The productivity challenge

Helping UK businesses to reach their full potential

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Are British businesses struggling to keep up?

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The number of consecutive quarters UK productivity has declined since summer 2018

£5,000

The average amount UK annual wages are lower by as a result of weak productivity growth since 2008

10%

London boosts the UK’s average rate of productivity growth by ten per cent. The capital itself is 33 per cent above average

8th

The UK has dropped two spots from sixth to eighth in the annual Global Competitive Index, after failing to keep pace with other countries

£121bn

The UK’s large businesses took a huge loss in output in 2018-19 thanks to stagnating productivity. That’s equivalent to £16m for every business employing over 250 people

76%

Despite low national productivity, UK employment in March-May 2019 was actually the joint-highest on record. So, how can the country get more out of its staff?
INTRODUCTION

Levelling the playing field for SMEs

A Labour government would help small businesses to become more competitive through the adoption of technology and fairer access to finance, writes Bill Esterson, Shadow Minister for International Trade.

Small businesses are crucial to the success of the United Kingdom’s economy. They are part of the fabric of our communities; they contribute to good causes locally, buy our children’s football strips, and support local charities with money, goods and services. They employ local people and spend their money in the local economy.

In the wider economy, small businesses bring innovation, creativity and new technologies to some of the most challenging and pressing issues that seriously affect all of us.

When I ran my own business before entering parliament, I found that good business advice, support and finance were very hard to come by. Trying to win government contracts or working with large corporations was almost impossible. It seemed that whatever I did there was always a barrier to prevent me having a chance and an equal opportunity. It was by no means a level playing field.

Unfortunately, today’s sole traders, startups and scaleups face the same challenges that I did. The current government pays lip service to helping our small businesses and emerging “technologists”, but in reality its approach, couched in hollow buzzwords, falls short of any tangible follow through.

This is particularly short-sighted when we know about the opportunities to be had in new emerging sectors such as renewable energy. Battery, wind, wave and solar technologies are all focused on the prize of decarbonising the UK economy and of helping us to stop global warming. This sector alone is worth a staggering £26tn across the global economy; and investment is vital to ensure Britain’s economy can benefit from this great advancement. But what is the government doing about it? Virtually nothing.

The Labour Party believes in supporting small businesses. We believe in businesses and unions working together to deliver an economy that is prosperous and fair to businesses and workers. We know what small firms need in terms of support: access to funding and a level playing field.

And there are quick wins available. The green industrial revolution envisaged by John McDonnell and Rebecca Long-Bailey will offer an opportunity for businesses of all sizes if we are to succeed in our target of decarbonising the economy.

In government, Labour would ensure that our small businesses have access to highly skilled workers, and that they get the finance needed to grow along with some of the highest speed broadband, the current lack of which continues to hinder rural business and even some urban businesses in the 21st century.

We have a plan for fair access to public contracts, where large firms have to pay their suppliers in 30 days, one that is supported by a system of binding arbitration and fines for persistent late payment. It will be a system that works for small businesses instead of being stacked against them.

Our infrastructure – in terms of transport and interconnectivity between regions – and our education system are also critical to our future success as a country in the 21st century and beyond. It is Labour that understands that long-term investment will pay dividends for all of us.

The Labour Party wants a modern, mobile Britain, with a skilled workforce underpinning an economy that embraces innovation and new technology. It is Labour that has always believed in Britain, our people, our entrepreneurs and their ability to prosper.
BAE Systems and the New Statesman gathered a panel of experts to discuss the causes of and solutions to the UK’s productivity puzzle

Improving productivity: leadership and employee engagement

On a basic level, the United Kingdom’s economy is a system which converts people’s work into the output of goods and services. Productivity measures the rate of this conversion, and a country’s prestige and sphere of influence on the world stage, at least to some extent, depends on its productivity. Traditionally, increased productivity has been associated with economic growth and a rise in living standards. If higher productivity leads to higher tax revenue and stronger public services, then a more productive economy should represent a point of consensus across all political parties. While national economies are susceptible to booms and busts, linked to market trends and consumer behaviour, what characterises the UK’s so-called productivity puzzle is that the trajectory of this country’s productivity has remained stubbornly flat since the global financial crisis of 2008. The UK is less productive than several of its G7 counterparts, including France and Germany. A round table discussion hosted by the New Statesman and BAE Systems at The Midland Hotel in Manchester earlier this month aimed to find out why.

Richard Baker, programme and portfolios support director at BAE Systems, noted in his opening address that productivity is “multi-dimensional”. While Baker did not dispute that businesses’ capacity to “adopt new technologies” against the backdrop of an increasingly digital culture, in which consumers crave speed and convenience, is important, he stressed that productivity is still “very much a people issue”. He explained: “Implementing technology can boost a business and improve a service, but it is vital that businesses engage their workforce, and involve them in this process.”

Too often, Baker said, technologies are introduced without first consulting existing employees on how they will work alongside it, or indeed whether the technology actually meets their working needs. “It would be good for companies to talk to people at the coalface,” Baker said. “It’s not enough to just assume implementing technology will boost the business; it has to be the right technology. And you find out what that is by actively engaging with and talking to your workforce. What do they need? Ask them. It will make them feel more valued, more involved and more motivated.”

Neil Ashbridge, chair of the Liverpool Chamber of Commerce, echoed this sentiment of collective strategy. Good management, he suggested, involved talking to employees “on the ground”. The notion of “hierarchy”, Ashbridge added, was somewhat misguided. “More bosses need to be willing to talk to their employees and gain their perspective on
what needs to be done.”

Emma Degg, chief executive of the North West Business Leadership Team, claimed that the UK’s productivity had declined due to fewer companies being “willing to take risks” during times of “political or economic uncertainty” predicating not only by the crash of 2008 but by the UK’s prolonged exit process from the European Union. To take on more staff is “no longer the default position” for improving productivity, Degg said, because companies would “rather protect what they have.”

James Gribben, senior corporate affairs manager at Be the Business, agreed, noting that a tighter labour market underlined the importance of small to medium-sized enterprises (SMEs) “upskilling the staff they do have”. Companies that invest in future-proofing their current staff to cope with changing demands, Gribben said, “are making an investment that will pay for itself… you have to adopt a culture of continuous improvement.”

Lesley Giles, associate at The Work Foundation think tank, urged the rest of the table to think about productivity in broader terms, not just in relation to bottom-line output. She said that “progressive management practices” were needed to get the best out of people, “making sure they are happy at work… happy people are more productive overall.” Particularly within medium-sized businesses, Giles warned, managers are often promoted to positions of authority without working on the “soft skills” that they need to coach and develop the staff underneath them. “There has to be a concerted effort to improve management training, internally, as people are promoted. Leadership has a big impact on productivity. Training managers in the right cultures, capabilities and practices means they’ll be better equipped to lead their teams.”

Helen Wilkinson, director of the Productivity through People training programme run in conjunction between Lancaster University Management School, BAE Systems, Rolls-Royce and Siemens, said that “more collaboration” and “peer networks”, could help to “spread best practices” more quickly. Companies receptive to sharing ideas and learning from each other, she said, would gain better insights from doing so. She also returned to the point about “involving” employees in company decision-making. Wilkinson explained: “In order to be more productive, companies would do well to make their staff feel like they are part of deciding on the overall plan or strategy, and not just a cog in the machine. Managers need to be better at communicating how important their members of staff are; they need to demonstrate that their roles have direct purpose. That will help them to feel better about their work.”

The UK’s productivity puzzle, as Emma Degg put it, “must not be explained by a lack of ambition.” Companies, Degg insisted, want to grow and enhance their products and services, but are being held back by various “challenges beyond their control”. To overcome those, all of the attendees at the event in Manchester agreed, would require a collective effort from government, business and industry. Employers have a responsibility to engage with their staff and demonstrate an appreciation of their value structurally, according to Lesley Giles. “That may mean putting them on the right terms… secure work and stable working hours are key to boosting productivity,” she said.

Beyond skills and management practice, Neil Ashbridge added, there is a vital issue concerning “connectivity”. Investment in transport infrastructure and “the things which make it easier for businesses to function” is an action that requires “political will… Productivity is about labour and capital. It requires long-term thinking around skills, but also investment in connectivity…so the government has to come in.”
The most successful companies invest in strong leadership and develop better interpersonal relationships, according to Nigel Whitehead, chief technology officer at BAE Systems plc

Why all businesses should be people businesses

As the nation braces itself for further political twists and turns this autumn, we can all but hope that some certainty and stability will be forthcoming because inarguably some important issues are not receiving the attention they deserve. One of these issues is productivity and the efficiency and effectiveness of our businesses and how they operate. As we look to safeguard our country’s economic future, maintaining our competitive instinct is vital. Wherever people stand in the debate about the future economic relationships the UK should have with the EU and the wider world, we can all agree on one thing: that a productive, technologically driven and skilled economy is a pre-requisite for any future success.

The UK has a strong core of larger companies with world-class levels of productivity, combined with a rich and diverse network of other, often smaller, companies, where I believe the greatest potential gains in productivity stand to be made. Within regions, within sectors and even within a single supply chain, it is possible to see a wide range of productivity levels – from truly world-class examples to those needing improvement.

At BAE Systems the positive impact of our engineering and manufacturing operations are felt throughout the whole UK and we are present in more than 50 locations. The productivity of our company’s workforce is higher than the national average – a picture which is echoed across the engineering sector. Indeed, Engineering UK’s report The State of Engineering 2018 found that the sector plays a key role in driving economic growth and productivity, generating 21.4 per cent (£1.2tn) of the country’s overall £5.7tn turnover last year.

There is certainly more, however, that
BAE Systems should and can be doing to enhance our productivity. We know that our own ability to drive future productivity and efficiency gains within our business is dependent on the strong performance of the 8,900 companies in our supply chain.

As a result, several years ago a group of business leaders from companies including the John Lewis Partnership, Siemens, Rolls-Royce and BAE Systems formed the Productivity Leadership Group. The group studied highly productive workplaces and found distinct and common themes. Early research and conversations with organisations across the country revealed that poor management and lacklustre leadership are usually linked with poor productivity. The leaders in the most productive organisations had demonstrated ways to engage their workforces and harness employee ideas and suggestions for change. The group concluded that the techniques used to do this could be adopted by other leaders too. This formed the basis of Productivity Through People and Be the Business initiatives – programmes that instruct and inform a proactive and people-centric approach to management.

A focus has been to work with the small to medium-sized enterprises that make up 99.9 per cent of all private sector businesses and 60 per cent of all private sector employment, but often find it too risky and costly to invest in training and productivity programmes.

An inaugural programme designed with Lancaster University was launched in January 2017 and the scheme has now spread to Scotland, the South West, and the Midlands, where it is delivered by University of Strathclyde, the University of Bath and Aston University respectively. To date, delegates from 129 businesses with a combined turnover of £5bn have now participated in the programme. Plans are in place to extend the programme to the South East, Wales and Northern Ireland.

I believe that these sorts of collaborative approaches have the potential to leverage the knowledge and resources that the UK undoubtedly has and bring considerable benefits to British businesses. When industrialists, employees, trade unions, academia and government work in unison, the results can be hugely positive. I encourage the UK’s SMEs to take advantage of funded programmes such as Productivity through People. Equally, I encourage large companies to step up to the plate and collaborate. In uncertain times, the UK’s ability to pull together should be viewed as a national strength.

**Partnerships can power productivity**

**KEY INFORMATION**

**About Be the Business**

Since 2017, Be the Business has been working to boost the performance of firms around the UK. Chaired by Sir Charlie Mayfield of the John Lewis Partnership, Be the Business works to close the gap between the best performing businesses and firms keen to become more competitive. It is supported by some of the leading UK and global firms, including Amazon, Siemens and BAE Systems.

**What’s at stake – the UK’s productivity challenge**

Improving productivity has a strong relationship with wages and living standards. According to the Office for National Statistics, the UK’s weak productivity growth in the past ten years has resulted in the average worker earning £5,000 less than they would have if pre-financial crisis trends had continued.

**Case study**

Cumbria Crystal is the last producer of completely hand-blown and hand-cut crystal in the UK. Managing director Chris Blade took part in the Productivity through People programme, run in partnership between Be the Business, Lancaster University and leading firms. This led Chris to challenge his employees to deliver one per cent improvements in each area of his business. The results helped Cumbria Crystal to land contracts with Bentley Motors and the Downton Abbey film released this month.
Investing
where it counts

We’re here to help our customers ensure the nation is protected and can prosper. It’s why we invest so much in enabling our people to be as productive as possible.

In the UK, our workforce is more productive than the national average and we’re not stopping there. When your productivity helps your country, every increase counts.