

Business Productivity Review

Submission to the Department of Business, Energy, and Industrial Strategy

Chartered Institute of Personnel and Development (CIPD)

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Our response

The UK's Productivity Challenge

1. Do you agree with our working definition of low-productivity businesses?

We share the views set out in the BEIS paper that a great deal of the global productivity slowdown over the past decade can be attributed to a widening and persistent gap between laggards and leaders in applying the new digital technologies, which also appears to be cross sectoral. This in turn means that there is some logic in focusing on individual companies across all sectors. However, the long tail has been with us for a long time and the fundamental causes may have little to do with the introduction of digital technologies. Finally, the review is right to focus on SMEs, but like the long tail the problems of low productivity among some groups of SMEs are also well-established.

It will be important in assessing the evidence to decide what problem should be addressed– is it to encourage greater take up and successful application of digital technology amongst the laggards (which might include most of the UK firm population) or to tackle long-standing weaknesses such as the long tail or among SMEs which may require a focus elsewhere.

A simplistic national definition has strengths but also some drawbacks. It will be important to distinguish between firms whose productivity is below the UK median because they are in a low productivity sector but who are otherwise performing well relative to that sector, and firms in high productivity sectors who are above the median but are lagging behind the rest. Recent NIESR research¹ for example suggest the UK retail sector overall is doing well against other major European countries (though not the US) but productivity levels will never reach that of advanced manufacturing.

The sectoral dimension is also important because some policy implications will be more sector specific than others, and because the Industrial Strategy has highlighted sector deals as a key mechanism for implementation. A focus on individual businesses lends itself well to horizontal measures but these will need to be flexible enough to take account of significant differences by

¹ <https://www.niesr.ac.uk/publications/productivity-uk%E2%80%99s-low-wage-industries>

sector and the mechanisms within each sector that might be used to implement them. In our 2014 report on productivity³ we concluded:

Policies should not focus solely on help for individual businesses. Supportive ‘ecosystems’ are required, including intermediary or connecting institutions and networks that enable businesses to learn from each other. Developing these ‘ecosystems’ may be a task best led at local or industry levels. (p.6)

The median is probably a sensible starting point although, as suggested, sector and size differences need to be borne in mind because of differences in capital intensity. Particular attention should be paid to the lowest productivity businesses defined using a benchmark such as the lowest quartile or quintile. In addition, the persistence of a low productivity state is important: if firms with low productivity quickly improve their productivity, regressing towards the mean for their sector, this will be less of a problem than businesses that persistently exhibit low productivity.

The consultation document (p.18) finds that the tendency for managers to overstate their own relative productivity, a finding confirmed for the UK by the 2014 CIPD survey and previously by WERS. However, it is will also be important to keep in mind that there is a gulf between the way managers and workers think about productivity in the workplace and how productivity is defined in the national accounts and aggregate statistics. CIPD and other surveys such as WERS show that a significant minority of managers do not measure productivity and many of those that do tend to conflate productivity and general business performance indicators. A recent survey by the Smith Institute⁵ suggests that most employees conflate productivity with working harder, with very few reporting they were doing more with the same or less (“working smarter”) and many felt there was no link between higher productivity and better wages and conditions. Survey evidence and evidence based on aggregate statistics may point in the same direction, but it should always be kept in mind that they may be based on entirely different premises.

³ https://www.cipd.co.uk/Images/productivity_2015-getting-best-out-of-people_tcm18-10313.pdf

⁵ <http://www.smith-institute.org.uk/wp-content/uploads/2016/07/Working-harder-not-smarter-1.pdf>

Understanding high and low productivity businesses, and the firm-level characteristics driving the performance of each

5. Is there further evidence from the UK or internationally, on what drives the distribution of business productivity?

CIPD asked questions on productivity in its summer 2014⁶ and summer 2015⁷ *Labour Market Outlook* surveys. Respondents were those in charge of HR. In both surveys, respondents were asked to rate the relative productivity of their organisation, compared to colleagues or competitors. Multivariate analysis was conducted for private sector organisations, which identified the variables most strongly influencing the distribution of responses, reported in our 2015 report, *Productivity: getting the best out of people*⁸ and *Investing in productivity: unlocking ambition*⁹

6. What do you think are the most important firm-level factors that impact productivity?

Our results suggest an important role for what was termed the “mindset” of the firm towards investment. Firms that characterised their recent history as one of investing in people and capital were much more likely to rate their productivity highly than firms who characterised their history as a struggle for survival or one of cost-cutting. A business strategy focused on quality goods and services, as against meeting a basic standard, was also associated with higher productivity.

High and/or increasing levels of investment in physical and human capital – such as ensuring all the workforce received regular training – was also associated with better relative productivity.

It proved more problematic to find a link between specific workplace practices and relative productivity performance as perceived by managers (see Appendix 1)¹⁰. One explanation is that improving productivity through introducing specific practices may count for very little in a poor workplace culture with employee engagement is low and mistrust of management is high. It may

⁶ <https://www.bl.uk/collection-items/labour-market-outlook-summer-2014>

⁷ <https://www.bl.uk/collection-items/labour-market-outlook-summer-2015>

⁸ https://www.cipd.co.uk/Images/productivity_2015-getting-best-out-of-people_tcm18-10313.pdf

⁹ https://www.cipd.co.uk/Images/investing-in-productivity_2015-unlocking-ambition_tcm18-10306.pdf

¹⁰ https://www.cipd.co.uk/Images/investing-in-productivity_2015-unlocking-ambition_tcm18-10306.pdf



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also be that a package of measures needs to be introduced that has an impact on working more efficiently across a substantial part of the workforce to achieve any measurable improvement.

Leadership and Management

8. Is there further evidence on the links between management practices and productivity? If so, which management practices have the biggest impact on productivity?

A CIPD review of the evidence on trends in people management in the UK, and the possible impact, can be found in our Megatrends report *Are UK organisations getting better at managing their people?*¹¹

In addition, our study based on 2014 data¹² suggested that the act of measuring productivity – however it was defined – was associated with superior relative productivity. This may be a proxy measure for the impact of structured management practices.

However, it may not be possible to identify specific management practices that are associated with higher productivity and for these to have sufficient granularity to be useful for a practitioner. For example, some studies have claimed to detect such a link for people management practices such as “promotion based on merit” or “setting targets”. But statements such as this are far too general to be useful for an HR practitioner.

9. What are the main reasons for businesses adopting or not adopting management best practice?

In the CIPD’s view this is one of the most important questions in the review, as any solutions or recommendations have to be based on a clear understanding of why organisations fail to adopt management best practice and how to overcome these barriers – and what factors drive adoption.

There are some useful sources of evidence to draw that shines a light on these issues. One such source is the 2012 BIS report Promoting High Performance Working¹³ which explores why and how firms adopt High Performance Working (HPW). HPW practices are progressive HR practices

¹¹ https://www.cipd.co.uk/Images/megatrends_2014-uk-organisations-managing-people_tcm18-11407.pdf

¹² https://www.cipd.co.uk/Images/productivity_2015-getting-best-out-of-people_tcm18-10313.pdf

¹³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34638/12-1195-promoting-high-performance-working.pdf

designed to boost staff satisfaction, involvement and participation and to improve how skills are utilised in the workplace.

The BIS report finds that three main reasons small firms don't adopt progressive HPW practices are:

- they had simply never considered it (30%),
- they were too small (30%), and
- that investment in HPW was not necessary, as their existing systems and staff were as proficient as required (17%).

Low and non-adopters of HPW practices were also asked what might persuade them to adopt a High Performance Work System. The most popular methods, each cited by approximately 55 per cent of respondents, were: (i) actual examples of the benefits of adoption in practice; and (ii) financial support.

Interviews from the case studies led the paper to observe 'in a small business, management staff do not have the time to research and implement new techniques, particularly if they lack formal skills and have little prior knowledge or experience in that area.'

The paper states 'Overall, these results imply that a trigger of some form is likely to be needed to start the process of adoption, or even the process of investigating and considering HPWPs further. This trigger may be related either directly to business growth, or more indirectly, for instance by the example of a successful business having adopted HPWPs to facilitate future increased performance, or the suggestion of HPWPs by a consultant.'

The BIS research paper showed that there is a widespread lack of awareness of HPWPs and their potential benefits and suggests that the provision of much better information to SMEs on the benefits of high performance working could itself create this trigger. The BIS report notes that "Given that in some cases, simply learning of this triggered adoption, there is evidence of an informational failure among SMEs – including some with a relatively high level of HR expertise."

The paper concluded that the 'key unifying factors indicative of low adoption are lower levels of management and leadership skills in the business, combined with a lack of ambition and a lack of

awareness of HPWPs, and/or a lack of desire to discover more about high performance working and other ways to improve business performance.’

This suggests that there is often a vicious circle of poor management that prevents small firms from investing to improve how they utilise skills in their workplace. Too often owner managers have little knowledge of people management and are unaware of the potential for improving the efficiency of their business, or of the actions they need to take to improve firm performance, Together a combination of either complacency and/or ignorance, act as very significant barriers to adopting management best practice.

Even where there is recognition of the need to improve people management capability/workplace practices, a lack of resources (time and money) or access to information, advice and guidance can prevent small firm owner managers from taking action.

Many of the insights from the BIS paper are mirrored in the CIPD’s recent evaluation of HR business support pilots in Hackney, Stoke and Glasgow *People Skills; Building ambition and HR capability in small UK firms*¹⁴. The year-long pilots provided up to two-days of free face-to-face or telephone HR support to small firms employing between 1 and 50 staff via CIPD qualified independent HR consultants. The support was delivered via key local partners such as the local council, chamber of commerce and Local Enterprise Partnership.

The evaluation found that the vast majority of owner-managers that used the free HR support provided in the pilot had never previously received support from an HR consultant previously because of a lack of awareness of how valuable this type of support was for their business or because of cost.

Matching business support to demand and existing level of management capability is key

The evaluation of the CIPD’s HR SME business support pilots also highlighted that the existing typically low level of management capability is likely to be a very significant factor in the adoption or non-adoption of management best practice.

¹⁴ <https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms>



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One of the objectives of the pilots was to increase investment in leadership and management capability however what the evaluation showed was that by far the biggest area for demand for support was for very getting in place the very basics of people management, for example, written terms and conditions of employment, job descriptions, and formal recruitment practices.

The weight of evidence in the evaluation suggests that the first step to business improvement for many small businesses is getting these very basics of people management practices in place. Until these people management 'foundations' are in place, owner-managers don't have the capability, interest or time to invest in value-added activity such as training staff or undertaking leadership or management training for themselves.

However although the level of support delivered was typically basic and transactional, the data from the pilots suggests that it was also potentially transformational. Owner-managers' confidence was boosted and they were more likely to report that their organisation was better or much better than similar organisations in their sector on measures of workplace relations, labour productivity and financial performance after using the People Skills service than they were prior to using it.

CIPD's view based on the evaluation is that one of the big obstacles to adoption of management best practices is likely to be a mismatch between the level of support/type of intervention provided and the existing level of management capability in a business. Most owner managers in small firms with 50 or fewer staff are unlikely to be interested in developing their leadership/management capability if their business is struggling to be legally compliant on employment regulation and does not even have written terms and conditions of employment and job descriptions in place.

The poor uptake of the Growth Vouchers and the difficulty encouraging owner managers to use the matched funding for management development supports this view.

Policy-makers need to think about the size and maturity of the businesses they are looking to support adoption of management best practice in and consider what type of support/policy intervention is required. Management best practice for most small firms with 50 or fewer firms is being legally compliant and having the most basic people management practices in place. Management best practice for more mature and typically larger firms will be more sophisticated. See Appendix 2.

10. Are there further examples, from the UK or internationally, of approaches that have worked to increase the adoption of management best practice?

Networking activities that raise managers' horizons may be useful.

11. What actions by the public or private sector would be most effective to facilitate effective adoption and embedding of management practice?

Embedding management and leadership elements within advanced vocational qualifications.

The UK market for business support and advice services

17. What are the main reasons for businesses utilising or not utilising public and private business support?

The CIPD's People Skills pilots¹⁵ highlighted three key factors:

1) Quality of local networks/employment and skills eco-system

A key factor for effective utilisation of business support is the quality of the local skills and employment eco-system, according to the evaluation of the CIPD's People Skills HR support pilots. The pilots worked best in Glasgow and Stoke where existing strong networks and channels were already in place either via the City Council in Glasgow or via the Chamber of Commerce and Local Enterprise Partnership in Stoke. In both areas, the People Skills programme was integrated into existing business support channels provided by these key partners which appeared to support utilisation. Glasgow City Council was so impressed with the People Skills model for delivering business support, they continued to fund it once the pilot had officially ended.

2) Cost

Evidence from the BIS report *Promoting High Performance Working*¹⁶ and the CIPD's People Skills evaluation report¹⁷ highlighted cost as one of the primary reasons for small firms not engaging with business support. Evidence from the CIPD evaluation suggests providing a finite amount of free support can encourage some firms to invest themselves in people management and development as it can provide an initial trigger and highlight the value this investment brings.

3) Type of support

The evaluation of the People Skills pilots found that direct face-to-face or telephone support provided by independents HR consultants with knowledge of working with small firms and the local labour market was most valued by small firm owner managers. Digitally provided information and guidance provides helpful supplementary support but there is no substitute for

¹⁵ <https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms>

¹⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34638/12-1195-promoting-high-performance-working.pdf

¹⁷ <https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms>

bespoke advice provided by experts to owner managers in the context of their own business, their management capability and the immediate challenges they face.

18. How effectively is private and public business support provided in the UK?

A great deal of more visible public business support is focused on a relatively small number of high tech sectors, for example, R&D tax credits, research grants and the innovation infrastructure, such as Catapult Centres. This is to some extent unavoidable, though some big ticket items such as R&D tax credits have little evidence behind them to justify such expenditure and they appear to have been ineffectual in their stated goal of significantly increasing the share of business R&D in GDP.

However, the high-tech focus leaves public business support unbalanced. The consultation paper rightly identifies management, leadership and other workforce related issues as key factors, but relatively little visible business support at the national level is directed into these areas. The recent investment announced by the Chancellor to support management quality and fund Be the Business are welcome, but are still well below what is likely to be needed to address these issues for the vast majority of UK businesses that might benefit.

As the BEIS consultation paper shows, some schemes have demonstrated positive returns, but it would be fair to describe those in the UK as too often small scale, local, and seldom sustained. It is hard to get a grip on exactly what is being delivered at local level and by whom, with a plethora of schemes few of which appear to have subject to evaluation in any form. A lack of awareness of what is available, a lack of understanding of what support can do for their business and/or a perception that the costs are high and the benefits uncertain are powerful inhibitors of take-up.

Our overall impression is that support is delivered haphazardly, with much depending on the actions of individuals or geographic circumstance and the strength of local institutions and their ability to network with local business. There will always be discrepancies at local level in the level, quality, and effectiveness of business support but the current patchwork is weakly co-ordinated and may inhibit the rapid spread of best practice. As we noted earlier, a focus on individual business will not address these system failures.

Upcoming research¹⁹ by CIPD investigating the prevalence of local approaches to supporting workplace innovation – which has include a review of all LEP SEPs and associated plans, as well as interviews with a number of LEPs – has highlighted that very few LEPs are actively engaged in addressing within firm productivity issues. In addition the small number of projects in this area were in many cases reliant on ERDF and ESF. This contrast starkly with countries such as Finland who have longstanding expertise in supporting firms moving up the value chain and develop supportive workplace practices.

The consultation paper notes that most funding of business support schemes comes from the European Structural Funds which will no longer be available once the Brexit process has been completed. In 2016 the Government said it would support new schemes only if they met new criteria on value for money and compatibility with domestic priorities but it is not yet clear what these are or whether they have made any difference on the ground. The Government is also committed to establishing a UK Shared Prosperity Scheme to replace at least in part the Structural Funds, but it is not known when and on what terms and what sorts of business support might continue to be funded. The Government claims that such a scheme will be less bureaucratic and more focused.²¹

Whether these aspirations proves correct or not, it is clear that in the short to medium term there is likely to be considerable uncertainty about the scale and scope of business support in the UK as we move from EU programme to UK Departmental funding. It would not be surprising therefore if we experienced a further fall in business engagement with business support services, in line with the trend highlighted in the consultation document.

22. What is the role of the public sector in ensuring the uptake of private sector business support?

As referenced above, CIPD, with funding support from the JPMorgan Chase Foundation, ran a programme called People Skills from July 2015 to October 2016, which was designed to improve people management skills in SMEs in three localities, largely through the provision of free HR consultancy support. An independent evaluation of the programme by researchers from

¹⁹ Due out later this year.

²¹ <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7847#fullreport>

Manchester Metropolitan University can be found at https://www.cipd.co.uk/Images/hr-capability-small-firms_2017_tcm18-27313.pdf.

One early aim of the programme was to look at ways in which small firms good be encouraged to respond positively to government schemes such as the promotion of apprenticeships. We quickly found that for most small firms this is an impossible goal to meet, no matter how generous the subsidy or support on offer. This was not because their owners did not recognise the value of such investments. Rather, they lacked basic capacity and capability in HR related areas that would allow them to engage with business support programmes in general, let alone the much more demanding requirements of managing an apprentice.

Having identified the need, the programme explored how basic business support and advice might best be delivered. A key factor was the effectiveness of local intermediaries such as local authorities, LEPs and Chambers of Commerce in engaging with their local businesses. Where such links were well-developed, as in Stoke and Glasgow, take-up by business was significantly higher than in Hackney where such linkages were relatively weak. A further feature that businesses responded well to was the use of local freelance HR consultants who had the flexibility to meet business needs, knew the local area, and could speak to business in terms they readily understood. Active marketing of the service was essential – simply announcing a service and hoping small firms will find their way to the provider is unlikely to prove very effective. The pilot was time-limited to a 12 month period, but we found that initial contact, building trust and delivering advice sometimes took longer, so that some businesses did not receive the full benefit they might otherwise have done.

The main conclusion from the pilot is that business support needs to be brought into line with local reality and recognise that considerable structural barriers exist in engaging with the long tail and small firms. The consultation paper constructs a helpful list of practices and attributes associated with high productivity firms, but there is a yawning chasm between these firms and the vast majority of small firms in the UK. Rather than invest in yet another round of schemes which will not engage with small firms, business support should be directed towards tackling the root causes. This will require a long term programme which improves the capacity and capability of small firms to respond to more ambitious programmes designed to produce a step change in their performance. We have suggested to BEIS and HMT that they should consider funding such a programme via

LEPs over the next two years, building in evaluation from the start, with the option of going for a longer term and more ambitious programme should the initial results appear encouraging.

23. How can Government promote self-sustaining business support ecosystems, where firms seek and access information, advice and tools that improve their performance?

The demand that business support interventions be “self-sustaining” (in practice, self-financing) is itself part of the problem and is misguided. For time-limited interventions, “what comes next” can hang as a shadow over programmes, encouraging a focus on demonstration of short-term results and on those businesses that are advice-ready and offer “low hanging fruit”, but may have high deadweight. In addition, if the underpinning problem is systemic and persistent, a time-limited intervention may not permanently correct it.

Summary

24. Do you agree that we are focusing on the right set of businesses? Do you agree that there are opportunities to increase productivity in the long tail?

As argued above, it is not entirely clear whether the Department is trying to focus on solving the post-2008 productivity puzzle or addressing chronic low productivity in the long tail and among small firms in that tail which has been with us for many decades. The focus on individual business has some merits but needs to be combined with creating supportive local systems without which the chances of engaging with more than a tiny fraction of the target population are remote. There are solid opportunities to increase productivity in the tail, but the ambition needs to be realistic about the capabilities and capacity of most firms in the tail and the length of time it will take for incremental improvements to be delivered. Patience, realism and consistency have been in short supply in many areas of policy under successive governments, but they will be especially important in delivering productivity improvements among small firms as part of the evolving Industrial Strategy.

25. Are there any other firm-level factors that we should be focusing on, that are not covered in this call for evidence?

A significant area of business support is on skills development and training, which receives surprisingly little attention in the BEIS paper despite the relative weakness of vocational education and training in the UK, as evidenced in the recent CIPD report²², and the widespread acceptance of the importance of skills development and the effective use of skills in the workplace as an important influence on productivity and performance. Much of the support available is focused on the under 25s, but it is not yet clear that schemes like the Apprenticeship Levy have been able to create significant additionality or generate the very large number of apprenticeships the Government hoped for. Increasing the demand for and supply of better trained younger workers can over time be expected to improve productivity it will be many years before such investments can be expected to have any impact on productivity. As we show later, the reach of schemes to promote apprenticeships to small firms is very limited and it is unlikely that more generous subsidies or more intensive support will greatly change that position until underlying structural

²² <https://www.cipd.co.uk/knowledge/work/skills/uk-skills-system-report>;
<https://www.cipd.co.uk/knowledge/fundamentals/people/routes-work/impact-apprenticeship-levy>

barriers to engagement with business support are addressed. There is relatively little support for firms to upgrade the skills of their older workers.

26. Where do you think the main opportunities are for the UK to drive business productivity growth?

Policy to date has been highly focused on high tech industries, mainly in manufacturing, and it is clear these will rightly continue to receive significant attention. However, improving productivity in these sectors, while essential, will not be sufficient to address the UK's productivity weaknesses. Policy must also consider the contribution to productivity of lower productivity- high employment sectors. We have already noted the relative success of retail revealed in the NIESR study²³ which is a strength that should be built on but there are other lower productivity sectors where the UK lags well behind both European and US counterparts. These differences do not seem to be primarily because of lower rates of investment or lower quality of labour, but sit within the "black box" of other factors which will include managerial and workforce and organisational issues. The need to address productivity in these sectors is becoming all the more urgent because of the decline in less skilled labour from overseas and rising labour costs from the increase in the National Minimum wage.

²³ <https://www.niesr.ac.uk/publications/productivity-uk%E2%80%99s-low-wage-industries>

Appendix 1

Table 5: Self-reported productivity by change in output, employment and investment
(% of private sector organisations, n=547)

	Productivity well above average	Productivity above average	Productivity average	Productivity below/well below average
Change in output in last 12 months:				
Increased	9	58	26	4
Stayed the same	4	35	49	7
Decreased	6	23	56	14
Change in employment in last 12 months:				
Increased	9	54	26	4
Stayed the same	6	43	40	6
Decreased	4	35	48	11
Change in capital investment in last two years:				
Increased	10	49	34	4
Stayed the same	4	40	44	6
Decreased	5	28	45	21
Change in expenditure on L&D in last two years:				
Increased	12	47	32	5
Stayed the same	3	48	40	5
Decreased	5	30	47	18
Change in L&D activity in last two years:				
Increased	8	51	34	5
Stayed the same	5	44	40	6
Decreased	4	35	45	15

Row totals do not add up to 100% because 'don't know' responses to the relative productivity question are not reported.

Source: CIPD Labour Market Outlook survey, summer 2015.

Appendix 2

Improving job quality and workplace productivity

