



## **Creating a higher value-added economy Unite submission to the Trade & Industry Select Committee**

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### **1. Executive Summary**

- 1.1. Unite believes the creation of a higher value added economy can only be achieved when government and industry recognise that equal weight must be given to the needs of workers and workers are given a voice and role in the company decision making process .
- 1.2. Unite rejects the assertion that the only way to achieve higher added value manufacturing in the UK is by extending further the concept of a flexible labour force. It believes that there are alternative social economic models which have delivered sustainable manufacturing jobs and growth elsewhere in Europe without compromising job security to the same extent as in the UK.
- 1.3. The UK invests less than other competing countries in research and development and is lacking in translating research and development into marketable products. Unite believes government has a role in stimulating UK investment performance that does not exploit workers and force companies to off-shore. The right support for manufacturing investment will help address the failure to grow productivity at a fast enough rate in comparison with EU and global competitors over recent years.
- 1.4. Unite believes it is the education, training and skills agenda where government needs to act to create the higher value added economy. In the present global, knowledge driven economy, a skilled workforce can represent a distinct competitive advantage. However, this advantage is only of benefit if there is a highly skilled and highly motivated management structure within a company. Unite believes government needs to consider introducing a statutory training levy for employers where current voluntary arrangements are clearly not working.

1.5. Unite believes one of the problems adding to the low skills culture is the large number of mergers and acquisitions that happen in the UK. By advocating the 'national champions' of manufacturing industry in the UK, government can support manufacturing as a sector.

1.6. Unite believes government offers a broad definition of what elements constitute innovation. However, there are significant omissions.

## **2. Introduction**

2.1. It is clear that the UK government is focussed on creating a high value added economy. Some of the requirements for that high value economy are already being achieved:

- 2.1.1. an unemployment level that is stable;
- 2.1.2. an economy that has been growing for the past 10 years;
- 2.1.3. unprecedented levels of Foreign Direct Investment (FDI), and
- 2.1.4. a commitment by government to further economic growth in the UK.

2.2. There are however, areas where government and business are not achieving the high value that is necessary for today's economic climate. Research and development is an area where UK business excels in relation to quality but not in quantity and is under considerable threat from the emerging economies of India and China. Similarly innovation is an area where the UK excels but there are concerns that the UK workforce is being constrained in its capability to embrace new innovative practices due to the lack of investment in education, training and development.

2.3. Although UK manufacturing companies have been enjoying a quiet resurgence, the number of jobs lost in manufacturing in the last ten years is now standing at over 1 million<sup>1</sup>. A higher value-added economy cannot be created from the service sector alone. Manufacturing is vital to creating a high value-added economy.

2.4. Unite believes that both the public and private sector have a role in helping government to achieve their goal. For example there are a number of key procurement initiatives that the public sector could undertake to assist UK manufacturing industry. The private sector also has a strategic role in ensuring that the UK workforce continues to be trained and developed to embrace any future research and innovation within the UK manufacturing sector.

## **3. Definition of a higher value added economy**

3.1. If the UK government is committed to its pursuit of a higher value-added economy this must include manufacturing. In a highly competitive global market the prosperity of the UK economy is

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<sup>1</sup> Office for National Statistics – UK snapshot.

dependent upon companies that deliver high value to the economy, the company and the employees.

- 3.2. Government is encouraging UK companies to 'move up the value chain and to reap the benefits of high-skilled, knowledge intensive manufacturing operations'<sup>2</sup>, while striving for unique value and innovation. However, the attainment of this goal must not be at the expense of factory closures, job losses, off shoring, out sourcing abroad, lack of training and development and ultimately a malaise in UK manufacturing industry. This is reflected in the DBERR value added scoreboard which identifies only 6 UK manufacturing companies in the top 30 for 2007.
- 3.3. Unite believes the creation of a higher value-added economy can only be achieved when government and industry recognise that they must give equal weight to the needs and voice of workers. This can only be achieved by involving workers and engaging with them on all aspects of development, restructuring and training. Government missed an opportunity to assist this process with the introduction of the Information and Consultation Regulations which fail to fully reflect the opportunities intended by the EU Directive. Related to this is the continued reluctance of government to accept that training should form part of the statutory collective bargaining issues.
- 3.4. Unite does not believe that a flexible workforce as defined and determined by employer organisations is a necessary ingredient to create a higher value added economy. Flexibility can only be acceptable where workers are given a voice and a role in any decision making process and where appropriate employment protection legislation is in place.

#### **4. Investment**

- 4.1. Government investment in business, the workforce and the economy itself has never been more crucial. It is this investment that provides the enlightened economic environment that allows businesses to flourish, allows employees to enjoy the benefits of secure jobs and facilitates the wider economic benefits that this can bring to the UK economy.
- 4.2. At present, lack of internal finance is considered to be a significant constraint on investment in the UK. Twice as many firms in the UK cite this than in Germany and a third more than in France<sup>3</sup>. This lack of investment in UK manufacturing has been further exacerbated by the current problems in the global credit markets.
- 4.3. Globally the UK is ranked second only to the USA for attracting Foreign Direct Investment (FDI) and leads the EU. There are also

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<sup>2</sup> Government Manufacturing Strategy Review July 2004, page 12.

<sup>3</sup> EEF – Catching up with the Continent, Final Report on EU and UK manufacturing productivity, page 4. June 2004.

significant results from the high growth economies of China – 15.4% growth, India – 44.4% growth and the Russian Federation – 94.6% growth<sup>4</sup>. The UK FDI figure has been achieved in part through the current UK economic environment which offers economic stability, low regulation and a flexible workforce. However, Unite believes there are alternative ways of achieving a higher value-added economy, by adopting the other social economic models. For example in Finland it is acknowledged that there must be flexible labour practices but these must be negotiated with all stakeholders including trade unions and must not exploit workers or compromise the foundations of the Nordic model<sup>5</sup>.

4.4. Government has a clear role in stimulating UK investment performance that does not exploit workers and does not force companies to off-shore. Greater and more effective use of modern management techniques in conjunction with greater employee involvement would help to unlock the higher levels of productivity and profitability that are required to finance and encourage increased investment. Investment by business in improving skills, training, innovation and research and development would also reap unique rewards. As part of this process Unite believes government must now recognise the need to introduce a statutory training levy for employers who have failed to invest in training and skills. The current voluntary agreement is clearly not working.

4.5. Unite acknowledges that government is taking seriously the importance of research and development, with £1.8 billion of financial support, via R&D Tax Credits being paid out to over 22,000 companies<sup>6</sup>, 19,000 of which were small and medium sized enterprises. The union also welcomes the £1 billion committed to fund business innovation in the 2007 Comprehensive Spending Review. However, the UK still invests less than other competing countries in research and development and lacks the ability to maximise the translation of research and development into marketable products.

## **5. Skills and Training**

5.1. Unite believes it is the education, training and skills agenda where government needs to act to create the higher value economy. The current level of investment in the training and skills sector is unprecedented. However, Unite is concerned that investment is not focussed in the most strategic way to achieve the desired outcome for UK business and the UK economy. Without a highly skilled workforce, UK manufacturing industry will continue its drift to other countries, with the loss of intellectual property, alongside job losses, being potentially the most significant problem facing UK manufacturing into the future.

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<sup>4</sup> UNCTAD Investment Brief 2007 – Table 1.

<sup>5</sup> Globalisation and the European Economic and Social Model – Discussion paper for Parliament of Finland.

<sup>6</sup> HM Revenue & Customs – Research & Development Tax Credits

- 5.2. Unite believes that a key economic challenge facing the UK in the next decade is a failure to grow productivity at a fast enough rate in comparison with EU and global competitors. A compelling feature of low productivity in the UK is a significant skills gap with our global competitors. The UK is the fifth largest economy in the world but only 13<sup>th</sup> in the global competitiveness league and only 18<sup>th</sup> in terms of GDP per head<sup>7</sup>.
- 5.3. Unite believes one of the problems adding to the low skills culture is the large number of mergers and acquisitions that happen in the UK. So far this year, there have been 112 mergers and acquisitions by foreign companies at a value of £12.6 billion<sup>8</sup>. There is a view that this level of economic activity can have a detrimental effect on innovation and the training and development of the workforce within the companies that are taken over. The company focus is usually on restructuring and profit. Unite believes the unprecedented level of mergers and acquisitions also contributes to the level of poor management skills in UK companies. In the present global, knowledge driven economy, a skilled workforce can represent a distinct competitive advantage. However, this advantage is only of benefit if there is a highly skilled and highly motivated management structure within a company.
- 5.4. There is a further consequence of failure to adequately invest in skills development, seen most vividly in the construction sector, whereby employers will buy skills off the shelf through migrant labour, a factor which adds to the casualisation of labour and is unsustainable in the medium to long term.
- 5.5. Training and development is crucial for the effective management of human capital. Companies that under invest in skills development are also likely to ignore training and investment in management skills. Unite believes that investment in leadership skills would lead to improved staff management and would lead to a significant economic return for manufacturing companies. For example, in a company like Toyota, management have the ability to mobilize the intelligence of ordinary workers, facilitating the opportunity for the company to innovate and engage workers<sup>9</sup>.
- 5.6. Research has shown that UK companies lag behind their German and Norwegian counterparts when it comes to creating a progressive development ethos for managers<sup>10</sup>. They also have significant ground to make up in convincing line managers to take management development seriously. The research also shows that simply having the policies and appraisal systems in place did not guarantee that

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<sup>7</sup> OECD Employment Outlook 2007.

<sup>8</sup> National Statistics -Mergers and Acquisitions involving UK Companies – 4 September 2007.

<sup>9</sup> Innovative Management – A conversation with Gary Hamel [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com)

<sup>10</sup> Skills and Economic Performance, Derek L Bosworth, Chapter 4 Management Strategy & Performance, page 251.

superior performance effects would be achieved<sup>11</sup>. At present government policy has no provision for the implementation of best practice in the strategic training of management.

## 6. International Comparisons

6.1. The increasingly global market place means that economies that are moving up the value-added chain are at a comparative advantage over those of highly developed countries. They have the benefit of cheap labour combined with an abundance of skilled workers which, when taken together with an unprecedented level of technological change could sound the death toll for manufacturing in the West. UK government is in a unique position to assist and support UK companies and enterprises in breaking through these external markets and enabling them to export goods and services abroad.

6.2. By advocating the 'national champions' of manufacturing industry in the UK, government can support manufacturing as a sector. Toyota has already been mentioned, Rolls Royce, BAE Systems and Shire are other companies that employ high performance workplace practices and reap the benefits with high levels of productivity and a highly skilled workforce. They have also had significant increases in their annual R&D growth in 2006<sup>12</sup>. While companies such as Astra-Zeneca and Unilever<sup>13</sup> currently show a decline in investment in R&D as a result of being in a re-structuring position leading to substantial job losses.

6.3. The role of UK Trade and Industry (UKTI) cannot be expressed strongly enough. This is the mechanism that UK companies use to assist them to export. UKTI is doing an exemplary job of encouraging FDI but this is only one side of the market and Unite believes UKTI holds the key to the expansion of exports for UK manufacturing companies and the sustainability of the UK manufacturing sector. 'British jobs for British workers'<sup>14</sup> is a misnomer without the commitment and investment by government into UK manufacturing industry.

## 7. Innovation

7.1. Government has committed itself to an increase of public investment in the science base of 2.2% over 2007-8 to £18 billion<sup>15</sup>. However, Unite is concerned that this will not address the serious issue of the UK being fifth from bottom in a report showing the collaboration of higher education institutions with UK companies<sup>16</sup>.

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<sup>11</sup> *ibid*

<sup>12</sup> DTI -The R&D Scoreboard 2006. Top 800 UK & 1250 Global Companies by R&D Investment. Volume 1, page 99.

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<sup>14</sup> Gordon Brown speech – TUC Conference, Brighton – 12<sup>th</sup> September 2007.

<sup>15</sup> 2007 Pre-Budget Report and Comprehensive Spending Review, DIUS, page 213.

<sup>16</sup> OECD Science, Technology and Industry scoreboard 2007.

- 7.2. Government must invest in the UK higher education system and in particular encourage UK higher education institutions to forge links with UK companies. This will ensure that any research and development or innovation will be kept in the UK and intellectual property will be protected. Unite notes the £150 million funding to the Higher Education Innovation Fund (HEIF)<sup>17</sup> to strengthen links between business and academia and bring research to the market, but is concerned this figure is not nearly enough to provide for the level of increased innovation that is needed by the UK economy.
- 7.3. Unite believes government offers a broad definition of what elements constitute innovation. However, there are significant omissions. These include:
- 7.3.1. employee engagement in the decision making process,
  - 7.3.2. allowing the workers in a company to become involved, and
  - 7.3.3. increased understanding about what the company objectives are and what the company is achieving.

## **8. Five key issues**

- 8.1. The importance of the manufacturing sector cannot be underestimated when creating a higher value-added economy. Government needs to re-visit the UK manufacturing strategy, consulting and engaging all stakeholders in the process.
- 8.2. The current economic system in the UK requires modification to apply social model principles of achieving economic growth balanced with social benefits and worker participation and consultation.
- 8.3. Government needs to further encourage companies to invest in R&D and innovation. This could be achieved by increasing funding for the R&D Tax Credits system.
- 8.4. Unite believes government needs to offer a strategic and pragmatic skills and training agenda. This should start in early education and run right through the whole education system. The current system is clearly not working and will exacerbate the current problems with skills shortages and skills gaps. Business must be compelled to invest in the training and development of their workforce. Voluntary agreements do not work. Government must introduce a compulsory training levy.
- 8.5. Government needs to increase its investment in Science and Technology, research and development, encouraging UK companies to develop marketable products and services. Unite believes £150 million is not nearly enough to foster positive links between higher education and business. This is a crucial issue for R&D and innovation.

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