to be addressed

More than one in four businesses (29%) points to affordable childcare as a priority area for attention to help those from disadvantaged backgrounds progress at work. Clearly, for those with caring responsibilities the problem of juggling care and its costs are a major consideration, with a big impact on whether and how they are able to take part in working life.

Achieving a more diverse talent pool means changing attitudes...

Achieving the best possible mix of skills, talent and experience is essential to the success of any firm. As our findings on business priorities for the coming year show (Exhibit 61, page 49), there is a clear focus on strengthening leadership skills and capabilities and on identifying and meeting future talent requirements. Fulfilling these objectives involves drawing on talent from diverse sources.

Most firms (59%) report that there are obstacles to their developing as diverse a workforce as they would wish. Among these businesses, by far the most common cause (identified by 69%) is that there are not enough people from diverse backgrounds in their sector or profession (Exhibit 53). The problem is seen as even more acute in some major sectors, with more than three quarters in manufacturing (78%) and the knowledge industries (76% for science, hi-tech, IT and professional services combined) seeing this as an issue. It can be hard to break the cycle of a relative lack of diversity in a sector or occupation, with fewer role models to encourage a greater diversity of career entrants, but there are real risks of 'group think' and failing to draw on the full range of available talent.

Those businesses that see impediments to more diversity also point to their working culture (29%) and stereotyping (27%). Changing attitudes among employees and potential applicants is central to achieving the greater diversity that is so important

for future business success. In some firms, it might be possible to review working practices (seen as an issue by 25% of respondents) to ensure that these do not pose unnecessary obstacles to attracting particular groups of potential employees.

Businesses are continuing to develop a more gender-balanced cadre of future leaders

Women have long been under-represented in boardrooms and at senior management levels in businesses, but this has been changing rapidly in recent years. The driving force is the quest for talent, not tokenism.

The UK is making real progress on increasing gender diversity at senior levels within business. Since Lord Davies' independent review into women on FTSE company boards began in 2010, the proportion of female-held board appointments has increased by nearly 50%.³⁵ Taking appointments in the year from March 2012 alone, women secured a third (34%) of all FTSE 100 board appointments and more than a third (36%) of appointments to FTSE 250 boards.

While the spotlight has been on boardroom appointments, looking to the future it is essential to shape a development pipeline to ensure a continuing flow of diverse business leadership talent. Businesses are taking a variety of steps to achieve this (Exhibit 54).

Exhibit 53 Obstacles to a more diverse workforce (%)

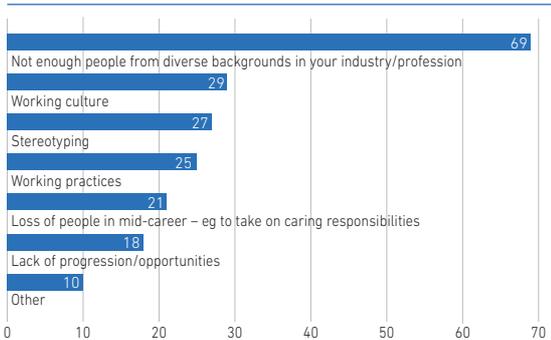
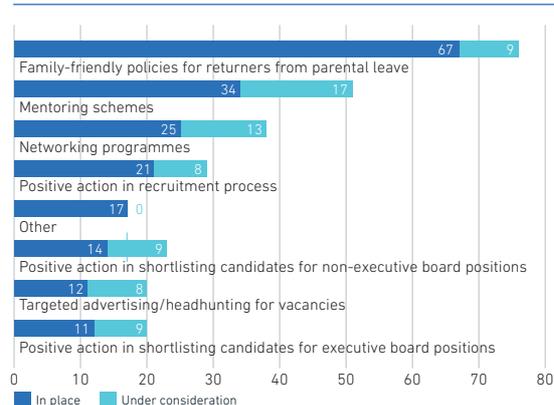


Exhibit 54 Steps to improve gender diversity among the next generation of business leaders (%)



We asked firms what action they are currently taking to improve gender diversity among the next generation of business leaders. More than seven out of ten respondents have (67%) – or are currently considering (9%) – family-friendly policies for returners from parental leave. More than half (51%) of firms say they are operating or considering mentoring schemes to develop future leaders, using these to give important developmental support and encouragement. A quarter (25%) have networking schemes in place to aid gender diversity, with a further one in eight firms (13%) considering such a scheme.

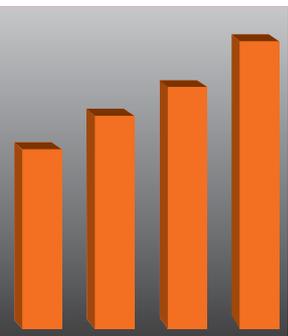
On the recruitment side, close to a third (29%) report using or considering positive action in the recruitment process. For board-level appointments, more than a fifth of respondents are operating or considering introducing positive action on shortlisting female candidates for non-executive positions (23%) and a fifth (20%) are taking this approach or considering it for executive director roles.

Nearly a fifth of businesses (17%) say they are taking other initiatives to improve gender diversity among the next generation of their leaders. These include initiatives such as internal diversity targets, focused succession planning and development programmes specifically for female managers.

“ *Since 2010, the proportion of female-held board appointments has increased by nearly 50%* ”

Employee engagement is essential for business success

SECTION 8



Businesses are keenly aware of the benefits that flow from high levels of employee engagement. Encouragingly, the current climate of employee relations is a positive one in the great majority of workplaces and most organisations expect that to be maintained in the coming year. But there is scope to raise levels of employee engagement further, based on the leading drivers of shared company-wide values and improved opportunities for people to progress at work.

Key findings:

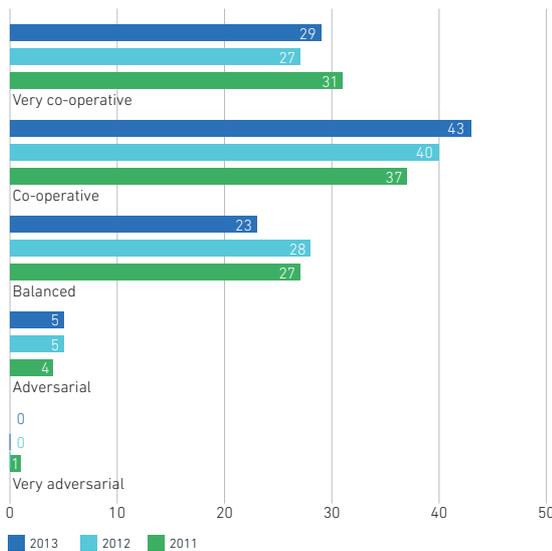
- The proportion of businesses assessing the employee relations climate in their organisation as either co-operative or very co-operative has risen to a new high (72%), with just one in 20 (5%) saying it is adversarial
- There is still scope for further improvement: while a positive balance of +74% of non-unionised businesses describe their current employee relations climate as co-operative or better, a balance of only just over half (+51%) of those recognising a trade union for collective bargaining do so
- Businesses are optimistic about the year ahead, with a positive balance of +70% expecting their employee relations climate to be co-operative or better, up from a balance of +50% in 2012
- Employee morale is on a rising trend, with nearly half of firms (49%) reporting morale in their organisation as high or very high, up from 40% in 2012
- Organisations see high levels of employee engagement as business-critical, with major benefits in the shape of improved productivity and performance (87%) and increased customer and client satisfaction (66%)

- Key drivers of employee engagement are shared, company-wide values (cited by 41%), career opportunities and scope for people to progress (40%), personal interest in the work (37%) and effective line management (35%)
- The top people priorities for businesses in the next 12 months are improving leadership skills and capabilities (60%) and securing high levels of employee engagement (54%).

There is a climate of co-operation in most workplaces...

During the economic downturn, a spirit of positive relations between businesses and their employees characterised most workplaces, helping to limit the number of job losses and contain unemployment below the levels that were initially expected.³⁶ There have been fears that the mood might change once economic recovery got under way, but the results from our latest survey show that the atmosphere of co-operation is being successfully maintained.

Exhibit 55 Businesses' view of employee relations climate in their workplace (%)



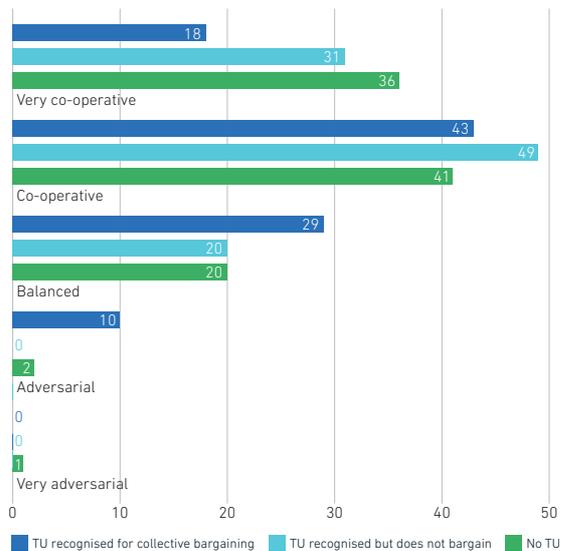
In 2012 just over two thirds (67%) of respondents assessed the employee relations climate in their business as either co-operative or very co-operative (**Exhibit 55**). That positive climate is being maintained, with the proportion of businesses in the latest survey assessing their employee relations as co-operative or better rising to more than seven in ten (72%). Only one in twenty firms (5%) reports an adversarial climate.

The overall balance between co-operative and adversarial relations therefore currently shows a positive balance of +67%, even higher than the levels of 2012 and 2011 (+62% and +63% respectively). These are encouraging results. They reflect the investment firms have made in engaging with employees to ensure they are informed about the business, understand the reasons for changes and are involved in shaping plans for the future.

...but it is important for employers not to become complacent

Maintaining and deepening the spirit of co-operation is imperative if businesses are to compete successfully in the increasingly tough international

Exhibit 56 Current employee relations climate in the workplace by union recognition, 2013 (%)



marketplace, generating growth through high-value, high-skill outputs that meet rising customer expectations. In the public sector, a positive workplace climate is needed for the long term to do more with less in delivering 21st century public services.

Our results show there is scope for further improvement. While only just under a quarter of larger organisations (23%) assess their employee relations climate as 'very co-operative', among SMEs the proportion taking that view rises to 40%.

Across respondents as a whole, a third (33%) recognise trade unions for collective bargaining purposes in at least part of the organisation. Where this is the case, the balance of respondents assessing the spirit of employee relations as co-operative or better is +51%, compared to +74% across those businesses not recognising a union (**Exhibit 56**). This difference may, in part, be accounted for by the increased use of leverage strategies from some unions. With one in ten of those recognising unions (10%) reporting the workplace climate as 'adversarial', there is clearly more to be done by employers and unions to improve these relationships.

Exhibit 57 Businesses' expectations of employee relations climate in their workplace next year (%)

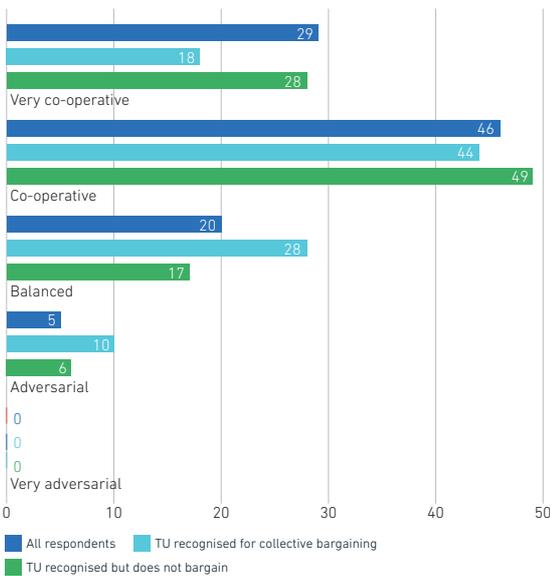
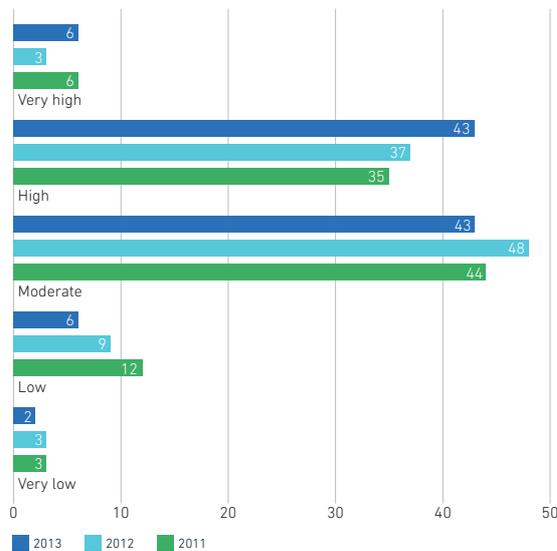


Exhibit 58 Businesses' view of employee morale in their organisation (%)



Businesses expect to maintain the positive climate

Looking ahead, businesses are optimistic they can maintain the generally positive employee relations climate (Exhibit 57). When asked about their expectations for the employee relations climate within their organisation in the coming year, three quarters of businesses (75%) expect the climate to be co-operative or very co-operative, while just one in 20 (5%) expect their workplace climate to be adversarial. This gives a positive balance of +70% on expectations, up from a +50% balance in 2012.³⁷ These results suggest businesses are increasingly confident there will not be a backlash in terms of more difficult employee relations as the immediate pressures of the recession ease. More co-operative employee relations need to become securely embedded as part of 'the new normal'.

Assessments again depend in part on the nature of the relationship that businesses have with their workforce. Within organisations that engage in collective bargaining with recognised trade unions, there is a lower level of optimism about the future. Among this group of respondents, the positive balance expecting a co-operative or very co-operative employee relations climate in the coming year stands at +52% – well below the level across businesses as a whole.

Employee morale is also on the up

Levels of employee morale ran at remarkably high levels during the recession and that pattern is being maintained into the recovery (Exhibit 58). In 2012, two fifths (40%) of businesses reported employee morale as being high or very high and just one in eight (12%) as low or very low, producing a positive balance of +28% on the state of employee morale.

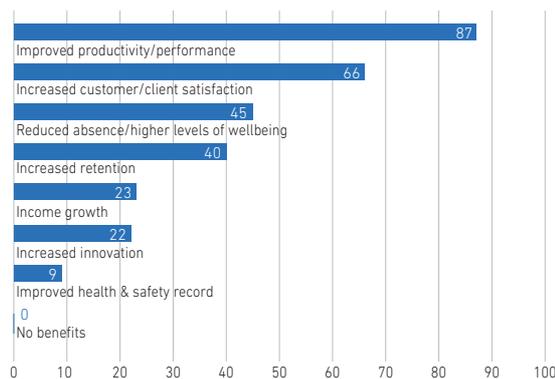
Our latest results show further reinforcement of the positive trend. With fewer organisations reporting low or very low employee morale, the overall balance between those reporting high or low levels of morale has climbed to +41%, higher than in the previous two years. Given the critical importance of people as a source of competitive advantage, employers will be keen to maintain and build on this encouraging track record.

Employee engagement is a business-critical issue...

Higher levels of employee engagement generate a range of benefits for businesses (Exhibit 59). According to our research the single most important benefit is improved productivity and performance, identified as one of the three major benefits by nearly nine out of ten respondents (87%). Increases in customer and client satisfaction – with all the benefits that flow from that – rank highly too, cited by two thirds of participants (66%).

Businesses also see higher levels of employee engagement as having important positive impacts on employees’ own behaviour and attitudes. Close to half (45%) view improved employee engagement as going hand-in-hand with reduced absence and higher levels of employee wellbeing, while two in five (40%) point to it as improving staff retention – an important consideration given the costs of recruitment and training and the tightening market for many skills.

Exhibit 59 Major benefits of higher levels of employee engagement (%)



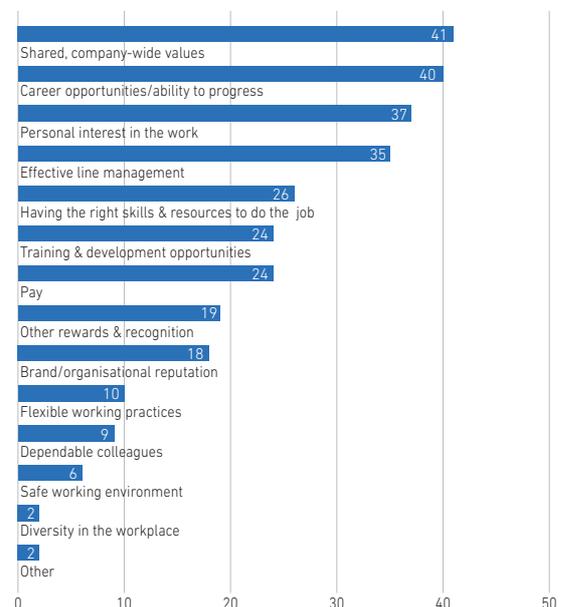
...with shared values and career opportunities topping the list of drivers of engagement

We asked respondents what they believe are the three key drivers of employee engagement in their business (Exhibit 60). The results show how important it is for organisations to have in place strong communication processes and mechanisms that enable people to progress at work.

The single most important driver of engagement is seen as a set of shared, company-wide values (41%), so all members of the workforce share the same vision of the organisation’s aims and purposes. This provides an essential framework for day-to-day operations and gives everyone a sense of common purpose.

Ranked as almost equally important in boosting engagement is the availability of career opportunities, giving employees the ability to progress at work (40%). Enabling employees to see a path ahead of them at work is an important part of enhancing motivation and loyalty to the organisation. Engagement can also receive an important boost from employees developing a personal interest in the work (37%).

Exhibit 60 Drivers of employee engagement (%)



These top-rated drivers of employee engagement depend for their effectiveness on the quality of leadership and communication with employees. So it is no surprise that respondents view effective line management as a highly important driver (cited by 35%).

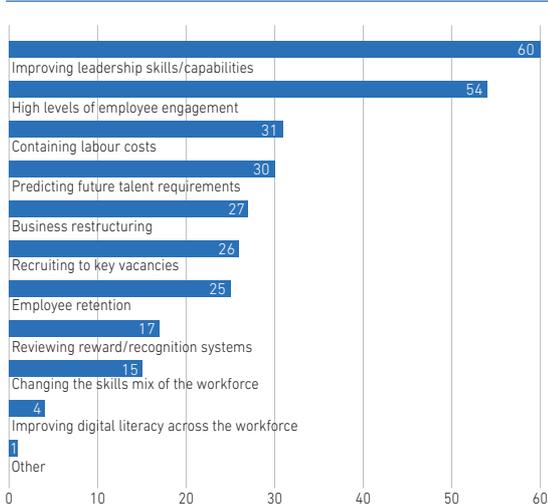
Pay has a mid-ranking place among the drivers of employee engagement (cited by 24% as one of the top three drivers), but training and development opportunities rate as equally important (24%). And both of these rank a little below having the right skills and resources to do the job (26%).

Employee engagement and better leadership top the future priority list...

Our survey asked participants to identify their top three workforce priorities for the coming year as the recovery gathers pace (Exhibit 61). Two items top the list by a considerable margin: improving leadership skills and capabilities (cited by 60%) and high levels of employee engagement (54%).

Effective leadership and management are central to the success of every organisation. So it is no surprise that businesses see improving the skills and capabilities of current and future leaders as a priority to enable them to thrive in the years ahead. As the

Exhibit 61 Top three workforce priorities in the coming year (%)



results featured earlier (Exhibit 59) show, firms are also in no doubt about the benefits flowing from higher levels of employee engagement. Harnessing employee commitment is therefore one of the top priorities for a majority of businesses in the coming year.

...while tough competitive conditions require a focus on labour costs...

Just under a third of responding organisations (31%) cite containing labour costs as among their top priorities for the year ahead. Its prominence is symptomatic of the tough competitive conditions firms face in international and domestic markets, as well as the need to continue containing expenditure in public services. Raising levels of employee engagement while maintaining a tight grip on labour costs will pose a continuing challenge to firms – one which requires excellent leadership and management skills.

...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, predicting future talent requirements and developing strategies to meet those needs will be among the leading priorities for close to a third (30%) of businesses. In a similar vein, more than one in four (26%) identify recruiting to key vacancies as high on their priority list for the period ahead and a comparable proportion (25%) intend to focus on employee retention.

More than a quarter of respondents (27%) expect business restructuring to be among their top priorities next year. Despite easing economic conditions, the pace of change and the need to adapt to new technologies, markets and customer demands are part of the 'new normal' conditions.

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