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- **Jane Galsworthy**, Managing Director of Oxford Innovation Advice and Steering Group Chair at the Enterprise Research Centre. (JG)
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What is the best thing Government can do to help improve business productivity?

Provide more business support, create better conditions for doing business, or simply, get out of the way? In other words, can Government policy, and business growth ever become a happy marriage? We are going to find out. Welcome to Productivity Puzzles.

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BvA: Hello, and welcome to Productivity Puzzles, your podcast series on productivity, brought to you by the Productivity Institute. I am Bart van Ark, and I'm a Professor of Productivity Studies at the University of Manchester, and I'm the Director of the Productivity Institute, a UK wide research body on all things productivity in the UK and beyond.

Welcome to this new episode of Productivity Puzzles, which is the second in our trilogy on business productivity. In our first episode last month, my TPI colleague, Rebecca Riley, and I, spoke with John Van Reenan, of London School of Economics, and Javier Miranda from the University of Halle in Germany, about the rising inequality in productivity between firms over the past two decades. With some highly productive firms, but a lot of other firms growing more slowly, or even falling behind. We discussed the decline in business dynamism as firms seem to have become less responsive to technology and other changes in the economy. That means less churn in terms of new business startups, and underperforming firms that are not exiting the economy. That, in turn, means that people and capital doesn't get employed where it can be used most productively.

So, if you haven't listened to that episode, you might go to our website, or your podcast platform, and put your ear to it, or read the blog that our team put together on this episode. The panellists there already discussed about

the role for policy to bring business dynamism back, but that's really the focus in our podcast today. How can policy help to create a more dynamic business environment, where business can innovate, make new products and services, and develop new markets, which will all then help to ultimately raise productivity. Now, there are many policies that matter on how to improve business productivity, and at least within the UK context, seem to be more helpful to business than others. So, what distinguishes good policies from bad ones, or what works, and what doesn't, and why? And where are the biggest shortfalls, and perhaps, where should Government make sure it gets out of the way?

So, I'm going to discuss this with two fantastic panellists, Jane Galsworthy, and Tera Allas, who I will introduce to you a little later. But before that, I first want to frame the topic with another of my TPI colleagues, this time, Stephen Roper. Steve is a Professor of Enterprise at Warwick Business School, he Founding Director of the Enterprise Research Centre, and Co-Director of the Innovation Caucus. And Steve is an expert in innovation and enterprise policy in the UK, and internationally, and importantly, he is the Lead of the Productivity Institute's Programme on Firms in Transition, and oversees our research campaign on business investment. Steve, welcome on this podcast.

Let's first talk a little bit before we bring Jane and Tera in, about why do we actually need Government to make business more productive. As I hinted at in my comments just now, some business leaders would rather say that the best thing for Government to do, is to get out of the way. So, when is a Government intervention needed for business productivity, and when not?

SR: I think it's a complex question, Bart. I think there's no one answer. But it's very clear that high levels of productivity depend both on what happens inside the walls of firms, but also on the environment, and the markets in which they operate. Government plays a key role in shaping the framework conditions within which firms work. I guess, economists might say this is all about regulation, competition, and perhaps providing a stable, macro environment within which firms can thrive. And we've not, arguably, been particularly good at that last one in the UK over the last year or two. But other aspects of policy are also, I think, critically important. Training, for example, and the support that Government offers for innovation, and aspects of business support and advice. And you can even draw a broader canvas, I think, and argue that Government policy around health, education, childcare, also play a key role in shaping the environment, within which firms either sink or swim.

BvA: Yeah, so clearly we've passed the old adagium of economists saying that the only reason for Government to step in is when the market doesn't work. And it's also about society collectively building critical resource, like education, or infrastructure, which companies can then use to become more productive. Now, I think it's important that we recognise that, you

know, we shouldn't treat the business sector as a homogeneous group of firms, they're very different in terms of the sectors they're in, the age of the firm, the size, the region they're operating in. But also very different in levels of productivity. As I mentioned in the previous episode, we talked about the sort of, five per cent most productive firms in the economy which is outpacing everyone else, the so-called superstar firms, if you call it like that. And these are strong firms that have very strong technology advantage, and particularly favour these big firms.

But the other side of the coin is the lack of diffusion capability, and absorption capacity of the firms that are less productive. So, in the Productivity Agenda, which we published last year, during National Productivity Week, and you can find a link to that in the show notes, we showed that the firms that come right behind those five or ten per cent most productive firms, they are in fact the ones that account for all of the macro productivity slowdown, that the UK has seen in the past one and a half decades. And then there are the 50 per cent of firms that are below the average of productivity, that do not contribute much to productivity growth, but they do matter for employment, for the economic viability, and liveability of places. So, there is a real need for policy intervention across the distribution of productivity, but the policy recipe, and the mix of ingredients in that recipe, is probably not quite the same everywhere. So, Steve, what would be a good way to sort of, advance this discussion in the next 40 minutes or so, what would be a good way of categorising the ingredients of the policy recipe, what kind of policy they make should we be discussing in this podcast?

SR: I think you're absolutely right, Bart, that the recipe for high productivity differs a lot between different kinds of firms. And the weight that we attach to different factors may be very different depending on whether it's a services business, or a manufacturing business, a frontier firm, or one further down the productivity distribution. But I think there are a few ingredients which are probably part of almost every high productivity recipe. So, perhaps we should focus on those, and I think, maybe there are four key areas that we might want to discuss. The first is technology, and innovation. We're all very aware of the way that AI and digital technologies are changing the way we all work, and interact with others. So, here is a key area of policy, how can UK Government, how can the policy makers help companies take advantage of the benefits of these new technologies, and indeed help them to create the technologies of the future.

That's one technological aspect of innovation. But I also want to mention this aspect around creativity, and the role of creative industries in driving innovation. So, another question here under this particular heading is, how do we best empower the creative industries in the UK to drive innovation, both within the creative industries, and across the broader economy. I think the second ingredient of high productivity recipes, not for all firms, but for many, is around internationalisation. This has aspects of trade, and foreign

direct investment, and we know that firms which are exporting have higher productivity than those that don't. But it might also have aspects of international R&D collaboration, or innovative collaboration, and that may also be very important for many companies. So, how can policy help firms to start exporting, and for those which are exporting, help them export more.

The third area, I think, is around skills and management. This relates both to workforce, and management skills. And I think that, again, that some of the earlier work that TPI has done, and others indeed, suggests that good management can lead to higher productivity. Measures such as help to grow, or the apprenticeship levy, might help here. But is there more we can do to support high skills, high management quality in UK firms. And finally, I think, just to reflect on some of my earlier comments, I think we do need to think very much around these broader framework conditions, within which firms are operating. This is around tax, employment regulation, planning, and as I mentioned before, even the health medication systems, and we might come onto those a little bit later on. But it's not clear what matters most here, so it'll be very interesting to see what Jane and Tera think about that.

BvA: So, there's a lot to go through here, four areas we need to talk about. Technology innovative, and creativity as you said, and internationalisation, and skills, and then, sort of, the broader framework, macro conditions, competition, everything else. So, we need some help here, so let's bring in our two panellists here. First of all, Jane Galsworthy, she's Managing Director at Oxford Innovative Advice, which is a leading provider of business support programmes across the UK. Where she heads up a team who works with the leaders of 3,000 small businesses, each year, providing them with advice to grow, to innovate, to secure external finance, and to introduce digital technologies. And Jane is also the Chair of Steering Group at the Enterprise Research Centre, which Stephen leads. Jane, fantastic to have you on, I'm sure we're going to learn a lot from you this afternoon.

JG: Thanks, Bart.

BvA: Secondly, and not for the first time on Productivity Puzzles, we have Tera Allas. Tera is Director of Research and Economics at McKinsey & Company in the UK, where she leads McKinsey's research on the economy, growth, and productivity. Brings together the expertise, and experience of strategy, corporate finance, economics, and public policy. And she also works closely with the McKinsey Global Institute, which is McKinsey's research arm. And importantly, Tera is also Chair of the Advisory Committee at The Productivity Institute. Tera, it's great to have you again, we're looking forward to hearing your views on this issue.

TA: Thanks, Bart, great to be here.

BvA: Great. Alright, Steve, so let's get going, and let's start with the issue about technology innovative, creative activity, creative industries, et cetera, in the UK.

SR: You realise there's a danger of me talking for two days on this, Bart, given my area.

BvA: Yeah, but we won't let you.

SR: I'm going to try not to do that. Just to set up the theme. The Government's outlined its objective that the UK should be a research superpower. So, what do we need to do to achieve this goal? I guess, we often argue that, in the UK, we're pretty good at the R bit, but maybe a little less good at the I bit, which is the innovative bit, and the commercialisation of new technologies. Is there more that we need to do, more that we could do here? And then there's the question that you raised earlier about the diffusion of technologies. And UK businesses' ability to take on board those new technologies, and how we actually encourage them. So, Jane, I think, maybe we start here with you. How do you see the technology and innovative landscape across the UK? I know you work in Oxford Innovative with firms across all parts of the UK. How do you see that landscape, where do you see the challenges?

JG: I think, in the UK, I think for a long time, we've been pretty good at supporting companies who are developing leading-edge technologies. So, there's plenty of support around, be it in the form of grants, or advice, to encourage those companies to work with universities, to give them support, and advice, to take those really exciting technologies to market. But I think the bit that we're not so good at is the supporting smaller businesses to do the, the potentially less exciting forms of innovative, you know, the sort of, incremental improvements that just make their businesses that bit better. And I think, when we work with businesses, we find that a lot of the smaller businesses don't actually really know what good looks like. And they are probably a little bit too much inward looking, and that's, you know, completely understandable, given the challenges, the firefighting that they need to do on a day to day basis.

But I think, if there were more opportunities for them to engage with their peers, to think about talking to their customers, to suppliers, to intermediary organisations, people that span across sectors, that span across companies, then I think they would have much better awareness of how they could improve, the things that they could bring into their business that would improve them. One programme that's a good example of that is the Made Smarter programme, which works with manufacturing businesses, to help them think about where they can bring in digital technologies to make them more productive, and efficient in how they run their business.

Government policy and business productivity: does it help or harm?

SR: So, Tera, I suppose Jane's highlighted the needs of different sorts of companies, for different sorts of interventions. What would the buckets be that you would, sort of, use to sort of, define those different needs, perhaps?

TA: That's a really good question. There are probably multiple ways of doing that, but I tend to think, quite fairly simplistically, we can think of the large, multinational corporations. They have very different needs to startups and scale-ups, which are very innovative, and on the edge in terms of technology, but have other things they need to still develop. And then, there are the mass, the rest, which one could characterise as the kind of, average SME, which may not be either innovative, or very fast-growing, but absolutely need to improve their productivity, if we want to move the needle on aggregate productivity in the UK. And so, if we start with the large multinationals, probably the UK setup is quite good already. When you speak to those businesses, what they want from a national, kind of, science, innovation, ecosystems, access to talent, which we have plenty of in the UK.

They want opportunities, and ways to collaborate with best research available in universities, and research organisations, and the UK has many institutions in that space which help. And they, of course, need to be able to export the products and services that they are delivering. And so in that sense, you know, established routes to market are important. For them, tax also matters quite a lot. So, competitive, or at least, attractive tax credit around R&D seems to be something that attracts activity, locally, and is important for maintaining the R&D, and intellectual property, and indeed, manufacturing associated with it in the UK. So, that's the large companies. When you then think about small, and small startups, or scale-ups, often what they need is patient finance.

They don't have the capital, necessarily, to wait until their products are ready for the market, but yet, they still have to put a lot of investment into creating those products and services. And there, Government can help, either by providing direct funding in the form of grants, like we have with Innovate UK, or providing financing, so either loans, or equity, through various intermediaries, like British Business Bank does. But, often, for scale-ups, actually one of the biggest barriers for success isn't just the finance, it's finding customers. And Governments, or Government organisations, can provide a kind of, anchor customer, or a reference customer, that can be really powerful, then, selling those services, globally. And so, there's many aspects for Governments to get involved there, to drive and support scale-up growth.

BvA: So, you talk about large firms, you talk about the medium, smaller firms, and they kind of, have different ingredients of the recipe that we talked about. But to some extent, the recipe is really about getting them together. Isn't part of the issue in the UK is that the ecosystems actually have these very large multinationals, many of them not being as well tied in with the

supply chain, or horizontally, with other businesses within the UK system. So, what is the role of Government to bring businesses together, large and small, in this respect?

JG: It's interesting to reflect that nature of business support in the last few years has been quite focused on working with a particular business. Whereas, historically, there was quite a lot of policy emphasis on building clusters, and funding going into supporting networks. And that seems to have gone out of fashion, a little bit, in favour of this one to one support for businesses. So, I don't know whether that's had an impact on the sort of, strength of these business interconnections, and networks.

SR: Yeah, we have some really interesting examples, Bart, where policy is used in the UK to try to link up larger firms, and smaller companies. The Advanced Propulsion Centre, which is based on the campus with me in Warwick, is around automotive, and building electric vehicles, largely. But they have a requirement that when they give a grant to a large company, they also work with one or more SMEs. Now, that doesn't always work as a relationship, but sometimes those relationships have been very positive. And I've often thought we could broaden that requirement to a lot of the UKRI support that we give to larger companies, to bring in smaller suppliers, to work more closely with those companies, to sort of, strengthen that link. And I think they do that in other countries.

TA: Yeah, I think those kind of linkages are incredibly important. They tend to be important, particularly in sectors where there's critical supply chains that need to be really efficient, and innovative together, to then, kind of, capture global opportunities. There are, of course, lots of SMEs operating in sectors such as hospitality, or retail, or you know, cleaning services, or what have you, which are unlikely, ever, to be part of those, sort of, industrial chains. And I think we do need, then, sort of, more horizontal policies to help businesses in those. It can still be about bringing the sectors together to help themselves. So, sector organisations can play a big role here in explaining what best practice looks like, and providing training, and almost, peer support, and peer inspiration.

Now, Governments can play a role in sort of, encouraging that, and sometimes, convening, and just, kind of, showcasing. Putting the spotlight on things that are working really well, is something that is one of the ways in which you can get, then, a broader set of businesses to collaborate together.

SR: I'd really like to ask, Tera, and Jane, just to reflect on the creative industries part. I often feel this is a rather ignored theme, and that we spend a lot of time in the UK, as Jane said, supporting our, sort of, leading edge, frontier firms. But a lot of the sort of, business model change, a lot of the market change, is coming from creative industries. And I just wondered whether

anyone had a comment on, you know, what more we could do, or whether we need to do more, perhaps, to support creative industries in the UK?

TA: Well, I think you are totally right, Stephen, that it's a really important growth area, where the UK actually has some, you know, quite impressive comparative advantages. And of course, an awful lot of creative talent. And it marries up with a lot of digital evolution, as well, you know, a lot of the reason why creative sectors are booming is because of all the streaming, and all the sort of, enabling that new digital technology provides. I think it comes back to, actually, listening to the sector, and what they need, and that might be to do with immigration things, you know, can we get the right talent in the country.

That might be to do with planning, can we set up the right facilities for this, and that. It might be to do with infrastructure, do we have enough of the sort of, digital infrastructure we need. It's almost certainly about other kinds of talent, as well, and sort of, digital literacy of both consumers, and employees. So, the recipe here, too, will be slightly different. But I think, as you said earlier, the ingredients will probably be very similar.

SR: And Jane, you see creative industries, I guess, in many of the Oxford Innovative Centres. Is there a cross-fertilisation between those companies and others, how does that all work?

JG: I guess the point I was going to make is around regional differences. And I think, you know, the advent of good broadband has been really great. So, we work with a load of businesses in Cornwall, there's quite a strong creative sector there. And the IT infrastructure has enabled that growth. But then there have been things like the move of Channel 4 to Leeds, and the BBC to Manchester, which policy makers have taken that as a sort of, a key, new asset in the region, and looked to put in place support to build the sector around those, sort of, anchor institutions. Which I think has worked pretty well.

BvA: Do we have a strong feel that technology, innovative, diffusion policies in the UK, are not as well developed as they are in a lot of countries, or are they, but we're just not making as good use of it? We do offer the policies, but somehow, businesses are not as good at picking them up as they are in some other countries. Do you have any evidence, or any feel for the international comparability?

TA: So, I wouldn't say that many countries actually have very explicit policies for technology diffusion, in the sense that many of them rely on competition. So, if your competitor is adopting a certain technology, then you pretty much have to do the same in order to stay in the game. And they rely on, sort of, businesses themselves looking at the opportunities. Or they rely on the sellers of the technologies to go around small businesses and saying, you know, you must have a customer relationship management system, or

surely you want to use our payment system, or surely you want to be communicating on social media using our AI tools, and whatever. I have done quite a lot of work with Be The Business on this, and it's really challenging to get smaller businesses to adopt technologies.

And my view is that one of the keys that unlocks this is just digital literacy. And people feeling confident about purchasing, and procuring, and implementing technology, which can be scary. A lot of times, small businesses in particular, they're just worried that they will lose all their data, or that they will have some big hiccup in their supply chain. and these are real concerns. So, perhaps what we need for businesses to be able to adopt these changes faster, and more confidently, is just training, and information about how to do it well. And sometimes, support helps. Having, sort of, a digital, like a CTO on demand. Because obviously, small businesses can't afford to hire their own Chief Technology Officer, and they might not even have their own IT support person. But maybe there could be someone who could, one hour a week, or two hours a week, help them with these sorts of things. And that could be then distributed across a number of different businesses.

JG: I think there are some key issues. And it's less about the investment of money, and it's more about, for the small business, in terms of, can you be confident that you can develop a really clear specification for what you want. Can you match that against the relevant software. And then I think, absolutely crucially, can you roll that out, can you manage a change management process in your business, so that you get the benefits from that technology. And I think it's far less about, am I worried about spending £10,000, or you know, £100 a license for the technology. It's more about, how you choose it, and how you implement it.

SR: We've been looking at some international measures, recently. And I can't remember whether it was Denmark, or Norway. But they have a scheme called Innovative Pilots, where they place people within companies, to pilot an innovative project. And it's a part time placement, usually, and these people work across a range of companies, so you get a bit of knowledge transfer. I was really very attracted by that scheme, it seemed like a, for new entrants to the innovative arena, and much of that will be digital. It was quite an interesting sort of innovative, in policy.

BvA: So, let's talk a bit about the second key aspect that quite often comes back when we talk about productivity, and that is the benefit of international exposure of business. Whether it's through foreign trade, or foreign direct investment, or participation in global support chains, there's evidence that it really helps productivity. So, again, I think, Steve, the question is, what can policy do, or what should policy stop doing, in order to make that force of internationalisation really work?

SR: Yeah, I kind of think, always the first thing as economists, we always talk about, that trade openness supports growth and productivity, it's day one of Economics 101. I guess, for UK firms, it's that exporting and importing can reduce costs, opens up new markets, and drives competitiveness. So, we know all about these things. And then, economists also talk about learning by exporting, whereby trading in a foreign market, you learn about products, and service quality in that market, and you bring some of that knowledge back home, and it helps you improve your own offering. Attracting external investment, foreign direct investment, of course is critical, because it can provide new capital, technologies and jobs. And open markets encourage companies, internationally, to sell here, which encourages our own firms to become better through competition.

I think, if we look back over the last few years, it's been a pretty turbulent climate, particularly with Brexit. And I think many exporting firms in the UK are still recovering from that, and making up a little bit of ground. So, Tera, maybe we'll start with you on this one. Just think about how we assess the position of UK firms in the global economy, and maybe some of what the key policy challenges around that positioning might be?

TA: Yeah, absolutely. We've talked a lot about the UK becoming a science superpower, and we can debate whether we are on the way there. But what we are is, we're certainly a services superpower. So, when it comes to export, we need to not just focus on goods, which is the kind of, it's almost like a traditional remit that people think about when we're thinking about exporting. We have massive comparative advantages in service export in the UK, and in fact, if you look at global trade, we may see some kind of slowing down of goods trade, but services trade continues to really grow. And we'll continue to have a lot of demand for that, as emerging economies come out of, you know, slightly lower income, to the kind of, middle income type situations. So, we need to be focused on opening up the doors to our services exporters. Of course, also, the goods exporters, because the UK has some really amazing comparative advantages in pharmaceuticals, in aerospace, in beverages. And I guess, increasingly, in software, so I'm not sure if that's a product or a service, but certainly an important one.

And from a policy perspective, I think what that means is, when we talk about free trade agreements, for example, or we talk about, kind of, traditional trade policy tools, we need to lean into that services aspect, and start thinking about, how can we generate mutual recognition between companies. So, you can provide a service, let's say, as an engineer, or as an architect in another county. We also need to think about, kind of, harmonisation of various different regulations, which might be particularly important in places like healthcare, or anything that touches on individual consumers' data protection, privacy, and so on. All of these things will be requirements for the other country to accept our services exports to their consumers.

And then, finally, an important area to continue to consider is around digital infrastructure, and digital trade barriers, if I put it that way. Because something like 80 per cent of all of services trade, is actually traded, essentially, remotely. So, it tends to be via email, or via video call, or via a cloud service, or whatever. So, it's actually out there in a digital format. And for that, we must, obviously, continue to have really good broadband, really good digital infrastructure, really good cybersecurity resources. So that we avoid any kind of attacks that might undermine those kinds of businesses. And then, we avoid digital trade barriers, you know, other countries saying, well this data must be housed on a server that's placed in X, Y, Z country, or the following kinds of data must not move between national boundaries.

So, there's a lot to think about there, I think, and get our teeth into. And the UK has traditionally been very good, I think, in terms of policy in general, in the international space, and this is an opportunity for us to really shape what services trade policies should look like.

SR: So, Jane, how do you see the sort of, export support landscape in the UK, is that fit for purpose? Again, I suppose the key challenges here, perhaps, are for the sort of, small to medium size companies.

JG: I think it's really interesting that there are, the sort of companies that are developing leading edge technologies, and are bringing products which are going to be new to the world, they are thinking globally, internationally, from day one. And there is support from programmes like Innovate UK Business Growth programme, to help them develop international partnerships, and collaborations, which is really helpful. I think there's another type of business, who perhaps establishes themselves in the domestic market, and then may want to consider looking internationally. And for those businesses, I mean, I think they've got to be pretty robust, and well run businesses, before they can even start to think about the investment of time and money that they might need to put in to secure exports.

A good chunk of the sort of, business support around export is provided by the Department of Business and Trade. And I think, historically, they've sort of, focused quite a lot on technical advice, market research, about international markets, or advice on particular customs requirements for countries. And I think one of the challenges with the support provided in the UK has been the focus of publicly funded support has tended to be on businesses that are going to secure quite big export orders. And often, they have been businesses that are already exporting. But there's been relatively little support for businesses who are wanting to start an export journey. And, arguably, that's when it's more difficult, when you haven't even put your toe in the water, and you don't quite know what you're letting yourself in for. So, maybe the focus of the support, you know, perhaps needs a bit of a shift.

SR: I know that UK Export Finance have been trying quite hard over the last few years to kind of, work more closely with smaller companies. So, there's clearly an intent there, but maybe we haven't quite got there, got to the end of that particular journey yet. We've just finished a project with the Department of Business and Trade, and one of the interesting things about that was how many exporters are actually purely responsive, rather than strategic. You know, so if they get a request from abroad for, a demand for a particular product or service, they will service that, clearly, it's the customer, generally. Although even there, sometimes, firms are reluctant because of payment challenges, and various other sorts of things. But it's then, I guess, about trying to help those firms capitalise on that, and then become more, sort of, persistent, or regular exporters. And it's not clear to me that, that's being picked up particularly well in the system at the moment, so probably a bit more to do around that space.

BvA: We still have some key areas to discuss, so we need to move on. Right after the break, we'll discuss one really important area, which is skills. But before we do that, let's first hear about what else is happening at the Productivity Institute.

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[Music].

BvA: Welcome back to Productivity Puzzles in this second episode of three on firm productivity. And in this episode we speak about the role of policy to strengthen business productivity. We have Tera Allas of McKinsey, and Jane Galsworthy of Oxford Innovative Advice. And all with the very able support from my TPI colleague, Stephen Roper. So, Steve, let's dive into another key area of business productivity, which is skills. It's one of those longstanding issues for the UK, especially in the area of, sort of, intermediate skills, where it seems we are falling over each other with initiatives, but with making too little headway. The UK seems to keep struggling in terms of the number of completed courses, apprenticeships, but also the quality of intermediate education, et cetera. So, why is this such a difficult area for the UK?

SR: I think if I knew that, Bart, I probably wouldn't be still working at Warwick Business School. But it's a really important issue, and it's something that, you know, we've been struggling with all the way from the start of my career. One of the first projects I did was comparing skill levels in UK and German companies, on a plant by plant basis, and looking at how that contributed to productivity. And, you know, at that point, I was really quite shocked by the difference in the skill base of the UK and German companies we were looking at. I might touch on management and leadership as well, I suppose, as a key area. But what we know from some of the recent survey work that we're doing is that, the recruitment of technicians is still a key barrier for innovative across the UK.

And so, although we've got the apprenticeships, and we've got degree apprenticeships, lots of positives there, I think, there still seem to be these, kind of, consistent challenges. Tera, I know, with McKinsey, you work with companies, and countries across the globe. How do you see the skills system in the UK, are there strengths, what are the weaknesses that are evident there, do you think?

TA: Well, there are clearly strengths in the sense that our university system, and tertiary education is considered to be very high quality, and it has been attracting a lot of students. The capacity has been there, both for domestic and international students, and the diversity of it is quite impressive. But I would highlight what you've already said about intermediary skills, it's been an area of focus, but an area of challenge for such a very long time. And in some ways, you know, people who go to university in the UK, they're more or less fine, we can debate exactly, you know, how optimal that provision is. But the really problematic issue is for people who don't go to university, and what is their pathway from education to employment.

It feels to me like the various different pathways we do have are a little bit fragmented, are a little bit subscale, and are not very attractive to the students themselves. So we don't get the demand, even if we might have the supply. Undoubtedly, we need a lot more work in that space going forward. It doesn't make sense for everybody to go to university, we need to figure out better opportunities for them. Having said all of that, I recently heard a really interesting anecdote about the German apprenticeship system, which of course, is one the world's, kind of, most renowned systems. Well, first of all, they don't think it's good enough either, so they need to continue to improve it, especially in things like emotional skills, social skills, and digital skills.

But it was, apparently, originally set up in 1897, so more than a hundred years ago. That means it takes a very long time for these systems to evolve to a point where they are at scale, and where they have the kind of, culture, as well as institutional strengths, that you really need to deliver those skills to the workplace. Now, I did want to also briefly talk about the skills for people who are already at work. So, of course, we have an important role

for Government to play in education. But once people are out of education, and in the world of work, in this country, I don't think we give them nearly enough training, and kind of, ongoing lifelong, sort of, support to pick up new skills. The workplace is going to continue to evolve, we need more digital skills, we need more social and emotional skills, we need more problem solving skills, we need more customer service skills.

And employers are constantly complaining about the lack of these skills. And it's a classic area of market failure. Employers think it's the Government's job to provide these skills, and the Government thinks it's the employer's job to invest in them. And individuals might not know what they want to do. And what I think is required here, is for Government to step in to figure out how to solve that sort of, lack of investment in human capital. It doesn't need to be provided by Government, it doesn't need to even necessarily be funded by them, but it does need to be a policy area where we increase the degree to which individuals receive training. And especially those individuals who didn't get a great education throughout their lifetimes. And that may also take a bit of a cultural shift. It's easier in countries where individuals themselves want to do that kind of lifelong learning, then to provide support programmes. And, here, we probably need a coalition of various different types of providers to get individuals to upgrade their own skills.

I will mention an anecdote, which people who have listened to me have probably heard about a million times before. But one of the most effective programmes is in Singapore. And one of the campaigns they recently ran was, essentially, a YouTube video, where they had a family around a table, looking at their iPhones, and downloading some kind of upgrade on the iPhone, because you get these messages all the time saying you need to upgrade your iPhone to a new IOS. And then the ad said, but the most important upgrade is you. So, you, dear person, who are at work, you need to upgrade your own skills to be fit for the future.

BvA: Yeah, so this is sort of, the classic theme that comes back in virtually every podcast on productivity we do, which is, too much fragmentation, too little initiatives that are scaled up, too many initiatives that don't have enough, sort of, longevity, and are being replaced by another scheme. And, you know, it's interesting to hear how you talked earlier about the German system, which I also know fairly well. And, you know, even though there's sometimes struggle to make change, which is another problem, you know, it's hard to make change if we have a very well established system. But it's a strong consistency in the system, it's joined up. And therefore, businesses know where to look for things, and will be able to specify their needs in going forward. And I think that's a very important factor when it comes to the whole business support system, is this ability to join up, and to upskill wherever possible.

I want to, before we move on, come back to one thing which we may, editorially, squeeze in a little early in the conversation, but it's really related to Tera's earlier comments. I agree with you that, there's more need for emphasis on lifelong learning, and on adult skills, and probably now more than ever. Although this has always been a topic that has been important, and very difficult for many countries to deal with. At the same time, I think what we're actually seeing right now, for example when we look at the apprenticeship system, and the levy system, we actually see that one of the reasons that the levy system, and the apprenticeships don't work very well, is that some of the money that companies get for this, is actually going to be used for exactly, you know, training employees that are already in the firm, that need to be up-trained to other roles, rather than use them for the more difficult, specific apprenticeships.

So, I do also worry a little bit that we should not substitute one for the other. We really need a better apprenticeship system, and despite apprenticeships levy system, is because of the apprenticeship levy system, we're actually struggling with this. So, I wonder if you have any comments on this problem that we're having, that actually, firms are not using the money, necessarily, where it most needed?

JG: So, we're part of a group, so we pay the apprenticeship levy, it forms part of our training budget, so we've got some additional money that we put alongside it for training our staff. We've not managed to find apprenticeships which develop the skills that we want to develop within our business. So, the upshot of that is that, about 40 per cent of our training budget which is earmarked for apprenticeships, we don't spend, it goes back to the Government in tax. And the other 60 per cent, which is our money, if you like, we do spend on training. So, again, this is, you know, very personal to us, but the impact of the apprenticeship levy is that we probably spend a bit less on training, than we would otherwise, if it didn't exist.

SR: I mean, I suppose, for me, there are lots of institutional challenges around that. And then, the other side of this is, I think that we've made some very positive steps around degree apprenticeships recently in the UK. I'm very supportive of those, I think that's a really interesting kind of development. But probably not at sufficient scale yet to actually shift the dial very much. So, there's more work to do in this space, inevitably. Jane, let's come to management and leadership skills, shall we, I guess that's the kind of critical area we haven't talked about very much. Do we have an adequate kind of support system for that in the UK, or is there more to do there, as well as there is for some tertiary skills?

JG: I mean, my perspective is very much from a small business perspective. And I think the challenges for small businesses, the type of training that they want is very practical. You know, they want to take away things that they can implement in their own businesses. So, there has to be, either in

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the form in which the training is developed, or through another mechanism, a way of translating that learning, the knowledge that they have about new processes, into practice, into sort of, new things in their business. And, often, there's quite a bit of work that has to go into working out how to implement this thing that you've learned about, that you think is a good idea, and how to make it work in your own business. I'm a big fan of sort of, coaching, and mentoring support, linked with training, to make that translation from book learning, if you like, into stuff that's working in the real world.

The other challenge for small businesses is around defining the skills gaps that they've got, and then finding relevance, and appropriate training. Because the training market in the UK, there's a few really big training providers, and then there are hundreds, and hundreds of very small training providers. So, navigating your way to find the training that works for you, and typically, most businesses, ideally, want some bespoke training delivered in-house, is quite tricky. And in the past, there was a scheme called the Leadership and Management Advisory Service, which provided an advisor to go into the business, help the business define their training needs, and find a training provider, and then, I think the Government went 50/50 with the business in terms of paying for that training. So, there have been schemes like that in the past.

And I think, the final point I'd be quite keen to make is, historically, I think, policy has been quite separate. So, there's been skills policy, and there's been business support policy. Connecting the two up is really important, because it's the businesses that need those skills, or it's the people, when they develop those skills, they want jobs in the companies, you know. So, getting better at aligning those two sort of policy streams, I think would be really helpful.

TA: So, one of the interesting policy experiments taking place in the UK at the moment is around a programme called, Help to Grow Management, which is a Government funded and Business School delivered programme for business leaders, to pick up on these management and leadership skills, and help them really grow their business. And it does include a lot of the elements that Jane was talking about, around coaching, and mentoring, as well as some structured learning. And what's really interesting to me about this is, on one hand, this kind of thing does seem to work, it might even be very good value for money, despite the fact that it takes time and effort. The challenge is, how do you get more businesses to want to take it on.

Because business leaders on average are extremely busy people, they are possibly firefighting some day to day challenges, they certainly have a lot of things on their mind. And many of them think they're actually already doing quite a good job. They think they're higher productivity than the average productivity in their sector, so that can't be true for everyone. And one of the things I think we need to put more effort into when we develop

these kinds of schemes is, how do we get a broader, and more diverse group of businesses to be interested in it. And maybe that means making them more the right size, maybe it means having more clever marketing ideas. It certainly is very important, if we want to improve business management, and leadership skills, at scale.

The only other option, as an economist, I can think of is, just make sure competition works, and you know, it's only the businesses with great leadership and management skills, and growth ambition, that remain in business in the long run. But that's not easy to implement, either. So, lots more work, I think, in this space.

JG: I think that partly comes back to the fact that, the term SME is a very heterogenous mix of businesses. So, I think what you find with Help to Grow is the nature of the course appeals to a segment of that SME population, and if you want to engage more businesses, you need more products, you need more variance of the Help to Grow programme that's designed to suit the different business needs which exist within that really diverse cohort.

BvA: Let's move onto the last, sort of, group of policies that we want to discuss, and that's a fairly broad based group of policies, which might be summarised under the heading of framework conditions, or foundational policies. But it's basically policies where Government guarantees that the right conditions are being created for businesses to grow. And the things that businesses have, perhaps, less control over, we shouldn't spend too much time on it, but we might, nevertheless, discuss what is really important here. For example, macro fiscal policies, whether it is the expensing of investment, which the Chancellor has done in the last two budgets. Corporation taxation, that was already mentioned earlier. And there's the area of labour markets, hiring and firing, health and safety. Product markets, like quality requirements, and permits, and things.

And then I think, a key concern, also, from the previous podcast, was this issue of concentration, right. So, a stronger role for competition, or a new role for competition authorities, and how would adopters, and especially SMEs, benefit. So, this is a broad portfolio. Jane, let me start with you, whether in your practice, you see these issues as being important for businesses, and what are the biggest needs?

JG: Well, I think definitely, stability within an economic environment, is really important to businesses. Because they feel more confident in investing, if they can feel that they can look ahead confidently, and know that their investment is going to pay off. I think the other thing that I would want to flag up is regulation. Now, I think there's been a number of things which have been introduced, for very good reasons. So, things like GDPR, stuff around cybersecurity, equalities policy. But I think, increasingly, in these areas, they're becoming more technical, and more complicated. And then,

that places a requirement on small businesses to have access to sort of, specialist knowledge, to be able to meet these sort of market requirements. And of course, the bigger the business you are, the easier it is to be able to afford to have that expertise in-house.

I think it's important to think about, not just, you know, sort of, introducing new regulation, but thinking about how to make it relatively simple, and not particularly burdensome for smaller businesses.

TA: Yes, I totally agree with Jane, there. And these framework conditions really do matter, especially in the long run. They sort of, set the scene, and if they're slightly in the wrong place, then you know, in 10, 20 years' time, we might find ourselves with not enough dynamic businesses in this country. The thing that I wanted to highlight was, inevitably, the importance of investment. I'm sure you've discussed this in lots of different episodes of the Productivity Institute podcasts. And you know, one of the ways in which we can encourage more investment is by having the kind of stability that Jane talked about. There's really good evidence that uncertainty of any kind, whether it's macro economy, instability, or it's policy uncertainty, is very detrimental to business investment.

And it makes sense, if you're a business, and you're planning to put a lot of money towards something that might generate returns in two, or five, or ten years, you need to be pretty certain that the demand for your services and products is there, or that the regime isn't going to change, and make your products unprofitable. So, creating as much stability, policy wise, is important. I also think Government has a role in managing the aggregate demand of the economy. Like, traditionally, monetary policy tries to do that on the monetary side, and then fiscal policy tries to do it on the fiscal side. And they need to work together to, as much as possible, to give people a sense of a growing economy that isn't going to have some kind of big cycles that mean that certain investments might be out of the money.

BvA: On the investment side, Tera, of course, we all agree with the stability issue, and let's hope that, I think Governments should have gotten that message, and hopefully they can live up to it. I think there's a question mark with that, but let's hope. What else can the chancellor, or Government do? I mean, the Chancellor has gone a long way in terms of allowing full expensing on investment, he's extended it even further in the last budget, to leased assets. And there's discussion about other intangibles that may get done. So, the fiscal expensing is obviously an important factor. So, what are other instruments that you know about, where you think Government could still help businesses to get a sort of, this further incentive to invest? As you say, the demand needs to be there, and Government can help a little bit, but ultimately, businesses have to look for the demand, that's why they're a business, after all. So, give us some flavour on what more we can do here, what more we can advise the Government to do?

TA: I've already mentioned competition, that probably can be taken as given, that we need competition to drive the incentive to innovate, and to grow, and to invest. But beyond that, there's probably one barrier that is certainly stopping businesses from investing, which is around planning. And that means that even if the business case is positive from an economic perspective, businesses might struggle to actually implement their programmes of expansion, or whatever it is that they are trying to do, because of some of those restrictions. And clarity, and certainty, around the sort of process you need to go through to be able to then invest is important there. Then, on the flip side, a kind of, more positive thing is, inevitably, there's complementarity between public sector, and private sector investment.

And so there are, almost certainly, various different areas of public sector investment, whether it's being reducing transport bottlenecks, or it's improving digital infrastructure, or it is indeed investing in some aspects of skills. That are complementary to businesses then saying, okay, now I've got all the ingredients for my business to grow, and I'm going to invest in growth, myself. But they wouldn't necessarily do that if the sort of environment in which they're operating is a little bit questionable, or they don't feel it's really playing to their strengths. The thing to mention about that is, of course, this will be different in different places, and in different sectors. And so, policy probably needs to be much more focused on clusters, and what's required in a particular cluster over a period of time. So, that they can have all the ingredients for growth in that one place.

SR: So, I have a list of 23 issues, so maybe I'll just pick one. And I think, for me, one of the biggest challenges for businesses at the moment, is actually just navigating the kind of support system that we have in the UK. So, I suppose, my one, kind of, big picture item would be, really, we need to have some sort of more cohesive business support and advice network across England. It's better in Scotland, it's better in Northern Ireland, and to a certain extent, it's better in Wales. But firms in England do find it very, very difficult to know where to go to navigate many of the kind of policy supports that we've been talking about. And so, that would be my one, kind of, key ask, and key, I think, change in the framework conditions that we have at the moment.

BvA: Yeah, and I think this whole conversation is showing how many elements there are to good policy for business productivity. And it's interesting, I mean, one of the things that we at the Productivity Institute have been arguing for, for a while now, is that we probably need to get a sort of, growth and productivity institution. And some people are saying, really, do we need another quango, another commissioner, is that going to solve it? And my answer to that is, no, that's not going to solve it, but there are so many aspects to these different types of policy, that we need to coordinate, we need to understand trade-offs, because they sometimes exist. We need to prioritise, we need to give that, sort of, consistency in what we're doing.

And for that, we need to get away from the fragmentation, and the short timeframes that many of these policies have.

And that's exactly why we're arguing for such an institution that tries to understand what is happening in all places, and how we can, sort of, coordinate this, and put it in a better place. And I think this whole discussion during this podcast has shown us how important it is that we get that done, because I think that will make a huge difference. There's a clear role for Government at the start of it, we're away from the old view that Government only intervenes when markets don't work. But at the same time, if Government takes on itself such a big role, it also has to be a role that has to be very clearly specified, and clearly indicated to those who benefit from this. We have to leave it at this. Jane Galsworthy, Tera Allas, Stephen Roper, thank you very much for joining us for this conversation, and more to come, for sure.

[Music].

BvA: Our next episode of Productivity Puzzles will close our trilogy on the topic of firm productivity, by looking at the issue from the lens of businesses themselves. When, why, and how do firms drive productivity? How do they make productivity part of their narrative? Why do some firms make use of business support programmes, and other policy support instruments, as we discussed today, and others not? And what policy instruments are most helpful to increase business dynamism, and productivity. My colleague, Nicola Pike, who is our Director for Impact and Engagement, will join me as a co-host for this last episode in the firms and productivity cycle.

So, please tune in for the final episode in this series, in April. You can sign up for the entire Productivity Puzzles series through your favourite platform, to make sure you also don't miss out on any future episodes. If you'd like to find out more about upcoming episodes, or any other work by the Productivity Institute, please visit our website at productivity.ac.uk, or follow us on Twitter and LinkedIn. Productivity Puzzles was brought to you by the Productivity Institute, and this was me again, Bart van Ark, at the Productivity Institute. Thanks for listening, and stay productive.

[Music].

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