Unpicking the productivity narrative in UK manufacturers

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About PIN

The Productivity Insights Network was established in January 2018 and is funded by the Economic and Social Research Council. As a multi-disciplinary network of social science researchers engaged with public, private, and third sector partners, our aim is to change the tone of the productivity debate in theory and practice. It is led by the University of Sheffield, with co-investigators at Cambridge Econometrics, Cardiff University, Durham University, University of Sunderland, SQW, University of Cambridge, University of Essex, University of Glasgow, University of Leeds and University of Stirling. The support of the funder is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.
**Project context**

Politicians, economists and commentators are increasingly touting a productivity problem in the UK, when compared to other economies. However, there is very little research exploring productivity at the company level, or indeed how productivity is understood and experienced within manufacturing companies and across the workforce. Without engaging companies, executive teams, managers and workers in the productivity conversation, a step change in addressing the productivity puzzle could prove difficult. This project focused on gaining a better understanding about the ‘productivity narratives’ shaping ideas in UK manufacturing at workforce, management and boardroom levels today. The project builds on the findings reported in the EEF (now Make UK) 2018 study, ‘Unpacking the puzzle: Getting UK Manufacturing Productivity back on track’, by investigating how productivity is perceived and experienced in UK manufacturing companies involved in the food and drink, pharmaceutical, aerospace and automotive sectors. The project was a collaboration between the Universities of Strathclyde, Bristol, York and Aston incorporating team members with specific expertise in manufacturing, systems thinking and operations improvement, innovation and performance measurement. The core team are founding members of the EPSRC Manufacturing Futures Group and have worked extensively with UK manufacturers.

**Project aim**

The overall aim of the project was to move the productivity conversation forward, away from the economists, politicians and statisticians, and into the workplace. The focus was on uncovering the productivity conversations taking place in UK manufacturers (if at all). To support this, variances across sectors and job hierarchies were to be explored via engagement with employees at different levels about their understanding of productivity including how it is perceived and measured, the drivers, constraints and enablers that exist, the challenges faced and whether or not a productivity problem did indeed exist.

**Project activities**

The project was funded as a pioneer project by the UK’s Economic and Social Research Council (ESRC) through the Productivity Insights Network Programme (Reference ES/R007810/1). It was undertaken from September 2018 to July 2019 and involved a review of secondary data and 40 interviews with Directors, Managers and Supervisors from 19 manufacturing companies in the aerospace, food and drink, pharmaceutical and automotive sectors. Semi-structured interviews were undertaken with purposefully selected employees based on company and personnel-related criteria. The interviews had a duration of 30-90 minutes and were undertaken in person and by telephone/Skype. Various engagement activities were undertaken throughout to raise awareness about the project, share knowledge and verify the outputs. These included company briefings, media coverage via social media, newsletter articles, a press release, the PIN blog and presentations to industry support organisations as well as academic conferences.

**Project outputs**

The findings contribute to the productivity puzzle debate by providing a much-needed empirical and company-level perspective about how productivity is perceived, discussed and experienced within manufacturing. This reveals a more complex picture than high-level statistics would indicate.

(i) The productivity narrative within companies consisted of confusion about terminology, diverse narratives, and a focus on efficiency rather than productivity. The term productivity was used within companies but not universally, and where it was evident, definitions were varied and often linked to metrics such as machine utilisation, OEE, on-time delivery, standard work, and output per unit of time. Four productivity-related narratives were identified: (i) volume and output, (ii) meeting predetermined targets, (iii)
efficiency and cost savings; and (iv) increasing output and value. However, there was a prevalent focus on cost cutting rather than adding value, and on problems rather than opportunities to exploit strengths. Conversations were dominated by a focus on efficiency and reducing inputs, with very little focus on increasing business output.

(ii) There are a number of concerns relating to how productivity is measured and compared. There was a prevalent measurement-focused approach within companies with a lack of commonality of measures and a disconnect with measures at the macro level. Productivity was often synonymous with metrics and measurability, resulting in a focus on activities that can be measured.

(iii) There are a number of commonalities across companies and sectors about the factors that influence productivity. These include company structure, management, information technology, product innovation, capital inputs and labor inputs, with many found to be both constraints and enablers.

(iv) Future productivity challenges are evident at the level of the company and UK. Within companies, process improvement issues, technology and people were key. The latter was most regularly mentioned reflecting concern about the knowledge gap in companies resulting from an aging/departing workplace, difficulties in workforce engagement, and issues with recruiting and developing staff. External issues related to competition, the comparative cost of UK manufacturing and the need for clarity and understanding from Government about productivity in manufacturing. The support required to address such challenges related to skills development, funding for technology, incentives for a longer-term focus and a supportive regulatory environment.

(v) The perception of a productivity problem is not widespread among respondents. The issue was mentioned by just over a quarter of the respondents, and mainly at the company level. However, there are recognized challenges within companies around automation and technology, skills access/development, company culture, workforce engagement, rising costs and company structural changes, whilst at the UK-level, problems relate to rising costs, competition, retaining manufacturing capabilities, and workplace culture.

Implications
The study highlights that the narratives around productivity within manufacturing companies are not necessarily comparable to those of the economists and politicians. More definitional alignment is required if policy makers are to use the correct levers to improve productivity. Further, the prevalent focus on efficiency and cost savings within companies, rather than adding value, is concerning and has implications for longer term sustainability including the locational stickiness of larger, foreign-owned companies. Finally, the diversity of measures used raises issues about comparability and consistency whilst the overt focus on measurement, and what can be measured, may result in increasing myopia and a lack of focus on adding value across the business. For policy makers, there are opportunities to encourage an innovation focus for a sustainable long-term future and ensure that a productivity-focus drives a company’s competitiveness. For industry support organisations, there are possibilities to define new formula for measuring productivity; seek measurement alignment to improve productivity; and to promote a common productivity definition that helps manufacturers to assess/drive progress and Government to better understand/promote company and industry performance. Finally, for academics, there is the opportunity to Investigate how to: promote a common understanding and language; create new ways of measuring and creating alignment; encourage a focus on innovation and value-added for the long term; and question the appropriateness of labour productivity in the new economy.