

BUSINESS PRODUCTIVITY REVIEW

RESPONSE TO BEIS CALL FOR EVIDENCE ON UK PRODUCTIVITY

5TH JULY 2018

The Management Consultancies Association (MCA) is delighted to respond to this call for evidence on the UK's productivity predicament.

In our response we cite the perspectives and insights of the MCA's 50+ member firms. These include some of the largest consulting brands in the UK, niche specialists, as well as consulting practices embedded in firms that are famous for something else, such as infrastructure. As part of our Year of Disruption, we have been gathering evidence and articles from our member firms to support our major campaign on productivity. Throughout, we refer to this body of evidence.

Moreover, we will refer to our proprietary research on this subject. Earlier this year our partners VIGA conducted a survey on productivity and its challenges, answered by more than 100 senior representatives (board members, CEOs, C-suite and senior management) of large UK enterprises (from £500m to £10bn+ turnover) across a range of target sectors.

Overall, throughout we argue that:

- Policymakers lack the necessary urgency in their attitude and approach to the UK's productivity challenges. The terms of this call for evidence, given the need for urgency, are too narrow. Policymakers should be looking for radical approaches to productivity questions, inviting evidence on how they can support a step-change in the UK's performance. They should also examine linkages between improving the UK's productivity performance and the other administrative and economic imperatives the UK currently faces, Brexit especially.
- The assumptions behind this call for evidence miss the opportunity to refashion the productivity debate for the Digital Age. The definitions of productivity used throughout are old-fashioned. Business and government should be engaged in a debate about a *productivity of outcomes*.
- This is especially important given the UK's position as a service economy.
- An emphasis on outcomes would also help detoxify the term 'productivity'. Across many sectors, productivity is associated with invasive, disciplinarian approaches to staff management or with headcount reductions. A service-orientated, outcome-focused approach should associate productivity with positive issues, such as job satisfaction and career adaptability. We also argue that the pursuit of diversity and inclusion is relevant, both in motivating staff and in creating a culture of innovation, critical to productivity.
- An emphasis on outcomes should also help orientate the productivity narrative towards sustainability. Where outcomes can be achieved with lower material inputs, there will be a beneficial impact on sustainability. This will further aid detoxification of the term.
- We agree with the emphasis within this call for evidence on the relationship of management to productivity. We cite the evidence of an MCA member firm on the phenomenon of the 'accidental manager'.
- However, the preoccupation with the 'long tail' of SMEs in the UK is misleading. As recent research suggests, the slower productivity performance since 2008 of the larger corporates is of rather more concern. The UK has of course elongated its long tail since 2008, with many people setting up their own enterprises. Many of these however will be microbusinesses, single-traders often active in contexts similar to direct employment. There is of course no harm in examining the potential efficiency gains for such enterprises. But such improvements will not effect the necessary step change in UK performance.
- This also applies to digital. The survey notes the apparent lack of digital adoption in the UK compared to, say, Denmark. This is misleading. In part because of the sole-trader and contractor expansion, the UK has many more micro-businesses than a nation such as Denmark. Again, there is no harm, indeed significant good, in promoting the virtues to SMEs of using Sage and Quickbooks. But there is little likelihood of such actions leading to

a transformation of UK productive performance. At the level of the large corporates, digital adoption has been anything but sluggish. However, the evidence of its productivity impact is mixed. While a substantial majority of respondents to our business survey said digital had enhanced their productivity, a fifth had experienced suboptimal productivity outcomes. They attributed this to skills issues, timing and inflated expectations. MCA member firms suggest that realising significant productive gains from digital depends on creating a genuinely digital culture and on a thoroughgoing reinvention of the business model. This in turn requires the right skills within the enterprise. These should be a suitable mix of technical abilities but also the equally important creative and entrepreneurial capabilities, to ensure the digital deployment is optimised. The UK education system does not foster enough of these capabilities. There may be some moderate productivity gains from ensuring that micro-businesses have websites. But real productive transformation of the UK will entail substantial reinventions of the corporate landscape. A focus on the underlying conditions to support that, including the educational investment required to produce generation of digitally able workers, would be a more far-reaching and impactful preoccupation for policymakers. Nothing less than a major overhaul of our education system is needed here to win the global education Arms Race that will characterise the Digital Age.

- Relevant here too are the investment and R&D climates. We have commented on these matters in our responses to the Government's Brexit and Industrial Strategies. On the active side, the Government's own infrastructure investments can play a major role in both creating the conditions for productivity and in driving inherent productive gains of their own. We have argued in various MCA reports that not only is a major investment programme, far outreaching the extent of recent advances, needed to address the UK's historic infrastructure deficits and thus realise new productivity gains. But the UK also needs a more purposive and outcome orientated approach to infrastructure investments. This would allow more informed decisions to be made between investment priorities. It could also ensure that the productivity impact of an investment was a central consideration of the business case. Further, we have argued that to address its historical infrastructure deficits the UK should explore the most modern solutions. Current investments in high-speed rail lag fifty years behind those in other parts of the world, notably France and Japan. They should be complemented by more pathfinding initiatives. Alongside the welcome commitments on autonomous vehicles, the Government should explore drone delivery and transportation systems, and even Hyperloop.
- A major factor in ensuring adequate investment and thus benign impacts on productivity is economic confidence. The Government must redouble its efforts to provide a stable and supportive economic context. The current administratively chaotic and politically maladroit conduct of the Brexit negotiations is, of course, utterly unhelpful.
- We believe that business could benefit from more formalised productivity support from both private and public sources. To aid this, we may need to address a minor market failure. MCA member firms are often asked for support in areas that might impact productivity beneficially, from digital advisory to transformation support. But they are rarely asked for productivity advice per se. Having polled industry on what their specifically productivity-related advice needs are, we will encourage our member firms to provide more appropriately tailored productivity products for clients in the future.

Question responses

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

The definition is marred by the implicit emphasis on the 'long tail'. The UK's productivity problem, as suggested in recent evidence from the Economic Statistics Centre of Excellence, cited in the FT <https://www.ft.com/content/cd402548-5e7d-11e8-9334-2218e7146b04>, is also an issue for the larger corporates. While they may make improvements in productivity faster than the long tail, they are doing so at a much slower rate than they did pre-2008.

An emphasis on those businesses below the UK median would risk inadequate attention being paid to the issues confronting large corporate businesses.

100% of respondents from such businesses to our productivity survey indicated that productivity mattered to them. 45% of respondents ranked it first among five business challenges, a far higher proportion than for any other option. This indicates the seriousness with which the large corporates consider the productivity challenge. Further, as we shall see, not only is there evidence that they do not believe they have 'cracked' the productivity problem. They also link productivity as an issue to matters that relate to the UK's wider commercial prospects, such as customer service, agility and real-time digital responsiveness, and brand value. These are of course not irrelevant considerations for SMEs. But in the context of the UK's need to create a sustainable body of world-beating enterprises in the aftermath of Brexit, both the preoccupation of the large corporates with this topic and their differentially poorer performance since 2008, should encourage policymakers to reorientate at least some of their focus towards them and their challenges.

To do so probably demands a sophisticated definition of productivity per se. However, the definition used at the outset of this call for evidence is creaky. In our survey, we asked businesses how they define productivity. While 59% preferred an inputs to outputs measure, a very significant minority, 41%, chose inputs to outcomes. Further, while respondents inevitably cited improvements in efficiency and margin as drivers of their focus on productivity, they also cited sustainability. Moreover, they linked productivity to factors such as creating a quality service environment for customers. Respondents associated productivity improvements with highly motivated workforces. This is a significant development. It chimes with the perspective advanced by MCA member firms that the term 'productivity' can be liberated from its pejorative associations of cost-cutting and pressure on workers, and instead be located in a narrative of satisfaction – for businesses and their shareholders, for customers, and for staff.

The emerging narrative of a productivity of outcomes should be welcomed, especially in the UK's service economy context. We will explore this in responses to later questions. Of course, plotting the relationship between service outcomes and resource inputs is challenging. (Although this article from David Freedman at Huthwaite International on productivity and the sales function is instructive: <https://www.mca.org.uk/news/updates/is-everything-in-your-and-your-clients-business-productive/>.) However, the imperatives of digital make it doubly important to try to sophisticate this narrative and enhance our understanding of service productivity.

(Emphasis on outcomes may prove relevant in developing robust productivity metrics for professional services and consulting itself. Historically, the main productivity proxy for consulting has been a headline efficiency statistic: fee income per employee. Between 2012 and 2013, that ratio collapsed from £169k to £130k of fees per employee per annum. Since then it has recovered slowly. However, the underlying reasons for this position are instructive. First, as the economy started to return to growth again after 2008, MCA member firms hired new recruits. These were frequently junior, often digital experts, commanding lower fees than more senior counterparts, but critical to satisfying client needs. Those needs appear to have become more voracious. Clients want new digital and growth propositions, developed at risk, while finance directors have maintained downward pressure on fees. This combination of factors erodes average fees and margins. But while this has impacted some businesses, others have responded through technological investment, to create value for clients through a mix of human and digital means. Furthermore, whatever the business implications, it is doubtful whether the firms experiencing falling fees-per-consultant are necessarily unproductive. A productivity of outcomes would help us understand this. We will be considering suitable changes to our understanding of this issue as we revise our approach to measuring the performance of member firms.)

2. Is there further evidence to compare the UK's productivity distribution of firms to that of other countries?

3. Is there further evidence on how the UK's business-level productivity distribution has changed over time?

In relation to questions 2 & 3, we have no hard data. However, it seems a reasonable assumption that the changed profile of UK businesses since 2008, and particularly after 2010, with a large number of micro-businesses created, often as a result of choices made by people losing their jobs in the corporate and public sectors (frequently re-employed in those sectors as contractors), is a significant structural factor in the apparent productivity distribution. How far it is permanent remains to be seen.

More generally, the poorer productivity performance of the larger corporates since 2008 relates to a cycle of business uncertainties. In striving to mitigate the impact of the Financial Crisis, businesses held onto cash and built up their balance sheets, thereby constraining investment in innovation. While these constraints abated fleetingly as the economy returned to a consistent pattern of growth after 2013, the dampening effects of Brexit are now being experienced. As early as the immediate aftermath of the referendum, MCA member firms reported businesses postponing digital, business transformation and growth-orientated projects, with potential productivity dimensions, in the face of Brexit concerns, notwithstanding the belief in the business that such projects would be highly desirable.

4. *Is the long tail of low productivity firms being driven by weaker competition in UK markets?*

We have no evidence to suggest that it is. However, the explosion of large numbers of micro-businesses and SMEs since 2008 suggests, if anything, that there is a saturation of enterprises, some of them simply singleton contractors, who appear simultaneously to impact the headline statistics adversely, but are of little relevance to the overall improvement of those statistics. A simultaneous focus by policymakers on the corporate 'mainstream' would almost certainly be more impactful.

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

There is of course ample evidence globally of the beneficial impact on business productivity performance of high-quality infrastructure, R&D and sensitive investment cultures. We will explore these issues elsewhere in our response, including to the question of what Government could do to support businesses.

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

7. *Would you add any further characteristics of high-productivity businesses as set out in paragraph 3.9?*

Taking questions 6 & 7 together, here the narrative emerging from our survey of businesses is instructive.

As indicated, 100% of respondents indicated that productivity mattered to them and their enterprise. They linked productivity to margin and efficiency, but also to sustainability. Qualitative responses connected productivity with financial gains, but also with brand value: 'productivity defines a company as a brand', argued one typical respondent. Further, productivity was the business challenge most likely to be ranked highest by our respondents from a selection of five typical issues. The next most likely was customer service. In describing the productivity benefits of digital, many cited reductions in process costs, but others suggested benefits in creating customer value. Significantly, the positive relationship between productivity and customer was noticeable in respondents from the digital industries. There, the need for real-time updates and customer receptiveness point to a productivity preoccupation that is at once constant and outcome-orientated.

When respondents were asked what advisory support they might need in pursuit of productivity, they indicated advice on digital first followed by quality management. The former, as we shall see, is unsurprising. The latter is noteworthy. Quality management is an

important discipline, but one which has declined as an overall share of consulting activity over the last ten years. However, as well as the brand value orientation of the productivity narrative emerging in the survey, there is also perhaps a recognition that failures in quality management, even those stemming from corner-cutting in an illusory pursuit of short-term efficiency, can set a company back in productivity terms. (In this wide-ranging interview, Mike Turner, Managing Partner of Oakland Consulting, an expert in quality management, considers the negative impacts on productivity of emissions testing failures: <https://www.mca.org.uk/news/updates/in-the-hot-seat-productivity-campaign-mike-turner-oakland-consulting>.)

So in addition to the factors identified in your call for evidence, we would suggest that a high-productivity business is one that:

- Has a culture of excellence
- Is customer-orientated
- Defines itself through productivity
- Invests effectively in digital innovation and is digitally agile
- Seeks to deliver high-quality outcomes for customers sustainably

Linking customer focus and productivity is instructive. In traditional measures of productivity, such as inputs to outputs, customer fulfilment can almost inhibit productivity gains. A retail business whose primary products become available for same-day delivery by Amazon might match Amazon's fulfilment challenge and yet, through investment in the human and other resources needed, might ramp up costs and erode headline productivity. However, this could imply a failure in the metrics. An orientation towards fulfilment – the outcome the customer wants – would be more appropriate and could also help drive process improvements, in stock management and distribution, as well as promote investment in innovations, such as drone delivery.

Sustainability is also foregrounded through an orientation towards outcomes. Rapid, seemingly cost-effective production of products that no one wants to buy or are heavy in (increasingly customer-alienating) pollutants and non-biodegradable materials, is not ultimately productive and can have serious consequences for wider resource sustainability. A concern about productive outcomes, even where manufactured products are concerned, with an emphasis on reducing material waste, can promote other modes of meeting customer needs, potentially promoting innovation and new business models, including reuse and circularity. (This article from Bourton Group explores the productivity dynamics of eliminating waste to create value: <https://www.mca.org.uk/news/updates/eliminating-waste-ultimately-ensures-efficiency-and-increased-productivity/>.)

We would also add that high-productivity businesses will have highly motivated staff, an issue we will consider in the next part of our response.

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

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

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

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

Taking questions 8-11, we agree with their underlying thrust about management's importance in relation to productivity. However, the nature of the management interventions themselves relates critically to the detoxification of the term 'productivity'.

To many, the term's association with cost-cutting or with surveillance of staff toilet breaks is negative. Many MCA member firms agree. So too do respondents to our survey. One indicated that a productive staff is a motivated staff. The virtuous linkage between innovation,

responsiveness to customers' fulfilment requirements and job satisfaction is one to be encouraged. An emphasis on productive outcomes should promote that dynamic.

One aspect of that motivation is the pursuit of diversity and inclusion. Diverse and inclusive business cultures, through their sponsorship of different perspectives, can also help inculcate innovation, itself critical to productivity. (See MSCI evidence of the productive impact of gender inclusion cited in the Financial Times: <https://www.ft.com/content/b83c74f4-2209-11e8-add1-0e8958b189ea>.) MCA member firms have been enthusiastic advocates of diversity and inclusion, with 2017 seeing our successful Year of Diversity campaign. Accordingly, we would argue that a final addition to the characteristics of a high-productivity business would be that it sustains a diverse and inclusive culture.

Fostering motivated and productive workforces plainly has implications for managers.

In our productivity campaign, our member firms have made two main points on management and productivity. First, managers must humanise and filter programmes and projects. Staff focus on value creation can be thwarted by the very thing intended to promote it: innovation initiatives. If these become too plentiful, poorly managed, seemingly contradictory, overlaying the already dispersed and complex structures and value chains that characterise modern corporate arrangements, they can distract for the prompt discharge of core tasks and the creation of value. A key role for managers, as this article from Paul Arnold at Able & How suggests <https://www.mca.org.uk/news/updates/avoiding-change-paralysis-and-negative-productivity-impacts/>, is to manage the impact of initiatives on front line staff more effectively.

Secondly, to do this and support productivity, staff must be promoted to managerial roles based on aptitude and should be trained accordingly. However, this leads to the second main point. As this article from BearingPoint argues <https://www.mca.org.uk/news/updates/accidental-managers-represent-a-hidden-opportunity-to-positively-impact-the-bottom-line/>, many business managers are 'accidental'. They are people with frontline expertise, whose career advancement has been signalled by promotion into a management role. This role may have little scope for them to use their frontline skills. But neither will they necessarily have been equipped with managerial capabilities. Firms need properly to identify and equip vocational managers in order to have significant impacts on productivity.

Returning to the linkage of productivity to agile and responsive customer care, one thing which can inhibit this is organisational complexity. Flat organisational structures, with limited hierarchy, which reduce the distance between production and consumption, in the manner of many digitally disintermediated value chains, can be productive. Traditional hierarchical assumptions and complex, over-engineered systems, can inhibit the adoption of flat structures and responsive management models. Government could set a lead here by assessing whether its own structures are modern, productive, citizen-responsive and fit-for-purpose.

12. Is there further evidence to demonstrate the link between technology or innovation adoption and a business' productivity growth?

The overwhelming majority (89%) of respondents to our productivity survey indicated that investment in digital technology had realised productive gains. These consisted of reductions in human resource overheads deployed on the relevant functions, process acceleration and cost-reduction. Intriguingly, many respondents also linked digital to the creation of customer value, either directly, or through the redeployment of the freed human resources.

However, though digital adoption among large corporates is very significant, they have not made productive gains as fast as they did prior to 2008. This fact is indirectly acknowledged in our research. A fifth of respondents to our survey indicated that the productivity benefits realised through digital transformations had been disappointing. They attributed this to unrealistic expectations about timescales but also to skills and organisational challenges.

These matters point to the fundamental digital issues, identified by MCA member firms, which especially afflict businesses with an 'analogue' heritage. To realise digital benefits, it is insufficient to purchase new kit. Save with some cases of outright automation, digital technologies depend on human uses to realise value and productive gains. A fully automated manufacturing plant can be switched on and off. A cloud-based ERP system, with real-time

data inputs, needs people to use it and interpret it. Yet it may be inherently complex. For a dispersed workforce and management to benefit from its tracking of business opportunities and resource deployments, they need the relevant skills.

We will return to the issue of digital skills at a macro level in a later question.

As well as skills, businesses need a digital culture to optimise their technology investments. Digital deployment must be part of a thoroughgoing investigation and transformation of the business model. Without that reinvention, the pursuit of digital gains may prove illusory, as the new capability is simply grafted onto the side of an outmoded business approach.

Later we will consider the advice and support businesses need to realise productivity gains. As indicated in responses to our business productivity survey, digital advice ranked first. Second was quality. This, together with some of the narrative responses, is instructive. While business recognises that digital can create productivity gains, a culture of *digital excellence* is essential to optimise them.

13. What are the main reasons for businesses adopting or not adopting new to firm technologies?

The emphasis of this question is perhaps misplaced. Again that is possibly a function of the wider emphasis on the long tail.

There are innumerable reasons for the adoption/non-adoption of those technologies currently unused in firms. These include competitor behaviours and belief that efficiency gains will ensue on the one hand, to resource constraints, lack of suitable expertise within the firm, and poor understanding of the potential of the relevant technologies on the other. Then there is the misalignment of the innovation cycle. Business performance may dip during the initial period of adoption of a new approach. This dip may be inconvenient given the expectations of investors, shareholders or other interests, leading to a decision not to deploy the new technology.

One major current inhibitor of any investments is wider economic and political uncertainty. Why should a business make significant technological investments, potentially having short-term adverse impacts on its performance, when the economic outlook is rendered gloomy by the maladroitness with which the Government is handling Brexit? We will return to this issue in due course.

Perhaps a more interesting question to consider, certainly in relation to the larger corporates, is why business success through the adoption of technology is so patchy. In this article, from Managementors <https://www.mca.org.uk/news/updates/building-a-more-productive-workforce/>, the observation is made that the adoption of the same technology by two businesses, even those operating in similar sectors and parts of the value chain, can lead to wholly contrasting levels of benefits realisation. The themes explored throughout this submission, concerning skills and the requirement to relate the technology solution deployed to the overall transformation of the business, are plainly relevant here.

14. How important are the seven identified 'best practice' technologies (identified in paragraph 5.14) to enhancing productivity at the firm-level, and which offers the greatest return? Are there other technologies which offer greater potential?

The list of 'best practice' technologies resembles a self-help guide for microbusinesses and SMEs looking to make improvements in the profitability, rather than a toolkit for the productive transformation of the economy. From the viewpoint of most corporates they look like a list of 'no brainers', things long-since adopted in part or whole. Of course, as we have indicated, the gains realised from them have not as yet been optimal, and there will be pockets of non-adoption. But going forward, in order to achieve a step-change in productivity, the UK will need to cultivate more cutting-edge technologies.

PwC have argued recently that there are huge growth prospects, and associated productivity gains, to be derived from investment in drone technologies: <https://www.pwc.co.uk/press->

[room/press-releases/pwc-uk-drones-report.html](https://www.pwc.com/press-releases/pwc-uk-drones-report.html) Their thesis is that drones could transform service and product value chains in ways that extend beyond logistics and that they could revolutionise urban transport. We will touch on the importance of Government supporting cutting-edge, digital and high-tech infrastructure and transport solutions in addressing the last questions.

Government and industry must collaborate to ensure that to promote productive gains the UK embraces leading and emerging technologies. AI and automation will plainly be critical here. But their successful and productive deployment will depend on developing a new understanding across industry of the effective modes of operation they facilitate, how human and quasi-independent, heuristic machine resources can collaborate in 'shared autonomy' to create business value. This should be the focus of significant research. But it also needs to be accompanied by a major overhaul of our education and training systems. We will touch on this in our conclusions.

15. Do you have any examples, from the UK or internationally, of public or private sector approaches that have increased the adoption of best practice technologies or new to firm technologies?

16. What actions by the public or private sector would be most effective in driving effective adoption of new to firm technologies?

Taking 15 and 16 together, there are various examples of initiatives to improve and target digital adoption. PwC deploys its Virtual Reality capability to paint a picture of potential futures for its clients. This allows clients to gain a better and vividly realised understanding of the disrupted context they are entering, allowing them to explore which innovations they should adopt to maximise the potential of that disruption.

Interestingly, PwC is getting traction in this approach from local authorities. To help promote technological adoption, Government should take a lead. By embracing and celebrating pockets of excellence within the public sector, and identifying opportunities for system-wide innovation, Government should promote the virtues of deploying technological innovation in pursuit of productivity. Currently, the public sector's adoption of the most cutting-edge technologies is ungoverned, piecemeal and largely bottom up. A more concerted drive from the centre of Government to coordinate and deepen this adoption would be welcome.

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

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

19. Do you have any examples, from the UK or internationally, of approaches that have worked to increase the uptake of business support?

20. What actions by the public and private sector would be most effective to facilitate uptake of business support?

21. Do you have further evidence of what forms of business support are more effective at improving firm level productivity?

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

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

We will take questions 17-23 together, focusing primarily on the private provision of consulting advice.

MCA member firms provide an array of services relevant to productivity, from advice and support on efficiency, transformation, business models, operational excellence, quality, and of course digital. On average, our research indicates that the return on investment – productive, efficiency, or growth-related – is equivalent to £6 for every £1 spent on consulting services.

However, there are barriers to the consumption of these services. Our members do much to ensure that their interventions represent value for money and that they are available to the SMEs and microbusinesses that seem to be an especial preoccupation of this call for evidence. They do this through disintermediated digital solutions, as well as various forms of sponsorship and mentoring for small businesses. Nevertheless, the nature of the support they provide means that many who could benefit from it cannot access it. Anything Government could do to encourage collaboration and brigading by enterprises at locality or thematic level to purchase shareable advice would be mutually welcome.

The resourcing barrier is not exclusive to small enterprises, however. MCA member firms have reported in recent times that clients have deferred or cancelled major projects owing to worries about the future. Clients have indicated that there are many projects they would like to embark on, but concerns about the wider economic outlook, not least Brexit, have inhibited their commitment. As well as doing its utmost to provide the necessary economic stability for business investment and redoubling its efforts to reassure the business community about the destination of Brexit, the Government should join the MCA and its membership in warning against the dangers of deferring investment. Many businesses awoke from the economic deep-freeze post-2008 to find that the world had moved on into digital and that they were imperfectly equipped to respond. Now in the even more fast-moving context of relentless disruption and innovation (on which this work from Moorhouse is instructive <https://www.mca.org.uk/news/updates/constant-change-managing-the-new-normal/>), businesses that do not invest through the current uncertainty will struggle to exploit more propitious conditions in the future. Of course their caution is understandable and Government is substantially to blame for it. But it could prove disastrous.

A further barrier to the use of consultants by businesses to promote productivity is a matter of categories. Consultants are often asked to help businesses grow, to achieve efficiency, to digitise. But they are rarely asked specifically for support on productivity as a linked set of requirements. Having asked businesses what they want in terms of productivity support in our recent survey and understood from them that as well as support for digital transformations they especially crave advice on quality, we will be facilitating dialogue between our member firms and business to address these issues and consider what specific productivity offers could look like in the future.

The most important single thing Government could do to encourage the use of independent advisory services would be to improve its own use of them. Here, nothing short of root-and-branch reform is required. The Crown Commercial Service's approach to letting the most recent consulting framework has had an unedifying, stop-start character, which has displayed insensitivity both to the realities facing suppliers and, more importantly, to the public sector's long term advisory needs. This must never be repeated. A coherent assessment of those needs and a suitably designed framework would not only help serve the sector better. It would also help ensure that some of the more unfortunate dynamics of advisory procurements are minimised. Consultants are regularly used by Governments of all colours. But hypocritically the political classes devote a large proportion of their discourse to characterising this as bad and wasteful practice. Successes are rarely celebrated. Failures are publicly lambasted, even when they derive from errors in the procurement process. MCA consulting firms want to create value for the public sector and for citizens. They are committed to doing so on through 'at risk' and payment by results models. Government should decide what its consulting needs are, including those required to deliver greater public-sector productivity, and create the appropriate commercial conditions to purchase, manage and promote understanding of the associated services.

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 will be apparent, we do not. Of course, it is not that the issue of improving the productive performance of the long tail is discountable. On the contrary, whatever Government can do to spread information and support on innovations to help SMEs and microbusinesses, working with Chambers of Commerce, the FSB, and the LEPs, is plainly valuable. (Indeed, as indicated, MCA members have a deep interest in issues facing SMEs, both as clients and because many members are SMEs themselves. Most of the recommendations of our 2014 report on SMEs and

growth remain relevant: <https://www.mca.org.uk/reports/reports-data/smes-limiting-burdens-targeting-support/>.) But for the reasons we have set out here we do not believe that this is the focus most likely to elicit a productivity revolution in the UK.

There is of course one potentially controversial route to productive gains in the SME or small business context. This is hinted at in the previous question about business support ecosystems. Substantial service sharing across microbusinesses or 'Check-a-Trade' styles of integration *can* be beneficial to businesses in reducing costs or reaching markets and *might* accordingly have productivity benefits. However, the experience of certain integrators, such as those in fast-food delivery, has been more mixed in terms of the benefits for individual outlets.

What is certain however is that integrations of this sort, including some outright disintermediations, will continue apace. These could have very significant implications for local economies. Imagine the impact on local high streets of the growth of all-in estate agency and conveyancing service apps. If such mechanisms prove popular with users they will displace existing business patterns. Some local businesses will suffer, even fail. The new models could have a huge productive return in terms of inputs to consumed outcomes. But that could be offset by employment consequential and adverse local multipliers. Local and national strategies on education and training need to be live to the potential needs of workers in industries and sub-sectors liable to disintermediation, equipping them to exploit related or wholly new opportunities.

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

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

Taking these final two questions together, we have mentioned the issues affecting business confidence, in particular Brexit. Large numbers of respondents to our survey said addressing this would be the most positive contribution Government could make on productivity. One of the signal deficiencies in the Government's approach to Brexit, which we noted in *New Economy 2020 and Beyond*, our response to the Brexit White Paper and the then Industrial Strategy Green Paper, was the lack of anchoring of the Brexit negotiations in a clearly articulated vision of the UK's economic destiny <https://www.mca.org.uk/reports/reports-data/new-economy-2020-and-beyond>. Many of the components of that vision would be things likely to help address the UK's underlying productivity challenges, which the reality of Brexit makes it ever more urgent to address. These include creating the right environment for business investment, enhancing our infrastructure and effecting a step-change in educational attainment. In the absence of progress on these fronts and on the core challenge of Brexit, UK-based businesses will not merely fail to make productivity advances. Worse, many will relocate to jurisdictions providing the investment contexts, infrastructure and skilled workforces that can help them thrive.

On investment, we argue in the *New Economy* report that a research emphasis on a select array of disruptive technologies, together with the encouragement of successful digital entrepreneurs to act as investment gurus and angels, might be beneficial. The apparent focus on certain disruptive technologies in the Industrial Strategy White Paper is welcome, although the Government has not yet been forthcoming about how it intends to promote concertedness between R&D institutions, investors and the business community in focusing on the target capabilities.

One way Government can set a lead here is in its own infrastructure investments. The relationship between modern commercial, transport and residential infrastructures and productivity is well documented. Integrating these infrastructures through digital to create Smart Cities and connected communities enhances that efficiency, as Arcadis and others argue: <https://www.mca.org.uk/news/updates/arcadis-investing-in-britain/>. It also serves to create something the MCA has been calling for since our 2013 report *Building Blocks*: a genuinely strategically purposive infrastructure <https://www.mca.org.uk/reports/reports-data/building-blocks-how-britain-can-get-infrastructure-right/>.

That purposiveness can help inform investment choices from scarce resources (though even the recent increased investment needs to be significantly amplified to make up for decades of relative neglect) and ensure that they are appropriately targeted. Given the need for productivity improvements, Government should use a strategically purposive approach to ensure its infrastructure investments are productivity promoting, by including relevant productivity measures in the business cases.

In doing so, Government would be responding to an important economic and social problem. The UK has differential productivity levels across its regions, identified in this KPMG report: <https://www.mca.org.uk/news/updates/uk-regional-productivity-performance> and by Arcadis here <https://www.mca.org.uk/news/updates/urban-mobility-for-smarter-cities/>. Infrastructure investment can help address these differences. This in itself would be an important post-Brexit emphasis, since many of the least productive regions in the country voted for Brexit, apparently owing to disenchantment with the UK's economic model and its uneven distribution of economic opportunity.

Moreover, the Government should invest in the most digitised and cutting-edge infrastructures. This is not simply a matter of embedded chips and sensors to promote connectivity, real-time analytics and satellite monitoring, though these are important. Rather, it is about selecting new technologies to develop and support, from drone-based transportation to Hyperloop.

Fundamental to the achievement of productive outcomes will be the equipping of the workforce to achieve them. We have argued that productivity should be detoxified as a term, linked to workplace fulfilment and worker adaptability. It should, as Mark Palmer of OEE suggests in this piece, be seen as an inherent good: <https://www.mca.org.uk/news/updates/productivity-a-force-for-good/> However, as Paul Winter of Live Strategy argues in this piece <https://www.mca.org.uk/news/updates/closing-the-productivity-gap-creating-a-passion-for-high-performing-high-productivity-business/> and as is well documented elsewhere, the UK has recently thrived as a low-skill, low-wage, low-productivity economy, buoyed by access to cheap labour, which has in turn bolstered aggregate domestic demand. The possible constraints on that model posed by Brexit are obvious. Yet it does not follow that cutting off the access to labour of the Single Market will necessarily lead to the UK becoming overnight a high-skill, high-wage economy – especially as the recruitment of skilled workers is as important a part of Single Market access currently as the availability of armies of fruit-pickers. Rather, to sustain the UK's position long-term we will need both skilled migrants *and* a much better equipped domestic workforce than we have had before.

Since digital will plainly be enormously important in delivering productivity and will dominate the world of work in the future, policymakers have tended to emphasise technical attainments as being important 'skills for the future'. But while STEM capabilities will certainly be needed to build many highly specialised systems, and while technical apprenticeships may also prove important, they are not the full answer. Indeed, overspecialisation, already one of the weaknesses of the UK education system, may prove very problematic, especially if new apprenticeships focus on skills in specific technologies and accomplishments (even those such as digital coding) that prove rapidly obsolete in the face of automation. Many MCA firms and their clients report that as well as needing people with technical capabilities, they also need employees with enough understanding of digital to use it – rather than build it – allied to the adaptability, creativity, vision and entrepreneurship to use it innovatively. This explains in part why despite recent increases in the number of STEM graduates, labour market issues remain. Indeed unemployment rates among those graduates remain proportionately higher than those of their humanities counterparts. Which is not to say that creativity and scientific attainment cannot go hand in hand or that science itself should not be part of the mix in modernising the UK. It can and it absolutely must if we are to achieve our goals in research and the creation of technological innovations. Rather, the search for skills mix needed for our digital future must include more than a clunky emphasis on science and technology alone.

Indeed, perhaps the search for digital skills should be replaced by investigation of *the skills needed for the Digital Age*. Given that most workers will need to work alongside automated capabilities, AI and robots in the future, many of which will be able to carry out technical tasks more reliably than human beings, then apart from the people building and developing these capabilities in the first place, our greatest need will be for people who can work alongside

those technologies and deploy inalienably human skills, such as empathy, teamwork and imagination.

Creating a sufficient number of creatives with technical understanding and technicians who can create is inhibited by the absurdity of an education system that forces children to specialise in either arts or sciences at a ridiculously early stage in their long lives, years before they really know who they are. Many spend the rest of their lives trying to undo this damage by attempting to acquire the capabilities they subsequently discover aptitudes for in wholly unrelated fields. But many others do so too late, with the result that our education system specialises early to create armies of workforce generalists. Decades after CP Snow pointed out the dangers of the arts/sciences bifurcation, little has been done to address it. Yet elsewhere educators are alive to the problem. Finland, which has one of the most successful education systems on earth, has recently torn its way of doing things up and started again. Children are taught creative and technical disciplines in an intergrated way. Their education is orientated towards problem-solving and teamwork. The intention is to give pupils strong foundations, allowing them to adapt, learn to learn, and acquire specialisms at suitable later stages.

The UK needs similar radicalism. And we need resources. A productive workforce is an adaptable, creative workforce. Adaptability and creativity are not the exclusive preserve of those in receipt of a rounded and exciting educational experience. But the correlation is a strong one. To generate higher levels of productivity the UK must win the education arms race, with higher levels of investment and new approaches.

For further information

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