

# **PRODUCTIVITY AND SKILLS COMMISSION**

## Call for Evidence



**WEST MIDLANDS**  
COMBINED AUTHORITY

# FOREWORD

As a proud Midlander and business leader, I have a major stake in this community and I want to see the West Midlands thrive. I seized the opportunity to Chair the Productivity and Skills Commission because I believe it can make a fundamental difference to the lives of my employees, my business and all citizens of the West Midlands.

Coming from the automotive sector, I know there is no one factor behind the recent decline in the region's productivity. However, it is my view and ambition that with increased investment in public infrastructure and a renewed focus on skills and innovation through the West Midlands Combined Authority (WMCA), I am confident that together we can make a difference to the region's fortunes over the coming years.

It is well known that there is a national challenge around productivity, but this challenge is even greater in the West Midlands. In our area, 57% of our £14bn output gap is attributed to the skills and employment rate of our population and for this reason, improving skills is a key part of our focus and why we are launching a combined Productivity and Skills Commission.

We will be focussed on solutions to the productivity shortfall of the region, looking to the future and not focussing on the problems of the past. The people that know the region best will lead the way in sharing their ideas, knowledge and experience to deliver practical yet achievable growth plans. We are proud to accommodate numerous world-class businesses, universities and highly skilled people in the West Midlands, and we have combined these talents to work towards delivering significant benefits for the area. But we are only a part of the solution to the challenges we face. We need all West Midlanders to come together, businesses, from Micro to Multi-National, academics, providers of skills and individuals. Only by hearing your ideas, challenges and solutions, can we find the right answers for our area.

The Commission is keen to learn from past experience in the West Midlands to ensure that this Commission produces lasting and meaningful change. We are focusing our work on generating practical action to drive tangible results. We need your help to identify the key actions that we can take to drive prosperity in the West Midlands and tackle the productivity challenge head on. I am proud to be involved in this work and hope that together we can create change that will improve our economy and the lives of those who live and work in it.

I look forward to hearing your views, thoughts, and proposals on how we can put the West Midlands back on the map as a leading international player.



Dr Andy Palmer CMG  
Chief Executive Aston Martin Lagonda Ltd.  
Chair Productivity & Skills Commission



**WEST MIDLANDS**  
COMBINED AUTHORITY

# BACKGROUND

## DEVOLUTION, SKILLS AND PRODUCTIVITY IN THE WEST MIDLANDS

The West Midlands Combined Authority (WMCA) comprises 18 local authorities and 4 Local Enterprise Partnerships (LEPs).

By having control of newly devolved powers from Whitehall, the WMCA is tasked with the effective targeting of policy and spending in the region through well-informed decision making by those that know the area and that will be in the best interests of the West Midlands population.

Devolution offers a once in a lifetime opportunity to prioritise and deal with the productivity and skills issues that matter most to the West Midlands. With skills being a fundamental part of the devolution agenda, there is a real opportunity to stimulate a resurgence in industry and economic growth whilst also increasing employment opportunities for all. The first devolution deal agreed will see the government make an annual contribution of £36.5 million for 30 years, unlock £8 billion and create up to half a million jobs in the West Midlands.

WMCA has produced a Strategic Economic Plan (SEP) which outlines the vision, objectives, strategy and actions for improving growth and prosperity in the West Midlands. The SEP provides the context and ambition for the devolution agreement and gives insight into how power and resource will be deployed to priority areas in order to fulfil the 2030 vision of making the West Midlands the best region to do business within the UK.

The Productivity and Skills Commission has been set the task of understanding the true extent of

the productivity challenge in the West Midlands, identifying the component causes and making recommendations to address the issues identified. The first stage has been to collate baseline information on what we already know about the productivity and skills landscape within the West Midlands and to identify areas where we need a greater understanding of the issues, how they are currently being addressed, what works and what we could do differently to make a step change in performance. The next step, through this Call for Evidence, is to seek wider views and input on the issues that can be used as a basis to articulate a clear vision for productivity and skills in the West Midlands.

A WMCA Productivity Leadership Group, led by Dr Andy Palmer and bringing together business leaders from across the LEPs, will ensure that our plans to drive productivity are designed by and for local businesses. This group will be advised by experts from across the region and central government including senior leaders operating within the productivity and skills system as well as senior academics from across our Universities.

The Commission will develop Integrated Productivity and Skills Plans for each of the transformational sectors identified within the SEP, setting out detailed roadmaps to get us from where we are now to where we want to be. The Commission recognises the multiple and interconnected nature of the solutions to improving productivity and therefore wishes to test and prototype different approaches in understanding what works and what doesn't, taking on constant feedback to allow appropriate action to be taken.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## THE PURPOSE OF THIS CALL FOR EVIDENCE

As part of the ambition for developing growth and productivity in the West Midlands, the Call for Evidence has been created to invite feedback and inform thinking on what is holding back the region in terms of productivity and skills and what the practical actions are that WMCA can take to address this.

This work is not a standalone piece, but is rooted in the wider national productivity and skills framework which originates from the Government's Productivity Plan (2015), Industrial Strategy (2017) and Post-16 Skills Plan (2016). Through the work of the commission the West Midlands will lead the development of a place based approach to Industrial Strategy with direct alignment to delivery of the new technical routes outlined within the Post 16 Skills Plan.

This document outlines research that has investigated the five key areas recognised as having an impact on productivity, and will seek to initiate discussions on the impact these factors can have, enabling the commission to begin presenting solutions across each of the five drivers to shape productivity and skills policy and strategy in the West Midlands. These areas are:

- Skills
- Innovation
- Investment
- Competition
- Enterprise

The response to the Call for Evidence will provide a wealth of information that the Productivity and Skills Commission will use to better understand productivity and skills issues in the region by:

- Providing a better understanding of the component causes of the productivity and skills challenges and the inter-relationships between them,
- Making recommendations as to how these individual causes can be addressed,
- Ensuring appropriate plans are developed for the implementation of these recommendations.

## WHAT BENEFITS CAN THE WEST MIDLANDS EXPECT?

The Midlands Engine is seeking to leverage the potential of the East and West Midlands in making the region a driving force for the UK economy. Part of the Midlands Engine vision is to create 300,000 new jobs over the next 15 years in efforts to bring transformational economic growth to the region. The Commission will play an integral role in helping to deliver this vision.

The government's new Industrial Strategy provides a framework for action which the West Midlands can use as an opportunity to secure further benefits across the area. The Industrial Strategy aims to improve the nation's productivity, prosperity and economic performance, with the West Midlands being a key player in driving change for the country as a whole. Through building on plans for the Midlands Engine and the new Industrial Strategy, we can secure additional investment and strategic support to deliver the best possible outcomes for our employers and our people.

The benefits include:

- Strengthening local supply chains and re-shoring activity to the West Midlands,
- Enabling more businesses to take advantage of the R&D and innovation infrastructure,
- Boosting business birth, survival and growth rates in parts of the region,
- Improving the skills base and ensuring that businesses have access to the skills they require,
- Improving road and rail infrastructure.

By bringing a collaborative and well-informed strategy to the productivity and skills agenda through the Commission and the SEP, the region has the potential to boost productivity (Gross Value Added - (GVA) per head) by 5% higher than the national average.

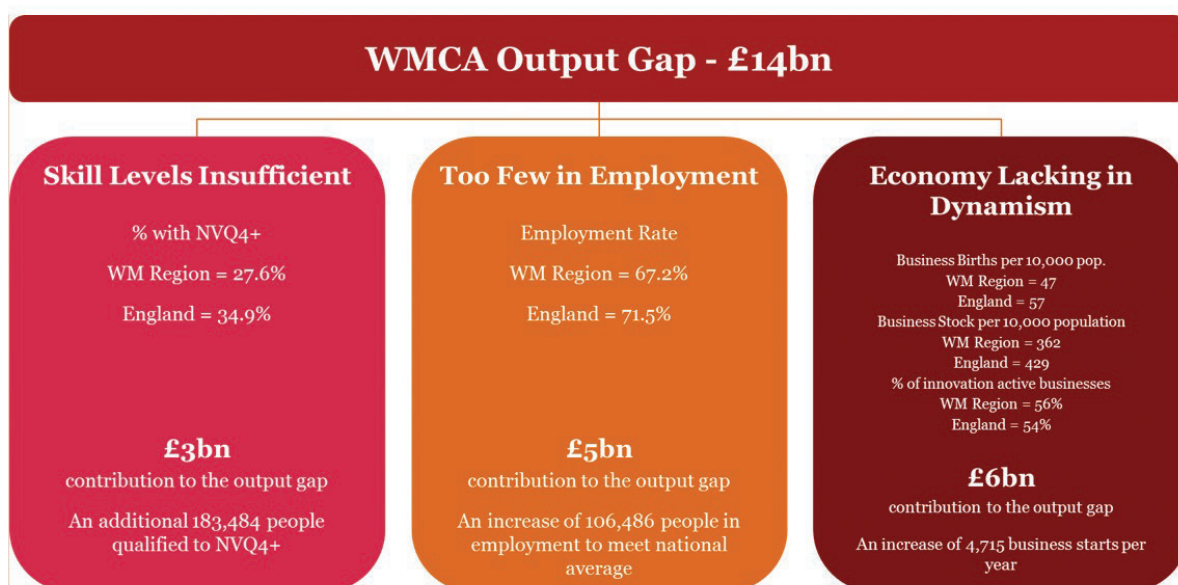
The investment in the WMCA Productivity and Skills Commission will enable the region to strategically target areas where there is potential to boost productivity, reigniting underperforming industry, reducing unemployment and underemployment, and ultimately tackling a widening skills gap.

The result will be a prosperous, inclusive and thriving economy that works to meet the needs of the people of the West Midlands.

# UNDERSTANDING PRODUCTIVITY

## THE WEST MIDLANDS OUTPUT GAP

There is a £14bn Output Gap between the WMCA area and national figures - GVA per head in WMCA is currently at £19,423 - which is nearly £3,500 less than the national figure for each of the 4 million WMCA residents. The following analysis of the output gap identified the impact on productivity of insufficient skills levels and too few of our residents in employment which together account for 57% of the gap. The remaining 43% is attributed to an economy lacking in dynamism - underperformance in competition, investment, innovation and enterprise. It is for this reason that WMCA decided not to undertake separate commissions to look and productivity and skills - getting the right skills is essential to driving productivity in our region and we need to take an integrated approach to examining and tackling the issues if we are to have a significant and lasting impact upon them.



1. Analysis provided by the Black Country Consortium's Economic Intelligence Unit



**WEST MIDLANDS**  
COMBINED AUTHORITY

## THE PRODUCTIVITY CHALLENGE

While productivity is a complex matter concerning all different levels of governance in the UK and internationally, it is also widely accepted that productivity, at the firm, region, or national level is the key driver of income. Yet significant and persistent differences in economic performance exist between and within UK city regions. There is a need for regional and local policy that reaches out to the numerous drivers of productivity, building on the indigenous strengths within each locality to drive growth and build a stronger economy.

Accepting that there are considerable technical issues with measuring productivity at the national and local level, with the standard measures of Gross Domestic Product (GDP) and GVA often incorrectly used leaving large gaps in our knowledge at the regional level, there are essentially two ways of increasing GVA (Productivity);

- To increase the total labour input in the economy by having a higher level of employment by hours worked.
- To increase productivity by increasing the amount of output each person produces.

Whilst many major economies have experienced slower growth in productivity post the financial crisis, the slowdown for the UK has been more marked. Research by the Office of National Statistic (ONS 2016) has shown that in 2014, labour productivity was lagging 18 percentage points behind other G7 nations. The weaknesses in UK labour productivity since the 2007/08 financial crises has been termed the UK 'productivity puzzle'. Understanding the true causes of this downturn is necessary for securing the future of both the UK economy and that of the West Midlands in allowing the region to achieve its potential in a national and international context.

A paper published by the Bank of England in 2016 uses ONS firm-level data to explore and aid our understanding of the drivers of these weaknesses. The paper concludes that although the financial crisis without doubt had a persistent impact on the level of productivity, there are a multitude of other factors yet to be fully explored and understood with any great certainty.

The post Brexit outlook provides further need to understand the priorities for improving UK growth and productivity. A recently published McKinsey (2016) report warns how reduced trade, Foreign Direct Investment and movement of people could have negative implications for innovation, investment, competition, access to talent and economies of scale. The report suggests that improving management practices, the participation of women in the labour force, the level of public sector productivity and the affordability of housing could help reverse the challenges facing post Brexit productivity. Understanding how best to address these issues, as well as the new freedoms and opportunities available in a changing economy will go some way to tackling the productivity problem.

Part of the puzzle around the weak productivity growth of the UK can be considered, at least partly, as a result of the changing dynamics of the labour and business landscape. We are now seeing an increase in demand for both low and high skilled jobs as the labour market responds to technological change at both ends of the spectrum, but a consequent decline in demand for mid-skilled jobs.

The following points expand on some of these influencing factors that have had an impact on productivity in the West Midlands:

### OCCUPATIONAL STRUCTURE

It's important to consider the region's occupational structure when looking to understand the factors impacting on the productivity gap. Historically, the West Midlands has been home to a large number of high value manufacturing jobs, but there is an increasing switch to a structure more representative of England as a whole. This means the comparative advantage to sectors such as advanced manufacturing and energy could be lost.

As this shift takes place there is an ever growing drag on the productivity and therefore value of jobs. This has led to the region having fewer managers and senior professional and technical roles, which in 2015



**WEST MIDLANDS**  
COMBINED AUTHORITY

stood at 8.1% for those in employment within the WMCA compared to a UK national average of 10.3% (APS, 2015). The forecasts projected by WMCA on the demand for the higher level skills that we need to deliver growth indicate that this gap in supply is set to increase.

## INCLUSIVE GROWTH

To ensure inclusive growth we need a system that allows everyone to contribute to and benefit from growth (World Bank, 2009). Growth needs to be broad based and focussing on quality jobs across sectors, inclusive of a large part of the labour force, and whilst accepting there may be trade-offs the commission would like to have a greater understanding of this within the region.

Bringing inclusive growth to the West Midlands will involve capturing results on business performance at the local level, then linking findings back to wider determinants of growth at the macro level. This can be achieved by gaining insight into our ability to influence structural transformation, economic diversification and the subsequent changes to industry and employment, as well as our ability to protect our business base and the jobs they provide from economic and political shocks. The wide-spread adoption and increased commercialisation of new technologies by firms across sectors in the West Midlands is crucial to this type of broadly-based productivity improvement.

## PLACE BASED PERSPECTIVE ON PRODUCTIVITY

City regions form their identity based on factors such as work flows, business supply chains, service provision, utilities, and access to education. The location of firms and workers in any given area reflects a variety of historic and market drivers which have developed over time to give places the characteristics we are familiar with today.

When thinking of places, we can typically classify their attributes in terms of, for example, business structure, labour market and skills and infrastructure development. Whilst these broader themes help us to

form an understanding of why areas perform in the way they do, they do not typically assess the extent to which places perform differently because of the mix of assets and characteristics within them. We should look to not just simply understand what attributes places have, but instead ask questions as to the actual 'quality' of and relationships between these assets and the varying impacts they can have on growth and prosperity in a region, such as accessibility to London, large commercial centres and airports/transport links both nationally and internationally.

Understanding the relationships and interdependencies between the West Midland's key assets forms part of the aims for the Productivity and Skills Commission. The Centre for Cities, Cities Outlook 2017 report investigates this relationship, in particular in the context of the largest British exporting cities and the characteristics which help constitute these cities as attractive exporters. Gaining insight into how the local business landscape contributes or drags on productivity will help the Commission to inform such strategy and policy.

Place based factors to bear in mind when considering productivity in the West Midlands include:

- Spatial differentials in firm-level productivity determinants such as technology, capital intensity, infrastructure, investment, firm size, innovation, foreign ownership, managerial capability, competition, market power, characteristics of product and factor markets as well as consumer tastes and preferences.
- Agglomeration effects in cities such as larger markets and access to skills pools. Externalities, such as knowledge spill-overs, arising from the concentration of businesses in the same area. These spill-overs are of differential importance to different sectors.
- Methodological concerns. Differences in the types of outputs and the skills of workers involved will lead to different productivity levels. Price differences between regions and localities are not accounted for in the methodology and may explain some of the productivity differentials in the analysis.



**WEST MIDLANDS**  
COMBINED AUTHORITY

Worth noting here is that whilst wider infrastructure such as housing and transport policy will play a key part in solving the productivity challenge in the West Midlands, there are currently separate structures in place to address these challenges and create plans to tackle them going forward.

As economies develop – at all levels of geography – levels of integration expand and different forms of network structures (formal and informal) emerge. In particular for the West Midlands, the effects from agglomeration of the three WMCA LEPs has the potential to produce great benefits for the region, bringing together labour, business and knowledge sharing.

In addition to the broad areas that are set out within this document, widely recognised to be the main determinants of productivity, it is important to recognise that researchers have sought to link many other factors to productivity growth, including:

- Outsourcing / offshoring
- Knowledge transfer into the firm from its foreign affiliates (often referred to as knowledge sourcing Foreign Direct Investment)
- Network effects
- Physical Geography
- Infrastructure and transport links
- Digital connectivity
- Clustering and agglomeration economics
- Links between firms and universities
- Openness of the economy
- Migration (either in terms of “brain drain” or new skills being attracted)
- Constraints on firm growth and the ability to capture scale economies (eg access to finance)

We do not go into these in detail here. Many of these relate more to firm growth rather than productivity specifically, and often represent second order problems, as well as capturing the counterfactual (what would have happened to productivity had the firm not done this), rather than the productivity specifically, but evidence on the importance of any of these issues for the local economy is also welcome.

## CONCLUSIONS

There are many ways in which we can make a positive impact on the level of productivity in the West Midlands. Professor Diane Coyle has highlighted the following four points as key areas of focus when targeting action to improve productivity:

- “The importance of social investment for productivity, long-term programmes linked to the needs of specific areas where employment and skills are low,
- The need to focus not just on workers’ skills but also on how employers use those skills to make workplaces productive,
- The role of the entire institutional framework for science-based firms, for example so that problems are owned, regulations do not make people over-cautious, public procurement is used intelligently,
- The need to correct the UK’s significant under-investment over decades in infrastructure, with a focus on what services infrastructure provides to the economy.”

The Commission’s Call for Evidence and subsequent research, enquiries and recommendations will enable further conversation and action on all of the above points with the aim of improving productivity and growth for the West Midlands region.



**WEST MIDLANDS**  
COMBINED AUTHORITY



# DRIVERS OF PRODUCTIVITY

## INTRODUCING THE 5 DRIVERS OF PRODUCTIVITY

There are a number of factors that underlie any economy's productivity. These five key drivers of growth were first set out in "Productivity in the UK: The evidence and the Government's approach" published alongside the 2000 Pre-Budget Report, which describes the UK's productivity performance in a national context. They are:

- Innovation
- Skills
- Enterprise
- Investment
- Competition

## INNOVATION

### Innovation in the West Midlands

Innovation at the firm level is crucial for the West Midlands if the region is to raise its productivity levels, and firms should be proactive to exploit the freedoms technology and devolution are providing to do this. The commission should be considering whether businesses have adequate access to finance, whether this be simply raising awareness of existing financial support packages, or creating new ones entirely.

At present the quality of data on the levels of innovation and exporting activity, as well as the barriers firms commonly face to such activity in the West Midlands, is limited at the local level and only available with a significant time lag. Therefore improving the scope and quality of this data should also be viewed by the Commission as a priority to driving growth through innovation in the region.

The WMCA and the three LEPs Identified within the SEP are currently undertaking a Science and Innovation Audit across the area. This is focusing on the innovation ecosystem factors, enabling competencies and market strengths laid out in the framework at <http://www.birminghamsciencecity.co.uk/groups-and-networks/advisory-and-steering-groups-2/wmca-innovation-working->



group/. This local report complements the Science and Innovation Audit completed for the Midlands Engine last year as part of a national programme (see <https://www.midlandengine.org/wp-content/uploads/2017/02/Midlands-Engine-SIA-Volume-1-Report-01-Nov-1.pdf>). It is important that the West Midlands takes its place in the national debate and makes sure that the area plays a key role in shaping national policy.'

The Science and Innovation Audit has been led by the West Midlands Combined Authority Innovation Working Group (WMCA IWG) which was initially set up to support the development of the innovation strand of the WMCA Devolution Deal. The group includes representatives from the Greater Birmingham and Solihull LEP, the Coventry and Warwickshire LEP, the Black Country LEP, Marketing Birmingham, Innovate UK (with links to the Catapult centres) and the six research active WMCA Universities (Aston, Birmingham, Birmingham City University, Coventry, Warwick, and Wolverhampton).

With the support of the Birmingham Science City Executive, the IWG is continuing to raise the profile of, and facilitate the innovation aspects of, the Devolution Deal. It is also supporting the development and delivery of the innovation actions in the WMCA Strategic Economic Plan, including supporting the development of WMCA innovation project proposals, while facilitating and supporting collaboration for funding including ESIF.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Why is innovation important

There is now strong evidence that exporting and innovation in products, services and business models can contribute to the productivity and performance of individual enterprises, localities and nations. Positive effects occur both directly and through spillovers or externalities – multiplier effects, knowledge and productivity spillovers and demonstration and halo effects. Innovation is therefore important for leading edge technology firms in the West Midlands, but the region should remember the adoption of innovations developed elsewhere is also important for improving performance in smaller, more locally-oriented firms. This type of broadly based innovation is key to achieving productivity increases.

Boosting collaboration between firms and between firms and research organisations (including universities) is a mechanism which will play a key role in the growth of the economy. Local and international connections are both important here, and international innovation partnerships can also provide the basis for future trade and exports. Ensuring the right policy is in place for both financial and advisory support, which serves to encourage such collaborative and innovative behaviour is a further driver in supporting firms with their innovation and subsequent activity. Resources are often limited, however, and so it is our view that effective targeting to support this policy is therefore important to maximise local benefits for the region.

We also know that collaboration is key to successful innovation, with partnerships between firms and between firms and research organisations (including universities) playing a key role in the growth of the economy. Local and international connections are both important here, and international innovation partnerships can also provide the basis for future exporting. We believe that the West Midlands will need to leverage these collaborative and increasingly cross-border partnerships to ensure productivity is maximised through continued focus on such investment.

Finally, having the right policy for both financial and advisory support is a further driver in supporting firms with their innovation and exporting activity. Local support can be particularly important in helping firms to successfully commercialise new innovations and subsequently support productivity improving innovation.

## What next?

The Productivity and Skills Commission will consider the findings of the Science and Innovation Audit and will use the recommendations to shape our actions going forward.

For more information on the Science and Innovation Audit, please see <http://www.birminghamsciencecity.co.uk/groups-and-networks/advisory-and-steering-groups-2/wmca-innovation-working-group/>



**WEST MIDLANDS**  
COMBINED AUTHORITY

## SKILLS

### Skills in the West Midlands

Skills are a vital driver to improving the productivity of the West Midlands. In the years running up to the financial crisis, the region was already suffering slower-than-average jobs growth, with the lowest employment rate of any of the city regions.

Whilst slower than average, employment rates in the West Midlands have been increasing over recent years along with the number of private sector jobs. At the same time the number of 16-64 year olds claiming an out of work benefit has been falling. However, the worklessness rate remains above the national average and significant challenges remain around the numbers claiming Employment Support Allowance or Incapacity Benefits, those individuals workless due to mental health issues and persistent low skills in parts of the area.

Data from Working Futures shows that 36% of all WMCA based jobs have a requirement for higher level (NVQ L4+) skills and 21% require either lower level (NVQ L1) or no qualifications. Over the 10 year period 2012-2022 it is projected that the requirement for higher level skills will increase by 36%, whereas the requirement for NVQ L1 skills will shrink by -22% and that for no qualifications by -42%.

Understanding what skills employers require, the constraints for education and training providers, and the complexity of (and frequent changes in) the national and local skills system all present challenges to getting skills investment right. Indeed, in 2015, 24% of vacancies in the WMCA area were identified as hard to fill due to a lack of appropriate skills, qualifications, or experience.

Our estimates show that if the skills profile of the three LEP areas identified within the SEP were to match the England average (reduction in those with no qualifications from 13.6% to 8.7% and increase in those with level 4 from 29.1% to 36.1%) GVA (based on 2015 data) would increase by an estimated 4.4% (£3,871 million). In turn this would generate an additional £1,548 million annually in tax revenue. If unemployment across the three CA LEP areas were

to fall to match the England average (from 2.8% to 1.9% as at February 2017) there would be a saving of £58.9 million per annum in benefit spending and an increase of £46.2 million per annum in tax revenue. there would be a saving of £62.8 million per annum in benefit spending and an increase of £49.3 million per annum in tax revenue.

### Why skills are important

If we are to improve the productivity of the West Midlands it is essential that we have the right skills in the labour market to support and achieve this growth and that we align investment in skills to growth sectors, skills gaps and areas of need. When businesses have the skilled employees they require, supported by quality management and leadership practices, firms can expect productivity and growth improvements to follow.

Recognising the importance of management practices is vital, with the managerial ability within firms having a significant impact on productivity and business growth. The variable quality of management decision-making can affect investment in equipment, staff and skills development, innovation and intangible capital and is known to underpin international, regional, cross-sector and within-sector differences in productivity. There is a need for both operational and senior management teams to possess these managerial skills and ambitions to drive productivity in response to opportunities in growing markets.

Linked to this is the concept of 'Good Work' which involves working practices that benefit employees through regular and fair reward schemes, access to training and development programmes, having job security and tailored career progression conversations, and ways of working which listen to and act on employee feedback to secure continued business improvements. Fundamental to the concept of Good Work is understanding that it is about more than simply motivating the workforce through monetary benefits and pay. Rather, it is about building a workplace culture which promotes a healthy environment and good general well-being where employees feel valued, trusted and supported to adapt their working patterns around their life styles and phases of life.

Finally, thought should be given to considering how demand for skills is likely to be impacted by the rise in automation and artificial intelligence (AI), and the knock on effects this will have for the occupational profile of the West Midlands. Evidence would suggest that technology has redefined the nature of routine jobs and the skills required, rather than replacing such jobs altogether, but with the interconnected and digitalised world we now live in far more advanced than that of previous technological waves, there is a need for the WMCA to consider the effects on labour demand across all grades and sectors, and the appropriate skills training that will need to be provided to support such shifts.

Through increasing individuals' skills in the region we not only begin to support both business and economic growth, but we are also able to give people the foundations for improving their life opportunities. Improving the education and skills offering of the region also brings the benefit of raising productivity through indirect mechanisms, such as facilitating knowledge transfer, technological diffusion, collaborative improvement and innovation.

### **What next?**

The skills system is highly complex with a number of institutions, policies, regulations and funding streams to navigate when formulating solutions. WMCA will take a whole system approach to skills focussed on developing solutions for people who are in education, in work or out of work, equipping them with the right information about employer needs for skills and ensuring that pathways are in place to gain these skills. Access to information is a key enabler with independent advice and guidance about careers and training pathways being a critical success factor.

The devolution agenda underlines the role of local areas and employers in creating the conditions for growth and establishing a post-16 skills system that is responsive to local economic priorities. Devolution for

the West Midlands has already been agreed in relation to the Adult Education Budget and some aspects of employment support but further devolution would enable greater impact and the ability to simplify the skills system at a local level.

Maximising the benefits of recent and forthcoming changes designed to improve the skills system presents both a challenge and an opportunity for the West Midlands. The new approach to technical education following the 2016 review by Lord Sainsbury, apprenticeship reforms including the introduction of the apprenticeship levy and proposals to introduce new Institutes of Technology all provide an opportunity to address the mismatch between supply and demand for skills and will be important tools to support delivery of our Integrated Productivity & Skills Plans. We will also build on the advantage of hosting the National College for High Speed Rail and the opportunity to tap into the wider National College network to support the development of higher level skills in priority sectors.

The Commission will identify aspects of the system that it will shape and influence as well as identifying areas where local control will deliver better outcomes for local people and businesses.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Consultation questions

<b>1.</b>	<p>How are current actions in the West Midlands supporting the improvement of meaningful skills development across the area? Please give examples of what you think is working well and what could be improved particular in light of recent and forthcoming changes in the skills system.</p> <p>Please provide evidence to support your views.</p>
<b>2.</b>	<p>What are they key barriers to skills development and how could they be removed?</p> <p>Please provide evidence to support your views.</p>
<b>3.</b>	<p>What do you see as the likely impact of Brexit on skills in the West Midlands? How could opportunities be maximised and threats be mitigated?</p> <p>Please provide evidence to support your views.</p>
<b>4.</b>	<p>How effective is careers advice in the West Midlands and how could it be improved?</p> <p>Please provide evidence to support your views.</p>
<b>5.</b>	<p>What could be done to further develop effective leadership and management practises in West Midlands?</p> <p>Please provide evidence to support your views.</p>
<b>6.</b>	<p>How are businesses putting the concept of ‘Good Work’ into practice? What can other businesses learn from this?</p> <p>Please provide evidence to support your views.</p>



**WEST MIDLANDS**  
COMBINED AUTHORITY

## ENTERPRISE

### Enterprise in the West Midlands

Enterprise policy must be carefully considered to ensure it is most effective at the level of the firm and the individual entrepreneur and takes into account the complexities and diversity of the region's economic geography. Evidence suggests that the WMCA area has a lower start-up rate than elsewhere in the country and enjoys a less prominent share of fast-growth firms in the business population. In 2015, there were 5.46 business births per 1000 of the population in the WMCA area compared to 5.88 nationally.

The WMCA is establishing a growth company to promote the region around the world and help inspire enterprise and entrepreneurial behaviour. It will support taking the best of the West Midlands to a new range of buyers and open up a wealth of new opportunities.

The growth company will help create new jobs, expand existing businesses and promote the region's considerable business and tourism assets to secure investments from around the world. It will also support delivery of the WMCA's Strategic Economic Plan (SEP).

### Why enterprise is important

Creating an environment for enterprise and business growth to thrive is a key enabler for boosting productivity in the economy. Setting a framework which encourages business development and growth along with targeted leadership and entrepreneurial education initiatives and advice are all important in fostering an entrepreneurial economy. But we must also recognise the importance of the local level, where historical, cultural and geographical influences have created variances in demographic, wealth, educational and occupational profiles of places and communities and therefore the level of entrepreneurial activity within these. Worth noting is the difference between enterprise and self-employment – the former as someone attempting to build a business around an innovative idea or concept, whilst the latter is a term which can be applied more broadly, at times to an entrepreneur, but also to an individual performing the

same service to employers that they previously did as an employee. It is important to give consideration to the varying models of enterprise and self-employment, and the types of behaviour one wishes to stimulate as a result.

Entrepreneurship is integral to driving growth and covers start-up firms as well as the development of new business opportunities in established businesses. An entrepreneurial culture is an environment where someone is motivated to innovate, create and take risks in response to opportunities and harness the appropriate resources. In an established business, an entrepreneurial culture means that employees are encouraged to brainstorm new ideas or products. This can be an important factor in driving productivity and business growth. Business leaders should challenge themselves and ask the question of whether these behaviours are present in their businesses, and if not, why not.

### What next?

The accessibility of finance for the entrepreneur poses a potential issue for the Commission to investigate in understanding whether the lack of financial support for potential new enterprises is having a detrimental effect on productivity. Addressing such issues through targeted policy and creating a business environment that encourages entrepreneurship and business growth are key initial steps the Commission will consider in boosting productivity in the region. Understanding whether there is a need to focus on providing the right support for businesses through network hubs, training schemes and information centres is a further line of enquiry the Commission could look to consider further.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Consultation questions

<b>7.</b>	<p>How are current actions in the West Midlands supporting enterprise across the area? Please give examples of what you think is working well and what could be improved?</p> <p>Please provide evidence to support your views.</p>
<b>8.</b>	<p>What are the key barriers to enterprise and how could they be removed?</p> <p>Please provide evidence to support your views.</p>
<b>9.</b>	<p>What do you see as the likely impact of Brexit on Enterprise in the West Midlands? How could opportunities be maximised and threats be mitigated?</p> <p>Please provide evidence to support your views.</p>
<b>10.</b>	<p>How could the West Midlands support an increase in new start-ups? What else could be done to support their success?</p> <p>Please provide evidence to support your views.</p>
<b>11.</b>	<p>What support should be available to ensure the sustainability of fast-growth firms beyond their initial growth period?</p> <p>Please provide evidence to support your views.</p>
<b>12.</b>	<p>What actions could be taken to boost the levels of enterprise within existing businesses and their employees?</p> <p>Please provide evidence to support your views.</p>



**WEST MIDLANDS**  
COMBINED AUTHORITY

## INVESTMENT

### Investment in the West Midlands

There are numerous ways in which the West Midlands can experience positive gains in productivity due to investment, both internally at the firm and regional level, and also internationally. There has been a significant boost in FDI projects in the region, with 168 projects in 2015-16, 3 times those present in 2012-13. 11,119 new jobs have been created as a result of these investments (UKTI, 2015-16).

There is less clarity on the state of play with regards to internal investment in the region. Whilst FDI is no doubt beneficial for the West Midlands, improving the level of investments within and between businesses in the region is something that the Commission should actively encourage and support. Such investments are made by those that know the region best and help keep the monetary flows within the West Midlands economy, leading to greater growth and competitiveness on a range of geographical scales.

The presence of head-quartered businesses in a region has a knock on effect for productivity. Such functions come with the ability to direct spend, investment, supply chain growth and training decisions and has been shown to have a positive impact on local areas and economies. Such thinking fits with the current situation in the West Midlands, where the gap in supply of higher paid, higher skilled roles ties into the fact that the region is home to less head-quartered functions where such roles are typically found. There is therefore a need for greater understanding around the reasons for the low number of head-quartered functions in the region, and what can be done to attract such employers in the future.

### Why investment is important

Internal business investments made in R&D, supply chain efficiency, human resource, technology and expansion as a selection of examples, will all have an impact on the productive potential of a firm. Improvements in efficiency and resource utilisation can lead to increased sales and revenue for businesses,

as well as a more motivated workforce with greater tools for executing their jobs. Another example is through better linkages and communications through the supply chain, leading to lower costs and wastage. Prospective rises in productivity at the micro level will ultimately feed through to the macro level and showcase the importance for internal investments by businesses in producing greater growth and prosperity for an economy.

By pursuing an inward investment policy since the mid-1980s the UK government has also sought to encourage the superior foreign technology, R&D, innovation activity, economies of scale and capital investments that accompany these inward investments in efforts to improve the growth of the nation.

By attracting more productive foreign firms to the West Midlands, we would hope to see an increase in the average productivity of the region's industries. There is then the possibility that technology, which notoriously accompanies many of these investments, 'spills over' in a less formal manner to domestic firms through various channels. For example, linkages that domestic firms have with foreign inward investors in supplier or strategic relationships has the potential to teach domestic firms better management techniques and new ways of working which may be more efficient than those currently in practice. The so called 'Japanisation of UK industry' is a case in point. A further effect can be seen in the tacit knowledge embodied in skilled labour which may move from foreign inward investors to local domestic firms, again improving productivity for the region.

The presence of multinational enterprises, as leaders in both technological and capital accumulation, serves to stimulate further the possibility for agglomeration and co-location in regional hot spots and clusters around the host country. This enables improvements to supply chain linkages and further technology transfer, and may therefore improve the likelihood of technological capabilities and productivity of domestic firms via spillovers in the West Midlands.



**WEST MIDLANDS**  
COMBINED AUTHORITY



## What next?

There is a need to understand what the current level of internal investment in the region is, what the opportunities are for businesses to improve and get the most out of their investments, and also the factors which frustrate and deter firms of the West Midlands from engaging in such activity. Creating and maintaining this regional investment landscape at the firm level will serve as a strong platform for simultaneously increasing productivity and prosperity.

HS2 represents an enormous infrastructure project currently being delivered in the West Midlands. It offers exciting opportunities for boosting productivity in a multitude of ways through mechanisms and partnerships which naturally accompany investments of this scale. In more uncertain territory, the post-Brexit outlook provides less clarity on the future direction of investment in the region. However, with a strong manufacturing heritage, there is the potential to open up new markets for trade and investment as new deals are agreed, each bringing with them new opportunities for economic growth in the West Midlands.

We suggest all of the above have the potential to impact positively on productivity in the West Midlands. The region should be looking to promote its assets to potential investors at all opportunities, both domestic and international, with the aim of developing industry hot spots, creating jobs and the channels to share best practice between firms, ultimately boosting productivity and growth.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Consultation questions

<b>13.</b>	<p>How are current actions in the West Midlands supporting investment across the area? Please give examples of what you think is working well and what could be improved?</p> <p>Please provide evidence to support your views.</p>
<b>14.</b>	<p>What are the key barriers to attracting internal and external investment and how could they be removed?</p> <p>Please provide evidence to support your views.</p>
<b>15.</b>	<p>What do you see as the likely impact of Brexit on investment in the West Midlands? How could opportunities be maximised and threats be mitigated?</p> <p>Please provide evidence to support your views.</p>
<b>16.</b>	<p>What is the current state of firm level investment in the region? What could be done to encourage this type of investment?</p> <p>Please provide evidence to support your views.</p>
<b>17.</b>	<p>How can the levels of inter-West Midlands cooperation and supply chain collaboration be improved across the area?</p> <p>Please provide evidence to support your views.</p>
<b>18.</b>	<p>Which sectors in the WMCA would most benefit from investment and why? Which sectors represent the best value proposition to investors?</p> <p>Please provide evidence to support your views.</p>



**WEST MIDLANDS**  
COMBINED AUTHORITY

## COMPETITION

### Competition in the West Midlands

The West Midlands area offers both challenges and competitive advantages dependent upon the evidence datasets used to articulate competition. For example GVA per head in the area is amongst the lowest in the country, whilst clusters of businesses in high value sectors (e.g Aerospace) are well above the national average. The Purchasing Managers Index also sets a picture of an economy which recognises the importance of dynamism and in the West Midlands. We are seeing examples of best practice around supply chain integration and how this is being delivered on a daily basis to support competitive collaboration, such as High Value Manufacturing City Digital Platform.

### Why competition is important

The level of competition for firms in a given market can have a big impact on the level of innovation and productivity in that economy. Evidence strongly supports the view that high levels of competition in a market with low barriers to entry gives firms a far greater incentive to invest and innovate in product development in order to remain competitive in that market compared to firms who sit in a less competitive market with high barriers to entry.

In short, competition leads to productivity benefits in 3 main ways as described in the Productivity and Competition report by the Competition and Markets Authority (2015):

- It acts as a disciplining device, putting pressure on management within firms to be more efficient and cost effective,
- High competition ensures that the more productive firms in a market will increase their market share at the expense of less productive firms. These less productive firms will eventually leave the market, making space for new, innovative and more productive firms to enter, driving further competition in the market.

- Competition drives firms to innovate, leading to improved efficiencies, greater growth and productivity.

The level of exports in particular markets is also impactful here. Firms that export more are generally increasingly competitive due to the nature of their market and the need to stay ahead of the competition, driving down costs to secure business deals, trade and growth. Having the right trade and export policies in place is therefore important for fostering healthy competition between exporters in markets, leading to increased efficiencies, innovations and ultimately growth and productivity.

### What next?

The WMCA will develop a greater understanding of the levels of competition which exist in markets in the West Midlands, and how this impacts on the levels of productivity within these industries. This must explore how competition can be harnessed to drive up skills and productivity and how future support programmes can be tailored to be of most relevance to growth firms.



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Consultation questions

<b>19.</b>	<p>How are current actions in the West Midlands supporting competition across the area? Please give examples of what you think is working well and what could be improved?</p> <p>Please provide evidence to support your views.</p>
<b>20.</b>	<p>What are the key barriers to stimulating competition and how could they be removed?</p> <p>Please provide evidence to support your views.</p>
<b>21.</b>	<p>What do you see as the likely impact of Brexit on competition in the West Midlands? How could opportunities be maximised and threats be mitigated?</p> <p>Please provide evidence to support your views.</p>
<b>22.</b>	<p>What can the WMCA do in order to help local business to increase their domestic and international competitiveness? What stimulus measures would drive greater competition?</p> <p>Please provide evidence to support your views.</p>
<b>23.</b>	<p>Which industries or sectors would benefit most from targeted interventions to boost the levels of competition?</p> <p>Please provide evidence to support your views.</p>
<b>24.</b>	<p>What are the key skills that employers in the West Midlands need most to improve their competitiveness?</p> <p>Please provide evidence to support your views.</p>



**WEST MIDLANDS**  
COMBINED AUTHORITY

# RESPONDENT INFORMATION SHEET

Please note this form must be returned to [productivityandskills@wmca.org.uk](mailto:productivityandskills@wmca.org.uk) or **Productivity and Skills Commission, Communications Department, 16 Summer Lane, Birmingham B19 3SD** with your response by **31st May 2017**. For clarity, there is no requirement that your response to the Call for Evidence answers every question posed.

Please take the opportunity to provide any additional information that would be of benefit to the Commission but isn't covered directly by the questions outlined in this document.

Are you responding as an individual or an organisation?
Full name or organisations name
Phone number
Address
Postcode
Email
<p>The West Midlands Combined Authority (WMCA) may wish to publish your response in full or in part. The WMCA commit not to distort or misrepresent your response in any full or part publication.</p> <p>Please indicate your publishing preference:</p> <ol style="list-style-type: none"><li>1. Publish response with name</li><li>2. Publish response only (anonymous)</li><li>3. Do not publish response</li></ol>
<p>Should you wish for your response not to be published, it will only be shared within the WMCA and used for the purposes of informing future planning.</p>
Should the WMCA wish to contact you in the future, would you be willing to be contacted?



**WEST MIDLANDS**  
COMBINED AUTHORITY

# ACKNOWLEDGEMENTS

The WMCA would like to extend their gratitude to the following academics for their time, support and enthusiasm in providing contributions to the Call for Evidence:

## Academic lead

Nigel Driffield, University of Warwick

## Academic contributors

Rebecca Riley, City-REDI, University of Birmingham

Professor Stephen Roper, Warwick Business School

Professor Julian Beer, Birmingham City University

Professor Anne Green, Institute for Employment Research, University of Warwick

Professor Jun Du, Aston Business School

Dr Yama Temouri, Aston University

Professor David Bailey, Aston University

Professor Simon Collinson, Deputy Pro-Vice-Chancellor for Regional Economic Engagement and Director City-REDI, University of Birmingham



**WEST MIDLANDS**  
COMBINED AUTHORITY

## REFERENCES

Centre for Cities (2017) Cities Outlook <http://www.centreforcities.org/wp-content/uploads/2017/01/Cities-Outlook-2017-Web.pdf>

Competition and Markets Authority (2015) Productivity and competition: a summary of the evidence. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/443448/Productivity\\_and\\_competition\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443448/Productivity_and_competition_report.pdf)

Coyle, D. (2016) The Productivity Puzzle. <http://blog.policy.manchester.ac.uk/posts/2016/12/productivity/>

Industrial Strategy (2017) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/586626/building-our-industrial-strategy-green-paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/586626/building-our-industrial-strategy-green-paper.pdf)

McKinsey (2016) The Route to Brexit Success. <http://www.mckinsey.com/global-themes/europe/productivity-the-route-to-brexite-success>

ONS (2016) International Comparisons of Productivity - Final Estimates 2014

Post-16 Skills Plan (2016) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/536043/Post-16\\_Skills\\_Plan.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536043/Post-16_Skills_Plan.pdf)

UKTI (2016) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/559536/UKTI\\_annual\\_report\\_and\\_accounts\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559536/UKTI_annual_report_and_accounts_2016.pdf)

WMCA Strategic Economic Plan. Making our Mark. <https://westmidlandscombinedauthority.org.uk/media/1209/making-our-marksep.pdf>

WMCA Science and Innovation Audit. <http://www.birminghamsciencecity.co.uk/groups-and-networks/advisory-and-steering-groups-2/wmca-innovation-working-group/>

World Bank (2009) World Bank note on 'What is inclusive growth' <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf>



**WEST MIDLANDS**  
COMBINED AUTHORITY

# ANNEX 1 – WMCA PRODUCTIVITY AND SKILLS COMMISSION INTELLIGENCE PACK

In November 2016 the Black Country Consortiums Economic Intelligence Unit developed a supporting evidence pack which sets out the productivity challenge in terms of GVA and the output gap analysis. They also developed a dashboard for each of the 7 transformational sectors to enable us to target our action to support economic growth. The dashboards include the scale of GVA, jobs and businesses for each sector and sub sectors and the comparison of the proportion of GVA and jobs to the national average - current and ambition levels. They also provide a list and spatial mapping of the top performing businesses in each sector with an analysis of financial records to establish GVA contribution, average GVA per employee, GVA growth rates, level of value added - high/medium/low and an overview of the ownership of these businesses.

To view Annex 1 please visit

**<https://westmidlandscombinedauthority.org.uk/what-we-do/commissions/productivity/annex>**



**WEST MIDLANDS**  
COMBINED AUTHORITY



## ANNEX 2 - MEASURING PRODUCTIVITY

It is well acknowledged that productivity is a complex concept, with many approaches to defining the term and explaining its determinants. Starting with the measurement issues, perhaps the thorniest issue is how to capture the much used, and often misunderstood term “gross value added”. Partly because of the many different processes that contribute to value added, there are varying approaches to measuring productivity. These can essentially be grouped into the below:

### Simple ratios

The most common of these is labour productivity, typically expressed in terms of value added per unit of labour. This may be expressed in terms of an annual figure using full time equivalent employment, or per hour of labour. It may also distinguish types of labour, seeking to compare skilled and unskilled, or full and part time for example. While less common, the same can be done per unit of capital.

### Econometric approaches

These are econometric based approaches, designed to capture total factor productivity (TFP). One starts by expressing a simple production function such as a cobb-douglas or a translog function, and then estimating this using econometric approaches of varying levels of sophistication, and for comparable firms or sectors. Essentially the residuals from such an approach then form the basis of estimates of differences in productivity; the larger the residual from the regression the greater a firm’s productivity compared with the cohort. The essential question to bear in mind with this technique is to ensure one is comparing like with like. If one takes the simplest form of production function where output depends on three inputs, capital (machines), labour (people) and materials, then one can allow for the fact that the nature of these relationships differ by sector, and also that the quality of both inputs and outputs will differ by firms.

Techniques designed to employ this approach vary in econometric complexity. For example, one may want to control for the fact that inputs are decided by the firm. Suppose a firm is anticipating a “productivity shock” – a new technology for example. It may therefore take investment decisions to reflect this – delaying or bringing investment forward to take advantage of this. This is known to the firm, but not to the investigator. Such approaches therefore seek to allow for the endogeneity of this decision (see Olley and Pakes, 1996).



**WEST MIDLANDS**  
COMBINED AUTHORITY





# PRODUCTIVITY AND SKILLS COMMISSION

Call for Evidence



**WEST MIDLANDS**  
COMBINED AUTHORITY