

UK PRODUCTIVITY POLICY CONTINUES TO NEGLECT WHAT HAPPENS WITHIN FIRMS

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The Treasury's latest Pre-Budget Report renews its commitment to improve UK productivity through reforms in what it calls the five 'drivers' of competition, enterprise, innovation, investment and skills. But according to a new report published today by the **Advanced Institute of Management Research**, policy continues to neglect what remains the key to productivity – what happens inside firms.

Notwithstanding some recent improvements, UK productivity in terms of output per hour worked continues to lag the performance of other major economies, most notably France, Germany and the United States. The report's authors argue that further benefits from pulling levers relating to the regulatory and macroeconomic environment in which firms operate are likely to be limited. The priority now is to link the external (macro) to the internal (micro) in a more coherent effort to support firms.

The report focuses on two areas that are central to how inputs to firms are combined and utilised: skills and work organisation. There are two key messages:

- Skills can only make a substantive contribution to productivity performance if they are effectively deployed in the firm. Supply-side skills policies are not sufficient.
- Attention to the 'black box' of productive performance requires a local focus on the specific mechanisms and processes involved in the translation of inputs into productive activity.

These represent very significant challenges for policy makers and those actively engaged in supporting firms in their efforts to improve. The report identifies some important principles in moving forward. These include:

- Policy must better balance its supply-side emphasis (the 'push' of skills and 'best practice' models) with practices that meet individual firm needs for specific and targeted assistance.
- Policy interventions at the workplace need to develop support for firm level adaptive learning and find ways to promote this.

One of the report's authors, Professor Rick Delbridge, AIM Senior Fellow at Cardiff Business School, comments:

'Policy approaches that rely on universal solutions are misguided. Instead, we need a nuanced approach that encourages new ways of thinking and takes into account the circumstances facing firms operating in different contexts and at different levels of maturity.'

'To address the UK's continuing productivity problem, policy-makers, managers, employees and their various representative bodies have to work constructively and collaboratively to meet the local and specific productivity and performance challenges facing individual firms.'

Notes for Editors

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