

GOING FOR GROWTH: PRACTICAL APPROACHES TO GROWING LOCAL ECONOMIES



“Economic growth is the number one mission of this government. Without growth, we cannot cut hospital waiting lists or put more police on the streets. Without growth, we cannot meet our climate goals or give the next generation the opportunities that they need to thrive. But most of all without economic growth we cannot improve the lives of ordinary working people.”

Rachel Reeves, Chancellor of the Exchequer, 29 January 2025

The Chancellor and Prime Minister have set economic growth as their number one priority in order to raise living standards. Addressing the sluggish productivity growth which has been a feature of the UK economy, particularly since the 2007 recession (the so-called 'productivity puzzle'), is central to this. Policies, including investment in infrastructure, a revitalised industrial strategy and pension and planning reform amongst other measures, all speak to a determination to pull a range of macro-economic levers to create the conditions for improving productivity and growth.

Why is Firm-Level Productivity Important?

Macroeconomic drivers provide the economic climate in which individual firms (economic actors) operate. However, the economy comprises millions of economic actors, the vast majority of whom are SMEs. As such, a significant contributor to overall productivity and growth in the economy is accounted for by firm-level productivity. The economist John Van Reenen, a pre-eminent adviser to the government, has spoken of SME management practices being responsible for almost half of the troubling productivity gap between the UK and America. Stephen Roper, writing in the Productivity Institute's 2023 Productivity Agenda ('The changing landscape of firm-level productivity – anatomy and policy') highlights that management practices are widely recognised as a significant contributor to differences in SME productivity. Researchers have frequently noted that business performance management is an important factor in growing higher productivity. However, many studies highlight the challenges SMEs face in developing the performance management capabilities needed to improve productivity and growth.

The importance of productivity considerations is further accentuated in light of the forthcoming employers' National Insurance rise which will push firms to adopt productivity savings in order to grow.

At the firm-level productivity is influenced by the output/input equation. Increasing output is often referred to as throughput. At a firm-level, just as at a whole economy level, growing throughput by more than the relative increase in inputs (labour and capital) is instrumental to productivity and growth. Helping firms at this economically challenging time to become more productive and maintain their growth ambitions, rather than simply retrenching, could provide an important safeguard to the government's economic goals.

Successful Approaches to Driving Firm-Level Productivity

In 2023 West Yorkshire Combined Authority launched their market-leading Business Productivity Service which aims to address productivity shortfalls in the region through a targeted business support programme for SMEs.

In response to this, Exemplas and Leeds Beckett University formed a strategic partnership to collaborate on the design, delivery, and research evaluation of business support interventions that aim to help firms develop precisely the management and performance capabilities to improve productivity and growth. The partnership between Exemplas and Leeds Beckett University has evolved over time and at its heart is a unique 'triple-loop' of learning which translates principles of effective practice and research into pragmatic programme design and delivery, ongoing review, and further research evaluation to deliver measurable productivity and growth impact for SMEs.

Exemplas and Leeds Beckett have co-created and collaboratively delivered two separate programmes since 2023 on behalf of West Yorkshire Combined Authority. The two programmes to date, include a productivity programme, as part of West Yorkshire's Business Productivity Service (commencing in February 2023), and more latterly a growth-focussed programme as part of the Shared Prosperity Funded Business Boost service (September 2023).

Both programmes have involved the deployment of Leeds Beckett University research-validated diagnostics and engagement frameworks to support firms put in place practical approaches to improving productivity and growth. In total 600 SMEs have had substantive, impactful help, involving advisory support delivered by Exemplas advisers working alongside Leeds Beckett University experts. This work has provided rich insights, evidence of impact, and learning.

Both programmes have been built on effective principles of business support practice identified through academic research from Leeds Beckett University and corroborated by Exemplas' 30 years of delivery experience. Key effective principles incorporated into programme design include value-added diagnostic dialogue and expert coaching aligned with a structured pattern of relatively intensive interaction with each business. Other key effective delivery principles include a depth of engagement with a range of personnel across each business.

The productivity programme has involved the scaled deployment of a Leeds Beckett University Productivity Improvement Framework developed through the government-funded Business Basics programme. 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 with well over 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.

For growth delivery, Leeds Beckett University has developed a research-validated growth diagnostic using the Delphi technique, pooling expertise from different sources and research. The diagnostic has now been used with 400 SMEs to assess their growth capabilities, consider what potential growth paths are available and help the subsequent development of suitable growth plans. The unique features of this diagnostic include it being designed to aid businesses in exploring, with advisory support, their growth capabilities, consider what potential growth paths are available, and help the subsequent development of suitable Growth Plans. The tool is more accessible to use than other diagnostics covering initially, five core dimensions and fifteen validated growth indicators. This makes it more straightforward and practical for business support professionals and SMEs to use.

There have been some significant indicators of success from both programme interventions:

- Behavioural change: 98% of businesses taking part in the productivity programme applied their learning to other business areas. Whilst 95% of participating firms acted on productivity and/or growth as a result of their involvement in the programmes
- Programme satisfaction: There have been significantly high levels of satisfaction expressed in the programme indicating a positive impact on SMEs (average 4.5/5)
- Impact outcomes: A small-scale follow-up of participants on the productivity programme highlights measurable quantitative improvements in the (£) Productivity Improvement Indicator included in their Productivity Improvement Plan. We will be collating a more significant longitudinal follow-up over the coming months to validate this outcome with all businesses
- Case Studies: A range of case studies have been published to demonstrate the value of the programmes to participating businesses: [exemplas.com/category/case-studies](https://www.exemplas.com/category/case-studies)

Learning About SME Productivity and Growth

Through ongoing research and analysis of data generated from the two programmes, Exemplas and Leeds Beckett University have been able to identify several key insights. Of particular interest is the interdependence of productivity and growth at firm level - a productivity – growth nexus. Productivity is outputs divided by inputs. As a result, firms might achieve higher productivity by reducing inputs (costs), or by maintaining output, whilst reducing inputs. However, we have seen that most businesses' primary mode to improve productivity is by **increasing outputs**, indicating a strong growth, rather than just a profit focus.



However, at the same time we are finding that SMEs are hesitant to pursue growth due to concerns about meeting increased demand as a result of their current throughput (output) performance. This productivity-growth nexus suggests that firm-level support needs to help businesses **balance the equation** of increasing throughput (at a greater rate than increases in inputs) while increasing **market demand** for this increased output.

Analysis of data from the respective programmes has also shone a light on some of the most common productivity and growth knowledge gaps SMEs experience. In terms of productivity, what is shown is the importance of flow management. Flow management is the management and coordination of both labour and resources to increase throughput. One implication of good flow management is that not all businesses will require immediate capital investment to increase throughput. However, a significant amount of medium-term support and engagement is required to learn how to apply the principles of good flow management to build productivity. On the growth programme, 75% of growth projects were sales and marketing-related and nearly 50% of SMEs needed knowledge transfer to develop their marketing capabilities. It is also pertinent to note areas like sales strategy, e-commerce, and brand development featured strongly in this area.

The interim evaluation of both programmes has suggested the benefits of the diagnostic dialogue and externality of advisory support and that this input had positive outcomes for the SMEs in terms of helping develop planning and change management capabilities and providing confidence and validation for businesses. The interim evaluation has also validated some further key principles of effective business support practice, notably the need for structured, intensive support for firms and the need to engage a depth and breadth of personnel in the business in support to maximise programme benefits.

Scaling Up

The growth imperative at national and regional levels demands a response which tackles at a macro level the recognisable barriers which are long-standing and entrenched. This is understandably a key focus of government attention. However, at the same time there is real value in considering the scaling of proven, practical, grassroots business support interventions that help firms develop the management and performance capabilities to improve productivity and growth, which are widely recognised as also holding back UK PLC.

These practical support interventions will also help firms navigate the well-documented financial challenges in the coming year (which in themselves could be impact on economic activity) through focusing on productivity to balance the rising costs of inputs. This would be a low-investment intervention which, if scaled to a critical mass of businesses would generate impact in a modest time frame, particularly when compared to larger-scale macro interventions like upgrades to infrastructure.

We believe that the approach we have been delivering in West Yorkshire through the deployment of research validated frameworks and tools to a critical mass of businesses, which have shown proven indicators of success, could be scaled into other regions or nationally, working alongside other new university partners in different regions (who would work alongside Leeds Beckett University), to generate measurable economic benefits. This wider rollout could be allied with wider dissemination and understanding for SMEs on how to develop the performance management capabilities for productivity improvement and growth, which are well-documented as a brake on economic growth.

If you are interested in talking to Exemplas about this productivity and growth work with Leeds Beckett University, please contact Rob Sale (robs@exemplas.com).

