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MANAGEMENT AND UK 2030

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FOREWORD.

"Manager" is a position in organisational hierarchies. It is also a set of skills applied in the workplace. We have all experienced managers, good and bad, and one in four people have some management responsibility. That is why managers enter our cultural imagination. Management is also a critical factor of production, for worker well-being and productivity, of better or worse public services. And given this, it is surprising that management doesn't feature more prominently in policy.

This paper seeks to make a contribution in addressing that vacuum. And given the wealth of evidence and data on the importance of management, it is both surprising and concerning that we have ever allowed this vacuum to develop.

It comes at a cost. Long established evidence from Professor John Van Reenen and Professor Nick Bloom and many others has established the highly consequential link between management practice and productivity outcomes. As a thought experiment, we imagined a world in which average UK management capability was equal to Germany across recent decades. It is a scenario that sees the potential for UK GDP to be over c.£127 billion higher.

Should the UK start to meaningfully and continuously close the gap in management training with Germany over the next 10 years, it is possible to see cumulative gains in improved productivity valued at c£76 billion, which equates to roughly one third of the total NHS England annual budget in 2023, or almost double the UK's annual defence budget.

But is this possible? And if so, how? We took a look at countries who have either attained high management scores or who have shown continued progress over time including the USA, Germany, Sweden, Singapore and South Korea. Not all of these lead the UK in terms of measured management capability, but they feature some key elements of progress.

What became clear was there was no singular pathway to improvement. Each weaves together a different combination of threads. Three domains in particular came into focus: markets, culture and institutions.

Any leading economy will provide good access to integrated and competitive international and domestic markets and these, through competition and diffusion of best practice, improve management too. Where public and non-market institutions, such as regional governments, support development of management, the capability gains can be widespread. Where there is a consistent long-term culture of focused improvement in management skills and practice within businesses, we see results. As a result of a combination of these factors, US employers request formal management skills in management level job postings at a 10% higher rate than the UK. Such a gap, indicated by demand for skilled managers in job ads in the US and UK, suggests that over time the UK would have 840,000 fewer skilled managers in its workforce than if it had US levels of demand for highly skilled managers.

Data and analysis from The Productivity Institute and the ONS pointed us in the direction of firms in the fiftieth to ninetieth percentiles of productivity, or GVA per worker in economist terms. The top 10% of firms are already highly productive. The middle to high band are generally firms in sectors such as manufacturing and high-value services that are more likely to be traded. They have been in business for at least five years, and they tend to employ more than 100 workers. This is the opportunity range for stronger management and even better productivity performance. They currently contribute to UK productivity growth but by far less than the top 10% of firms.

All of our analysis poses a question: how could the UK and countries like the UK shift culture, markets and institutions over time? There is the potential for very significant productivity gains but they will be hard won.

Too often, where action has been taken to improve UK management, it has been piecemeal or short-lived. Instead, we call for sustained strategic policy to drive improvements across time rather than disconnected initiatives.

That will involve setting new expectations of management capabilities in government and public services and expecting suppliers of services to follow suit. Management should feature prominently in key government strategies, for productivity and growth, green transition, good work, regional growth and public service innovation and reform is likely to be seen early in the next Parliament.

Anything that is currently working to support improvement, such as management apprenticeships, should, even if in reformed form, be safeguarded. Wider changes to the tax system, such as tax reliefs for high-level human capital investment, should be explored. Finally, access to international markets and supply chains and domestic competition policy should be pursued, safe in the knowledge they will be drivers of improved management. This will lead to wider productivity, and that holy grail of politicians across the political spectrum - growth.

In a report published last year, CMI shared data that showed that 82% of employees become managers without any formal training. The same dataset revealed that good managers and formally-trained managers are able to support higher levels of innovation and better workplace cultures.

The UK is not where it should be when it comes to the quality of management. And this paper shows why that matters and ways in which we can confront this collective challenge. It is called "Management and UK 2030" because UK 2030 needs and deserves the best managers possible.

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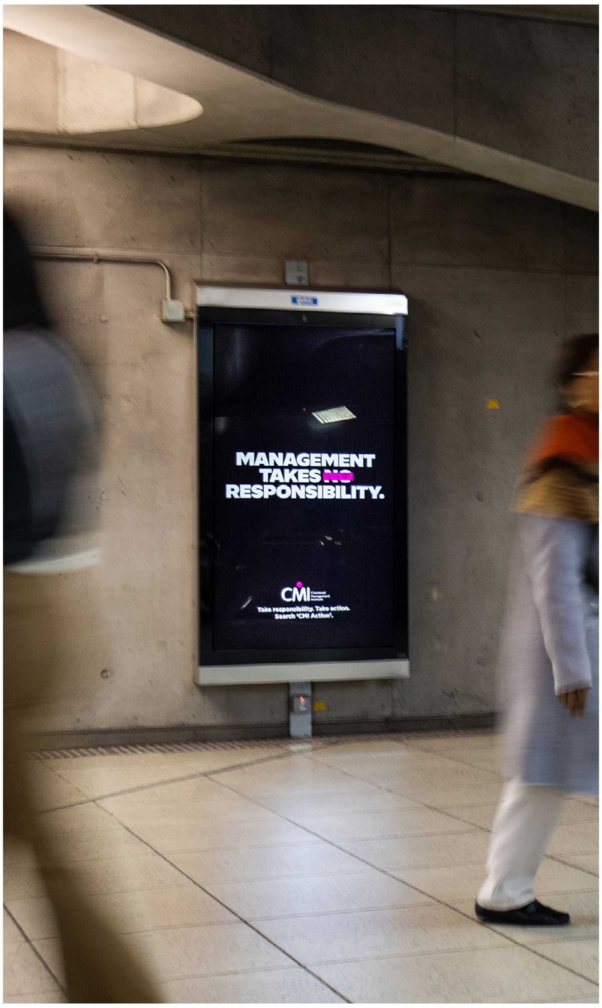

INTRODUCTION.

The importance of effective management in the UK is paramount as today's leaders and managers face considerable geopolitical uncertainty, stresses in public services, Brexit and enduring economic weakness.

On a macroeconomic level, the UK is undergoing a triple transition involving an ageing and diversifying workforce[1], a long-term shift towards knowledge-based industries[2], and policy- and market-driven imperatives to move towards net-zero emissions. And if UK productivity were to continue growing at its current trend, sustaining any sort of improved living standards will be challenging.[3] This weakness applies right across the country as the recent Centre for Cities', Cities Outlook 2024, has shown.[4]

At the heart of the solution to all these stresses lies more capable, robust and resilient management and leadership. Be the Business' latest productivity index has also suggested that the lack of investment in management skills has been a driver of the UK's poor productivity performance.[5]

Better Management skills and targeted training for managers play a crucial role in:

- Job satisfaction, which, according to McKinsey, is a significant determinant of employee wellbeing and can enhance productivity, profitability and organisational health, through more efficient coordination, strategic decision making, people management and development, and optimal resource utilisation.[6,7]

- Productivity and business success, which according to the ONS is strongly, positively and significantly correlated to management practices.[8]

- Embedding quality workplace relationships into managers' development and appraisals which can lead to positive outcomes.[9]

- Lowering staff turnover and improve retraining of staff to secure higher levels of human capital.[10] Companies that invest in their human capital tend to perform better during crises.[11]

Enhancement of human capital is particularly important for the UK economy, which has a comparative advantage in the 'knowledge economy' sectors (services and some high-value manufacturing), which have also contributed the most to the productivity slowdown. Secondly, the UK economy is largely dominated by service industries including retail, hospitality, finance and public services such as health and education.[12] These are industries that rely on deep development of human capital alongside appropriate investment in physical capital. It is, therefore, not surprising that up to 50% of the UK's productivity gap with the most productive economies similar to the USA, is related to management capability. [13]

Historically, there have been major weaknesses in the system of management development in the UK compared to the most successful competitor nations. Education, training and development of British managers has been weaker than the USA and mainland European competitors.[14,15] Recent CMI research in partnership with YouGov found that 82% of managers who enter management positions have not had any formal management and leadership training - they are 'accidental managers'.[16] This is not a surprising outcome when Britain's employers invest only half the EU average investment per worker in training and development.[17]

A stream of research, including surveys dating back to the early 2000s, highlighted the negative views of employees with regard to their organisation's quality of Management & Leadership in the UK.[18,19] A recent CMI research project in partnership with YouGov found almost a third of managers (30%) have not done anything to develop their management and leadership skills in the last three years.

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Almost a third of managers (30%) have not done anything to develop their management and leadership skills in the last three years.

Data from the World Management Survey (WMS)[20], comparing management practices across countries, consistently finds that management practices in the USA are better than in any other nation. The UK ranks sixth in the world and in the middle group amongst most developed countries (figure 1).

The role of management and leadership skills is critical in addressing the challenges facing the UK, supporting economic growth, and ensuring a successful transition towards a stronger and more resilient economy. Policy makers should recognise the value of investing in management development to boost the nation's productivity and the quality of its public services. This report maps out why and how.

Figure 1: Average Management Scores across countries, 2004-2022. World Management Survey, Bloom, Sadun & Van Reenen.

WHY DOES UNDERINVESTMENT IN UK HUMAN CAPITAL MATTER?

The OBR's latest potential growth forecast - the economy's future capacity to produce output from its capital and workers, has been revised down to an average of 1.62% between 2024 and 2027. An examination of the OBR's recent forecasts suggests that investment in people and capital are the key to raising UK economic output. Generally, around half of the expected growth in potential output is due to increasing labour supply, and just under a half is due to total factor productivity, i.e. what we are able to produce from each unit of input such as labour and machinery. The remainder comes from capital deepening (investment in plant and machinery).

In light of this, improving management is likely to increase both the quality of skills as good managers develop their staff and the quality of application of technology and machinery.

Investing in both capital and enhancing the skills of the workforce will improve the quality of the supply of labour, contributing to improved total factor productivity, in turn generating more output per person.

Future migration levels are highly uncertain and difficult to forecast.[21] We can say the same of the long-term sick and the propensity of people to work longer hours. Therefore, it is uncertain whether growth will come from expanding the labour supply. This raises the importance to policymakers of encouraging businesses to invest in both physical and human capital to raise total factor productivity (TFP) as a support for greater growth.

Despite the wide recognition that human capital, R&D and capital resources are all key drivers of economic growth, the UK fiscal system does not treat them equally in terms of incentives to invest. Specifically, firms that invest in R&D can claim generous tax relief on their investments, whereas there is no such incentive to invest in the training of their workers.

Similarly, almost £9 billion — the most generous measure in the March 2023 Budget — was allocated to capital investment incentives.[22]

In the Autumn Statement 2023, the Chancellor of the Exchequer made full expensing of plant and machinery capital investments permanent. This means businesses can receive 100% upfront tax deduction for the cost of the capital, incentivising businesses to invest in capital. Whilst work-related upskilling can also be fully expensed, it can't be treated as capital and recognised on company balance sheets.

There is a very flexible regime applied to physical capital which is recognised as an asset. Upskilling can only be treated as an expense rather than investment (albeit with some recognition as 'good-will' in capital markets). Whilst it is technically complex to treat investment in people as a balance sheet asset, there is an imbalance between how we treat physical and human capital that needs addressing.[23]

This matters. The ONS recently found that worker productivity impacted the UK's poor productivity performance more than capital investments.[24] It therefore seems sensible to incentivise investment in people. Investing in skills will require a reversal of UK firm behaviour which has been too often characterised by a low wage and low productivity path.[25] The government will need to further encourage and incentivise investment in people for firms, and for individuals. The UK's future path to growth depends on it. And management is at the heart of that investment because of what it does to improve firm-level productivity and what it does to improve the skills of others. We will see that countries excelling in terms of management performance combine integrated and competitive markets, strong institutional support for improved management and a culture of professional management. First, we will explore what the UK's labour markets are telling us about demand for skilled management.

The reason behind this is that a businesses' most capable staff can switch jobs, which physical capital cannot do, so there is a different level of mobility between physical and human capital. Whilst this makes sense from an accounting perspective, it does create a divergence between incentives to invest in physical and human capital. Given the importance of the latter in a modern, high value service-based economy, this is problematic from a productivity and growth perspective.

MANAGEMENT AND THE UK LABOUR MARKET.

CMI has used Lightcast and LFS data to analyse the market dynamics of managerial occupations in some of the UK's sectors and across the world's top-performing economies, according to the World Management Survey.

i The UK requires 10% more management job adverts to require high level management skills if it is to close the gap with the world's most productive economies

Within the last year, only 32% of managerial jobs in the UK had defined the skill of management as a requirement, below the G7 average of 35%. In comparison, in the USA, 41% of total managerial jobs have defined management as a required a skill. This suggests that even when UK employers are recruiting managers they are not expecting their management capability to be sufficiently developed.

ii The UK will need to recruit over 120,000 extra managers by 2030

Currently there are around 8.4 million managers in the UK workforce,[26] according to CMI analysis of the Labour Force Survey data from the ONS. CMI calculations based on Lightcast forecasts and LFS data suggest a c.1.5% increase in managers between 2023 and 2030, resulting in over 120,000 extra managers required across UK industries.[27]

However, if the UK upskilled its managerial ranks to the same level as the US over the course of a generation, say, the workforce would have an additional 840,000 trained, high-skilled managers, based on CMI estimations using Lightcast job posting data (Oct 2022-Sep 2023).

iii Data suggests the UK's health sector is undervaluing skilled managers, in comparison to other sectors

Over the last year, 36% of finance professional job adverts specified the management skill, whilst only 23% of health professional job adverts specified the skill of management.[28] Finance and insurance activities, and information and communication have over a third of their working population in management positions. Human health and social work activities have only 21% of its workforce in managerial roles, which is lower than the UK average of one in four.[29]

The NHS, the UK's largest employer, has one of the lowest proportions of managers across the public sector. Only 23% of the NHS workforce are managers, lower than the national public sector average of 26%.[30] Although the data suggests an inadequate quantity of managers in the NHS, the quality of managers' management skills in the NHS could also be hampering NHS performance. In line with this, a recent poll by Opinium undertaken by CMI and the Social Market Foundation found that the majority (62%) of NHS managers and leaders say they face significant management-related challenges that prevent them from doing their job effectively.[31]

In addition, data also suggests the NHS could be facing significant difficulties in hiring skilled managers. In the UK, the NHS has the largest demand for skilled managers, with over 94,000 managerial roles advertised over the last year (Nov 22-Oct 23). However, the NHS is advertising for each role across, on average, five different recruitment platforms, compared with firms such as Morrisons and Whitbread, which each advertise on average across two platforms.[32]

WHY DOES MANAGEMENT MATTER?

i Management, productivity and regional inequality

The UK ranks sixth overall in Be the Business' Productive Business Index. The Index highlights the lack of investment in management as a key driver of Britain's poor productivity performance.[33] Better management practices have been proven to improve labour productivity[34] and firms' performance during times of market turbulence.[35] The mechanism by which management practices achieve this is through their role in improving TFP. TFP measures the productivity of a firm by taking into account the combined performance of both its labour and capital resources, through embedding intangible assets such as intellectual property and organisational capacity.[36]

In the UK and the USA, it has been found that about a third of the TFP gap between high-performing and low-performing firms is due to management practices.[37] The economic geography of high- and low-productivity firms within a country conditions regional inequalities. CMI has identified management and leadership skills mismatches on a regional basis, by looking at demand and supply gaps and future management and leadership needs across the UK's regions. A recent CMI report "West Midlands Future Prosperity" focused on how management & leadership can help boost skills, inclusivity and economic growth in the West Midlands. A potential skills mismatch was identified (for example, there were 177,965 managerial job adverts, but only 91,902 potential employee CVs with management skills available between April 2021-April 2023).[38] Apprenticeships were identified as an effective tool in reducing such regional skills disparities to boost economic growth, and CMI's economic model estimated that if apprenticeships were increased by 25% in the West Midlands, the productivity gain to the West Midlands economy in 10 years' time would be around £60 million per annum.[39]

ii Better management improves public services

Irrespective of their location or sector, public services consistently register lower than average management scores.[40] This seems to stem particularly from weaker incentive systems (promoting and rewarding high-performing employees), inadequate training systems for low performers, and a promotion framework based on tenure rather than performance. Even after adjusting for factors such as size and country, public services tend to have lower scores due to weaker people-management practices, which significantly influences management quality.[41]

UK public sector productivity grew only 4% between 1997 and 2018, compared to a 27% increase across the economy, which includes private sector productivity which is widely regarded to be muted.[42] CMI research in partnership with the Social Market Foundation (SMF), found management & leadership quality is too often weak within UK public services: in education, healthcare and local government.[43]

Continued

The data revealed the NHS is under-managed, both in terms of quality and quantity relative to the proportion of managers in the UK workforce.[44] Evidence also indicates that leadership and management can play a central role in improving educational quality. A recent CMI report in partnership with SMF highlighted that, in the UK, between 2017-2023, an average 30% of schools and colleges received an Ofsted rating of "inadequate" or "requires improvement" for leadership and management.[45]

Overall research by the SMF finds that there is a positive relationship between better leadership and management and the effectiveness of public services. The evidence suggests that this relationship is consistent across the public sector — in education, healthcare and local public administration.

iii Symbiotic relationship of management and international competitiveness

Multinational firms and exporting firms are likely to be better-managed than non-exporting firms, as the need for competitive advantage and cross supply chain collaboration and learning reinforces innovation, human capital development and efficiency — all of which require strong management capability.[46] Both product market competition within a country and international competition lead to the reallocation of resources towards better-managed firms, driving out poor-performing firms. This is evident in the USA, which boasts higher management scores due to stronger reallocation effects.[47]

In the UK, Brexit has reduced trade intensity[48] with the EU, which means trade volumes and the number of trading relationships between UK and EU firms have fallen. Unless trade with the EU was successfully located to other international markets, any reduced exposure to international competition and collaboration is likely to deplete incentives for competitive advantage via investment in skills and innovation or better management practices.[49]

iv Weaker management capability influences market structure and vice versa

Market structure significantly influences management practices, accounting for 40% of cross-country disparities.[50] Family-owned businesses often exhibit inferior management due to a lack of competitive recruitment processes.[51] The prevalence of family-owned businesses varies across countries and aligns with management practice scores. For instance, in the UK there are around 5.5 million businesses — 99.9% of these 5.5 million businesses are classified as small and medium-sized enterprises (SMEs), of which approximately 80% are family-owned SMEs. The high concentration of family-owned firms is likely a contributing factor to the UK's poor management score.[52] SMEs also tend to be characterised by skills shortages — both at managerial level and other levels — due to lack of investment.[53]

Recent analysis by The Productivity Institute shows that the highest slowdown in productivity growth in the past decade and a half has been from firms with above-median levels of productivity that fall below the top 10%.[54]

The challenge is in the middle of the distribution. Firms with below-median productivity have always lagged, but it is in this sixth-to-ninth decile range where a productivity slowdown has been most pronounced in the non-financial business economy. These firms are likely to be, according to CMI analysis of the ONS Annual Business Survey[55]:

- Fairly established (more than 7 years old in the main).
- In the manufacturing, utilities and sections of the non-financial service sectors (especially in information and communication; professional, scientific and technical; and real estate service sub-sectors).
- Employing more than 100 workers approximately.
- Producing GVA per worker of between £30,500 and £108,000 at 2019 prices.

- Trading internationally given the sectoral composition of higher productivity firms (manufacturing and traded services).

Given this is where higher productivity growth was experienced before the global financial crisis of 2007-08, it is here that improved management capability offers great prospects for improved productivity performance.

v Better-trained managers act as catalysts for a better-skilled workforce

Better-skilled managers are able to implement high-quality management practices, and this includes the development of others.[56] Good managers tend to have strong team relationships and can lead their teams to higher organisational performance, operations and provide the crucial link between organisational vision and execution.[57]

This suggests that providing training will not only have direct benefits for the employee and the employer in the short-term, but will also reap benefits from the multiplier effect — the phenomenon whereby the provision of training causes a larger change in business output. Recent McKinsey analysis found that organisations with top performing managers yield multiple times the total shareholder returns than those organisations with average or below-average managers.[58] Better-managed and more-skilled workforces are also more likely to be resilient in times of crisis. However, managers that have not benefited from formal training are less likely to see upskilling as a solution to business challenges.[59]

As organisations compete for workers in a tight labour market and face skills gaps,[60] investing in skills can create a virtuous cycle, improving the ability to attract, develop and retain talent.[61] According to a LinkedIn study, 94% of employees said they would stay with their employer if the employer invested in their skills development.[62] Better-skilled managers could play a greater role in providing their team with the necessary training and skills development as they tend to have a better sense of the skills their team members need to build.[63]

Moreover, modern management capability requires emphasis on a diverse workforce across multiple experience and characteristic dimensions and inclusive practice to ensure that all talent is properly motivated, developed and deployed. CMI's The Everyone Economy report demonstrated how those organisations who are focused on inclusive practice see better outcomes in terms of profitability, innovation and wellbeing. In a modern economy, all of these factors are critical to higher productivity.[64]

Additionally, those who report they have effective managers are significantly more motivated, satisfied at work, and likely to report finding their work meaningful. Managers with formal training were far more likely to be confident in deploying emerging technologies, adapting to changing priorities and driving efficiencies.[65] Capable and skilled managers improve their own productivity and the productivity of others.

LESSONS FROM OTHER NATIONS.

In exploring global models of management excellence, this analysis explores key practices observed in leading economies. There are distinctive approaches driven by each nation's unique economic environment and cultural norms. Overall though, we see the strongest management practice where the following are present:

1. A competitive domestic economy with access to large single and international **markets**.
2. A strong culture of long-term commitment and of valuing and improving management capability at the firm and organisational level, supported by a wider **culture** of management in national leadership and governance.
3. Strong institutions such as good regional industrial and skills policy coordination, good education **institutions** to upskill managers, or good sectoral support and coordination.

Where a country has strong markets, a good culture that values and esteems improved management practice, and a developed institutional structure of support then it is likely to see high levels of managerial competence and that in turn aids its economic and public service outlook.

In the case of the USA, it is evident that a key driver of better management practices is the requirement for operational excellence across the majority of its firms, which operate not only in a large single market across the USA, but also in the global market. The USA also has a culture of managing and promoting innovation which bears fruit in the long-term. This is embedded within its high technology firms across sectors, which creates a competitive advantage. Similarly, Germany is an export-oriented economy that has a culture and institutional framework which focus on continuous improvement and long-term skills initiatives. South Korea, also an export-oriented economy, focuses on long-term skills policies, which are driven by regional needs. Sweden's decentralised corporate structure and focus on lifelong learning echoes the needs-based, long-term-focused culture of other top-tier management performers.

Such characteristics are detailed below and serve as valuable lessons for the UK's management landscape. International examples show that there is not just one pathway to success; multiple routes have been pursued. The question for the UK is where it can learn lessons given its own market structure, institutional foundations, and cultural perspectives on management. How can it evolve its own culture and system of higher management performance?

i Emphasis on long-term strategic planning and improvement

Germany has a large concentration of Mittelstand (SMEs) representing more than 99% of all German firms. As already recognised, research by Nicholas Bloom and others concludes that family-owned firms tend to be poorly managed.[66] However, the German case is somewhat different to the international norm. SMEs in Germany tend to be family-owned, yet are inclined to have a sense of purpose aimed at the sustainable and long-term growth of the firm. German SMEs are more likely to pursue long-term human resource development and continue to invest in their employees even during periods of economic volatility.[67] This suggests that it is the assurance of long-term employment found across German SMEs which reduces the risk to employers of losing returns on investment, and thus drives investment in human capital and overall better management practices as a result. The more flexible labour market prevalent in the UK may reduce job security and lifelong investment in learning by businesses. In addition, the environment in which German SMEs operate is different to most in the UK — they are more likely to be integrated into a global market and exposed to high levels of international competition.

South Korean management focuses on lifetime employment, emphasising high performance and high commitment (noting this can have significant downsides for the individual and the firm).[68] Rooted in Confucianism, it fosters long-termism, loyalty, and community.[69] These management features have created a sense of long-termism among employees and employers and reassured companies that they would not lose returns on investment in employee education and training.[70]

ii Fostering an ethos of lifelong upskilling

Some top-tier countries have been able to create a culture and an institutional framework which focuses on continuous improvement and long-term skills initiatives. In Germany, the long-termism embedded in its family-owned SMEs and the nationwide acceptance of the successful dual education and training system promote a highly-skilled workforce. In Germany the norm of combining classroom learning and practical training through apprenticeships is likely to have driven improvements in management practices.[71] The OECD highlights the "international recognition" given to the German dual system, which is similar to Austrian and Swiss models.[72,73] Around 83% of apprentices in Germany do their vocational training in an SME and these apprentices are a key contributor to low unemployment rates among young people and social and economic stability.[74]

Similarly, Sweden has also developed a strong vocational education and training system. Work-based learning (WBL), as a means to upskill the workforce is nearly universal in vocational training and education across Sweden.[75] Consequently, Sweden has the highest proportion of adults participating in education and training in Europe.[76] Sweden's large public investment in education and research and easy access to lifelong learning have resulted in a highly-skilled workforce, improving productivity performance.[77]

National investment, both public and private, has also helped foster an ethos of continuous upskilling across organisations. For example, South Korea's economic development model pursued from the 1970s included a high level of investment in education and human capital to create a skilled workforce.[78,79] The share of national wealth devoted to educational institutions is higher in South Korea than on average among OECD countries.[80]

Singapore's management score ranks nineth among 20 countries, on a par with countries such as the UK and Australia, but behind countries such as the USA, Japan and Germany. Following independence in 1965, Singapore's industrial development strategy was expanded to invest in human capital in the 1970s. At this time, the government supported the transition of the economy from low-cost, labour-intensive industries to higher-value-added skilled jobs and businesses by developing technical expertise and business skills.[81] Therefore, Singapore has rapidly emerged as a mature economy having transformed itself from a labour-intensive to a knowledge and innovation-based economy, within a few decades. Therefore it is likely that if the momentum in Singapore's skills development model continues, the quality of its workforces skill may outpace or equal that of leading economies in a short period of time.

Singapore's workforce development system was underpinned by the launch of SkillsFuture Singapore in 2015 — a national movement to skill and reskill citizens throughout life, supporting all key industries and incentivising lifelong learning. SkillsFuture Singapore is focused on a "long-term plan for strengthening the skills ecosystem", especially in SMEs to support individuals and enterprises, and has recently discussed intentions to develop the SkillsFuture ecosystem further and improve the upskilling model.

Continued

It has resulted in over 660,000 people in 2022 utilising the initiatives (about 10% of the population).

Its impact has resulted in workers adjusting to changing market needs, enabling them to remain employable over a longer period. Singapore, among other subsidies, launched the SkillsFuture Credit, which individuals can use to offset the post-subsidy fees for training programmes. Since its launch in 2016, training participation rose from 35% in 2015 to 47% in 2017.[82]

SkillsFuture Singapore has recently found that over 60% of the most in-demand future skills required by the Singapore economy over the last decade have been in management, namely business management, data management and production management. For example, operations management increased in relative importance from 8% in 2012 to 12.2% in 2022, reflecting the rise of e-commerce and global supply chains. SkillsFuture Singapore forecast the trajectory of 24 priority skills which will continue to grow in demand over the next two years at least. Of these 24 skills, six have been identified as management skills, emphasising the importance of management to Singapore's economic growth.[83]

iii Decentralised decision-making with a focus on local and regional economies

Training and education across most of the countries that have high management performance scores[84] has tended not to be provided centrally. Instead, upskilling was localised — either through the employer due to company culture, as in the case of the USA, or regionally through dedicated local institutions, e.g. Human Resource Development (HRD) programmes launched in 1982 in South Korea. Regional-based policy initiatives significantly improved management practices in South Korea, as HRD programmes tailored training to regional needs with a demand-driven approach. For example, the Gwangyang HRD Program, with an average employment rate of 92.3%, and the POSCO Human Resource Development Consortium have successfully enhanced training, especially for SMEs.[85] These efforts have resulted in substantial growth in management practices and overall economic performance.

Most Korean companies also have their own training centres and offer various training programmes specifically tailored to different employees. As a result, while the budget for training has declined in recent years, Korean companies tend to provide more training to their employees than companies from other comparable countries.[86] In Sweden, adult education and training is also decentralised and each municipality determines how it allocates resources to training.[87]

iv Emphasising the importance of a culture of innovation and improvement

The USA's strong culture of innovation and leadership in technology adoption are likely to contribute to improved management practices. US firms are also at the forefront of early adoption with 25% of companies reporting that they have already implemented AI, whereas in the UK only 12% of companies have done so.[88] The origin and home of innovation centres of tech giants such as Alphabet, Amazon, Apple, and Microsoft reflects the nation's commitment to technological advancement, making the USA one of the global leaders in innovation around the world.[89,90]

German SMEs, like all SMEs across the globe, are generally more resource-constrained in their ability to develop new products and services. Yet despite these constraints, German SMEs have been identified as having six key traits that allow them to efficiently orchestrate their resources to innovate and outcompete their competitors in the global market. These include a niche focus and customer collaboration, globalisation strategy, preference for self-financing, long-run mindset, superior employee relations, and community embeddedness.[91] To achieve this, German SMEs provide employees with high-quality training. As good management practices tend to have a high involvement of employees in decision making, it helps these organisations overcome human capital constraints to innovation.[92] Such practices give enhanced ability to provide input into incremental improvements and more radical innovations.

v Strong linkages to global markets, recognising the importance of trade policy and international exposure

Exposure to global markets increases the intensity of competition that organisations face. This has proven to increase productivity and economic growth, and a main mechanism is through improved management practices.[93] Competition forces better management practices, increasing productivity and business and economic growth.

The USA has the highest management practice score, not least because it benefits from a large, diverse domestic market with intense product market competition. It also leads in global trade connections, with the world's second largest number of export-oriented and multinational firms.[94] Similarly, around 44% of German firms export globally, making it the world's third-largest exporter.[95]

South Korea's export-oriented economy promotes an open approach to international trade. It's the world's seventh-largest exporter and 10th-largest importer of goods, with trade accounting for nearly 80% of its GDP.[96] As South Korean firms began competing on the global stage, they adopted more efficient operations and management practices to accelerate their competitive advantage, supported by strong industrial and regional institutions. For example, in the face of accelerating globalisation in the 1990s, the South Korean government shifted policy, which prompted leading businesses to restructure ownership and management roles. The policy was designed to ensure Korean firms were well-managed independently from foreign multinationals. This forced Korean firms to have a central role in learning and implementing technologies.[97]

Singapore's industrial take-off in the 1970s has also been a product of large investments into human capital to provide a comprehensive national workforce development structure. In particular, skilled technicians, engineers and managers were trained, leading to the establishment of the Singapore Institute of Management among various other training institutes.[98] Workforce and management development has since continued to be key to Singapore's progression moving up the global value chain.[99,100,101]

Whilst these five elements — a long-term focus, an ethos of continuous upskilling, decentralised decision making, a culture of improvement, and strong linkages to global markets — are present in the UK to some extent, they are not consistently applied over time. This inconsistency is reflected in relatively weak UK productivity performance.

Nations with high management performance scores tend to have institutions with a committed and long-term training agenda.[102] Recent CMI research found that of the eight million UK managers, only 8% are currently working towards a qualification.[103] Investment by employers in the UK may be hindered by the lack of long-term assurance and uncertainty businesses have due to institutional inconsistency. For example, in the space of five years, the UK government has rolled out at least three growth plans — "Forging our Future" (2018), "Build Back Better" (2021), and "The Growth Plan" (2022). It has established and abolished an Industrial Strategy Council. Each of these plans launched new initiatives, whilst prior ones were either scaled back or scrapped. Supply-side policies which incentivise investments in skills and training designed to improve productivity and economic growth are long-term projects, and usually do not fit easily within the four-to-five year electoral cycle.

Although devolution has been increased in the past decade through city, county and combined authority deals, it is not yet deeply embedded and uniform across the UK. This adds to the sense of fragility across the types of institutions we have seen support being extended to, including industrial, human capital and management capability in the countries explored above. Each of the elements we highlight — markets, institutions, and culture — can be seen in the UK context, just not anywhere near consistently enough. And that is why the UK has suboptimal outcomes in management capability, skills and productivity.

So what could the core features of a UK high-performing management model for 2030 look like, building on existing policies, institutions, and practice?

FIVE STEPS TO A BETTER MANAGED UK.

As we have seen, the critical components of strong management across public and private sectors are markets, institutions and culture. The international examples above demonstrate how countries have successfully blended these different core elements in different ways to increase management capabilities over time.

South Korea has combined strong regional industrial skills institutions with a culture of solidarity and continuous improvement. The USA has used a large and relatively competitive market to drive management capability and productivity backed up by globally-leading management schools and a huge capacity to absorb technological innovation. Germany blends a culture of cooperation with institutions that facilitate coordination in skills development, allied to access the large EU single market with its increasingly integrated supply chains. Singapore continues to both strengthen its long-term successful national skills policy and ensure institutions are integrated across sectors to ensure lifelong training and upskilling.

The UK trails the leading pack because of its under-performance on each of the dimensions of better management. More recently, institutional innovations such as the apprenticeship levy have supported high level management skills development. Despite this, there is still a deficit in the degree to which management capability is part of the policy and institutional landscape in central government, devolved nations and regions, and throughout public services. Professional management is more likely to be dismissed than embraced as a cultural norm — and this behaviour has real world consequences. And the UK has recently detached itself from the EU single market weakening, in the short to medium term at least, access to integrated regional markets.

In the short to medium term, we are unlikely to see a sudden shift in cultural attitudes towards management. The UK will remain outside of the EU with alternative deep access to global markets as yet under-developed.

The timescales for change in market structure and institutions can be long, as the box on the next page outlines. Therefore, change, if it is to come, will have to be driven through policy, and employers should feel encouraged, persuaded and incentivised to follow policy cues that emphasise the importance of better UK management.

SHIFTING MARKETS, INSTITUTIONS AND CULTURE

Strong policy driven approach (1-2 years)

Strong central government leadership is needed, which ensures high-skilled management requirements are embedded in skills strategy, public sector workforce planning, procurement and economic policy.

Strong regionalisation of skills (2-10 years)

Skill development must be linked to regional skills gaps and wider economic challenges. Continuing the direction of travel of current devolution, with a strong national and regional combined agenda to improve management skills across the current and future workforce, is key. Power over skills should be devolved and devolved bodies will need to recognise the centrality of management skills.

Strong lifelong skills development agenda (2-10 years)

Create wider channels of access at every age for people to access management training embedded within industrial, green, regional and public sector reform strategies.

Intensification of international trading relationships (5-10 years)

The UK would strongly benefit from greater integration with global supply chains. The UK must form stronger formal trading relationships to ensure that better management is secured through both effects of international competition and management capability diffusion.

Culture of better management (5-20 years)

Improve cultural awareness and follow-up response of formally-trained, highly-skilled management across the public and private sector, particularly amongst SMEs and especially those in the 50th to 90th percentile of productivity.

We suggest how in five steps on the next page

STEP 1

Upgrade the management capabilities of the government and public sector workforce and those who supply it goods and services.

Public sector leaders need to ensure that professional management standards and clear, accredited management training options are in place across all government departments and public services. This requirement should be overseen by a group of senior civil servants with an appropriate ministerial sponsor, with an annual report submitted to the House of Commons Public Administration Committee.

Every major public service should adopt a formal management capability framework, such as CMI's professional standard with clear qualification pathways at all levels. This would include the NHS, care, emergency services, local and central government, and education at all levels. This would be backed up by regulatory oversight through bodies such as Ofsted and the CQC.

Furthermore, any supplier of services to government should be expected to demonstrate how they have invested in management capability and how they ensure good management in all its forms across their business. Requirements for formal management capabilities should be included as the Procurement Act 2023 is implemented on the basis that qualified management and leadership is a key mechanism for achieving value for money for government purchasers. This will signal that both central and local governments are setting an example by using their purchasing power as a lever to improve management across the economy and public services.

Figure 2: CMI Professional Standards

The CMI's professional standard sets out best practices in Management & Leadership for organisations. The standard has been recognised by a number of organisations across the UK who have adopted it as part of their strategy and professional frameworks. The standard motivates firms and supply chains to transition towards long-term focus and commitment to upskilling; a culture of improvement through developing people and capabilities; achieving results which encourage innovation that forms a productive and resilient culture, and better decision making and increased competitiveness through enhanced data and information management.

STEP 2

Government to act as arch persuader for better management.

Having raised its own management capabilities with Departments, across public services and through procurement, government should act as a persuader for wider investment in management and leadership, emphasising its importance, and must have a long-term skills strategy which flows from that. Government must make a virtue of developing high-level management capability. This means senior government ministers must be well-versed and comfortable in why management makes a crucial and national difference and could involve management training for those who lead key government departments, including key ministers.

STEP 3

Support existing policies that improve UK management.

Retain and improve current policies that support the development of management capability including:

1. Maintaining levels of investment in levels 5,6 and 7 management apprenticeships, which are proven to increase employer productivity.[104]
2. Continue and expand the Help to Grow management scheme post first phase evaluation.

3. Consider the impacts of higher education funding, apprenticeship funding, migration policy and industrial strategies on the UK's business schools and colleges as key institutions for increasing management capacity in the UK.

4. Explore the development of flexible and high-quality delivery in all the above skills provision areas, e.g. boot camps, modularisation and distance learning to enable more to participate.

STEP 4 >

Use strategic policy and regulation levers to improve management capabilities.

1. Embed management skills in key government strategies e.g. future industrial strategy, green transition, innovation policy (emphasising management capability from research grant-led entrepreneurship).

2. Incorporate the importance of management capability into devolution deals to ensure that regional growth and public service improvement are supported through better management and leadership.

3. Along with other high level skills, use the tax system to push and incentivise investment in management.

This could involve widening application of the apprenticeship levy by increasing the number of firms who pay it, or by increasing the levy rate.[105] This would enable the system to be opened up by allowing greater flexibility for levy payers as long as standards were maintained to avoid dead weight cost.

A major barrier to employing apprentices is the potential loss when an apprentice leaves prior to, or soon after, completing their apprenticeship. A new employer's right to retain their levy funds could be introduced to compensate employers for loss through no employer fault within a set period. Tax and accountancy treatment of high-level skills should be reviewed to enable capture of human capital assets on corporate balance sheets, as well as being treated as an in-year expense as at present. There should be tax neutrality between investment in R&D, human capital and physical capital, with taxation that encourages such investment.

STEP 5 >

Trade deals that support the place of UK business in global supply chains.

Integration with global supply chains and globally-competitive markets is crucial to raising the quality of management. Future trade relations with the EU and other major global economies to allow strong flows of goods, services, people and capital wherever possible will also contribute to the UK's management capability. Mutual recognition for professional standards will make a contribution in this regard. The relationship between market structure and management capability and knock-on impacts on innovation and productivity should be factored into competition policy. For example, it is possible that a concentration of market power within sectors has an impact on the need to invest and innovate and that deadens management capability in that sector. The Competition and Markets Authority could explore the negative impact on management development and the knock-on economic impacts from a lack of competition in key domestic markets.

Underpinning all the above policies, England and the devolved nations need long-term national skills strategies which place management at the heart of economic recovery and public service renewal. In the case of England, the strategy, which should be owned by a national body such as IfATE or the Labour Party's proposed Skills England body, would have a standalone focus on improving management capability across all sectors. This body and its strategy would be an important institution alongside a statutory growth and productivity institution recommended by the Productivity Institute should it be introduced.[106]

The strategy would:

1. Identify strategic UK skills needs and aim to increase lifelong participation in high-quality skills development.

2. Ensure that the UK's skills institutional structure can meet these needs.

3. Generate a collective sense of mission between national and local government, employers, education and skills providers, and learners.

4. Identify the incentives and resources needed to encourage engagement of both employers and learners in upskilling UK workers.

CONCLUDING COMMENTS

The Chartered Management Institute was founded in 1947 as the UK wrestled with recovery and the pursuit of a new economic paradigm. We face the same challenge today. And now, just as then, the availability of highly skilled managers is critical to forging a different, better path.

The evidence, from global research and from the experience of other leading industrial nations, is that highly skilled management is as crucial to economic success, individual prosperity and strong public services as it has ever been.

In fact, the contention of this paper has been that it could be more important, more consequential in an economy structured around service industries, intangible assets, and global comparative advantage grounded in high-level services and advanced manufacturing.

If we improve our cultural disposition towards ever improving management, ensure that the economy is structured in a way that provokes and encourages more capable managers, and underpin improved performance with a consistent, long-term policy approach grounded in an institutional logic in favour of higher levels of managerial capability, then new possibilities open up.

Over time, we can learn from the best and create the right culture, markets and institutions to bias our future in favour of better productivity across all sectors. And that is ultimately the argument of this paper: we have a collective choice to make. Change is possible, but it requires long-term commitment from policy-makers, employers and managers themselves alike. It's a collective commitment we should be eager to make.

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