THE GOOD ECONOMY

INSIGHT

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The Contribution of FTSE Companies to Inclusive Job Growth in Britain

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Prime Minister Theresa May has called for an inclusive economy that works for everyone. However, recent evidence from the World Economic Forum shows that the UK is well behind most 'advanced economies' in meeting the challenge of inclusive growth and development.[1] The Good Economy believes that in order to meet this challenge, the UK has to get on the path to inclusive job growth, defined by the OECD as "sustainable job creation that leads to a more equitable distribution of good job opportunities, both socially and geographically."

Good jobs bring earnings quality, job security and work fulfilment. They are central to social and economic well-being. Measuring inclusive job growth is the right place to start when looking for solutions to the challenges of building an inclusive economy.

The Good Economy has developed a unique 3-D methodology for assessing inclusive job growth performance – **The Good Economy Job Ratings**. The unique power of this methodology stems from its integrated analysis of **company**, **sector** and **place** performance – making inclusive job growth equally relevant to businesses, investors, governments and communities.

This second paper in our Insight series introduces **The Good Economy Job Ratings** methodology and presents the 2017 results for FTSE 350 companies, which include many of the country's leading employers and market leaders. Recent events have underlined the importance of big FTSE companies to inclusive job growth both through their direct operations and supply chains, and also the risks that come with corporate failure – the most obvious example being Carillion Plc. The FTSE Index tells us about the **financial value** of Britain's big public companies. The Good Economy Job Ratings tell us about the **social value** of these same companies – from the all-important perspective of inclusive job growth.[2]

Inclusive Job Growth is sustainable job creation that leads to a more equitable distribution of good job opportunities, both socially and geographically. Good Jobs are defined by earnings quality, job security and work fulfilment. (OECD)

In light of recent events, and as the public and government look more closely at the social performance of large corporates, the publication of The Good Economy Job Ratings is extremely timely. As company job announcements hit the headlines – for example, BAE Systems in the North West, or retail and bank branch closures across the country – our Ratings data analysis shows which communities will be hardest hit. It also shows how the inclusive job growth performance of sectors and local economies will be impacted.

We also demonstrate how corporate job change can be monitored and linked to Brexit, automation, merger and acquisition activity and other leading influencers of UK economic activity. We use the methodology to show how FTSE companies perform on inclusive job growth, and provide analysis to show where that performance could be improved.

Ultimately, if the UK seriously wants to build an 'inclusive economy' – an economy that works for everyone – it needs to be able to measure the most important dimension of inclusion – a good quality job for everyone that wants one.

The Good Economy Job Ratings are designed to meet this fundamental need for measurement and accountability. As such, it is an important tool for governments, corporates, investors, trade unions and all stakeholders interested in the UK's future.

The Good Economy has shared the Ratings methodology and results in private presentations to business, investor and government audiences. The response has been extremely positive, with attendees describing the Ratings as exciting, challenging and timely for the UK. We hope that readers of this brief will also find it equally timely and valuable.

The Good Economy believes that **Inclusive Job Growth** should become the mission-bound goal of UK economic policy – the new Industrial Strategy included.

1. World Economic Forum, Inclusive Development Index 2018. This shifts the measurement of a nation's wealth from Gross Domestic Product (GDP) to living standards. The UK is ranked 21st among the advanced economies. See www3.weforum.org/docs/WEF_Forum_IncGrwth_2018.pdf
2. Social inequality is particularly high in the case of financial and private pension wealth, ONS Wealth in Great Britain, 2012-14.

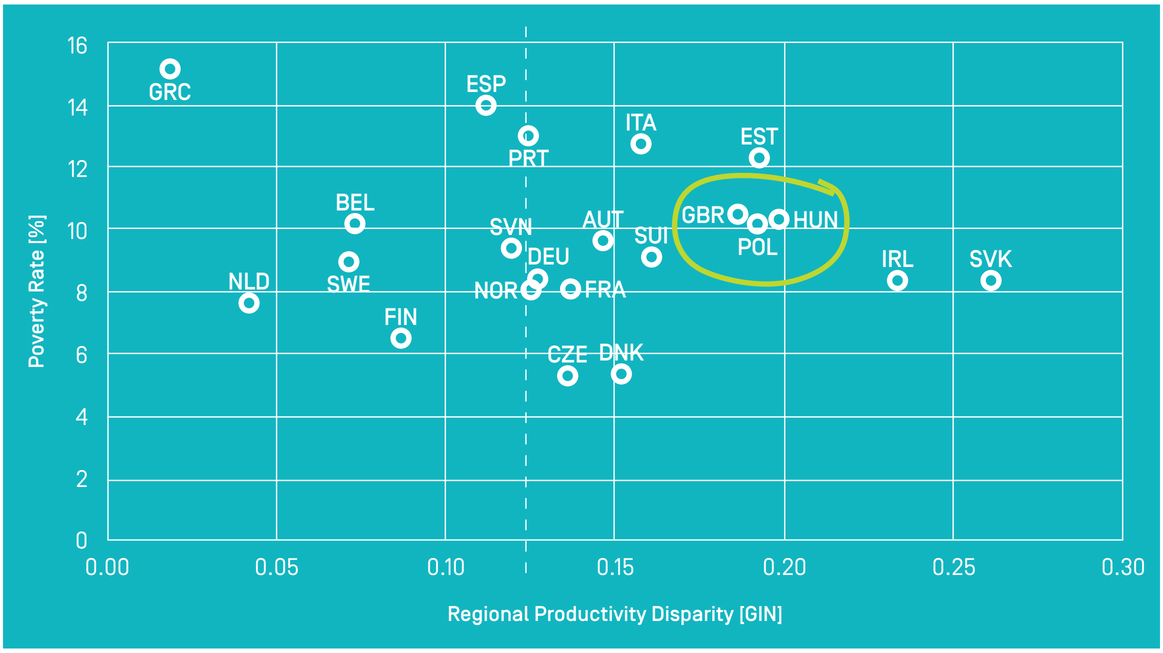
Where We Are Now: The Spectre of "Immiserising Growth"

At the beginning of this decade, in the midst of the Financial Crash, the Cameron Government declared its intention to create 'a balanced economy'. In the middle of this decade, in the midst of the turmoil that is Brexit, the May Government declared its intention to create 'an inclusive economy'. In reality what the UK has actually experienced – and continues to experience – is what Columbia University Professor Jagdish Bhagwati calls "immiserising growth": economic growth associated with a fall in living standards.[3]

Real wages in the UK are falling faster than in the rest of the OECD and EU. OECD analysis reveals that Britain's 'nearest neighbours' by two key inclusiveness measures – poverty and regional economic inequality – are the former Communist states of Poland and Hungary.

Why has Britain become more like these former Communist states, and less like its G7 rivals? Perhaps we should model the UK as another 'transition economy' – albeit one moving out of the EU, rather than moving into the EU. There is a familiar 'transition economics' for countries moving from socialism to capitalism. What sort of 'transition economics' applies to the UK as a special case?

Chart 1: Britain is like Hungary and Poland in terms of Poverty and Regional Inequality



Source: OECD Regions at a Glance 2016. Poverty Rate defined as percentage of population living in poverty after taxes and transfers. Regional Productivity Disparity defined by GINI Coefficient of inequality of GDP per capita across TL3 regions

The Good Economy believes that **Inclusive Job Growth** should become the mission-bound goal of UK economic policy – the new Industrial Strategy included. Increasing productivity is a means to an end, and its measurement in today's intangibles-based knowledge economy is more of an art than a science.[4]

A core policy goal should be good jobs for all, which in turn would help tackle health and educational inequalities, access to housing and the unacceptable levels of poverty that we have in Britain today.

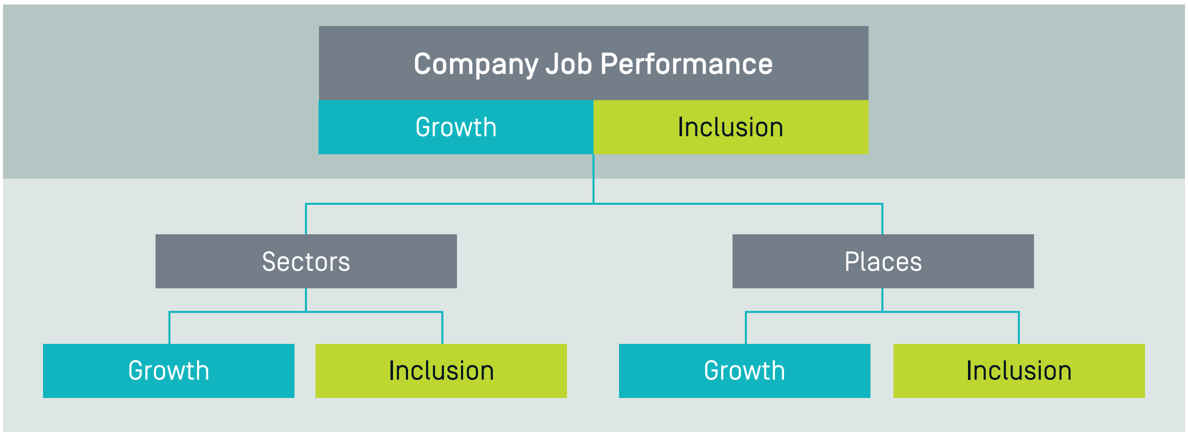
3. Jagdish Bhagwati, "Immiserizing Growth: A Geometrical Note," Review of Economic Studies 25, (June), 1958
4. Jonathan Haskel and Stian Westlake, Capitalism without Capital: the Rise of the Intangible Economy, Princeton University Press, 2017

The Good Economy Job Ratings

Methodology and Data

The Good Economy Job Ratings system is based on an original 3-D methodology that measures inclusive job growth by **Company**, **Sector** and **Place**. The Ratings schema is shown below. We measure the job performance of companies as **direct** employers. The methodology also measures the **indirect** impacts of employers' job creation performance on the sectors and places where they mainly operate and have a significant influence.

Across all three dimensions, we measure job performance by both **Growth** and **Inclusion** parameters. By taking into account both direct and indirect impacts, the Ratings enable us to shift from the private to the social level and from the organisational to the societal level of company performance. This shift is essential if companies and investors want to measure their 'social impact'.



Companies

We have developed a set of 17 performance indicators for companies based on publicly available data. We measure the **size** and **growth** of the company's workforce in the UK and benchmark this job growth performance by industry sector and firm size class. The company's global jobs and turnover performance is included as a long-term sustainability factor in the company's UK job growth.

For **inclusion**, we measure the company's 'embeddedness' in the UK, specifically the UK share of its global workforce and its head office location. Within the UK, we benchmark the company's scale as a UK employer and map the regional and local distribution of these employment opportunities – i.e. accessibility to jobs.

In the absence of robust company reporting on wages and working conditions, we score companies positively if they have accredited status as voluntary "Living Wage Employers" (LWE), according to the Living Wage Foundation. This indicator is a proxy measure of the company's **inclusiveness** culture and level of social responsibility. Further insight on company's inclusion performance is provided by sector data (see below).

Sectors

Sectors are profiled by their relative capacity for inclusive job creation based on the job performance of all registered private businesses including both direct and indirect (supply chain) employment measures. All data is from the Office of National Statistics (ONS).

We measure the sector's output and workforce **growth** and its **inclusion** characteristics by earnings quality, job security and skill level. We also measure the representation of 'vulnerable' or marginalised groups in the workforce, including young people (both with degrees and with school-leaver qualifications) and women in low-paid, part-time occupations.

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The Ratings methodology uses sector indicators to measure the **inclusiveness** of the company's workforce indirectly, the implicit assumption being that the company is typical of its sector. This is not ideal, but it is routine practice in company impact assessments based on input-output data. More importantly, proxy data will have some relationship to real data. However, this underlines the need for better company workforce reporting.

Places

We profile places by their relative capacity for private sector inclusive job creation. Places are defined by Local Enterprise Partnership (LEP) boundaries and equivalent sub-regions (EU NUTS 2 level) in the case of Scotland and Wales.

Growth is a composite measure of private sector employment growth, GVA growth, SME dynamism (excluding micro businesses) and working age population growth.

Inclusion is measured by median earnings, the share of the workforce below Voluntary Living Wage, skills and the representation of young people, all benchmarked against the national average.

The social impact of company job performance is inversely related to a place's need for inclusive job growth – i.e. the jobs that a company creates are worth more to areas with weak labour markets and poor economic development conditions than areas with the opposite characteristics.

Weighting

The Good Economy applies a weighting system to arrive at the final company scores. The final score is based on the company's individual performance – which carries a 60% weighting – combined with its sector and place performance, which is given a combined 40% weighting. In assessing company-level performance, growth and inclusion are given equal weight. However, in the case of sector-based and place-based contextual influences, we favour inclusion over growth, weighting them 2 to 1 respectively. This weighting reflects our central concern with inclusiveness.

Coverage

The Ratings currently measure and rank the inclusive job growth performance of 150 of the FTSE 350 companies. We exclude 60 'jobless' pure property and financial trading companies (investment trusts).

We are forced to exclude companies whose annual reports do not provide adequate information and data on their global and UK workforces. This data vacuum in company reporting undermines public policy aimed at achieving inclusive growth. It also represents a data barrier for investors, both asset managers and asset owners. We return to this fundamental data reporting issue later.

Despite these exclusions, the FTSE companies we have assessed represent an important segment of the UK business population. They include many of the UK's largest employers.

The Good Job Ratings methodology is generic and can be applied to all other types of business. Currently, we do not cover private companies (e.g. John Lewis and Dyson) and companies listed in other countries (e.g. Nestle and Nissan), but we plan to do so.

The contextual data analysis on places and sectors can be used as 'surfaces' to map and measure company footprints and performance, individually and collectively. It can also be used to measure and track good job creation performance of policies and projects aimed at increasing the business contribution to inclusive job growth.

Our current analysis focuses on the UK. However, we are extending our analysis to European listed companies with a European and global perspective. We are seeking partners to further develop the analysis to take a global perspective on the contribution of businesses to inclusive job growth worldwide.

The Good Economy Job Ratings 2017 Results

Company Results

The 2017 Job Ratings assess the performance of 150 of the FTSE 350 companies in terms of their contribution to inclusive job growth in the UK. Based on the methodology described in the previous section the top 10 and bottom 10 performers are shown below. The full list of rankings for all 150 companies is available from The Good Economy on request and will shortly be available at – www.thegoodeconomy.co.uk. We will update the Ratings tables each year as The Good Economy Jobs Index. We recognize that by their very nature not all companies perform well on UK inclusive job growth. However, for those who consider this an important part of their operations, the Ratings provide insight into performance and areas for improvement.

Chart 2: Top 10 and Bottom 10 Companies in The Good Economy Job Ratings Index, 2017

TOP 10 COMPANIES	Sector	Head Office Location
SSE	Utilities	Scotland
Persimmon	Construction	Yorkshire and The Humber
BT Group	Telecommunications	London
JD Sports Fashion	Retail	North West
Dixons Carphone	Retail	London
Greencore Group	Manufacturing, Low Value	East Midlands
Greene King	Food and Beverage Services	East of England
GlaxoSmithKline	Manufacturing, High Value	London
Redrow	Construction	Wales
Ashtead Group	Business Support Group	London

BOTTOM 10 COMPANIES	Sector	Head Office Location
Cairn Energy	Oil and Gas	Scotland
InterContinental Hotels Group	Accommodation	South East
Man Group	Finance and Insurance	London
Dairy Crest Group	Manufacturing, Low Value	South East
BHP Billiton	Mining and Quarrying	London
Ascential	Media	London
Euromoney	Media	London
Daejan Holdings	Real Estate	London
Kaz Minerals	Mining and Quarrying	London
Antofagasta	Mining and Quarrying	London

The 150 FTSE 350 companies directly employ 2.4 million people in the UK and generate 9% of all private sector jobs and 20% of all jobs in businesses with more than 50 employees. The UK share of total global employment in these companies is 46%. Thus, collectively the companies have a large employment presence in the UK and a significant influence on the dynamics of inclusive job growth across the country. They attract a large share of UK institutional and individual investment, and many are market and brand leaders and 'household names'.

Despite their economic importance, the average annual UK job growth rate for these 150 FTSE companies was less than half a percent (0.35%) over the past three years, considerably lower than the rate for all businesses with more than 50 employees (1.8%).

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There are several possible reasons for this weak job performance of FTSE companies compared to the wider business population:

- Merger and acquisition activity – a powerful financial driver of listed company growth – has a dampening net effect on employment due to the drive for cost savings and consolidation of corporate functions. Take, for example, the restructuring at Lloyds Banking Group (ranked no 25).[5] It will be interesting to see whether SSE remains as our top ranked company next year if the proposed merger with npower goes ahead.

- Global companies in the mining sector have only slimline corporate offices in London and create few UK jobs so are ranked low on the Ratings. The UK is surely better off from Billiton locating its global headquarters in Victoria, London rather than in Victoria, Australia. Similarly FTSE companies, like Glencore have chosen London over New York, Paris or Dublin. These resources-based companies contribute to the global sustainability of UK job growth and London's global competitiveness.

- Three decades of de-industrialisation have left its mark. Shell (ranked 117 in the Ratings) has seen its UK market shrink with the decline of manufacturing and heavy industries. The company's UK workforce is now mainly concentrated in corporate offices at the South Bank and at Canary Wharf, and R&D has moved out of Britain. Similarly, BAT and Imperial Brands are top investment holdings, but these FTSE companies ceased cigarette production in Nottingham and Southampton years ago and their UK workforce has shrunk over decades. Note neither of these companies are ranked due to a lack of publicly available employment data.

- The wider UK business population includes many leading private companies, like John Lewis and Dyson, and global companies listed on other stock exchanges. They are major employers contained within the sector bubbles in Chart 3, but they do not appear in our Ratings. The automobile sector is also represented in the sector bubbles, but not in the FTSE 350. Between 2004 and 2017, the number of automobile companies trading on the Exchange fell from 40 companies to 6 companies, reflecting the rise of foreign ownership and control in the sector.[6]

Positive job creation was led by companies in two low-pay sectors, retail and food and beverage services – including Ocado, Greene King, Tesco, Dixon Carphone and Sainsbury's. None of these companies are Voluntary Living Wage Employers.

Only 20% of the 150 FTSE companies covered by the 2017 Ratings have Living Wage Employer accreditation. Of the 64 FTSE 100 companies in the Ratings, 39% are Living Wage Employers. In contrast, only 3% of 78 FTSE 250 companies have this favourable status.

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5. ONS data point to heightened takeover activity, with UK companies being bought by mainly EU companies and UK companies in turn buying foreign companies (the main driver in the third quarter of 2017). Brexit and the falling pound are helping to fuel M&A activity, which has serious implications for employment, job quality and pensions. ONS Statistical Bulletin, 5 December 2017, Mergers and acquisitions involving UK companies: July to September 2017
6. Statista, Financial Markets, 2018

Sector Results

The results of our inclusive job growth analysis by sector reveal which sectors are driving inclusive job growth in the UK (Chart 3). Low-pay consumer services (retail, food and beverage and accommodation) sectors, alongside business support services, which have grown through outsourcing of non-core business and public sector functions (e.g. back office, logistical, security and catering etc.) perform strongly in terms of job growth but poorly on inclusion.

Balanced against this, favourable high-growth, high-inclusion sectors include utilities, construction and civil engineering, and IT-telecommunications, the latter two boosted by the Government's Industrial Strategy first wave 'Sector Deals'. Professional, scientific and technical services also score highly from a growth and inclusion perspective. These sectors are dominated by micro and small businesses serving large companies, including FTSE companies.

We need high value manufacturing – covered by the Industrial Strategy's automotive and life sciences Sector Deals – to increase its job-creation capacity, mostly though SME supply chains. Forward linkages also matter. For example, the automotive sector (part of the high value manufacturing 'bubble') generates large numbers of service jobs in the motor trade, which appears in the high-growth/high-inclusion quadrant. Low value manufacturing is equally important to inclusive job growth. The challenge for this sector is to increase rates of 'good job' creation through innovation, skills and supply chain management initiatives. Both high value and low value manufacturing are important to the UK's inclusive job growth performance.

The sector analysis is used to contextualise and weight company performance. We have put the Scotland-based energy and communications company SSE (ranked number 1) and the Chilean copper mining giant Antofagasta (ranked number 150) on the chart to illustrate how companies can be positioned within their growth-inclusion 'bubbles'.

Chart 3: Inclusive Job Growth by Sector – UK

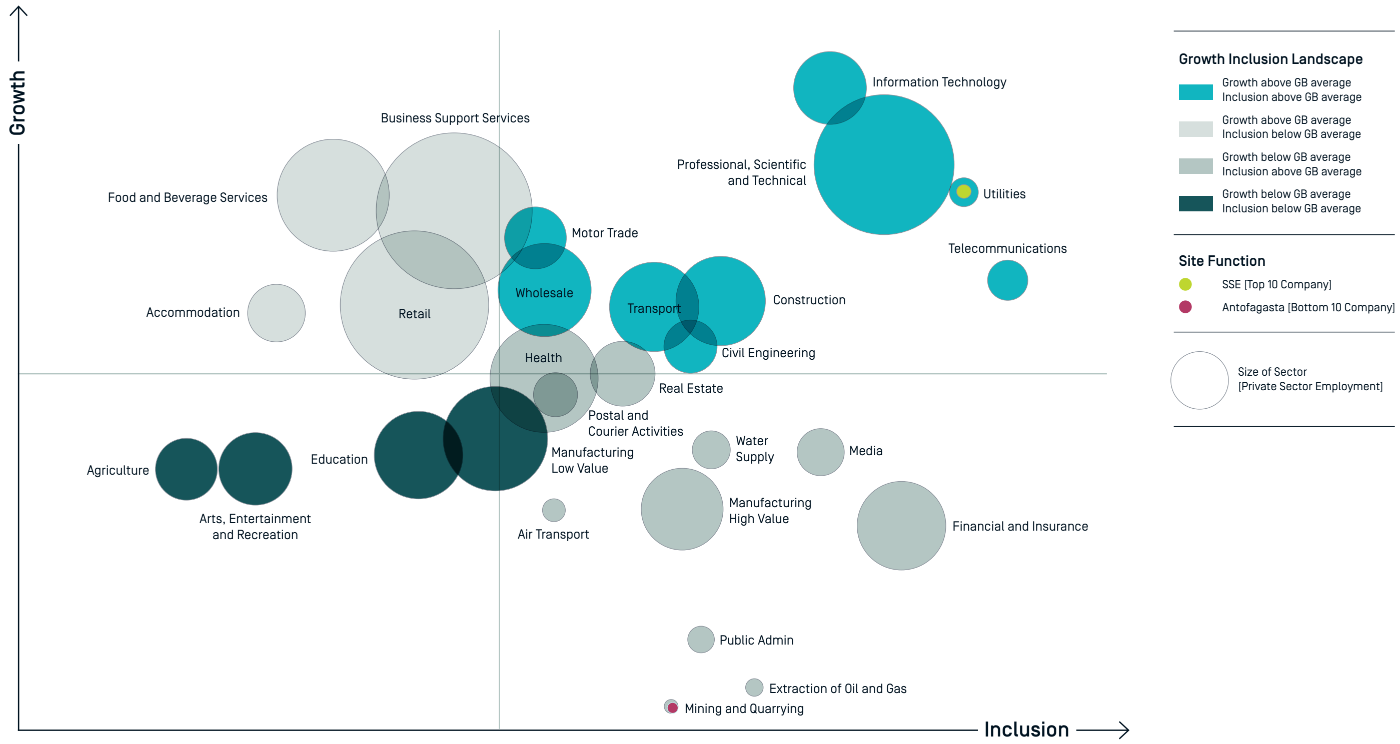
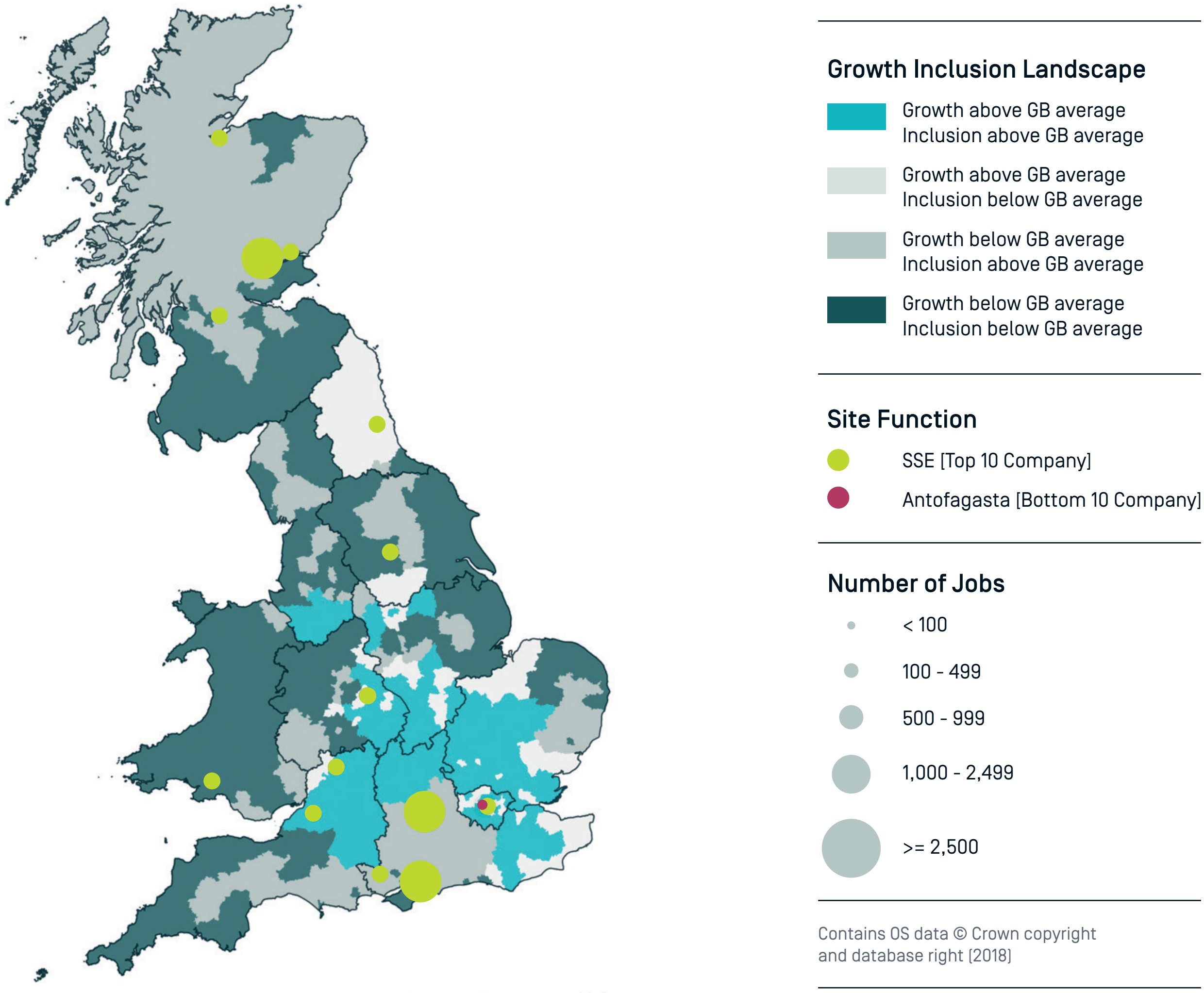


Chart 4: Inclusive Job Growth by Place



Place Results

The results of our geographical analysis of inclusive job growth analysis [Chart 4] indicate that far too many areas of the UK – dominated by rural and deindustrialised economies –face a worst case scenario: a future of low job growth and low labour market inclusion.

Whilst the so called 'North-South Divide' [an imaginary line from the Wash to the Severn Estuary] still persists as a regional barrier to inclusive job growth, the Ratings' perspective on growth and inclusion reveals a more complex landscape of threat and opportunity. Several areas in the North, Midlands and South have experienced above average private sector employment growth, but this is not matched by higher levels of labour market inclusion. This is also evident within London itself. The basic implication is that growth does not necessarily lead to inclusion, so the UK needs the Government to play an active role in inclusive job growth, both nationally and from place to place.

We have positioned Antofagasta and SSE on the map to illustrate their contrasting place-based inclusive job growth performance. Antofagasta only has a head office presence in the UK, whilst SSE is Scotland-based and has a strong multi-regional presence both as an employer and an energy and communications supplier. SSE shows how important big regulated companies – like Severn Trent, the Coventry-based water provider - are to the UK's inclusive job growth agenda.

Forty-five percent of the 150 FTSE companies have head offices outside London and the South East. Head offices are important economic and community assets, and their location in the UK and in the regions are a positive force for inclusive job growth.

The Ratings outputs include maps for all 150 FTSE companies. Our mapping of companies onto the UK inclusive growth landscape takes us closer to the real stakeholder communities affected by good and bad job news. This is where the human impacts of merger and acquisition activity, technological change and Brexit-induced relocation are real and visible.

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The Ratings system, backed up by social due diligence of companies, can be used to develop a more humane approach to impact investing and corporate responsibility. Equally, it can be used by local enterprise partnerships and combined authorities to mesh Sector Deals and Place Deals, with the challenge of inclusive job growth providing a unifying theme and popular narrative for the post-Brexit era.


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INSIGHT

How Good is Britain's Economy?

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Good Jobs | Business Dynamism | Human Development | Social Cohesion

A more detailed discussion of the Ratings' place results can be found in our first Insight paper. Its unique job growth and inclusion analysis of the nation's jobs landscape shows that Britain does not have 'a geography that works for everyone'. The corollary is that Britain does not have 'an economy that works for everyone'.

This paper can be downloaded from The Good Economy website – **www.thegoodeconomy.co.uk**

Challenges Ahead

Leading Companies Need a Wider Stakeholder Perspective That Includes Workers

Telecommunications and Utilities are regulated industries that perform well on our Inclusive Job Growth sector ratings. BT and SSE are top 10 companies in the 2017 Ratings, with diverse workforces spread across all regions of the country. Regulatory watchdogs require these companies to ensure 'inclusiveness' in the markets they serve – tackling 'fuel poverty' and the 'digital divide', say. We see these companies as 'anchor stones' in the UK's efforts to achieve its declared ambition of inclusive growth. We need them to 'punch their weight' as champions of inclusive job growth in their sectors and places of operation. This means adopting a wider shareholder perspective on social value creation, taking in not only consumers but the workforces employed by these companies – and also suppliers.

Finance Faces a Watershed Moment

Finance and Insurance as sector employers perform 'badly' on net job growth though well on inclusion, but we also see risks in these sectors. The finance sector is exposed to Brexit pressures, the insurance sector less so. London's finance sector – the European Banking Authority included – is already starting to disperse to Paris and Frankfurt. EY surveys of financial institutions suggest 10,000 client facing roles will migrate out of the UK. However, it's not all about the City and London's future as a global financial centre. At the high street end of the financial sector spectrum, a House of Commons Briefing Paper "Branch Bank Closures" (No. 385, Dec 2017) highlights job cuts and financial exclusion risks:

> University of Nottingham researchers noted that between 1995-2012 the areas that suffered the largest decline in branch numbers 'are characterised by unemployment rates and levels of renting from the public sector that are far above the national average ... the least affluent third of the population has borne the brunt of two thirds of net closures'. 2017 appears to be a year of accelerating change in the way banks operate. Already this year (2017), some 423 bank and building society branches have either been axed or put on notice of closure. The current rate of closures means that 2017 is on course to be a record.

In London, then, highly-paid investment bankers will be packing their bags and perhaps heading home to Paris, Frankfurt and other EU financial centres that have long played second fiddle to London. In the rest of urban and rural Britain, there will be no bag-packing and no moving with the job. Redundant branch bank workers will have to find other local jobs. In truth, nobody really knows where the UK financial workforce will end up. But what we do know is that these are historical watershed moments in the City and in high street banking.

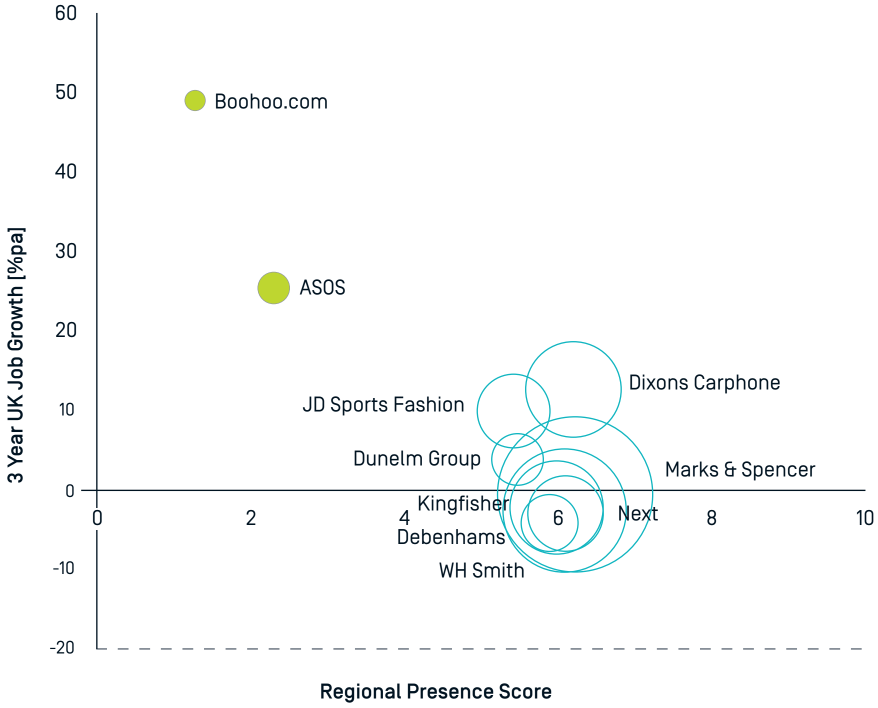
Retail and Hospitality Firms Must Respond to Continued Disruption

An obvious 'battleground' in the UK's quest for inclusive job growth will be in the sectors that appear in the top-left quadrant of Chart 3 – i.e. retail, food and beverage services and accommodation – which represent the biggest sectors in terms of employment numbers in the UK. They are represented by JD Sports, Dixons Carphone and Greene King in the Ratings Top 10. This is where Britain's 'low pay, low productivity' problems are concentrated.[7] It's also where the future is most threatening. Most studies on artificial intelligence indicate that low-skill workers in these sectors will feel the deepest impact in terms of unemployment and job insecurity.[8] Automation will increase productivity in these sectors, but companies need to ensure that those employees who remain benefit from workplace innovation and don't suffer from it. Productivity improvements normally come with job losses and training and re-training needs. The CBI and TUC call for a commission on artificial intelligence is sensible.

Meanwhile, online shopping is severely disrupting the UK's high street retail outlets. Digitalised business processes are also enabling companies to rationalise back office and call centre operations. Tesco, for example, announced job cuts at both its Cardiff call centre (1000 people) and its Welwyn head offices (1000 people). If FTSE online retailers Boohoo and Asos are truly the shape of things to come, we will witness a 'cratered' employment landscape in the UK. Chart 5 shows that these online retailers are each concentrated in a couple of regions (head office-and-mega warehouse). Traditional retail chains are spread across several regions, but are also going down the Asos/Boohoo route. Instead of being 'a nation of shopkeepers', the UK could soon become a 'nation of warehouse keepers'.

Footnotes – see following page

Chart 5: Online Retail will hollow out Britain's Employment Landscape



We need a comprehensive Retail 'Sector Deal', which links productivity and innovation more closely to inclusive job growth in labour-intensive industries which are more focused on the UK domestic market.[9]

Low Value Manufacturing Should Go 'Back to the Future'

Importantly, any retail Sector Deal should aim to boost 'Buy British' supply chain development – something FTSE supermarkets and chains are already doing – into low value manufacturing sectors. These include textiles and clothing, food and drink, furniture and other goods that can be designed and manufactured by UK-based SMEs and young entrepreneurs.[10] Why import, if we can make it ourselves? This is an import-substitution strategy based on the type of transition economics Britain needs now.

There is an unashamed 'back to the future' argument for this. Note, for example, signs of a revival in Lancashire's cotton industry.[11] Rather than waiting for massive Chinese container ships to dock at Felixstowe, we should be making our own toys and games for Christmas 2018.[12]

The future of low value manufacturing, not to mention the UK's aim of reducing the impact of business on the environment, depends on successfully 'building and buying British', with big retailers driving innovation and SME development with the loyal support of the British consumer. Foreign consumers, as tourists and online shoppers located on the other side of the planet, could also 'buy British' for its design and affordability value.

High Value Manufacturing Faces Post-Brexit Challenges

High value manufacturing lags behind low value manufacturing on workforce size and growth, but leads on productivity and earnings. This explains its strong inclusion rating in the sector bubble chart. The Industrial Strategy's first wave of Sector Deals are focused on high value manufacturing – GlaxoSmithKline is in the Ratings top 10 and in the Life Sciences Sector Deal too – because of its superior productivity levels, export intensity and high value supply chains. Growing high value manufacturing supply chains in the UK is fundamental to making the Industrial Strategy a success and supporting inclusive job growth.

7. Anne Green, Paul Sissons and Neil Lee, 'Harnessing Growth Sectors for Poverty Reduction', Economic and Social Research Council, 2017
8. RSA, Age of Automation, 2017. Also see 'Where Machines Could Replace Humans', Michael Chui et al, McKinsey Quarterly, July 2016
9. Industrial Strategy Commission, Final Report, November 2017
10. John Lewis launched its Locally Made scheme at its Leeds store in October 2016, stocking 120 products from 11 local suppliers within a 30-mile radius of the city. It partners with The Great British Exchange, sourcing artisanal products from new designers, established makers, independent businesses and British-based factories
11. English Fine Cottons has invested £6 million in new looms, importing cotton from California to Greater Manchester
12. Kenneth Brown, The British Toy Industry, Bloomsbury/Shire, 2011

Investments in Construction and Civil Engineering are Vital to Inclusive Job Growth

Construction and Civil Engineering are underpinned by Sector Deals, which is justified by their favourable position in Chart 3 as sectors good both for job growth and inclusion. The big challenge here is to increase underlying investments in infrastructure, housing and large-scale regeneration projects while also making inclusive job growth a key objective in assessing their social value to the country and local communities. Construction is particularly important to apprenticeship growth at all skill-entry levels. **We should ask the same question of every investment project with a social value or impact 'tag' to it: "Will this project deliver inclusive job growth"?** This needs to apply whether the project is financed by the public or private sector, or a mix of both.

Artificial Intelligence For the Benefit of All Sectors

The Artificial Intelligence (AI) Sector Deal, with universities as partners, is timely and well-aimed, particularly given the global competitive threat coming from the US and China. What really matters here is the rapid diffusion of AI innovation across all sectors. This needs to happen in the same way that the IT revolution created most IT-related jobs outside the IT sub-sectors themselves, rather than within them. In this light, the first wave of Sector Deals (innovation producers) must be followed quickly by a second wave of Sector Deals (innovation users) cutting across low value manufacturing, creative industries and retail.

Our Economics Needs Rethinking

If we follow Schumpeter's famous model of creative destruction, innovation and entrepreneurship have to be backed up by an inclusive national financial strategy for the UK. This needs to bring together public and private sector investment, and appraise firms and sectors by both their inclusion and growth performance. This time round, we want the UK's intangibles-based knowledge economy strategy to deliver inclusive job growth, not higher levels of inequality in the workforce and bigger productivity gaps between firms in the same sector.[13]

Inclusive job growth is good for the UK's innovation, productivity and competitiveness performance. Companies increasingly recognise that 'inclusive workplaces' characterised by wide diversity and high engagement are associated with higher levels of creativity, innovation, entrepreneurialism and staff fulfilment. Ultimately this translates into higher levels of corporate growth and competitiveness. It follows that more inclusive and productive workplaces across the UK private sector will lead to higher levels of innovation and inclusive growth for the UK as a whole.

Nobel Laureate Edmund Phelps refers to job creation through 'mass flourishing'. He suggests going back to the 19th Century in looking for the 'high dynamism, wide inclusion' Good Economy that the UK needs now:

> What were the origins of this dynamism? It sprang from the development of a favourable culture. In nineteenth-century Britain and America, and later Germany and France, a culture of exploration, experimentation, and ultimately innovation grew out of the individualism of the Renaissance, the vitalism of the Baroque era, and the expressionism of the Romantic period. What made innovating so powerful in these economies was that it was not limited to elites. It permeated society from the less advantaged parts of the population on up. People of ordinary background might be involved in innovations, large and small. Stephenson was illiterate, Deere a blacksmith, Singer a machinist, Edison of humble origins. People of ordinary ability could also have innovative ideas.[14]

The UK must aim to re-create this 19th century culture of technological, organisational and social innovation. In turn, the Industrial Strategy must be complemented by a 'bottom up', grassroots innovation strategy to get on a trajectory of inclusive and sustainable job growth. The inescapable conclusion is that our economics need re-thinking if the UK is to get on a true path to inclusive and sustainable development.[15]

13. Jonathan Haskel and Stian Westlake, Capitalism without Capital: the Rise of the Intangible Economy, Princeton University Press, 2017
14. Edmund Phelps, 'What is wrong with the West's economies?' New York Review of Books, August 13, 2015. See Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge and Change, Princeton University Press, 2013
15. Mariana Mazzucato, The Entrepreneurial State, Anthem 2013. Also see Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth, co-edited by Mariana Mazzucato and Michael Jacobs, Wiley, 2016

The Good Economy Agenda

The results of our Good Economy Job Ratings analysis provide a basis for setting an agenda for inclusive job growth in the UK. We conclude with a list of action items, intended both for governments and communities, and businesses and investors.

1 Inclusive job growth should be an explicit top-level, unifying goal of economic policy at the national and local level – including the Industrial Strategy and the strategies of the combined local authorities and local enterprise partnerships.

We want a mind-set shift from economic growth to economic development. We need to remind ourselves that productivity is a means to an end, not an end in itself. This makes the challenge of inclusive growth a humane agenda.

2 If we are genuine about achieving inclusive growth in the UK, then we have to be clear, open and equally respectful of inclusion and growth outcomes and impacts in appraising firms and sectors. This applies to government policies as well as investor and corporate strategies.

The Ratings system does this systematically through its weighting of growth and inclusion performance. We want UK businesses to be profiled as 'top companies' by their inclusive job growth performance, and not simply by their revenue performance. We want investors (asset owners and managers) to make the inclusive job growth performance of companies a significant common denominator in social impact valuation and reporting (screening and portfolio management).

3 Large UK-based companies should be encouraged to make a bigger indirect contribution to inclusive job growth, where their direct job contribution is disappointingly small (as suggested by our findings for 150 FTSE 350 companies).

We want manufacturers in all sectors to grow and strengthen supply chains in the UK and simultaneously become Living Wage Employers. And, we want to see big retailers – which dominate the overall job picture – to expand their 'Buy British' sourcing initiatives across sectors and regions.

The results of our Good Economy Job Ratings analysis provide a basis for setting an agenda for inclusive job growth in the UK.

4 Sector-based policy makes sense, providing it does not create 'silos' (thinking and lobbying) that undermine linkages between sectors that promote synergistic growth.

Although our bubble chart (Chart 3) shows sector performance separately, the dynamics of inclusive job growth needs to build on the invisible links between the sector bubbles. Innovation and skills policies should work 'horizontally' across sectors, particularly across high value and low value manufacturing. We need intra-sector and inter-sector policies to maximise the private sector contribution to inclusive job growth.

5 Place-based policy also makes sense, but local economic development agencies (LEPs and combined authorities or partnerships in Scotland and Wales) must work closely together given that SMEs and large companies operate at a national and supra-national scale.

Large multi-locational companies, as the Ratings show, will have their 'heads' in one place, their 'torsos' in another, and their 'limbs' in yet another. Place-based economic policy makers will have 'to piece together' the company if they are to work effectively with corporate managers in promoting inclusive job growth. They must have a robust understanding of the private sector and its potential for delivering inclusive job growth, particularly the area's leading companies. The Ratings' methodology and place-sector contextual data can be used for this purpose.

6 We need to create a bigger and more dynamic base of start-up businesses and SMEs to deliver inclusive job growth in Britain

This is a key implication of the weak direct job performance of large FTSE 350 companies arising from the Ratings analysis. We need large company supply chain management and public sector procurement to become active drivers of enterprise and SME development, from mid-market firms through to start-ups and social enterprises. The Good Economy wants to emphasise the need for strong and appropriate financial and business support aimed at the difficult stages between start-up and scale-up. From an inclusive growth perspective, there is too much focus on the UK's small elite of 10,000 'gazelle' businesses, and not enough backing for the much greater mass of new entrepreneurs and early-stage businesses. The UK needs a more inclusive, less-stylised, long-range, visionary approach to entrepreneurial and small business development. Central to this are the new digital 'network marketplaces' where individuals – including many self-employed people (15% of the workforce) – are experimenting in 'solo' and global webs of entrepreneurial activity.

7 Companies, and indeed all employers, should be encouraged to create 'inclusive workplaces' that can provide the building blocks of inclusive job growth in the UK.

Anti-poverty campaigners like the Joseph Rowntree Foundation have made the social case for this.[16] Business schools are making the economic case for it too with the mantra that 'happy workers' are also more productive workers.[17] Companies need to address low-pay problems and look to create more employment opportunities for those in social need e.g. for young people from disadvantaged backgrounds, ex-offenders and people with disabilities. Timpsons are a good example of a company who have successfully made employing ex-offenders core to their business model. We need to combine The Good Economy's quantitative inclusive job growth analytics with qualitative analysis on job quality and human capital management at the company level, so connecting inclusive job growth at the workplace and the economy level. We are already doing this in partnership with asset managers working at the frontier of financial innovation as a force for inclusive and sustainable development.

8 The Good Economy Job Ratings reveal a fundamental need for more socially responsible company reporting on the workforce.

Workforce reporting is simply not fit for purpose. ESG ratings used by mainstream investors to assess corporate performance are strong on the E (environment) and improving on the G (governance), but woefully weak on the S (social), which includes employment practices. Even development finance institutions only report job creation numbers with little analysis of the quality of those jobs and how those jobs drive more inclusive job growth and inclusive economies. We want to know about the pay practices not just of the board and executive team, but the workforce as a whole. Here, we support the Workforce Disclosure Initiative led by ShareAction, the responsible investment campaigning group, and the work of The Pension and Lifetime Savings Association, the UK trade body, on workforce reporting.[18] Workforce reporting is an area of annual company reporting in urgent need of improvement and one that should be seen as core to business strategy and performance reporting, not part of corporate responsibility.

9 Robust company reporting is essential given the job risks that arise from poor company performance, and even companies going into liquidation.

The Ratings can be used as a company job risk tracker. Its maps show which places in the UK are hardest hit or are most vulnerable to adverse corporate performance. The glaring example of this is Carillion Plc. The Ratings show where 20,000 people directly employed by the company in the UK are threatened, including their families and communities. But we don't want the Government to wait until these types of events happen. We need risk-assessment based policies that anticipate and enable stakeholders to prepare and plan for these economic catastrophic happenings. Investors in the City are experts in risk assessment. Their intelligence needs to be shared with government, confidentially but usefully. Can there be a stronger rationale for strengthening the 'S' in the ESG ratings that investors use to assess company performance risk, and in a way that is socially valuable?

16. Joseph Rowntree Foundation, Solving Poverty, 2016
17. 'Happiness and Productivity' by Andrew J Oswald, Eugenio Proto and Daniel Sgroi,University of Warwick research, 2017 http://wrap.warwick.ac.uk/63228/
18. See https://shareaction.org/wdi/

Chart 6: The UN Sustainable Development Goals [SDGs]

SDG 8 is the "Cinderella SDG" that corporates and impact investors must 'invite to the ball'.

10 Finally, inclusive job growth should feature strongly in the UK's implementation plan for the SDGs.

Good jobs are as fundamental to improving living standards in the UK as they are in the world's poorest countries. The Good Economy Job Ratings apply directly to SDG 8 – Decent Work and Economic Growth, and SDG 10 – Reducing Inequalities Within and Between Countries (Chart 6).

SDGs are gaining traction as a common set of goals and platform for joint action by government, businesses, investors and NGOs. Increasingly, companies and investors are focusing on demonstrating how they contribute to the SDGs through their products and services (vertical). Equally important are the job contributions they make through their operational performance (horizontal). Company workforce reporting is cited as a data barrier. SDG 8 is therefore the "Cinderella SDG" that corporates and impact investors must 'invite to the ball'.

We need a credible approach to the SDGs based on a robust and widely understood national SDG accreditation system for companies and investors. Without more informative and transparent reporting, companies, investors in companies and governments partnering with companies cannot demonstrate their true social impact and contribution to inclusive and sustainable economic development.[19]

Companies could become "SDG-accredited Employers", like accredited "Living Wage Employers". The Good Economy Job Ratings can provide part of this SDG toolkit for companies, investors, governments and communities.

The Good Economy sees inclusive job growth as the biggest challenge facing the UK as it makes its way out of the European Union. This being the case, we want to see it writ large in the stated social objectives of companies and investors, and in every government policy that has 'inclusive economy' objectives. Make this the basis of a new social contract for the nation.

19. Growing a culture of social impact investing in the UK, Department for Digital, Culture, Media & Sport, HM Treasury, November 2017

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The Good Economy is a social advisory firm
dedicated to inclusive business and investment.

A Good Economy works for everyone