# The Productivity Gap Challenge...

## reversing the UK's fall in productivity and competitiveness

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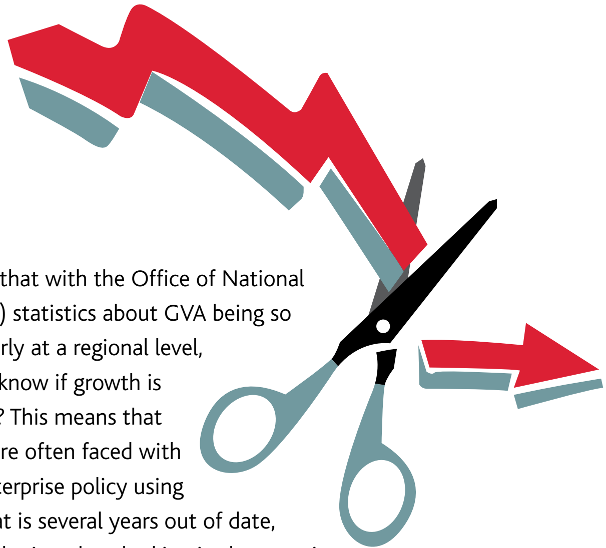


With the UK economy still yet to bounce, Employment and Gross Value Added (GVA) statistics demonstrate that productivity has dipped sharply in the wake of the post-2008 downturn.

Almost all parties responsible for galvanising the UK economy agree that we need growth. This is seen as the route by which we can finally emerge from the longest UK recession in history, helping to rebalance the economy in favour of private sector - over public sector - jobs.

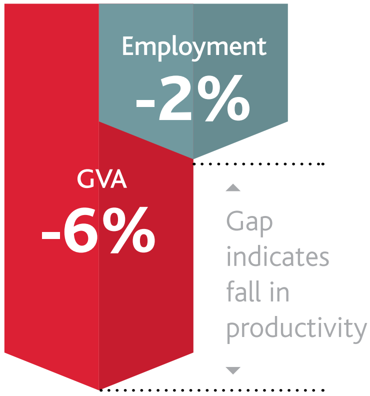
Productivity is recognised as a key indicator of our economic health, however we choose to measure it. Sadly though, studies over many years on the subject show that the UK is lagging way behind many of its industrialised competitors. GVA is of course an indicator of wealth creation - measuring the contribution to the economy of each producer, industry or sector - and is generally regarded as the best measure of the sum of economic activity within an area. It is calculated by adding Gross Domestic Product to subsidies and subtracting direct and sales taxes.

The problem is that with the Office of National Statistics (ONS) statistics about GVA being so dated, particularly at a regional level, how would we know if growth is being achieved? This means that policy makers are often faced with formulating enterprise policy using information that is several years out of date, effectively developing plans looking in the rear view mirror.

However, recent work undertaken by Warwick Business School (WBS) using historical ONS data has resulted in a new approach and calculations that go some way to bringing estimates up to date. The findings paint a varied picture across the country, as well as presenting some worrying findings.

# Extent of the challenge...

The economic fall out after 2008 led to an overall drop in employment levels of 2% within a single year, but a much greater reduction of 6% in UK GVA in the same period. Why is this a problem? The gap between the 2 figures enables us to deduce that productivity in the UK economy fell significantly in this period.




Moreover, whilst the WBS calculations suggest that both figures have been recovering since 2009, there remains a gap of more than 3% between them. This means that productivity levels are still significantly below pre-recession levels, despite the fact that employment levels have completely recovered and actually marginally increased beyond early 2008 levels. Productivity has simply not bounced back in the same way as previous recessions.

Assuming that the WBS modelling is accurate (and some of the best economic minds have gone into creating it), possible explanations include:

- businesses 'labour hoarding' in the hope that demand will rise.
- labour has been substituted for capital as the cost of capital has increased and access to it has become tougher to obtain.

Why is this so important? The size of the current output gap is central to the view of likely future economic growth. If the recession has left a significant scar and permanently lowered trend growth (via productivity), then less of a rebound should be expected, impacting on UK productivity collectively and at an individual level, adversely affecting standards of living.

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# **Closing** the 3% gap

Whilst the productivity numbers present a sobering story, they should also act as a catalyst to action. Local areas can take control of their own contribution to closing the 3% gap with focused, effective strategies.

It is often correctly stated that nationally SMEs are critical to the economy and consequently essential to closing this productivity gap. They account for 99.9% of all businesses in the UK, contribute 48.8% of all private sector turnover and they employ 59.1% of the total workforce (Source: Department of Business Innovation and Skills).

SMEs therefore hold the key to our long-term prosperity and that is why stretching goals are needed in all areas to improve enterprise performance. The question for Local Economic Partnerships is how to deliver the gains needed and also how to measure them. It is here that performance benchmarking could play an important role in meeting both objectives.

## BenchmarkIndex® - performance benchmarking

BenchmarkIndex® has been independently assessed as driving a 56% increase in productivity for participating businesses (Source: Cranfield University).

Whilst this is good to know for SMEs, what commercial businesses are really interested in is profitability. Productivity and profitability performance are of course closely linked. The same research referenced above also demonstrated a £200,000+ increase in profitability per business over a 3 year period as a direct result of using the BenchmarkIndex® service.

This was achieved by businesses implementing the resulting improvement activities prescribed by advisers leading the delivery of the service with them. The current cost per benchmark £950 + vat, so the Return on Investment based on the Cranfield findings would be over 2,000%!

Further extrapolating these figures to a group of, say, just 200 businesses could yield an overall increase in profitability of £40 million. And of course the integral impact assessment tools would allow this impact to be accurately measured, demonstrating the GVA and profitability increases for participating businesses individually and collectively.

**+56%**
Productivity

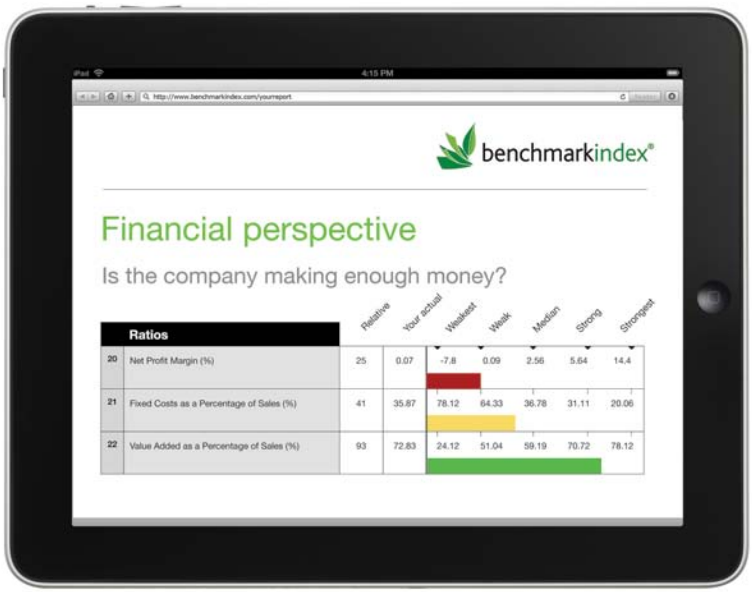
**+£200k**
Profitability
(Over 3 year period)

Extrapolating these figures to a group of, say, just 200 businesses could yield an overall increase in profitability of £40 million

# benchmarkindex®

## Performance management tools from Winning Moves

Winning Moves has developed a suite of performance management tools over many years, collectively known as BenchmarkIndex®. They provides an antidote to business managers' tendency to set goals without any reference to the outside world. When supported by the input of a trained adviser, helpline support and/or online resources to assist making the improvements identified, the productivity and profitability gains can be truly outstanding.




For further information on how we can make a measurable difference to you

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## The productivity and profitability gains can be truly outstanding.

If you are a policy maker or responsible for ensuring businesses get the best possible help, **this resource will make a real difference:**

- Proven to drive productivity and profitability increases in SMEs.
- Improves management decisions and encourages strategic thinking in SMEs.
- Establishes the real needs of the business.
- Leads to increased client satisfaction.
- Offers improved brokerage to other sources of support available.
- Raises business adviser performance with its in-depth, powerful training programme.
- Measures the impact of support activities, helping to identify the additional performance gains achieved.
- Provides an invaluable knowledge bank of local information, with real time access that connects SME performance with their barriers to growth, helping shape policy and strategy at a local level
- Tracks performance trends within the area and with other locations using a longitudinal view of performance