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ALL HANDS ON DECK

HOW BUSINESS CAN HELP TACKLE BRITAIN'S PRODUCTIVITY DEFICIT

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EXECUTIVE SUMMARY

- Britain has experienced an unprecedented period of job creation.
- Contrary to Labour's claims, low-paid work has actually been falling sharply after years of stasis under the Blair and Brown governments.
- However, Britain still has a significant productivity problem. Indeed, as the Chancellor recently said, it is the single most urgent issue within the British economy.
- Productivity per hour in Ireland (to give just one example) is almost 40% higher in terms of GDP per hour worked.
- There are many ways we can increase productivity. But one key area to focus on is driving up employees' engagement with their work and workplaces.
- Companies with high employee engagement enjoy a boost of at least 20% compared to their peers in terms of productivity and profitability, and are significantly less likely to lose staff to absenteeism.
- This paper suggests several approaches businesses can take to increase employee engagement.
- These include greater use of employee share ownership schemes; a greater commitment to flexible working and employee wellbeing; and greater encouragement of financial planning in the workforce.
- Such schemes do benefit employees, but all the evidence is that they are hugely beneficial for employers as well.

INTRODUCTION

Since 2010, the UK has experienced a period of unprecedented job creation. Employment, as shown in Chart 1, has reached its highest rate since 1970. Creating 1,000 jobs a day since 2010 is one of the greatest achievements of the Coalition and Conservative Governments – with only six of them taken by the former Chancellor.

In the past year alone, there have been 338,000 new full-time jobs created, whilst the number of people in part time work continued to fall.[1] Youth unemployment is at its lowest ever level, having halved since 2011.

The Government's critics often argue that these are low-paid, zero-hours jobs. In fact, zero hours contracts – which were introduced under Tony Blair and reformed by the Coalition government – have actually been falling. Between April and June 2018, just 2.4% of people in employment were on a zero-hours contract.[2] And the most recent data from the Office for National Statistics on low and high pay, shown in Charts 2 and 3, reveals that the proportion of workers on low hourly wages – which was static under Labour – has fallen sharply in recent years, reaching a record low of 17.8% of the workforce.[3]

This Government also has a fine record of addressing pressures on living standards. Traditionally, the approach has been through tackling pay, more favourable tax rates, and improving skills. We have changed the personal tax allowance. The amount of money you can earn before paying tax has been increased by a staggering 93%. That means the typical taxpayer will now pay £1,205 less in income tax than in 2010 – putting more money into people's pockets.

Meanwhile, the National Living Wage has increased from £5.80 to £8.21 by next April – an increase of 35%. And in October 2018, official statistics from the ONS showed that wages were up 3.1% – the fastest quarterly increase in a decade.[4]

The Government has also addressed the cost of living. Ministers have, as confirmed in the recent Budget, frozen fuel duty for nine years in a row.[5] They have also introduced free childcare of 15 hours per week, with 30 hours available for some parents, and taken other measures to address cost of living pressures.[6]

Yet a detailed examination of data on wages and earnings shows that there are still some worrying trends in the labour market that do need addressing. In particular, GDP per hour figures for the G7 countries shows that the UK continues to lag behind Germany, France and the United States.

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1. DWP. October 2018. Youth unemployment down 50% since 2010. [Online]. Available from https://www.gov.uk/government/news/youth-unemployment-down-50-since-2010
2. ONS, 2018. People in employment on zero hours contracts. [Online] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts
3. ONS, 2018. Low pay and high pay in the UK: 2018. Available from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/lowandhighpayuk/2018
4. BBC. 2018. UK wage growth fastest in nearly 10 years. https://www.bbc.co.uk/news/business-45875599
5. BBC. 2018. No tax rises on petrol, says Theresa May. https://www.bbc.co.uk/news/uk-politics-45727383
6. UK government. 2018. 15 hours free childcare for 3 and 4-year-olds. https://www.gov.uk/help-with-childcare-costs/free-childcare-and-education-for-2-to-4-year-olds

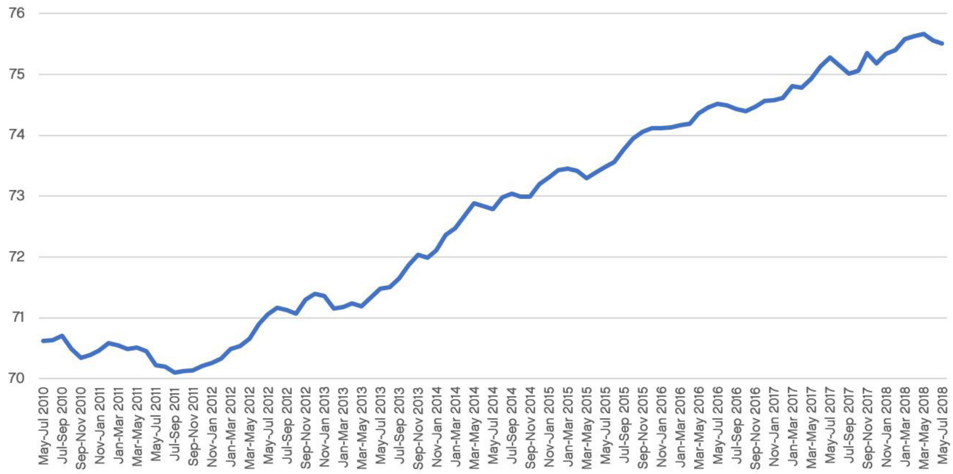
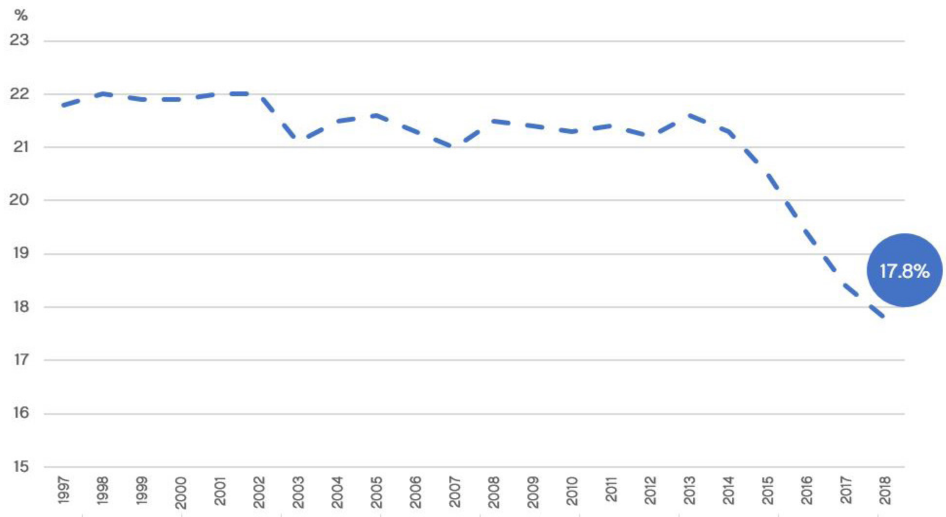


Chart 1: Percentage change in UK employment rate since 2010[7]

Chart 2: Proportion of UK employees on low pay[8]



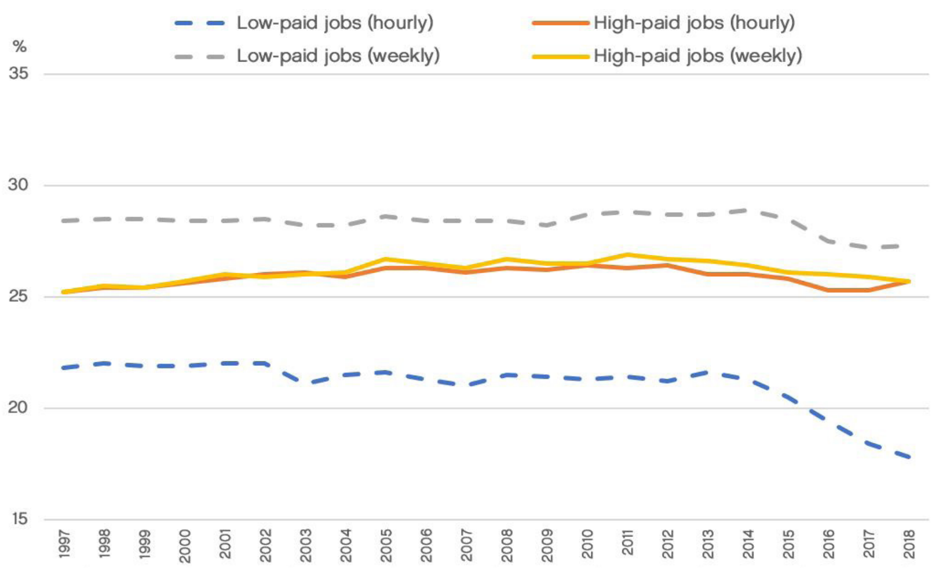


Chart 3: Proportion of high- and low-paid employee jobs for hourly pay and gross weekly pay, whole economy, UK, 1997 to 2018[8]

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7. ONS. September 2018. UK Labour Market: September 2018. Available from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2018
8. ONS, 2018. Annual Survey of Hours and Earnings (ASHE) for National Statistics. Available from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/lowandhighpayuk/2018

This effectively amounts to a productivity lag in Britain. Despite the UK's jobs miracle, UK productivity growth has struggled to keep pace and remains well below its long-term trend before the 2008 financial crisis. This has been a key factor in the squeeze on living standards.

A key part of the recent Budget was about improving productivity. As Philip Hammond told the BBC, it is "the single most urgent challenge" facing the UK economy.

As the economist Paul Krugman famously wrote in his 1994 book, The Age of Diminishing Expectations, "productivity isn't everything, but in the long run it is almost everything".

There is agreement that low productivity growth is holding back the long-term prosperity of our businesses, and of our country. But it doesn't have to be that way. This paper examines some of what government has done, and makes suggestions for what businesses can do if they are serious about transforming the productivity of both their individual employees, and the company as a whole.

Chart 4: Changes to the National Living Wage since 2010[9]

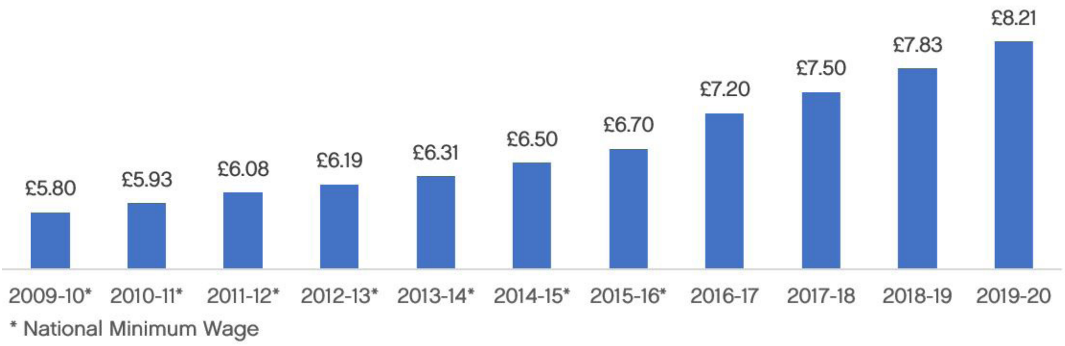
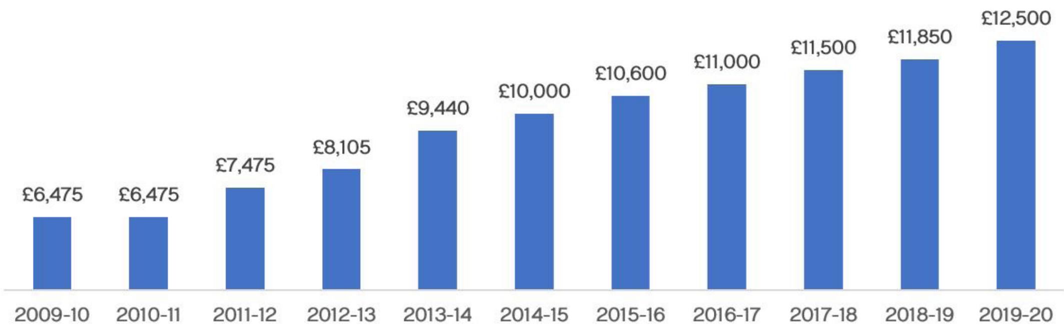


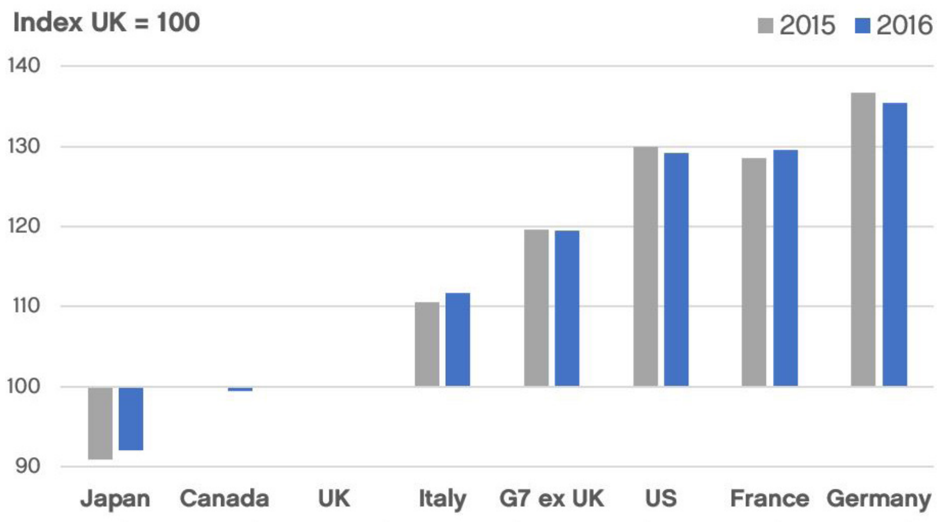
Chart 5: Changes to the Personal Tax Allowance since 2010[10]



9. UK government. 2018. National Minimum Wage and National Living Wage rates. https://www.gov.uk/national-minimum-wage-rates

10. UK government. 2018. Income Tax rates and allowances for current and past years. https://www.gov.uk/government/publications/rates-and-allowances-income-tax/income-tax-rates-and-allowances-current-and-past

Chart 6: GDP per hour worked in G7 countries: 2015 to 2016[11]



THE PRODUCTIVITY CHALLENGE

There is little doubt that Michael Gove transformed education and skills in Britain. His reforms across the curriculum have raised education standards. Likewise, he addressed the training deficit with traineeships; two million new apprenticeships; and the introduction of new Tech-Level qualifications.

The reasons for doing this are simple. Everyone accepts that a country's ability to link skills and training to future economic needs is vital to that country's long-term economic prosperity and productivity.

And yet, despite this great work, our productivity still lags when compared to some of our European competitors. When measuring productivity by GDP per hour worked, Ireland has a level of labour productivity that is almost 40% higher than that of the UK.

The fact is that no workplace can truly thrive without the energy and commitment of those that it employs. And those that do, reap the rewards. A 2013 Gallup poll suggested that US companies with high employee engagement enjoy at least a 20% boost to productivity and profitability compared to their counterparts.[12]

Often, it is argued that it is Government's responsibility to address our productivity problems. And it is. But there is also much that companies can do. To misquote John F Kennedy: "Ask not what government can do for productivity. Ask what your business can do for it's productivity."

In particular, we need to focus on the following key issues that businesses can address in order to boost employee engagement, and thereby their productivity: employee ownership, flexible working practices, individual well-being and financial security.

11. ONS. 2018. International comparisons of UK productivity, final estimates 2016. [Online]. Available from https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2016
12. Gallup. 2013. State of the American Workplace.

EMPLOYEE OWNERSHIP

Employee ownership schemes are not new, but have often been seen as reserved for senior executives, and inaccessible to the everyday employee.

Until relatively recently, little was known about the impact of Employee Ownership Schemes. That changed last year when the US National Center for Employee Ownership published a report on the impact of Employee Stock Option Plans (ESOPs).

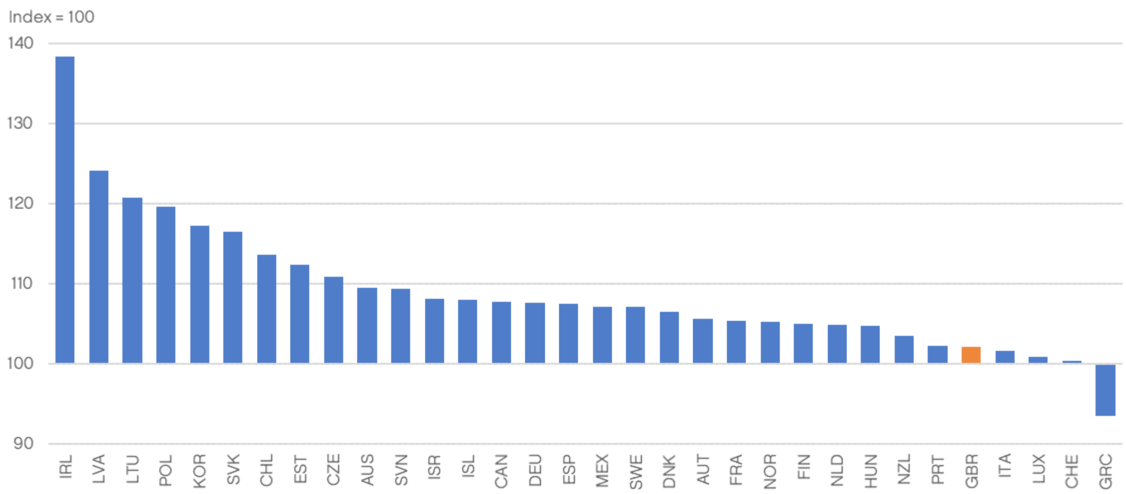
The study involved a cohort of 9,000 workers from similar socio-economic backgrounds who had been followed from 1997 (at the start of their professional careers) to 2013 (when most were in their mid-30s). The study showed that the benefits of share ownership are overwhelming – for both the employer and employee.

The results were stark. By 2013 those who worked for companies with ESOPs had 92% higher median household wealth, 33% higher income from wages and 53% longer median job tenure than those who did not.[14] Significantly, these differences applied regardless of gender, ethnicity, family or marital status – cutting across some of society's major fault lines.

More striking still was that employee-owners were more than four times more likely to enjoy work-life benefits such as flexible working (traditionally associated with lower levels of productivity) – yet the ESOP companies that employed them typically demonstrated much higher levels of financial growth. The evidence overwhelmingly sustained the conclusion that employee ownership – or at least working for the kind of companies that promoted it – enhanced productivity and created value for both businesses and staff.

At Labour's annual conference in Liverpool earlier this year, Shadow Chancellor John McDonnell unveiled plans to appropriate parts of companies by compelling firms with 250 employees or more to hand over 10% worth of

Chart 7: GDP per hour worked, vs EU 28 average[13]



13. GDP per hour worked. 2018. OECD. https://data.oecd.org/lprdty/gdp-per-hour-worked.htm
14. National Center for Employee Ownership. 2017. Employee Ownership and Economic Well-Being. [Online]. Available from: https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf

shares in the company. The workers, he claimed, would receive a flat rate annual dividend, capped at £500. Anything in addition would be pocketed by government.

Carolyn Fairbairn, Director General of the CBI slammed the idea: "Employee ownership is a good thing. But imposing it by diktat will only encourage investors to pack their bags and harm those who can least afford it."[15]

Indeed. McDonnell's model of collective employee ownership is a double rip-off – punishing those who have set up their own companies by confiscating large chunks of them, and punishing workers by minimising their ownership stake so that government can pocket the rest.

In fact, there are two main models of genuine employee ownership. First, there is the "John Lewis model" – whereby every member of the full-time workforce is a "partner" in the business, and shares are held collectively for the benefit of all employees, rather than by the employees individually. However, dividends are then paid annually depending on the performance of the company, with all of the dividend going to the employee.

There is much to be said for this approach, and employees are partners and motivated in a very different way to other department stores.

On the other hand, there is direct employee ownership, whereby the individual actually becomes a personal owner of the shares, which they can then sell if they wish to. This type of employee ownership is often tied to the performance of an individual based upon merit.

We advocate a sustainable route to increased employee ownership which places shareholders, business performance and employees at its heart. We think employee ownership schemes should operate as a reward and incentive for length of service.

We do not agree with Labour that such schemes should be compulsory. But to increase take-up, the Government could look at how existing tax arrangements that currently benefit participating businesses and employees could be extended in an efficient way.

At the same time, we think that employees should participate fully in the risk and reward of capital ownership, which is not a one-way process. And most importantly, we wish businesses to retain autonomy over capitalisation decisions.

Those who own a piece of a business, and put their heart and soul into working for it, will benefit more than those who just receive a salary – and deserve to. John McDonnell's plan is not the way forward. But employee ownership schemes certainly are.

FLEXIBLE WORKING

The nature of work is changing, and at speed. Many of our grandparents worked in one job from the age of 18 until retirement. They would struggle to comprehend the gig economy.

The law in the UK currently states that all employees have the legal right to request flexible

15. CBI. 2017. Available from: http://www.cbi.org.uk/news/labour-can-t-keep-assuming-that-what-works-for-one-business-will-work-for-all/

working. They can do this by making a statutory application, and there are consequences if the employer does not approach such a request in a reasonable way. To be eligible, employees must have worked for the same employer for at least 26 weeks.[16]

But does this 26-week restriction really fit with the realities of 21st-century Britain? If an individual – particularly a worker with parenting or caring responsibilities – wants to enter, or re-enter, the workforce, many need (or would benefit from) flexible hours around which they can work, earn and maintain their other responsibilities. They will sometimes struggle to do this if they have to start with an employer full-time for 26 weeks before being able to ask for flexible working.

This system of employment practices has built up over a great deal of time. The "9 to 5" has a long history. However, we suggest that businesses could start to pilot examples of new working practices now.

At the Conservative Party Conference, the Government announced that it is considering proposals to require employers to state in job advertisements whether the role can be performed flexibly.[17] It is a clarion call for employers to step forward and offer flexible working from Day 1 – as an integrated part of an employee's contract – in order to act as a pilot project for the efficacy of such a programme.

One such business leading the way is Atom Bank, based in the North East of England. The vast majority of its 300 employees have no set hours. They can attend the business premises to complete their tasks at whatever time of the day (or night) they choose. The evidence from the employees is that these working practices, which give them both freedom and responsibility, are massively appreciated; and the results are born out in productivity and effectiveness. Management and employees love this system. Other businesses could take note.

EMPLOYEE WELL-BEING

Staff absenteeism holds business back. Losing your best, or any, employee for a day or more has a significant impact on a business. It is an issue that is particularly acute for small business.

The evidence is that to get the best from their workforce, employers must heed the link between health, engagement and productivity. Research in 2016 by Britain's Healthiest Workplace put the cost of lost productivity due to absenteeism at £57 billion per year (or 7.85% of payroll).[18]

But this isn't simply a fact of life. Companies with the strongest culture of health and well-being suffered a 5.9% loss in annual productivity against 10.7% for those with the least supportive cultures.

So what makes for a happy employee?

Research undertaken by Mercer in 2017 found that two thirds of employees viewed flexible working as a priority for wellbeing.[19] And Silicon

16. UK government. Flexible Working. Available from https://www.gov.uk/flexible-working
17. New measures to support workers, businesses, and entrepreneurs. 2018. [Online] https://www.gov.uk/government/news/new-legislation-to-ensure-tips-and-gratuities-go-to-employees
18. Britain's Healthiest Workplace 2016. http://www.hr180.co.uk/britains-healthiest-workplace-2016/
19. Mercer. 2017. Employee Productivity – Are you the reason it's declining? Available from https://www.uk.mercer.com/our-thinking/peopleshaped/employee-productivity-are-you-the-reason-its-declining.html

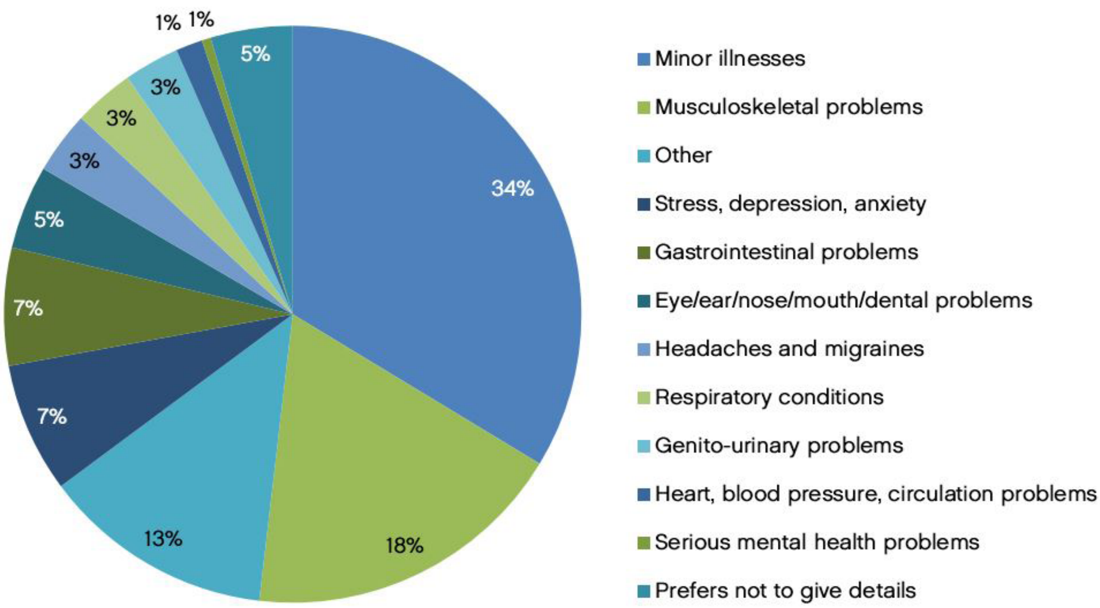
Valley firms, despite having a reputation for a long-hours culture, are in many cases in the vanguard of flexible practices. Asana, for example, sets goals and objectives four months in advance. Employees have no fixed working hours nor limits to time off. Daily attendance is encouraged but beyond that employees set their own schedules and performance is assessed by the attainment of targets.

Dropbox has gone one further – abandoning paid annual leave altogether. Its employees are entitled to unlimited paid time off and "no meeting Wednesdays" which are ring-fenced for uninterrupted work. Both have had impressive results on productivity. "We have found that when employees are given flexibility, they are far more highly engaged," says Melanie Collins, Dropbox's global head of people partners.

Such innovative working methods cut to the core of the traditional business relationship, displacing supervision in favour of employee autonomy. And those who write this off as a Silicon Valley quirk miss the point. Armed with a smartphone and laptop, employees across a range of sectors are able to discharge their duties remotely – and value the opportunity to do so. In the brave new world of work, employers seeking to optimise employee productivity should take note.

Employers also need to think holistically. Loneliness, for example, affects nine million people in the UK and has direct links to depression, addiction and coronary heart disease.[21] This comes at a cost of approximately £2.4 billion in lost productivity per year.[22]

Chart 8: Reasons for sickness absence, UK 2016[20]



20. ONS. 2017. Sickness absence in the UK Labour Market: 2016. Available from https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/2016
21. According to research undertaken by the Jo Cox Loneliness Commission
22.According to research by Co-op for the Jo Cox Loneliness Commission

The Government has shown that it takes this issue seriously, but businesses have their own role to play. The Federation of Small Business has, for example, set up the FSB Connect networking group for precisely this purpose. Mentoring, networking opportunities, linking retirees with people in training are all ways that business communities can create connections. The recent loneliness strategy is also a good step forward.[24]

THE MID-LIFE MOT

We are all now used to getting a text message from our doctor or dentist when it's time to go for a check-up. From bowel and breast cancer screening, to dental checks and cervical screening, pre-emptive health is now a given – and public health has been transformed by such an approach.

But why don't we think in the same way about our financial health? The Mid-Life MOT is a private sector led, but a government supported programme to help ensure that people nearing their retirement age sit down and assess their financial health, and long term options.[25]

Aviva's pilot scheme, with a cohort of employees over 45 years old, saw them engage in 12 hour-long classroom sessions covering wealth, work and wellbeing. The company recently published a report on its findings and what it learnt from the process.[26]

Government continues to nudge and support businesses like Aviva. Recently, Hargreaves Lansdown announced that they were doing a Mid-Life MOT for their staff, and many London city firms are following suit. The DWP is leading the way in government by conducting its own Mid-Life MOT, and other businesses up and down the country are working to explore how more people can benefit.

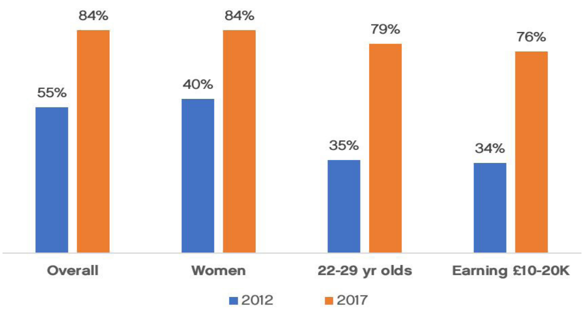
Aviva is now building on its pilot by rolling it out to all its offices and employees 45-60 across the UK. Yet even the initial findings show the massive benefit Aviva felt as an employer through implementing the Mid-Life MOT. The key business benefits were:

- A greater likelihood that the employees would stay with the business long term
- Increased motivation of the employees
- A better relationship between the employer/employee
- Better health and wellbeing outcomes for employees
- A strong likelihood that productivity would improve by reason of the Mid-Life MOT

There is no doubt that the employees' perception of their wealth and retirement needs were a key takeaway from the Mid-Life MOT. Research from Mercer found that in the UK just 32% of employees feel that they have the mechanisms in place for financial security in retirement, a figure that falls to 26% for women and 24% for all those in the 18-34 cohort. Anxiety about financial security in retirement is a leading cause of workplace stress, which itself has a consequential effect on productivity.[27]

24. UK government. 2018. PM launches Government's first loneliness strategy. [Online] https://www.gov.uk/government/news/pm-launches-governments-first-loneliness-strategy
25. PLSA AC 18: Mid-life MOT could bring "commercial benefit" to businesses – Opperman. 2018. [Online.http://www.pensionsage.com/pa/PLSAAC18-Mid-life-MOT-could-bring-commercial-benefit-to-businesses-Opperman.php
26. Developing the mid-life MOT. 2018. https://www.ageing-better.org.uk/sites/default/files/2018-09/Developing-the-mid-life-MOT.pdf
27. Mercer Red C Wellness Research in 2015.

Chart 9: Workplace Pensions Participation 2012 v 2017[29]



Pension auto-enrolment has increased the percentage of eligible workers participating in a workplace pension from 55% in 2012 to 78% today, with the greatest progress on participation among younger workers, women and the lowest paid.[28]

However, employers can still play a greater role in ensuring the long-term financial security of their staff. Several companies aside from Aviva are piloting a Mid-Life MOT programme to support older employees by addressing their views on wealth, work and wellbeing. We look forward to the findings of the likes of Hargreaves Lansdown, and others who are currently conducting their Mid-Life MOT.

And, of course, all of the initiatives described here complement each other. The Aviva findings showed a firm desire for flexible working long-term. The company expected this service to be a benefit fundamentally for its employees, but found that it actually benefited too, in terms of making it easier to retain older talent – those who wanted to reduce their hours but not abandon the workforce entirely.

The resulting wake-up call for the business will mean a potential reduction over the long term in employees retiring early or changing careers – and the company losing experienced and productive talent unnecessarily.

Schemes of this kind can also be tailored long-term to meet individual requirements. Female employees, for example, continue to face inequality in salary, career continuity and access to employer-sponsored schemes during their professional lives.

CONCLUSION

There is no simple silver bullet for the problems of business productivity. The Government has done a great deal, but more can be done by business itself. We believe that if businesses can approach things differently, and more holistically, they can get better outcomes for themselves and their employees.

Employee ownership, flexible working, enhanced well-being and enhanced motivation through better long-term financial security and flexible working are not revolutionary ideas. They are simple, easy to implement, scalable and cost-effective.

We believe that better days lie ahead for British productivity, but only if we all work together to help deliver the productivity revolution that Britain needs.

28. UK government. 2018. One million employers enrol staff into a workplace pension. https://www.gov.uk/government/news/one-million-employers-enrol-staff-into-a-workplace-pension

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