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**Report to:** Inclusive Growth and Public Policy Panel

**Date:** 4 September 2018

**Subject:** **Business and Inclusive Employment**

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## **1. Purpose of this report**

- 1.1 To outline existing work programmes and academic research into how businesses drive inclusive growth and seek the Panel's view; in particular on the potential for improving the health of the workforce as a route to improving productivity and delivering inclusive growth outcomes.

## **2. Information**

### **Importance of business and inclusive growth**

- 2.1 Inclusive growth means everyone contributing to, and benefitting from, growth. As the principal driver of wealth creation, businesses have a vital role to play in ensuring people have a fair opportunity to creating and sharing wealth.
- 2.2 The following sections of this report cover:
- How the City Region's strategic aims and focus on productivity relate to inclusive growth
  - The importance of high-profile business leadership to promote inclusive growth, and opportunities for localities to share their work on harnessing the power of private sector leadership
  - How workforce health affects business and inclusive growth, which could be an issue for potential further work and investigation by the panel.

### **Productivity and inclusive growth**

- 2.3 Item 6 of this agenda – Embedding inclusive growth – describes in more detail how the City Region's focus is addressing its structural economic challenges,

centred on productivity. Productivity is essential for boosting the value created for each hour worked, and for improving living standards, but it needs to be done in a fair way, giving everyone the opportunity to contribute to and benefit from a stronger economy.

- 2.4 In particular, productivity growth has a strong effect on income. Low UK productivity growth since 2007 has accompanied a sustained period of real income stagnation and living standards not improving. Improving business productivity can positively impact in-work poverty. According to the Bank of England's Chief Economist, Andy Haldane "Labour productivity can explain around 60% of the variation in average pay across firms. On average, firms with 1% higher productivity reward employees with 0.2% higher pay."
- 2.5 The Business, Innovation and Growth (BIG) Panel is leading work to examine how to address the barriers to the City Region economy being more productive, including through the local inclusive industrial strategy, but could benefit from learning from local work and making links to other areas of public policy which the panel might want to reflect on.

#### Strong business leadership

- 2.6 Research by academics and business leaders has demonstrated that inclusive growth makes good business sense. For example:
- Sir Charlie Mayfield, executive chairman of John Lewis, led a group of business leaders to report to Government on business productivity<sup>1</sup>. It points to research showing that businesses where employees are engaged in what they are doing perform better: with businesses in the top quartile for engagement have 18 percent higher productivity than businesses in the bottom quartile.
  - Academic Zeynep Ton explained how retail companies such as Spanish supermarket Mercadona saw extended growth during the recession as other supermarkets struggled. Not restricted just to retail, the common thread of the research showed that those operating an 'Invest in People' model perform better than their market competitors, in particular by empowering their staff, cross-training and operating with slack that allows employees to engage with customers and innovate.
  - Several successful business 'kitemarks' (e.g. Times Top 100, Investor in People, Social Mobility Employer Index, Living Wage Foundation, etc.) are also predicated on the principle that good, inclusive organisations are good for business, in that they attract highly skilled workers, help develop and retain employees, and ensure people are able to contribute their full talents.
- 2.7 Strategies and programmes in a number of the city region's local authorities also demonstrate that businesses themselves see inclusive growth as an

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<sup>1</sup> 'How Good is Your Business Really?' <https://www.bethebusiness.com/wp-content/uploads/2018/04/how-good-is-your-business-really.pdf>

important consideration, and that they are positive about contributing to local aims. The Panel may wish to explore and share learning from these programmes insofar they drive inclusive growth:

- Bradford is exploring a business covenant that will recognise the positive impact that businesses make to their employees and community.
- Leeds, in launching its Inclusive Growth Strategy has secured pledges from up to 50 local businesses and community organisations about how they will help deliver the city's vision.
- Outside of the City Region, some metro mayors are using their convening power to implement an employer charter<sup>2</sup>.

2.8 At a city region level, the LEP, working in partnership with the Combined Authority, is developing a programme for a flexible pool of business advocates from different sectors that would be willing to provide some of their expertise and experience to support the promotion of the city region for investment at a national and international level. These 'business heroes' could draw on their own experiences of improving productivity to challenge and demonstrate what other businesses might do, and it will be important that there is a clear emphasis on the importance of inclusive growth to businesses in the region in these messages.

#### Inclusive growth through a healthy workforce

2.9 Health, and in particular mental health, is increasingly being recognised as an important consideration, not just for individuals but also for businesses. There are a number of challenges at both a national and local level:

- According to PwC research, 83% of workers feel that their wellbeing influences their productivity.<sup>3</sup>
- In monetary terms, it is also estimated that mental health issues alone cost employers in the UK £84bn a year.<sup>4</sup>
- 410,000 households in Leeds City Region having at least one person with a long-term health problem or disability
- Only half of disabled people of working age in the region are in a job.
- Of those claiming out-of-work benefits, around 70% are on Employment and Support Allowance (ESA) / incapacity benefits, demonstrating the strong link between health issues and joblessness<sup>5</sup>

2.10 These challenges are significant for inclusive growth. Whilst some are dependent on changes to national welfare policy, there is potentially a lot that could be done at the local level and the level of individual businesses. The panel might wish to reflect on whether this is something they want to consider in more detail at some stage.

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<sup>2</sup> See [www.greatermanchester-ca.gov.uk/employercharter](http://www.greatermanchester-ca.gov.uk/employercharter)

<sup>3</sup> <https://www.pwc.co.uk/services/human-resource-services/work-well-programme.html>

<sup>4</sup> [http://pwc.blogs.com/the\\_people\\_agenda/2017/05/is-wellbeing-the-bridge-to-span-the-productivity-gap.html](http://pwc.blogs.com/the_people_agenda/2017/05/is-wellbeing-the-bridge-to-span-the-productivity-gap.html)

<sup>5</sup> Local statistics are taken from the [Leeds City Region Labour Market Information](#) 2017/18 report

### **3. Financial Implications**

3.1 There are no financial implications arising directly from this report.

### **4. Legal Implications**

4.1 There are no legal implications arising directly from this report.

### **5. Staffing Implications**

5.1 There are no staffing implications arising directly from this report.

### **6. External Consultees**

6.1 No external consultations have been undertaken.

### **7. Recommendations**

7.1 That the panel consider the information presented in the paper and discuss the following questions:

- i) How do the City Region's strategic aims and focus on productivity relate to inclusive growth? And is there learning from work at the local authority level?
- ii) What is the role of business leadership in promoting inclusive growth, and is there any best practice at the local authority level on how to engage businesses in this area?
- iii) How does the Panel see the challenges of workforce health in relation to inclusive growth? And would there be interest in further exploration of these issues as part of the panel's forward work programme?

### **8. Background Documents**

None.

### **9. Appendices**

None.