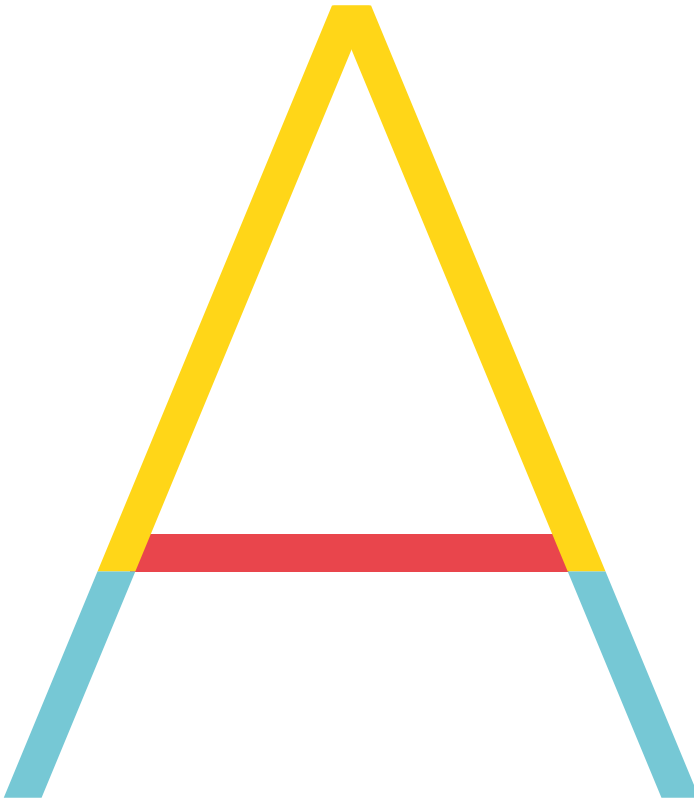# 8 SOLUTIONS TO THE UK'S PRODUCTIVITY PUZZLE

Poor productivity has blighted the UK economy for years. So what are the underlying causes, and how can they be tackled?

WORDS MATT PACKER **ILLUSTRATIONS** PATRICK HRUBY

THE BASICS

> UK productivity lags behind that of other G7 nations.
> Macro factors, such as inadequate infrastructure, are part of the problem.
> But most organisations could work smarter.

A running theme in the media is the UK's poor productivity. And it's been a running theme ever since the global financial crisis. By 2017, the UK placed no higher than 17th in business solutions provider Expert Market's global productivity ranking. UK output per person per hour was valued at just £17.37, compared to chart-topper Luxembourg's £51.80.

So poor productivity, it seems, is an itch that the UK can't scratch, and our constricted output has a knock-on effect on people's wages. At the end of 2018, it emerged that the UK's average weekly pay in the three months to November was 3.3% higher than it was in the same period of 2017 – the greatest year-on-year percentage rise for a decade. However, the nation's champagne stayed on ice. According to the Office for National Statistics (ONS), the average weekly wage, including bonuses but before tax and other deductions from pay, was a mere £494.

And, despite accompanying figures showing that a record 32.4 million people were in work, the ONS noted that our pay packets' weak response to the employment boom implied that "low unemployment has not been able to stimulate significant average weekly earnings growth".

Matthew Percival, head of employment law and employee relations at the CBI, has some thoughts on why this is the case: "While pay growth is improving at its fastest and most sustained rate in a decade, it is still slower than the UK has achieved in the past. Building on this requires stronger, and more sustained, productivity growth."

The CBI is far from the only organisation to have raised such concerns. In October, non-partisan thinktank the Resolution Foundation published research suggesting that UK citizens would have to wait until 2099 for real wages to double in value. The thinktank cited the UK's "disastrous productivity record" as the chief factor behind our "painful pay puzzle".

But the reasons why we have a productivity problem in the first place are unclear. The government, for one, recently expressed concerns that a lack of joined-up business support was suppressing productivity – and that paved the way for its flagship Industrial Strategy, announced in November 2017. Also, in February last year, the *Financial Times* cited the UK's infrastructure woes as a key hindrance, pointing out that over £460bn of projects were sitting in the government's construction pipeline, from broadband to high-speed rail, power stations and wind farms. But, away from those macro factors, there are smaller issues that also shoulder some of the blame. So what needs to change?

"Professor Vlatka Hlupic believes there's one key reason for the UK's poor productivity: 'Bad management, bad management and bad management'"
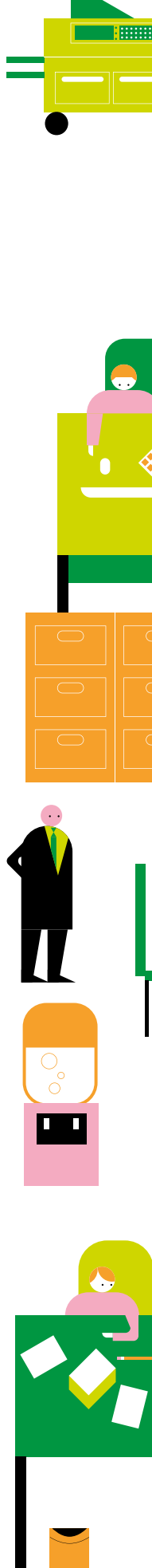
1 BETTER MANAGEMENT

Business consultant and author Professor Vlatka Hlupic believes there's one key reason for the UK's poor productivity: "Bad management, bad management and bad management. But, going deeper, I would say that the problem is down to outdated mindsets."

Hlupic thinks she might have the answer. In her book *The Management Shift*, she identifies five productivity levels at which organisations' workers and cultures operate.

At level one, the individual's mindset is "lifeless" and the culture "apathetic". Not much gets done, because people are completely demotivated.

At level two, there is a "reluctant" mindset and a "stagnating" culture; people do the bare minimum they can to earn their pay. They are physically present at work, but their minds stay at home.

Then comes level three: a "controlled" mindset and "orderly" culture. This level is characterised by traditional, 'command and control' micromanagement: people do what they're told and don't stretch themselves.

"If we take levels one to three as a whole, I would say that this is the area in which 85% to 90% of organisations exist today – and it's not just a UK problem," Hlupic says. "So it's little wonder we have issues with productivity."

It's when an organisation jumps to level four that you start to see a real difference in culture, mindset and management. "We experience what I call the 'management shift'," says Hlupic. "At this level, the individual mindset is enthusiastic and the culture collaborative. There are marked step changes in productivity, innovation, engagement, performance and profit. The dominant keywords at this level are 'trust', 'transparency' and 'purpose'. Occasionally, we may find organisations at level five, where the mindset is limitless and the culture unbounded. But the objective is really to be at level four."

In Hlupic's view, the more companies push themselves to reach levels four and five, the more the value of their outputs will improve, stimulating wider employment, as well as investment in skills and environmental and social causes.

▶

2 DITCH THE NINE-TO-FIVE

One of the biggest drags on organisational performance is unexpected absences, such as sick days, says Kate Cooper, head of research, policy and standards at the Institute of Leadership & Management. Those lost days are costing UK plc a fortune. Plus, by transferring the workloads of absent workers to those who actually are present, employers are exacerbating mental-health issues. The answer? "Flexible working arrangements could make it easier for employees to schedule in time to, say, care for an ill relative or keep a non-work appointment, in ways that won't come as a complete surprise to employers," says Cooper.

"Whenever the Institute researches topics such as remote teams, the multigenerational workforce or working hours, people tell us how much they value flexible working. Last year provided compelling developments in this area, with New Zealand firm Perpetual Guardian cutting its working week to four days, and Australia's Collins SBA cutting its working day to five hours. Neither experienced a productivity slump as a result of those measures – in fact, their outputs improved. So firms must ask themselves: when do they really need core personnel to be there? And which tasks are not time-critical in a way that demands someone to be physically present?"

"Schools should focus on teaching people not just what but *how* to learn – and create autonomous lifelong learners"

"Flexible working can boost productivity. People who want to work flexibly are not the problem – it's the barriers put in their way"

3 LESS CONTROL, MORE TRUST

"Having worked in lots of different organisations, I know there's a widespread propensity among managers to think that, if they aren't regularly overseeing key staff, they're not controlling them," Cooper says. "We need a complete overhaul of our attitude to trust.

"Evidence shows that flexible working can boost productivity. People who want to work flexibly are not the problem – it's the barriers that are put in their way. The foremost barrier is this association, which is so 20th century, of management with control, rather than empowerment."

4 DITCH INEFFECTIVE PROCESSES

We often think that just making a phone call or sending an email constitutes 'action'. But, in productivity terms, that call or email must elicit some kind of meaningful response, or set in motion a series of further steps that lead to a substantive result or meet a particular goal.

"So, whenever we have team meetings and get a chance to update each other about what we achieved last week, and what we're planning to achieve next week, we must challenge any process that doesn't yield an outcome, and discourage any phraseology that supports or excuses such processes," says Cooper.

5 HAVE HARD CONVERSATIONS

Many of us have encountered situations where outcome A couldn't happen because we were waiting ages for person B to carry out step C. It's easier to say nothing than it is to challenge person B about why they dropped the ball.

"There seems to be something uniquely British about our reluctance to engage with being let down, or our preference to deal with it only in an indirect – and often passive-aggressive – way," says Cooper.

"Leaders must create a compelling narrative about why it is essential for their teams to be givers and to operate in a selfless way. We must also be clearer with staff about expectations, set minimum acceptable performance thresholds and approach conflict directly, while maintaining decorum."

6 LEARN CONSTANTLY

Artificial intelligence is changing the way people work even in highly skilled professions such as medicine and law. With change the only certainty, lifelong learning is essential, says Dr Lisa Day, director of studies for the online MBA at the University of Liverpool.

"The growing popularity of YouTube tutorials and online short courses gives hope that we are starting to shift in that direction," she says. "But schools and other organisations should focus on teaching people not just what but *how* to learn – and aim to create autonomous lifelong learners."

7 ENCOURAGE LOYALTY

After the financial crisis of 2008, fewer companies were prepared to sponsor employees through part-time master's degrees, with many students at that point unsure whether they would even have a job in two years' time. "The introduction of postgraduate master's loans is one step towards addressing that issue," says Day. "But, if employers demonstrate loyalty by providing support, such as funding or study leave, which reward the investment that employees make in their own development, it is more likely that staff will stay loyal to their firms, rather than just upskill and leave."

8 IMPROVE THE EDUCATION SYSTEM

"We need a review of education," says Day, "because many young adults leave school with few qualifications and an engrained belief that they are bad at particular subjects.

"While every employee in an organisation should have ongoing access to education, priority should be given to those cases where gaps are identified around basic numeracy, literacy, digital and people skills. It's never too late for anyone to improve their numeracy or literacy.

"Where schools have failed to achieve pupil proficiency, employers should take on the challenge in order to maximise employee efficacy and long-term productivity. Online learning is making this an increasingly viable proposition."