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The Department for Business, Energy and Industrial Strategy (BEIS) launched its Industrial Strategy Green Paper in January 2017. The Government sought industry responses to the paper.

The word 'strategy' is arguably more important than 'industrial'.

Rather than the 'picking winners' strategy of the 1970s- a flawed attempt to target specific industries- the government is seeking to form a coherent policy infrastructure capable of accelerating economic growth. The period of 'picking winners' holds lessons beyond its perceived failure; the relationships between the state and the markets needs to be re-framed as supportive and complementary rather than co-opting.

#### Why is it necessary to create a new industrial strategy?

The UK economy faces testing times- BEIS is seeking to construct a model capable of navigating the turbulent periods ahead- both within negotiations and the macro-economic conditions they will impose (foreign exchange fluctuations, inflation increases, and interest rate rises, among others). This is compounded by developments within industry- disruptive technologies are expected to adjust structural employment, for example.

With inflation rising faster than wages, in both the private and public sectors, consumer confidence is in decline. It is surprising, then, that the UK is experiencing near record employment.

With employment at near record highs and inflation rising, clamours for wage increases are intensifying. However, low economic growth deems this impractical. Output is not increasing at a sufficient rate to qualify wage increases.

Waning productivity, some argue, is central to remedying these circumstances.

#### Explainer: Productivity:

Productivity can be defined as marginal output per unit of input. 'Input' refers to labour, capital and resources, whilst output is typically measured by revenue and other components of GDP. Productivity is about doing *more* with the *same*.

A **productivity gap** evolves when the value added per additional worker diminishes. The UK lags its more productive European competitors. In the time it takes a British worker to create £1.00 worth of output, a French worker creates £1.20 worth of output. Research from the London School of Economics has found that output per hour per worker in the UK is 13% lower than German workers and 20% lower than French workers. The UK also has lower level of productivity than Italy.

When considering the nuances of productivity, one can consider the more appropriate term to be 'labour efficiency'- the number of labour hours required to accomplish a given task, when compared with the industry standard. Efficiency is about doing the same with less resources- fewer labour hours and lower resource costs, for example.

The creation of the industrial strategy reflects the belief that productivity and living standards will benefit from sustained long-term co-ordination between the public and private sectors.

The reasons for the UK's waning productivity are widely debated. Commonly cited reasons include the rate of technology uptake; others point to the UK's management and working culture. Marginal productivity is low partially due to the quality of jobs available; the pie may not increase in size, but it may be divided more ways.

The root drivers of improved productivity are considered higher capital investment (in machinery/ processes), higher foreign direct investment, improvements in management, and strong economic growth (increased consumer demand).

Significant skills shortages exist. The UK does not have a robust system of technical education. Regional disparities in growth, wealth and public services are also significant. All three are leading to stark inequalities between communities.

### **So how does the Government intend to address the issue?**

The Green Paper sets out three challenges the UK must address:

1. To build on our key strengths and extend excellence into the future
2. To ensure that every place meets its potential by working to close the gap between the best performing companies, industries, places and people and those which are less productive
3. To make the UK one of the competitive places in the world to start or to grow a business

Stemming from these three challenges, BEIS has formed 10 pillars (or principles), that they seek to address within the industrial strategy. These include investing in science and research, developing skills, upgrading infrastructure, improving procurements, encouraging trade, delivering clean growth and shaping the 'right' institutions.

One can observe that the primary focuses relate to productivity, transparency and certainty. Productivity has been discussed. Transparency refers to access to the government's assistance- and to the accountability imposed by government institutions. Certainty refers to the regulatory environment- and to shaping wider macro- economic conditions.

The industrial strategy is intended to first, create greater certainty for industry throughout the Brexit negotiations, and second to provide a support system for industry growth following Brexit. That is why the Green Paper requests industry responses- it's not intended to target a specific industry, but rather to ensure that the government is aware of what it itself needs to create, contribute, and back to accelerate economic growth.

Success will be judged by the figures- employment must remain high, output per worker must increase, GDP must rise and the tax take must cover the government's contributions.

Watch this space. The next two years will be some of the most turbulent in our modern political history. The industrial strategy is intended to provide a framework capable of seeing the UK through this period.

### **What does this mean for sustainability?**

The Industrial Strategy represents a blank canvas; sustainability will be front and centre of the renewed agenda. A wide lens of sustainability will be adopted; financial sustainability will integrate environmental, social and governance elements. Industries' longevity will be determined by the extent of this integration more than ever before.

The standards industries are expected to meet is rising. Industries will need to demonstrate detailed agendas on sustainability, employment, and international competitiveness in order to secure government backing. This is evident in the criteria needed to secure Innovate UK funding, for example.

As such, the industrial strategy can be considered a landmark opportunity for sustainability integration. Companies vying for government funding opportunities in the future would do well to position themselves accordingly.

There are several strategic workstreams the government may target in the industrial strategy. Decarbonising the economy will be high on the agenda, as will meeting the health and social care needs of the ageing population. The former will require aligned investments in energy generation, distribution, construction, automotive, infrastructure- and creating a policy framework conducive to the progress the government hopes to catalyse. The latter will involve public and private providers of health and care services, pharmaceutical companies, manufactures, local authorities and the NHS. There is considerable complexity in these engagements.

## **How can Sancroft help**

Sancroft observes the macro conditions, studies the minutiae and recommends actions to enhance the financial sustainability of its clients. Full integration of sustainability in industry decisions is the future.

Sancroft would be delighted to assist you on this journey, regardless of your current position. For more information, please contact Rhys Spence: [rhys.spence@sancroft.com](mailto:rhys.spence@sancroft.com) ; 020 7960 7912

Sancroft is a sustainability consultancy with offices in London and Washington DC.

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