

Productivity Report 2020: Conclusions and Policy Recommendations.

(i) Managerial Capacity: improving management standards.

There is a close link between more structured management practices and improved productivity. Measuring how the business is functioning in terms of basic financial and output indicators is the first step towards better management. Developing a 'Balanced Scorecard', would help identify a broader set of KPIs, such as: *Employee Engagement; and Responding to Customer Queries.*

Raising productivity will require investment in up-skilling and work-based learning as well software such as management information systems. Controlling the strategic direction of the business is vital and highlights the need for effective leadership. Firms should be more aware of the control measures used to raise productivity by better performing firms and offered the opportunity to benchmark themselves against their competitors.

Management capacity can be improved by managers becoming more engaged in networks and by developing closer relations with customers. The role of trade associations and clubs is important in the process of raising awareness of productivity issues and fostering engagement. Business support services should work with trade associations to improve business performance.

- There is a continuing need for better access to business support initiatives that encourage firms to measure business performance.
- Firms should develop a broad range of KPIs to provide an early indication of their performance and profitability.
- Controlling strategic direction points to the need for training to be specifically targeted at improving Leadership and Management skills
- Firms should be given the opportunity to adopt the control measures used in better performing firms through benchmarking themselves against their competitors

(ii) Skills Training: How can firms get better access to the skills they need

An important restraint on business growth is the inability of firms to find people with the skills they need – especially technical skills. The system of technical education in the UK is less developed than in other countries. More could be learned from the approach in Germany.

The FE structure in Wales forms the basis for a regionalised system of provision – for higher-level skills as well as vocational training. That role needs to be integrated into regional policy with new modes of delivering training based on best practice - such as the German Dual System.

- Responses to specific training needs to be speeded up, and systems of training credits need to be harmonised.
- Given the importance of improving professional management in Welsh companies, the exclusion of Level 7 training provision should be lifted.
- A regionalised system of provision of higher-level skills should be explicitly integrated into regional policy [WDA + the Techs.]

(iii) Encouraging Industry Solutions for Effective Networking

Trade associations and business clubs provide business guidance and advice for specific issues such as regulations, funding, and training. However, there is an under-utilisation of such associations by firms and a lack of appreciation of the benefits of collaboration and effective networking.

Government-funded business support services should be explicitly tasked to facilitate more effective networking and collaborative activities, and to do this jointly with trade associations. Trade associations should become more active in engaging with firms to address productivity issues.

- Business support services should be explicitly tasked to facilitate more effective collaborative activities for firms to encourage sharing resources and joint working.
- In addition, trade associations should become more active in engaging with firms to address productivity and performance issues.
- Greater stability is needed in the Government's approach to industrial support
- A longer-term view should be taken of the delivery of public-sector business support services.

(iv) Regional Delivery Structures

A key policy initiative would be to set up an arms-length regional structure for delivering the high-end business support services needed to raise productivity. It should develop a data base in each region of firms above a certain size to help identify potential growth firms with the capacity to raise productivity and also help identify the challenge – i.e. the cluster of underperforming firms.

The focus should be on identifying firms with the capacity and desire to grow. This could involve focusing resources on improving the productivity of businesses in each region that are already exporting and help them develop the KPIs and control mechanisms highlighted in the report.

- Create a new arms-length regional structure and integrate it with the City Deals
- The Regional Delivery Structure should deliver high-end business support services focused on raising productivity in Welsh firms
- Develop a data base of firms with at least average levels of GVA per worker and with management systems in place to measure productivity

(v) The Digital Deficit

We will need to reduce the Digital and Technological Deficit in Wales by encouraging and supporting firms to invest in state-of-the-art of ICT, especially superfast broadband enabled services, to improve their productivity. The public sector should continue to prioritise investments in broadband.

Artificial intelligence (AI) provides unprecedented potential for productivity growth, but at the same time there also the danger of massive job destruction. To address this, AI needs to be focused on lifting the productivity of low-skilled workers by offering expert knowledge to non-specialists.

- Introduce digital transformation and innovation as a core feature of the business support system across Wales
- Promote current fiscal incentives such as R&D tax credits [100% tax allowances] as a major lever to improve investments in digital infrastructure
- Integrate AI into the workforce and identify ways in which it can improve the efficiency with which innovations are adopted.

Possible Questions for the Outbreak Sessions

Q1. What is the main policy intervention that would raise productivity in Wales?

1. Invest to improve technical skills
2. Expand digital connectivity
3. Invest to raise managerial performance
4. Invest to improve the transport infrastructure
5. Bring back the WDA!

Q2. What is the main thing that each individual firm could do to raise productivity?

1. Invest in workplace skills
2. Develop a better measurement culture
3. Become more engaged in collaborative ventures
4. Benchmark themselves against the best
5. Invest more in digital technology