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The UK Metals Council (UKMC) response to the Governments call for evidence on the Business Productivity Review.

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

Productivity is to be measured as the amount of output from a company – GVA/GDP per worker or per hour worked. The proposal for low productivity businesses will be defined as those below the UK Median. It is acknowledged within the report that this will vary dependant on sectors and size of organisations.

UKMC believe this is a poor definition. Three points to note:

1. The productivity comparator needs to take into account sector specific productivity measures, as there are fundamental differences between sectors.
2. The comparator needs also to be based on place, as a significant driver for productivity under this measure would be having clients that are prepared to pay more for the same service, which would automatically make businesses in the South East more productive than businesses in the North West for instance.
3. The measure proposed is limited to labour productivity, which is an insufficient measure for capital intensive businesses.

It should also be considered that the productivity along the supply chain should be considered, with new technologies such as Blockchain, the value added along the supply chain can be identified. This could lead to business changes to include a more local supply chain to increase overall productivity of finished products to market.

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

Extra research should be undertaken for organisations with factories in different Countries but working in the same industry sector to compare the difference in productivity between the sites.

Costs need to also be taken into consideration when comparing productivity between Countries. In the UK Metals sector the cost of energy is reported to be higher than other European Countries e.g. Germany. The additional costs reflect on the UK productivity measurement.

Other costs which can impact on a company's GVA include the local business rates. If an organisation has invested in new plant and machinery to increase their output, they will have an increase in their Business rates. UKMC propose the removal of plant and machinery from the business rates calculation. It remains a complete anomaly when we are seeking higher levels of investment in large and small companies with the objective to be more productive.

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

Many companies do not measure their own productivity as GVA/GDP per worker or per hour worked, so it is difficult to measure this. Firms will work on increasing sales, reducing

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costs to increase their margin, this can often be based on the short term i.e. quarterly / annual results rather than investing in a 5/10 year strategic plan, which may include investment in plant and training to make the organisation more productive.

The productivity measure proposed is too limited as labour productivity. If firms are choosing to take a different measure of productivity, then these are the measures that are relevant to that firm and it would be helpful if government would work with the productivity measures that industry finds useful.

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

No

Many firms have poor productivity because they will recruit / disband labour easier in the UK than make investment in automation. Other European Countries make it harder to make staff redundant meaning machinery is a more attractive investment. This does not mean change the employment laws in the UK, instead investment in your business should be made more attractive, this would include initiatives such as the removal of plant and machinery from the business rates calculation. It remains a complete anomaly when we are seeking higher levels of investment in large and small companies with the objective to be more productive, then to increase the business rates and make the investment less attractive.

There could also be more incentives for Companies to invest in new plant and machinery through capital allowances and utilisation of tax losses. The emphasis should be for the incentive to reinvest in the business.

Understanding high and low productivity businesses, and the firm-level characteristics driving the performance of each

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

A company's productivity can be improved with investment in automation at the bottle neck areas of a production line. However, to make this investment means the management have to have confidence in the future market, access to affordable finance and the ability within their organisation to make these business changes (many smaller companies do not have this resource and are extremely busy working without being the most productive). The removal of plant and machinery from the business rates calculation. It remains a complete anomaly when we are seeking higher levels of investment in large and small companies with the objective to be more productive, then to increase the business rates and make the investment less attractive.

Managers need help and support to guide them on how to change their business to increase productivity without over stretching their investment.

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Working smarter not harder is the message for smaller businesses, who are often extremely busy but, if they invested some time could be more effective in their operations.

To assist business, they need a support service which is impartial, and after initial set up, would be self-financing. This support could provide the advice to business on how they can make their business more productive.

There could also be more incentives for Companies to invest in new plant and machinery through capital allowances and utilisation of tax loses. The emphasis should be for the incentive to reinvest in the business.

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

Good management structure (even in a small company). If a company is working correctly at all levels continuous improvement will lead to process changes, investment in machinery and increased productivity. Training of managers is essential to improve productivity.

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

With the effective relationship with the supply chain, this means good communications which is the first stage in having an effective relationship. With Industry 4.0 this should be linking data along the supply chain to enable the individual stages be more productive and effective.

UKMC would also include time for business managers to look and analyse their business, many smaller businesses are working very hard, they need to be guided to work smarter not harder.

UKMC would also include – know where a business can get help and assistance. The current list assumes all businesses know where to get the advice to improve their business. To assist business, they need a support service which is impartial, and after initial set up, would be self-financing. This support could provide the advice to business on how they can make their business more productive.

The list should also include confidence, if senior managers are not confident in the future the business will not improve.

There could also be more incentives for Companies to invest in new plant and machinery through capital allowances and utilisation of tax loses. The emphasis should be for the incentive to reinvest in the business.

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A clear and stable demand signal gives supply chain companies the confidence to invest. In addition to general economic conditions, it is a typically small number of large OEMs and tier 1 companies that drive the demand signal for the supply chain. Therefore, one of the key investment drivers depends on how the supply chain is structured and the supply chain management practices of key companies.

As a major purchaser of high value infrastructure, the government is able to set a clear demand signal for industry. For example: In the wind energy market, Germany has continued to support a home market despite not having a particularly good wind resource, hence meaning a relatively high cost of energy from the wind energy sector. It is understood that its strategy remains in place partly to support its supply chain which provides significant tax revenue and export revenue. (Ref BVG associates report on Wave and Tidal Supply Chain Development)

Leadership and Management

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

Successful businesses have a good management structure, where everybody knows their role, and can take ownership of their area (identifying weaknesses and potential solutions). Good managers will take the feedback from the staff plus with a vision of where they are taking their business develop a change program to improve the way they operate. This requires investment both in time and money, the bigger the challenge the bigger the investment to transform an operation increasing productivity yet maintaining the quality.

UKMC would like to reference the “Be the Business” initiative, this is an activity we are interested in engaging with and which is focussed on improving productivity by improving leadership and management

Measurement and control of the KPIs for a business can demonstrate the effectiveness of such change management within a company. GVA to demonstrate productivity is not widely used within an individual organisation, if Government feel this is important measure, this needs to be part of the standard company measurements reported at Companies House.

Quality should also be maintained or improved with these operational changes.

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

UKMC believe this can be due to lack of management training. Many Managers have come from within the business and know their products and operation which is good but, do not have the training to look at how to change and improve the business.

In addition, the communications along the supply chain is often poor, discussions on process and product improvements which benefit all should be part of the regular dialogue.

To assist business, they need a support service which is impartial, and after initial set up, would be self-financing. This support could provide the advice to business on how they can make their business more productive.

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

Quality Management systems (ISO 9001), are focussed on continuous improvement and for senior managers to be included within the process. When this works well, this means the organisation has an integrated approach to delivery and review to ensure what went well happens and what does not work is minimised in the process.

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

If success stories can be show cased and local event organised for similar industries to demonstrate how good change management has been successful, this would encourage improvement. These are the sort of events Trade Association and Chambers of Commerce should be holding.

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Technology and innovation adoption and diffusion

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

A metal forming organisation based in the West Midlands has invested in automation along their manufacturing line. Their main bottle neck was at the end of production when product needs packing prior to dispatch. Two of their lines now have automated packing machinery, enabling an increase by 30% through the factory for standardised products. The workforce

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on the line has gone from 4 to 1 member. The investment is estimated to pay back within 2 years.

Non-standard products still require manual packing

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

Knowledge of available technologies – if these are not known, the process is a non-starter

Ability to manage change – this may be outside the skill set required for the general operation, as part of the investment, contract project managers should be included to facilitate the change on time and on budget.

Available finance / confidence the improvement will pay back as planned, often business require advice and support on investments and taking out loans for their business.

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A clear and stable demand signal gives supply chain companies the confidence to invest. In addition to general economic conditions, it is a typically small number of large OEMs and tier 1 companies that drive the demand signal for the supply chain. Therefore one of the key investment drivers depends on how the supply chain is structured and the supply chain management practices of key companies.

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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 software identified within clause 5.14 would help a business however, this would all be reliant on fast internet connection. Some areas the broadband would be too poor to enable this technology to be implemented to run a business.

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In addition, many manufacturing companies need to review their process flow charts to see if these can be stream lined or made more efficient, this sometimes may not require substantial investment.

Automation for certain bottleneck operations increases productivity of a manufacturing unit.

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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?

In the UK Metals sector there are 11,100 companies, 60% are estimated to be small organisations. Often this size company does not have the volume of production to make automated plants a viable cost-effective option. However, good practice with plant layout, looking at bottlenecks can often be overcome by process changes. These may only increase productivity by 1 to 5% but, with the volume of organisations this does make a difference to the overall economy.

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

If success stories can be showcased and local event organised for similar industries to demonstrate how good change management has been successful, this would encourage improvement. These are the sort of events Trade Association and Chambers of Commerce should be holding.

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The UK market for business support and advice services

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

Knowledge that this support is available and where it can be obtained

Fear of somebody looking at your business and finding fault; this could be perceived as failure rather than helping to improve a business. Often smaller privately owned businesses find criticism difficult to accept.

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

There is not enough engagement from Industry with the relevant Trade Associations, Chambers of Commerce and LEPs.

The UK Metals sector has 11,100 companies

The number of companies who are members of the Trade Associations within the UK Metals Council is 1650 which is only 15% of the sector. The membership are generally the larger more established organisations therefore will represent a significantly greater proportion of the market share.

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

In Germany it is compulsory to be a member of the equivalent to your local Chamber of Commerce.

Trade Associations have changed significantly over the years, they are more productive with greater emphasis on good Governance making membership a more attractive option. Often the battle is the membership fees, then to gain from your membership, a company must proactively be involved to benefit from their membership. This all takes company resource.

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

Local business support events for similar sector businesses, when other businesses can explain their journey to improve productivity and to manage change in their business.

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

Feedback from the industry sector, many organisations have benefitted from an independent set of eyes walking around their business, learn what they are doing to bring a fresh approach and to remove unnecessary activities. Smaller companies do not have the management time to strategically think and look outside the day to day operations.

UKMC would recommend the development of an industry specific service (to speak the correct technical language) and provide this cost-effective consultancy to industry sectors,

The output from such a visit could be signpost the organisation to solutions or to develop this with them.

An industry need to know where they can go to gain this advice and business support. In the past an example of such a solution was Metskills which worked very effectively to support the industry sector.

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

If the public sector were to work with the Trade Associations on joint venture projects to encourage or fund non-membership participation of events.

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

This support to industry will require financial assistance to become established however, within 2 years needs to be self-financed. Industry using the service need to pay to cover these costs. To assist business, they need a support service which is impartial, and after initial set up, would be self-financing. This support could provide the advice to business on how they can make their business more productive.

There could also be more incentives for Companies to invest in new plant and machinery through capital allowances and utilisation of tax loses. The emphasis should be for the incentive to reinvest in the business.

It should also be noted that there is a conflict in government grants for innovation and technology adoption via schemes, for instance, such as the Local Growth Fund. Such schemes require new job creation as an output and so government is favouring low productivity investment. A firm seeking to make an investment that would not increase, or even reduce employment, but would increase productivity, profitability and the financial sustainability of their business, is unable to apply for such grant assistance.

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Summary

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?

Yes

Leadership and management – this needs more training courses to be available which are both not time consuming and expensive.

Technology adoption – show case good case studies and available technology for the benefit of industry

Business support (Private and Public sector) – there needs to be more of this talking to the grass routes of industry

To assist business, they need a support service which is impartial, and after initial set up, would be self-financing. This support could provide the advice to business on how they can make their business more productive.

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

Innovation and continuous improvement of the product and service supplied. The improvement should be made working with the supply chain.

The correct quality and quantity of a product, delivered at the right time for a competitive yet profitable price should be the goal for all companies.

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The removal of plant and machinery from the business rates calculation. It remains a complete anomaly when we are seeking higher levels of investment in large and small companies with the objective to be more productive, then to increase the business rates and make the investment less attractive.

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

The SME sized organisation has the potential for growth and increased productivity, this is the size of organisation which should be targeted and assisted to grow more and faster.

Large organisations already have the management structure in place to become more productive.

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Micro businesses need to establish themselves, they need help and support but, slightly different than that required for increased productivity i.e. to reduce the number of new business failures within the first 2 years of operation.

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