



Department for
Business, Energy
& Industrial Strategy

BUSINESS PRODUCTIVITY REVIEW

Government call for evidence



23 May 2018

Business Productivity Review

Call for evidence

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1. Introduction

- 1.1. Raising productivity is one of the Government's key priorities and is core to the UK's Industrial Strategy. By improving productivity whilst simultaneously keeping employment high, we can boost our earning power – raising living standards, providing funds to support our public services and improving the quality of life for all our citizens.
- 1.2. The UK has a strong business environment upon which we can build. For example: 1,100 businesses start every day in Britain¹ and we are ranked as one of the best places in the world to start and grow a business.² We have more than 31,000 Scale Up businesses that increased their revenue or employees by 20% per year (based on 2015 data)³ and between 2012 and 2016 London attracted more tech investment than Paris, Berlin and Amsterdam combined.⁴
- 1.3. The UK has a longstanding productivity gap with our international competitors. In 2016, output per hour worked in the UK was 16.3% below the average for the rest of the G7 advanced economies. Since the 2007/08 financial crisis, productivity growth has been lower than expected in the UK and has consistently fallen below predicted trends; this has been termed the 'productivity puzzle'.⁵
- 1.4. To address the UK's productivity challenge, our Industrial Strategy focused on the five foundations of productivity: ideas, people, infrastructure, business environment and place. As part of our approach to improving the business environment, the Industrial Strategy White Paper announced that the Government would launch a review of the actions that could be most effective in improving the productivity and growth of small and medium-sized businesses. This review is focused on improving the productivity of businesses with lower productivity, sometimes described as a "long tail" that lags behind the leading firms and underperform relative to domestic and international benchmarks.

Scope of the review

- 1.5. This review will consider evidence relating to "firm-level" factors that may impact productivity – these are decisions that are controlled by and / or taken within individual businesses.
- 1.6. This review will build the Government's understanding of how firm-level interventions, by public and private sector actors, can support growth and improve productivity for the long tail of low productivity businesses. The review aims to:
 1. Improve our understanding of high and low productivity businesses, and the practices driving the performance of each;
 2. Improve our understanding of the market in which interventions operate; and

¹ BEIS calculations based on BankSearch data

² See for example World Bank "Doing Business Index"; and the Global Entrepreneurship Index

³ Scale Up Institute (2017), Annual Scale Up Review 2017

⁴ TechNation (2017), accessed April 2018 at <https://technation.techcityuk.com/>

⁵ ONS (2018), International Comparisons of UK productivity (ICP), final estimates: 2016

3. Explore which interventions by the public sector and private sector are effective in improving the practices that drive business productivity, including the ways in which information is communicated.
- 1.7. This review will report its findings to the Secretary of State for Business, Energy and Industrial Strategy and to the Chancellor of the Exchequer in Autumn 2018. The output of the review will be used to help inform the next steps on the delivery of the Industrial Strategy.

Devolution

- 1.8. The devolved administrations in Scotland, Wales and Northern Ireland have their own policies and agencies operating programmes in support of productivity and capability-building. Alongside these, the UK Government carries out programmes in support of business throughout the whole of the United Kingdom (e.g. the British Business Bank) and will continue to work closely with each of the devolved administrations to ensure that programmes complement one another.

How to respond

- 1.9. Please provide evidence to support your response. We are interested in international and domestic evidence, from all firm sectors and sizes, and on the effectiveness of current (or historic) business support by the public sector or through the private market (including identifying any areas within existing programmes where objectives could be focussed on productivity improvements). When providing answers please consider the variations that may occur due to business size, sector and stage of business lifecycle.
- 1.10. This call for evidence contains a summary of published evidence and analysis. Respondents are invited to comment on whether any relevant evidence has not been included.
- 1.11. All interested parties are invited to respond to the questions set out in this call for evidence by **6 July 2018** when this call for evidence will close. To help us analyse the responses please use the online survey tool as far as possible. Visit the consultation hub to submit your response:

<https://www.gov.uk/government/consultations/business-productivity-review-call-for-evidence>

- 1.12. Email responses should be sent to: businessproductivityreview@beis.gov.uk
- 1.13. Written responses should be sent to:

Business Productivity Review
The Department for Business, Energy and Industrial Strategy (4th floor spur)
1 Victoria Street
London SW1H 0ET

Data Protection

1.14. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), Data Protection law and the Environmental Information Regulations 2004.

1.15. If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department for Business, Energy and Industrial Strategy (BEIS).

Consultation Privacy Notice

1.16. This notice sets out how we will use any personal data you provide to us and your rights in respect of that data. It is made under Articles 13 and/or 14 of the General Data Protection Regulation (GDPR).

The data

1.17. We anticipate we may process the following types of your personal data: name / employer / job title / email address / postal address / phone number.

Purpose

1.18. The purpose for processing the personal data is as part of analysing the results of this call for evidence and informing the Business Productivity Review. We may also use it to contact you about related matters.

Legal basis of processing

1.19. The legal basis for processing your personal data is that such processing is necessary for the performance of a task carried out in the public interest, or in the exercise of official authority, by a Minister of the Crown or a government department.

Recipients

1.20. Your personal data will be shared by us with other central government departments and professional advisors only.

Retention

1.21. Your personal data will be kept by us for 3 years and will then be deleted.

Storage

1.22. Your personal data will be stored in a secure government IT system. The data you provide through the online consultation hub will be stored by CitizenSpace and

Dialogue on their servers in the European Economic Area. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this. This data will be moved to a secure government IT system once this call has closed, no later than 31 July 2018.

Your Rights

- You have the right to object to the processing of your personal data.
- You have the right to request information about how your personal data are processed, and to request a copy of that personal data.
- You have the right to request that any inaccuracies in your personal data are rectified without delay.
- You have the right to request that any incomplete personal data are completed, including by means of a supplementary statement.
- You have the right in certain circumstances (for example, where processing is no longer necessary for developing policy in relation to the Business Productivity Review) to request that your personal data are erased.
- You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

Complaints

1.23. If you consider that your personal data has been misused or mishandled you may make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House Water Lane
Wilmslow Cheshire, SK9 5AF
0303 123 1113
casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Data Controller Information

1.24. The data controller for your personal data is the Department for Business, Energy and Industrial Strategy. The contact details for BEIS are:

The Department for Business, Energy and Industrial Strategy
1 Victoria Street,
London, SW1H 0ET

1.25. The contact details for the BEIS Data Protection Officer are:

The Data Protection Officer
The Department for Business, Energy and Industrial Strategy
1 Victoria Street

London, SW1H 0ET

Email: dataprotection@beis.gov.uk

Quality assurance

1.26. This consultation has been carried out in accordance with the Government's Consultation Principles. If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to: beis.bru@beis.gov.uk

2. The UK's Productivity Challenge

What is productivity?

- 2.1. Productivity is the total output produced per input. Therefore, improved productivity means greater efficiency in the production process, i.e. more output (e.g. goods, services) can be produced with given inputs (e.g. labour, capital, resources).⁶
- 2.2. Productivity matters because it is a key driver of economic growth, social prosperity and living standards. In the long run, a country's ability to raise living standards is almost entirely down to its ability to raise productivity.⁷ The UK's overall productivity growth will in large part be determined by the performance of individual UK businesses. For a business, productivity improvements mean they are becoming more efficient over time and can increase their profits, whilst for workers, productivity growth can lead to higher wages.
- 2.3. Productivity can be measured in different ways. This review focuses on labour productivity, which is the measure of productivity most commonly used by the Office for National Statistics (ONS), and by academics and other commentators. Labour productivity is usually defined as the amount of output (e.g. Gross Value Added (GVA) / Gross Domestic Product GDP) per worker or per hour worked. GVA is a measure of the value of goods and services produced in a region, sector or area in an economy.
- 2.4. In this review, we will focus on "low productivity businesses". Collectively this group of low productivity businesses in the UK have been referred to as the "long tail". Our working definition of a low productivity business is a business with levels of productivity below the UK median. As the median productivity of firms in different sectors and size categories varies, we are considering these dimensions through the review. We welcome comments on the merit of focusing on this segment of businesses.
- 2.5. This call for evidence is seeking evidence on all business sizes and sectors, but the review will have a particular focus on Small and Medium-sized Enterprises (SMEs). Throughout this call, we define businesses as: micro (0-9 employees), small (10-49), medium (50-249) and large (250+).

Evidence on the UK's productivity challenge

- 2.6. The UK has a longstanding productivity gap with many of our international competitors, including the majority of the G7 countries (figure 2.1a). In 2016, output per hour worked in the UK was 16.3% below the average for the rest of the G7 advanced economies.⁸
- 2.7. The UK experienced stable productivity growth of around 2% per year from the 1980s to 2007-08, as did other G7 countries. Since the 2007-08 financial crisis

⁶ ONS (2007), The ONS productivity handbook

⁷ Ibid

⁸ ONS (2018), International comparisons of UK productivity (ICP), final estimates: 2016

productivity growth has been slower in developed economies (particularly so in the UK); this has been termed the productivity puzzle (figure 2.1b).⁹

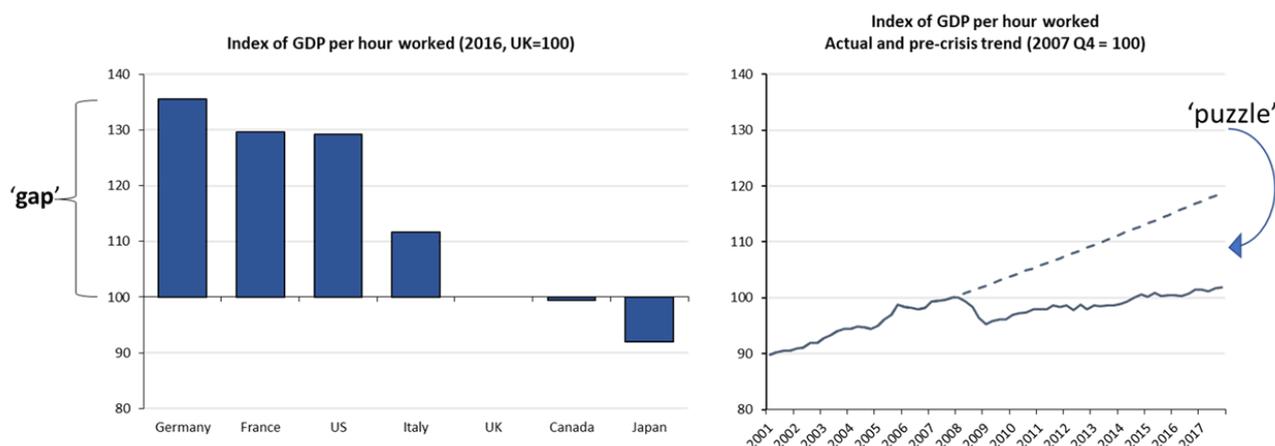


Figure 2.1 The (a) productivity gap and (b) puzzle (ONS 2017 - International comparisons of UK productivity (ICP), first estimates: 2016)

Why are we focusing on individual businesses in this review?

- 2.8. Bank of England and the Organisation for Economic Co-operation and Development (OECD) economists have highlighted the large difference between the high productivity businesses that are performing strongly, and underperforming businesses that are not.¹⁰ There is a large proportion of businesses that perform less well in terms of productivity; these are the long tail of low productivity businesses.
- 2.9. The wide productivity distribution between the leaders and the long tail suggests there is potential for the businesses in the long tail to learn from, and catch up with, the UK's world-leading, highly productive businesses. An increase in firm-level productivity would benefit the businesses themselves, their employees, and drive up the UK's overall productivity performance.
- 2.10. This review seeks to understand what makes leading UK businesses highly productive, and how the long tail of lower productivity businesses can learn from, and catch up with, these leaders.
- 2.11. Improvement could potentially have a large impact on the UK's overall productivity. For example, Haldane (2017) argues that if all UK businesses made improvements to their productivity (by moving up along the labour productivity distribution) it could deliver a boost to aggregate UK productivity of around 13%.¹¹ In addition, the Confederation of British Industry (CBI) and the Productivity Leadership Group have estimated that if the UK had the same productivity distribution as Germany, this would add over £100bn to UK GVA.¹² The Productivity Leadership Group consists

⁹ ONS (2018), International comparisons of UK productivity (ICP), final estimates: 2016

¹⁰ Andrew Haldane (2017), Productivity Puzzles; OECD (2015), Future of Productivity

¹¹ Haldane (2017), Productivity Puzzles

¹² CBI (2017), From Ostrich to Magpie

of high-profile business leaders that have joined with the Government to launch the Be the Business initiative. Be the Business aims to build a national productivity movement and raise productivity levels among British businesses by encouraging the adoption of best-practice management techniques and simple digital technologies.

- 2.12. Although the existence of a long tail is not unique to the UK, recent analysis has suggested that the difference between the highest and lowest performers may be larger in the UK compared to other countries, and this difference may be increasing.¹³
- 2.13. Similarly, analysis by McKinsey comparing the UK with the top performer in the G7 (i.e. Germany), suggests that the UK may have a greater proportion of low productivity businesses.¹⁴ There is also evidence that a relatively large proportion of employment in the UK is in low productivity firms at the bottom of the labour productivity distribution.¹⁵
- 2.14. The review will further examine how the UK distribution of productivity compares internationally, and we would welcome further evidence on this point.

The UK's competitive markets

- 2.15. There is no clear evidence that weakened competition is driving the performance in the long tail. For example, recent ONS analysis shows that the least productive businesses tend to exit the marketplace at a much faster rate than businesses with higher productivity, indicating that these businesses are either improving productivity or exiting the market; and that this effect has been increasing over time.¹⁶
- 2.16. In addition, the UK has a low proportion of “zombie” businesses (which have persistent problems meeting their interest payments) relative to international comparators.¹⁷ The relatively low proportion of zombie businesses suggests that the UK's competitive markets and insolvency regime are functioning well in encouraging the least productive businesses to exit the market.
- 2.17. Despite the attrition of zombie businesses, the UK appears to be a middling performer in international comparisons of how well market competition increases the employment and market share of better firms at the expense of underperforming firms over time.¹⁸

¹³ Haldane (2017), Productivity Puzzles

¹⁴ McKinsey calculations based on ORBIS 2013 data

¹⁵ Bartlesman et al (2018), Micro moments database for cross-country analysis of ICT, innovation, and economic outcomes (forthcoming in Journal of Economic and Management Strategy, Fall 2018)

¹⁶ ONS (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: “the laggards”, 2003 to 2015

¹⁷ OECD (2017), The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries

¹⁸ Andrews, D, Criscuolo, C, Gal, P, and Menon, C. (2015) Firm Dynamics and Public Policy: Evidence From OECD Countries

Recent developments

2.18. Figure 2.2 shows the changes to the distribution of firm-level productivity over time. As can be seen there was a leftward shift between 2003 and 2007 (i.e. more firms with lower labour productivity over this period). Over the following years, there was a rightward shift in the productivity distribution (i.e. decline in the share of firms with negative levels of productivity), with the lowest point in 2015. We will further explore how the distribution of UK productivity has changed over time through this and would welcome further evidence on this trend.

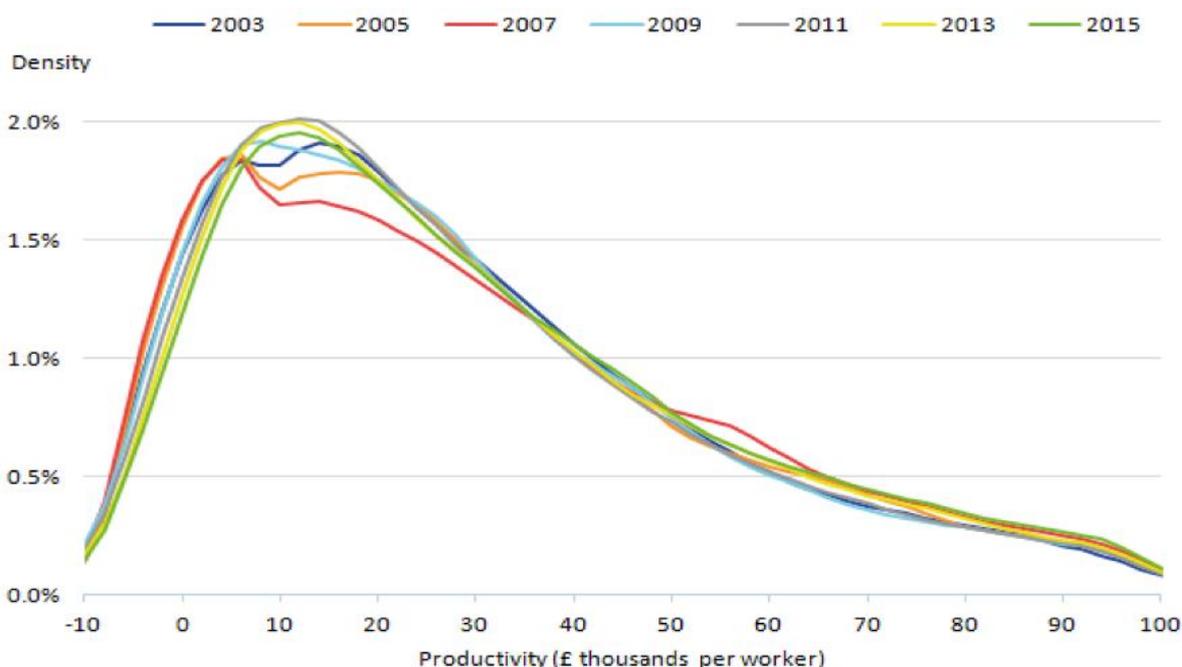


Figure 2.2 Distribution of real firm-level productivity, Great Britain, 2003-2015 (ONS)

Questions

Please provide evidence to support your response

1	Do you agree with our working definition of low-productivity businesses?
2	Is there further evidence to compare the UK's productivity distribution of firms to that of other countries?
3	Is there further evidence on how the UK's business-level productivity distribution has changed over time?
4	Is the long tail of low productivity firms being driven by weaker competition in UK markets?

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

The UK's distribution of business level productivity

3.1. There is a wide variation in productivity across UK businesses (figure 3.1). The top 25% most productive UK businesses are around 2 to 5 times more productive than businesses in the bottom 25%, depending on sector and region. The UK's most productive businesses are found across a broad range of industries and can be found in all business sizes and regions.¹⁹



Figure 3.1 The UK's productivity distribution in 2015 (Source: ONS calculations using Annual Business Survey and Interdepartmental Business Register).²⁰

3.2. Some UK businesses at the bottom end of the distribution have zero or negative levels of productivity. Negative productivity will occur when costs are higher than sales and will often occur in businesses that are new or about to exit the market. In 2015, 6.5% of UK businesses had zero or negative levels of productivity. However, as noted above, there has been a decline in the number of businesses with zero or negative productivity since 2003, indicating that such businesses generally exit the market swiftly or improve their productivity (figure 3.2).²¹

¹⁹ ONS (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: "the laggards", 2003 to 2015; ONS (2017), Labour productivity measures from the Annual Business Survey: 2006 to 2015

²⁰ This chart has used a restricted sample between £-10,000 and £100,000 labour productivity per worker to aid the visualisation of the distribution.

²¹ ONS (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: "the laggards", 2003 to 2015

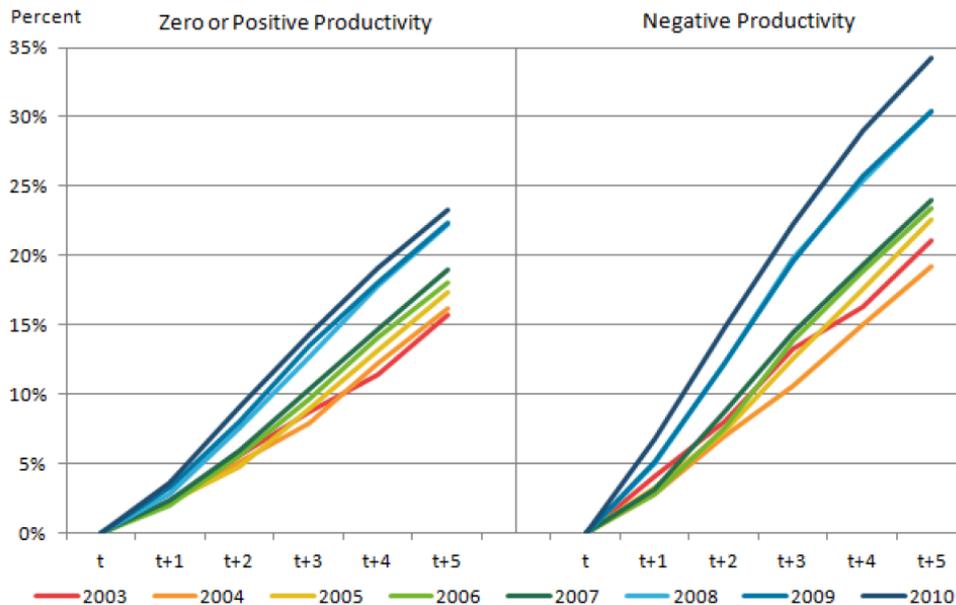


Figure 3.2 Death rates for firms on the Annual Business Survey with “zero or positive” and negative productivity, Great Britain, 2003-2015 (ONS)

- 3.3. Recent analysis by the ONS provides more information on the bottom 10% of businesses in the distribution of productivity. Firms that are smaller, younger, in the hotel and restaurant or distribution sectors, or located in Wales or the North East are over-represented in the bottom 10% of the labour productivity distribution. However, the worst performing businesses in terms of productivity can be found in all regions, industries and size groups.²²
- 3.4. In addition, the relatively high business start-up rates²³ in the UK may also contribute to the long tail, because, as noted above, new firms frequently have costs which exceed sales, generating negative productivity.
- 3.5. Similarly, the most productive businesses are found in a broad range of industries, business sizes and regions. In general, businesses in more capital-intensive sectors (i.e. production) have higher levels of labour productivity than those in labour-intensive industries (i.e. services). However, certain services industries also have high levels of labour productivity.²⁴
- 3.6. Although low productivity businesses can be found in all regions, industries and sizes, there appears to be more variation within, rather than between, regions, sectors and sizes.²⁵ This suggests that a business’ productivity is not simply a result of its sector, size, or where it is based, but that there are practices and/or characteristics within a business that will have a significant impact on its productivity.

²² ONS (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: “the laggards”

²³ OECD (2017), Entrepreneurship at a glance

²⁴ ONS (2017), Labour productivity measures from the Annual Business Survey: 2006 to 2015

²⁵ ONS (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: “the laggards”, 2003 to 2015; ONS (2017), Labour productivity measures from the Annual Business Survey: 2006 to 2015

Factors that may be driving the UK's productivity distribution

- 3.7. Many factors beyond the scope of this review could be impacting the performance of the long tail of low productivity businesses, including: regulatory and monetary policy, tax policy, resource allocation and changes in investment in capital within firms. The Government has, and will continue to, take action on the economy wide drivers of the UK's productivity performance. However, for the purposes of this review, we are focusing on firm-level factors which impact productivity (as defined in paragraph 1.5).
- 3.8. We explore which firm-level factors drive productivity in detail in the following sections. From our review of the evidence, it is firm-level management and leadership capability and the adoption and diffusion of technology which are the most important factors driving productivity differences between businesses within the same region, size band or industry.

Characteristics of high productivity businesses

- 3.9. Several characteristics appear to be more commonly found in high productivity businesses. As can be seen from the list below, many of these practices relate back to good management and leadership, which we explore in section 4. In general, high productivity businesses are more likely to:²⁶
 - be aware of their own and relative performance;
 - regularly review their performance and practices;
 - have structured management practices in place (monitoring, incentives, targets);
 - be part of a peer-to-peer network;
 - have effective relationships with their supply chain;
 - utilise a wide range of external advice and support, particularly strategic advice;
 - have a clear vision for the business and an up-to-date business plan;
 - have higher levels of employee engagement and job satisfaction;
 - have more highly skilled managers and staff;
 - provide training to improve the skills of managers and staff;
 - adopt new technology and utilise digital tools to improve efficiency;
 - take part in behaviours associated with growth (e.g. export, innovation, strategic decision-making).

²⁶ This is based on a range of sources, including: Longitudinal Small Business Survey 2016; Brown et al (2011), Workplace performance, worker commitment, and loyalty; CBI (2017), From Ostrich to Magpie; McKinsey Global Institute (2015), Global growth: Can productivity save the day in an aging world?; ERC et al (2015), Unlocking UK productivity – Internationalisation and innovation; ONS (2018), Management practices and productivity in British production and services industries; Bloom et al (2014), Measuring and explaining management practices across firms and countries

Questions

Please provide evidence to support your response

5	Is there further evidence from the UK or internationally, on what drives the distribution of business productivity?
6	What do you think are the most important firm-level factors that impact productivity?
7	Would you add any further characteristics of high-productivity businesses as set out in paragraph 3.9?

4. Leadership and management

- 4.1. There is a large and growing body of evidence that suggests that better management practices are associated with higher productivity.²⁷
- 4.2. Most recently, data from the ONS (2018) examining management practices in British production and services industries has shown a strong link between management practice score and labour productivity. On a 0-1 scale, a 0.1 increase in management score was associated with a 9.6% increase in GVA per worker.²⁸

How can management be measured?

- 4.3. It is difficult to define and quantify what good management is, and different types of business will have circumstances that may require different management styles and structures. Nevertheless, academic work over the last decade has identified common management practices that are linked to higher productivity. The methodology does not capture all aspects of management and leadership. For example, the management score does not attempt to include strategic decisions, such as which products and services to produce, or which customers to target.
- 4.4. The World Management Survey methodology, described by Bloom and Van Reenen (2007), measures management by asking businesses detailed questions about their use of structured practices within four areas,²⁹ these are:
 - Effective monitoring: how well a business monitors what goes on within the business and how effectively it uses this information for continuous improvement;
 - Targets: whether a business sets targets that are linked to and track business performance against goals; are time-defined and stretching; and take appropriate action if targets and goals are not on track to be met;
 - Incentives: when a business promotes and rewards high performance, tries to retain the best employees, and tries to fix underperformance through training or firing;
 - Operations: what types of lean or modern processes the business is using, what the rationale for introducing these practices are, and what the attitudes towards continuous improvement are.

²⁷ Bloom et al (2006), Measuring and explaining management practices across firms and countries; Bloom et al (2012), Does management matter? Evidence from India; Bloom et al (2014), Measuring and explaining management practices across firms and countries; Bloom et al (2017), What drives differences management; Bryson et al (2018), The impact on management practices on SME performance; ONS (2018), Management practices and productivity in British production and services industries – initial results from the Management and Expectations Survey: 2016

²⁸ ONS (2018) Management practices and productivity in British production and services industries - initial results from the Management and Expectations Survey: 2016

²⁹ Bloom et al (2014), Measuring and explaining management practices across firms and countries

Management practices and productivity

- 4.5. The appropriate structure and style of leadership and management will depend on the size and sector of individual businesses. SMEs are less likely to use formal management practices than large businesses.³⁰ However, research has found that even smaller businesses with fewer employees can benefit from having structured management and leadership practices. Recent research has found that British SMEs that used formal management practices had higher productivity than those that did not. For example, one standard deviation increase in management score was found to be associated with a 5% increase in the growth rate of firm productivity.³¹
- 4.6. A recent study of manufacturing plants in the USA found that management practices could explain 18% of the productivity difference between the top and bottom performing businesses in US manufacturing. In contrast, research and development (R&D) spend explained 17% of the difference, employee skills 11%, and IT spend 8%.³²
- 4.7. In international comparisons of management practices, the UK is ranked 5th amongst the G7 advanced economies, behind the USA, Japan, Germany and Canada, and 6th globally (figure 4.1).³³ Broadly speaking, the US and Canada are particularly strong at talent management and incentives, and high managerial freedom and flat hierarchies (with few managerial layers) are also characteristics of their management culture. A wide variety of management cultures and practices can be seen across Europe – with strong managerial freedom more likely in Northern Europe, compared to more central control in Southern Europe.³⁴ The UK performs best on monitoring practices and setting key performance indicators but could improve on setting targets and people and talent management.³⁵
- 4.8. Evidence also suggests that many managers are over-optimistic about their own management performance and tend to overestimate their management skills.³⁶ This trend is seen in many countries and is not specific to the UK. However, because of this over-optimism, many managers may not recognise that they could improve their management practices, and that they are missing an opportunity to improve the productivity of their business.

³⁰ Bryson et al (2018), The impact of management practices on SME performance

³¹ Bryson et al (2018), The impact of management practices on SME performance

³² Bloom et al (2017), What drives differences in management?

³³ Bloom et al (2011), Management practices across firms and countries

³⁴ World Management Survey (2014) Manufacturing Report

³⁵ Bloom et al (2011), Management practices across firms and countries

³⁶ Bloom et al (2007), What drives good management around the world

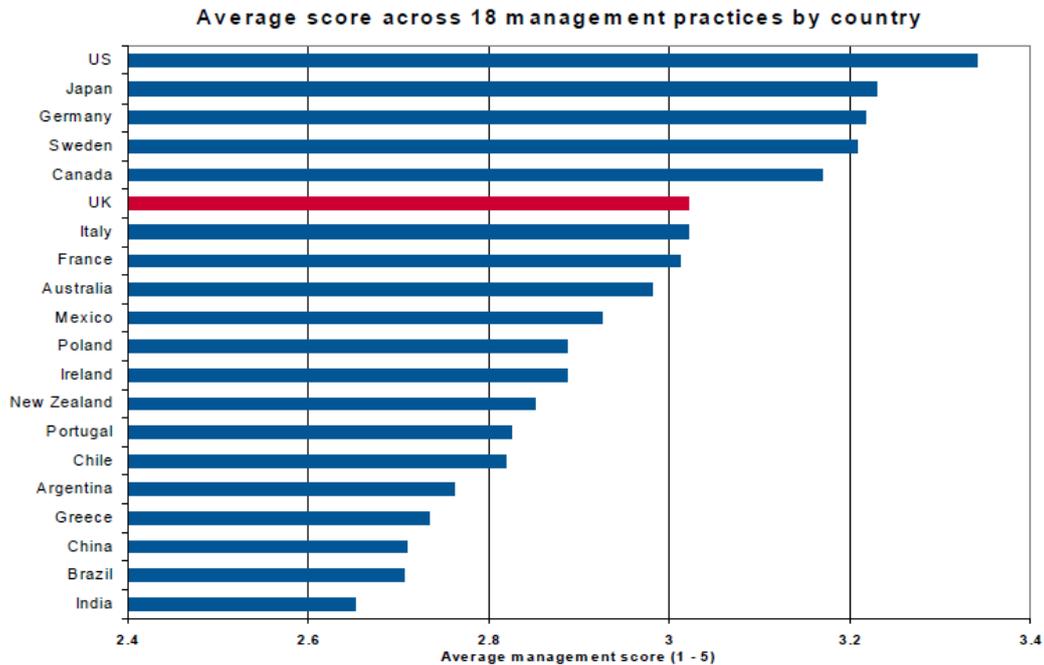


Figure 4.1 International comparison of management practices (source: BIS (2012), *Leadership and management in the UK – The key to sustainable growth*)

Which management practices are most important?

4.9. Practices relating to monitoring, incentives and people management are most correlated with productivity for both manufacturing and service industries according to the ONS (2018).³⁷ This is supported by work by Bryson et al (2018) which finds that SMEs in the manufacturing sector which use formalised target setting, incentives and people management practices (such as training and incentive pay) are more productive than firms with few of these formal management practices.³⁸

4.10. Additionally, workplaces with higher levels of employee engagement, job satisfaction and trust have been found to be more productive.³⁹ This suggests that management practices that increase employee engagement could increase productivity.⁴⁰ As noted in paragraph 4.7, target setting, and people and talent management appears to be an area where UK businesses have the most room for improvement.

Which firm characteristics drive management practices?

4.11. There are several factors which are associated with weak management performance. For example, in the manufacturing industry poor management practices have been found to be more prevalent where competition is weak, and/or

³⁷ Ibid

³⁸ Bryson et al (2018), The impact of management practices on SME performance

³⁹ See for example: Bryson et al (2017), Does employees’ subjective well-being affect workplace performance?; Brown et al (2011), Workplace performance, worker commitment, and loyalty;

⁴⁰ Brown et al (2015), Employee trust and workplace performance; Van Wanrooy et al (2013), Employment relations in the shadow of recession

where businesses are both family-owned and family-run. Both of those factors are more prevalent in Europe than in the US. However, recent ONS work did not replicate the finding that family-run firms were less well managed.⁴¹ We would welcome further evidence on the link between ownership and leadership and management.

- 4.12. In contrast, other factors have been found to be associated with better management practices. For example, multinational businesses, which tend to face stronger competition, tend to be better managed than domestic businesses.⁴²
- 4.13. Better management practices have also been found to be linked to managers with higher qualifications (which is often measured by whether individuals have a degree) and the results are stronger for managers with certain degrees, e.g. engineering, science, health and business.⁴³ In Britain, businesses with degree-level qualified managers were 15% more productive than businesses with no degree-level managers and, similarly, businesses with degree-level qualified non-managers are relatively more productive than those without. However, this effect declines at higher shares of educated managers.⁴⁴
- 4.14. Finally, participation or membership of an external network may increase the use of good management practices within small businesses. A study by Wu et al found that small businesses in Britain are more likely to adopt high performance work practices (HR and employee management practices) when they are part of an external business advisory network.⁴⁵

⁴¹ Bloom et al (2014), Measuring and explaining management practices across firms and countries; ONS (2018), Management practices and productivity in British production and services industries – initial results from the Management and Expectations Survey: 2016

⁴² Ibid

⁴³ Queiro (2016), The effect of manager education on firm growth

⁴⁴ ONS (2018), Management practices and productivity in British production and services industries – initial results from the Management and Expectations Survey: 2016

⁴⁵ Wu et al (2014), The adoption of High Performance Work Practices in small businesses: the influence of markets, business characteristics and HR expertise

Questions

Please provide evidence to support your response

8	Is there further evidence on the links between management practices and productivity? If so, which management practices have the biggest impact on productivity?
9	What are the main reasons for businesses adopting or not adopting management best practice?
10	Are there further examples, from the UK or internationally, of approaches that have worked to increase the adoption of management best practice?
11	What actions by the public or private sector would be most effective to facilitate effective adoption and embedding of management practice?

5. Technology and innovation: adoption and diffusion

- 5.1. Historically, from the first Industrial Revolution to new internet enabled technologies boosting productivity in the 1990s and 2000s, large increases in international and national productivity growth have been associated with the widespread adoption of new technologies.
- 5.2. A wide range of digital technologies are now available, from basic Information and Communication Technology (ICT) to specialist business management programmes, all of which could help businesses improve their performance and productivity. Businesses can launch a website to help sell to a wider market; adopt accounting software that speeds up invoicing; payroll and reporting; or use Business Diagnostic Tools to help analyse their capabilities in a range of areas and identify opportunities to improve their competitiveness. Such tools can help businesses improve their efficiency, deliver cost savings, and embed people and operational management practices.
- 5.3. Businesses *adopt* technology when they select a technology for use. Technology is *diffused* when the technology spreads to general use and application in the wider business community. Business *innovation* (as in development and adoption of new methods, ideas and processes) includes but goes far beyond technology.
- 5.4. Studies have found that strong leadership is key to building the desire and vision for a business to adopt new technologies, and that good management practices are vital for identifying the right technological solutions and embedding these into the business.⁴⁶
- 5.5. McKinsey has estimated that, in developed economies, over half of future productivity gains could come from closing the gap between low productivity firms and firms that have high productivity, through the adoption by firms of already existing best practice. The remaining half would come from innovation creation, i.e. pushing the frontier.⁴⁷ CBI has argued that the low uptake of readily available technologies and management best practices may be driving the UK's productivity problem.⁴⁸
- 5.6. Each business will have specific technological needs depending on its size, sector and business plans. In part because of the differences in the appropriateness of different technologies for different businesses, there is limited robust evidence demonstrating an association between the adoption of specific technologies and productivity gains at the firm-level. We would welcome any evidence that you may have on the link between specific technologies and productivity.

⁴⁶ See for example CBI (2017), From Ostrich to Magpie

⁴⁷ McKinsey (2015), Global Growth: Can productivity save the day in an aging world?

⁴⁸ CBI (2017), From Ostrich to Magpie

Evidence on technology and innovation adoption, diffusion and productivity

- 5.7. Existing studies frequently focus on business innovation rather than technology specifically. We therefore consider the evidence on both innovation and technology.
- 5.8. Growth rates amongst SMEs that innovate are significantly greater than amongst those that do not, and there is evidence of a positive relationship between productivity growth and both product innovation (development of a new or better product) and process innovation (development of a new or significantly improved process to produce a good or service).
- 5.9. In international comparisons of innovation, the UK does better than some of our competitors: we are ranked 11th in the EU for businesses adopting innovation. However, we still lag the countries at the forefront of innovation adoption.
- 5.10. More specifically, as figure 5.1 shows, UK businesses perform relatively well at adopting innovations that are new to the firm, but are less good at developing new to market innovations.

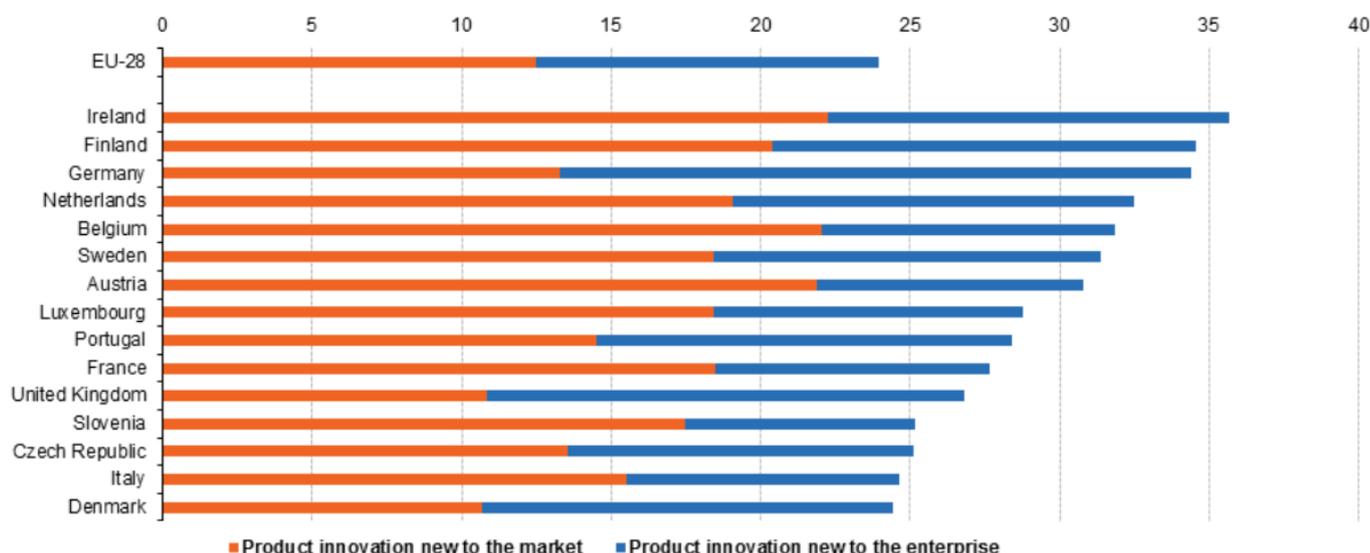


Figure 5.1 : Share (%) of enterprises with new-to-the-firm innovation and new-to-the-market innovation (source: Eurostat, 2002-2014)

- 5.11. International evidence on technology adoption suggests that the UK lags the best performers in the EU. As figure 5.2 shows, in 2015, the proportion of UK businesses adopting cloud computing was nearly 30 percentage points below the EU's best performers. For enterprise resource planning (ERP; see paragraph 5.14) systems, UK adoption rates were around 40 percentage points below the EU's best performers. The proportion of UK businesses in 2017 with websites, internet trading capabilities, customer relationship management (CRM) and ERP systems were still lower than the proportion of Danish businesses that had adopted these in 2009.⁴⁹

⁴⁹ CBI (2017), From Ostrich to Magpie

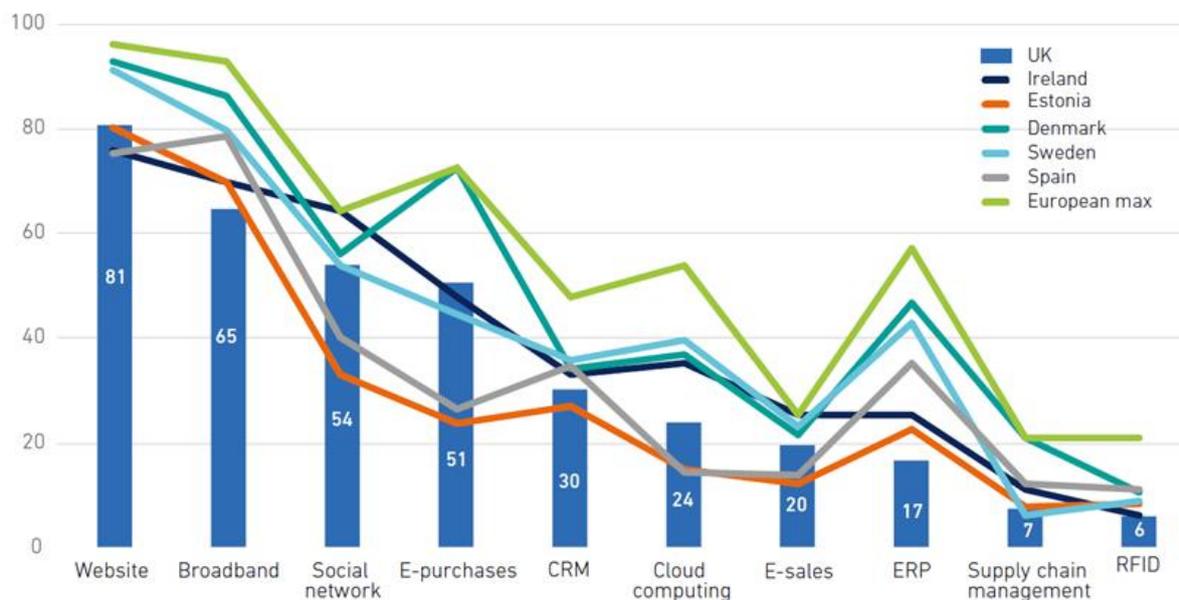


Figure 5.2 Penetration of digital technologies within selected European countries in 2015 (source: OECD Science, Innovation and Technology Scoreboard, 2015)

5.12. Studies have identified several barriers that might prevent businesses adopting technology which could improve their productivity. For example, the Made Smarter Review identified seven barriers to industrial technology adoption: strategic barriers (e.g. lack of time and unclear benefits); security and standards (e.g. cyber security, concerns around loss of intellectual property); legacy barriers (e.g. broadband infrastructure); internal skills barriers (e.g. lack of technical skills); funding barriers (e.g. access to internal or external funding); cost barriers (e.g. uncertainty of solution working) and trusted advice and external support (e.g. finding the right suppliers to partner with).⁵⁰

Technologies which could impact business level productivity

5.13. As noted in paragraph 5.5, the adoption of already existing, tried-and-tested best practice technology could have a significant impact on firm-level productivity.

5.14. Having reviewed the available evidence, we have identified an initial list of best practice technologies which could have the potential to raise firm-level productivity across a broad base of businesses. Not all these technologies will be appropriate for every business – for example a micro firm may not require HR software. The identified best practice technologies are:

- 1) Cloud computing: shared use of IT resources which benefits from economies of scale, reducing the cost of IT infrastructure.
- 2) E-commerce (e-sales): buying and selling goods online leading to reduced transaction costs.
- 3) Accounting software: software for automation and digitisation of accounting can reduce administration costs and error rate.

⁵⁰ Made Smarter Review (2017)

- 4) Customer Relationship Management (CRM) software: software for managing interactions with current and potential customers, reducing administration costs.
- 5) Supply Chain Management software (SCM): software for supply chain management. Can automate and streamline processes, thereby reducing costs.
- 6) HR Management: software for automating and digitising various aspects of HR, thereby reducing costs.
- 7) Enterprise resource planning (ERP) software (may include CRM, SCM, HRM, finance, purchasing).

5.15. We welcome views on whether this list correctly identifies the technologies with the potential to make the most difference to firm-level productivity; and how best practice technology differs between different types of business.

Questions

Please provide evidence to support your response

12	Is there further evidence to demonstrate the link between technology or innovation adoption and a business' productivity growth?
13	What are the main reasons for businesses adopting or not adopting new to firm technologies?
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?
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?
16	What actions by the public or private sector would be most effective in driving effective adoption of new to firm technologies?

6. The UK market for business support and advice services

- 6.1. Businesses sometimes seek external advice and information – or *business support* – ranging from basic compliance information to advice and support on implementing complex change programmes. As well as providing external advice on a specific issue, business support also can be used to build more general employee skills. Estimates of total UK spending on business support range from £4bn to £60bn annually depending on the definition of business support used.⁵¹
- 6.2. Whilst the majority of business support services are provided by the private sector, a significant amount of business support is provided through the public sector as well. There is also a wide range of free resources provided by the private and public sectors that are not quantified in estimates of UK spend on business support.
- 6.3. Given the size of the private market, Government participation in the market through subsidy or direct provision will always be a minority of business support.
- 6.4. For the purposes of this review we split business support into two categories:⁵²
 - Information: information relating to the day to day running of the business.
 - Advice: strategic advice to help introduce a step-change, for example to grow the business in terms of profitability or numbers employed, or to increase productivity.
- 6.5. A wide range of public and private suppliers provide information and advice to businesses, including but not limited to:
 - Web-based advice (both paid and free, including the gov.uk website)
 - Consultancies
 - Accountants
 - Lawyers
 - Banks
 - Trade associations
 - Peer-to-peer networks
 - Informal peer groups
 - Local Enterprise Partnerships (LEPs) and Growth Hubs
 - Local Authorities, combined authorities and Mayoral Combined Authorities
 - Department for International Trade advisors
 - Devolved Administrations and their agencies or partners (Scottish Enterprise, Enterprise Northern Ireland, Business Wales)

⁵¹ Estimates calculated by the Behavioural Insights Team based on the Small Business Survey 2016.

⁵² BEIS (2017), Longitudinal Small Business Survey 2016: SME employers – cross-sectional report

6.6. When an SME does seek business support it tends to be from the following sources:⁵³

Information	Strategic Advice
Accountant (27%)	Consultant/ business adviser (33%)
Consultant/ business adviser (17%)	Accountant (28%)
Internet search (11%)	Business network/ trade association (11%)
Business Network/ trade association (10%)	Solicitor/ lawyer (9%)
	Local Authority (5%)
	Bank (2%)
	Local Enterprise Partnership (LEP) (1%)

6.7. Currently, most funding for publicly-provided business support services comes from European Structural Funds and is delivered locally via LEPs, Growth Hubs and Devolved Administrations. Some delivery of public sector provision takes place via private sector partners.

6.8. In addition to providing business support and development services, the Government provides a wide range of financial support to businesses for specific types of business activity such as start-up loans, R&D tax credits and research grants. Financial support is not in scope of this review.

Utilisation of business support

6.9. Evidence suggests that the use of business support and advice could have an impact on business performance in a range of ways, such as through: improving business planning, marketing, investment in skills and technology, innovation and exporting. This can help businesses to overcome challenges and unlock their growth potential.⁵⁴ The BEIS Longitudinal Small Business Survey found which businesses that utilise business support are more likely to increase turnover, whereas businesses with “unmet demand” for business support (i.e. has a need for, but do not seek it) are more likely to experience a fall in turnover.⁵⁵

6.10. Despite its potential to improve performance, the take up of business support has been declining. In 2016 only 26% of SMEs employees sought formal business support, down from 33% in 2015 and 46% in 2010.⁵⁶

⁵³ BEIS (2017), Longitudinal Small Business Survey 2016: SME employers – cross-sectional report

⁵⁴ BERR (2006), Economic Impact Study of Business Link Local Service. Showed that 40% of intensively assisted firms and 25% of other-assisted firms reported improved business outcomes they would otherwise not have achieved

⁵⁵ BEIS (2017), Longitudinal Small Business Survey 2016: SME employers – cross-sectional report

⁵⁶ BEIS (2017), Longitudinal Small Business Survey 2016: SME employers – cross-sectional report

- 6.11. Research also points to 28% of SMEs having an issue that could benefit from seeking external business support (i.e. latent demand for business support), with the main barriers identified as:⁵⁷
- doubts about the benefits and value of assistance when compared to the costs;
 - relationship failures including lack of trust; and
 - concerns about being able to find the right assistance.
- 6.12. We would welcome your views on whether the barriers set out in paragraph 6.11, or other factors, are barriers to firms taking up business support.
- 6.13. We have found relatively limited evidence on the effectiveness of different forms of privately provided business support. However, the limited range of sources which businesses seek support from (as set out in paragraph 6.5) might, in some cases, affect the quality of advice and restrict access to new ideas and practices. We would welcome further evidence on the effectiveness of privately provided business support, and your views on whether firms are able to access appropriate sources of business support.

Evaluating publicly provided business support

- 6.14. As set out above, we have found limited evidence on the effectiveness of different forms of privately provided business support, and robust evaluation of publicly-funded business support interventions remains relatively limited. In addition, many interventions (and their evaluations) have been primarily focused on growth in firm employment and turnover, rather than impacts on productivity. Similarly, few studies look at the cost effectiveness or value for money of business support and this is an important consideration in the development of Government policy.
- 6.15. Nonetheless, a number of robust studies do exist. Through our own evidence gathering and the work of the What Works Centre for Local Economic Growth⁵⁸ we have looked at robust evaluations of public sector business support schemes, including:
- a. Studies assessing the impact of subsidised support:
 - A number of studies of the UK's Business Link programme (now closed) found that the programme had a positive and significant impact on employment (2.2% to 4.4%) and that intensive support was particularly effective compared to light-touch support.⁵⁹
 - A recent evaluation of Scottish Enterprise's Account Management function examined the growth and productivity impact of 'account managed' firms under the Scottish Enterprise scheme and found that firms that were account

⁵⁷ CEEDR (2011), Research to understand the barriers to take up and use of business support

⁵⁸ What Works Centre for Local Economic Growth (2016) Evidence Review 2: Business Advice

⁵⁹ Mole et al (2009), Broader or Deeper? Exploring the Most Effective Intervention Profile for Public Small business support (SMS 3); Drews and Hart (2015) Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services

managed had 7% higher productivity growth than non-account managed firms.⁶⁰

- A study of the Innovation Synergy Centre in Canada, which examined the impact of business coaching by experienced business consultants on the outcome of innovative businesses in Canada. The study found that the number of hours of advice was positively related to sales, with a 1% increase in hours associated with a 1.39% increase in sales.⁶¹
- A randomised control trial of public advisory services in Mexico. In this programme, consultants were asked to diagnose problems of participant firms, suggest a solution, and assist in implementing the solution. Consultants dedicated 4 hours per week to each firm. The programme led to large productivity gains in firms that received advice, with an increase of 44% in employment, an increase in monthly sales of 80% and increase in profits of 120%.⁶²
- A randomised control trial of management interventions in multi-plant textile businesses in India. The study undertook a field experiment, which provided free consulting on management practices to randomly chosen experimental plants. This study found that, despite dropping some practices over the longer term, assisted firms: showed lasting improvements in worker productivity; used further consulting services of their own accord; and supplemented the operational management practices introduced by the consultants with better marketing practices. The authors also found that many management practices had spread from the experimental plants to the non-experimental plants within the same firm, suggesting large intra-firm spillovers.⁶³
- An evaluation of the Swedish Business Development Programme, which examined the effects of consultancy cheques on firm performance, found no significant impact on firms that received the assistance compared to those that applied for but didn't receive the grant. The authors suggest that the impact of assistance on business performance is, therefore, not due to the financial support itself, but is due to the time the business sets aside to formulate investment strategies.⁶⁴
- A study assessing the impact of the North Jutland Entrepreneurial Network in Denmark, which provided subsidised consultancy to firms for up to 4 hours by private sector consultants, found that tailored support increased 2-year survival rates by 7.6%. It also led to a 50% increase in the number of employees; and

⁶⁰ ERC (2016), Growth and Productivity Performance of Account Managed Companies

⁶¹ Cumming & Fischer (2012), Publicly Funded Business Advisory Services and Entrepreneurial Outcomes

⁶² Bruhn, Karlan & Schoar (2013), The Impact of Consulting Services on Small and Medium Enterprises Evidence from a Randomized Trial in Mexico

⁶³ Bloom et al (2017), Do management interventions last? Evidence from India

⁶⁴ Mansson, J., and Widerstedt, B. (2012), The Swedish Business Development Program: Evaluation and some methodological and practical notes.

had a positive effect on sales lasting up to three years, but that the longer-term growth impact was less clear.⁶⁵

b. Studies assessing the impact of entrepreneurial networks:

- Various studies of the PLATO Networking programme in Belgium. This study looked at the effects of a government supported networking programme on the labour productivity of firms in Belgium. Under the programme, SME managers were put into contact with each other to exchange knowledge in structured meetings, under the supervision of business coaches. The study found that participation in the network was associated with 2.5% higher labour productivity.⁶⁶ Another study looking at the same scheme found that firms participating in the network had 5% more assets and 7.4% higher value-added growth.⁶⁷

c. Studies assessing the impact of training:

- A randomised control trial of management training in Italy, where 116 Italian start-ups were engaged in a four-month training programme aimed at business experimentation. The authors found that entrepreneurs benefitting from the training performed better and are more likely to adopt innovative practices than the control group.⁶⁸

d. Studies assessing the impact of programmes aimed at moving individuals from unemployment into self-employment:

- Evaluations of Project GATE (Growing America Through Entrepreneurship), a microenterprise support programme which aimed to support the development of fledgling businesses, support entrepreneurship and move people from unemployment to self-employment as part of a wider Active Labour Market Programme. The researchers also looked at the sales and employment outcomes of new businesses, finding no treatment effect.⁶⁹

6.16. As highlighted by the What Works Centre, in general higher quality evaluations tend to find more positive programme impacts for business support than the less robust evaluations.⁷⁰ However, not all the above studies specifically tested productivity impacts (many were focused on growth in firm turnover or employment) or value for money, and studies have been largely focused on publicly provided business support services. We would welcome further evidence which directly addresses the

⁶⁵ Pons Rotger, Gørtz & Storey (2012), Assessing the effectiveness of guided preparation for new venture creation and performance: Theory and practice

⁶⁶ Van Cauwenberge, Vander Bauwhede & Schoonjans (2013), An evaluation of public spending: the effectiveness of a government-supported networking program in Flanders

⁶⁷ Schoonjans, Cauwenberge, and Bauwhede (2013), Knowledge networking and growth in service firms

⁶⁸ Camuffo et al (2017), A scientific approach to entrepreneurial experimentation: evidence from a randomised control trial

⁶⁹ Fairlie, R.W., Karlan, D., and Zinman, J. (2012), Behind the GATE Experiment: Evidence on Effects of and Rationales for Subsidized Entrepreneurship Training

⁷⁰ What Works Centre for Local Economic Growth (2016), Evidence Review 2: Business Advice

productivity impact of both publicly and privately provided business support services.

6.17. The evidence set out above is based on the highest quality evaluations available, which may mean that there are other initiatives that work but are harder to evaluate robustly or have not been evaluated. This is particularly the case for non-intensive support where small improvements across multiple businesses may be difficult to identify or measure.

Questions

Please provide evidence to support your response

17	What are the main reasons for businesses utilising or not utilising public and private business support?
18	How effectively is private and public business support provided in the UK?
19	Do you have any examples, from the UK or internationally, of approaches that have worked to increase the uptake of business support?
20	What actions by the public and private sector would be most effective to facilitate uptake of business support?
21	Do you have further evidence of what forms of business support are more effective at improving firm level productivity?
22	What is the role of public sector in ensuring the uptake of private sector business support?
23	How can Government promote self-sustaining business support ecosystems, where firms seek and access information, advice and tools that improve their performance?

7. Summary

7.1. Raising productivity is a key priority for the Government and is core to the Industrial Strategy. From our review of the literature, there is no single, simple diagnosis for the UK's productivity challenges. The Government has already taken significant action to improve the economy-wide measures to boost productivity and this review is considering the actions that UK businesses can take to improve their productivity. We have identified three firm-level themes that could be key to unlocking productivity gains within individual businesses:

- Leadership and management;
- Technology adoption and diffusion;
- The public and private sector market for business support.

7.2. This call for evidence seeks further information on the UK's overall productivity performance and the firm-level factors which impact the productivity of individual businesses. The evidence we gather will help us better understand the problems facing UK businesses today and will inform the wider review.

Questions

Please provide evidence to support your response

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?
25	Are there any other firm-level factors that we should be focusing on that are not covered in this call for evidence?
26	Where do you think the main opportunities are for the UK to drive firm-level productivity growth?

Annex 1. List of questions

- Please provide evidence to support your response. We are interested in international and domestic evidence, from all firm sectors and sizes, and on the effectiveness of current (or historic) public and private sector interventions (including identifying any areas within existing programmes where objectives are not being targeted successfully).
- When providing answers please consider the variations that may occur due to business size, sector and stage of business lifecycle.
- This call for evidence contains a summary of existing published evidence and analysis. We would welcome feedback if you believe we have misinterpreted or overlooked any evidence.

The UK's Productivity Challenge

1. Do you agree with our working definition of low-productivity businesses?
2. Is there further evidence to compare the UK's productivity distribution of firms to that of other countries?
3. Is there further evidence on how the UK's firm-level productivity distribution has changed over time?
4. Is the long tail of low productivity firms being driven by weaker competition in UK markets?

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?
6. What do you think are the most important firm-level factors that impact productivity?
7. Would you add any further characteristics of high productivity businesses as set out in paragraph 3.9?

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?
9. What are the main reasons for businesses adopting or not adopting management best practice?
10. Are there further examples, from the UK or internationally, of approaches that have worked to increase the adoption of management best practice?
11. What actions by the public or private sector would be most effective to facilitate effective adoption and embedding of management practice?

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?
13. What are the main reasons for businesses adopting or not adopting new to firm technologies?
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?
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?
16. What actions by the public or private sector would be most effective in driving effective adoption of new to firm technologies?

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?
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21. Do you have further evidence of what forms of business support are more effective at improving firm level productivity?
22. What is the role of public sector in ensuring the uptake of private sector business support?
23. How can Government promote self-sustaining business support ecosystems, where firms seek and access information, advice and tools that improve their performance?

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?
25. Are there any other firm-level factors that we should be focusing on, that are not covered in this call for evidence?
26. Where do you think the main opportunities are for the UK to drive business productivity growth?



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