
Overview

How can many more Scottish businesses improve their performance and the quality of work? Scotland’s productivity remains around 20% below target, partly due to a long tail of lower productivity firms; meanwhile employment levels are high, but many people are concerned that the economy is not offering enough jobs that offer the security, pay and fairness in workplaces which will support healthy working lives. Actions to increase productivity can potentially be detrimental to wellbeing and vice versa – but successful businesses will be those which excel in both. This workshop will focus on what businesses can do to achieve improvements in workforce productivity and wellbeing, the important contribution which Scotland’s Fair Work agenda can make and where more support is needed to help more businesses on this journey.

Suggested Questions

- What are the key changes which firms need to make to increase their workplace productivity and well-being? How should government and its agencies encourage and support them?
- Where can businesses be agents of change e.g. to help lower productivity businesses who want to improve their performance, or to increase the well-being of their workers, customers and society? What infrastructure and delivery models would be needed?
- How can technologies be harnessed to improve productivity and well-being?
- What can we learn from positive examples of leadership and management models from other nations and in Scotland? How can we develop and network best practices?

Background

Productivity

Productivity is a measure of the efficiency of production. Productivity is a crucial factor in production performance of firms and nations. Productivity growth can increase business profitability. Increasing national productivity can raise living standards if distributed via higher real incomes by improving people’s ability to purchase goods and services, enjoy leisure, improve housing and education and contribute to social and environmental programmes.

Scotland is ranked in the second quartile of OECD member countries for productivity, in 16th position of 37 countries. There has been no change in its ranking in all years since 2007.

The level of productivity in Scotland is slightly lower than the UK average. Since 2007, productivity in Scotland has grown at a faster rate than the rest of the UK. Some of this appears to be because the UK has been creating jobs at a much faster rate than Scotland.

The gap between productivity in Scotland and the UK and countries such as the US, Germany and France which are more productive is perhaps as much as a third.

2. [https://nationalperformance.gov.scot/productivity](https://nationalperformance.gov.scot/productivity)
3. [https://fraserofallander.org/scottish-economy/productivity/](https://fraserofallander.org/scottish-economy/productivity/)
Productivity in Scotland and the UK has been increasing, however, it is running almost 20% below its level had it continued along its trend before the financial crisis of 2007-2008.\(^5\)

As the Bank of England has highlighted, the productivity gap between the top- and bottom-performing companies is larger in the UK than in France, Germany or the US. In the services sector, the gap between the top- and bottom-performing 10% of companies is 80% larger in the UK than in those other countries. This gap has also widened since 2007-2008 by around 2-3 times more in the UK than elsewhere. The gap in manufacturing is around 50%.\(^6\)

The UK has some high-productivity companies, but a long tail of lower productivity firms. According to the Bank of England, while the top 10% of UK companies have levels of productivity at least 100% above the median, the top-decile of German and French companies have, by comparison, levels of productivity 80% and 60%, respectively, above the median.\(^7\)

In Scotland, the average growth in productivity for the top 0.1% of most productive firms between 2004 and 2014 was 13%, for the next 1% it was 7% and for the rest it was 0%. This was nearly the UK average – some regions performed far better generally, some much worse.\(^8\)

Productivity varies considerably by industry. Output per worker in financial services is about twice the UK average, while a range of other service sectors have productivity levels at around half the UK average. Because the business base of regions also varies, with certain industries clustered, productivity also varies widely between regions.\(^9\) Productivity in Aberdeen and Edinburgh city-regions is above the UK average - many other areas of Scotland are below.\(^10\)

According to analysis for the David Hume Institute, even a modest 1% improvement in productivity could lead to a £2.3bn boost to Scotland’s GDP.\(^11\) Furthermore, CBI Scotland has calculated that if all of Scotland’s regions could improve at the same rate as the top performer over the next decade, the size of the Scottish economy could increase by £25bn.\(^12\)

Well-being

Well-being describes the condition of an individual or group, such good mental health, high life satisfaction, and a sense of meaning or purpose. Based on the long-standing yet increasing concerns that traditional economic statistics do not fully capture quality of life, inclusivity of economic growth or environmental sustainability, in recent years there has been increasing interest in and effort to measure well-being as an indicator of national progress.\(^13\)

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\(^12\) [https://www.cbi.org.uk/media/3331/cbi-scotland_scottish-productivity-final.pdf](https://www.cbi.org.uk/media/3331/cbi-scotland_scottish-productivity-final.pdf)
Scotland has the 3rd highest rate of sickness absence in the UK (out of the 12 nations and regions). Almost 2.5% of workforce hours are lost due to sickness. The rate has, however, been improving over time. Business in the Community has found that 61% of employees have experienced mental health issues due to work or where work was a contributing factor. See Me Scotland estimates that mental ill health currently costs employers £2bn a year.

There may be tensions between improvements to productivity and well-being. The Wellbeing Economy Alliance Scotland argues that the ‘old’ approach to productivity can result in pressure on workers to increase the pace of work rather than supporting care, quality or craftsmanship – and ignores inclusive growth and environmental sustainability. It proposes that there should be a recognition that in some sectors labour productivity might lead to sub-optimal outcomes and that resource productivity, rather than labour productivity, should be a key consideration.

Delivering Productivity and Well-being

A wide-range of factors can influence improvements in performance in both productivity and well-being. This workshop is intended to focus on those factors which they have in common.

Scandinavian countries usually rank highly in global rankings for both productivity and wellbeing. The UK ranked 15th in the World Happiness Report 2019, some way behind them, but ahead of many of its peers. Scandinavian countries are known for being socially progressive and promoting wellbeing. Productivity levels are high and the working week is shorter than in the UK. One factor which is often cited is the Scandinavian Leadership Model which has a flatter management structure, dialogue and employee participation in decision-making, which it is believed promotes trust, shared responsibility and pride among all staff.

According to a survey of 4,000 workers across the UK, France, Germany and the US doing meaningful work is the most important factor in the happiness of jobs. Meaningful work followed by (in order) office location; company culture; management; compensation; and flexible hours. The survey found that happy employees are more productive, know their daily priorities, thrive in a diverse work environment and want to know their work is meaningful. There is evidence that high employee engagement can improve productivity by 20 to 40%.

New workplace technologies continue to present opportunities and challenges. These can be utilised to automate mundane tasks, monitor employee health, safety and well-being, and offer flexible working. There is the potential for job redesign, upskilling and higher productivity and pay. However, they can also be used to micromanage workers, automate skilled roles and offer ‘one-sided flexibility’ for employers and precarious work for ‘independent workers’.

Speaking at the SCDI Forum 2019, Andrew Murphy, Chief Information Officer, John Lewis, said: “Business, government and every organisation needs to get better at designing job roles more holistically and with productivity growth in mind. Here too, technology will play a huge and utterly critical role. If you can’t find ways for tech to enhance your people’s

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15 https://wellbeing.bitc.org.uk/all-resources/research-articles/mental-health-work-report-2018
17 https://wellbeingeconomy.org/oldwaynewway
19 https://engageforsuccess.org/engaging-for-success
20 https://www.scdi.org.uk/policy/automatic-for-the-people/
productive output then one day soon - if you’re still in business - you’ll be using it to replace them.”

In its recent report on Productivity, CBI Scotland recommended that “The issue of mental health must be a priority for action by government and businesses together as the underlying reasons for ill health will be complex and requires support beyond work. International examples where employers invest directly in their staff’s health were discussed, as were incentive structures for businesses to invest more in employee health and wellbeing.”

**Scottish Government Policy**

The Scottish Government’s National Performance Framework (NPF) sets out the kind of country Scotland wants to be and tracks and measures progress toward achieving this vision.

In 2018, a new NPF was launched. The Scottish Government's Purpose was changed to include increased national wellbeing as well as economic growth. The Purpose is now: “To focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth.” The Scottish Government has agreed to collaborate with the governments of Iceland and New Zealand on wellbeing economy policies in a Wellbeing Economy Governments policy lab.

The NPF continues to include a National Indicator on productivity. This is to rank in the 1st quartile for productivity against key trading partners. Scotland remains in the 2nd quartile.

For the first time, the NPF included a specific National Outcome for Fair Work and Business, which is measured through a range of National Indicators, including new Indicators for contractually secure work, employee voice and gender balance in organisations.

The Scottish Government’s Fair Work policy is intended to increase both productivity and wellbeing. Its Fair Work Action Plan, published in February 2019, is aiming for Scotland to be a world-leading Fair Work Nation by 2025. It sets out policy commitments including:

- Work with employers and partners to deliver Fair Work First
- Develop a Fair Work Framework benchmarking tool to help employers assess their current practices and provide guidance on how to make their workplaces faire
- Create a new online Fair Work service for small and micro employers so they can access support and guidance from a central point
- Deliver the refreshed Scottish Business Pledge to build scale, impact and capability
- Instil a Fair Work ethos in our future workforce and business leaders
- Co-host an International Fair Work Summit with the Fair Work Convention

Under Fair Work First, the Scottish Government, wherever it is appropriate to do so, will:
- extend Fair Work criteria to every type of grant, funding stream, and business support budget open to it, and
- extend the range of Scottish Government and public sector contracts that Fair Work criteria will apply to.

Fair Work is a central part of a wide-range of policy actions to improve productivity and wellbeing. This shift in mindset and approach is also clear in the new strategies for Scotland’s enterprise networks. The first ambition is in Scottish Enterprise’s strategic framework for 2019-22 is “A stronger focus on creating and protecting quality jobs which give people opportunity, security, fulfilment and respect, and nurtures shared wealth and collective wellbeing.”
SCDI and the Scottish Government are piloting two Productivity Clubs. These will be forums for networking, peer to peer learning and will provide signposting for business resources for members who will support one another to focus on continuous improvement and organisational capacity. The Club will aim to identify small changes that can lead to impacts on growth and productivity for individual businesses and the economy as a whole. They are open to businesses of all sizes across all sectors. During this initial pilot period events, visits and live networking with take place mainly in Glasgow and Edinburgh. www.productivity.scot

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