

## **Post-pandemic economic growth: Industrial Strategy**

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Submission to BEIS Select Committee

**Chartered Institute of Personnel and Development (CIPD)**

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## **Background**

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 155,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

## **Response**

- (1) Industrial Strategy (IS) Priorities: how does the Government understand, diagnose and monitor the underlying constraints on UK economic growth and is this informing the IS? How has Covid-19 impacted this evidence-base and should the IS change to reflect this?**
- (2) Relevance of the IS: how can the IS be made more relevant and accessible for the UK's supply chain, LEPs, Growth Hubs and for individual companies, investors and entrepreneurs? Has it helped SMEs grow and innovate? Is it helping Ministers decide on broader market interventions and policies to recover the economy following Covid-19?**

The pandemic has significantly altered the ability of economic actors – business especially - to engage with the government and deliver the Industrial Strategy. It will have reduced their internal capacity to engage with – and co-finance – some of the activities given priority in the Industrial Strategy. Government may need to adjust its involvement accordingly.

The pandemic has also affected the ability of firms to plan for the long-term. Our surveys of employers have detected a rise in the proportion of firms unable to plan ahead even on short-term questions such as how many people they expect to employ or whether they expect to pay higher or lower wages. Our most recent Labour Market Outlook survey of 1,000 employers also highlights the extent organisations are taking steps to reduce workforce costs in different ways, which will mean their ability to invest in improving their people management and development practices, for example in training will be constrained at least over the short and medium term.

This will make addressing some of the big challenges facing the UK such as the need to boost workplace productivity and tackle discrimination at work, more difficult.

In addition, some of the firms expected to engage with the Industrial Strategy face much more existential issues, such as how much demand there will be for their goods and services in the long-term (such as businesses in transport- or tourism-related industries).

Consequently, there is a requirement to review the IS in-light of the new challenges facing organisations and the economy and assess whether new or additional support measures are required.

For example, there is a strong case to create new sector deals to support the retail, hospitality and leisure sectors which have been disproportionately affected by the pandemic and the fall in demand for goods and services.

***(3) IS Delivery: is the IS deliverable within the current institutional framework? Does the IS Council have sufficient insights and powers? Are Whitehall departments delivering on their respective IS obligations and how is the IS being optimised over time? How has the IS operated in the Devolved Administrations and how does it compare to our key competitors?***

Insufficient time has elapsed and insufficient information is available to form a considered view on the delivery of the Industrial Strategy.

Hence it would be premature to comment on the performance of the Industrial Strategy Council or to call for any change to its powers or composition. The principle of independent oversight behind its creation needs to be given time to show whether or not it is working effectively.

***(4) IS Foundations: what data exists to evidence the impact the IS has had on the five foundations (ideas, people, infrastructure, business environment and places)? How has the IS impacted existing embedded policy areas – such as R&D funding and skills and education delivery – across Government departments?***

Given it is less than three years since the Industrial Strategy White Paper was published, it would be very optimistic to expect clear evidence of impact at this stage.

An additional complication is that the pandemic will have had an effect on each of the five foundations. We may be forced into making counterfactual judgements, i.e. how much better or worse things would have been without the Industrial Strategy.

Evidence of the impact of the Industrial Strategy on thinking on policy areas such as R&D or skills might be especially optimistic given their cross-cutting nature, particularly since thinking on topics like these must have been dominated for the last 6 months by pandemic-related considerations.



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Nonetheless, in the view of the CIPD, there is evidence that the People and Business Environment foundations of the strategy, in particular, require some significant further underpinning in-light of the pandemic and recession facing the UK.

For example, under the People foundation, the National Retraining Scheme needs swift expansion to help support the re-skilling/upskilling those who have lost their jobs through the pandemic to find employment in different sectors.

The Apprenticeship Levy should also be urgently reviewed and made more flexible in light of the fall in the number of apprenticeship starts and the wider need to support employer investment in skills.

Policy also needs to be refreshed under the Business Environment foundation, for example, as stated above, the sector deals need to be expanded to cover the areas worse affected by the pandemic including retail, leisure and hospitality. There is also a need to redouble efforts to increase business productivity and support business recovery. This will require greater investment in business support beyond the generalist support provided *Be the business* and should include a dedicated focus on HR/people management and development. Research by the ONS<sup>1</sup> found that the adoption of formal people management practices, in particular, are associated with higher productivity firms.

CIPD research into HR capability and small firms<sup>2</sup> also found evidence suggesting that the provision of fairly transactional HR support was associated with higher labour productivity, improved workplace relations and better financial outcomes for participating firms.

Many businesses are facing an unprecedented people management challenge with the end of the furlough scheme, trying to help staff to return safely to the workplace or continue to work productively from home. In addition, many firms are having to make redundancies and to try and manage a whole range of difficult employment relations problems including the challenge of tackling discrimination and trying to create more diverse and inclusive workplaces.

These challenges require improvements to the availability of specialist bespoke support, for example through providing more resources to Acas and by providing funding to help Local Enterprise Partnerships to boost the quality of support available to small firms on HR/people management and development.

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<sup>1</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/experimentaldataonthemanagementpracticesofmanufacturingbusinessesingreatbritain/2018-04-06>

<sup>2</sup> <https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms>

***(6) IS Support: is existing IS support (e.g. British Business Bank and Innovate UK), effective? Are IS priorities properly financed and how is value for money assessed? What type of businesses/organisations have benefited from R&D funding under the IS Challenge Funds? Where investment risks are taken, how does Government assess and mitigate them? Does the IS merely bolster existing strengths or balance it against frontier innovation work?***

A problem that the Industrial Strategy inherited from its predecessors was that it provides support to those businesses that ask for it, which are not necessarily the same businesses as those who would benefit the most from that support.

CIPD has seen practical evidence of this through its involvement in a project in the West Midlands that was funded as part of the Business Basics programme. There is copious evidence that management practices – including people management practices – are linked to higher productivity. However, basic practices are insufficient or absent in many firms, particularly SMEs and getting them to use available support is not easy.

One of the biggest obstacles to delivering high quality business support to firms that most need and would most benefit from it is, that too often, these businesses don't recognise they have a problem or if they do, don't know where to go for trusted high quality and accessible advice.

CIPD experience of running business support pilots for small firms shows that building interventions and collaborations that work well takes time, commitment and patience (as well as of the importance of picking the right collaborations).

The second lesson is the importance of effective outreach through trusted intermediaries, especially to those parts of the business population that may not even know they need help or may not appreciate what assistance can do for them.

Lessons from the Business Basics programme can help inform policy making on how to design or improve effective business support services.

***(7) IS Sector Deals: is the Government focusing on the right sectors and, if not, which are missing? Have they delivered growth in goods or services output, solved underlying problems (e.g. productivity or decarbonisation) and/or created or improved jobs/pay? Does the Government need to rethink/re-prioritise sector deals because of Covid-19 and Brexit?***

The impact of the pandemic means that the strategy for Sector Deals should focus more on high-employment, low-productivity industries that have been especially hard-hit by the pandemic such as accommodation, hospitality, retail and events. Along with social care, these industries will also be affected by the intended increase in the National Living Wage (to reach two-thirds of median earnings by 2024) and possibly also by the ending of freedom of movement for EU nationals next January.

The challenges of building partnerships in these industries are undoubtedly significant however without more targeted support, improvements in investment in skills, job quality and productivity are unlikely to materialise.

***(8) Measuring Success: has the IS increased national and regional GDP and GDP per capita and should it aim to deliver a more inclusive and sustainable economy? How should IS success be measured and are current tools/metrics adequate, especially if seeking to deliver goals broader than GDP?***

The Industrial Strategy Council schedule of success metrics probably needs to be given a chance before the measures of success are reconsidered. At present we do not even have a comprehensive pre-pandemic baseline. A particularly difficult issue will be judging what effect the pandemic had on each success measure.

Nevertheless, in our view, this suite of success measures has insufficient coverage of people-related aspects, especially people management practices.

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