

## SUBMISSOIN FROM CBI SCOTLAND

1. CBI Scotland welcomes the opportunity to submit written evidence to the Economy, Energy and Tourism Committee of the Scottish Parliament. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses operating across the UK. CBI members directly employ at least 500,000 people in Scotland, which represents a quarter of the private sector workforce. This includes companies headquartered in Scotland as well as those based in other parts of the UK that have operations and employ people in Scotland.
2. The Scottish labour market had to adapt in the wake of the 2008/09 recession to maintain employment levels and to drive prosperity. A healthy economy can only be seen as such if it has the capacity to maintain and enhance the livings standards of its citizens - a high employment rate is vital to this. The first challenge is combatting unemployment, and then looking to ensure people can progress in work to higher skilled, higher paid work. The labour market did this in a number of ways – including shorter-hours, greater use of part-time and flexible options and, regrettably some loss of employment, but it is our view that the labour market is now normalising as growth continues and that the fundamental basis of employment in Scotland has not changed.
3. Flexibility within the labour market is vital to this process and to the creation of a jobs and opportunity. By flexibility, the CBI means the ability of companies to adapt to changing trading, technological and social circumstances by adapting processes of production and resourcing. In practice, this can be simplified into questions of skill levels, adaptability of production processes and infrastructure, productivity, and the ability to “take a chance” on new ideas or to meet unpredictable extra demand through a range of flexible employment choices. These that enable companies to create work - new jobs or more hours - where they might not be able to create full-time permanent jobs and offer a wider range of options for flexibility to staff. Such an approach is key to building a healthy labour market. Without it, we risk embedding higher unemployment and all the destruction that it can cause. Losing a job has a knock on impact on living standards and on health and wellbeing - being out of work is an incredibly destructive experience for any individual. The best protection against this is through fostering the conditions for job creation - maintaining the flexible labour market is critical to this. It is our view that a critical question for the Committee is therefore not job sustainability – as modern markets and the choices of employees have reduced the likelihood of people wanting or having a “job for life” – but of employment sustainability. That is to say that individual Scottish workers are, by a combination of business and government action, positioned with the skills and opportunities necessary to remain in employment across their working life.
4. CBI Scotland believes that much of the criticism of flexibility in the Scottish labour market is misplaced, but it does raise important questions about what a positive workplace experience is for individual workers – and it is right for business to engage with these issues. Employee engagement and good employee relations matter, and the CBI has been involved in initiatives including *Engage for Success* and the formation of a UK Employment Relations Institute, designed to foster good practice. It is not, however, advisable for politicians to determine job quality or to attempt a definition. Good practice and job design exists in firms with widely differing strategies, forms of employee representation and employment models. It is important that we ensure the best practice many firms in Scotland use travels, and

we welcome the establishment of the Fair Work Convention as a tool for doing this. There is also an important role for businesses and their representative organisations to do this, including as the CBI and sectoral bodies.

5. CBI Scotland believes that our flexible labour market is a significant asset that should be protected. This response sets out the reasons why:
  - Our flexible labour market is critical to future jobs. It helped keep people in work during the recession and supported jobs growth across Scotland as the recovery embedded. Permanent contracts of employment of full-time or voluntary part-time nature will remain the main form of engagement for workers.
  - Flexibility delivers benefits to both businesses and to individuals, allowing people to find employment that suits their needs and allowing businesses to respond quickly to opportunities and to manage changes in demand.
  - Getting into work and progressing in work is the best way to raise wages and improve living standards. Scotland must boost productivity in order for wages to rise and living standards to improve. As well as actions by individual businesses, progress on education and skills is one of the best ways to support this.

### Our flexible labour market is critical to future growth...

6. The global economic downturn had a significant impact on Scotland, with the unemployment rate and youth unemployment rate surpassing the UK average. At the height of the crisis unemployment in Scotland reached 8.9% and youth unemployment peaked at 28.0%.<sup>1</sup> In contrast to many other European countries however, Scotland performed better than most commentators expected, keeping many more people in work than was anticipated. The flexibility that our labour market provides was a major factor in this – enabling employers to work with their employees to mitigate the worst of the impact, using the flexibilities available to them such as temporary contracts, to keep people working and earning during the downturn and allowing businesses to create jobs and grow quickly throughout the recovery.
7. Part-time work has always been a substantial component of our labour market and has contributed to record levels of employment across the whole of the UK. While there was a growth in part-time jobs in Scotland during the recession, the latest data indicates that this is starting to fall, with part-time jobs representing 27.2% of total employment in Scotland.<sup>2</sup> Similarly, the proportion of people in Scotland working part-time because they were unable to find full-time work has fallen from its peak of 18.1% in 2013 to 15.8%.<sup>3</sup> As the economy further strengthens we anticipate this shift from part-time jobs to full-time jobs will continue.
8. The growing stability of the economy is reflected in businesses' growth plans for 2015, particularly in Scotland. Our latest CBI/Accenture *Employment Trends Survey* demonstrates Scotland is leading the way across the UK in terms of jobs growth, with 60% of businesses planning to grow their workforces over the course of 2015. Just 10% anticipate reductions, leaving a positive balance of half of Scottish firms looking to expand their workforce in 2015. Of these jobs, the forecasted growth is

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<sup>1</sup> For three months to May 2015, *Regional labour market statistics*, ONS, July 2015.

<sup>2</sup> For three months to May 2015, *Regional labour market statistics*, ONS, July 2015.

<sup>3</sup> For three months to May 2015, *Regional labour market statistics*, ONS, July 2015.

stronger in permanent jobs rather than temporary. Across the UK as a whole, a balance of +50% of businesses plan to increase the size of their workforce and a balance of +28% plan to increase recruitment to permanent posts this year.<sup>4</sup>

9. The latest data shows the number of employees in Scotland has increased by 40,000 over the last 12 months and the proportion of people in Scotland working part-time because they were unable to find full-time work is continuing to fall. There is still work to do however, as the current figure still stands well above the pre-crisis level of 9.7%.<sup>5</sup> It is essential that our labour market retains the flexibility to provide the types of jobs that people want. In some key lower skill sectors, such as hospitality, care and food manufacturing, the upcoming move to a higher minimum wage for workers over 25 will have very substantial effects, and may lead to reductions in hours and jobs. While this will improve productivity, it will pose additional challenges on maintaining and growing the employment rate.

### ...and delivers benefits for both individuals and business

10. The importance of our flexible labour market is the single employment issue on which UK businesses hold a near-unanimous view. In the 2014 *CBI/Accenture Employment Trends Survey* almost all businesses (95%) reported flexibility as important or vital to the competitiveness of the UK.<sup>6</sup> As the 2008 recession demonstrated, flexibility enables businesses to be dynamic and nimble - to respond quickly to growth opportunities and manage fluctuating demand. Of course, a strong social safety net is also required to support this flexibility. These are key attributes when operating in a highly competitive environment and when seeking to attract foreign direct investment. Flexibility should therefore be seen as a competitive advantage, not as a weakness, and something which supports workers by enabling higher employment.
11. Most importantly, individuals benefit from flexibility in their working arrangements. Part-time working, flexible contracts and agency working suit many people - for example, recent ONS surveys show that two thirds of individuals working on zero hours contracts are satisfied with the number of hours they receive.<sup>7</sup> Flexibility over working hours enables individuals with other responsibilities such as caring, or those in education, to find work that fits around their priorities, opening up the labour market to a significant number of people. Flexible contracts can also provide a stepping-stone into more permanent work for those who want a permanent role - as these allow individuals to develop their skills and evidence a range of valuable workplace behaviours.
12. This is not to say that bad practice does not exist, but rather that the question is one of ensuring good practice in individual firms on management, job design, progression and productivity - rather than demonising certain forms of employment. This is a challenge for the business community in Scotland to lead on, and to support each other to make progress - working with government, and other stakeholders as appropriate.
13. The value that individuals attach to flexible forms of working is reflected in the shape of the modern workforce, as more and more employers respond to demands for greater flexibility. Non-standard hours, such as compressed hours or job shares,

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<sup>4</sup> *Growth for everyone*, CBI/Accenture Employment Trends Survey, December 2014.

<sup>5</sup> For the three months to May 2014, *Regional labour market statistics*, ONS, July 2015.

<sup>6</sup> *Growth for everyone*, CBI/Accenture Employment Trends Survey, December 2014.

<sup>7</sup> *Analysis of employee contracts that do not guarantee a minimum number of hours*, ONS, February 2015.

are offered by a large percentage of Scottish businesses. Flexibility over place of work and home-working is also offered in a large majority of Scottish businesses with 85% of our survey respondents reporting they offer this to all or some staff. There are clearly parts of many industries where this is not possible. The majority of businesses also recognise the benefits flexible resourcing methods can deliver to their workforce, particularly in terms of recruitment and retention. Flexible working practices are a driver of employee engagement - and three fifths of businesses in Scotland see a direct link between high levels of employee engagement and improvements in productivity and performance.<sup>8</sup>

## Getting into and progressing in work is the best way to improve living standards

14. Although the Scottish economy is gathering strength it is still facing challenges that require long-term solutions, not quick fixes. The solutions to Scotland's productivity challenges, growing global competition and relatively low social mobility will not be found in short-term simplistic sound-bites, such as attacking the flexible labour market. Instead, we need to invest in infrastructure, employee engagement, productivity, skills and education to make the very best of all Scotland's talents.
15. Scotland is not alone in facing the challenge of improving productivity. Productivity growth has been exceptionally weak since the crisis - output per hour across the UK is still 15% lower than the level it would have been at had productivity risen at the same pace as during the pre-recession years.<sup>9</sup> Boosting productivity is the best way to enhance firms' performance and allow pay to rise - and skills are the crucial factor in enabling people to progress from lower-paid work. With our economy demanding greater numbers of higher skilled workers we need to ensure that we have an education and skills system that develops a pipeline of talent for industry and provides opportunities for all. This is not something businesses can do alone. The CBI's blueprint for improving living standards, *A better off Britain*, sets out recommendations for both business and government to help ensure we have the skills our labour market needs. We have forwarded a copy to the committee with this draft response. Its recommendations include requiring businesses to make development of staff a board level commitment, ensuring the government better supports part-time study, and opening up more routes to enable individuals to acquire higher level skills. Increasing the number of Modern Apprenticeships is certainly part of the solution - but the new apprenticeship levy on large businesses in Scotland must be used to drive up quality and deliver greater employer ownership of the apprenticeship programme. Real employer control and support is a critical component of all successful levy systems.
16. The longer-term solution to the skills challenge that Scotland face lies in schools. It is imperative that we have an education system which better prepares young people for the world of work and equips young people with the skills, knowledge and behaviours that are in demand in the labour market. As new entrants to the workforce are highly unlikely to find 'a job for life'. The onus will be on them to drive their own career progression, drawing on behaviours such as grit, tenacity and resilience, qualities we want the school system to develop in young people. There is a key role for business here - and many firms are already playing their part: 82% of Scottish respondents to our surveys provide work experience placements for school pupils<sup>10</sup> and 93% anticipate having roles available to young people over the course

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<sup>8</sup> *Growth for everyone*, CBI/Accenture Employment Trends Survey, December 2014.

<sup>9</sup> *A better off Britain*, CBI, November 2014.

<sup>10</sup> *Delivering Excellence*, CBI, March 2015.

of this year.<sup>11</sup> However more needs to be done to enable Scotland's young people to transition from education to employment. CBI Scotland's report earlier this year, *Delivering Excellence*, highlighted a number of areas in which the education system, working in partnership with government and business, must step up to ensure that all young people are able to make the transition to employment. This includes better careers provision and the establishment of local brokers to support employer-education engagement. We also forward a copy of this report to you with this submission.<sup>12</sup>

17. Looking specifically at the lowest paid, the UK-wide National Minimum Wage (NMW) has played an important role in supporting the incomes of people across the UK. The last recession was the first where lower earners actually did better in terms of pay growth than higher earners, thanks to the wage continuing to rise. But the Low Pay Commission (LPC) has also set the wage to ensure that sufficient entry-level positions were created during the crisis and subsequent recovery. The role of an independent, evidence-based LPC and a single minimum wage floor across the UK has been critical to this, balancing the need to raise the wages of this group as far as possible without damaging their employment prospects.
18. Retaining a single integrated labour market has provided businesses with the confidence to invest and create jobs, driving economic growth. There is little evidential base for a different minimum wage for Scotland. In 2014 gross hourly pay in the UK private sector was £7.00 at the 10th percentile compared to £6.96 in Scotland. Similarly, at the 20th, 30th and 40th percentiles, pay in the private sector in Scotland is either almost identical or just 1% lower than in the UK.<sup>13</sup>
19. With stronger economic growth the LPC has been able to recommend faster increases. Following a 3% increase in 2014, the NMW will increase by a further 3% in October 2015. Furthermore, following the UK government's announcement of a new National Living Wage from April 2016, the lowest earners will receive a boost as wages are increased.

**CBI Scotland**

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<sup>11</sup> *Growth for everyone*, CBI/Accenture Employment Trends Survey, December 2014.

<sup>12</sup> *Delivering Excellence*, CBI, March 2015.

<sup>13</sup> Data for April 2014, *Annual Survey of Hours and Earnings*, ONS, 2014.