
Big Challenges Bring Big Rewards

The big picture narrative

March 2012

The nature of the challenge: where are we today?

What kind of economy do we want the UK to be?

A broad based, dynamic economy, with open and competitive markets; encouraging international trade; and rooted in strong, high performance working businesses, which support high levels of business investment, high sales and revenue generation; and business growth. This in turn then supports individual prosperity and social welfare.

The UK has a prosperous history which has put it in an immensely powerful position today. UK productivityⁱ is higher than Japan, similar to Canada and Italy but lower than France, Germany and USAⁱⁱ. This provides a strong platform for future economic growth.

Currently, the UK economy faces an unprecedented period of uncertainty. The 2009 recession was quickly followed by the continuing Eurozone crisis. Such issues coupled with globalisation means that the world is an increasingly pressured market where businesses are facing ever growing competitive forces. As consumer demand weakens, but also becomes more sophisticated across the world, more specialised and personalised goods and services are required. Consequently, supply chains are increasingly global, more focussed and complex to meet consumer demands.

The UK is an important economic force as the 8th largest economy in the world

The entrance, and growth, of economies such as China, Brazil, Russia, India, and other Asian nations, into the world trade system has greatly increased industrial capacity but has also intensified competition. The low wage, low skill structure of these new emerging economies, supports more labour intensive production processes which put substantial downward pressures on costs and price. This has forced more mature, western economies to specialise, scrutinise the efficiency of the management process and outsource even further to manage costs down. In addition, moving up the value chain has become an even more important means to achieve growth.

The UK is totally connected to and dependent on the rest of the world's economy for exports investment and jobs, and is actively responding to such trends. International trade and open competition are key drivers of growth, and are essential to boosting competition, lowering prices, and maintaining pressure on domestic businesses to be innovative and efficient.

Sixty years ago, exports (and imports) accounted for just over twenty per cent of the economy. Today, the economic significance of international trade has increased.

The value of exports has grown to 29% of GDP and imports to 33%

Figure 1: Exports and imports in the UK (% of GDP)



Source: ONS 2009 UK Economic Accounts (2010)

The UK's 4.5 million businesses and people they employ are the greatest engines of job creation and growth. Small and medium sized enterprises (SMEs) account for 99.9% of all businesses and provide 60% of private sector jobs and nearly half of all private sector turnover.

Against this increasingly tough and uncertain economic backdrop, UK firms need to ensure an on-going search for continuous improvement, operational excellence, and high performance working, to stay one step ahead of competitors and ensure business survival. This places even more importance on the need for UK businesses to search for differentiation in products and services to meet changing consumer needs and to secure a continuing competitive edge. Businesses do recognise that success depends on the talents of their people being amongst the best in the world.

Over the last decade, we have made huge progress growing the skills of our workforce within the UK. Indeed, we have increased those with higher qualifications (at a degree level or above) by more than half and reduced those with no qualifications by a third. We have also been moving to a more highly skilled economy.

Table 1: Changing qualifications UK, 2000-2010

	2000	2010	2000-2010 Change	2000-2010 Change
	%	%	Percentage point	('000s)
Level 4+	24	34	10	+4,306
Level 3	19	20	1	+783
Level 2	20	20	-0.5	+311
Level 1	19	16	-3	-619
No Qualifications	18	11	-7	-2,289

Source: *ONS Labour Force Survey 2000-2010*

As businesses innovate and develop, they are creating more highly skilled jobs. The fastest (and slowest) growing sectors in the UK between 2005 and 2010 based on: output growth; employment growth; and productivity are outlined below.

Many of the fastest growing sectors have increasing demands for higher skills such as:

- Real estate: which also includes renting of machinery and equipment
- IT
- Finance & insurance
- Health & social work: including health, residential care and social work.

In contrast, the contracting or slow growth sectors include traditional parts of manufacturing (e.g. wood, textile and metals), as well as mining and quarrying, and agriculture which have demanded lower, often manual skills. Future forecasts tracking likely growth over the next decade are reinforcing these trends.

The UK has developed competitive strengths in many of these growth industries making them well positioned to benefit from global markets. In thinking about the

The UK is specialised in knowledge intensive sectors but weaker in the higher volume, lower technology sectors

UK's future strengths, it is important to focus on those sectors which are already competing well relative to other more developed, high wage, economies.



Table 2: Growing and contracting sectors

Output (2000-2010)	Employment (2000-2010)	Productivity (2000-2010)	Overall
Fastest Growing			
Real estate	Real estate	Engineering	Real estate
IT	Professional services	Finance & insurance	IT
Finance & insurance	Health and social work	IT	Finance & insurance
Health & social work	Education	Other manufacturing	Health & social work
Professional services	Support services	Food, drink & tobacco	Professional services
Slowest growing			
Agriculture	Other services	Electricity & gas	Electricity & gas
Engineering	Food, drink & tobacco	Real estate	Agriculture
Other manufacturing	Mining & quarrying	Agriculture	Other manufacturing
Mining & quarrying	Other manufacturing	Education	Mining & quarrying
Water & sewerage	Engineering	Water & sewerage	Water & sewerage

Source: *Wilson et al. (2011) Working Futures*

Are we doing enough to ensure significant enterprise and growth in the future?

With the world economy in such a fragile state, following the largest global financial crisis and deepest international downturn for 80 years, UK businesses are working harder than ever to maintain business performance and secure their economic future. However, with the continuing Eurozone crisis significant challenges remain.

Whilst our leading businesses are world class and we remain a strong international economic force, our competitiveness overall is static as other countries catch up. The Global Competitiveness Report, produced by the World Economic Forum^{iv} now ranks the UK economy as the 10th most competitive in the world; which remains lower than pre-recession rankings. Our employment and productivity rates are also not amongst the highest leading nations (see Figure 2 - 12th on our level of employment and 16th on our productivity).

Furthermore, whilst our skill levels are increasing they are not increasing fast enough relative to other leading nations around the world (we trail countries such as USA, Japan, Korea, Canada, Denmark, Norway, Finland, Czech and Slovak Republics) and at current rates we are set to fall further behind.

The 2009 recession has exacerbated this trend as eastern economies started to outperform their western rivals. Whilst growth in emerging markets, such as China and India, has slowed, their economies have continued to expand during the global downturn. Growth in China's GDP was 9% in 2009 and 10% in 2010 and India's GDP rose 7% in 2009 and 10% in

2010^v. Whilst the EU and US will continue to play a key role in the UK business' main export markets, we need to exploit in future the growth of demand in India

The UK is growing high skilled people
7x's faster than high skilled jobs

and China which will create new opportunities for UK-based businesses. In the future businesses remain exposed to a range of investment challenges including the Eurozone crisis, exchange rate movements, fears of sustainability of supply chains, downward pressure on prices and shortages of lending. This will more than ever call for a need to value and invest wisely in their staff.

What more can businesses do?

How do businesses ensure that they continue to raise their competitiveness and stay ahead of the game?

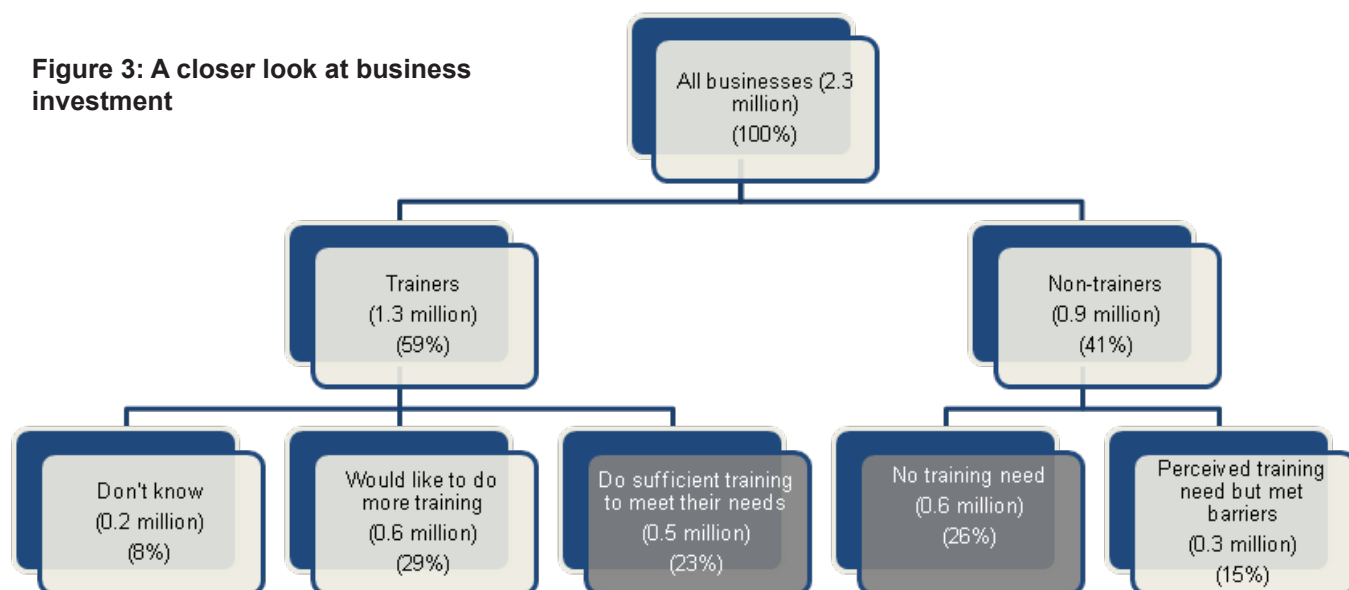
Businesses already play a fundamental role, and are continually investing in their employees as a route to secure comparative advantage and an on-going competitive edge. With 80% of our 2020 workforce in work now, this means that, for employers, the future really is in their hands.

Figure 2: UK's international position on employment and productivityⁱⁱⁱ

Source: *OECD Employment Outlook 2011* and *OECD Productivity Database 2010*



Figure 3: A closer look at business investment



Source: UK Employer Skills Survey 2011

But is this enough? What are employers investing in? Are employers investing wisely in the skills of their employees to maximise business performance? Are enough people training in the right areas to secure work, progress and meet employer needs? Are ambitions being set high enough to be the best in the world?

A closer examination of the broad patterns of investment do highlight areas which warrant further attention (see figure 3).

3/5 of businesses provide their staff with training, meaning over half the workforce is being upskilled. A sizeable investment of £49 billion

At £49 billion aggregate investment in training is substantial in absolute terms but this is a decline on previous years when allowing for inflation. Moreover, the topline figures suggest significant scope for improvement because:

- Only half of the £49 billion is direct investment, the remainder includes opportunity costs, such as labour costs.
- Two fifths of employers do no training at all in a year. In such a competitive environment is this right?
- There are significant variations in skills investment by sector. The public sector is an important driver of skills investment, as the education and public administration sectors have the highest involvement in training. Private sector industries, including transport and agriculture feature at the bottom of rankings.
- Employers who do not provide training at all tend to indicate that this is because their workers are already proficient. Is there more that these employers should be doing to keep their businesses competitive?
- Among those employers who already undertake training, direct financial costs and the cost of releasing staff are the key barriers to further expansion of training activity.
- Only 12% of employees undertake training leading to a qualification. If qualification attainment encourage transferability and are a good indicator of quality why is this not higher?
- Training is not offered to all staff. Nearly half miss out and participation in training also varies markedly by occupation. Workers in semi-skilled operative roles and in low skilled elementary roles, together with clerical workers and managers are least likely to receive training. Workers in personal service roles are most likely to participate in training.

But to what extent do attitudes of employees also really hold employers back and providers inhibit effective investment?

- Whilst 4/5 of people realise the value of learning and believe it is really important to pursue, 1 in 4 of these individuals do not follow this up with action.
- The two most important factors driving individuals' likeliness to learn are their previous education and attainment at school, and their parents' education.
- Such factors develop a learning habit, where any learning leads to more learning.
- There is inequality in learning, where 8 out of 10 people with degree level qualifications undertake learning compared to less than 3 in 10 with no qualifications.

Nearly 12 million people
consider they don't actively learn

- Individuals' motivations to learn are strongly related to different stages of their lives. Figure 4 shows that people aged 16-25 are motivated by improving their job prospects whilst people aged 40 to 59 are mainly motivated by wider needs to learn something new.
- For individuals learning activity varies by occupation. Four fifths of those in professional and managerial jobs participate in learning compared to less than half of those in lower skilled jobs.
- Such factors have led to substantial differences between the skill rich and skill poor. Those least likely to learn: have low qualifications (below GCSE) and educational backgrounds; have parents who left school at 16; are older (over 50); have lower incomes (less than £10k); are in certain areas of work (especially low skilled jobs, are not working full time); or are out of work altogether; are more likely to work part-time; and live in deprived areas.

Figure 4: Life stages of learning

Young People 16-24



- Years of biggest challenge but limited choice
- 4/5s participate in learning
- **Motivations:** job prospects
- **Barriers:** cost

Midlife 25-39



- Work predictable
- 3/4s participate in learning
- **Motivations:** work performance, job satisfaction and help children
- **Barriers:** time and cost

Maturity 40-59



- Defined by experiences. Rich and poor
- Nearly 3/4s participate in learning
- **Motivations:** to learn something new
- **Barriers:** time and cost

Old Age 60-74



- Rich retire, low income still work
- Just under half participate in learning
- **Motivations:** to learn something new
- **Barriers:** too old

Source: *National Adult Learning Survey (2011) forthcoming*

Significant challenges ahead

There are significant challenges ahead for UK businesses around skills investment and maximising the individual contribution of staff. How can we secure a much greater collective commitment to invest in skills to drive enterprise, jobs and growth? We need an internationally competitive skills base built on a sustainable market for skills which:

- Continually adapts to drive enterprise and growth;
- Produces high quality training;
- Creates more opportunities for young people; and,
- Is less reliant on government intervention.

This will require a radical shift moving from government leadership to greater employer ownership of employer based training.

How can we support businesses to ensure on-going future success?

To make the necessary step change in the economy to be at our best, businesses need to take the lead in developing and proposing action. Businesses understand their sectors, and therefore know best what their sectors need to perform most effectively and what help they need for their sectors to succeed. They understand best their own business environments and market conditions and therefore what types and combinations of policy options would help them raise their game.



We need to encourage greater ambition among employers if we are to remain internationally competitive. This means enhancing the capacity and capability of employers to be more innovative in skills development. Commissioners have launched two investment funds: the Growth and Innovation Fund (GIF) and Employer Investment Fund (EIF). These Funds support solutions that are linked to skills needs, make a positive impact on growth and have a sustainable future without further public investment.

The cost of disengagement to the UK economy is £60 billion in lost productivity

Investors in People is proven to help businesses achieve better results through their people. It therefore provides the framework to implement employer owned skills solutions for individual businesses.



Why should employers act?

Skills have a vital role to play to enhance business success. Benefits associated with a higher skilled workforce include:

- increased employee satisfaction;
- lower rates of absence and staff turnover;
- better returns;
- improved productivity;
- higher added value product strategies.

A one percentage point increase in productivity or employment generates additional GDP of £10 billion each year

Higher skill levels increase a firm's confidence in their employees' ability to adapt, so encouraging greater investment and innovation.

Persistent skills deficiencies damage firm performance. Manufacturing firms operating below full capacity and reporting skills gaps are up to half as productive as other firms.^{vi} Skills increase the chance of individuals being employed and more productive at work.

On-going skills investment really makes a difference.

Endnotes:

ⁱ Gross domestic product per hour worked

ⁱⁱ International Comparisons of Productivity 2010 (ONS 2011)

ⁱⁱⁱ OECD Factbook 2011 – 2012 (2011)

^{iv} This rank countries according to a range of measures and on the basis of a 'global competitiveness' index.

^v BIS Economics Paper No17. UK trade performance across markets and sectors (2012)

^{vi} Sector Skills Insights: Advanced Manufacturing (2012 forthcoming)

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and economic growth.

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