



The wrong tail

Why Britain's 'long tail' is not the cause of its productivity problems

Executive Summary

The idea that a 'long tail' of unproductive businesses is the root cause of the UK's productivity problems has captured the imagination of policy makers in the last couple of years, and the Chancellor has announced the Business Productivity Review to look at it.

But the thinking to date has not recognised that not all businesses are capable of large increases in productivity gains. Specifically, local services businesses such as hairdressers and restaurants are both low productivity and have limited scope for growth. And it is these types of businesses that dominate the long tail.

This analysis adds two main insights to the productivity debate. The first is that to improve productivity, there needs to be a sharper focus on improving the productivity of businesses that sell beyond their local markets (referred to as 'exporters' in this report), such as aerospace manufacturers or software engineers, rather than a blanket approach to all businesses.

The second is the performance of exporters across the country. Specifically it is the underperformance of exporting businesses in cities outside of the Greater South East that causes not only divergences across the country in wages and standards of living, but also hampers national productivity.

These cities in particular should be of greatest concern to policy makers attempting to improve UK productivity overall.

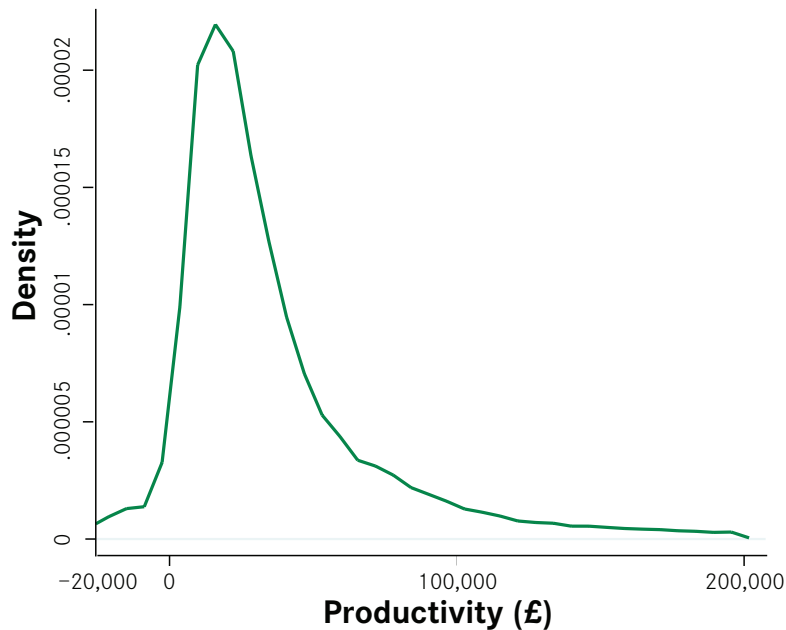
Introduction

The productivity puzzle in the UK has been a source of much discussion and policy attention in recent years. This reflects the seriousness of it – without increases in productivity we won't see an increase in wages or the standards of living that people enjoy.

While many explanations for the cause of this have been put forward, one explanation that has caught the imagination in policy circles in particular is that

there is a ‘long tail’ of low-productivity businesses, a rump of poorly performing companies that pull down the national average (see Figure 1). The OECD and Bank of England in particular have highlighted this problem, and the Chancellor has announced the Business Productivity Review to look at it, with the aim of providing a £100 billion boost to the economy.¹ Set in slightly different terms, Labour MP Rachel Reeves has also highlighted this issue through her work on the ‘everyday economy’ and the need to improve productivity in low productivity activities.²

Figure 1: Britain’s ‘long tail’ of unproductive businesses



Source: ONS, Annual Business Survey

Note: productivity is negative when a business spends more than it earns.

The implication from this analysis from a number of quarters is that policy should focus on improving the performance of these poorly performing businesses to tackle the UK’s productivity challenges.

The purpose of this briefing is to better understand the long tail by applying two findings from previous work from Centre for Cities:

- Not all businesses should be expected to make large productivity gains.
- There is large variation in productivity across the country, with cities outside the Greater South East in particular lagging behind the national average.

It uses data from the ONS’ Regional Annual Business Survey (see Box 1) to provide a more nuanced understanding to the long tail, which provides more focused recommendations as to what this finding means for the UK’s poor productivity.

1 Government review to help business embrace new technology and boost wages and profits. Government press release 23rd May 2018. Andres D, Criscuolo C and Gal P (2015), *Frontier Firms, Technology Diffusion and Public Policy: Micro Evidence from OECD Countries*. Paris: OECD and Haldane, A (2017), *Productivity Puzzles: Speech Given by Andy Haldane, Chief Economist, Bank of England*, London: Bank of England; UK Government (2018), *Industrial Strategy Building a Britain fit for the future*, London: The Stationery Office

2 Reeves R (2018), *The Everyday Economy*

Box 1: Data source

Unless otherwise specified, the data in this paper comes from the regional dataset of the ONS' Regional Annual Business Survey, which includes the headquarters and branches of all businesses surveyed. The use of branch data sets this research apart from most other contributions to date. We note that the apportionment of output to branches within an enterprise carried out by ONS is crude due to data limitations, but looking at branches gives a better reflection of the business base at the sub-national level. The patterns shown in this report remain the same when looking at enterprise level and single plant firms.

The survey covers the non-financial business economy, excluding financial services and the public administration. In this analysis the publicly-funded activities of education and health have also been removed to look at private sector productivity only.

The data covers Great Britain, and 2015 is the latest data available. Productivity is calculated as gross value added per worker at the branch level.

Not all businesses make the same contribution to productivity (or should be expected to)

Previous work by Centre for Cities³ has shown that businesses that are more likely to sell beyond their local markets – such as car manufacturers, finance companies and communications businesses – tend to be more productive than those that focus more on local markets, such as retailers, restaurateurs or fitness instructors. For example, at the national level, information and communications produces twice as much to the economy per worker than distribution (which includes retailers and hotels), while finance is three times as productive.

These 'exporting' (or tradeable) businesses are also disproportionately responsible for productivity growth in the national economy. Between 1990 and 2017, productivity more than doubled in the manufacture of computer and electrical equipment and information and communications, and tripled in chemicals and pharmaceuticals. By way of contrast, it increased by just 2 per cent in accommodation and food services, and declined in arts, entertainment and recreational services.⁴

This occurs because of the greater ability for exporting businesses to absorb new innovations. The ability of manufacturing to automate certain processes, or the development of ever more sophisticated computer software in information and communications have greatly increased the output that a worker produces in these industries. But while a fitness instructor may use a smartphone today in place of a ghetto blaster in 1990, he or she can still only instruct one class at a time. And a waiter or waitress can only serve so many tables. Of course, improvements such as the introduction of handheld electronic devices allow

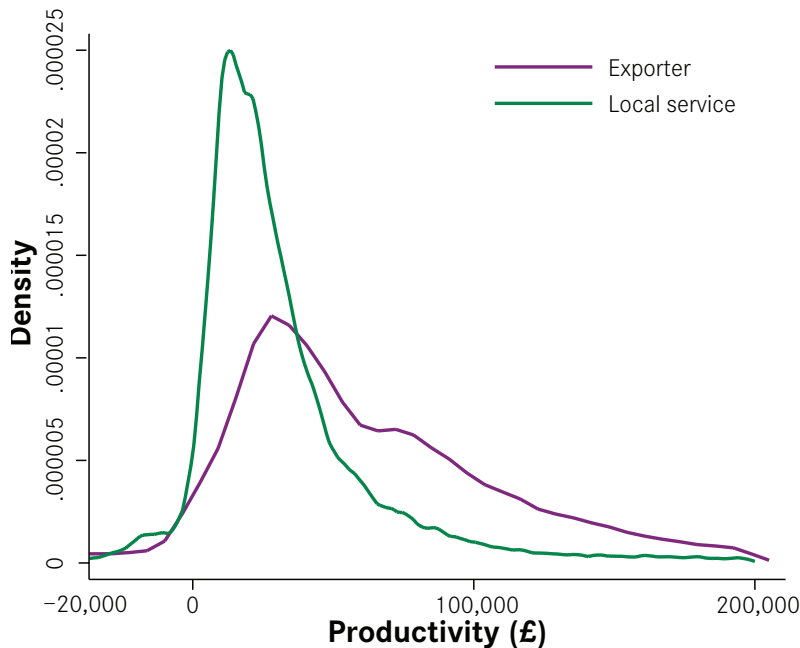
³ Serwicka I and Swinney P (2016), *Trading Places: Why firms locate where they do*, London: Centre for Cities

⁴ ONS, *Blue Book*

orders to be sent to the kitchen more efficiently, will bring benefits, but this improvements won't radically increase the output of the waiter.

Understanding these facts changes our understanding of the long tail. Figure 2 shows the distribution of exporters and local services businesses according to their productivity,⁵ and shows how local services businesses are likely to be much less productive than exporters (Box 2 explains methodology).⁶

Figure 2: Distribution of firm level productivity by exporting and local service businesses for Great Britain, 2015



Source: ONS, Annual Business Survey

Box 2: Understanding kernel densities

In this report the kernel densities plot the distribution of average worker productivity in individual businesses. The large skew to the left of the chart shows a concentration of lower productivity businesses. Perhaps confusingly, this bunching of businesses has been labelled as the 'long tail'.

In the charts some businesses have negative productivity. This occurs when businesses spend more than they earn.

Looking at the composition of the long tail illustrates this. Figure 3 looks at the make-up of different groups of businesses according to their productivity. When looking at all businesses, exporting businesses accounted for 13 per cent of the total number in the non-financial economy in 2015, and 27 per cent of all jobs. But they were much less well represented in the bottom 33 per cent of businesses for productivity – the laggards – accounting for 5.6 per cent of all businesses and 10.6 per cent of all employment in this group.

⁵ Defined as output (gross value added) per worker.

⁶ The definition of exporting and local services sectors is listed in the appendix.

In contrast they were over represented in Britain's productivity leaders – the most productive 10 per cent of businesses. Of this elite group, exporting businesses accounted for 31 per cent of the total number of businesses, and an even larger 56 per cent of all jobs.

Figure 3: Share of businesses in the leaders and laggards, 2015

	Businesses		Jobs	
	Exporter share of total (%)	Local services share of total (%)	Exporter share of total (%)	Local services share of total (%)
All businesses	13.2	86.8	27.1	72.9
Bottom 33 per cent	5.6	94.4	10.6	89.4
Top 10 per cent	31.2	68.8	55.9	44.1

Source: ONS, Annual Business Survey

The result is that in 2015 just one in 10 exporter jobs were in laggard companies, compared to almost a third of all local services jobs.

The varying performance of exporters explains differences in productivity across the country

How these patterns play out varies across the country. Figure 4 sets out the distribution of exporters and local services across four areas in Britain: cities in the Greater South East; non-urban parts of the Greater South East; cities elsewhere in Britain and non-urban areas elsewhere in Britain. There are a number of things to note from this.

Firstly, the national pattern of the distribution of local services and exporters holds across the four geographies, with lower productivity businesses tending to be local services.

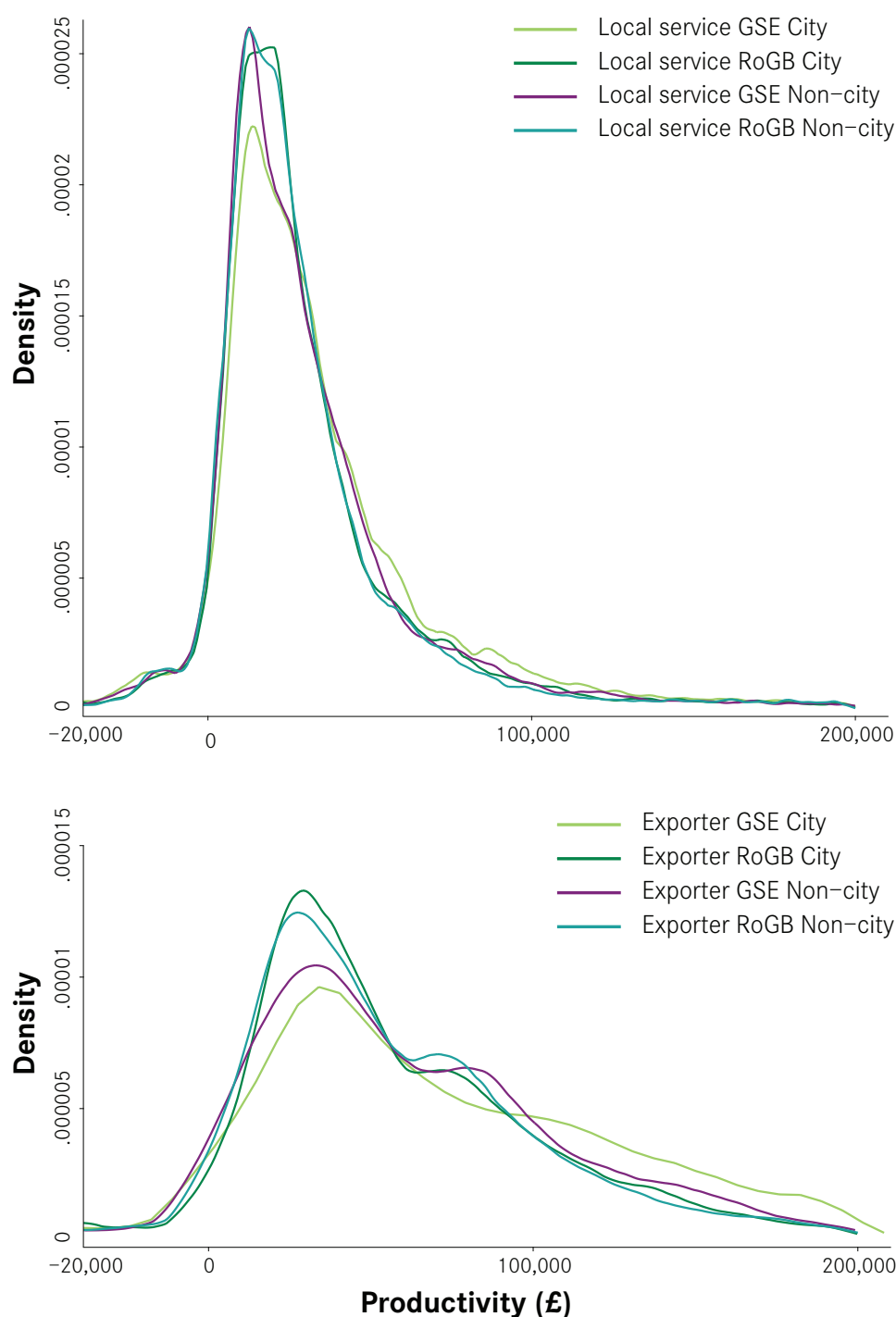
Secondly, there is little difference in the distribution of local services firms. Local services dominate the long tail in all areas, and have very similar distributions, with only local services in the Greater South East performing slightly better.⁷ This is in line with average productivity data for local services, which shows that there isn't a great deal of variation in the productivity of local services across the country.⁸

Thirdly, there is a greater degree of variation for exporter businesses. It is the varying performance of these businesses that drives the varying standards of living seen across the country. Cities in the Greater South East have the lowest share of low productivity exporting businesses, and a larger number of high productivity ones. Meanwhile cities elsewhere in Britain have the largest share of lower productivity exporting firms, even lagging behind their non-urban neighbours.

⁷ This may result from the wider markets that companies such as lawyers and some business services companies, defined as local services in this research, sell to in cities like London compared to other parts of the country. While anecdotally this is known to be true, the data does not allow the distinction to be made.

⁸ Swinney P and Breach A (2017), The role of place in the UK's productivity problem, London: Centre for Cities

Figure 4a and 4b: Distribution of firm level productivity in exporters and local services across different geographies, 2015



Source: ONS, Annual Business Survey

Looking at the share of each geography's export base that is amongst Britain's productivity leaders (i.e. of all the exporters in an area, what share of them are amongst Britain's leaders) emphasises this last finding. As Figure 5 shows, 35 per cent of all exporters based in cities in the Greater South East were amongst Britain's leader firms, while 48 per cent of all their export jobs were in this category. In contrast, for cities elsewhere in Britain, 20 per cent of their exporting business were leaders in 2015, accounting for 25 per cent of their exporting jobs.

The implication from this is that it is **the lack of higher productivity exporters in cities elsewhere in Britain that drives the divergence in productivity seen across the country, rather than the long tail of unproductive businesses in these cities**. Box 3 shows how this plays out in Reading and Hull and Sheffield and Bristol.

Figure 5: The share of exporting businesses and jobs that are amongst Britain's productivity leaders, 2015

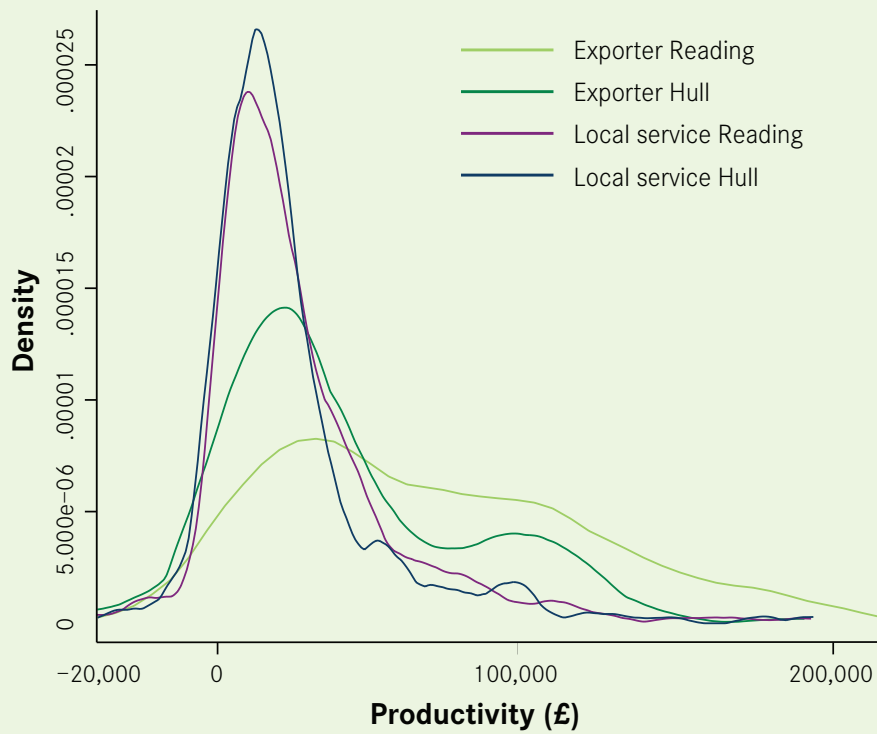


Source: ONS, Annual Business Survey

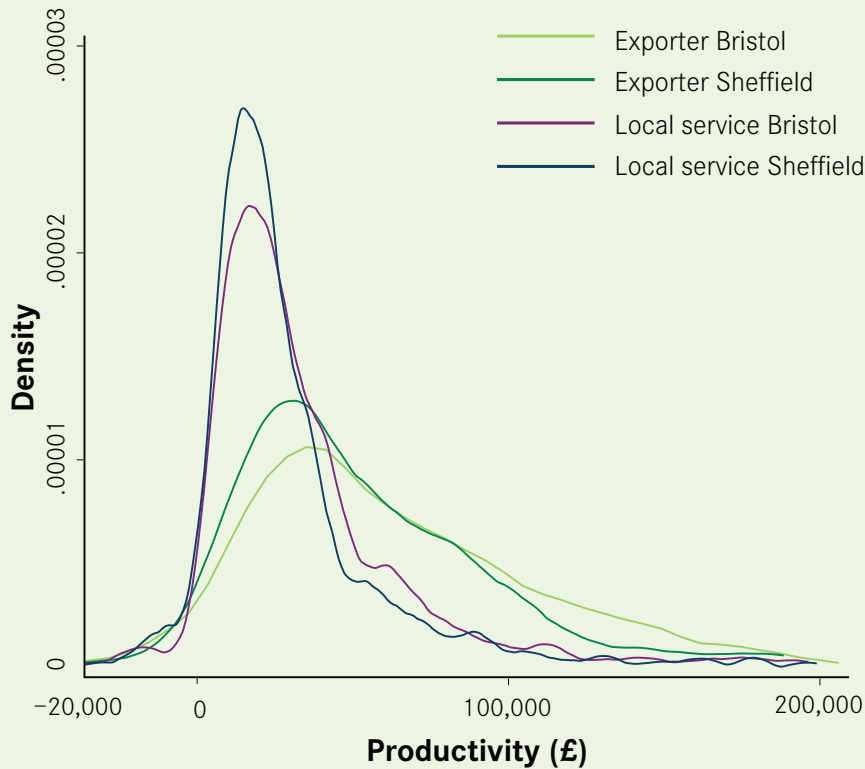
Box 3: Productivity of businesses in Reading and Hull and Bristol and Sheffield

The productivity of businesses across the two groups of cities are reflected in the performance of individual cities. Figure 6 and Figure 7 compare the distribution of businesses in Reading and Hull and Bristol and Sheffield. The main difference between the two pairs of cities is the number of higher productivity businesses in them, with both Bristol and Reading having a greater share than Sheffield or Hull. This is most pronounced between Reading and Hull, with the latter having a much larger share of lower productivity exporters than the former.

Reading also had by far the largest share of its exporting businesses and jobs amongst Britain's leader firms, while Sheffield in particular performs poorly on this measure (see Figure 8).

Figure 6: Productivity of businesses in Reading and Hull, 2015

Source: ONS, Annual Business Survey

Figure 7: Productivity of businesses in Bristol and Sheffield, 2015

Source: ONS, Annual Business Survey

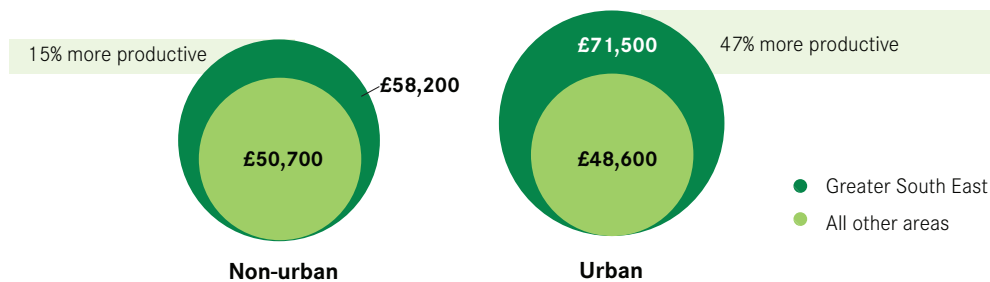
Figure 8: The share of exporting businesses and jobs that are amongst Britain's productivity leaders in Reading, Bristol, Sheffield and Hull, 2015



Source: ONS, Annual Business Survey

This has obvious implications for overall levels of productivity. As Figure 9 shows, cities outside the Greater South East are the least productive of all four areas. The gap in performance between cities in different areas in particular is stark. While the difference in productivity between non-urban parts of Britain is 15 per cent, cities in the Greater South East are almost 50 per cent more productive than cities elsewhere.

Figure 9: The productivity of cities and non-cities, 2016



Source: ONS Regional Gross Value Added (Balanced Approach) by Local Authority in the UK; Business Register of Employment Survey

This is a major cause for concern for the national economy - the underperformance of these cities goes a long way to explain both why the rest of Britain lags behind the Greater South East and why it performs poorly on a European level. To illustrate the impact, if all cities were as productive as those in the Greater South East, the British economy would be 15 per cent more

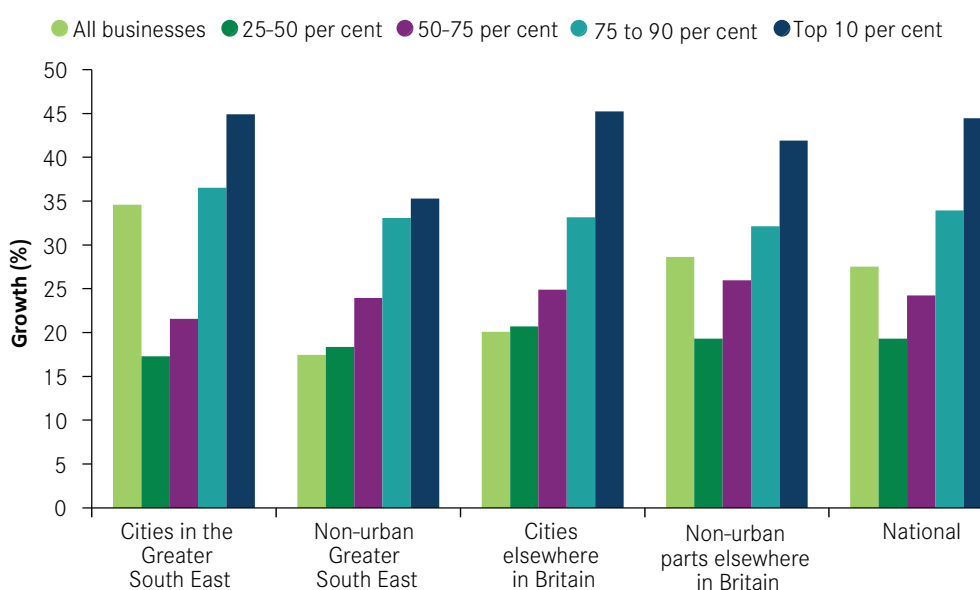
productive⁹ and £225 billion larger. This is equivalent to Britain being home to four extra city economies the size of Birmingham.

The gap between leaders and laggards has widened since the recession

Two gaps have widened in terms of productivity since 2009 (see Figure 10).¹⁰ The first is the gap between cities in the Greater South East and the rest of the country, shown by the faster productivity growth in Greater South East cities. The second is the gap between the leaders and other businesses, with the top 10 per cent of businesses seeing faster productivity growth than all other groups.

Interestingly the growth of the top 10 per cent of businesses in cities elsewhere in Britain matched that of leader firms in cities in the Greater South East, despite growth overall being much lower in the former. It's important to note though that cities in the Greater South East are overrepresented amongst the leaders, and so have a greater share of high performing businesses. This greater number of leader firms pulls up productivity growth.

Figure 10: Growth in productivity of different groups of business, 2009-2015



Source: ONS, Annual Business Survey

Note: The performance groups are based on national performance, so the top 10 per cent represents businesses in an area that are amongst the top 10 per cent of highest performing businesses nationally, rather than the top 10 per cent of businesses in that area. GVA has not been deflated, and so growth includes inflation.

Data from the regional Annual Business Survey only goes back to 2008, so it is not possible to look at trends before the 2008 recession. Recent analysis from the Bank of England¹¹ shows that at the national level the growth of the leaders

⁹ If non-urban areas elsewhere in Britain had the same productivity as non-urban parts of the Greater South East, national productivity would be 5 per cent higher.

¹⁰ 2009 was chosen as ONS analysis shows this to have been the lowest point for productivity in the Annual Business Survey since the beginning of the last recession. Source: Awano G (2017), Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: "the laggards", 2003 to 2015, Newport: ONS

¹¹ The UK's productivity puzzle is in the top tail of the distribution, Bank Underground, 29th March 2018. <https://bankunderground.co.uk/2018/03/29/the-uks-productivity-puzzle-is-in-the-top-tail-of-the-distribution/>

has slowed since the recession, and it is this slower growth of the leaders, rather than the poor performance of the laggards, that explains the poor national productivity growth overall. This fits with the view that productivity growth is driven by successful leader firms that can absorb innovations, rather than those in the long tail.¹²

The ability of places to attract and grow the more productive element of an export industry depends on the benefits they can offer

Much of the discussion to date on the differing productivity of businesses has focused on two things – the idea that the diffusion of ideas from leader firms to other businesses, which would boost their productivity, has slowed,¹³ and that varying management practices also influence performance.¹⁴ There is truth in both of these theories. But they don't explain all of the variation that is seen across the country.

Not all export activities are the same. Some are high-skilled, such as research positions in pharmaceuticals or smartphone app designing. And some are lower-skilled, such as call centres and more routine manufacturing activities.

Because they aren't tied to any particular market (unlike local services, which by definition sell to a local market), exporters have greater freedom as to where they locate. Where different exporting activities actually locate depends on the benefits that different places offer.

These location decisions are shaped by a process known as agglomeration. Cities offer three key advantages to business over non-urban areas, which in theory should make them more productive:

- Learning: Access to knowledge, through either the creation or sharing of it through face-to-face interactions (known as 'knowledge spillovers')
- Sharing: Sharing of infrastructure (e.g. roads, broadband), inputs and supply chains
- Matching: Access to a lot of potential workers

There are a number of costs to being based in cities too, such as higher commercial space rents, congestion and pollution, which are not as large in non-urban locations. Where businesses locate in Britain depends on the trade-off they make between these benefits and costs.¹⁵

For many businesses, particularly more highly-skilled service businesses (which tend to be more productive), the benefits of a city location outweigh the costs because the access to workers and knowledge that cities offer make them more productive. For this reason we see a number of these businesses clustering within city centres in particular, with 25 per cent of England and Wales' high-knowledge

12 Analysis by NIESR for the Joseph Roundtree Foundation also shows that the largest divergences between the UK and other developed countries is the performance of its high-productivity businesses, rather than its low-productivity ones. See Forth J and Rincon Aznar A (2018), Productivity in the UK's low-wage industries, York: Joseph Roundtree Foundation

13 Andres D, Criscuolo C and Gal P (2015), *Frontier Firms, Technology Diffusion and Public Policy: Micro Evidence from OECD Countries*. Paris: OECD

14 Bloom N and Van Reenen, J (2007), 'Measuring and explaining management practices across firms and countries', *Quarterly Journal of Economics*, Vol CXXII (4)

15 Swinney P (2017), *Why don't we see growth across the country?* London: Centre for Cities

service exporter jobs being based in a city centre in 2011, despite these central locations accounting for just 0.1 per cent of all land.¹⁶

Box 4: The attraction of non-urban locations in the Greater South East

Not all high-skilled businesses look for a city location – the opportunity to share ideas is not likely to appeal for companies that have commercially sensitive information, such as pharmaceuticals companies. But access to skilled workers is still important, and explains the appeal of non-urban locations in the Greater South East to higher skilled activities. For example, while this area accounted for 22 per cent of all jobs in Britain in 2016, it hosts 40 per cent of all of Britain’s positions in research and experimental development on natural sciences and engineering. That 44 per cent of people in the Greater South East had a degree in 2017, compared to 35 per cent elsewhere in Britain, is likely to be a strong factor in this.

However, not all cities offer these benefits to the same extent, resulting in the variation in city performance shown above. This leads to very different profile of exporters across the country.

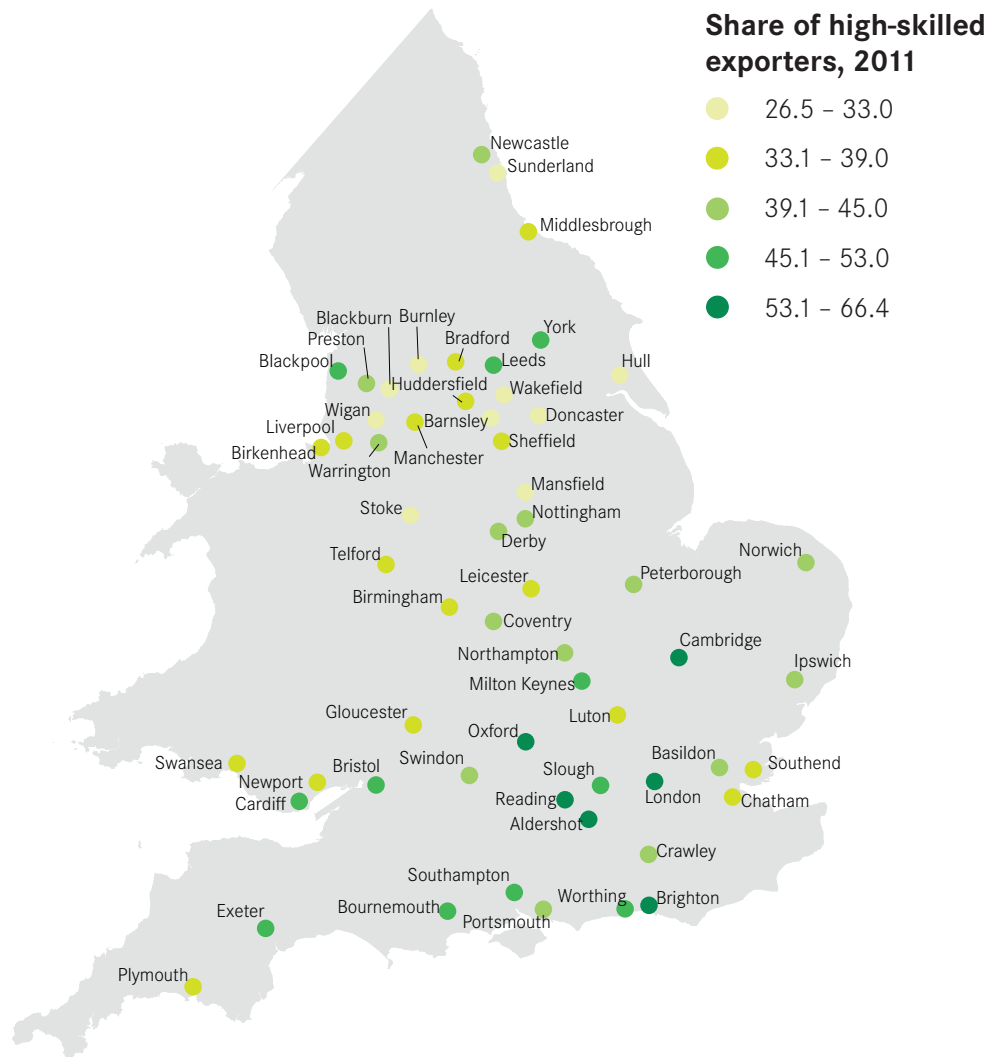
Higher-skilled exporters tend to be more prevalent in cities in the Greater South East. This is because these cities offer access to a large number of skilled workers and a network of other highly-skilled businesses. And their location decisions suggest that they are willing to pay a premium to have access to these benefits because of the higher commercial rents in these cities.

Lower-skilled exporters tend to be based elsewhere in the country. The more-routine nature of their work means that they require access to lots of lower skilled workers and in many cases, because of the size of their operations, access to large areas of cheaper land or commercial space.¹⁷ Many cities elsewhere in Britain offer both of these benefits, which results in a sorting of exporting businesses according to the skill levels of their activities across them (see Figure 11).

Examples of this can be seen even within the same company – Amazon and ASOS have their headquarters in London but distribution sites elsewhere, while Barclays does its investment banking in Canary Wharf but its call centre activities in Sunderland. Box 5 looks at the benefits that the earlier case studies of Reading, Bristol, Sheffield and Hull offer businesses.

¹⁶ Census 2011 is the latest available data on this geography. Exporters are defined as in Figure 10.

¹⁷ Swinney P (2017), Why don’t we see growth across the country? London: Centre for Cities

Figure 11: High-skilled occupations share of all jobs in exporters, 2011

Source: Census 2011

Notes: Data is available for England and Wales and for grouped broad industrial sectors only, so the definition of exporters used here is C Manufacturing; H, J Transport and communication; and K, L, M, N Financial, Real Estate, Professional and Administrative activities

The implication is that the **lower productivity of many cities outside of the Greater South East is a result of the type of exporters they have been able to attract to or grow in their economies, rather than the underperformance of existing businesses.** This has implications for the idea that to improve productivity, policy needs to better facilitate the diffusion of new innovations and ways of working from leaders to laggards. The reality is that any innovation made in investment banking, for example, is unlikely to have any relevance to a call centre handling personal banking queries.

A similar critique holds of management practices. Work by the Bank of England shows that foreign-owned companies are more productive than domestic companies, with one reason for this being that management practises are stronger amongst foreign companies.¹⁸ But as Figure 13 shows, the distribution of productivity amongst foreign-owned companies reflects the patterns seen for all companies, which again results from the nature of foreign investment that

¹⁸ Haldane A (2017), Productivity Puzzles: Speech Given by Andy Haldane, Chief Economist, Bank of England, London: Bank of England

Box 5: The relative advantages of Reading, Hull, Bristol and Sheffield

The ability of Reading, Bristol, Sheffield and Hull to attract business investment (either from within their own business base or from elsewhere) rests mainly on the specific benefits that they can offer businesses. Figure 12 sets out how the four compare. It shows that what Reading and Bristol offer is access to knowledge – both in terms of high-skilled workers and a more dense city centre (as well as easier access to London), but this comes at a cost. What Hull and Sheffield offer to a much greater extent is access to a lot of lower-skilled workers and much cheaper land. Reading and Bristol's offer therefore holds greater appeal to higher-skilled economic activity that requires access to knowledge, while Hull in particular appeals more to lower-skilled activities that don't need access to knowledge, instead looking for a low cost location.

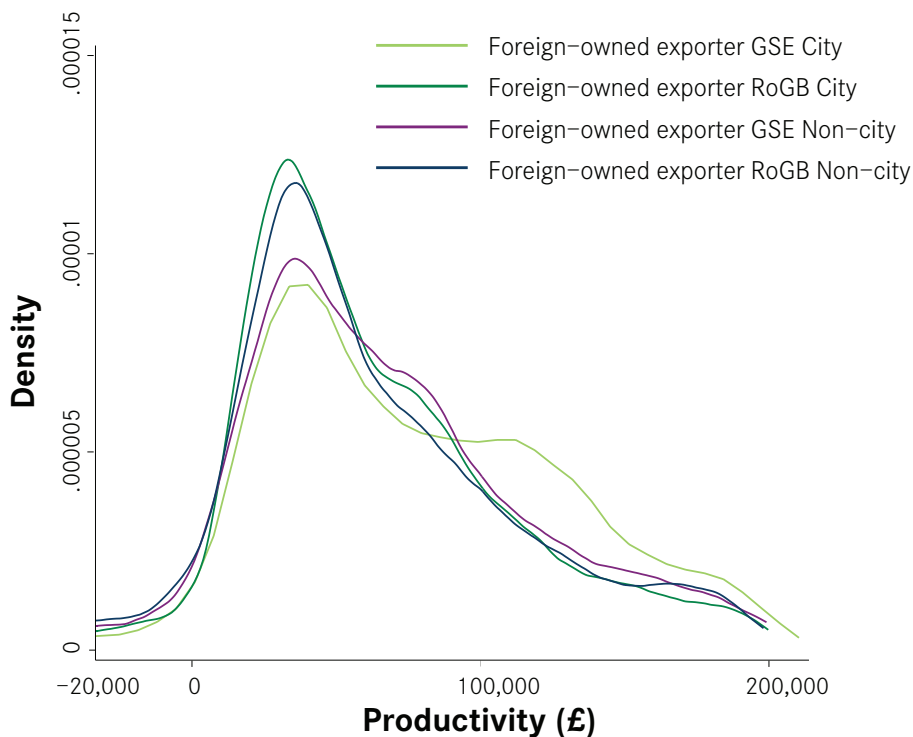
Figure 12: The benefits of Reading, Hull, Bristol and Sheffield

Indicator	Reading	Bristol	Sheffield	Hull
Total pool of workers in the city and its surrounding hinterland, 2011	1,043,200	1,168,700	770,100	308,700
Share of workers who have a degree in the city and its surrounding hinterland, 2011	38.0 %	32.4 %	25.1 %	22.8 %
Share of workers who have no or few formal qualifications in the city and its surrounding hinterland, 2011	9.7 %	12.2 %	17.6 %	18.4 %
Density of the city centre (jobs per hectare), 2011	183	208	118	135
Rateable value per square metre, 2017	£126	£82	£55	£39

Source: Census 2011; Valuations Office Agency
The hinterland is defined by the average distance that a worker living outside of a city travels to get to their job in the city.

different places are able to attract due to the benefits they offer.¹⁹ This again is seen even within companies. Nissan is well known for its ‘kaizen’ form of management, which seeks continuous improvement to its processes.²⁰ But the nature of the work it undertakes differs across its sites, assembling its cars in Sunderland (which is more routine in its nature), but designing and engineering them in the Greater South East – the former is done in London and the latter in Cranfield in Oxfordshire. The design and engineering processes add much more value to its products, and so are more productive, than assembly.

Figure 13: Distribution of firm level productivity in foreign-owned exporters across different geographies, 2015



Source: ONS, Annual Business Survey

Improving management practices or the ability for businesses to make use of new innovations will of course have an impact on their productivity – Nissan’s car assembly is likely to be more productive than neighbouring manufacturers, which could learn from its practices. But making a lower skilled exporter more productive through such interventions will not have the required change in productivity in places that are lagging on its own. The added challenge is to improve the ability of struggling cities to attract and support the growth of higher-skilled exporters. And this will require an improvement in the fundamental benefits that places offer to potential investors, particularly around skills of the workforce.

19 Swinney P and Thomas E (2014) *Century of Cities: Urban Economic Change Since 1911*, London: Centre for Cities

20 See, for example, Nissan’s ‘Kaizen’ Philosophy, *The Journal*, 15th November 2006.

<http://www.thejournal.co.uk/business/business-news/nissans-kaizen-philosophy-4548515>

Policy implications

There is a live debate amongst policy makers about how to improve the performance of the long tail. This research shows that while the long tail certainly exists, it acts as somewhat of a red herring for policy makers. The scope for improving the productivity of many local services businesses is limited because of the nature of their business.

This analysis adds two main insights to the productivity debate. The first is that to improve productivity, there needs to be a sharper focus on improving the productivity of exporting businesses, rather than all businesses. This requires an intervention at the firm level. The second is that it is the underperformance of cities outside of the Greater South East, and particularly their struggles to attract high performing exporters, which causes not only divergences across the country in wages and standards of living but also hampers national productivity. This requires an intervention at the city level.

Instead of taking a blanket approach aiming to make all businesses more productive, policy will need to recognise the inherent differences between local service and exporting businesses and different parts of the country in terms of their ability to improve their productivity. And it will need to note where it is possible for it to have an impact, and what the scale of this impact might be. Given this, policy should take three approaches to improve productivity in the UK.

1. Focus on exporters – firms that either currently or have the potential to sell beyond their local market - to tackle weak productivity

The scale of local services means that these firms play an important role in the national economy. In numbers they dwarf exporters, accounting for almost three quarters of all jobs and close to nine in every 10 businesses in the non-financial private sector economy. But this scale doesn't mean that small improvements in the productivity of local services will have a much greater impact than improvements in the productivity of exporters.

While of course an increase in productivity in any industry is welcome, and would hopefully increase wages of the many people in local services jobs, the impact of an increase in local services on overall productivity is likely to be limited because of the lower productivity of these activities. For example, a 1.8 per cent increase in the productivity of local services would deliver a 1 per cent increase in national productivity. But despite exporters being much fewer in number, they would need just a 2.3 per cent increase in productivity to achieve the same overall national uplift. This is because of the much higher rates of productivity amongst these businesses.²¹

There is also a question of the ability to achieve productivity increases in the two sectors. As shown above, growth in local services industries in recent decades has been very slow because of the ability of these industries to absorb new innovations. For this reason we should not be surprised that there has been a widening of the gap between leaders and laggards in recent years, as the OECD has identified²² and the analysis above suggests – it is high-performing export businesses that are chiefly responsible for productivity improvements.

²¹ This assumes no employment change resulting from productivity improvements in both sectors.

²² Andres D, Criscuolo C and Gal P (2015), *Frontier Firms, Technology Diffusion and Public Policy: Micro Evidence from OECD Countries*. Paris: OECD

And if the UK economy is to improve its productivity performance in the future, this divergence will likely continue.

For these reasons, while improving the performance of the long tail is desirable, it should not be expected to do the heavy lifting in improving national productivity. Local services play a crucial role in providing jobs. But solving the UK's poor productivity won't be delivered by hairdressers and retailers. It'll be done by boosting the performance of its designers and software engineers.

As Box 6 discusses, improving the performance of these exporters will have a knock on impact on employment in local services.

Box 6: The relationship between exporters and local services

The performance of exporters, both in terms of productivity and job creation, has important implications for jobs growth in local services. Exporting businesses not only drive productivity, but they bring money into an economy from the trade in other markets. This money increases demand for local services such as restaurants and retailers, which in turn creates employment in these activities. While estimates of the size of this multiplier effect vary, higher-skilled exporters appear to have a larger job creation impact than lower-skilled ones.²³

That said, there is no doubt that gains, albeit modest, could be made in the current productivity of local services businesses in all parts of the country. Those companies that don't follow best practice, for example through keeping good records, better use of cloud computing or effective marketing, could see improvements to their businesses. But there are two issues for policy here. Firstly, this is likely to make only a marginal difference to national productivity. And secondly, it's questionable as to what the role of government is in bringing about this behaviour change.

This has two implications. Firstly, the Government should not develop specific interventions for local services businesses, such as sector deals for sectors such retail and hospitality as part of its industrial strategy, in the hope of creating large productivity gains in such sectors.

Secondly, it will be nigh on impossible for Government to effectively reach all local services businesses, and business support interventions have a checkered history.²⁴ Local business organisations such as Chambers of Commerce and business improvement districts are better placed to offer guidance on best practice to their member network.

Given this, central Government should consolidate general guidance it has on running a business and the work of Be the Business (an organisation set up to tackle poor productivity) on its gov.uk website and engage with these organisations about distributing relevant material. Added to this, the business organisations should view sign posting to private companies who can offer mentoring and business advice in their area as a central part of what they do.

²³ See for example, Moretti, E (2013), *The New Geography of Jobs*, New York: Houghton Mifflin Harcourt; Lee, N (2017), *A Rising Tide Lifts All Boats?* London: Resolution Foundation

²⁴ What Works Centre for Local Economic Growth (2016), *Evidence Review 2 Business Advice*, London: What Works Centre for Local Economic Growth

Business improvement districts in particular have a much broader role to play than just aiming to increase footfall on the high street, as many appear to have positioned themselves to do.

2. Improve management practices of existing exporters through continued professional development courses

Improving the performance of existing exporters will no doubt have a contributing impact on productivity. And improvement of management practices through mentoring and continued professional development for these businesses, as has been suggested elsewhere in light of research showing issues around management quality in the UK,²⁵ is likely to be helpful. Added to this, the What Works Centre for Local Economic Growth's (WWCLEG) review of business support policies showed training to be one of the more effective interventions in this area.²⁶

There are already courses available that provide this training. Box 7 explains how University of Teesside brings both of these elements together through its Leading Growth and Management Catalyst programmes, while Lancaster University's LEAD programme has similar aims.

These programmes could be rolled out through universities and further education colleges across the country to help spread learning and best practice amongst exporter businesses. As the Government makes decisions about the Shared Prosperity Fund, the replacement to European funding that has supported such programmes in the past, some money should be allocated to support this roll out.

For those exporters looking to sell to international markets, evidence from the WWCLEG business support toolkits also suggests that Export Credit Agencies, which help finance exports by providing direct credit, credit guarantees, or credit insurances, play a positive role.²⁷ Where it isn't already, UK Export Finance should work with local Chambers of Commerce to widen understanding of what they do to support selling to international markets.

Box 7: University of Teesside's management programmes

The University of Teesside undertakes a number of programmes designed to improve business management skills within small and medium sized businesses. The Leading Growth programme is targeted at business leaders, and runs for six months. Participants undergo a number of training courses, have access to five hours of personal coaching and go on a number of site visits to other businesses to see how other businesses are run. A number of business collaborations between attendees have also been sparked since the course began in 2014.²⁸

Complimenting this programme, the university also runs a Management Catalyst programme tailored for middle management. Both programmes are fully funded by ERDF funding until 2020, but no funding as yet has been secured after this point.

25 Bloom N and Van Reenen J (2007), 'Measuring and explaining management practices across firms and countries', *Quarterly Journal of Economics*, Vol CXXII (4)

26 <http://www.whatworksgrowth.org/resources/business-advice-toolkit-training/>

27 <http://www.whatworksgrowth.org/resources/business-advice-toolkit-export-credit-agencies>

28 Interview

3. Focus on addressing the weaknesses that make cities less attractive to high-skilled exporters

There is a temptation for policymakers to create a long list of policies designed at improving firm level productivity. But the main challenge for underperforming cities has been their struggle to attract higher-skilled exporting businesses, with implications for their productivity, despite the inherent advantages they should offer to high productivity businesses.

If this is to change then these cities need to offer the advantages that high-skilled businesses are looking for – namely access to knowledge in the form of high-skilled workers, and increasingly in the case of services exporters, a dense city centre.²⁹ This should be the main focus of the local industrial strategies that are currently being developed between the Government and local areas as part of the wider industrial strategy.

The underperformance of many cities outside of the Greater South East pulls down national productivity when they should be leading it. Focusing on reducing the barriers that cause this underperformance should be the chief concern of policy makers as they seek to improve productivity in the UK.



29 Serwicka I and Swinney P (2016), *Trading Places: Why firms locate where they do*, London: Centre for Cities

Appendix

Sector definitions

In this report, exporting sectors are defined by the following 2007 Standard Industrial Codes:

- 1 Crop and animal production, hunting and related service activities
- 2 Forestry and logging
- 3 Fishing and aquaculture
- 5 Mining of coal and lignite
- 6 Extraction of crude petroleum and natural gas
- 7 Mining of metal ores
- 8 Other mining and quarrying
- 9 Mining support service activities
- 10 Manufacture of food products
- 11 Manufacture of beverages
- 12 Manufacture of tobacco products
- 13 Manufacture of textiles
- 14 Manufacture of wearing apparel
- 15 Manufacture of leather and related products
- 16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
- 17 Manufacture of paper and paper products
- 18 Printing and reproduction of recorded media
- 19 Manufacture of coke and refined petroleum products
- 20 Manufacture of chemicals and chemical products
- 21 Manufacture of basic pharmaceutical products and pharmaceutical preparations
- 22 Manufacture of rubber and plastic products
- 23 Manufacture of other non-metallic mineral products
- 24 Manufacture of basic metals
- 25 Manufacture of fabricated metal products, except machinery and equipment
- 26 Manufacture of computer, electronic and optical products

- 27 Manufacture of electrical equipment
- 28 Manufacture of machinery and equipment n.e.c.
- 29 Manufacture of motor vehicles, trailers and semi-trailers
- 30 Manufacture of other transport equipment
- 31 Manufacture of furniture
- 32 Other manufacturing
- 35 Electricity, gas, steam and air conditioning supply
- 51 Air transport
- 52 Warehousing and support activities for transportation
- 59 Motion picture, video and television programme production, sound recording and music publishing activities
- 60 Programming and broadcasting activities
- 61 Telecommunications
- 62 Computer programming, consultancy and related activities
- 63 Information service activities
- 64 Financial service activities, except insurance and pension funding
- 65 Insurance, reinsurance and pension funding, except compulsory social security
- 66 Activities auxiliary to financial services and insurance activities
- 70 Activities of head offices; management consultancy activities
- 72 Scientific research and development
- 73 Advertising and market research
- 74 Other professional, scientific and technical activities

City group definitions

The Greater South East is defined as the regions of London, the South East and the East of England. Cities in this area are Aldershot, Basildon, Brighton, Cambridge, Chatham, Crawley, Ipswich, London, Luton, Milton Keynes, Norwich, Oxford, Peterborough, Portsmouth, Reading, Slough, Southend, Southampton and Worthing.

This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates

Contact

Paul Swinney, Head of Policy and Research at Centre for Cities
p.swinney@centreforcities.org | 020 7803 435

Partnerships

Centre for Cities is always keen to work in partnership with like-minded organisations who share our commitment to helping cities to thrive, and supporting policy makers to achieve that aim.

As a registered charity (no. 1119841) we rely on external support to deliver our programme of quality research and events.

To find out more please visit: www.centreforcities.org/about/partnerships

© Centre for Cities 2018

Centre for Cities

Second Floor
9 Holyrood Street
London SE1 9EL

www.centreforcities.org

Centre for Cities is a registered charity (No 1119841) and a company limited by guarantee registered in England (No 6215397)