

Levelling up - mind the productivity gap

CHARTERED MANAGEMENT INSTITUTE (CMI)

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Levelling up the UK is impossible without good management and leadership

Overview

Differences in productivity between regions of the UK remain large, and the gap between the most and least productive areas is much higher than in other [European countries](#). Research shows that a lack of management quality is a key driver of the UK's poor productivity, and that making small improvements in management practices can lead to a [significant increase in productivity](#).

The Government has signalled its intention to boost the UK's productivity as a central part of its [levelling up agenda](#) and the upcoming levelling up white paper. Investment in management and leadership is critical to support the UK's economic recovery and address the productivity gap that has constrained growth and economic development. If the Government is serious about levelling up all parts of the UK it must prioritise management and leadership.

Management and Leadership Skills Are Central To Levelling Up

The [Government's data](#) shows that tackling skills shortages is vital to address regional disparities. Management and leadership skills are critical to helping businesses and public sector organisations in all places to grow and thrive. It is not possible to level up all parts of the UK unless the Government maintains spending in areas that contribute to core management and leadership skills.

Government investment in management and leadership development is also important to rectify a consistent market failure of low private investment in management training. In 2019, only 13% of UK SMEs offered training to develop management skills and capabilities, a figure that remains fairly unchanged since 2017, *see Table 1* below.¹

Boost resilience and productivity of firms

By investing in management and leadership skills, businesses can become more resilient. [ONS](#) data shows that better managed firms fared better during the pandemic, and CMI's 2021 [research](#) with the Institute of Directors showed that 96% of Managers and 89% of Directors say management and leadership roles are important for shaping the UK's economic recovery.

Leadership and management practices² have also been shown to be strongly correlated to boosting firms' productivity, [even when only small improvements are made](#). But British businesses, especially SMEs,

¹ Calculated from [UK Government data](#) using the proportion of SMEs offering training for managers in Management and Leadership in the UK and the number of SMEs in the UK.

² Such as effective monitoring, setting targets, incentivising performance and continuous improvement of operations

continue to underinvest in their management and leadership capabilities.³ SMEs are a vital part of the UK economy, as they employ two thirds of the workforce, and [research](#) shows that small businesses need a productive business environment and good management capability to grow and scale up.

However, SMEs are often [unaware they have a training need](#) and lack an awareness of the opportunities available in the current training system or might not have the means and capacity to invest in leadership development. For example, micro businesses invest much less in management and leadership training (8% in 2019) compared to medium businesses (47% in 2019), see *Table 1* below.⁴

| 2019 | UK wide | Micro businesses | Small businesses | Medium businesses |
|--|---------|------------------|------------------|-------------------|
| % providing any training for managers ⁵ | 33% | 28% | 54% | 70% |
| % of SMEs offer M&L training | 13% | 8% | 28% | 47% |

Table 1. The proportion of UK SMEs investing in management and leadership training in 2019.⁶

Investment also varies by nation. In 2019, SMEs in England, Scotland and Northern Ireland had similar levels of investment in management skills and capabilities as the whole of the UK (around 13%), but Wales had the lowest investment in developing management skills (8%).⁷ The same year, Wales had one of the lowest productivity rates in the UK ([ONS data](#)). One of the knock on effects of this is that [talent has been leaving Wales](#) and with it the opportunity to boost the nation's resilience and productivity.

CASE STUDY: Crwst - a small Welsh bakery attempting to scale up.

Crwst have been looking for an Operations Manager to run their bakery and production site for over half a year. They are not looking for a technical baker, because they believe “*those skills can be developed on the job*”. Crwst are looking for a leader who can commercially run a logistics enterprise and has people management skills to coach others and inspire the team. They have calculated that this position could unlock the creation of eight local jobs and a turnover opportunity of more than £1m.

Osian Jones, Crwst Director said “*I cannot train someone internally as I don't know how to train a professional manager and there are no apprenticeships available for senior management in hospitality [in Wales]. Everyone seems to assume that because it is food related we are looking for a low skill level*”.

Schemes like [Help to Grow: Management](#) can play an important role, not only in building management and leadership capability for SMEs, but also in helping them to grow and innovate. [Research](#) shows that management apprenticeships can also support the levelling up agenda and address the productivity gap by building businesses' capacity to run more efficiently and save costs.

Management apprenticeships support businesses to develop critical management and leadership skills

³ Calculated from [UK Government data](#) using the proportion of SMEs offering training for managers in Management and Leadership in the UK and the number of SMEs in the UK.

⁴ Ibid.

⁵ For reference, the following weighted bases were used for calculations: UK SMEs = 2,659, micro businesses = 2192, small businesses = 402, medium businesses = 66.

⁶ Calculated from [UK Government data](#) using the proportion of SMEs offering training for managers in Management and Leadership in the UK and the number of SMEs in the UK.

⁷ Ibid.

while contributing to the business from day one on the job. [Investing in management apprenticeships](#) can also rebalance economic growth and 'level up' disparities between regions. For example, northern regions have higher levels of apprenticeship training intensity (17-20 starts per 1,000 in employment in 2017/18) compared to London, which has the lowest level of training intensity (7 starts per 1,000 in employment the same year).

CASE STUDY: Mike Green, Managing Director, Red Systems, North West England

Mike left school at 16 and had gained lots of work experience but no formal higher education. Working for large UK Construction companies he progressed to the role of Project Manager before setting up RED Systems in 2003.

RED Systems Ltd is now a UK wide company that designs, supplies and installs a range of structural glazing, aluminium windows, doors, curtain walling and rooflight and atrium systems. As a result of the Senior Leader apprenticeship and being able to identify and implement improvements, Mike has been able to boost turnover to £11m and the company has been encouraged to empower seven members of staff to undertake professional education whilst fully employed.

Maximising Government investment in infrastructure and net zero

Infrastructure development is an important pillar of the Government's focus on increased productivity and levelling up. Managers and leaders will be needed to oversee the design, application, and effective operation of big infrastructure commitments. As a lot of the investment can have a major impact on levelling up, because most of it will be outside of London and the South East.

Likewise, to deliver the Government's [net zero strategy](#) will require significant upskilling. For example, plans to create two million green jobs by 2030 could require [a minimum of 130,000](#) new managers to ensure projects are implemented successfully.⁸

The Government has [recognised](#) the importance of cross-cutting skills - including project management, communication and digital skills - but has not explicitly recognised the role of managers and the need for them to be upskilled to deliver the net zero strategy.

Getting this investment right will be important to secure regional development gains over the long term and boost the UK's long term productivity. For example, Teesside will benefit from considerable [public](#) and [private](#) investment, but it needs to be matched with similar investment in management and leadership capability to absorb the funds efficiently. The Whitetail Clean Energy power plant in Teesside will create over 2,000 jobs in construction and operations and this could require over 200 new manager roles.

Conclusion

The Government must prioritise investment in management and leadership skills in order to level up the country. Good management will be crucial to the UK's economic recovery post-pandemic and for the Government to deliver on its levelling up to goals to reduce regional inequality, boost productivity and deliver on major infrastructure projects.

⁸ Calculated using the same simplified methodology used in the CMI's [Driving UK Post Pandemic Prosperity](#) paper.