

Leadership in ‘laggards’ key to post-Covid productivity gains

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- **New study challenges assumption that most productive firms will drive future productivity gains**
- **Inspirational leadership shown to boost productivity in firms of all sizes and sectors, even those starting with low levels**
- **Research provides evidence to support recent public investment in ‘soft skills’ training for business leaders**

New [research](#) from the [Enterprise Research Centre](#) suggests that small-to-medium-sized enterprises (SMEs) with lower starting levels of productivity – sometimes referred to pejoratively as “laggards” – are in fact just as likely to see gains over time as their more productive rivals.

The analysis of more than 17,000 firms across 12 different manufacturing and services sectors found that ‘observable characteristics’ of firms such as size, age or investment levels showed no correlation with future productivity growth – defined as growth in turnover or valued-added per employee.

Instead, good leadership – and the better management practices it leads to across businesses – was found to be a much stronger predictor of productivity gains over time.

The team behind the study said the findings challenged established thinking on how to boost productivity and should inform policy responses as firms recover from the coronavirus crisis.

The distinction between so-called “frontier firms” – those at the top end of the productivity scale – and other firms was popularized in an [influential OECD report](#) in 2015. The idea has since been picked up by experts such as Bank of England chief economist [Andy Haldane](#) when talking about the firm-level dynamics behind the UK’s stalling productivity rate.

Professor Stephen Roper, Director of the Enterprise Research Centre, said:

“It’s well known that UK productivity is lower than many of our international competitors, but in recent years the discussion has focused – perhaps excessively – on supporting firms that are already highly productive, in the hope that some of their magic will rub off on others.

“But when we analysed this very large cohort of SMEs by a host of factors including size, existing productivity levels and what sort of investment profile they had, we found that none of that actually matters for productivity growth. In fact, what matters is whether you’ve got the leadership capability and ambition to improve.”

In the study, one-to-one interviews with business leaders identified a number of leadership and management factors that influenced overall company productivity.

Successful leaders were found to create a motivational, “people orientated” culture within the business, with staff feeling more valued and giving better customer service as a result. Ongoing two-way dialogue with staff and regular meetings that delved into the data around firm performance were also important.

Productive firms were also found to place a high priority on innovation in all forms – from developing new products and services to more efficient work processes.

Professor Roper added:

“This study suggests that we need to recognise the importance of inspirational leaders in driving performance up across a business and help them develop the ‘soft skills’ needed to get the best out of their people.

“With productivity growth so vital to the UK’s economic recovery from Covid-19, we need to ensure this kind of training is prioritised as a long-term investment and avoid a situation where it becomes a casualty of belt-tightening.”

Last month, the government **announced** a £20m investment in two new schemes to improve small businesses’ leadership, management, productivity and problem-solving skills. The Small Business Leadership Programme and Peer Networks Programme will be delivered by university business schools and Local Enterprise Partnership (LEP) growth hubs.

Meanwhile, the Economic and Social Research Council (ESRC), part of UK Research and Innovation (UKRI), **awarded £32m** to establish a new Productivity Institute at Alliance Manchester Business School, drawing on research expertise from across the UK.

“Leading with compassion has kept productivity high” – case study



When lockdown was imposed across the UK in March, Susanna Lawson had already prepared her staff for the long haul. Susanna, 45, co-founded OneFile, a leading ‘edtech’ company that provides digital tools to help firms manage apprenticeships, with her husband Chris 15 years ago. The Manchester-based software business now employs 83 people.

“We held a company-wide meeting at the beginning of lockdown week and explained people would be working from home and it would last for at least three months,” recalled Susanna. “We wanted everyone to be mentally prepared and not think they’d be back after a couple of weeks.”

Then came the challenge: how to inspire and manage a now-remote team and keep motivation and productivity high? After checking all staff had the equipment they needed and making welfare calls to every one of her employees, Susanna and her senior leadership team set up new schedules using Microsoft Teams to keep everyone connected.

But tech wasn’t everything. “We’d actually just finalised our new company values of respect, courage, compassion, integrity and creativity,” said Susanna. “The one that’s really come to the fore is compassion – understanding that everyone’s been dealing with different issues during this tough period and you’ve got to provide flexibility and a listening ear.”

“As a leader, it’s also been about showing my own vulnerability. I had a tearful evening and I shared that with my team the next day, because I wanted them to know we were all experiencing stresses and it’s OK to be open and transparent about that.”

While different teams at OneFile measure productivity in different ways – from hitting sales targets to turning round projects according to timeframes – Susanna encouraged managers to understand there would be “troughs and downtime” as well as spikes.

“I think what’s united all our people is the pride they have in what they do,” she added. “They understand that our success as a business is built on enabling other firms to train their staff well. And we’ve actually seen increased demand, for example from employees who were

furloughed but then put more time into their apprenticeship training. We've also supported our customers to implement features which mean, post-Covid, they can continue to work more remotely, in turn increasing their own productivity."

While some staff are now voluntarily returning to the office, others are continuing to work remotely at least part of the time. For Susanna, the 'new normal' will involve a more mixed approach and OneFile isn't forcing anyone back to the office: "If people want to come in that's great, but equally if they're at all worried I've told them they can keep working from home, because if people are anxious they won't be productive."

Despite the challenges, Susanna can see longer-term benefits from working differently. "A lot of people have talked about how it's accelerated rapport between the team. You'd never normally see someone's kitchen or their cat and families in the background – it makes people more human and it's made this period more manageable."

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Notes to editors

[Read the Full report here](#)

About the Enterprise Research Centre

The ERC is the UK's leading independent research institute on growth, productivity and innovation in small and medium-sized enterprises (SMEs). It is funded by the Economic and Social Research Council (ESRC), Department for Business, Energy and Industrial Strategy (BEIS), Innovate UK, The Intellectual Property Office (IPO) and the British Business Bank (BBB).

The ERC is producing the new knowledge around SMEs that will allow us to create a business-friendly environment nationwide, grounded in hard evidence. We want to understand what makes entrepreneurs and firms thrive so we can spread the lessons from best practice and make the UK a more successful economy.

The Centre is led by Professors Stephen Roper of Warwick Business School and Mark Hart of Aston University, Birmingham. Our senior researchers are world-class academics from both Aston and Warwick Universities as well as from our partner institutions which include Queens University Belfast and the University of Strathclyde.

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