

# INSIGHT PAPER

## UNDERSTANDING BUSINESS PRODUCTIVITY



The collaboration with Exemplas has enabled us to further develop and deploy the research validated techniques for developing productivity and growth with SMEs. The large number of businesses who engaged with the Exemplas programme provided us with the opportunity to develop significant insight into how to further help SMEs, as well as show from the success indicators, that our joint approach has significant scalable potential.

**Dr Ollie Jones, Principal Lecturer in Operations and Business Performance Management**

# TABLE OF CONTENTS



---

**Foreword** 3

---

**Why is Business Productivity So Important?** 4

---

**So What Can Be Done to Address the Productivity Puzzle?** 4

---

**Regional Business Productivity** 5

---

**Moving Towards an SME-focused Approach to Driving Local Productivity Growth** 5-7

---

**What Are We Learning About Productivity in SMEs?** 8

---

**Programme Impact** 12

---

**Next Steps** 15

---

**Implications for Business Support Programmes** 16

---

**Contact** 17

# FOREWORD

The new government has put kick-starting economic growth at the heart of their manifesto and ambitions for government. The UK has been grappling with low productivity since the financial crisis in 2007; the so-called 'Productivity Puzzle' and regional productivity disparities have been a dominant focus of public policy discourse for well over a decade or more.

Exemplas and Leeds Beckett University have been working in partnership since February 2023 delivering business support programmes to SMEs funded by the West Yorkshire Combined Authority to improve the productivity of businesses in the region.

This is the second of a series of Insight Papers highlighting findings from the delivery of these business support programmes, in the case of this paper, the West Yorkshire Business Productivity Service. The insights from the programmes delivered by Exemplas and Leeds Beckett University point to a Blueprint for the successful design and delivery of grassroots business support to SMEs at a national, regional, and local level. This Blueprint is outlined in a further Insight Paper in this series.

This paper will be of particular interest to policymakers, commissioners, and stakeholders with an interest in designing and implementing evidence-based approaches to supporting SME productivity and economic development.



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## ABOUT US

**Exemplas Limited** is a national provider of business support and has operated for over 30 years largely delivering business support programmes to SMEs on behalf of public funders including government organisations and local and combined authorities. During this time Exemplas has supported over 600,000 businesses. This delivery experience gives Exemplas a significant understanding of what works in helping SME businesses grow and become more productive. Exemplas is a private company, wholly owned by the University of Hertfordshire.

**Leeds Beckett University** is a key anchor organisation in the West Yorkshire region committed to making a positive and decisive difference to people, organisations, and communities through excellent education, research, and services. Every year, the university delivers a £1.43bn impact on the UK economy. This represents a return of more than £6 for every £1 spent on university operations.



## 1.0 WHY IS BUSINESS PRODUCTIVITY SO IMPORTANT?

Productivity measures outputs divided by inputs and can be viewed at a micro (firm), local area, regional, or national level. Productivity demonstrates how well inputs are managed to generate a given level of output. At a national, macro level productivity is calculated using metrics such as Gross Domestic Product per worker or per capita. If an economy generates more output from the same level of input (or proportionately greater increases in output than the increase in inputs) - then it becomes richer as a whole. Although Productivity does not directly determine wage growth, without productivity increases, employers cannot easily increase wages. Therefore, our improvement in living standards is dependent on productivity growth.

The sluggish productivity growth in the UK economy since the 2007 recession is often referred to as the 'Productivity Puzzle', partly because economists and other commentators have struggled to find reasons for the lower performance of the UK in comparison with other economies. As a result, the issue of business productivity is a key focus of policy discussion and debate and has been for some time. There are two aspects of debate within the 'Productivity Puzzle', in the UK, the first is the 'Productivity Gap', referring to the lower productivity in most regions when compared to London and the Southeast. The second feature is the long tail of relatively unproductive companies in the UK, particularly amongst SMEs, which are thought to act as a drag on the UK's overall productivity. These businesses are sometimes referred to as productivity 'laggards'.

## 2.0 SO WHAT CAN BE DONE TO IMPROVE BUSINESS PRODUCTIVITY?

### 2.1 Barriers to Productivity – Macro and Structural

The Productivity Institute, the government-funded research organisation examining productivity and its impact across businesses, workers, and communities, has highlighted several challenges that need to be addressed to improve productivity in the UK.[1]

These include:

- Chronic under-investment in the economy
- Inadequate diffusion of productivity-enhancing practices between firms and places, and;
- Institutional fragmentation.

These macro and structural factors are important since they shape the economic conditions in which businesses operate.

The new government has come to power with ambitious targets to grow the economy to improve living standards and identified addressing the comparatively weaker productivity performance growth nationally since the last financial crisis as central to this. Shortly before the Autumn Budget 2024, the government published a Green Paper to consult on their initial thinking for an Industrial Strategy, which is central to their growth mission.[2] The Green Paper sets out a plan to focus on eight key economic sectors and related clusters that the government believes will drive economic productivity and output growth. This strategic focus will be supported by 10-year regional growth plans led by devolved authorities and a statutory, independent Industrial Strategy Council to advise on industrial policy direction.

### 2.2 Barriers to Productivity – Firm Level

SMEs account for 99.9% of the business population in the UK, three-fifths of the employment, and around half of the turnover in the UK private sector. It follows that macroeconomic interventions to move the dial on productivity need to be complemented by support that grows firm-level productivity in a scaled volume of SMEs.

[1] The UK's productivity challenge: people, firms, and places, The Productivity Institute, 2023

[2] Invest 2035: the UK's modern industrial strategy

Researchers have long identified that business performance management is a contributory factor for higher productivity. Many studies review the difficulties that SMEs face in developing performance management approaches to improving productivity. For instance, recent research by Bloom et al. (2020, p. 6) frames this as “How well do organisations monitor what goes on inside the firm and use this information for continuous improvement of productivity”. This highlights that performance management capability is a critical step in helping SMEs improve their productivity.

**What this means is that adopting an SME-focused grassroots approach to support firms to put in place systematic, practical approaches that help generate productivity growth, could have significant potential to generate economic benefit at a local, regional, and ultimately national level.**

### 3.0 REGIONAL BUSINESS PRODUCTIVITY

The West Yorkshire Combined Authority brings together the local authorities of Bradford, Calderdale, Kirklees, Leeds, and Wakefield. Working in partnership, they develop and deliver policies, programmes and services which directly benefit the people of West Yorkshire. Like many regions, it suffers from a productivity gap to the national average. West Yorkshire Combined Authority estimates this productivity gap to the national average is worth a sizeable £8.5bn to the local economy.

In May 2021, Tracy Brabin was elected Mayor of West Yorkshire, representing the interests of 2.3 million people across the region. Shortly after this, the mayor launched the Business Productivity Service (BPS) to boost productivity in the region, help SMEs thrive, and create local jobs.



### 4.0 MOVING TOWARDS AN SME-FOCUSED APPROACH TO DRIVING LOCAL PRODUCTIVITY GROWTH

Exemplas and Leeds Beckett University have been delivering the **Business Productivity Service** since February 2023 on behalf of the **West Yorkshire Combined Authority**. The service offers productivity support to SMEs operating in each of the five local authority areas that constitute the West Yorkshire Combined Authority.

In delivering the Business Productivity Service our approach has focussed on building SME/firm-level performance measurement and management capability that underpins productivity improvement. It has had a potentially transformative impact on individual SMEs taking part in the programme, and through the dissemination of good productivity management practices, will have an impact across the local economy.

What is novel about the approach adopted by Exemplas and Leeds Beckett University is the deployment of a research-validated Productivity Improvement Framework with SMEs. The Productivity Improvement Framework was developed through a partnership between academics, productivity consultants, and finance and accounting professionals and tested and evaluated in a rigorous academic study as part of the then, Department for Business, Energy & Industrial Strategy Business Basics project. The work to develop the Productivity Improvement Framework was led by Dr Ollie Jones at Leeds Beckett University (Jones et al, 2022).

## 5.0 THE RESEARCH APPROACH:

Dr Ollie Jones of Leeds Beckett University, who led the initial research development and validation of the Productivity Improvement Framework and subsequently has expert oversight of its deployment in the West Yorkshire Business Productivity Service explains the concepts that underpin the approach:

“

Improving productivity is influenced by two aspects of the productivity equation; growth in the output top line of productivity, and reduction in the inputs. We refer to increasing output as increasing throughput. Throughput, if you like, is the engine of productivity, whilst inputs are the fuel. To accelerate productivity growth the engine needs to go faster (throughput), using less or the same inputs (labour, materials, and capital).

”

The Productivity Improvement Framework encompasses a set of tools and approaches for businesses to understand and diagnose productivity needs, followed by the development of a structured Productivity Improvement Plan (PIP) to help focus, action, and direct productivity growth.

So far the Productivity Improvement Framework has been deployed to 200 SMEs across a range of sectors and sizes who now have robust, Productivity Improvement Plans. The Productivity Improvement Plans are baselined against measurable improvement indicators, with clear actions to implement change and improve productivity.

The Business Productivity Service model is based on recognising the challenges SMEs face in consistently measuring, monitoring, and putting in place plans to improve productivity. Support to SME businesses involves expert advisory support delivered by Exemplas Productivity Managers working alongside Leeds Beckett University productivity experts. Each business is supported by its Productivity Manager to undertake a systematic approach to the production of an in-depth Productivity Improvement Plan. This involves using the Leeds Beckett University research-validated productivity diagnostic to help businesses understand in-depth the dynamics of productivity operating in their firm. It does this by facilitating clients to explore thirty defined and interrelated productivity efficiency measures across key productivity factors to understand their impact on the individual firm-level overall productivity. Through this process, businesses identify those measures having a high structural impact on firm-level productivity and low-performance measurement capability.

“

“We chose to work with the West Yorkshire Business Productivity Service, primarily to drive our high-growth plans. While investment into our offices was a consideration, our main focus was on enhancing productivity and operational efficiency to support our rapid expansion. The resources and expertise offered by the West Yorkshire Business Productivity Service were instrumental in helping us identify and implement critical improvements in our business processes.”

“The benefits of the programme for Trust Electric were enabling us to proactively use the diagnostic tool, guided by an expert, and allow us to gain comprehensive insights into our operations.”

**Olivia Hullah, Marketing Manager Trust Electric Heating**

Following the diagnostic process, each business is supported by their Productivity Manager and Leeds Beckett University experts to measure productivity in key identified areas; understand how this impacts their overall productivity level; and develop a robust, very detailed Productivity Improvement Plan with measurable indicators, to drive future productivity growth and measure progress.

The benefits for SME participants have been numerous:

- SMEs can learn and embed the measurement, monitoring, and improvement of productivity performance within their operations so that they can take ownership of an ongoing improvement journey
- The diagnostic process enables the prioritisation of activity so that plans are cost-effective and utilise limited resources efficiently
- Helping businesses understand how investment in technology and capital can be best deployed to maximise productivity improvement.

The latter point is an important consideration. It is well-rehearsed that investment in transformative technology and artificial intelligence could drive considerable productivity growth. At a firm level though, this investment needs to be underpinned by a clear understanding of the actual impact on the chosen productivity focus area. The deployment of the Productivity Improvement Framework provides an important means of helping businesses explore how investment decisions could impact productivity.



When we started the productivity work with Exemplas, we were not thinking about data, we weren't really thinking about recording these elements of the business.

Working with Jonathan we were able to translate and apply the productivity diagnostic tool into a structure that fitted our business. We were able to understand the key drivers of productivity for our business – time duration from order to finished goods, suite downtime, resource utilisation, and labour effectiveness.

**Adam Bennett – Director Sticks and Glass**





## 6.0 WHAT ARE WE LEARNING ABOUT PRODUCTIVITY IN SMES?

Analysis of the data from the Business Productivity Service provides us with the opportunity to identify trends and emerging patterns that point to the common issues holding back SME productivity as well as common dynamics that operate at a firm level.

### Common Areas of Focus

Dr Ollie Jones of Leeds Beckett University highlights “Looking at the 200+ businesses that have participated in the Business Productivity Service gives us a really good understanding of productivity trends at a firm level.

“In terms of productivity issues, data derived from the productivity diagnostic undertaken with SMEs on the Business Productivity Service shows a clustering of issues around flow, labour inputs, and resource (capital) output.” This is shown in Figure 1 below.



Figure 1: Productivity Acceleration Factors



“Figure 1 shows the real importance, to many of the businesses, of managing their current resources to maximise throughput and hence output. This is what we term Flow Management, reflecting how the inputs such as labour and or machines are deployed, managed, and coordinated over a given period to generate more throughput. This is a more complex task than local efficiency improvement and businesses are likely to need advisory support to fully realise this potential.”



Through the Productivity Improvement Plan development process, Exemplas Productivity Managers are working with businesses to help them be more consciously aware of how their resource inputs are deployed appropriately using Flow Management. This has led some businesses to realise they don't need additional resources, which require more capital because they can get more 'bang for their buck' and improve their productivity by working smarter, not harder.

“

The benefits of the programme for Skopos were enabling us to take a helicopter view of the drivers of productivity in our business. This led us to identify where we might place additional performance measures and monitoring to grow overall productivity. We now have some important new performance measures and metrics that will meet our wider ambitions to grow.

James' expertise and understanding were invaluable and facilitated new insights that will benefit our organisational management and productivity and growth objectives.

**John Burrill – Operations Manager Skopos Fabrics**



### 6.1 Productivity Improvement Plans

Alongside providing further understanding of the dynamics of productivity at a firm level, data from the diagnostic and firm-level Productivity Improvement Plans provide rich insights into the primary SME productivity needs that are most common. Dr Ollie Jones of Leeds Beckett University, notes:

“One insight from the data is the importance of measuring the impact of a firm’s resources on their actual throughput i.e. their internal productivity. For example, the labour productivity of a group or department, or the output from a set of machines for a given input.”

“The Productivity Improvement Plans show that most businesses need to understand more what their core business processes are that contribute to their throughput, and the associated costs. This is so they can see the potential impact on their overall productivity, and how these should be the Key Performance Indicators (KPIs) they need to focus on. They can also more clearly, identify if they want to employ more staff or purchase new machines, and understand what the productivity impact will be, as well as the impact on their bottom line.”

“This is corroborated by the area graph in Figure 2 below which shows how many businesses will do what as a direct result of their Productivity Improvement Plans generated through the Business Productivity Service.”

**Figure 2: Productivity Improvement Plan Outcomes**



“Of most significance is the fact that it makes many businesses start to measure their productivity and related performance. The area graph also illustrates the value for the business of developing an actual Productivity Improvement Plan, because the three areas of: implementation at pace, impetus and focus reflect a direct stimulus to action for these businesses. As the area graph in Figure 2 shows, only a small number of businesses were unsure of their next steps.”

“What we are also learning from the programme is that in terms of stimulating and developing productivity improvement capability, an overwhelming 98% of businesses were going to look at improving productivity in another area of their business, not just the one focussed on immediately through the Business Productivity Service. This demonstrates strongly how generating greater SME performance management capability can be instrumental in supporting ongoing productivity improvement into the future.”

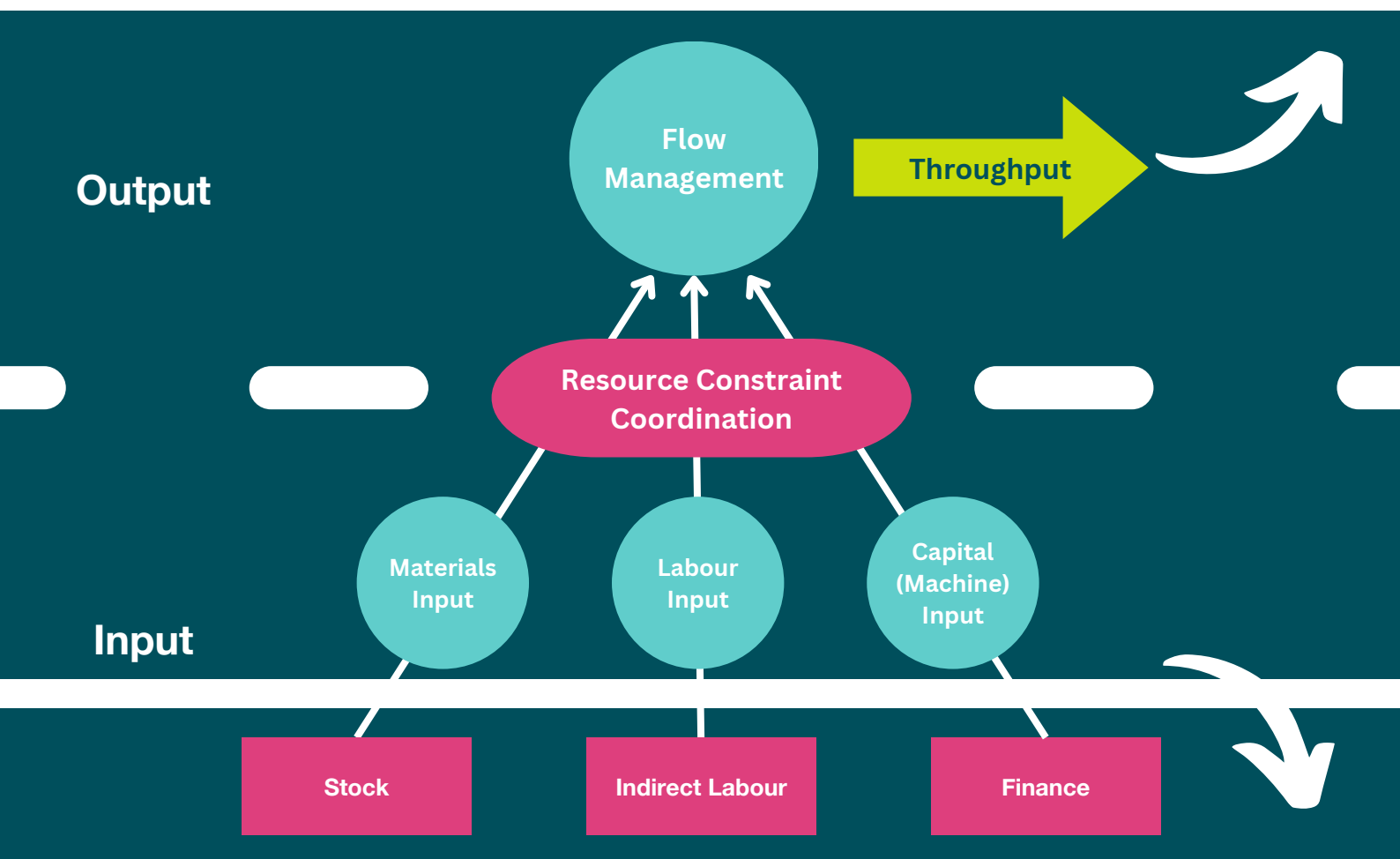
### 6.2 Acceleration of Productivity and Growth

What the data from the programme also shows is the drivers of productivity and growth at a firm level, Dr. Ollie Jones notes:

“Overall, our data also validates the productivity framework which utilises multi-factor productivity - the contribution of the input areas of labour and resources (capital machinery), and to a lesser extent, materials, into the business outputs generated.”

“We can now visualise the notion of a productivity accelerator which encompasses the key elements of our productivity framework combined with our insights, this is shown in Figure 3 below”

**Figure 3: Productivity Accelerator**



“Flow management is critical to help businesses increase their throughput, whilst resource constraint coordination is required to achieve this and manage and reduce the inputs required.”

“What is pertinent is that the huge majority of businesses we worked with are focused on increasing throughput to improve productivity, rather than reducing inputs and hence are growth-orientated rather than just profit-orientated. Conversely, they are less confident in going for growth because they are concerned, they won’t be able to increase throughput to satisfy the increased demand”.

This suggests that SMEs and hence business support programmes need to encompass productivity and growth.

## 7.0 PROGRAMME IMPACT

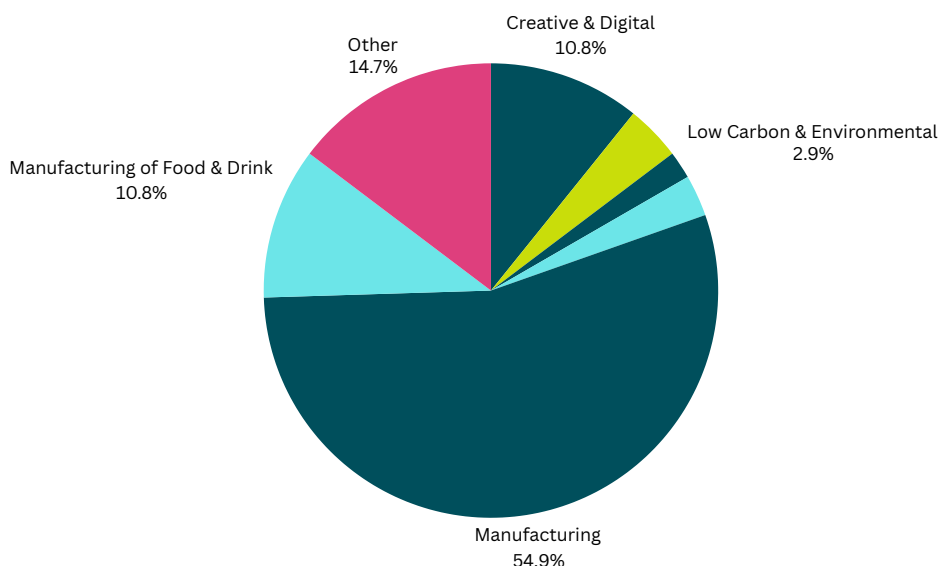
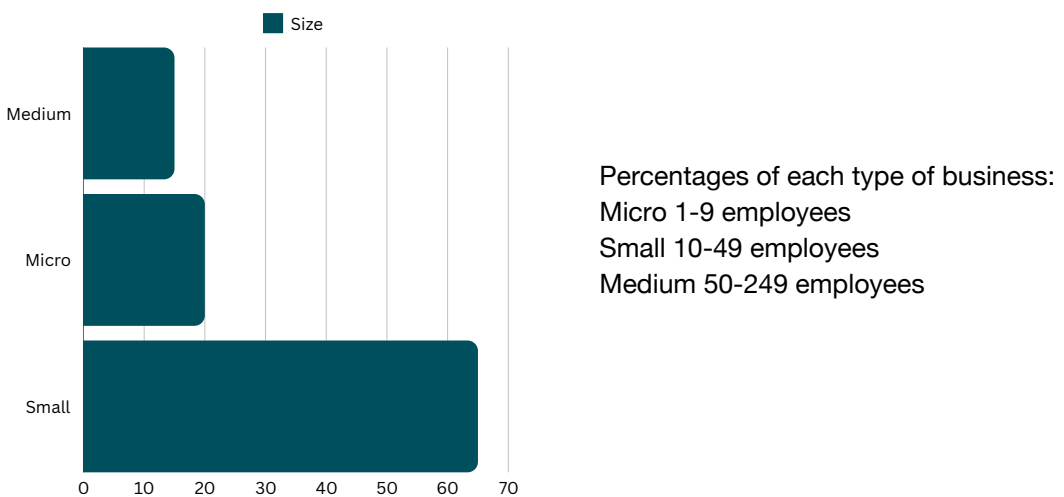
It is worth recognising that the impact of productivity support to SMEs cannot be evaluated over a short-term period. Typically, the beneficiary Productivity Improvement Plan will require implementation which will likely involve investment of time, resources and organisational changes. As such, the results of the programme are unlikely to be immediate, but by the same token, are all the more transformative as a result.

Despite the need to understand the benefits of the programme on a longitudinal basis, it is very clear that there are already some strong leading indicators of effectiveness.

Since the commencement of the programme in February 2023 (with mobilisation) 200 SMEs have been supported. This has involved the completion of in-depth Productivity Improvement Plans with quantitative productivity improvement indicators.

What is also important to highlight is that SMEs have spanned both the manufacturing and service sectors and have ranged from micro companies to medium-sized entities. This provides us with greater confidence in the applicability of our findings across the SME demographic rather than this.

**Figure 4 - Participant SME Demographic Data - Size and Sector**





### 7.1 Behavioural Change

98% of participants going through the programme look at productivity in other areas of their business as a result of the support, which suggests strong internalisation of productivity management practices. This suggests that providing SMEs with this growing capability is beneficial both in the short and future terms for productivity growth.

### 7.2 Productivity Improvement Indicator Review

We have followed up a small sample of businesses who completed the Business Productivity Service programme at least six months ago. All four businesses in the sample show clear, significant, and measurable, quantitative improvements in productivity indicators that were targeted through their Productivity Improvement Plans. The programme intends to undertake future longitudinal follow-ups with all the businesses that complete the programme.

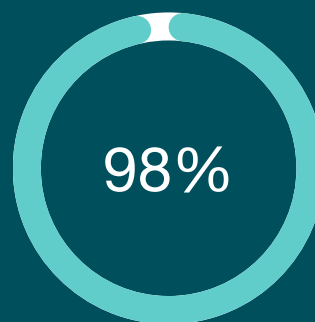
Taken together the small-scale review of Productivity Improvement Indicators as well as behaviour change suggested in 6.1 demonstrate indications of effectiveness.

### 7.3 Feedback from SME Beneficiaries

Feedback from participating businesses has been significantly positive. This provides further evidence of the value of approach adopted.

Figure 5 Business Satisfaction Data from the Business Productivity Service (July 2024)

How did you find the process of accessing the Business Productivity Service?  
(Very difficult 1 - 5 Very easy)



How valuable did you find the Diagnostic in identifying the key areas of supporting your business?  
(No impact 1 – 5 Extremely valuable)



Would you recommend the Business Productivity Service to others?  
(Yes/No)

- Yes
- No

#### 7.4 Case Studies

We have also been capturing case studies from participants to illustrate the value of the approach in helping businesses develop their productivity performance management. Three very different case studies can be viewed on the following links, which include a creative sector business, a full-service soft furnishing company, and an electric heating firm.

[Sticks and Glass](#)

[Skopos Fabrics](#)

[Trust Electric Heating](#)

Example feedback from Business Productivity Service participants is shown below

“

It was a really worthwhile process that has meant we value our data creation and the analysis of that data to a much higher degree.”

“It is brilliant it has shown us so many places we need to make improvements.”

“The exercise helped us look at all aspects of our business. It was good to see that our production was not deficient in many ways - except for our energy and CO2 emissions.”

“Good support from the Business Productivity Service focused our minds on the goals we were trying to achieve and enabled us to document them and review them going forward.”

“The Business Productivity Service is an excellent service to provide support for genuine businesses that require help/support for development and growth. Investing is the key to moving forward and also bringing interest in working with modern technology. Without support, a lot of businesses wouldn't invest which in the long term will reduce growth.”

“Jonathan was brilliant to work with throughout the initial stages. It was nice to have a meeting with someone with such on-site experience. I feel that speaking to someone who had previously owned their own successful business makes the whole process feel very natural and that both parties get a deeper understanding of one another.”

“It has helped us identify areas of concern and where we need to implement and manage processes more. So all in all we have now identified where we can move forward with things. This will be ongoing for a while as we will have to put this into plans to action gradually.”

8.0

# NEXT STEPS

As a result of the high quality of delivery to date, Exemplas and Leeds Beckett University have recently been awarded a further contract to continue delivering the Business Productivity Service advisory support on behalf of West Yorkshire Combined Authority until the end of January 2026. Alongside delivering exceptional service to SMEs in West Yorkshire through the new service, we plan to continue to build our expert understanding of productivity for SMEs and promote how this can be translated and applied into national and further regional programmes of business support.

At present, Leeds Beckett Business School and Exemplas are taking the opportunity of the Business Productivity Service to research how businesses absorb productivity knowledge ('absorptive capacity'). This is important to developing future productivity programmes that can provide the right support that is needed and are resource efficient for providers and participating businesses. To do this, the research is examining how businesses participating in the Business Productivity Service have absorbed productivity-related knowledge, particularly around performance measurement and management.

Understanding this process is important not just to the current programme but will provide insights for application in most business support programmes which are largely predicated on supporting businesses to acquire new knowledge and organisational capabilities.



## 9.0 IMPLICATIONS FOR BUSINESS SUPPORT PROGRAMMES

The insights acquired from the approach adopted by the Business Productivity Service have significant implications for national and local commissioners of business support interventions. The new government's renewed focus on productivity and economic growth and devolved responsibilities for growth plans suggest that cost-effective, localised solutions that drive SME productivity could be particularly valuable.

Our experience, knowledge, and research (including indications of impact shown in Section 6) suggest that the programme approach adopted in West Yorkshire, which focusses in-depth on driving firm-level productivity, could be scaled across multiple locales or indeed nationally to impact economic growth.

Key learning from our delivery to date includes:

### SME PERFORMANCE

The need to focus on SME performance management of productivity as central to any programme of support. At present, we believe the approach we have adopted in West Yorkshire is novel in this respect.

### PRODUCTIVITY & GROWTH INTERLINKED

The majority of businesses are focused on increasing throughput to improve productivity and hence are growth-orientated rather than just profit-orientated. Conversely, they are less confident in going for growth because they are concerned, that they won't be able to increase throughput to satisfy the increased demand. Hence productivity and growth are interlinked.

### MEASUREMENT IS KEY

How important it is for businesses to understand their internal productivity and start measuring their performance in their core processes with the help of expert advisers.

### DIAGNOSTIC - DATA DRIVEN

An in-depth productivity diagnostic process, facilitated by an expert adviser, is useful for businesses to help focus and prioritise their areas for productivity improvement so that finite resources are focussed on those areas likely to generate the greatest return for the business.

### EXPERT ADVICE

To improve productivity the majority of businesses will need to focus on flow management, the holistic increase of this throughput, by coordinating resources and labour. What this means is that not all businesses will require immediate capital investment to increase throughput, but most are likely to need immediate advisory support to improve their flow management. This doesn't mean that capital grants for instance aren't an effective means of supporting businesses in growing their productivity, but they need to be married with high-quality advisory support that facilitates understanding of how this capital expenditure materially improves flow management.

### INCREASED CAPABILITY

Increasing SME capability to measure productivity provides a further stimulus to SME action. This is evidenced by 98% of participants going back to look at productivity in other areas of their business as a result of support. This suggests that providing SMEs with this growing capability is beneficial both in the short and future terms for productivity growth.



# CONTACT

If you are interested in finding out more about the productivity and growth work of Exemplas and Leeds Beckett University please contact Rob Sale, Head of Business Development, [robs@exemplas.com](mailto:robs@exemplas.com).

Further co-authored Insight Papers on our productivity and growth work can be found here.

**WEBSITE:**

[www.exemplas.com](http://www.exemplas.com)

