IMPROVING PRODUCTIVITY IN UK SMALL-MEDIUM SIZED ENTERPRISES: A RESEARCH STUDY

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Acknowledgements

The authors would like to thank the companies visited as part of the study and to the people involved for giving up their time to be interviewed by us.

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Improving Productivity in UK Small-Medium Sized Enterprises
Notes on the authors of the report

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**Dr Mike Lucas** - Dr Lucas was formerly senior lecturer in management accounting at the Open University Business School. He is a Fellow of the Chartered Institute of Management Accountants (CIMA) and, prior to embarking on an academic career had 12 years senior financial management (including management accounting) experience in manufacturing industry. Mike has published a number of papers in both professional and academic journals including the British Accounting Review, Management Accounting Research and the CIMA journal. He has also had papers accepted by and spoken at international conferences in management accounting. His doctoral research was concerned with investigating management accounting practices in SMEs, using a number of qualitative case studies. Mike has also worked with Glynn Lowth and Malcolm Prowle on research concerning management accounting in SMEs.
**Mr Stewart Barnes** – Stewart is a Visiting Fellow at the University of Gloucestershire Business School. He is managing director of QuoLux, which is a company providing leadership and strategy development services. Stewart is a marketing graduate and has an MBA degree. He is currently pursuing PhD research into leadership in SMEs at the University of Gloucestershire. Prior to forming QuoLux, Stewart held various senior management posts at a number of large and small companies and he is and has also been a non-executive director of several other companies. He is co-author of a bestselling book on leadership and many published papers and chapters on issues of leadership, business planning and entrepreneurialism.

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Executive Summary

This report outlines the results of research undertaken into the issue of improving productivity in UK small-medium sized enterprises (SMEs).

Section 1 of the report sets out the context of the research outlining the important contribution that SMEs make to the UK economy and the challenges they face, alongside other segments of the UK economy, in improving productivity. Also discussed is the important linkages between productivity and the twin issues of business growth and increased profitability, which need to be understood.

Section 2 describes the way in which the research has been conducted. After reviewing existing published research findings on the issue of SME productivity, the researchers undertook interviews with owners/CEOs or other senior directors of ten SMEs of varied size and sector. The interviewees were also asked to complete a short questionnaire.

Section 3 is the most substantial section of the report and it outlines the findings of the research under the following headings:

- Conceptualising and defining productivity
- The importance of productivity to SMEs
- Drivers of productivity in SMEs
- Measuring productivity in SMEs
- Improving productivity in SMEs
- Barriers to improving productivity in SMEs

Section 4 provides concluding comments about the findings of the research.

- Not all SMEs are strongly focussed on the issue of improved productivity.
- Many SMEs have only a limited understanding about the nature of productivity.
- Many SMEs are unsure whether their productivity has increased or decreased in recent years for the simple reason that they do not always have the mechanisms and the information needed to measure their productivity.
- Having an appropriate organisational culture is seen as important to improving productivity in SMEs.
- Many SMEs recognise the importance of effective leadership in improving productivity.
- All SMEs see a need to improve their productivity by a variety of means about which there is a good degree of consensus.
- SMEs see a number of barriers facing them in improving productivity for which solutions need to be found.

Overall, it seems that there is still a great deal to be done to convince some SMEs of the importance of improving productivity and its potential impact on business growth and profitability.
Introduction and context
The Nobel Prize winning economist, Paul Krugman, once said that while “productivity isn’t everything, in the long run it is almost everything”. Most economists would agree that while there are a range of economic indicators, which are important, the single most important economic factor, which underpins everything else, is productivity. Unfortunately, it is in the area of productivity that the UK is seen as having a major problem.

This report is concerned with the findings of a research project undertaken by a team from the Centre for Innovation and Productivity at Gloucestershire Business School on the topic of productivity in small-medium sized enterprises (SMEs). After describing the contextual background of the research, the report outlines the nature of the project and its findings. It is important for us to offer our thanks to the companies we visited as part of the study and for the people involved for giving up their time to be interviewed by us.

In the following pages, we describe the context for the research under the following headings:

- The UK productivity issue
- The importance of SMEs and their position in the UK economy
- Productivity and SMEs
- Productivity and growth
- Productivity and profitability
The UK productivity issue

Poor productivity is seen as being one of the biggest (perhaps the biggest) economic challenge facing the UK. Britain’s poor productivity record has been highlighted by government figures showing the biggest gap with other leading western economies since modern records began in the early 1990s. Output per hour worked in the UK was 18 percentage points below the average for the remaining six members of the G7 group of industrial nations in 2014.

This gap (which was up one percentage point on the previous year) was the widest since 1991 and showed a particularly marked deterioration since the onset of the financial crisis and deep recession of 2007-09. Recent figures published in October 2016 indicated that while the UK had narrowed the productivity gap against other developed nations it still lagged well behind the USA, Germany and France.

The importance of SMEs and their position in the UK economy

Small-medium sized enterprises (SMEs) are the backbone of the UK economy. In the UK, SMEs, employ around 59% of the UK workforce and contribute around 51% of the nation’s GDP.

Successive UK governments have seen SMEs as having a key role to play in economic recovery and future growth. This is especially true in the current political and economic situation where the departure of the UK from the European Union may place increasing emphasis on SMEs as the drivers of our economy.

The definition of what constitutes an SME varies between countries, but in the UK the following definition (Table 1) applies in that UK SMEs are business enterprises, which satisfy two of the following three criteria:

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales turnover (up to)</td>
<td>£6.5m</td>
<td>£25.9m</td>
</tr>
<tr>
<td>Net assets (up to)</td>
<td>£3.26m</td>
<td>£12.9m</td>
</tr>
<tr>
<td>Number of employees (up to)</td>
<td>50</td>
<td>250</td>
</tr>
</tbody>
</table>

Table 1: Definition of SMEs

When new SMEs are formed, they are often referred to as start-up businesses. Over 80% of such start-ups fail in the first ten years of life. This project is only concerned with companies, which have survived more than five years and where the business has achieved growth. Thus, we are looking at successful businesses only.
Productivity and SMEs

In relation to SMEs, there are also productivity problems. As far back as the year 2000, the United Nations Conference on Trade and Development concluded that, despite their importance for economic growth and development, SMEs were failing to achieve their potential for a number of reasons. Eight years later, the European Commission commented that SMEs, which are crucial for economic growth, job creation and regional and social cohesion, were not reaching their full potential in the EU. It stated that in comparison with the USA, SMEs in the UK are not fulfilling their potential compared to USA counterparts, and that EU SMEs have:

- lower productivity
- poorer networks with large companies

As well as being a UK problem, low productivity is a problem for the Gloucestershire economy as well, this being the area in which a number of our respondent companies are based. Gloucestershire’s productivity lags the rest of the UK by 8% while the UK lags the G7 average by 18%.

Productivity and growth

Most SMEs are interested in the growth of their business in terms of turnover, profitability, employment etc. In the early days of the company, the achievement of growth was probably essential to keep the business afloat but as time goes on, growth remains an important issue for the company in order to maintain competitive advantage, to provide more employment, to satisfy customer requirements etc. However, the rate of growth required is a variable factor. Some SMEs will be cautious and will wish to grow in the context of maintaining their existing client base, their unique approach etc. Others will be more aggressive and wish to achieve significant year on year growth. This is a matter for the individual SME and its owners / directors to decide.

Productivity is important but it is not the only way to achieve business growth. Some other approaches could include:

- New product growth
- Market diversification
- Accessing export markets
- Improved marketing to increase sales volumes
- Higher prices
- Changes in business strategy etc.

However, improving productivity is also an important approach and it should be noted that some of the above approaches would automatically lead to improved productivity. For example, increased sales and hence production of a product can lead to particular machines, which are currently under-utilised, to be better utilised and, therefore, raise machine productivity. In reality, business growth probably needs a combination of the above factors including productivity improvement.
Productivity and profitability

SMEs of all sizes and types are concerned with their levels of profitability. A lack of profit may inhibit the potential income of the owners and employees of the business and may result in a lack of financial resources to invest in and develop the company. In the shorter term, a lack of profitability may also impact on the cash flow of the business and ultimately its overall liquidity. At its simplest, the profitability of a company may be increased by any combination of the following main factors:

• The sale of more units of product/service
• The increase in the price of that product/service
• A reduction in the resources (e.g. labour, materials) used to manufacture and distribute the product/service
• A reduction in the costs of obtaining those resources

The links between productivity improvements and profitability increases can be complex and varied and need to be understood. Improvements in productivity are not an end in themselves but are a means to achieving the goal of increased profitability. Some examples will illustrate this:

1

Improving the scheduling arrangements of its product production system can lead to a company increasing product output at limited additional cost. However, the profitability of the company will only be improved if there is a market for that additional product at an appropriate price after allowing for any additional production, marketing and distribution costs.

2

A company may be able to improve productivity by increasing the utilisation of its plant and equipment to manufacture and deliver a once-off contract at a specially negotiated price. However, this contract would only be profitable if the existing labour force, which is presumed to be under-utilised, could fulfil the contract thereby improving labour productivity as well.

3

By setting “stretching” utilisation targets, a management consultancy company managed to improve the chargeable hours registered by consulting staff. However, it turned out that the additional hours resulted in certain fixed fee jobs going over budget and generated no additional income. The expenses related to these additional hours actually resulted in lower profitability.

Thus in looking at means to improve productivity, the productivity-profitability issue must be kept in mind at all times. This requires competent financial analysis.
Aims of the research and approach taken
Aims

The research aimed to address a wide range of issues concerning productivity in SMEs including the following:

• How do firms conceptualise and define productivity?
• Is the concept of productivity seen as an important one for SMEs?
• What do SMEs consider the main aspects/dimensions of their productivity?
• How do SMEs measure/assess their productivity?
• Do SMEs think their productivity has improved/declined in recent years?
• What factors do SMEs think drives their levels of productivity?
• Is improving productivity an important managerial issue for SMEs?
• How do SMEs propose to go about improving their productivity?
• What approaches will they use to improve their productivity?
• What are the difficulties/barriers in doing this?
• How will SMEs overcome these barriers?

A team based at the University of Gloucestershire Business School and comprising the following persons conducted the research:

• **Professor Malcolm Prowle** – Professor of Performance Management
• **Dr Mike Lucas** – formerly senior lecturer at the Open University Business School
• **Mr Stewart Barnes** – Visiting Fellow, University of Gloucestershire
• **Mr Glynn Lowth** – Visiting Fellow, University of Gloucestershire
Research Approach

The research project was undertaken as follows:

**Review of previous research**

A review was conducted of previous research done in this area. The results of this review have failed to identify, satisfactorily, the main determinants of SME productivity or its definition. Some researchers have suggested that the primary factor is technology, although it is often not clear exactly what constitutes ‘technology’ in terms of Venktraman’s (1994) five level model comprising:

1. Localised exploitation
2. Internal integration
3. Business process re-design
4. Business network re-design
5. Business scope re-definition

Others have argued that human resource management factors (including such matters as motivation, effective team building, good recruitment and selection procedures, skills development etc.) are the primary productivity drivers. Operations management researchers, on the other hand, have suggested that work organisation, process design and so on are the dominant factors. Economists have identified yet other factors such as scale economies, regional policy and infrastructure (as they relate to small firms) as the critical factors.

There are two important points:

- Common sense might suggest that the factors determining productivity will vary between firms. For example, a knowledge intensive service firm and a low-tech manufacturer might have very different arrangements with regard to human capital management, work organisation, job design/task allocation, division of labour and specialisation etc.
- Previous research, however, has also failed to establish the relationship between a firm's characteristics (size, scope, manufacturing versus service firm, competitive strategy – cost leadership versus differentiation – and so on) and the dominant productivity drivers.

Thus, published research leaves unanswered three questions:

1. What are the main factors determining SME productivity?
2. How do these factors vary between firms – i.e. what is the relationship between firm characteristics and productivity drivers?
3. What are the linkages and inter-dependencies between the various drivers?

Our research, therefore, is intended to provide insights (from patterns and themes identified in the cases studied) into the theme of productivity in SMEs and the specification of the contingent variables influencing productivity of SMEs.
**Interviews**

The research team conducted semi-structured interviews with the owner/CEO (and/or another senior manager/director) of a small number of varied UK SMEs. Table 2 describes the nature of the SMEs involved:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>Services</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>1</td>
</tr>
<tr>
<td>Retail</td>
<td>1</td>
</tr>
<tr>
<td>Mixed manufacture/service</td>
<td>1</td>
</tr>
<tr>
<td>Distribution</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 2: SMEs surveyed

The companies approached to participate in this project were identified through a combination of personal contacts and a wish to be involved in the project. We engaged with a range of different companies in terms of size and sector and, as already noted, these are all established companies.

Having completed the research, it seems to us that the companies involved vary considerably in terms of their understanding of productivity issues and the focus placed on its improvement. We make no claims that the findings of this study have any statistical significance or can be regarded as a representative cross section of SMEs in the UK. All we have attempted to undertake is some exploratory research with the aim of identifying important and interesting issues concerning productivity in SMEs, which can be further investigated as desired.

**Questionnaire**

At the end of each semi-structured interview, the interviewee was asked to complete a short questionnaire, which encapsulated the content of the interview just completed. The questions asked offered multi-choice responses. The responses to the questions were summarised and used in this report.

**Analysis and report**

The interview transcripts and questionnaire responses were analysed systematically and discussed by the project team. This report was based on these findings. The findings in this report are anonymised and do not attribute any comments to an individual person or company.
Findings of research
The findings from this study are extensive and are discussed below under the following headings:

3.1 Conceptualising and defining productivity
3.2 The importance of productivity to SMEs
3.3 Drivers of productivity in SMEs
3.4 Measuring productivity in SMEs
3.5 Improving productivity in SMEs
3.6 Barriers to improving productivity in SMEs

3.1. Conceptualising and defining productivity

At the outset, it is important to have a clear idea of what we mean when we use the term productivity and how we can conceptualise and define that term. Confusingly, productivity is a term that can be used in several different but specific contexts including:

1. The productivity of the whole economy of a country or part of a country
2. The productivity of the private sector of the economy or the public sector of the economy
3. The productivity of a specific sector of the economy (e.g. construction, financial services)
4. The productivity of an individual organisation – private or public

With regard to 1, 2 and 3, it is usual in these cases to express productivity in terms of financial measures. These are produced through statistical analysis of available data and it is probably true to say that the results obtained should be treated with caution.

The focus of this report is on item 4, namely productivity within an individual business organisation. As we will see later, productivity at the individual organisational level may be expressed in financial or non-financial terms.

Productivity can be defined as the rate of output per unit of labour, capital or equipment (input) and it can be measured in a number of different ways. For example, the productivity of a factory could be measured according to how long it takes to produce a specific good, while in the services sector, where units of goods do not exist or are more difficult to define, the measurement may be based on how much revenue each worker generates, divided by his or her salary. Thus, productivity is concerned with the ratio between output (in terms of a particular activity or final product) compared to the input which has gone into undertaking that activity.
Perhaps the key aspect of this is that productivity is concerned with two main things:

1. The productivity of the labour force of the organisation

2. The productivity of the fixed assets of the organisation (plant, equipment and space). This is illustrated below in Figure 1.

The problem, which was referred to earlier and shown in Figure 1, is that the three aspects of productivity may have strong inter-dependencies and can’t be looked at in isolation. Thus, machine productivity may be lower than it should be because of shortage of skilled labour to operate the machines or labour productivity may be affected because of a lack of suitable space in the workplace to carry out certain tasks or delays in receiving raw materials. In modern production environments, an understanding of these inter-relationships is vital in the search for productivity improvement so we need to try to look at productivity in a more holistic manner.

Productivity is sometimes used, synonymously, with the term efficiency and while there are similarities between the terms, it is probably the case that efficiency also relates to the way in which running costs of the organisation are consumed. Examples here might be energy efficiency, raw materials efficiency etc.

Our interviews and questionnaire results suggested to us that the SMEs we visited vary considerably in the extent to which they had clearly conceptualised productivity and some of them (by their own admission) lacked a clear idea of the factors involved and the potential inter-relationships between these factors. During the interviews, we spent time outlining to the interviewees our concept of productivity (as shown above) and it is probably fair to say that having done this, most (but not all) of the companies were able to accept this definition.
3.2. The importance of productivity to SMEs

It might be thought obvious, especially in the light of all the publicity about productivity, that all SMEs would see productivity as a top priority issue given that, as has already been noted, productivity is a key means of maintaining/improving competitive advantage and generating company growth.

We fear this is not the case. Previous experience suggested to us that such an assumption should not be made without further evidence. In the past, we have observed companies that have grown, successfully, through acquisition or have grown organically through increasing sales volumes, developing new products and penetrating new markets without ever concerning themselves about improved productivity.

The results of our questionnaire indicated to us the following position as shown in Table 3.

On the face of it, these results seem to indicate that all of the SMEs see productivity as an issue of great importance to them (especially in the current economic environment) and indeed the conversations that took place seemed to reinforce that view.

However, we still had a concern that some people would feel uncomfortable in admitting that productivity was not seen as that important in their company and they would not wish to state this openly. Consequently, we probed further and asked companies whether:

- Productivity was a theme found in their formal business strategy
- Productivity was an issue discussed, regularly, at Board level in the company

The findings here were a little different. While we did not have a complete set of results for all of the companies visited, the results we obtained indicated that around a third to a half of the companies could not answer yes to the above questions.

In conclusion, we think it important not to overstate the extent to which SMEs are truly and wholeheartedly signed up to a productivity improvement agenda.

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing</th>
<th>Services</th>
<th>Other</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Important</td>
<td>1</td>
<td></td>
<td>1</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Slightly Important</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not Important</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 3: The importance of productivity to SMEs

For example, one company told us that

“While there has always been a focus in the company on pricing and on gross margin and all that kind of stuff, in the last 12 months things have changed. It is now recognised that some important groups of customers are not sustainable at the current pricing and levels of service we are currently giving so we need to modify something. Therefore, we are now focusing on those factors which affect the kind of “cost to serve model” for a customer, understanding that and developing that through better productivity.”
3.3. Drivers of productivity in SMEs

In this section, we wish to consider what we term the drivers of productivity. This is illustrated in Figure 2.

![Diagram of drivers of productivity]

Figure 2: Drivers of productivity
3.3.1. Primary drivers of productivity

Primary drivers are the factors that may have a direct impact on the productivity of the company. We see four main primary drivers of productivity as being important as illustrated below in Figure 3:

**Operational processes and the workspace**

The operational processes in the company are the means by which the products (goods or services) are produced. All such processes and the workspace in which they are undertaken, when viewed at the most abstract level, might be said to be “transformation processes” being processes that transform resources into useful goods and services.

The transformation process typically uses common resources such as labour, capital (for machinery and equipment, space), materials, etc. to effect the change. This is most clearly seen in the case of the manufacture of goods where the operational process may vary from a simple batch process to a complex continuous flow production process.

However, it is important to realise that, even though the term may not be used as frequently, service companies also have an operational process and workspace for generating the services they supply to the customer. In all sectors, potential improvements in the operational processes can generate improved productivity.

Recent research (Stoddart Review, 2016) strongly argues that the workspace is a major driver of productivity in organisations and should be considered when contemplating productivity improvements. It states that according to the Leesman Index, only 53% of employees believe their workspace allows them to work productively. Whether or not this is an accurate reflection of the situation, it does seem sensible to consider the workspace and the way the operational procedures are conducted within it.
Improving Productivity in UK Small-Medium Sized Enterprises

Technology

The operational activities of the company in creating its product will almost inevitably involve some form of technology. At a simple level, this may involve simple hand tools in manufacture or construction or the use of a telephone or computer in service businesses. At a more complex level, it may involve robotic machines or complex IT networks. The technology being used and the way it fits in to the operational process will almost always have some impact on productivity. This impact, hopefully, will be positive but can also be negative if the technology chosen is not appropriate.

The Stoddart Review (2016), referred to earlier, makes many important points about technology in the workspace not least the fact that technology must not be considered in isolation. In particular, it emphasises the importance of the three aspects of technology, workspace and culture empowering and reinforcing each rather than being seen in isolation from each other.

Human resources

The human resources of the company and the way in which they fit into the operational processes and the use of technology will have an impact on the productivity of the company. Poorly recruited or poorly skilled human resources may inhibit productivity or may fail to make the best use of the technology available. On the contrary, well-skilled human resources coupled with an efficient operational process and appropriate technology will improve productivity. Thus, improvements in relation to human resources can improve productivity.

Information

This is slightly different since information does not have a direct effect on productivity. However, the availability of information about productivity in the company can enable productivity to be assessed and improved. The absence of such information makes it difficult if not impossible to improve productivity. Information in this context means a variety of items such as non-financial and financial productivity measures and other related information which can impact on productivity such as the condition of equipment, the reliability of the supply chain etc. Linked to this is the development of an effective management accounting function which supplies management with the necessary financial information to make correct decisions about proposals to improve productivity.

As Figure 3 illustrates these four drivers are inextricably linked and, taken in combination, will have an impact on the productivity of the company. As noted earlier, published research in this area seems to recognise the impact of each of these drivers separately but not when taken in combination.

When we look at the findings from our research on the drivers of productivity, the first issue concerns the results of our questionnaire survey where we see the following in Table 4.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Importance of following factors in improving productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational processes</td>
<td>4.5</td>
</tr>
<tr>
<td>Technology</td>
<td>3.6</td>
</tr>
<tr>
<td>Human resources</td>
<td>4.5</td>
</tr>
<tr>
<td>Information</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Table 4: Importance of primary drivers of productivity.
Most (but not all) of the companies surveyed regard the operational process and human resources as being of high importance in improving productivity. Technology is also seen as very important amongst manufacturing companies but less important in non-manufacturing companies, which might be expected. This is broadly in line with previous research and confirms that companies recognise the importance of these factors in improving productivity.

To a large degree, the above ratings were also reflected in the interviews we held with the SMEs themselves but the following points should be noted:

- Some SMEs recognised that there were some limitations with their existing operational processes that needed improvement and might improve productivity. However, they felt they lack the time, and sometimes the expertise, to investigate and improve the situation.

- Many SMEs reported difficulties in recruiting the specialist skilled and motivated staff that they felt they needed to be successful and to grow the business. While many companies said that they focussed on the development of existing staff, some felt there were limitations to this.

- It did not appear that SMEs put enough emphasis on considering the inter-relationships between the four primary drivers which may be significant.

- Some SMEs were aware that some of the specialist (and expensive) equipment was often under-utilised because there was insufficient product demand to obtain higher levels of productivity by working the machines harder. However, there were also some concerns that even if the additional product demand was forthcoming they were not sure they could obtain the required labour to operate the machines for a longer period.

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**One company told us:**

“I think it’s fair to say that we recognised a couple of years ago that we had some skills shortages and to enable us to go forward we recognised that we needed to have the skills in the right area. While we’ve always tried to develop people internally we probably need people from outside of the company who’ve had experience in other companies. We need to buy that skill to come in to look at what we’re doing and then sense-check us again. You know - another pair of eyes saying, ‘Well guys, what are you doing with that? You don’t really need to do that’.”
3.3.2. Secondary drivers of productivity

Looking beyond the four primary drivers of productivity, consideration needs to be given to what factors influence the nature and magnitude of the primary drivers. After all, why is it that some companies have good information on productivity or coherent operational processes while other companies don’t have these? Furthermore, these are not natural events and must be driven by other sorts of drivers.

From this study, we have also identified a set of what we describe as ‘secondary drivers of productivity’. These are the drivers which actually influence the nature and magnitude of the primary drivers, which, in turn, affect company productivity.

These secondary drivers are grouped into three categories:

<table>
<thead>
<tr>
<th>Intrinsic factors</th>
<th>Extrinsic factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>This includes a range of factors which are essentially intrinsic to the business and which have probably evolved, in various ways, throughout the life of the company.</td>
<td></td>
</tr>
<tr>
<td>• Ownership of the company</td>
<td></td>
</tr>
<tr>
<td>• Size and organisation of the company</td>
<td></td>
</tr>
<tr>
<td>• Historic development path of the company</td>
<td></td>
</tr>
<tr>
<td>• Sector and product lines of the company</td>
<td></td>
</tr>
<tr>
<td>• Client base of the company</td>
<td></td>
</tr>
<tr>
<td>• Nature of the production process (e.g. Labour verses equipment)</td>
<td></td>
</tr>
<tr>
<td>• Management arrangements in the company</td>
<td></td>
</tr>
</tbody>
</table>

It is probably the case that these factors will have an impact on the attitude and approach the company has to productivity improvement. However, we would suggest that as these factors have probably evolved since the birth of the company, they are probably quite difficult (or impossible) to change substantially, at least in the short term.

<table>
<thead>
<tr>
<th>Extrinsic factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>These are factors external to the company but over which the company has little or no control:</td>
</tr>
<tr>
<td>• Legal and regulatory constraints on the company</td>
</tr>
<tr>
<td>• Infrastructure issues (e.g. transport, broadband)</td>
</tr>
<tr>
<td>• The degree and nature of competition in the market in which the company operates</td>
</tr>
</tbody>
</table>

Clearly, the extent of market competition will cause companies to place more or less emphasis on productivity as a means of gaining competitive advantage. Beyond that, little emphasis seemed to be placed by the companies in this study on these issues in relation to productivity. Infrastructure issues were rarely mentioned and while some mentioned that regulatory regimes such as European Time Directives were a constraint, this didn’t seem to be a big issue.
Organisational cultural factors

These are a set of behavioural and cultural factors that are likely to have an impact on productivity and, possibly, other aspects such as quality. In our questionnaire survey, we asked questions, in general terms, and the result was that most companies saw having an effective organisational culture as a key secondary driver of productivity. They scored organisational culture as 4.2 out of a maximum of 5.

If we turn to culture, we have identified three themes that we think are important.

• **Vision and leadership** – Good leaders are seen as having vision. They share a dream and direction for the organisation that other people want to share and follow. This leadership vision goes beyond the written organisational mission statement and the vision statement into behaviours and practices. This vision of leadership permeates the workplace and is manifested in the actions, beliefs, values and goals of the organisation’s leaders. This applies to SMEs as much as to larger companies and for productivity to be improved there is a need for leadership in this area.

• **Strategic focus** – In order to lead a business to its greatest competitive advantage, there must be a mechanism to focus the organisation on what is important, what it will do best and to keep it from becoming distracted by other opportunities that come along. This mechanism is the strategic focus of the business. Though an organisation can operate without this strategic focus, there is strong evidence to indicate that organisations that develop and have the discipline to adhere to a strategic focus have a significant long-term competitive advantage. Improving productivity is a key strategic issue for SMEs.

Another key aspect of strategic focus for SMEs is the development of strategic relationships with other companies – large, medium or small.

This could involve developing longer-term relationships with other companies as customers, suppliers or other roles. Evidence suggests that the development of such clusters of interest are stronger in the USA than in Europe where they contribute towards improved productivity.
• **Culture of innovation** – innovation is seen as being a key ingredient for improving business productivity (and other matters such as a new product development, improved quality etc.) but how can the organisation be made innovative? You cannot force companies and employees to be innovative, you cannot threaten them and you cannot easily induce them. What is important is to create an organisational culture whereby innovation can thrive. Some organisations will be “open” in character where people feel free to say what they think. Others will be more “closed”.

The degree of openness will be a key driver to obtaining innovative solutions which are at the heart of improving productivity. Thus a culture of innovation concerns having an organisation where employees, at all levels, are encouraged to say what they think and make suggestions for improvement without fear of harassment or ridicule. One key aspect of this culture of innovation concerns team working.

The numbers, composition, size etc. of teams in the organisation can influence the organisational culture and the scope for innovation. This is an issue that needs to be considered when trying to improve the capacity for innovation.

---

**One of our interviewees stated:**

“Innovation to me is where I see things going wrong because communication just doesn’t happen. And where is communication least likely to happen? When the team’s too big! So, it doesn’t take the brain of Britain to work out that we have to keep the teams small enough to operate effectively. Keep the teams small and make sure every individual area is a pocket that works together. And, if you do that, you will get everyone talking and they will innovate and own their solutions.”
While the extrinsic factors cannot, by definition, be changed by the companies themselves, and the intrinsic factors also may be impossible or difficult to change, there is scope to change organisational culture factors.

While much has been written, by government and others, about the importance of the primary drivers of productivity in SMEs little has been written about the importance of the secondary drivers, particularly the organisational cultural factors, upon which the whole productivity issue is ultimately founded. Much research evidence exists (e.g. Shahzad et al., 2012) to show that in companies, perhaps, the major factors impacting on company performance are the various cultural factors discussed above. Also, writing about performance and productivity in a different context of the UK public sector, other authors (Prowle et al., 2016) arrived at broadly similar conclusions about the importance of these cultural factors in improving performance and productivity.

Thus, overall, we believe there is a strong consensus from all sources about the great importance of organisational culture in relation to productivity. It can further be argued that the key organisational culture issue is that of leadership. Effective leadership in a company is likely to result in a strong strategic focus (Barnes et al., 2015) and may foster the development of an innovative culture.

One of our interviewees stated:

“Where you and I would probably agree and government wouldn’t is that you get innovation through the culture of the organisation. You don’t get it by a directive from Whitehall or a grant to go off and do some innovation.”

Unfortunately, some research evidence suggests that often in the SME sector, leadership is not seen as salient issue (Kempster, 2009). The same researcher identified that there was a striking contrast in attitudes towards leadership between employed managers, who valued it highly, and owner-managers, who did not.

Self-efficacy is a belief that leaders are able to take the correct steps to move a matter forward in their company. In terms of productivity, the research finds that leaders sometimes struggle with what to do and the confidence to do it which is an example of a lack of self-efficacy. This is consistent with research finding in leadership of owner-managers in SMEs who also lack self-efficacy.

In the context of the above, it seems to us that the SMEs we visited in conducting this research are in a relatively advanced position with regard to salience about leadership. Many of them have already recognised the importance of developing leadership skills by investing in leadership training as a means of enhancing the development of their company.

Their learning from this development programme has also improved their leadership self-efficacy i.e. they have the belief they can undertake the necessary steps to improve how they lead and develop their companies.
3.4. Measuring productivity in SMEs

In order to improve productivity, it is necessary to have some means of measuring company productivity in terms of both the current position and the position after improvement actions have taken place.

Without some sorts of measures, it would be difficult, if not impossible, to assess whether any productivity improvement had actually taken place and whether the effort involved was worthwhile.

We have already discussed that productivity can be thought of as being a combination of the following:

- **Plant and equipment utilisation**
- **Labour utilisation**
- **Workspace utilisation**
Initially we have focussed on non-financial measures and these are considered below:

**Plant and equipment**

This can be expressed as follows and an example is shown in Table 5.

\[
\text{Plant and equipment utilisation} = \frac{\text{Output}}{\text{P & E hours available}}
\]

<table>
<thead>
<tr>
<th></th>
<th>P&amp;E 1</th>
<th>P&amp;E 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;E availability</td>
<td>2 shifts for 5 days per week = 70 hours available</td>
<td>1 shift for 5 days per week = 35 hours available</td>
</tr>
<tr>
<td>Downtime</td>
<td>15 hours</td>
<td>5 hours</td>
</tr>
<tr>
<td>Productive P&amp;E hours</td>
<td>55 hours</td>
<td>30 hours</td>
</tr>
<tr>
<td>% Productive utilisation</td>
<td>79%</td>
<td>86%</td>
</tr>
<tr>
<td>Output</td>
<td>2310 items</td>
<td>960 items</td>
</tr>
<tr>
<td>Output per productive P&amp;E hour</td>
<td>42 items per productive P&amp;E hour</td>
<td>32 items per productive P&amp;E hour</td>
</tr>
</tbody>
</table>

Table 5: Plant and equipment measures

**Labour**

This can be expressed as follows and an example is shown in Table 6.

\[
\text{Labour utilisation} = \frac{\text{Output}}{\text{Labour hours available}}
\]

<table>
<thead>
<tr>
<th></th>
<th>Labour type 1</th>
<th>Labour type 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour availability</td>
<td>8 persons working a 37 hour week = 296 hours</td>
<td>4 persons working a 37 hour week plus 12 hours overtime = 160 hours</td>
</tr>
<tr>
<td>Productive labour hours</td>
<td>200 hours</td>
<td>150 hours</td>
</tr>
<tr>
<td>% Productive utilisation</td>
<td>67%</td>
<td>94%</td>
</tr>
<tr>
<td>Output</td>
<td>2310 items</td>
<td>960 items</td>
</tr>
<tr>
<td>Output per productive labour hour</td>
<td>42 items per productive labour hour</td>
<td>32 items per productive labour hour</td>
</tr>
</tbody>
</table>

Table 6: Labour measures
Workspace

This is more complex to consider because there are basically two dimensions to consider:

- The percentage of total workspace being utilised
- The period of time for which that workspace in being utilised

In the first case, consider a flexible production space where the amount of workspace being occupied at any one time can be varied. If the workspace available is 150 square metres and the actual occupancy is only 90 square metres for the week then the occupancy rate is only 60% for that week.

For the second case, consider the example of a conference centre. We could express productivity by the percentage of time that the conference centre is being utilised over a week/month etc. So far example, if we took the normal working day (9-5) as the period being considered then that provides a maximum of 8 hours X 7 days = 56 hours during a week. If the conference centre was utilised for 42 hours in a week then this equates to an utilisation rate of 75%.

These two measures could be combined together to provide an overall productivity measure being:

\[
\text{Workspace utilisation} = \frac{\text{Output}}{\text{Sq.metre/hours available}}
\]

This can be expressed as an example shown in Table 7.

<table>
<thead>
<tr>
<th></th>
<th>Space 1</th>
<th>Space 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workspace availability</td>
<td>20 square metres for 7 hours per day</td>
<td>30 square metres for 7 hours per day</td>
</tr>
<tr>
<td>Maximum utilisation sq. metre-hours</td>
<td>700</td>
<td>1050</td>
</tr>
<tr>
<td>Actual utilisation sq. metre-hours</td>
<td>420</td>
<td>525</td>
</tr>
<tr>
<td>% Utilisation</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>Output</td>
<td>4200</td>
<td>3675</td>
</tr>
<tr>
<td>Output per productive sq. metre-hour</td>
<td>10 items per sq. metre-hour</td>
<td>7 items per sq. metre-hour</td>
</tr>
</tbody>
</table>

Table 7: Workspace measures
The previous examples outline what might be termed non-financial measures of productivity, which relate units of resource to units of activity/product. As we have already noted, some businesses rely more on financial measures such as gross profit or gross margin on various activities.

This may be done because:

- either they have difficulty in collecting the non-financial information needed to calculate normal productivity measures or
- units of product output do not exist or are more difficult to define (e.g. some services) which makes it impossible to calculate normal productivity measures.

In this situation, any improvements on gross margin are equated with improvements in productivity.

The danger of relying on financial measures is that improvements in gross margin may not reflect true increases in productivity because of changes in price or cost levels. For example, the following scenarios are possible:

- Gross profit increases due to a price increase but actually disguises a drop in labour productivity
- Gross profit decreases due to a cost increase but actually disguises a rise in labour productivity

Thus while some companies may have little or no alternative but to use gross profit as a productivity measure, this needs to be treated with caution because of the possible distortions referred to above.

However, a comprehensive and regular full variance analysis would expose the otherwise ‘disguised’ reasons. SMEs might argue that this is time consuming work, but modern ERP (costing) systems could produce the data easily, although it would need to be reviewed to spot trends and anomalies and the interpretation of this data may require specialist financial management skills.

Our interviews with SMEs discovered something of a mixed picture regarding productivity measurement:

- Some companies rely strongly on financial measures of productivity as either they have little option because of the nature of their product or because they find difficulty in collecting the required non-financial information.
- Some companies collect very little productivity data and recognise this is a significant managerial weakness since they cannot measure their productivity. They accept it is an issue they must address.
- Some companies have a wide range of productivity data, which enables them to measure their productivity in terms of labour and fixed assets. However, sometimes the database for productivity measures is incomplete in that not all types of labour or all types of fixed assets are covered.
- We have made strong emphasis earlier on the inter-dependency of the various aspects of productivity, namely the operating process, technology and labour. We are not convinced that all companies surveyed are fully taking account of these inter-dependencies when measuring their productivity.
3.5. Improving productivity in SMEs

In this section, we consider the way in which the SMEs visited for this project are addressing the issue of improving productivity. At the outset, it should be noted that all respondents indicated some degree of interest in improving productivity while expressing it in different ways.

For example, one interviewee put it like this:

“Hopefully as we get busier and expand in such a way that we don’t need to keep taking more people on. We don’t want to get rid of anybody but we hope to be able to utilise existing staff more efficiently and productively.”
Firstly, the results of our questionnaire survey are as shown in Table 8.

Looking across all of the companies surveyed, it appears that they see all of the suggested means of productivity improvement as important with the lowest score given to organisational change. In addition, the picture is broadly similar across the three categories of SME.

<table>
<thead>
<tr>
<th>MEANS OF IMPROVEMENT</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Other</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational process changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Employee development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Organisational change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Culture change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Investment in technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Improved management information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 8: Improving productivity in SMEs
3.6. Barriers to improving productivity in SMEs

As part of the research, we investigated what companies saw as the main barriers in improving their productivity. The results of our questionnaire survey are summarised below in Table 9.

<table>
<thead>
<tr>
<th>BARRIER</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Other</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>90</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Lack of skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>90</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Lack of management capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Lack of funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>11</td>
<td>110</td>
</tr>
<tr>
<td>Regulatory bureaucracy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Organisational resistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Important/Important</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Slightly Important/Not important</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 9: Barriers to improving productivity in SMEs
It is quite clear from this that companies, overall, see the main barriers as being lack of information, skills, management capacity and organisational resistance to change. Lack of funding and the impact of regulatory bureaucracy were not seen as significant barriers. There are some variations between companies in different sectors but overall the situation seems consistent.

Looking beyond the survey to views expressed by SMEs during interview the following points emerged:

• Many companies comment on the difficulties they currently have in recruiting and retaining the staff, with the necessary skills, that they need to operate their business and improve their productivity. The competition to recruit from a limited pool of staff is often leading to wage inflation, which, in turn, affects their cost base. Depending on how these matters are handled by the government, the impact of BREXIT on the free movement of labour may or may not exacerbate this situation but this remains to be seen. In such a situation, it may be necessary to identify some innovative solutions such as extension of apprentice schemes, re-organising the labour force to make the best use of the skills available etc.

• Some companies while recognising that they needed to make improvements to their operational processes in order to improve their productivity found difficulties in doing this. To some extent, it is a matter of scarce management time focussing on priorities other than productivity while in some cases it is a lack of skills about how to approach the problems which may be quite complex.

One of our interviewees stated:

“I think we’re a victim of our own success because we’re incredibly diverse and it means that it’s very hard to be super productive because you don’t know what the pitfalls are.”

• While some companies saw a need for further investment in technology, the majority did not. Their view was that they had recently invested in new technology to such an extent that they felt they were near the “state of the art”. Interestingly, few companies saw lack of finance as a barrier to new investment.

• There was not much enthusiasm for government financial support in attempting to improve productivity. One respondent summed it up as follows:

“If it’s government money I sort of start to go a bit glazed. Only because the worry is that I don’t fully trust that if you do jump through all these hoops you’ll even get it anyway. So, there’s a big trust issue with me and the government.”

Other respondents expressed similar views.

• Changing the organisation culture was often seen as important to encourage innovation and provide a strategic focus to what the company was doing and companies were prepared to invest in this area of activity.
Conclusions
A number of conclusions can be drawn from this study with the caveat that it is based on a small sample of companies:

**Importance of productivity to SMEs** – we have already noted that in the light of all the publicity about the problems of UK business productivity, it might be anticipated that SMEs would see productivity as a top priority issue. Companies have many ways of enhancing their profitability and improving their productivity is but one approach. When questioned about the importance they attach to improving productivity, most companies stated that it is a very important task for them but other evidence leads us to have a little scepticism about this level of commitment to productivity compared to other business issues.

**Understanding of productivity** – many SMEs have only a limited understanding about the nature of productivity. Also, there is a need for SMEs to understand better the relationships between productivity and the twin factors of growth and profitability.

**Drivers of productivity** – There is general acceptance that the four primary drivers of productivity are (a) operational processes and workspace organisation, (b) the use of technology, (c) the availability of the right human resources and (d) information on productivity issues, and the inter-relationship between them. However, these inter-relationships are not always recognised and we are not convinced that all companies are fully taking account of these inter-dependencies when measuring their productivity.

**Organisational culture** – also seen as important to improving productivity in SMEs is the existence of an organisational culture which is strategically focussed and emphasises the importance of innovation. Most (but not all) of the companies surveyed would support this view.

**Leadership** – SMEs recognise the importance of effective leadership. Most of the SMEs we visited in conducting this research are relatively advanced with regard to the salience about, and commitment to, leadership. Many of them have already recognised the importance of developing leadership skills by investing in leadership training as a means of enhancing the development of them and their company.
Productivity trends – many SMEs are unsure whether their productivity has increased or decreased in recent years. This is for the simple reason that they do not always have the mechanisms and the information needed to measure their productivity.

Financial measures of productivity – some companies use financial measures as surrogates for productivity because they do not have data available to compute normal productivity measures or because units of product do not exist or are more difficult to define which makes it impossible to calculate normal productivity measures. However, there are potentially misleading dangers in doing this in that cost and price changes mask real changes in resource productivity.

Improving productivity – all companies see a need to improve their productivity by a variety of means about which there is a good degree of consensus. The most important approach to improving productivity, across all companies surveyed, was seen to be the ongoing development of its workforce.

Barriers to improvement – SMEs see a number of barriers facing them in improving productivity for which solutions need to be found. The key barriers are seen to be:

• Lack of skills exacerbated by difficulties in recruiting skilled staff
• Lack of management time and capacity to effect the necessary changes
  • Lack of information on which to base decisions

Role of government and policy-makers – It is probably true to say that productivity is an issue, which is of relevance to a wide range of people: businesses, governments, trade unions, banks etc. While government has some key roles to play in terms of developing infrastructure and simplifying regulation, our research suggests that the main thrust to improve productivity must come from within businesses themselves.
Overall, it seems to us that there is still a great deal to be done to convince some SMEs of the importance of improving productivity and its potential impact on business growth and profitability. Beyond that we suggest that there is a need for SMEs to grapple with two agendas.

The first concerns technical issues such as the collection of information on productivity or the improvement of operational processes and workspace management.

The second agenda is “softer” and concerns the development of the SME as an organisation. Of particular importance is the need to develop a strategic focus on productivity improvement and a culture of innovation, which will initiate such improvements.
References and bibliography

The following list includes specific books and articles quoted in this report coupled with a range of other material, which might be of interest to the reader.


• Annual Report on European SMEs (2008), European Commission publications office.


• Kitching, J., Blackburn, R., Smallbone, D. and Dixon, S. (2009), Business strategies and performance during difficult economic conditions, Department of Business Innovation and Skills (BIS).


“PRODUCTIVITY ISN’T EVERYTHING, IN THE LONG RUN IT IS ALMOST EVERYTHING.”

PAUL KRUGMAN