ENVIRONMENTAL SCANNING

Trends Affecting the World of Work in 2018

Executive Summary

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inspiring leaders

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Contents

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Introduction

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'Time present and time past are both perhaps contained in time future
And time future contained in time past', **T.S.Eliot**

This summary of an extensive report, prepared for the Chartered Management Institute, identifies the potential forces of change looming on the horizon which will alter or even transform the external business environment. By looking briefly back at the past, analysing current trends and using these to extrapolate into the future, the report attempts to chart the UK's journey towards 2018.

A report that looks at the future world of work requires both analysis and an element of speculation and imagination. In the full report, and as summarised here, the first four sections focus on factual and statistical data about a wide range of working trends. Business leaders and strategic planners can judge for themselves which trends are particularly relevant to their context. The last section of the report then moves to informed speculation about what the world of work in 2018 might look like, how companies are likely to structure work, and how people are likely to work. Overall, the report creates a matrix of information by providing both an analysis of specific dimensions of change – political, economic, social and technological – and how their potential interplay might impact the world of work.

Perhaps one of the most striking outcomes of this research is the fact that the future is in a sense, already all around us. The UK is already gripped by forces of change and the future is not some disconnected, discontinuous event but one that we already half sense and know. Change is not something 'out there' or 'about to happen', but is already here and happening. The real challenge is for business leaders to align their company's capabilities, people, products and services with these forces so that change energises rather than saps business performance and growth.

Structure and Methodology

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'I never think of the future.
It comes soon enough', **Albert Einstein**

Even geniuses can find analysing the future a daunting task. This report, however, uses a PEST analysis to help identify the most important trends that could shape the future workplace. This is a useful strategic tool for analysing the external business environment and is often used for business and strategic planning, market planning, business and product develop and, of course, research. It provides a framework for categorising environmental influences as **P**olitical, **E**conomic, **S**ocial and **T**echnological. The analysis examines the nature and potential impact of these factors, and then surmises how these factors might interact together to alter the future world of work.

The PEST analysis constitutes and forms the core of this report. The analysis uses desk research and looks back 15 years to 1992 as a means of comparing past and present trends that are driving change in the workplace. The discussion explores how these trends are likely to define the world of work as we move to 2018. The PEST analysis covers the following areas of work.

Political:

- UK and EU policy on aspects of employment law including disability, gender and age, equal pay and working hours.
- UK government initiatives to improve competitiveness through supporting upskilling, training, enterprise, entrepreneurship and business growth.
- Environmental policy, standards and regulation.

Economic:

- UK's economic growth, stability, business sectors, employment trends and regional economy.
- UK's global competitiveness, including relative productivity, sources of competitive advantage, capacity to respond to shocks and impact of outsourcing.

Social:

- Changing demographics and the impact on the composition of the workforce.
- Occupation changes, working hours, full time and part time work.
- Worker mobility including immigration and emigration.
- Social attitudes including parenting, work life balance and generational differences.

Technological:

- Impact on individuals, such as technological usage, skills, productivity and employability.
- Impact on companies, including new commercial opportunities, knowledge sharing, communication processes, new jobs.
- Impact on UK competitiveness, business infrastructure, uptake of technological innovation and R&D capacity.

The final section aims to pull these separate threads of change together to construct a larger canvas of the world of work in 2018. Trends that have been discussed in isolation within their respective PEST category are now considered together, with the report looking at some of the potential interrelations of these drivers. This discussion looks at the scope of influence of these interrelated trends, their expected trajectory between now and 2018 and the 'push' and 'pull' factors that increase or lessen their likelihood of becoming a reality in the future world of work.

Highlights of the PEST Analysis

'A state without the means of some change is without the means of its conservation', **Edmund Burke**

The PEST analysis reveals that the UK workplace is in the middle of a profound and irrevocable transformation. New technology and global competition are fast altering employment patterns, work activities and corporate structures. At the same time, the UK workforce is metamorphosing into something so different from that of the 20 century, that the word 'diverse' seems woefully inadequate. Tomorrow's workforce will be increasingly individualistic, older, more mobile, more international and ethnically varied and, in the cases of skilled employees, far more demanding of their employers. Tomorrow's managers will have the unenviable task of trying to harness these forces of change rather than being overwhelmed by them. Such a task will require them to be flexible and creative. These leaders will especially need to retain open minds and to resist assuming that any area of work is immune to change.

Economic stability and the knowledge based economy

While these are challenging times for business leaders, the political and economic stability of the UK is providing a firm foundation for change. Our analysis reveals that despite the current economic uncertainties, the macroeconomic picture of the UK is very positive, with growing investment, productivity and output. The UK has the advantage of modest GDP growth, a growing labour force and relative low rates of unemployment. The continued political stability of the UK has also enabled the government to

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initiate a range of policies aimed at promoting equality and diversity of the workforce and very importantly, the continued 'upskilling' of the working population.

There are strong signs of the UK becoming a knowledge based economy. A growing share of UK GDP comes from knowledge intangibles and an increasing proportion of trade in the UK is high value added services. Exports of financial services, computer services and royalty and license fees have grown by over 100% in current terms between 1995 and 2005. These knowledge economy related services were worth £76 million in 2005 and accounted for 70% of all service exports. Professional and technical occupations have growth considerably in the last decade, especially jobs in teaching, research and health. The number of managers has grown by two million since 1984 and by 2004, this group constituted 15% of the workforce.

The UK has a number of business 'cluster areas' (globally recognised concentrations of business), including financial services located around London and Edinburgh. High-tech industries are also located around Cambridge and the UK. There has been a 50% growth in ICT employment in the last five years. The UK now has 1.77 million people in 124,000 businesses in the ICT, placing it in the top tier of OECD countries for ICT employment. There has been a dramatic rise of computer literate people, with both men and women using computers and the internet both at home and work.

Industries that contribute sizeable outputs to GDP include business and financial services and to a lesser extent agriculture, forestry and fishing, and coal mining. The manufacturing sector is changing and although employment has significantly declined, the sector has seen a small growth of output. The manufacturing areas most likely to grow are high valued added areas such as electronics, pharmaceuticals and hi-tech computing.

Environmental concerns are also creating new commercial opportunities. For example, the City of London is already positioning itself to become a leading international carbon market. The Department for Business, Enterprise and Regulatory Reform predicts the UK has a reasonable to good probability of success in global markets for air pollution control, environmental monitoring and instrumentation, and environmental consultancy services. Encouragingly, there are promising new partnerships emerging between government, business and environmental specialists.

Threats and challenges to UK competitiveness

Although the UK's economic outlook is positive, business leaders cannot afford to become complacent in the light of globalisation and ever fiercer foreign competition. If it is to retain its competitive advantage, the UK must continue to be open and flexible to the opportunities offered by globalisation.

Some sectors of the economy lag in productivity compared to EU and US levels and this is likely due to skills gaps and outdated working practices. There are serious regional disparities in economic performance that need to be reduced. UK performance in 'innovation activities' and product innovation is below EU averages. The UK has strong representation in the top global R&D companies in pharmaceuticals and aerospace but overall, it has only 5% of the top global 1250 R&D active companies.

Although there has been an increase of electronic commerce and the introduction of faster broadband and wireless technology, the UK could do much more to exploit the commercial opportunities of information and communication technologies. There is a large disparity in the usage of technology between senior managers and professionals compared to low skilled workers. The UK's infrastructure and transport

systems must be improved and technology could well provide some solutions in the next decade.

Most critically, business leaders and government must work in ever closer partnership to accelerate the UK's shift to a knowledge based economy. Such a shift will help the UK compete against countries such as China, Thailand, Malaysia and India which are fast climbing up 'the value chain' and becoming aggressive competitors in knowledge based services. The continued up-skilling of the work population remains critical and although the UK government has set some ambitious targets, there is serious doubt about whether the education system can produce sufficient numbers of workers with the right skills for the future.

The urgent need to produce a flexible and highly skilled workforce is recognised by both government and the business community. Employers are already experiencing skills shortages in some areas and this is being exacerbated by a quiet but steady 'brain drain' of skilled managers and professionals to other countries, particularly Australia and Spain. Over 20% of UK nationals with a university degree now live in another OECD country. Government estimates indicate that four in ten emigrants in 2004 worked in managerial or professional occupations. While immigrants are an important source of additional labour, they tend to be lower skilled workers who cannot immediately help redress skill shortages. Many of today's businesses consequently have to develop sophisticated learning and development strategies and make substantial investments in training and development. A recent report on talent management by the Chartered Management Institute and Ashridge also reveals the importance of talent management as a means of recruiting, developing and retaining skilled workers.

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Demographic and social change

The external business environment is certainly tough but the current generation of managers can ill afford to give all their attention to this dimension of work. Just as challenging is the task of managing the UK's increasingly diverse working population. The country is experiencing an unprecedented degree of social change due to demographic change, political influences, immigration and increasing employment mobility.

The UK's working population is metamorphosing rapidly into different groups of employees who hold different expectations and attitudes towards work. As soon as 2010, it is predicted that less than 20% of the full time workforce will be made up of white, able bodied men under 45 years old, the historic core of the labour force.

In a nutshell, the UK working population is ageing, with fewer young people entering the workplace and greater numbers of older people remaining in work. Since 2000, the number of young people reaching working age has fallen by 60,000 each year. A study by AON estimates there are currently about one million workers over the age of 65 but this figure could treble by 2018. By 2014, the average age in the UK is expected to be 40.6 years.

These changes are creating a 'multigenerational' workforce of 'baby boomers', 'generation X' and 'generation Y', and companies are already having to plan their human resources strategies to decide how best to engage these groups, who arguably have different attitudes and needs. An important challenge is how to ensure an ageing workforce keeps abreast of technological change and remains engaged in work throughout different life phases.

The working population is also becoming more diverse in terms of gender and ethnic makeup. More women now work and there is a rising tendency for mothers to work, causing one prediction that by 2010, one in five workers will be mothers. The working population is becoming

more ethnically diverse, while immigration has swelled the working population – some 683,000 people from the Accession Eight countries registered to work in the UK between May 2004 and June 2007.

It comes as no surprise that this heterogeneous workforce displays widely different priorities, attitudes and expectations to work. Social attitudes to work continue to change in the UK, with more workers (both men and women) desiring a better work life balance and more flexible hours. Political forces are also aligned with these social changes. Employers must comply with a growing body of legislation which aims to reduce age, disability and sex discrimination. The last decade has seen the introduction of workplace legislation focussing on, for example, equal pay, flexible working, maternity leave, paid paternity leave and equal rights for part time workers.

Overall, these economic, technological, social and political influences are coalescing to create an unstoppable force for change in the UK. Businesses have no choice but to adapt and many are doing so by using a variety of organisational structures and processes to recruit, develop, retain and engage different groups of employees. Such plurality will only increase if the working population continues to up-skill and the economy grows. Skilled professionals will use their market power and mobility to have a greater say over how they work and what they do. In doing so, they will in all likelihood consign the traditional, hierarchical corporation to the pages of history.

The on-going challenge for the UK is to ensure that government, business leaders and employees work together to create a win-win situation where political, individual and business needs align to create a more skilled, flexible and fulfilled working population. The UK's current stability offers time and opportunity for this partnership to evolve. Such a coalition could well guarantee the country's competitiveness in the next decade.

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The last section of this report moves out of the arena of today into the horizon of tomorrow. After examining the range of different drivers of change, the report identifies how these might come together to shape the world of work in 2018. This final section looks at the likely interrelations of these trends and looks for signals that show indications of how the world of work may develop.

These trends can be grouped by their scope of influence:

- **Trends influencing the world of work** – explores trends that are influencing the broader world of work i.e. the impact of globalisation and the emergence of the knowledge economy.
- **Trends influencing the structure of work** – examines those trends that will influence how organisations structure the workplace, looking at the impact of multi-generational working and the impact of regulation.
- **Trends influencing the way people work** – the final section looks at trends that may drive individual attitudes to work, examining concepts such as changing expectations of the nature of work and the options available for employment.

Trends influencing the world of work

The rise of the knowledge economy. A continuing move towards increasing sophistication in the service sector, resulting in the growth of the knowledge economy as a share of the UK's total GDP.

Increasing pressure from global competition. The UK economy faces intense foreign competition in traditional industrial sectors. The BRIC countries (Brazil, Russia, India and China) have a significant competitive advantage due to their combination of high quality, mass-production techniques and low cost bases. The industrial strength of these competitors further fuels their rapidly developing educational systems, enabling them to move rapidly up the value chain and further alter the balance of global trade in their favour.

Growing opportunities of a global marketplace. The world continues to 'shrink', due to the ongoing rise of the internet, cheaper international transport and the success of the global corporation. The global marketplace provides UK firms with opportunities to expand into new markets, gain access to better skills and enjoy comparative cost-differentials. Barriers to expansion continue to fall – opening up the global marketplace to both mainstream and niche operators.

An increasingly connected and accountable world. Companies are more accountable about their values and behaviours and corporate social responsibility practices. This is because of increased public reporting and scrutiny, media coverage and other communication tools such as the internet that connect different stakeholders. Bad news travels very quickly and potentially damages shareholder value. Companies deal with public opinion by actively protecting and managing their reputation and brand image.

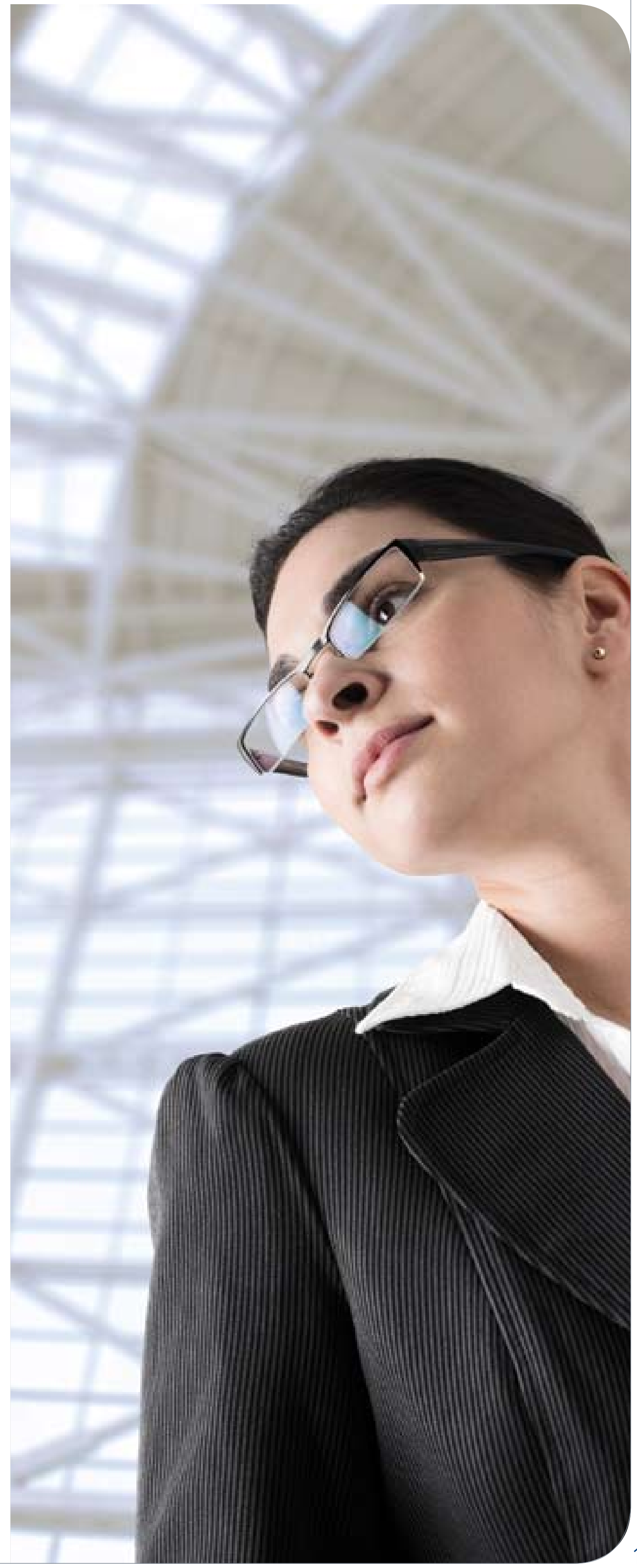
Trends influencing the structure of work

Workplace regulation that promotes and protects equality. Government continues to promote a fair and equal social and business environment. The structure of work is shaped by legislation and regulation.

The rise of flat organisations. Organisations have flatter structures and fewer levels of management. This is driven by the demand for flexible working, technological enablers and changing work activities, especially away from production to knowledge-centric tasks.

Increasing pressure to train. The increasing pace of technological developments drives the need for continual training, as well as the competitive need for businesses to exploit these advances. Such training constitutes a significant investment, but businesses off-set these costs through productivity and efficiency gains. This is combined with rising relative skill levels internationally and the growth potential of the knowledge economy – and its importance for sustaining productivity in the UK.

The rise of a multigenerational workforce. Due to decreasing fertility and rising life expectancy. Companies use flexible reward strategies, job roles, retention and training and development to manage these different groups of workers.



Generation Y is here. It is difficult to predict whether these employees will have significantly different expectations of work. It is possible that they will be less interested in acquiring wealth, less motivated to advance as managers and more interested in personal fulfilment, stimulation and working for an organisation which shares their values.

Trends influencing the way people work

Varied career paths. A more diverse working population requires companies to offer more flexible career structures and more varied strategies for recruitment, development, retention and promotion. Companies build in more entry points to cater for employees who do not follow a traditional linear career path. Firms compete with the attractiveness of entrepreneurship as a viable career option. The decreasing costs of starting up a business combined with increased knowledge and government support make this an attractive option for individuals at many stages in their career.

Changing employment contract. People no longer expect to stay with one firm forever. Skilled employees are highly mobile and exert considerable employment power. These employees have more choices available to them. There is more diversity in the jobs available, due to technological developments and increased specialisation. The degree of commitment between employee and employers swings in different directions depending on the degree of market power exerted by the individual and the career opportunities and resources offered by the employer. Employer-employee relationships will become less standardised and more individualised, with many employees choosing to work in decentralised, specialised firms or as independents in multiple employment arrangements.

Changing expectations of work. The balance has swung in favour of the proactive individual who manages his or her career. It is easier for individuals to promote their career due to the increased transparency in the labour market, the breakdown of traditional jobs-for-life and the increase in job opportunities. Individuals are more likely to put their personal career goals before the needs of their employer.

Interpersonal skills. As work becomes more knowledge-centric, the ability to communicate ideas and persuade others is the dominant currency. The complexity of specialisations gives rise to the role of intermediary communicators, who can transfer knowledge and understanding to a non-specialist audience. With an increasingly technical and culturally diverse workforce, managers will need to be able to harness diverse thinking to improve innovation and creativity.

Changing working hours. Developments in internet speed and wireless technology alter working structures. High-speed connections are less dependent on geographical locations and have enabled business to become increasingly mobile and take advantage of flexible working arrangements. Long working hours persist due to an increasing blurring of work and leisure combined with competitive pressure.

New technologies, especially the internet, generate many new commercial opportunities and also facilitate inter-company collaboration and create flatter, less hierarchical business environments. Companies must achieve the right balance between transparency of information and security as they move towards a world of increased knowledge-sharing and collaboration. Identify fraud is a major cause of concern in the UK. The balance of power between businesses and individuals shifts as technology allows companies to track and monitor their employees more easily, yet employees use technology to work in a less structured way, and to extend their personal networks. Online collaboration tools are used to encourage innovation and growth.

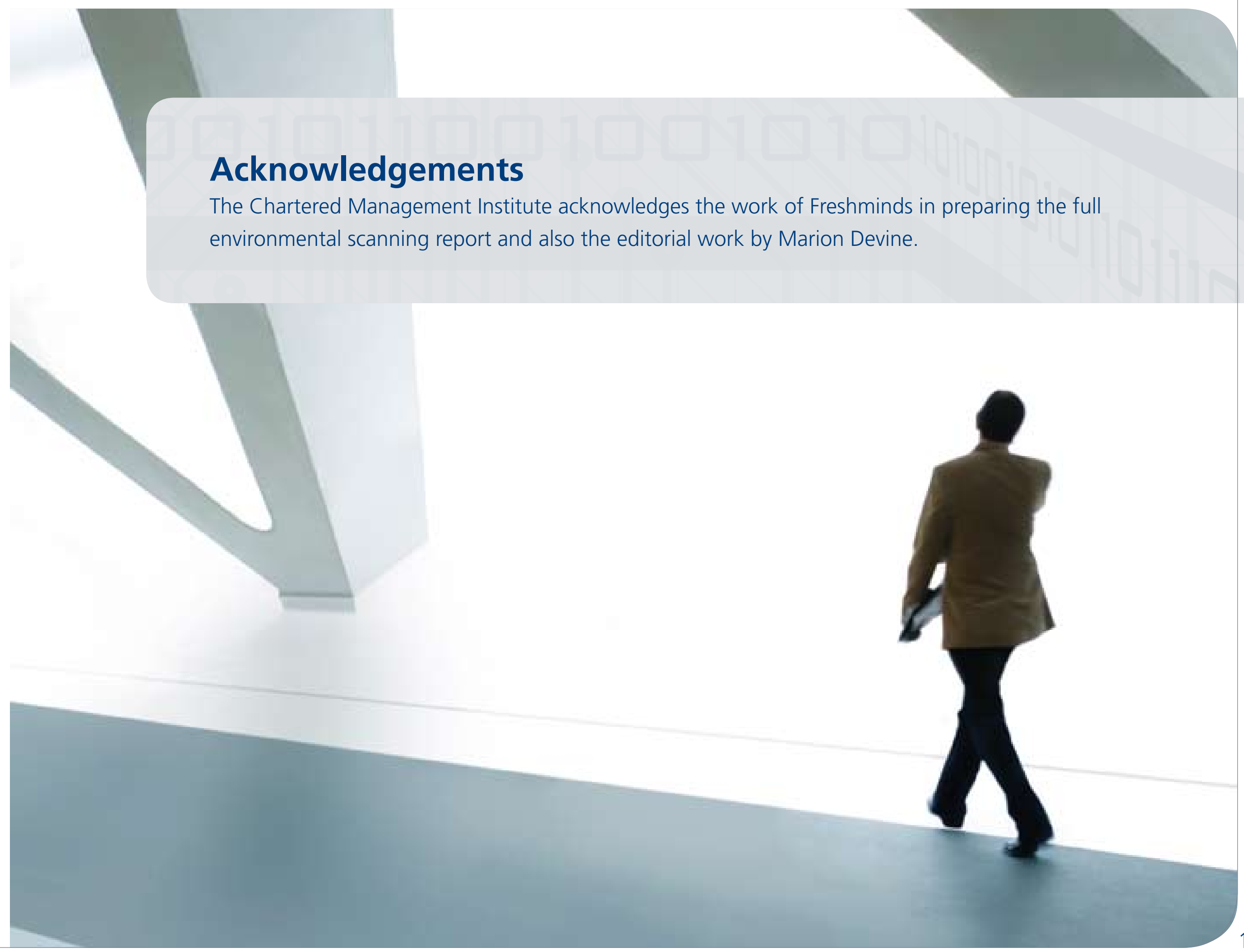
The Next Steps: Management Futures - The World in 2018

This summary provides an overview of the results from the desk-based environmental scan carried out for the Chartered Management Institute in October 2007. The findings from this broad horizon-scan represent only the first stage of the Management Futures initiative and provide a preliminary view of some the opportunities and threats facing UK businesses.

These emerging trends have been used as a starting point for a series for expert and business panels to shape their own projections about the future of work and management in 2018. This has helped to shape the "Management Futures - The World in 2018" which is published separately as guide for leaders and managers who are contemplating the future of their businesses and seeking practical insights to support their own strategy processes.

You can obtain a copy of the report "Management Futures - The World in 2018" at www.managers.org.uk/future or by emailing research@managers.org.uk.

The full environmental scanning report will be available from May 1st 2008 at a price of £200. It can be ordered by emailing research@managers.org.uk or calling 020 7421 2721.



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For more information please contact:
The Public Affairs Department
Chartered Management Institute
2 Savoy Court, Strand,
London, WC2R 0EZ

Tel: **020 7421 2721**
Fax: **020 7497 0463**
Email: **research@managers.org.uk**
Website: **www.managers.org.uk**

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