

CIPD

Executive summary
July 2023

An industrial strategy for the everyday economy

The CIPD has been championing better work and working lives for over 100 years. It helps organisations thrive by focusing on their people, supporting our economies and societies. It's the professional body for HR, L&D, OD and all people professionals – experts in people, work and change. With almost 160,000 members globally – and a growing community using its research, insights and learning – it gives trusted advice and offers independent thought leadership. It's a leading voice in the call for good work that creates value for everyone.

As UK policy makers consider how to raise productivity and stimulate economic growth, this paper outlines the necessary industrial strategy and economic policy changes to achieve this.

The paper identifies a number of structural problems facing the UK, including stalled productivity and wage growth, falling living standards and weak business investment. These problems also include changes to labour supply as a result of our ageing workforce and Brexit, and the need for the economy to transition to net zero and adapt to increased digitalisation and automation.

The paper questions whether current economic and industrial strategy is addressing these problems in a way which will deliver the desired results. It argues that besides the development of a long-term strategy, it is critical to widen the focus of growth and economic development policies to embrace the 'everyday economy' and its workforce. This can be done by thinking more broadly about the range of policies needed to improve economic performance.

Current challenges

The central challenge for any economic or industrial strategy is to address stagnation, stalled productivity growth and very low or no wage growth for most workers.

There are a number of contributory factors, including significant regional variations in productivity, earnings and wellbeing. Despite the UK Government's Levelling Up agenda, it is widely acknowledged that these issues are difficult to address and effective policy solutions are slow to emerge.

A further factor is the UK's extremely poor long-term record on investment, which sees the country languishing at the bottom of the G7 in terms of total fixed investment as a proportion of GDP. This poor investment record is reflected in the UK's low ranking among OECD countries in terms of investment in ICT equipment and robots.

Linked to these challenges is the long tail of poorly managed firms, which limits their ability or willingness to adopt new technology or invest in improving management capability or workforce skills development. There is also evidence that common forms of work organisation and job design often make poor use of higher levels of skills and don't foster workplace innovation.

Addressing these factors is critical to making progress.

Present-day policy thinking and responses

Current conceptions of industrial strategy and broader growth policies demonstrate a fundamental cleavage that spans the political divide between the Conservative and Labour parties. Elements in both major political parties subscribe to two very different models of the way forward.

The dominant policy orthodoxy

The dominant policy model is primarily focused on supply-side reforms (such as upskilling the workforce and public investment in science) and large cities and growth founded upon high-tech sectors and science-based innovation. A distinctive aspect of this model is its long-standing conceptualisation of the workplace and the productive process as a 'black box' inside which government intervention is regarded as neither necessary nor legitimate.

Policy makers who accept the ‘black box’ model see the role of government as being to improve the volume and quality of inputs (like skills, qualifications and R&D) as this will lead to more and better outputs and productivity gain.

There is a strong faith in a science-led innovation strategy supported by increased public funding for research and knowledge transfer between universities and industry. The current overall aim is to make the UK a ‘science superpower’. The result is a linear, top-down, cutting edge, science-driven model. This is by no means confined to the current government with the Labour party’s prescription for economic prosperity and levelling up heavily focused on new industries, new economy firms and creating high-value, high-tech clusters across the country.

The assumption is that high-tech clusters and new industries can bring a general economic revival and have positive impacts on people working in the everyday economy and society.

Alternatives to supply-side reforms

Existing alongside but in the shadow of the above approach, is an alternative analysis of some of the key causes of the UK’s weak economic performance which is more concerned with what might be termed the ‘everyday economy’. This thinking has focused on deficiencies in workplace management; industries, sectors and localities plagued by low pay and casualisation; poor work organisation and skills usage; and competitive and product market strategies that take a ‘low road’ approach. A focus on the everyday economy already forms an important strand in Welsh Government thinking because of its size and importance to the Welsh economy.

In England, the UK Government has sought to support the everyday economy through general forms of typically limited business support and improvement, mostly for SMEs, to help boost the adoption of progressive management practices and new technology. These include the Growth Hubs within Local Enterprise Partnerships, Help to Grow Management and Digital programmes and Be the Business.

Several initiatives have also been run by professional bodies, local authorities and charities designed to improve people management and development capability and raise employment standards.

This activity by the UK Government and other stakeholders has produced valuable insights and tested out different approaches to effectively catalysing business improvement, but the initiatives are all small scale and often time limited.

The peripheral and transitory nature of these projects reflects their marginality to the overall thrust of public policy and do not appear to have entered the UK Government’s mainstream economic development policy thinking.

Adopting a broader approach

This paper highlights the benefits of two models of industrial or growth strategy - which do not have to be mutually exclusive. The key issue for policy is what emphasis to place on each.

The first model supports interventions that are liable to be critical to the nation’s global competitiveness and technological capabilities. Though some argue this model is necessary, it is unlikely to raise growth and living standards across the economy on its own. Many businesses have learned to live with a low-pay, low-skills and low-productivity

model and to make it work. As a result, it is unclear how further attempts at pursuing traditional policies with limited reach can bring about the general transformation in productivity growth that is essential.

This prompts the question of whether policy makers need to expand a broader approach to industrial strategy. This would mean promoting:

- 1 a broader focus on productivity enhancement to cover everyday jobs and sectors
- 2 a broader conception of workplace innovation
- 3 a concern with promoting job quality and good/fair work
- 4 the development of integrated packages of business support and improvement to enable better management and employment practices, and create more 'space' and demand for workplace innovation and skills.

Addressing the everyday economy

A broader focus on economic growth that embraces medium and low-tech sectors is important because there is a need for policy to improve productivity across the entire economy. Simply having islands of high-tech productivity surrounded by a sea of mediocre performance is a recipe for overall failure. Current evidence suggests that policies based on trickle down (from higher wage sectors to lower wage ones) and trickle across (from higher wage and better performing localities to adjacent spatial units) are at best a long, slow haul.

Science-related industries are unlikely to improve the performance of non-science/tech sectors in the economy. The number of people that high-tech sectors and firms employ tends to be low. The problem with the UK Government's reliance on traditional models of science and innovation to drive economic change is that it only takes place in a tiny minority of firms. Three quarters of private R&D spend in the UK takes place in just 400 firms and of 3 million active UK companies just 60,000 claim R&D tax credits. The other 98% of companies don't use or benefit from R&D tax incentives.

Focusing on managerial capacity, job quality and fair work

Over the past 30 years many firms have successfully maintained low-wage, low-skill and sometimes low-productivity business models. Organisational change and business improvement on the other hand is difficult as it can be constrained by a lack of internal resources and capacity, as well as the mindset of management teams or business leaders. A focus on supporting improvements in managerial capacity and raising ambition across the UK will be central to any improvement in productivity and wellbeing.

Besides the quality of management, job quality is an important criteria in delivering real growth, prosperity and individual and community wellbeing. There is emerging evidence that job quality and good jobs have a positive effect on productivity, while the links between job quality and mental and physical health are well known.

Research also suggests that better job quality and flexible employment practices can enable people with poor health, disabilities and caring responsibilities to enter and sustain employment. Policy makers interested in welfare at work should increasingly consider policies and approaches that improve a firm's people management practices.

Key recommendations

Overall, the evidence and analysis in this paper suggests that the adoption of a broader range of policy objectives is required if the ambition to increase productivity growth and living standards across the UK is to be met. These would supplement existing approaches with a new emphasis on incentives and business support and services to improve management capability, job quality and workplace innovation.

What needs to happen next:

- Policy needs to change and broaden to address the current economy and labour market through confronting productivity problems in everyday sectors and everyday jobs.
- The UK should establish and implement a broader approach for economic development and innovation strategy that encompasses the bulk of the economy and employment, including skills creation and utilisation, job quality, workplace innovation, digital adoption and exporting.
- Create a model of policy that accepts a role for enhanced business support and improvement through designing and developing an integrated package of diagnostic help, followed by the growth of support services to aid business improvement and workplace innovation.
- Collect learnings from overseas practice, and from the efforts of the devolved nations on Fair Work and economic development.
- Implement a labour regulation/employment law enforcement regime that is closely coordinated and adequately staffed and resourced to close off access to employment practices that undercut labour standards and good employers
- Implement carefully evaluated pilots to test out different approaches at local and sectoral levels.
- Focus on developing coherent employer groupings at local and sectoral levels to enable greater collective action by firms - without an effective collective employer voice and capacity to act, government (national and local) will struggle to mobilise a key set of partners (Keep, 2020).
- Facilitate real partnership working, for example, between national and local government, and between government and social partners.
- It is important to recognise that this is a long-term project and it will take time to generate cumulative effects on performance and outcomes.

Read the full paper on the [CIPD website](#).

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