

# Navigating choppy waters

CBI/Harvey Nash employment  
trends survey 2011



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## Foreword



The business world is still in choppy waters. While certain segments of the economy have recovered strongly – notably manufacturing and other creative industries – growth is patchy, and firms are battling against the headwinds of uncertain demand, increased raw material prices and the continuing need to constrain costs. Despite these risks to the UK's economic outlook, business leaders have told us in this report that the recovery will make further headway this year and next.

We certainly cannot afford to be complacent. But the flexibility of our labour market helped us in the recession and will be a key underpin of our recovery. Despite this strength we cannot take flexibility for granted. The cost burden of employment regulations means it is ever more costly to get the right people, in the right place, at the right time. In a world of ever-increasing competition for business investment, employers will be looking to policy makers to change tack and help make the UK the best place for business investment.

The increasingly bureaucratic and prescriptive nature of employment regulation doesn't just impose costs on employers; it is fundamentally at odds with the more individualised, flexible working relationship that we see today. CBI members have told us that rules and regulations get in the way of relationships based on open and honest dialogue, entrenching an old-fashioned view of the workplace based on 'them' and 'us'. While a set of clear, well-enforced minimum rights is essential to the functioning of the labour market, the complexity and prescriptive nature of the current framework has clearly gone too far.

The direction of travel of the Government's employment law review is the right one. It is disappointing that it has not extended its reach into all areas like industrial relations legislation, the agency directive or the removal of the DRA. The early focus on reform of the employment tribunal system is welcome, but employers will want to see tangible results sooner rather than later if their early optimism about the review is to be realised.

A handwritten signature in dark ink that reads "John Cridland". The signature is fluid and cursive.

**John Cridland**  
CBI director-general

**“The increasingly bureaucratic and prescriptive nature of employment regulations is at odds with the more individualised, flexible working relationship that we see today”**

## Foreword



As businesses position themselves to capitalise on opportunities for growth in the future, this year's survey shows a positive recruitment outlook, particularly for highly skilled individuals. Despite public sector spending constraints, private businesses continue to position themselves to take full advantage of the recovery. As Britain looks to grow existing businesses and attract foreign investment, preserving its international competitiveness and developing its domestic skills base will be vital.

Employers know that their greatest asset is their people. That is why they continue to place employee engagement at the top of their priorities. During the recession this fostered a common purpose and co-operation which helped to minimise job losses. Two years after we first reported it, the high levels of engagement between employers and their workforce – and the high morale that this fostered – persists.

It is encouraging that – despite the economic uncertainty – employers are reporting more positive recruitment plans. But, as with approaches to pay, the improvements are still incremental and targeted. Hiring plans are clearly focused on those with higher level skills, and particularly those in professional, technical and sales functions which are closely aligned to future growth.

Of course public sector employers have had to adapt their plans, as a necessary part of the government's deficit reduction strategy. However, this needn't be a tale of doom and gloom. While the numbers involved are large – 310,000 jobs according to the Office of Budget Responsibility – in context even a modest private sector recovery should see these posts absorbed relatively comfortably. However, it is clear that government must do all it can to equip public sector workers with the necessary skills – and language – to find gainful employment in the commercial sector. This is a challenge, certainly, but one that we're confident can be met.

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines, representing the name Albert Ellis.

**Albert Ellis**  
Chief executive officer, Harvey Nash Group plc

**“Hiring plans are clearly focused on those with higher level skills, and particularly those in professional, technical and sales functions which are closely aligned to future growth”**

# Overview

## The fourteenth employment trends survey

- This survey was conducted in March and April 2011
- There were 335 respondents, employing almost three and a half 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.

## Improved job prospects but no pay surge

- The proportion of organisations operating a recruitment freeze is far lower than in the depths of the recession, but it has been nudged up to one in ten (9%) by an increasing number of freezes in the public sector
- Around half of businesses plan no change in their levels of recruitment in the next six months, but where changes are expected more organisations intend to increase recruitment than to reduce it: there is a positive overall balance between higher levels and lower levels of recruitment for permanent staff (+11%), temporary staff (+7%) and graduates (+9%)
- Employers are focusing recruitment on professional, technical and sales roles as businesses position themselves for future growth
- While the proportion of pay freezes in the private sector remains at levels reported in 2010 (16%), the number across the economy has been pushed up by pay freezes coming into operation this year in more than four fifths (83%) of public sector organisations
- Sufficient jobs can be created in the private sector to absorb former public sector workers, but barriers such as lack of commercial awareness and unrealistic expectations for reward packages must be overcome.

## Making the UK the best place to invest

- Nearly two thirds (61%) of employers believe that the UK has become a less attractive place to invest and do business over the past five years
- There is cautious optimism about the next five years, with a small majority of those anticipating change believing the UK's attractions as a business location will be improved
- More than three quarters (77%) of businesses cite the burden of employment regulation as the greatest current HR threat to UK competitiveness, but employers are hopeful the government will prioritise reducing the burden before the end of the parliament
- More than half of employers (54%) see the UK's low skills base as a threat to competitiveness, with little improvement in prospect
- Employers are growing increasingly concerned about their ability to bring in talent from outside the EU, particularly individuals with specific technical or higher level skills.

## Employment tribunals: time for reform

- Over half the employers surveyed (52%) have received one or more tribunal claims in the past 12 months
- Reflecting the rise in weak and vexatious claims, a third of claims (31%) are withdrawn by the applicant
- Where employers opt to settle claims, they most commonly do so despite being advised they are likely to win at a tribunal hearing
- The increase in the number of weak claims reaching a hearing means that employers are now six times more likely to win a case than lose it
- Almost all employers (97%) think action is needed to tackle the increase in weak and vexatious cases. Favoured solutions include better case management (72%), the greater awarding of costs (71%) and greater use of deposit orders (67%).

### Ending the DRA poses challenges

- Three in four firms (76%) report that phasing out of the default retirement age is having an impact on their business
- Two thirds of employers are concerned about the readiness of line managers to deal with declining performance among older employees (67%) and about the effect on older workers of more rigorous application of performance management (64%)
- Half of employers (51%) expect the legal vacuum created by the abolition of the DRA to lead to more age-related employment tribunal claims in their business
- While nearly half (45%) of employers see benefits from retaining the knowledge and skills of older workers, they have lost their ability to select those they wish to retain.

### Employee relations – a positive climate but some storms ahead

- Two thirds of employers (68%) report the employee relations climate in their organisation as either co-operative or very co-operative
- While three quarters (76%) of non-unionised businesses describe their employee relations climate as co-operative or very co-operative, only just over half (58%) of organisations recognising a trade union for collective bargaining do so – and many of these expect the climate to become more adversarial in the coming year
- Levels of employee morale across the economy are generally high, with two fifths (41%) of employers reporting employee morale as high or very high and only 15% as low or below
- The key exception is the public sector, where organisations reporting low morale outnumber those reporting it as high or better
- Virtually every employer (99%) reports using at least some regular mechanism for communicating with staff and every method is more widely in use in 2011 than in 2010.

### Flexibility that works for employees and employers

- Flexible working is now a standard feature of the modern workplace: nearly all employers (96%) offer at least one form of flexible working and nearly three quarters (70%) offer three or more
- There has been particularly rapid expansion in recent years in the use of teleworking and the provision of career breaks/sabbaticals
- The increased use of flexible working looks set to continue in the next few years, with many employers currently considering introducing additional arrangements
- Employers understand the value of flexible working to their business, particularly the positive impact granting requests has on employee relations and recruitment/retention (seen as positive by 74% and 61% respectively)
- But they are wary about the government's plan to extend the 'right to request' to all employees, with many anticipating a negative impact on productivity, customer service and labour costs (32%, 35% and 38% respectively). This puts a premium on ensuring that any changes work for business needs too
- Nearly three quarters (72%) of employers are concerned that losing the working time opt-out would have an impact on their business. Nearly half (46%) believe that the impact would be significant or severe.

### Engaging employees in securing recovery

- The two top priorities for businesses in the next 12 months are securing high levels of employee engagement (61%) and containing labour costs (48%)
- Employers are also concerned about staffing, looking to fill key vacancies (45%) and retain employees (39%)
- Reflecting the need to prepare for growth, a rising number of employers are looking to change the skills mix of their workforce (29% in 2011, up from 22% in 2010) and to achieve business restructuring (32%).

# The employment landscape

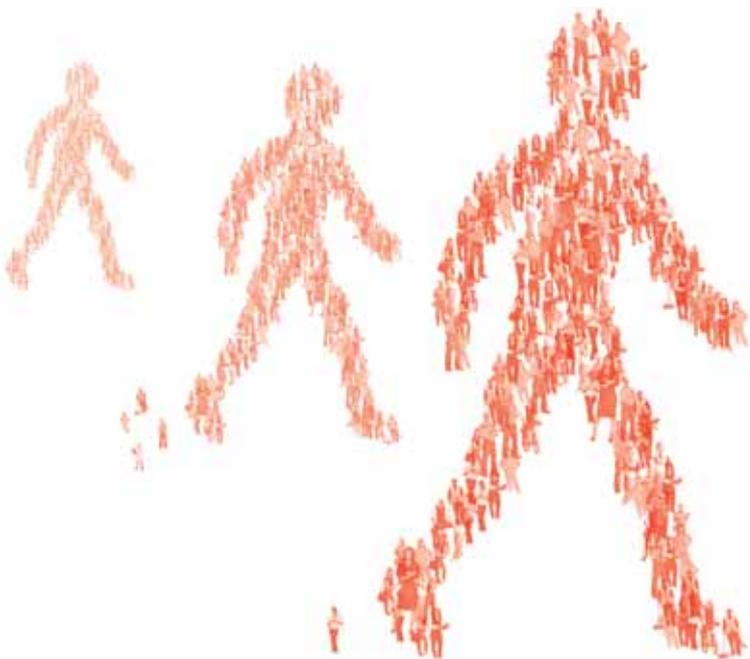
**The 2011 employment trends survey (ETS) – the fourteenth year it has been run – was conducted during a period of slow economic recovery. Over recent months, economic data and business surveys point to gradual, uneven improvement, but rebalancing the economy is a long process.**

## **The recovery is underway, but the water ahead is choppy**

Since the publication of the CBI/ Harvey Nash survey *Gearing up for growth* in autumn 2010, the slow and sluggish nature of the economic recovery has become clear.<sup>1</sup> Economic output fell by 6.4% from peak to trough during the recession, and has subsequently rebounded modestly by 2.5%. But the five quarters since growth returned in Q4 2009 were interrupted by a contraction in the fourth quarter of 2010.

These figures, of course, hide significant sectoral variation. While manufacturing grew by 3.6% in 2010, financial intermediation contracted by 4.5%. Even within the first quarter of 2011, growth was dragged downwards by a surprising contraction in the construction sector. So, while the economy as a whole is growing again, it does not necessarily feel like a return to good times.

Indeed, while it is to be hoped that the fourth quarter contraction was a snow-induced blip, the path ahead will be a tricky one to navigate. While the government's plans to tackle the budget deficit are essential, they will inevitably weigh on demand in parts of the economy. And spending by consumers is squeezed as households pay down their debts. While exports and business investment have picked up, the uncertain outlook in the eurozone, combined with fierce international competition for capital, represent possible threats to growth from these sources as well. However, despite these downside risks, the CBI's latest economic forecast<sup>2</sup> predicts that growth will continue to pick up pace, with GDP expanding by 1.7% in 2011 and 2.2% in 2012.



**The labour market will not bounce back immediately...**

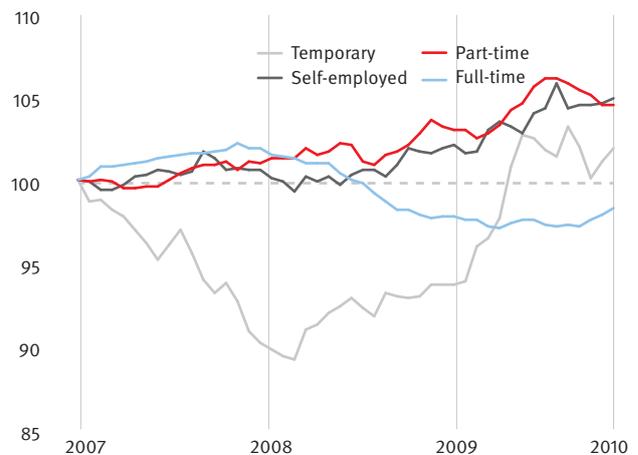
The economic contraction experienced in 2008/09 (6.4% of GDP) was much more severe than those experienced in the 1980s (4.6%) or 1990s (2.5%). Yet the labour market proved surprisingly resilient: employment fell by 600,000 from peak to trough. By comparison, the 1990s contraction cost half as many jobs again from a smaller pool of labour.

This resilience reflects changes in that period in the labour market and the way organisations manage their employees. Employers and employees across the country reached agreements to reduce working hours temporarily and contain pay costs in order to preserve jobs. There was widespread recognition that employers had on occasion cut back skilled staff too quickly in previous recessions, only to have to re-hire them at a premium once growth returned. With firms investing billions in training every year, there was a clear benefit to all parties in maintaining the employment relationship where possible.

However, having preserved jobs as the economy froze, this flexibility is likely to cool job generation in the early part of the recovery. Previous experience of recessions in the UK has been that cutting back on headcount – but maintaining output – has presaged strong productivity growth in the recovery phase. This in turn boosted profitability as growth returned, providing scope for employers to add to their workforces. In 2008/09, as employers cut production – but not headcounts – output per worker fell by 4.7%, and it has grown by only 1.3% in the seven quarters since the end of the recession.

**“In 2009/09, as employers cut production, output per worker fell by 4.7%. It has grown by only 1.3% in the seven quarters since the end of the recession”**

**Exhibit 1 Change in the make-up of the work force (January 2007 = 100)**



Source: ONS

**...but the trends are in the right direction**

The impact of the trends outlined above on the make-up of the work force has been quite dramatic (**Exhibit 1**). As the economy slowed, the number of agency temps engaged by firms fell sharply – with firms looking to protect their core employees in the slowing economy. However, temp numbers picked up as the recession eased, with firms looking to meet staffing needs flexibly in an uncertain economic environment. The number of temps – and their share of the labour force – are both now higher than they were pre-recession.

Because of the buffer provided by the temporary workforce, the number of regular full-time jobs did not begin to fall until six months after the recession had started. And the recovery in full-time posts – which make up over 60% of all jobs – has only just begun.

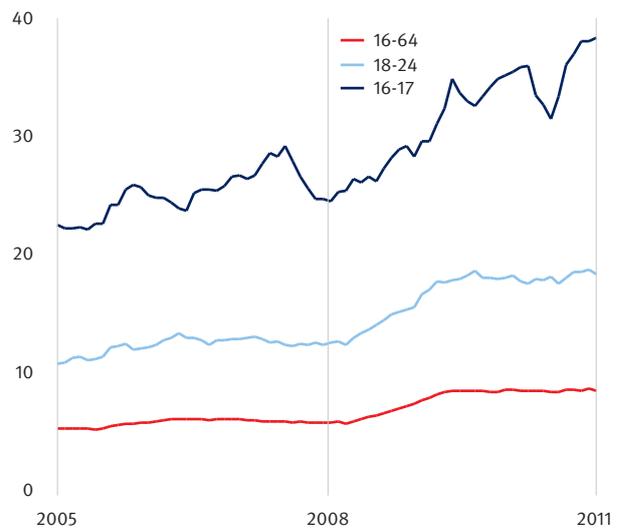
The biggest success story – bearing out the plentiful anecdotal evidence about firm behaviour – has been the growth in part-time work. This grew fairly smoothly once the pace of the recession slowed, and moving to part-time work has allowed many workers who might otherwise have lost their jobs to remain active in the labour market. The number of part-time workers now stands at 5% above pre-recession levels. Some of these will be looking to move back into full-time jobs, but this may take time given the absence of the spare productive capacity generated in previous recessions.

One of the other key challenges facing the labour market over the next couple of years will be coping with the forecast reduction of 310,000 jobs in the public sector. While much of this will be achieved without redundancies, some public sector workers will need to find new work in the private sector if the economy is to grow as forecast. Respondents to this year's survey highlight some challenges that must be overcome before this happens (see chapter 2). However, the early signs are positive. In 2010 – when the economy grew by only 1.3% – the private sector generated 393,000 additional jobs, while the public sector workforce contracted by some 108,000. This scale of job generation – while no guarantee of future performance – gives cause for optimism.

### Youth unemployment remains a particular concern...

Perhaps the biggest long-term challenge posed by the post-recession labour market is the significant growth in youth unemployment (**Exhibit 2**). This is worrying today – as the potential of too many young people goes to waste and they miss out on valuable experience – and troubling for the future, as all the evidence suggests that a failure to engage with the labour market early has a sustained scarring impact on individuals through their lives.

**Exhibit 2 Unemployment rates by age cohort (%)**



Source: ONS

Youth unemployment is not a new challenge – pre-recession, one in five 16-17 year olds were neither in education nor work. However, as firms took steps to preserve existing jobs, they stopped generating new entry-level roles for those leaving education. Between the start of the recession and the publication of this report, the unemployment rate for 16/17 year olds rose by 46%. It is a similar story for 18-24 year olds, where over the same period unemployment has risen by nearly one third (32%).

The government must now act to ensure that these changes are cyclical, rather than structural. Welcome steps have been taken, with the expansion of apprenticeships, educational reforms, and a focus on delivering work experience to those on the margins of the labour market. But the most important task will be to deliver the self-sustaining growth that will generate business confidence and boost hiring. The government must have this as the over-arching policy priority of this parliament.

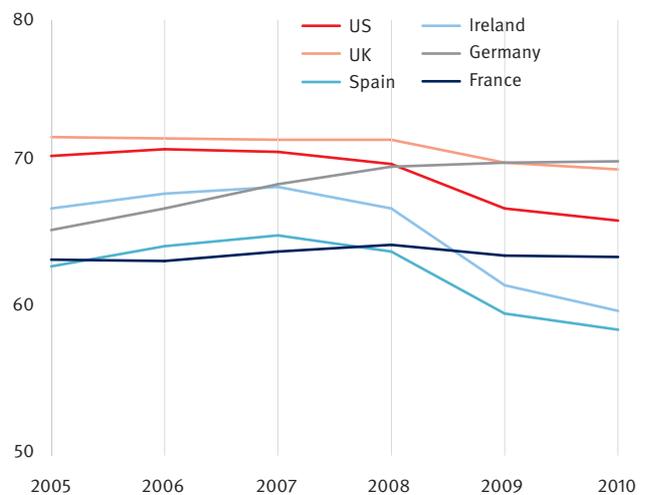
**...but the UK's labour market is still functioning comparatively well**

However, despite these significant challenges, the UK's labour market performed well in the recession by comparison with major competitors (**Exhibit 3**). The employment rate in the UK fell by 2.2 percentage points between 2007 and 2010, while in the US the decline was 4.1 percentage points and in Ireland, 9.2 percentage points. Although the German economy increased employment during the recession, the overall employment rate is still only 0.5 percentage points higher than in the UK.

The UK's labour market also performs better at preventing people from becoming permanently disassociated from the labour market. Given the more frugal welfare provision, it is unsurprising that – even with legislation extending unemployment insurance to 99 weeks – the US has the lowest percentage of long-term unemployment (**Exhibit 4**). The UK, however, comes next on the list of comparator countries, with 24.6% of the unemployed out of work for more than a year, compared to more than 30% across the EU as a whole. While the proportion of long-term unemployment in the UK has increased in the recession, it is essential that the flows back into work are maintained to address the costs and damaging consequences of long-term disengagement from work.

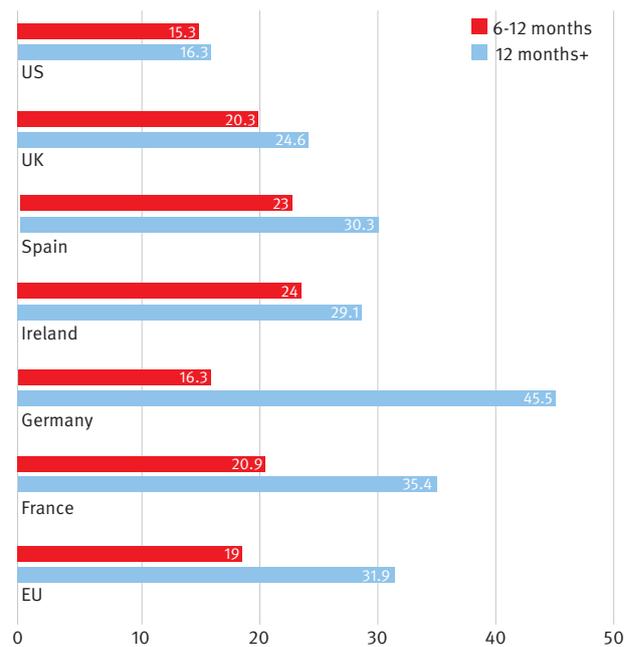
**38%**  
of 16/17 year olds  
are unemployed

**Exhibit 3 International comparison of employment rates %**



Source: Eurostat

**Exhibit 4 International comparison of duration of unemployment (%)**



Source: OECD

# 1 The fourteenth employment trends survey

**The CBI employment trends survey was first published in 1998, one year into the Blair government's first term. At that time the UK economy was performing strongly and the then recently-elected government had an ambitious employment policy agenda. Today's tough economic environment provides very different challenges for employers and the coalition government. But the importance of safeguarding the flexibility of the UK labour market remains as important today to economic recovery and sustained growth as it was 14 years ago.**

This report marks the latest instalment of our surveys in partnership with Harvey Nash, exploring how businesses are coping with the effects of the recession and planning for a return to growth. The first two, in 2009, looked at the immediate impact of the recession on business activity and employment patterns.<sup>3</sup> They showed the lengths firms were going to in order to retain talent. In 2010, the surveys looked at how businesses were preparing for economic recovery, tracking the easing of recruitment standstills and pay freezes.<sup>4</sup> Six months further on, this report looks at the extent to which trends in the labour market point to a slow private sector-led recovery in the jobs market and the need for the government to set a regulatory framework that supports that recovery.

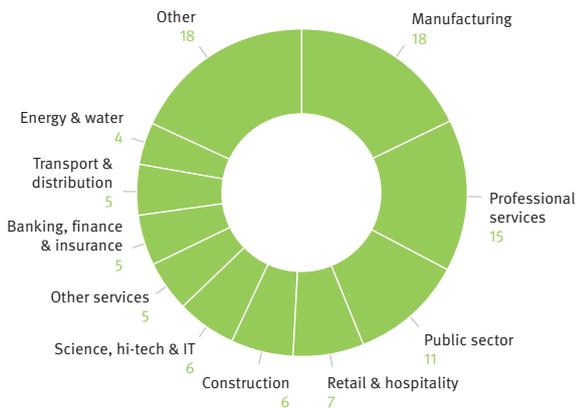
This survey was conducted in March/April 2011. There were 335 respondents, employing almost three and a half million people between them, equivalent to more than 13% of all employees in the UK.<sup>5</sup> Respondent organisations spanned a wide range of sizes and sectors – including public sector organisations – 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 tended to be the human resources director or equivalent.

## Sectoral analysis

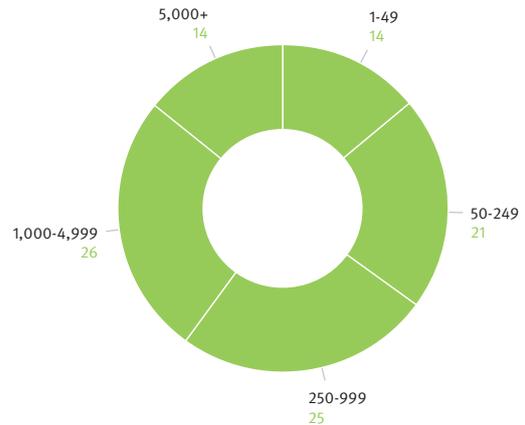
There was a wide spread of responses across all sectors, as **Exhibit 5** illustrates. This year, in line with previous surveys, manufacturing firms formed the biggest single group of respondents at nearly one in five (18%), with professional services firms making up the second largest grouping (15%). Public sector organisations made up one in ten (11%) of the sample.



**Exhibit 5 Respondents by economic sector (%)**



**Exhibit 6 Respondents by company size (%)**



**Respondents by company size**

Companies of all sizes participated in the survey – 14% employed fewer than 50 employees and the same proportion employed more than 5,000 (**Exhibit 6**).

Official data suggests that, as with most surveys, respondents over-represent medium-sized and larger firms, as the majority of UK businesses employ fewer than 50 people. But larger firms employ over half (53%) of the workforce<sup>6</sup>, so the survey broadly reflects overall employment views and practices. Based on the official definition of small and medium-sized businesses (SMEs) employing 250 or fewer employees, SMEs accounted for 35% of respondents.

**Respondents by region**

The majority of respondents had employees in several or all regions of the UK (**Exhibit 7**). Two in five respondents had at least some employees in London (42%) and in the South East (39%), while one in five (18%) had employees in Northern Ireland.

**Exhibit 7 Respondents by region (%)**



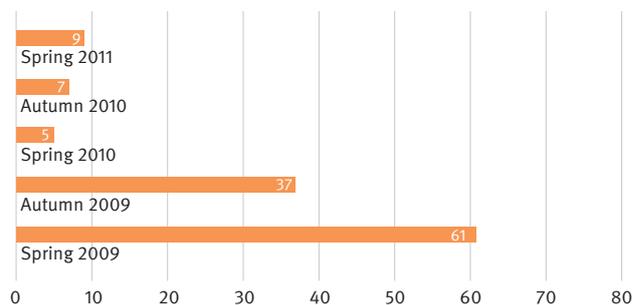
## 2 Improved job prospects but no pay surge

With economic recovery gathering momentum after an uncertain start, private sector employment has been growing. For the majority of firms, the recruitment and pay freezes that characterised the recession thawed as the economy began its recovery, though employers remain cautious in their approaches to taking on new staff and increasing pay levels. Tackling the public sector deficit will involve up to 310,000 fewer people being employed in the public sector. But the private sector should be able to provide alternative employment opportunities.

### Key findings

- The proportion of organisations operating a recruitment freeze is far lower than in the depths of the recession, but it has been nudged up to one in ten (9%) by an increasing number of freezes in the public sector
- Around half of businesses plan no change in their levels of recruitment in the next six months, but where changes are expected more organisations intend to increase recruitment than to reduce it: there is a positive overall balance between higher levels and lower levels of recruitment for permanent staff (+11%), temporary staff (+7%) and graduates (+9%)
- Employers are focusing recruitment on professional, technical and sales roles as businesses position themselves for future growth
- While the proportion of pay freezes in the private sector remains at levels reported in 2010 (16%), the number across the economy has been pushed up by pay freezes coming into operation this year in more than four fifths (83%) of public sector organisations
- Sufficient jobs can be created in the private sector to absorb former public sector workers, but barriers such as in their lack of commercial awareness and unrealistic expectations for reward packages must be overcome.

Exhibit 8 Organisations planning recruitment freeze over the next six months (%)



### Recruitment freezes nudged up by public sector

The proportion of respondent organisations operating a recruitment freeze has risen slightly since spring 2010. This year, one in ten (9%) plans a recruitment standstill for the next six months, but this proportion remains far below levels reached in the depths of recession. In spring 2009 nearly two thirds (61%) were operating recruitment freezes (**Exhibit 8**).

The rise in the past 12 months is a direct consequence of the curbs on public sector expenditure. In response, recruitment freezes are being introduced by one in five (20%) of public sector employers and the recruitment plans of private sector firms delivering public sector contracts have been scaled back.



**Plans for the next six months indicate a slowly improving recruitment outlook...**

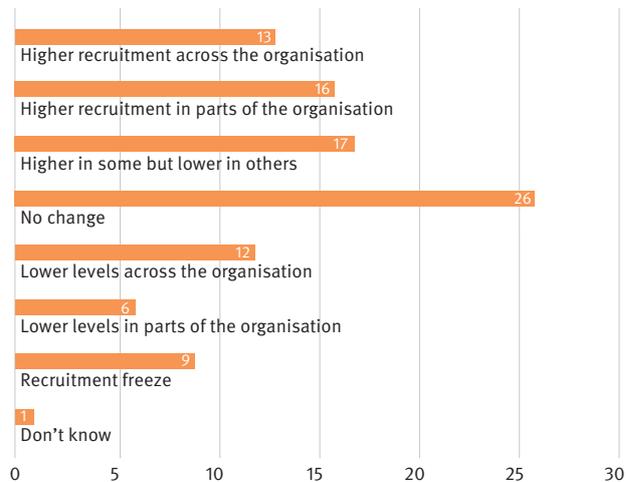
The bumpy nature of the economic recovery has meant that many employers' recruitment plans have not picked up greatly since last autumn. Overall, however, more firms are expecting to increase their levels of recruitment in the next six months than are expecting to cut their levels.

Taking employers' recruitment plans for permanent staff first, nearly a third (29%) expect to increase their recruitment in the next six months across the organisation or in parts of it (**Exhibit 9**). In contrast, one in five (18%) expect their recruitment to be running at lower levels than previously across the whole organisation or in parts of it.

Behind these figures however, is a stark sectoral divide. Looking at the balance between those expecting to increase recruitment and those expecting to scale it back, in the public sector there is an overall negative balance of -42%, indicating a large reduction in recruitment activity. Meanwhile the manufacturing sector – which is experiencing better-than-average growth – has a positive balance of +21% expecting increased recruitment.

There is also a clear trend for the smallest firms to be far more cautious about recruiting than medium and larger firms. While 38% of medium-sized enterprises intend to raise their levels of recruitment, just 15% of the firms with fewer than 50 employees intend to do so. With nearly two thirds of the smallest firms reporting that there would be no change to their recruitment levels in the next six months, it is clear the government needs to think small first<sup>7</sup> when reviewing employment regulation.

**Exhibit 9 Plans for recruitment of permanent staff in next six months, compared to previous six months (%)**



“There is a clear trend for the smallest firms to be far more cautious about recruiting than larger firms”

### ...and more temporary openings

The recruitment of temporary staff is often seen as a leading indicator for the labour market, so trends here are of particular importance (**Exhibit 10**). Among those organisations that expect to change their level of recruitment activity for temporary staff in the next six months, the balance of those anticipating increased recruitment is +7% above those expecting a reduction.

A large proportion of firms (39%) expect to see no change in their levels of recruitment of temporary staff. However, this does not take account of the introduction of the Agency Worker Regulations 2010 in October, which may change firms' use of temporary staff. It is imperative that the government conducts a review of the regulations post-October to ensure that this vitally important segment of the labour force is not adversely affected.

### Slowly improving prospects for graduates

Job prospects are also picking up for graduates, albeit slowly (**Exhibit 11**). Around half of employers (47%) expect no change in their levels of graduate recruitment in the next six months. But among those who do expect to vary the number of job opportunities for graduates, the overall balance between higher and lower recruitment is +9%, which will help to ease fears about graduate unemployment.

**Exhibit 10 Plans for recruitment of temporary staff in next six months, compared to previous six months (%)**



### Employers are targeting professional and highly-skilled roles for future growth

Employers are aligning recruitment with a targeted business strategy for growth in the recovery. We asked employers about the categories of people and skills they have been recruiting in the past six months and those they will need in the next six months. The results indicate that employers are looking for skilled professional and technical employees to fill key roles (**Exhibit 12**).

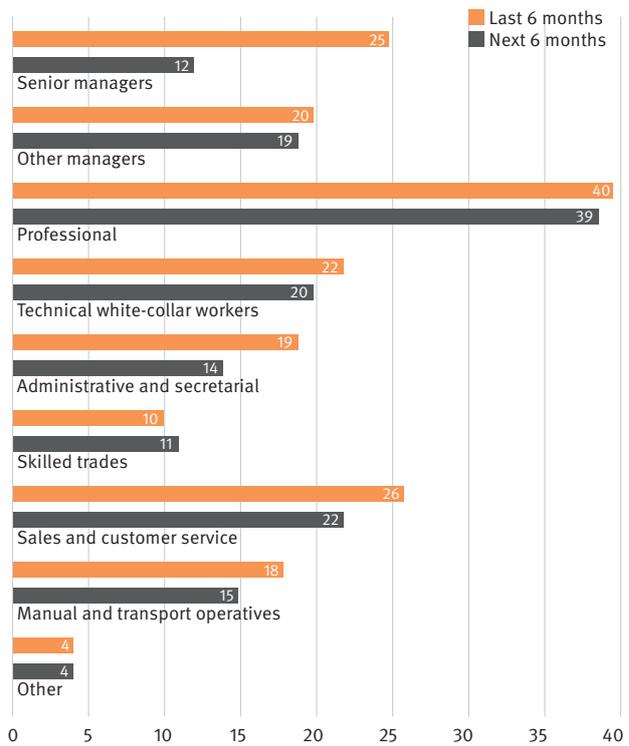
In the past six months, professionals and senior managers have been highly sought after groups, with 40% and 25% of employers respectively reporting that they have recruited new staff in these areas. Over the next six months the recruitment of professionals (39%) – alongside technical white-collar workers (20%) – will remain strong, suggesting that firms are looking for highly skilled technical staff to position themselves for growth.

**Exhibit 11 Plans for recruitment of graduates in next six months, compared to previous six months (%)**



Sales and customer service staff are also in demand, with more than a quarter (26%) of organisations recruiting in this function in the past six months and more than one in five (22%) planning to do so in the next six months. In a tough trading climate – and one in which many firms are seeking to build positions in export markets – successful sales and customer support staff are essential to generating job openings for those producing goods and services.

**Exhibit 12 Past and future recruitment by employee category (%)**



“Firms are looking for highly skilled and technical staff to position themselves for growth”

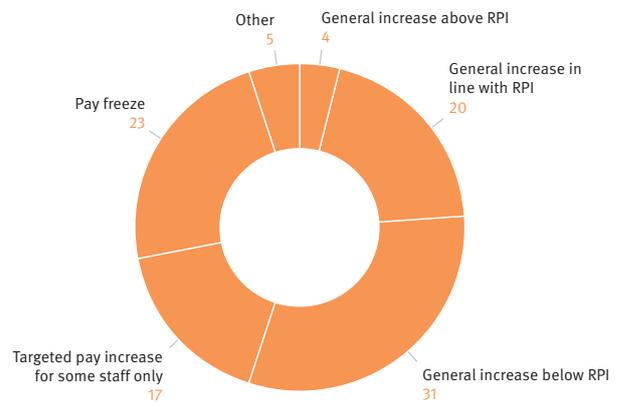
### Pay restraint remains important in the early stages of recovery

The twin pressures of increased levels of inflation and continuing economic uncertainty mean that decisions on pay this year have been particularly tough. For many firms, pay restraint is a key factor in continuing to manage labour costs in an uncertain economic environment (**Exhibit 13**). Nearly half (48%) of firms are looking to achieve an appropriate balance in 2011 by offering a pay rise below inflation – measured by the RPI – or to target pay rises on some staff only.

Despite the difficult economic climate, nearly a quarter (24%) of firms are planning to offer more generous pay rises this year – in line with inflation or above. This proportion rises to nearly a third (31%) in the manufacturing sector, which is experiencing a stronger than average recovery and addressing skills shortages in the wake of radical cost containment during the recession.

The proportion of employers operating or planning a pay freeze for their 2011 pay review has risen from 14% last autumn to 23% now. The driving forces behind this increase are the widespread pay freezes in the public sector, where more than four fifths (83%) of employers report they are beginning to implement a two-year pay freeze for all but the lowest earners (and in some cases for all employees). As **Exhibit 14** shows, excluding public sector respondents, the proportion of pay freezes is 16% – a figure which is similar to the level of freezes found by our surveys in 2010 and much lower than the levels reported at the height of the recession in 2009.

**Exhibit 13 Employers' approach to their 2011 pay review (%)**



### The private sector can compensate for job losses in the public sector...

One of the biggest challenges facing the labour market over the life of this parliament is the ability of the private sector to absorb those losing their jobs in the public sector. The Office for Budget Responsibility estimates there could be 310,000 fewer jobs available in the public sector in coming years,<sup>8</sup> though many of the reductions will be achieved without redundancies.

The CBI believes creating new jobs in the private sector on a sufficient scale is achievable, providing that there are no further major economic shocks. Even though CBI forecasts show private sector employment growth will be sluggish in 2011, it should still be enough to offset public-sector job losses. In 2011 and 2012, private sector job creation is forecast at 85,000 and 180,000 respectively.<sup>9</sup> Once healthier economic conditions are restored, past experience suggests there should be plenty of new job opportunities: over the period 1993 to 2007, the private sector created jobs at a rate of over 200,000 a year on average.

Exhibit 14 Pay freezes by sector (%)

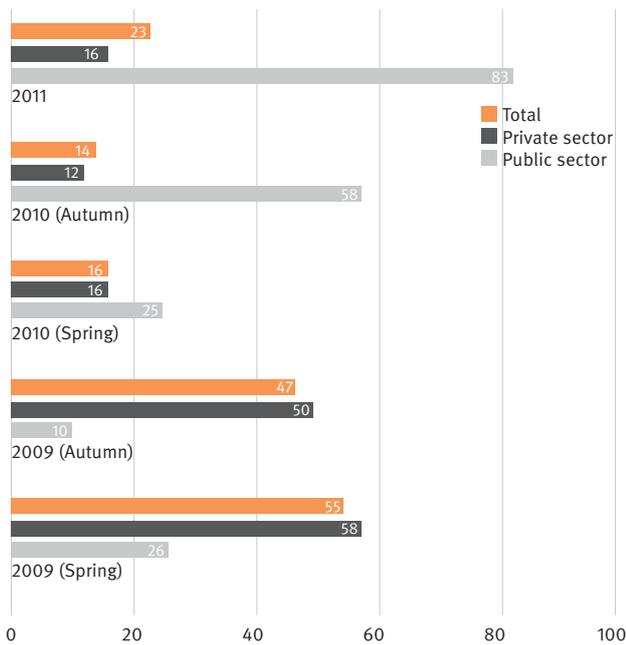
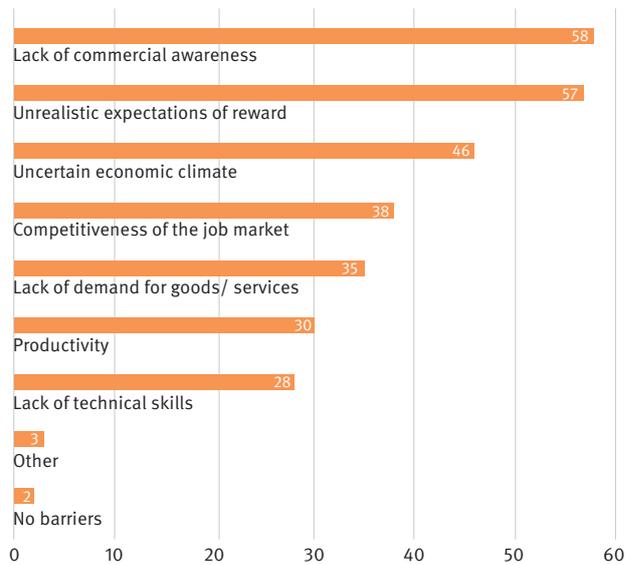


Exhibit 15 Barriers to job opportunities for former public sector workers (%)



... but this will be more challenging unless key barriers can be overcome

Nearly all respondents (98%) identified at least some barriers that must be overcome if the private sector is to recruit former public sector workers in large numbers (Exhibit 15). The most obvious barriers are the state of the economy and a lack of demand for goods and services. These factors were identified by 46% and 35% of respondents respectively.

The most frequently cited barriers, however, are a lack of commercial awareness among public sector workers (58%) and unrealistic expectations for reward packages (57%). The latter is a function of a decade of high wage growth in the public sector and pension arrangements that are typically much more generous than normal practice in the private sector. This divide will partially be eroded by the pay freezes now in operation and the implementation of the pension reforms proposed by Lord Hutton. However, a perception among employers of a lack of commercial awareness will be more difficult to tackle.

It is clear that the government and public sector employers shedding staff must make every effort to prepare public sector workers for the different pressures and expectations of private sector recruiters. An important element in outplacement support will be to help them understand and develop the competencies required of them and to adjust their expectations.

**200,000**  
jobs were created each year on average between 1993 and 2007

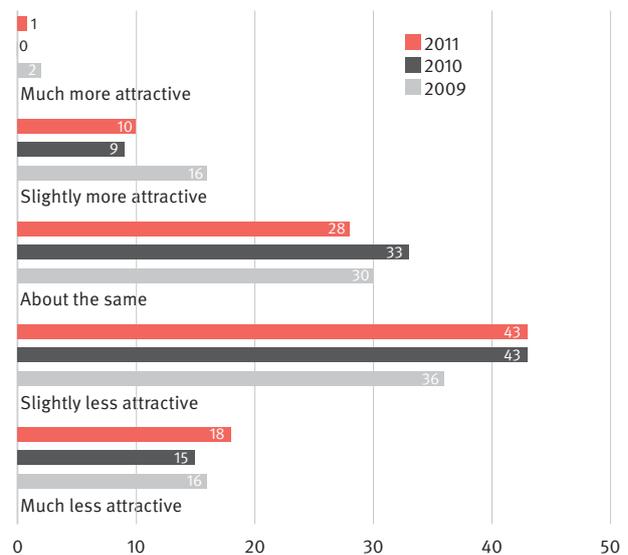
## 3 Making the UK the best place to invest

With the UK now out of recession and into a period of slow economic recovery, there is an urgent need to generate sustainable growth and rebalance the economy. The UK's flexible labour market is an essential element in our global competitiveness, drawing international investment and boosting job creation, but competition from alternative locations is growing. The flexibility of our workforce has long underpinned our success, but the survey findings show the burden of employment regulation and a weak skills base have made the UK a less attractive place to do business in the past five years. This trend must be reversed.

### Key findings

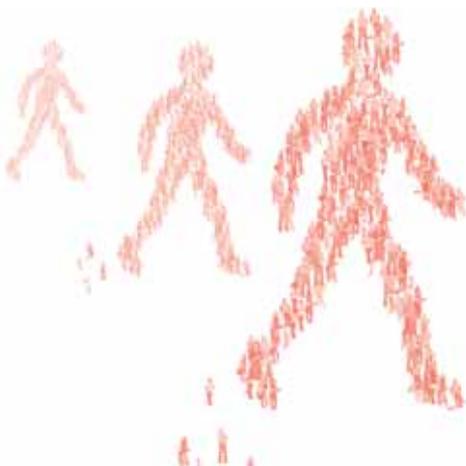
- Nearly two thirds (61%) of employers believe that the UK has become a less attractive place to invest and do business over the past five years
- There is cautious optimism about the next five years, with a small majority of those anticipating change believing the UK's attractions as a business location will be improved
- More than three quarters (77%) of businesses cite the burden of employment regulation as the greatest current HR threat to UK competitiveness, but employers are hopeful the government will prioritise reducing the burden before the end of the parliament
- More than half of employers (54%) see the UK's low skills base as a threat to competitiveness, with little improvement in prospect
- Employers are growing increasingly concerned about their ability to bring in talent from outside the EU, particularly individuals with specific technical or higher level skills.

Exhibit 16 The UK as a place to invest/do business over the past five years (%)

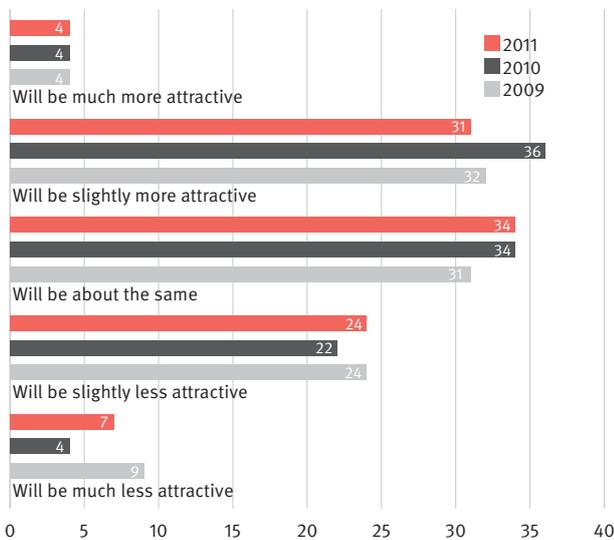


### The UK has been losing its attraction as a place to create jobs...

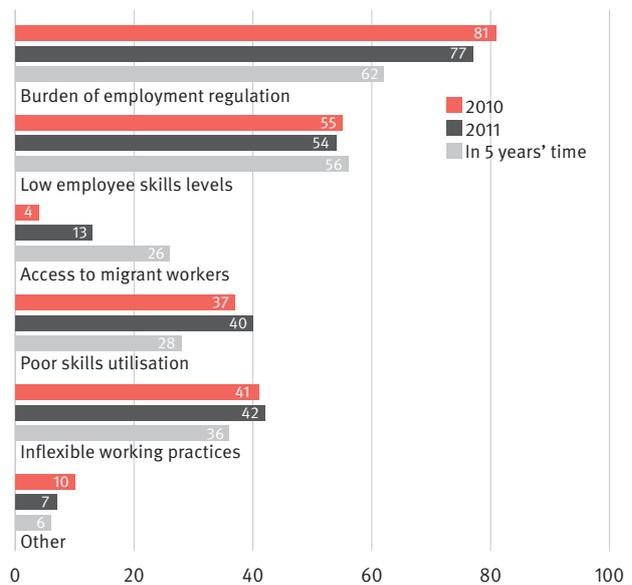
A clear trend in recent years of this survey has been a decline in the proportion of firms rating the UK as an attractive a place to invest and do business – the key to generating jobs (**Exhibit 16**). This year's results show that only one employer in ten (11%) believes the UK has become a more attractive place to do business over the past five years, while nearly two thirds (61%) believe that it has become less attractive to invest and do business. This gives an overall negative balance of -50%, a much worse assessment than the -34% balance just two years ago in 2009. This trend is particularly worrying given the central role that private sector investment needs to play in the recovery.



**Exhibit 17 The UK as a place to invest/do business in five years' time (%)**



**Exhibit 18 Threats to UK labour market competitiveness (%)**



**...but employers are cautiously optimistic this trend can be reversed**

Looking to the future, employers are cautiously optimistic (**Exhibit 17**). The 2010 survey results revealed that, while the assessment of the UK as a place to invest and do business over the previous five years was heavily negative, predictions for the next five years showed a positive balance of +14%. Although the results this year are not quite as positive, a balance of +4% signals that the outlook remains positive and is comparable with the balance of +3% in 2009.

Employers' optimism in 2010 can be attributed to the focus the government brought to bear on growth and the conditions needed to achieve it. Some very welcome steps have already been taken – with plans to reform employment tribunals in place and a clear timetable for future action on collective redundancies, Tupe rules and discrimination awards – but employers will want to see more in the way of concrete actions to maintain their current optimism.

**The burden of employment regulation is still the greatest threat on the employment agenda...**

The cumulative effect of employment regulations built up over recent years is weighing increasingly heavily on employers. The *CBI/Siemens Jobs for the future* report calculated the total cost of new employment regulations over the period 1998-2009 at £72bn, the equivalent of supporting over 215,000 full-time jobs paid at average earnings per year.<sup>10</sup> Since then, costs have risen further.

As a result, the burden of employment regulation has consistently been cited by employers as the greatest threat to the UK's competitiveness emanating from the labour market (**Exhibit 18**). Four out of five employers cite it as a threat. Concern about employment regulation applies across organisations of all sizes: it is identified as the leading threat by more than 75% of firms in every category, from those employing fewer than 50 people to those employing more than 5,000.

### ... but employers believe the government will prioritise action in this area

Since taking office the coalition has committed each government department to reviewing the employment law for which it is responsible. A 'one in, one out' rule is being applied to new regulations and senior ministers have invested political capital in making the UK a better place to invest and generate jobs. Prime Minister David Cameron said, *"We are taking on the enemies of enterprise; the bureaucrats in government departments who concoct those ridiculous rules and regulations that make life impossible, particularly for small firms."*<sup>11</sup>

Business leaders are reasonably hopeful the government will deliver on reducing the burden of regulation. Although employment regulation is expected to remain the main threat to competitiveness of the UK labour market in five years' time (63%), this is much reduced from the proportion currently citing it as a threat.

The government has made a positive first step in proposing reform of the employment tribunals system (see chapter 4). A stated aim of this package of proposals is to increase employers' confidence when taking on new staff. We asked business leaders what impact extending the qualifying period for unfair dismissal would have on their confidence when recruiting. More than a third (34%) said that it will have a positive impact on their confidence about hiring decisions.

### Low skill levels are a persistent problem

The second most widely identified threat to the competitiveness of the UK as a place to employ people remains the relatively low levels of employees' skills. Just over half of employers see this as a threat now and in the future (54% and 56% respectively), pointing to the urgent need for action to improve the UK's skills performance (**Exhibit 19**).

The CBI/EDI *Education and Skills Survey 2011* found that 69% of employers do not believe that school and college leavers have adequate business and customer awareness, 42% are not satisfied with the basic use of English, and more than a third (35%) are concerned about their basic numeracy skills. While 41% of respondents are planning to increase their training budgets over the coming year, ensuring that school leavers have appropriate skills for the workplace is essential to the longer-term competitiveness of the UK.

### Exhibit 19 A rebalanced economy will need more skilled people

Investing in skills has never been more important. In the short term, increased workforce skills will boost competitiveness, help firms generate export-led growth and assist the unemployed back into work. Looking to the longer term, widening and deepening the pool of skills is essential for the UK to maintain its place in the global marketplace.

- Far more businesses (71%) expect to increase the number of jobs requiring leadership and management skills than expect a reduction (6%) – a balance of +65%. Employers also expect to increase their demand for higher-skilled employees (with a positive balance of +58%)
- While most employers (75%) are confident there will be enough people available to fill their low-skilled vacancies in future, a majority (52%) are not confident of meeting their need for high-skilled employees
- STEM skills shortages are widespread – 43% of employers currently have difficulty recruiting staff, rising to more than half of employers (52%) expecting difficulty in the next three years.

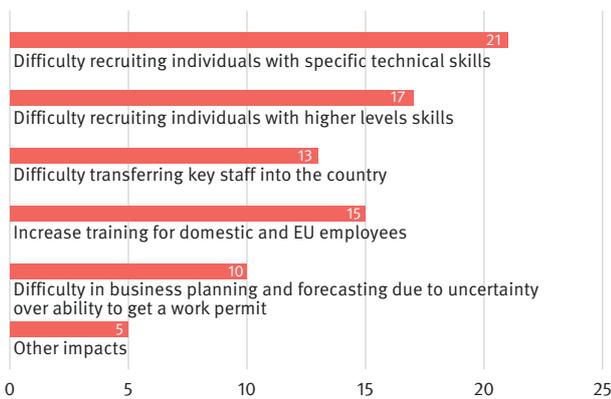
CBI/EDI, *Building for growth: business priorities for education and skills*, May 2011

### Employers fear the work permit cap could become a brake on growth in years to come

International mobility plays an important role in helping businesses grow. In the long term, skills constraints in the UK must be effectively addressed to meet this demand; but in the short term, migrant workers are needed to fill the gap. And the international businesses essential to the UK's future need flexibility to transfer staff between locations.

The government's introduction of a cap on the number of non-EU work permits has led firms to fear they will not be able to access the migrant workers essential to growth in the future. In 2010 just one in 25 respondents (4%) felt that access to migrant workers threatened the UK's international competitiveness (**Exhibit 18**). The proportion voicing concern remains relatively low at 13% in 2011, but over a quarter (26%) of employers believe it may become a problem in five years' time as the government seeks to reach its target level of net migration. Employers recognise the importance of a work permit system that balances international mobility and access to skilled workers with wider societal and public service impacts of migration, but the cap must not act as a brake on growth.

**Exhibit 20 Views on the potential impact of the cap on the number of non-EU work permits issued (%)**



**Employers need flexibility to fill key vacancies**

In order to avoid negative effects on competitiveness, the cap must be flexible. In an increasingly global economy where businesses can locate their operations across the world, the UK must remain attractive if we are to be home to high-performing firms. When the skill sets businesses require are not available in the UK, it is vital to other UK jobs that any new system protects the ability of businesses to recruit from elsewhere, including outside the EU. Employers see flexibility as the key to making the cap work – too tight a squeeze on skilled workers would be to the detriment of the wider economy.

When asked what impact the cap would have on their business, one in five (21%) employers fear they will have difficulty recruiting individuals with specific technical skills (**Exhibit 20**). Nearly one in five (17%) employers fear the cap will prevent them recruiting individuals with the higher level skills in short supply in the domestic labour market, such as STEM (science, technology, engineering and mathematics) skills. There is also concern that the system may lead to difficulties in transferring key staff into the UK from other locations (13%) – a potentially serious obstacle to expansion by inward investors. In managing migration – as in other areas of policy (**Exhibit 21**) – the government must always have a focus on maintaining the UK’s competitive position.

**Exhibit 21 Making the UK the best place to invest**

Business investment is critical for economic growth. This is especially true for the UK as both public and consumer spending are constrained in the wake of the recession and the need to tackle the public finance deficit. Domestic investment is already picking up, in particular in manufacturing, and the UK must capitalise on this by creating an environment that provides real confidence for investment decision makers.<sup>12</sup>

The UK faces intense competition to attract mobile international capital. Employment regulation – and the ability to employ the right people, in the right place, at the right time – is an important factor for those deciding where the best returns on their investment will be secured. The government should be pulling out all the stops to make the UK the primary western location for business investment. In particular, as well as action to reduce the burden of employment regulation, this means that the UK should be looking to achieve:

- The most competitive tax regime in the OECD
- The best environment for business innovation in the OECD
- Global leadership in low-carbon technologies and services
- The best talent pipeline, linking business needs into the education system
- Physical infrastructure aligned with the needs of a global business economy
- A reputation as a digital tiger with the best broadband infrastructure in Europe.

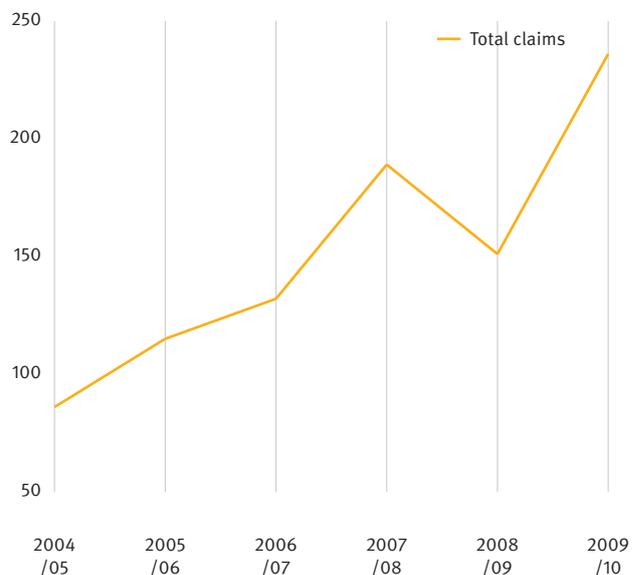
## 4 Employment tribunals: time for reform

The caseload of employment tribunals has escalated in recent years and the trend shows no sign of abating. In 2009/10, employment tribunals received over 236,000 claims, representing an increase of 173% in just five years. The number of weak and vexatious claims has escalated and the failure to curb these has undermined employers' faith in the employment tribunal system. Responding to this worrying trend and the clear need for reform, the government is undertaking a review of the employment tribunal system to improve its functioning. This offers an opportunity for major improvements.

### Key findings

- Over half the employers surveyed (52%) have received one or more tribunal claims in the past 12 months
- Reflecting the rise in weak and vexatious claims, a third of claims (31%) are withdrawn by the applicant
- Where employers opt to settle claims, they most commonly do so despite being advised they are likely to win at a tribunal hearing
- The increase in the number of weak claims reaching a hearing means that employers are now six times more likely to win a case than lose it
- Almost all employers (97%) think action is needed to tackle the increase in weak and vexatious cases. Favoured solutions include better case management (72%), the greater awarding of costs (71%) and greater use of deposit orders (67%).

Exhibit 22 Number of accepted ET claims, 2004/05 to 2009/10 (000s)



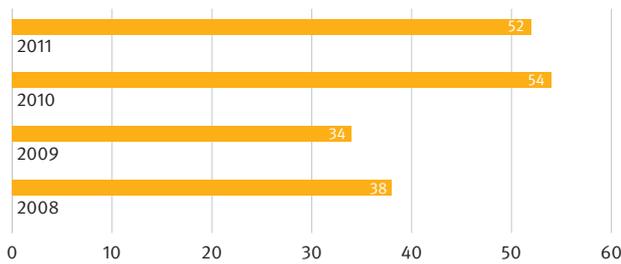
### A third of ET claims are withdrawn...

In just five years, the number of claims to employment tribunals has soared by 173% (**Exhibit 22**). Reflecting this surge in claims, our survey found that over half (52%) of respondents had faced at least one tribunal claim in the past year (**Exhibit 23**). This was broadly in line with the proportion of employers reporting they had received one or more claims last year (54% in 2010) and much higher than the 34% and 38% recording claims in 2009 and 2008 respectively.

Our survey findings also point to the weakness of many claims, with nearly a third (31%) withdrawn by the applicant – a higher proportion of withdrawals than in any of the previous three years (**Exhibit 24**). While these claimants eventually come to accept the weakness of their initial claims, employers spend considerable time and resources dealing with them. Behind each of these abandoned cases is a business which spent time and money on navigating the ET system and on legal advice, which could have been put to better use focusing on future growth.



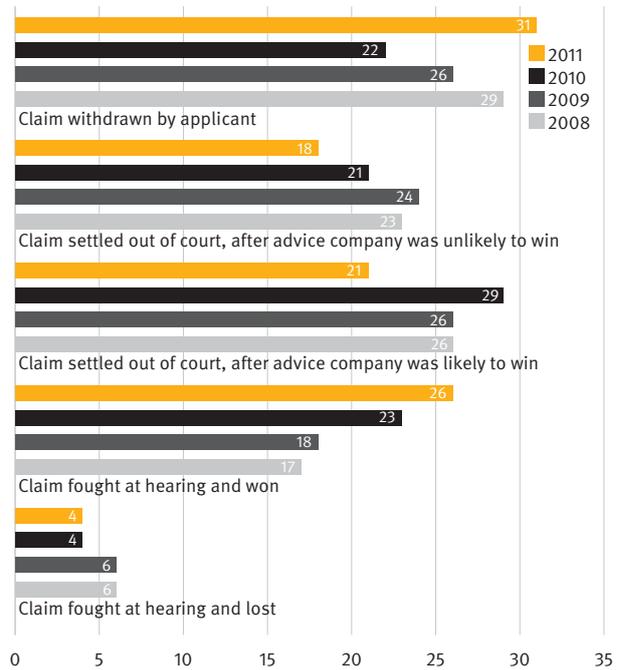
**Exhibit 23 Employers facing at least one tribunal claim in the past 12 months (%)**



**...but the complexities of the tribunal system induce many employers to settle cases they'd be likely to win**

The proportion of cases settled out of court by employers has dropped to 39% in the past 12 months from 50% in our 2010 and 2009 surveys (**Exhibit 24**). As in previous surveys, however, in the majority of these cases employers settled the claims despite being advised that they would win at a tribunal hearing (21% compared to 18% which the company settled after advice it was unlikely to win). Employers continue to view settling a case as a business decision made to limit their exposure to the costs, lost time and diverted energy of contesting a claim at a hearing.

**Exhibit 24 Outcomes of tribunal claims in the past year (%)**



“31% of claims are withdrawn before they reach a hearing”

### The continuing rise in weak and vexatious claims undermines the confidence of businesses...

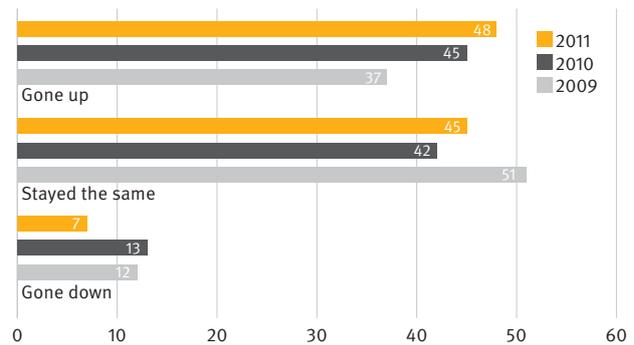
Employers view a growing number of tribunal claims as weak and vexatious. The failure of the tribunal system to deal with such claims effectively is the single largest contributor to falling business confidence in the system. Our survey results show that almost half (48%) of employers say that, in their experience, the number of weak and vexatious claims has increased over the past 12 months, while only 7% report the number has gone down. In terms of overall balance, the proportion of employers saying there has been an increase rather than a reduction in weak and vexatious claims stands at +41%, up from +32% in 2010 (Exhibit 25).

### ...but employers are fighting and winning more cases at great cost to their business

Since 2008 there has been a steady rise in the proportion of claims fought at a hearing and won by employers. In the past 12 months, respondents reported they had fought and won a quarter (26%) of tribunal claims – up from 23% in 2010, 18% in 2009 and 17% in 2008 (Exhibit 24). Employers are six times more likely to win a case than lose it – only one claim in 25 (4%) is fought at a hearing and lost by the employer.

Settling a weak case early to avoid the legal bills and other costs associated with fighting a case through to a hearing makes a compelling business case. But the prevalence of weak and vexatious cases has become such a problem that an increasing number of employers are prepared to absorb the costs of contesting them. The increased willingness of employers to call the bluff of those with weak claims has probably also contributed to the rise in the proportion of claims withdrawn by applicants.

Exhibit 25 Employers' experience of weak and vexatious claim over the past year (%)

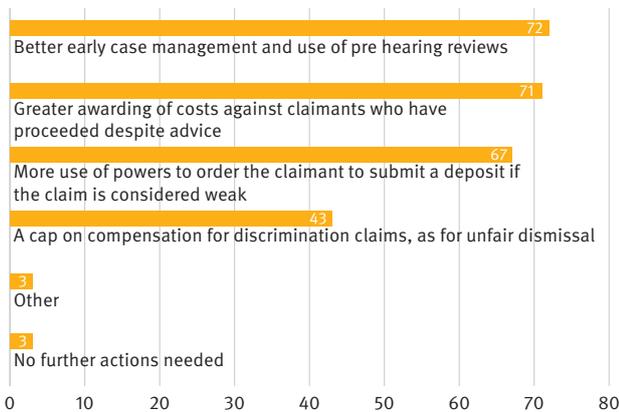


### Rigorous case management would ensure the system focuses on the claims that matter

Virtually all employers (97%) believe there is a need for action to address the problem of weak and vexatious claims. CBI members have consistently said that better early case management is their top priority for reforming the tribunal system (Exhibit 26). Removing weak and vexatious cases from the system would allow those cases with merit to be dealt with more quickly, benefitting employers and claimants alike. As with our previous surveys, nearly three quarters of respondents (72%) want to see more proactive case management, where the merit of a claim is rigorously tested before it is accepted.

In *Settling the matter* (Exhibit 27), the CBI has argued that in every case the appropriateness of measures such as strike-out and deposit orders should be considered shortly after a claim is received. The outcome of this consideration should then be explained and justified to both parties. This proposal is supported by two thirds (67%) of respondents who say that deposit orders should be made more often in weak cases.

**Exhibit 26 Addressing the problem of weak and vexatious claims (%)**



**Encouraging reasonable settlements would resolve more cases quickly**

In its consultation paper earlier this year, the government proposed a simple ‘offers to settle’ system which would greatly help firms and claimants reach agreement earlier.<sup>13</sup> Where a claimant refuses a settlement offer and persists with a claim that they have been advised is weak, then the tribunal chair would consider awarding costs. The greater awarding of costs against weak cases is supported by 71% of employers. Coupled with reining in unrealistic expectations of multi-million pound payouts through a cap on compensation for discrimination claims (favoured by 43%), an ‘offers to settle’ system could greatly increase the number of cases settled early.

**Exhibit 27 Settling the matter – building a more effective and efficient tribunal system**

The CBI’s response to the government’s consultation on reforms to the employment tribunals system, *Settling the matter – building a more effective and efficient tribunal system*, called for a package of measures to speed up the tribunal process, reduce the costs for both sides and make the system fairer. The three key steps to delivering this are:

- Action to weed out weak and vexatious claims
- Encouraging early agreement on a fair settlement
- Improving efficiency when a case does reach a tribunal.

CBI, *Settling the matter – building a more effective and efficient tribunal system*, April 2011

“97% of employers believe action is needed to tackle weak and vexatious claims”

## 5 Ending the DRA poses challenges

**The coalition government's Programme for Government, agreed in May 2010, committed it to phasing out the Default Retirement Age (DRA). Implementation of this policy meant 5 April 2011 became the last day that employers could notify any older employees of their intention to retire them under the DRA regime. The change is a major shift in the employment landscape – for the first time, employers and employees are now operating in a system where there is no automatic expiry of the employment relationship as a result of age. This poses new challenges for employers and managers, and government has done little action to help address these.**

### Key findings

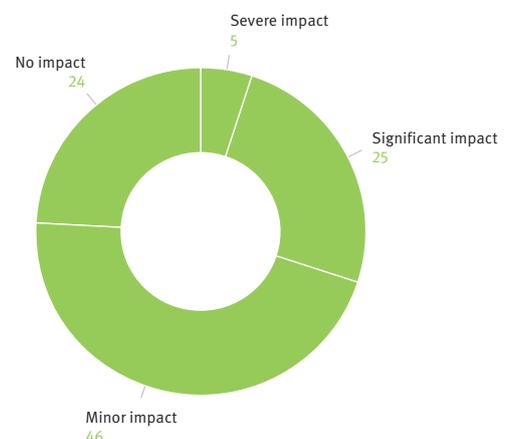
- Three in four firms (76%) report that phasing out of the default retirement age is having an impact on their business
- Two thirds of employers are concerned about the readiness of line managers to deal with declining performance among older employees (67%) and about the effect on older workers of more rigorous application of performance management (64%)
- Half of employers (51%) expect the legal vacuum created by the abolition of the DRA to lead to more age-related employment tribunal claims
- While nearly half (45%) of employers see benefits from retaining the knowledge and skills of older workers, they have lost their ability to select those they wish to retain.

### The abolition of the DRA is having an impact on business

A default retirement age has in the past been a standard feature of employment arrangements in most organisations – in last year's survey, four out of five employers (79%) reported they operated one.<sup>14</sup> In this year's survey, three quarters (76%) of businesses say that abolition of the DRA is having an impact, with nearly a third (30%) believing the impact will be significant or severe (**Exhibit 28**).

The impact is particularly pronounced in those sectors where there are serious implications in relation to occupational health and health and safety, not only for the older workers themselves but also for those who work with them. It is important for the government to recognise the scale of the impact on businesses and to act to mitigate the problems many employers are now facing. In particular, businesses would benefit from clear guidance as to how they can establish an employer-justified retirement age.

**Exhibit 28 Impact of removing the default retirement age (%)**



### Employers are concerned about how to performance manage older workers and deal with declining capability...

When asked about the nature of the impact of ending the DRA, the most commonly cited issue is concern about the readiness of line managers to deal with declining performance (**Exhibit 29**).

The link between age and performance is an uncomfortable topic of discussion. Changes in performance brought on by the effects of ageing can often be subtle and gradual – incorporating intangibles such as the employee's attitude to change or adaptability to new technology as well as changes in physical capacity for work. Such situations do not lend themselves to clearly defined evidence of poor performance and employers have great difficulty using



**Exhibit 29 Nature of the impact of removing the DRA (%)**



capability reviews to tackle such matters. Moreover, managers and employers are reluctant to initiate poor performance procedures for loyal, long-serving employees whose performance may have declined for causes beyond their control.

The DRA framework allowed employers to retire employees with dignity. In its absence, a clear majority of employers are concerned about both the readiness of line managers to deal with declining performance (67%) and the effect on employees of more rigorous application of performance management (64%). Indeed, performance management issues have replaced uncertainty in workforce/succession planning as the most widespread concern among employers.

**...and worry that the legal vacuum created will lead to more age-related tribunal claims**

The abolition of the DRA has left a legal vacuum on managing older workers and age discrimination rules. As performance-based dismissal is already the hardest type to carry out in a way that an employment tribunal is likely to decide is fair, the risk of

age-based litigation is draining the confidence of employers to deal with declining performance in the workplace. It also risks further increasing the caseload of the tribunals.

Half of respondents (51%) predict a rise in the number of age-related claims to employment tribunals. As the DRA is phased out, employers expect a rise in the number of ‘chancer’ claims from older employees removed on performance grounds, while employees fear that initiating a discussion about their retirement could lead to them being viewed as no longer capable of performing their job properly. It is important for employees and employers that retirement plans can be discussed openly. The CBI believes that this could be achieved through a mechanism for ‘protected conversations’ (Exhibit 30).

**Older workers have much to offer**

There are, of course, also a range of positive impacts from retaining older employees in the workplace. Nearly half of employers (45%) point to benefits from retaining skills and knowledge and a fifth (22%) see benefits for younger employees in terms of access to experienced employees. The difference now, however, is that employers will no longer be able to select which older employees they retain or how long their experience should go on being available to others.

**Exhibit 30 The case for protected conversations**

To solve the problem of how retirement conversations should be conducted in the absence of the DRA, in March 2011 the CBI put forward a proposal to government for ‘protected conversations’. A safe mechanism is needed where an employee’s retirement plans can be discussed openly, without the risk of the discussion leading to an age discrimination employment tribunal claim.

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

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

## 6 Employee relations – a positive climate but some storms ahead

**Effective communications and employee engagement played a central role in enabling many businesses to ride out the recession with high levels of employee co-operation and relatively low levels of job losses. The challenge more recently has been to maintain those initiatives as the immediate crisis passed. The signs are that most employers have kept up the momentum, though organisations in the public sector are likely to face some difficult times ahead as they adapt to more straitened circumstances.**

### Key findings

- Two thirds of employers (68%) report the employee relations climate in their organisation as either co-operative or very co-operative
- While three quarters (76%) of non-unionised businesses describe their employee relations climate as co-operative or very co-operative, only just over half (58%) of organisations recognising a trade union for collective bargaining do so – and many of these expect the climate to become more adversarial in the coming year
- Levels of employee morale across the economy are generally high, with two fifths (41%) of employers reporting employee morale as high or very high and only 15% as low or below
- The key exception is the public sector, where organisations reporting low morale outnumber those reporting it as high or better
- Virtually every employer (99%) reports using at least some regular mechanism for communicating with staff and every method is more widely in use in 2011 than in 2010.

### The overall employee relations climate is positive...

A remarkable feature of the recession in the UK was the extent to which positive relations between employers and employees helped to keep the unemployment rate much lower than expected. Looking to the future, a co-operative climate is particularly significant for organisations as they meet the challenges of intensifying international competition, constrained resources and rising customer expectations. In the end, all change is delivered through people, so the attitudes and readiness of employees to respond is critically important.

Last year businesses told us that employee relations were broadly co-operative, with two thirds (67%) reporting that the employee relations climate in their organisation was either co-operative or very co-operative (**Exhibit 31**). That positive climate has been maintained, with two thirds of employers (68%) again reporting the employee relations climate in their organisation is either co-operative or very co-operative. The proportion reporting very co-operative relations has jumped from 22% to 31%.

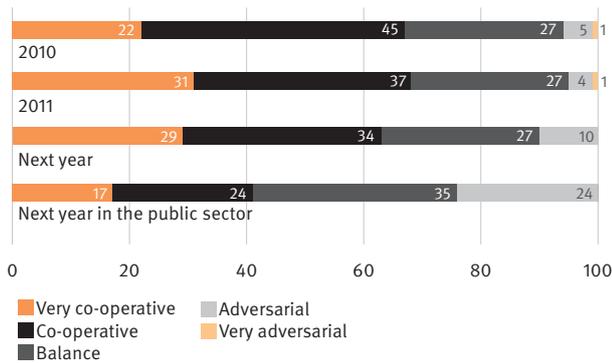
### ...but could become more difficult in the coming year

The future employee relations climate looks somewhat less encouraging, particularly in the public sector. One employer in ten (10%) expects an adversarial climate next year, double the proportion (4%) reporting an adversarial or very adversarial one in 2011. And in terms of the overall balance between co-operative and adversarial relations, employers predict a dip from the current +63% to +53% in the next 12 months.

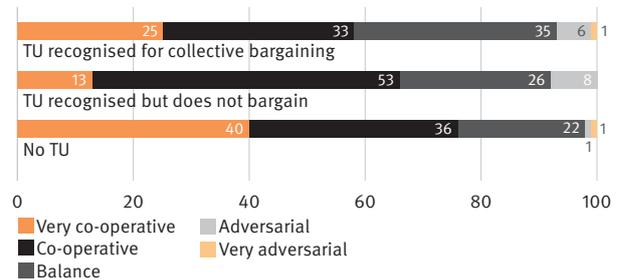
There is particular cause for concern in the public sector, where one in four employers (24%) anticipate an adversarial climate of employee relations as they press ahead with changes to re-engineer public services and contain costs. These results highlight the need for effective leadership and good communications to help build employee understanding and support for essential reforms.



**Exhibit 31 Employers' views of employee relations climate in their workplace (%)**



**Exhibit 32 Current employee relations climate in workplace by union recognition (%)**



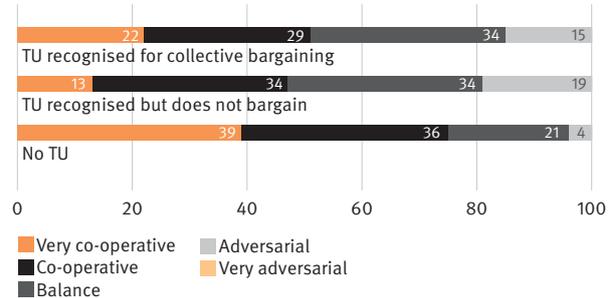
**Businesses recognising trade unions may face a more difficult climate**

Employers' assessments of the current and future employee relations climate within their organisation are influenced by the nature of the relationship between the firm and its workforce. Where trade unions are recognised, employers' views on the current climate and their expectations for the coming year are generally less optimistic than among those who engage directly with their workforces without union recognition.

While three quarters (76%) of non-unionised businesses describe their employee relations climate as co-operative or very co-operative, only 58% of organisations recognising a trade union for collective bargaining report co-operative employee relations (Exhibit 32).

Asked how they anticipate the employee relations climate in their organisation changing over the next 12 months, the vast majority of non-unionised businesses expect it to remain unaltered. Among those recognising one or more trade unions, in contrast, there is a sharp increase in the proportion expecting a more adversarial climate in their workplace (Exhibit 33).

**Exhibit 33 Future employee relations climate in workplace by union recognition (%)**



“One in four public sector employers expect an adversarial climate of employee relations in the coming year”

### Levels of employee morale are generally high...

Across survey respondents as a whole, levels of reported employee morale are generally high (**Exhibit 34**). During the recession, employee morale was surprisingly resilient. In spring 2010, nearly half (45%) of employers reported high or very high levels of employee morale. By the autumn of 2010 this had dropped to 38%, but there has been no further decline measured by our 2011 survey. Instead, two fifths (41%) of employers now report employee morale as high or very high.

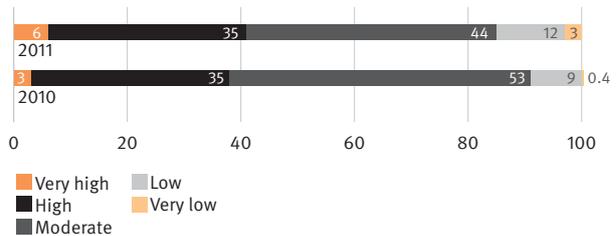
The overall balance between those perceiving morale as high or very high and those reporting it as low or very low stands at +26% in 2011, just marginally below the +28% found in autumn 2010.

### ... but are falling in the public sector

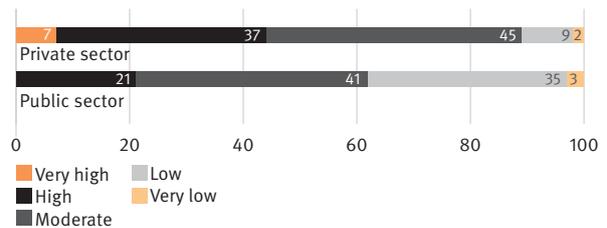
The biggest changes in employee morale are in the public sector, where the 2011 results show morale to be much poorer than in the private sector (**Exhibit 35**). In the 2010 survey, nearly a quarter (23%) of public sector organisations believed employee morale was low or very low. Since then, faced with the painful changes needed to tackle the deficit, the proportion of public sector employers reporting low or very low employee morale has reached more than a third (38%). As a result, the balance between those reporting morale as high or better and those reporting it as low or worse has swung into negative territory at -17%.

The results, however, show continued diversity, with a fifth (21%) of public sector organisations reporting employee morale as high despite all the challenges – results that point to the fact that even in very difficult circumstances effective leadership can achieve positive morale and engagement.

**Exhibit 34 Employers' views of morale in their organisation (%)**

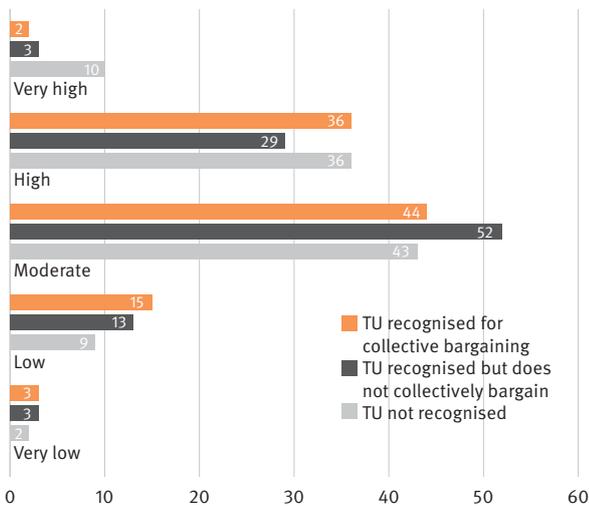


**Exhibit 35 Employers' views of employee morale by sector (%)**



“Employee morale is high or very high in 41% of respondent firms”

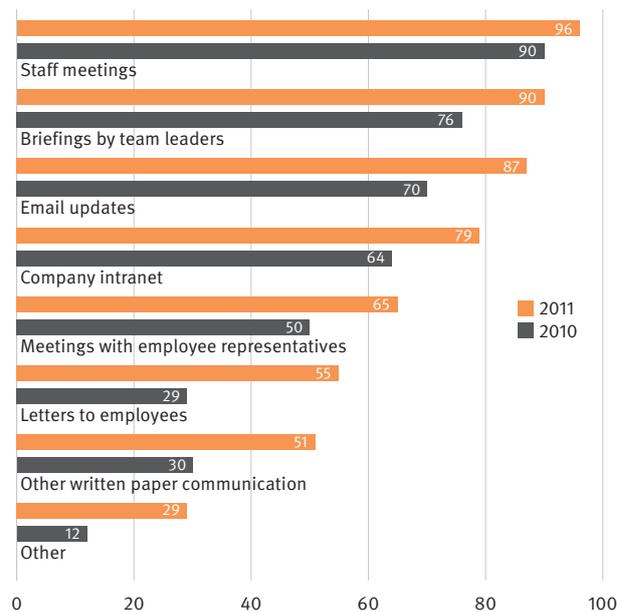
**Exhibit 36 Employers' view of employee morale by trade union recognition (%)**



**Collective representation does not boost employee morale**

In previous surveys we have found differences in employee morale between organisations that recognise trade unions and those that do not. The 2011 results show up a similar pattern, with a tendency for trade union presence to be associated with low or very low reported employee morale and less likelihood of high/very high morale (**Exhibit 36**). The picture is, however, complicated by the fact that many of the organisations recognising trade unions are in the public sector, where there are pressures on morale, as discussed already.

**Exhibit 37 Types of communication used (%)**



**Employers have extended communication initiatives**

Firms upped the effort put into communications during the recession, recognising the importance of ensuring employees were aware of the state of business, understood the need for difficult decisions and were involved in the process of shaping responses.

As the economy moved into recovery, there was a perceived risk that employers would ease up on their commitment to communicating with employees. Those concerns have turned out to be misplaced. In all, virtually every employer (99%) reports using at least some regular mechanism for communicating with staff and every method is more widely used in 2011 than in 2010 (**Exhibit 37**).

The use of staff meetings was already common, but there has been a rapid increase in the use of other methods such as briefings by team leaders (up from 76% to 90%), email updates (87% in 2011) and intranet postings (79%), and meetings with employee representatives (65%). Overall, the results show employers making more use of face-to-face methods of communication – which allow two-way exchange of views – than of the one-way, broadcasting approaches.

## 7 Flexibility that works for employees and employers

**Flexible working is a British success story. It is now deeply ingrained in the modern workplace, with many employers going beyond their statutory obligations to offer flexible working to other groups of employees. As part of this increasingly flexible approach to working arrangements, it is essential that the opt-out which enables individuals to choose to work longer hours is retained. Flexibility for the individual employee must be balanced with the needs of the business, but employers understand the benefits that different ways of working can bring.**

### Key findings

- Flexible working is now a standard feature of the modern workplace: nearly all employers (96%) offer at least one form of flexible working and nearly three quarters (70%) offer three or more
- There has been particularly rapid expansion in recent years in the use of teleworking and the provision of career breaks/sabbaticals
- The increased use of flexible working looks set to continue in the next few years, with many employers currently considering introducing additional arrangements
- Employers understand the value of flexible working to their business, particularly the positive impact granting requests has on employee relations and recruitment/retention (seen as positive by 74% and 61% respectively)
- But they are wary about the government's plan to extend the 'right to request' to all employees, with many anticipating a negative impact on productivity, customer service and labour costs (32%, 35% and 38% respectively). This puts a premium on ensuring that any changes work for business needs too
- Nearly three quarters (72%) of employers are concerned that losing the working time opt-out would have an impact on their business. Nearly half (46%) believe that the impact would be significant or severe.

### Flexible working no longer simply means part-time...

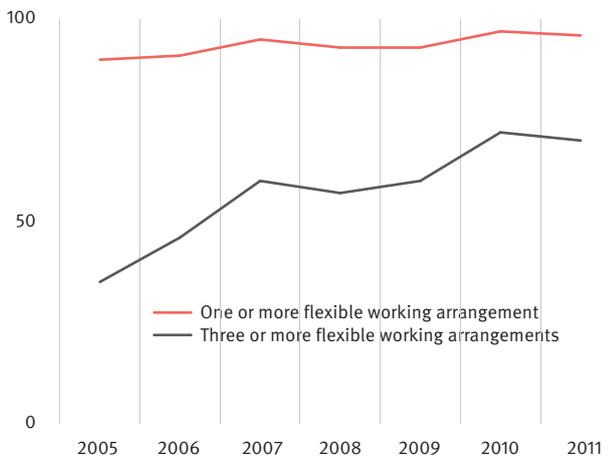
When we first asked employers about their family-friendly policies in 1999, part-time working emerged as the single most widespread practice (operated by 30%), while many of the categories included in this year's survey did not even register. With almost all (96%) of firms now offering at least one form of flexible working and 70% offering three or more, it is clear that flexible working is deeply ingrained in the modern workplace (**Exhibit 38**).

With more than nine out of ten employers (92%) offering part-time working opportunities, this remains the most prevalent flexible working arrangement. But in the past five years other family-friendly forms of flexible working have become more widely adopted and have narrowed the lead of part-time working (**Exhibit 39**). Flexitime is offered by just over half of firms (52%), while over a quarter (26%) have some employees on term-time working. Job sharing in at least some roles is now offered by half of employers (52%). Compressed hours – which involve employees working longer hours but fewer days each week – are operated for at least some jobs by nearly a quarter (24%) of employers.

Since 2008, responses to the recession have included more widespread adoption of two forms of flexible working: nearly half of employers (46%) participating in the survey now offer career breaks and/or sabbaticals. Many firms introduced these as a way to reduce labour costs and cut staffing on a temporary basis during the recession but – realising that employees value them – have opted to retain them.



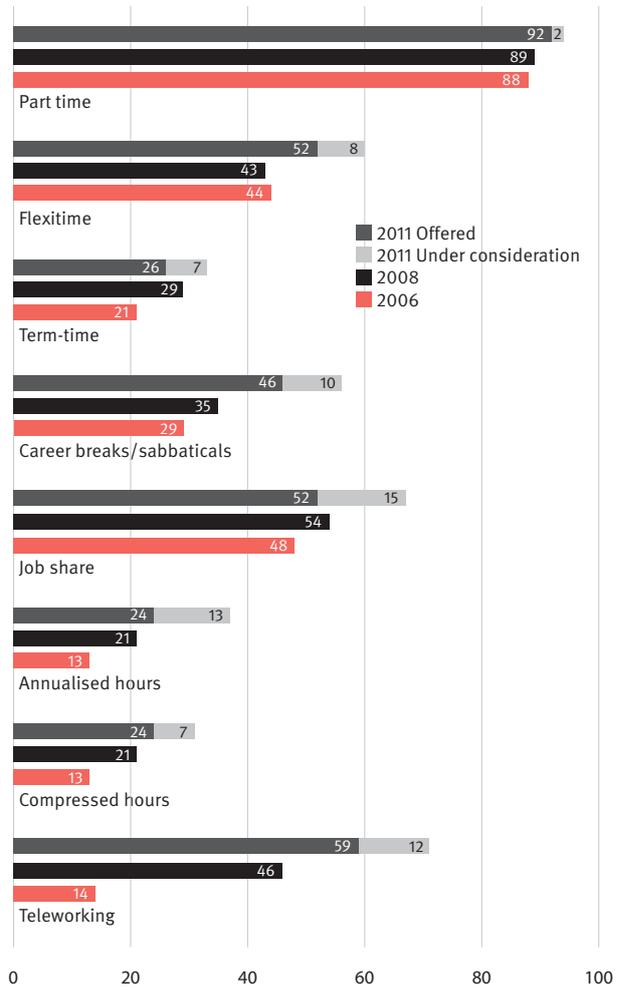
**Exhibit 38 Proportion of employers offering flexible working (%)**



The rapid expansion of teleworking has also continued strongly this year. Five years ago, just 13% of firms offered teleworking for employees in at least certain roles some of the time, but now nearly six in ten (59%) do so. This increase has been made possible by improved technology, allowing people to work more effectively away from the workplace. It is most common in the smallest firms (64%), where it offers the greatest business potential to reduce fixed costs.

Flexible working arrangements are more common in the public sector – where nearly all employers (97%) offer three or more arrangements – than the private sector, where two thirds (66%) do so. However, the prevalence of flexible working varies significantly within the private sector. While 77% of professional services firms offer three or more flexible working practices, just 54% of manufacturers are able to offer the same. Differences within the private sector and when compared to the public sector are largely due to the nature of the work undertaken in these business. Just as they helped to ease the difficulties of the recession in the private sector, flexible working policies – used intelligently – could play an important role in helping manage costs, boost employee morale and re-engineer services in the public sector while public spending is brought under control.

**Exhibit 39 Flexible working arrangements offered by employers (%)**



**... and the increase in flexible working looks set to continue**

The survey this year reveals the likelihood of further expansion in flexible working practices. While arrangements such as part-time working are nearing saturation point, more employers are considering introducing job shares (15%), annualised hours (13%), teleworking (12%) and career breaks and sabbaticals (10%).

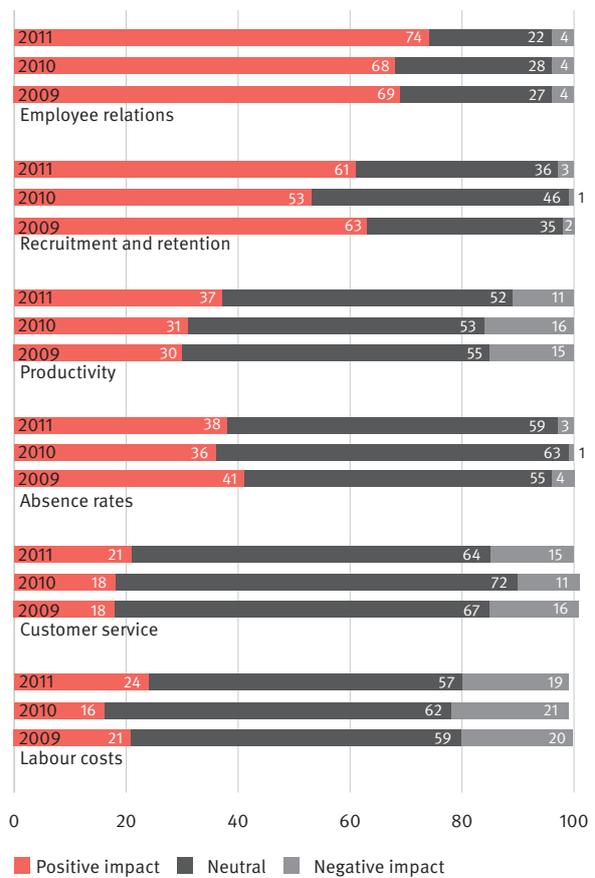
Employers have an appetite to extend flexible working because it works for their employees and for them too. However, it must be recognised that some kinds of flexibility are not suitable for every job nor for every business model. Flexible working can only be successful if it is mutually beneficial.

**Firms understand the value of flexible working to their business...**

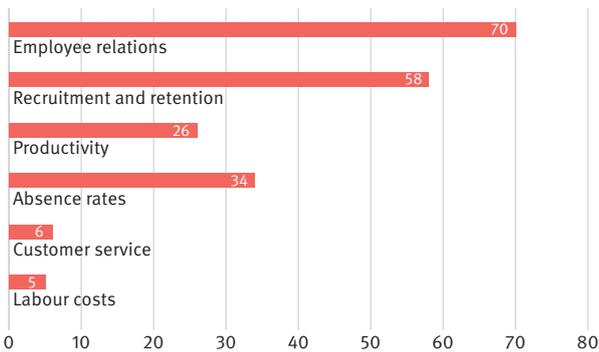
Many employers go above and beyond the flexibility required by the ‘right to request’ legislation, offering it to groups that are not covered in the regulations. This is because they recognise that granting requests for flexible working can offer a variety of benefits to the business as well as helping employees fit work with their other commitments (**Exhibit 40**).

Most importantly, granting requests for flexible working is seen as a way of engaging with employees. Looking at the balance between those seeing granting requests as having a positive impact and those seeing it as having a negative one, a net +70% report that it has a positive impact on employee relations (**Exhibit 41**) – an even more positive result than last year (in 2010 the balance was +64%). Provision of flexibility is also an important element of many firms’ recruitment strategy, with a net +58% reporting that it aids recruitment and retention (up from 52%). Granting requests for flexible working also has a positive impact on balance on productivity (+26%) and absence rates (+35%), but the positive balance of benefits is marginal in terms of customer service (+6%) and labour costs (+5%).

**Exhibit 40 Impact of granting requests for flexible working (%)**



**Exhibit 41 Balance of positive versus negative impacts (%)**



**...but are nervous about plans to extend the ‘right to request’**

The government is consulting about extending the ‘right to request’ to all employees later in this parliament. While this can be seen as a logical extension of a scheme that has worked well – and could be a valuable aid to expanding labour market participation – it is not without its problems for individual firms.

Despite being very positive about the existing arrangements, employers are more circumspect about the possible benefits of the planned extension (**Exhibit 42**). The proportion of employers perceiving a potentially negative impact is higher on every measure. The balance of those anticipating beneficial impact continues to outweigh those anticipating negative consequences on employee relations (+30%), recruitment and retention (+33%) and absence rates (+21%). But it is noticeable that these are much lower than the balance figures under the existing rules, indicating that much of the benefit is already realised and there are fewer gains to be made from an extension. In particular, employers are concerned about the impact an extension would have on productivity (-15%), customer service (-22%) and labour costs (-24%), with negative assessments outweighing the positive in these areas to produce negative balances.

These findings indicate that the government must proceed cautiously if these reforms are not to have a damaging impact on the labour market and the competitiveness of firms.

**Exhibit 42 Expected impact of extending the right to request to all employees (%)**

	Positive impact	Neutral	Negative impact	Balance
Employee relations	45	40	15	+30
Recruitment and retention	38	56	5	+33
Productivity	17	51	32	-15
Absence rates	29	63	8	+21
Customer service	13	52	35	-22
Labour costs	14	48	38	-24

**Clear government guidance will be needed to avoid negative results**

By comparison with current arrangements, more than three times as many respondents say they expect extending the right to request to every employee to have a negative impact on employee relations, as employers will have to decide between a wider range of competing claims for flexibility.

The current rules work so well because they allow firms to prioritise requests from those employees with a clear need for flexibility – parents and carers – ahead of other staff. The extension will remove this hierarchy. The government must therefore provide clear guidance to firms to help them understand how they should go about managing competing claims and restating that they have the right to decline requests where they would be detrimental to the business. If this is done properly, employers’ fears may be significantly allayed. Almost inevitably, however, as more people gain the right to request flexible working, more of those requests will be turned down, so risking tarnishing the scheme’s image.

Flexible and family-friendly working is in the DNA of smaller businesses. Some of the best practice in the UK takes place in these businesses, on an informal basis. But it is for these firms that managing competing requests for flexible working will be most difficult. To simplify this task, firms should have the right to hold an annual review of flexible working arrangements, and to redistribute flexible working as employee needs change (for instance, asking parents of older children to increase their hours to allow a returning mother some access to a limited pool of flexible hours).

### The working time opt-out remains vital for both employer and employee flexibility...

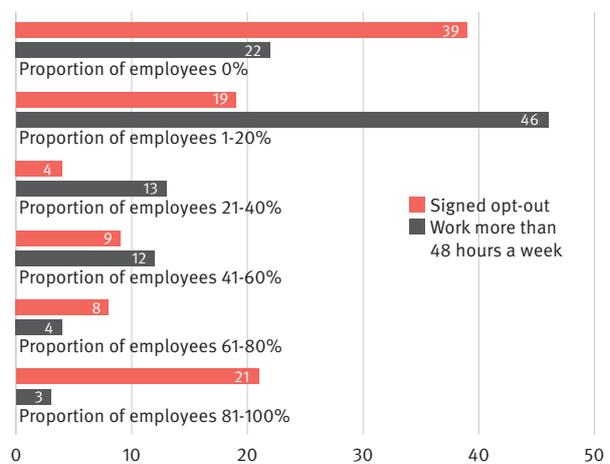
As in previous years, employers have made clear the importance of retaining the UK's individual opt-out from the 48-hour maximum working week. The flexibility to work longer hours when desired brings benefits for both employer and employee. For businesses, workforce flexibility is essential to long-term sustainability. From the employee perspective, the right and flexibility for individuals to choose when they want to be available to work – whether to go the extra mile to finish a project or earn overtime to support their family through tough times – should be protected.

Most employers (61%) report that at least some employees have chosen to sign an opt-out from the Working Time Directive (**Exhibit 43**). But while a large number of employees have signed an opt-out, by no means all of these employees are actually working more than 48 hours a week regularly or at all.

The results of our survey show how the opt-out is used in practice – to react quickly to meet fluctuations in demand or other pressing needs, not to embed a 'long hours' culture. In close to a third of firms (29%), two thirds or more of the workforce has signed an opt-out. But in only 7% of firms does that proportion of employees actually work more than a 48-hour week regularly.

Among major sectors, firms in manufacturing are the most likely to have a large proportion of their workforces choosing to sign an opt-out (in 49% of manufacturing firms, over 40% of employees have signed one). In practice, however, only one in eight firms (12%) in manufacturing report that over 40% of employees work more than 48 hours a week on average over a four-month period.

**Exhibit 43 Employees that have signed an individual opt-out from the Working Time Directive, and those working more than 48 hours a week on average (%)**



**61%**  
of firms have at least some employees who have signed an opt out from the Working Time Directive

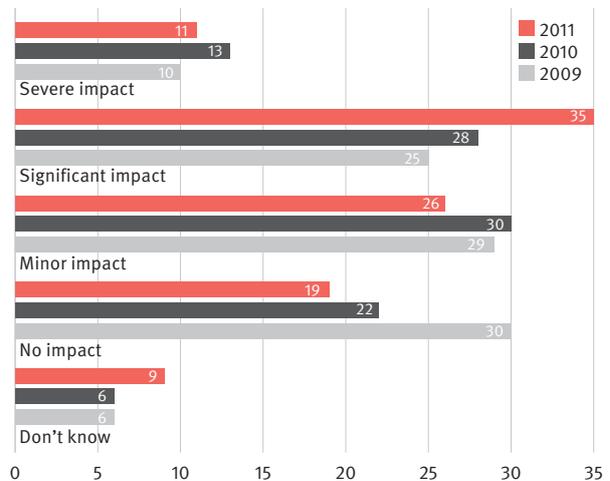
**... and losing it would damage the UK's international competitiveness**

Since 2005 these surveys have identified concern among a majority of employers that losing the opt-out would have a negative impact on their business – and this year this is even more the case.

Nearly three quarters (72%) of employers are concerned that losing the opt-out would have an impact on their business (**Exhibit 44**). However, their concern has been heightened by the current economic climate. Businesses that were hit hard during the recession are now looking to use all means available to them to grow as the economy recovers. This explains why the proportion of businesses saying that loss of the opt-out would have a significant or severe impact has risen from 35% in 2009 to 46% this year. The proportion of respondents saying that it would have no impact has dropped from nearly a third (30%) to less than one fifth (19%).

The opt-out is an integral part of our labour market flexibility, allowing UK firms and employees to adapt quickly and maintain a competitive edge. Its loss would be a serious blow, particularly at a time of economic recovery when growth is the priority.

**Exhibit 44 Business impact if the UK lost the working time opt-out (%)**



**“72% of firms are concerned about the impact that losing the opt-out would have on their business”**

## 8 Engaging employees in securing recovery

**Asked about their three top workforce priorities for the year ahead, employee engagement emerges as the single most widespread one, cited by nearly two thirds (61%) of employers. At the same time, nearly half of employers (48%) point to containing labour costs as a priority, so employers face a challenging balancing act in the year to come.**

### Key findings

- The two top priorities for businesses in the next 12 months are securing high levels of employee engagement (61%) and containing labour costs (48%)
- Employers are also concerned about staffing, looking to fill key vacancies (45%) and retain employees (39%)
- Reflecting the need to prepare for growth, a rising number of employers are looking to change the skills mix of their workforce (29% in 2011, up from 22% in 2010) and to achieve business restructuring (32%).

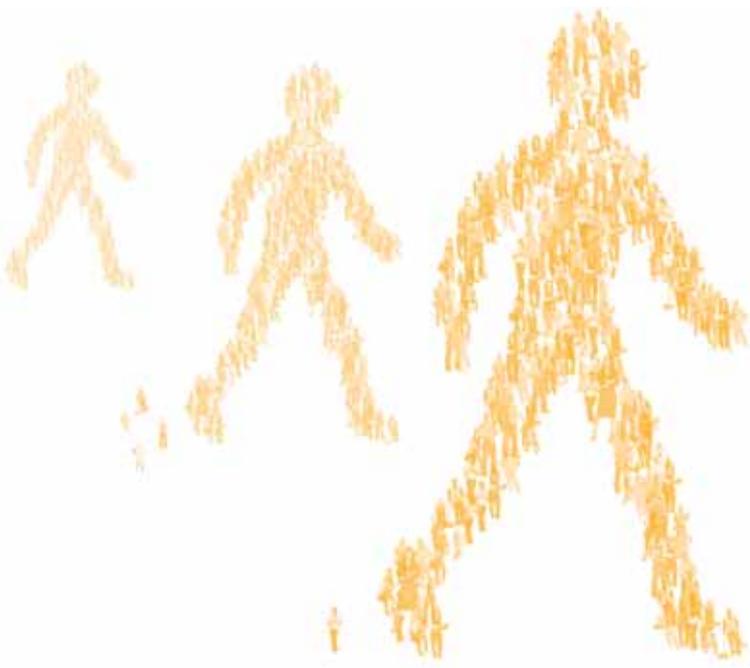
### Employee engagement and cost containment top the priority list

Our survey asked participants to identify their three top workforce priorities in the coming year, as the economic recovery gathers momentum (**Exhibit 45**). That nearly half (48%) of respondents identify containing labour costs as a key priority is symptomatic of the tough trading climate that many businesses are operating in, as well as the budget pressures on public sector organisations. In this regard, the twin pressures of increased levels of inflation and continuing economic uncertainty will present a real challenge for management.

The number one priority for business in the next 12 months, however, as it has been throughout the recession, is maintaining a high level of employee engagement. Nearly two thirds (61%) of employers cite this as one of their top priorities. If businesses are going to maintain high morale and engagement through the recovery and into a period of economic prosperity, then it will be vital that employees feel that they understand why their employer is taking tough but necessary decisions and how they can best contribute to the organisation's success.

### Filling key posts is essential for the future

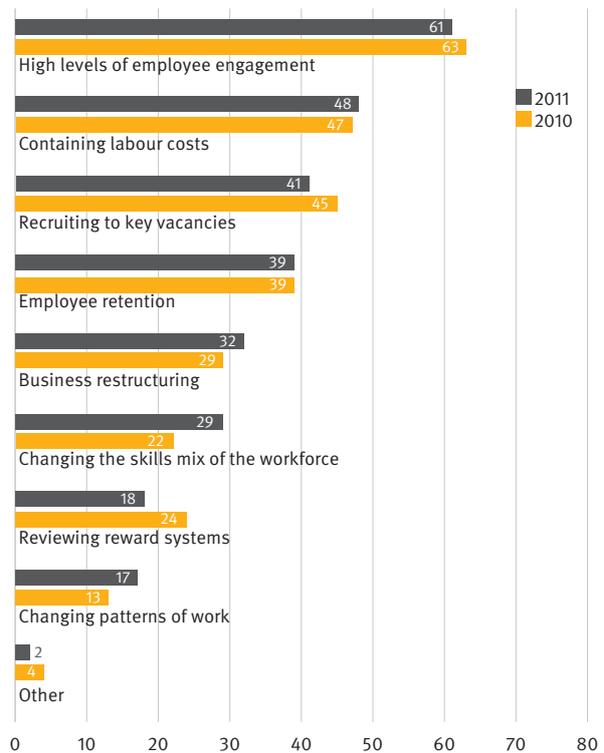
Having the right people in post also ranks high in employer priorities for the months ahead. This is not only about recruiting to key vacancies to enable businesses to take advantage of growth opportunities (41%), but also retaining the skills of employees already in post. For nearly two in five organisations (39%), employee retention is among their major concerns in the coming year as new job opportunities open up among competitors.



**Change is in the air**

Responding to the opportunities that recovery opens up – and to new competitive and cost pressures – managing the human aspects of change is a major concern for many employers in the period ahead. Nearly a third (32%) say business restructuring will be one of their top priorities in the coming year and a similar proportion (29%) will be looking to change the skills mix of their workforce. In both cases, these figures are up on the levels reported in 2010, indicating a stepping up of the pace of change.

**Exhibit 45 Employers' top workforce priorities over next 12 months (%)**



“61% of employers cite employee engagement as one of their top priorities for the coming year”

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