

Helping Government to resolve the UK's productivity problem

“Productivity isn’t everything, but in the long run it’s almost everything,” according to Paul Krugman, Nobel Laureate in Economics. “A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

UK prosperity is estimated to be 17% below trend due to the past decade of zero productivity growth. This has ongoing political, social and economic consequences.

As a recognised independent voice to Government, and working with ‘Be the Business’ and other active supporters – see Appendix - the Managing Partners’ Forum observes that:

- **Inaccessible:** Policymakers find it difficult to access the views of the leaders of mid sized sector firms and clients on issues that impact productivity, and vice versa;
- **Holistic:** A successful & sustainable enterprise requires great products, great management and great leadership.
- **Reach:** Professional services firms have high levels of employee engagement, an extensive regional footprint and client-adviser relationships with organisations of every size in every sector of the UK economy. Professional services is the UK’s largest sector, world-class and incredibly successful. This is due partly to technical know-how and partly to leadership, management & training expertise – more in the Appendix. However, few leadership teams of sector firms are currently advising their peers at clients;
- **Overlooked:** Historically, sector firms have been content to serve clients, train young professionals and pay their fair share of taxes in relative obscurity. There is therefore a lack of consensus in the business and political world as to how the sector should be defined, the sub-sectors it covers and its economic impact. The sector has also been overlooked by policymakers, academics and analysts;
- **Threat:** Professionals are naturally conservative so prefer to wait for others to iron out the bugs in new technologies such as artificial intelligence (AI) and machine learning (ML). They could be swamped;
- **Engagement:** There is a strong two-way causal relationship between employee engagement and productivity;
- **Resolution:** Supporting local clients through a combination of technical know-how and leadership, management & training expertise should help resolve the UK’s productivity problem.

The Forum’s commitment to Government is that we will:

1. **Mutual access:** Encourage the leaders of sector firms and clients to join a free online information exchange to share ideas on productivity with each other, Government, professional bodies and business schools, and to respond to Government surveys and consultations;
2. **Collaboration:** Encourage frontline advisers and leadership teams to work together to deliver technical know-how and leadership, management & training expertise to clients;
3. **Shared expertise:** Bring together local leaders from high and low performing sector firms and clients at structured meetings in up to 60 cities across the UK to share tips on leadership style, management excellence, training techniques and ways to increase employee engagement – see Diagram in the Appendix;
4. **Innovation:** Help sector firms and their clients to adopt AI and ML through free-to-join AI consortia and an ESRC-funded Next Gen Services collaborative design project, in partnership with four business schools;
5. **Governance:** Seek a ‘healthy’ balance between supply and demand for firmwide leaders and other advisers as NEDs at corporates and other organisations as this should result in better Board decisions and a boost to UK productivity.

Andy Haldane, Chief Economist of the Bank of England and Chair of the Industrial Strategy Council, has described our initiatives as “very important”.

In the light of these commitments, we encourage Government to:

1. **Reciprocity:** Ensure productivity issues that are raised in the online information exchange by leaders of sector firms and clients are routed to the correct Government department and suitable responses generated on a timely basis.

2. **Attitudes:** Adjust the R&D tax credits scheme to include investment in tools that measure or enhance employee engagement given the strong links to productivity. This should change attitudes towards the importance of employee engagement for a limited cost given the current low take-up of the scheme.
3. **Awareness:** Provide financial and ONS support for a rigorous independent economic study and thought leadership campaign to set the record straight over the vital contribution of the sector to the UK economy, productivity, exports, local communities and public life. This project is likely to involve:
 - Reaching a broad agreement on a relevant and clear definition of the sector that can be promoted consistently by all parties;
 - Once sector boundaries have been determined, combining data and research from a wide range of public and private sources to form a robust dataset of sector revenues, growth, employee engagement, value added and headcount;
 - Confirming the direction and continuing importance of the sector and calculating its value multiplier through robust econometric modelling and active engagement with our clients.

Detailed findings

Improving liaison between mid market organisations and Government around productivity issues

The views of leaders of mid market organisations on issues that impact productivity are often difficult for Government to ascertain. The Forum has therefore created a free-to-join two-way online information exchange to allow mainly mid-market sector firms and clients to share views with Government, and to allow Government to conduct consultations and surveys to enhance their awareness of the views of mid market leaders. Much as factory books worked best when management responded, the success of this initiative relies on issues being routed to the correct Government department and suitable responses being generated on a timely basis.

Giving greater attention to the impact of employee engagement levels on productivity

Traditional productivity interventions focus on four drivers: innovation, capital investment, education and training. While fully supportive of these drivers, the Forum believes that a key 'soft' driver has not been given sufficient attention by policymakers – namely the level of employee engagement at an organisation.

- High performers (defined by the Forum as >70%) – for example employee-owned businesses and many professional services firms – view high engagement as an integral part of their business model so find it difficult to articulate how to grow and sustain high levels;
- Medium performers (defined by the Forum as between 40% and 70%) would like higher levels of engagement but generally do not see this as a priority;
- Low performers (defined by the Forum as <40%) typically do not track the levels of engagement at their organisations and are mostly unaware of the strong relationship between engagement and productivity/prosperity.

A Diagram that puts employee engagement in context at firm level is included as an Appendix.

Developing a new set of policy tools

We suspect that the lack of attention by policymakers to employee engagement stems from two factors: inconsistent measurement of employee engagement; and a perceived lack of commonality between organisations with different levels of engagement, resulting in no simple set of policy tools to foster interactions. However, these barriers are becoming less relevant:

- Cloud-based culture tracking systems, developed by technology companies in partnership with business schools, are now resulting in more consistent and rigorous measurement of employee engagement.
- Professional services firms have high levels of employee engagement, a strong regional footprint and client-adviser relationships with every other type of organisation. However there is an important mismatch to this commonality: client relationships are mainly owned by the front line, while knowledge of ways to grow and sustain high levels of employee engagement is mainly the domain of the leadership team. We therefore urge both groups to collaborate in serving clients.

The professional services sector is frequently overlooked by policymakers, academics and analysts

Few would disagree that a successful and sustainable enterprise requires great products, great management and great leadership. UK professional services is an incredibly successful world-class sector – due partly to its

technical know-how and partly to its leadership, management & training expertise – see *Appendix of characteristics below*.

Historically, the sector has been content to serve clients, train young professionals and pay its fair share of taxes in relative obscurity. As a recognised independent voice of the sector to Government, the Forum has observed a material gap between the actual and perceived size and impact of the sector as well as a lack of clarity over its multiplier effect on the economy and exports. As a result, the sector has been frequently overlooked by policymakers, academics and analysts, and there is often a lack of recognition and goodwill towards an admittedly complex sector.

Leadership style is a vital influence on levels of employee engagement

Professionals are independently-minded people who typically prefer neither to lead nor to be led. As Richard Susskind observed, it's tough to tell a room of millionaires that they have got something wrong. Professionals also usually own the business and elect the leader, so 'challenge & support' is the default leadership style, irrespective of the type of professional service being delivered. According to recent research into the mind of successful leaders, this style has three elements: being mindful, compassionate and selfless. The outcome is levels of employee engagement that are twice to three times higher than those found at clients that practise 'command & control' (the Forum tracks member firm engagement at 85%). While productivity is difficult to measure in services businesses, the professions must be highly productive in the light of these exceptionally high levels of employee engagement.

The sector has a professional duty to support its clients with their productivity challenges

The Forum believes that the sector has a professional duty to support its clients with their productivity challenges and to set the record straight over the vital contribution of leadership, management & training expertise to the success of our sector. Clients should pay for the advice as this increases revenues, demonstrates value and improves internal credibility. However, despite hugely relevant expertise, few leadership teams at sector firms are currently helping client management with their leadership, management & training challenges. Reasons include: lack of awareness of their strong management capabilities; lack of awareness by client management of their weak management capabilities; too busy with internal issues; an inability to articulate what makes them successful leaders; a concern that promoting 'back office' value added advice might distract clients from the firm's core services; or choosing their battles with insecure electors who mostly prefer management not to develop close relationships with client management. The Forum urges leaders and managers to confront these barriers.

Bringing together local sector leaders with SMEs from every sector

In partnership with the Employee Ownership Association (even higher levels of employee engagement and very popular politically), the Forum aims to bring together local leaders from high and low performing organisations at structured meetings in up to 60 cities across the UK to share tips on leadership style, management excellence, training techniques and explore ways to increase employee engagement. The Forum is not alone in this endeavour. In the October 2018 'Be the Business' newsletter, CEO Tony Danker wrote: "Some of the key elements of building a movement in the future will include mobilising the 'productivity army' of advisors and intermediaries to reach a greater number of SMEs in particular; ensuring firm-level productivity sits at the heart of local industrial strategies; and fostering these networks of large and small firms." Tony has advised us that the Forum is 'key to the next phase' of his important work. Other active supporters can be found in the Appendix.

Embracing new ways of working

Understanding the transformative potential of AI involves looking at individual firms, the outcomes provided to clients, and the business processes and predictions that are deployed – see diagram in the appendix. Our successful ESRC-funded 'Innovating Next Gen Services through collaborative design' project will focus on understanding the technological and behavioural barriers facing mid-sized pragmatic legal and accountancy firms, and suggesting potential solutions, as this is the segment where intervention will have maximum impact on the continued success of the overall sector.

If pragmatists are not fully engaged, the outcome for conservatives is either oblivion (for retail providers) or slow suicide (for B2B providers given their stronger existing client-adviser relationships). However, the potential of AI remains hypothetical unless and until the leadership team at a firm has the authority, confidence and knowledge

to persuade frontline advisers to embrace new ways of working. 'Command & control' is seldom a viable route to bring about change at a professional firm.

Helping the 98%

One of the biggest challenges with any research project is how best to engage with organisations that are not directly involved but could make a valuable contribution as the project progresses and/or benefit from the outcomes. As only some 2% of the 600 or so law and accountancy firms with UK revenues between £5m and £250m are likely to be directly involved in the Next Gen Services project, the Forum has formed three free-to-join AI consortia, each with a distinct theme and technology company as moderator:

- Visionaries – High use of AI – Theme: Cool new technology and market opportunities – moderated by Neota Logic;
- Pragmatists – Willing to experiment – Theme: Business model innovation and management best practice – moderated by Intapp;
- Conservatives – Low use of AI – Theme: Enhanced business processes and knowledge transfer – moderated by HighQ.

Consortia membership will enable professional firms, clients, technology suppliers and other interested parties located worldwide (business thinkers, professional bodies, policymakers, regulators etc.) to meet online and at local events to explore and debate AI and ML issues and emerging project insights.

Appointing advisers as NEDs at corporates

Serving as a NED provides a fantastic opportunity to interact with the leadership team when a Board is reviewing the extent that high levels of employee engagement are needed for successful implementation of the strategy. Internal governance rules to avoid client conflicts of interest mean that most current leaders of professional firms are restricted to interacting with current clients. However, although former leaders are more flexible, few of the latter are being shortlisted for NED roles by recruiters and nomination committees. The Forum urges a 'healthy' balance between supply and demand for firmwide leaders and other advisers as NEDs at corporates and other organisations. The Forum and others believe that this would result in better Board decisions and a boost to UK productivity/prosperity:

Showing commitment through a public pledge

The Forum has created a Productivity Partnership Pledge under which firms commit to sharing their technical know-how and their leadership, management & training expertise with their clients to help those clients increase their employee engagement, productivity and resilience, and thereby boost UK productivity. The free logo, to be used on communications with clients, is available from www.mpfglobal.com.



**Productivity
Partnership
Pledge**

Other actions for management teams at sector firms include:

- Developing a marketing plan to promote their firm's leadership & management expertise to clients;
- Emphasising the increased commercial value and sustainability of 'Diamond' compared with 'bow-tie' client relationships;
- Discouraging the firm from promoting itself as a collection of sole traders ('use partner X for service Y in city Z') rather than as a well-managed business;
- Entering the annual [Managing Partners' Forum Awards](#) to allow leading edge expertise to be showcased when leaders are advising their peers at clients.

APPENDIX - Characteristics of professional firms

- UK’s largest sector – at least 15% of GDP using a definition based on economic contribution rather than output-focused SIC codes
- A hard-earned track record of growth, exports, profitability, competitiveness, productivity and resilience
- Experts at growing and sustaining high levels of women in leadership
- Experts at converting technical people into managers and leaders, and at scaling people businesses across frontiers
- Key contributors to community projects
- Early adopters of cognitive technologies such as AI + ML
- Creators of the conditions for talented people to become professionals irrespective of background
- Consistently attract the top graduates
- An ethos of professionalism and independence that permeates all walks of life
- Not unusual for the majority of a firm’s services to have been launched in the preceding five years
- Relationships are built on reciprocity, ethics and trust
- Attitudes are seldom short-term with partners often joining and leaving a firm without any goodwill / capital payments.

APPENDIX – Active supporters include:

- Andy Haldane (Bank of England)
- Be the Business
- Business in the Community
- Centre for Cities
- Chartered Association of Business Schools (Chartered ABS)
- Chartered Institute for Personnel & Development (CIPD)
- Chartered Management Institute (CMI)
- Consultancy Procurement Council (representing sector clients)
- Employee Ownership Association (EOA)
- High Street banks (Barclays, HSBC, Lloyds, RBS, Santander)
- Productivity Insights Network (PIN)
- Professional Associations Research Network (PARN)
- Professional & Business Services Council (PBSC)
- Potential Project
- Temporall
- Xinfu

DIAGRAM – Putting employee engagement in context at firm level

