CIPD

Policy paper
August 2023

Improving UK **management** capability

How can government intervention be more effective?

The CIPD has been championing better work and working lives for over 100 years. It helps organisations thrive by focusing on their people, supporting our economies and societies. It's the professional body for HR, L&D, OD and all people professionals – experts in people, work and change. With almost 160,000 members globally – and a growing community using its research, insights and learning – it gives trusted advice and offers independent thought leadership. It's a leading voice in the call for good work that creates value for everyone.

Acknowledgements

This report was written by Mark Beatson of the CIPD. The author is grateful to colleagues who have suggested simplifications and improvements, and responsibility for any errors that remain is the author's own.

Publication information

When citing this report, please use the following citation:
CIPD. (2023) *Improving UK management capability: How can government intervention be more effective?* London: Chartered Institute of Personnel and Development.

This report is available at cipd.org/uk/knowledge/reports/improving-uk-management-capability

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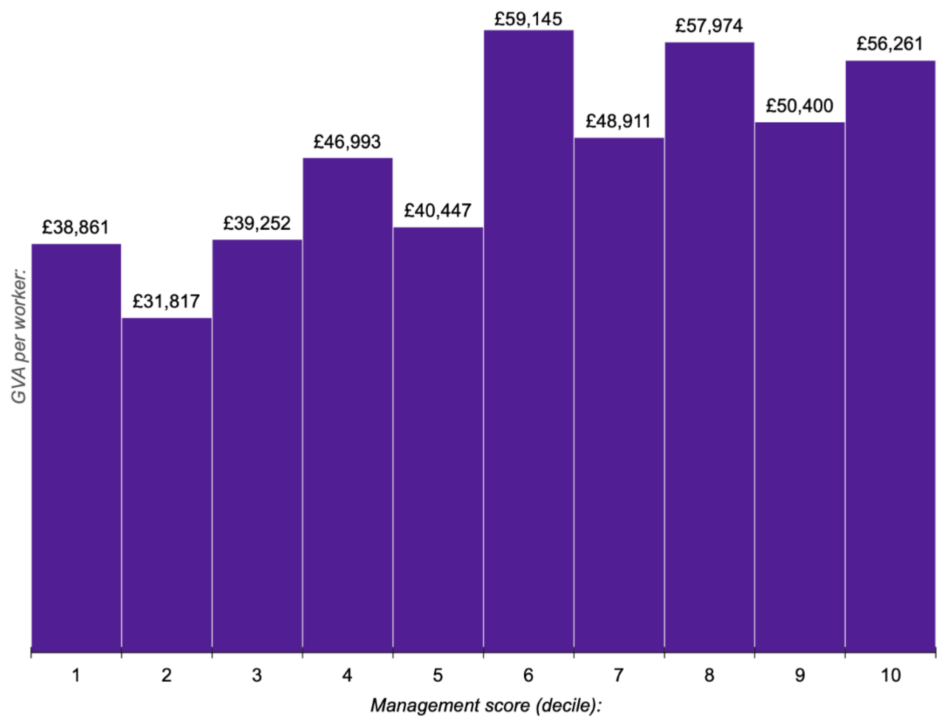
Introduction

There is a well-established correlation between management practices and productivity – and it's one that holds true internationally. The UK has a stubborn productivity gap with its leading competitors, more than half of which, according to experts quoted by *The Economist*, could be due to differences in the quality of management.

In 2016 in Britain, the top half of manufacturing businesses in terms of structured management practices had average productivity 38% greater than those in the bottom half (Figure 1).

Figure 1: GB average labour productivity by management score decile, 2016



(GB, manufacturing businesses with ≥10 employees)

Source: Office for National Statistics.

Part of this difference could be due to other factors, such as size or the amount of capital equipment available. However, analysis by the ONS that took account of such factors found that management practices were still an important part of the explanation for variations in productivity. The analysis also found that people management practices – including performance reviews, managing underperformance, training and promotion – were the practices most correlated with productivity.

CIPD research also clearly points to a link between the quality of people management and employee engagement, performance, health and wellbeing. Its findings are consistent with (forthcoming) reviews of the existing research evidence.

The principal beneficiaries of improvements in people management are employers and employees, but there are wider factors that might justify government action. For example, some of the costs of treating work-related ill health caused or exacerbated by poor management can fall on taxpayers.

Indeed, the post-Second World War era has seen repeated attempts by the UK Government to encourage private sector management to raise its game.[1]

In this context, 'government' could be a public authority at any level, from UK-wide to local (via a Local Enterprise Partnership (LEP) or local authority).

This paper discusses how well current policies raise management capability, especially in small and medium-sized enterprises (SMEs), which, if we include the self-employed, account for three-fifths of all employment (Table 1). A UK Government review suggested SMEs face particular barriers to improving both their management and their productivity.

Background numbers

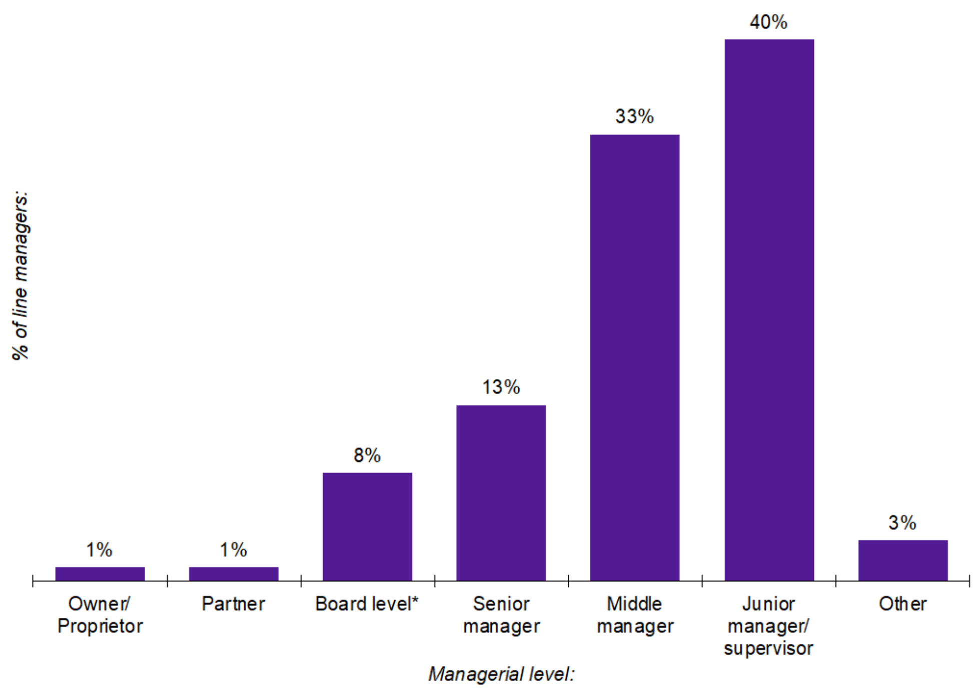
Managers

Almost 10 million people in the UK are line managers,[2] and we estimate that almost half of these managers work in SMEs.[3]

The education level of managers and the workforce in general is [associated with increased managerial capability](). Managers tend to be better qualified than the people they manage: 56% of managers are graduates, compared with 36% of employees without any managerial responsibilities.[4] However, at least four-fifths of graduate managers did not graduate in management.[5] Most acquire their knowledge of management during their working lives.

Just over a tenth of people managers are likely to have a direct role in deciding the strategic direction of their employer (Figure 2).[6] This means they are likely to need knowledge that goes beyond how to manage the people or the work within their own specific domain.

Figure 2: Management level of line managers, 2022



(UK, % of line managers excluding the self-employed; *Chairperson, chief executive, managing director, non-executive director, or 'other board-level manager/director')

Source: 2022 CIPD/YouGov UK Working Lives survey.

This proportion depends, however, on employer size. In the smallest private sector workplaces (those with fewer than 10 employees), close to a third of managers are likely to be more engaged in running their business.

Businesses

UK Government figures showed a total of 5.5 million private sector businesses in the UK in 2022, of which just under 1.5 million employ people (Table 1). More than four-fifths of employers are micro-businesses with fewer than 10 employees.

Table 1: Business population estimates, 2022

No. of employees	No. of businesses (thousands)	% of businesses	% of employment	% of turnover
0	4,061	74	16	7
1-4	916	17	9	7
5-9	271	5	7	6
10-49 (small)	217	4	16	15
50-249 (medium)	36	1	13	17
250+ (large)	8	<1	39	49
Total	5,509			

(UK, number of private sector businesses at the start of 2022)

Source: BEIS business population estimates 2022.

Regulation

Government has a role in influencing the conduct of people management within organisations through employment regulation and its enforcement.

The content of regulations sets the tone for what are judged to be acceptable and unacceptable standards of people management. Legislation and regulation tend to concentrate on prohibiting the unacceptable, with supporting guidance or codes of practice setting out the positive management steps likely to be needed to comply.

Arguably, progressive changes in employment legislation have helped raise standards of people management over time, mainly by driving out the worst examples of bad management.

However, the impact of regulation on people management practices depends not just on the content of regulations, but on how well those regulations are enforced.

As the UK Government's Labour Market Enforcement Strategy acknowledges, this relies in part on individual employees being aware of their rights. Almost two-thirds (64%) of employees told a government survey in 2022 that they know at least 'a fair amount' about their employment rights. However, a third also said they had experienced a problem with their rights at work in the preceding two years. Given that employees also relied greatly on employers – presumably line managers and people management professionals – for information on their rights at work, this suggests that a sizeable amount of managers' time is spent handling employment rights-related problems.

Changes designed to improve the enforcement of employment legislation, such as the much-awaited single enforcement body, could as a by-product help to tackle instances of poor people management.

A CIPD report found this could be magnified by a much stronger focus on prevention, supporting employer compliance with regulation and raising people management standards.

Standards

Standards are "an agreed way of doing things". They transmit knowledge around the economy, turning tacit knowledge (know-how) into codified knowledge (know-what) that can be more easily absorbed by firms without specialist expertise. Most standards are technical in nature, but compliance, especially with standards directly concerned with management, leads firms into better management practices.

According to previously unpublished data from the winter 2018/19 CIPD *Labour Market Outlook*, 28% of employers at the time held one or more of the ISO9000 management standards.

In addition, since 1990, employment legislation has been accompanied by a voluntary standard intended to progressively improve how people were managed – Investors in People. This form of 'soft regulation' was intended to support legislation rather than replace it (although employers that adhere to the standard should have few problems complying with legislation).

Again, in winter 2018/19, 17% of employers were at that time accredited by Investors in People.

Various tiers of subnational government – the devolved administrations in Scotland, Wales and Northern Ireland, some mayoral combined authorities in England – have gone further and developed frameworks or standards describing what good work is, with the intention of establishing local norms for employers in their area. Although few of the standards explicitly mention people management, good relationships between managers and employees are implicit in their content.

For many of these initiatives, it is still early days. An important consideration for their long-term effectiveness is difficulty in signing up private sector employers in large numbers. For example, the most recent published statistics – for January 2020 – showed that just 0.4% of businesses in Scotland had by then signed up to the Scottish Business Pledge.

Charters and standards may in any case struggle to attract interest beyond the 'good' employers who are naturally attracted to such initiatives and want to use them to publicise their practices.

Management apprenticeships

Publicly funded support for management training has evolved to be delivered primarily through funding for relevant ‘management’ apprenticeships via the Apprenticeship Levy which was introduced in April 2017

However there have been questions around the additionality of this provision – the extent to which it goes beyond what employers would have done anyway.

Arguably, the introduction of the Levy in 2017 gave the employers that paid it an incentive to convert existing management training into apprenticeships, thereby recouping some of ‘their’ levy payments. Indeed, in 2018/19, a CIPD report showed 22% of levy-paying employers said they had used the levy for training that would have happened anyway. Similarly, in 2019, 21% of the largest establishments (those with 250+ employees) admitted that recent changes – mainly the levy – meant they had put more managers through apprenticeships.

Apprenticeships may not be the best vehicle in any case to prepare people for the challenges of line management, according to a National Audit Office report. The big gap between numbers starting and ‘achieving’ (completing) these apprenticeships each year suggests a high dropout rate (which must be costly and may also be a signal that the training doesn’t meet practising managers’ needs). In 2021/22, achievement rates for management apprenticeships stood at 49% for operations or department managers, 50% for team leaders/supervisors, 57.5% for degree-level chartered manager apprenticeships, and 58% for (MBA-level) senior leader apprenticeships. This raises the question of whether they can be effective in meeting England’s skills and productivity challenges.

The ‘rebadging’ of management training as apprenticeships may also have increased the cost to employers of providing this training. While it is tricky to put an exact figure on expenditure, the CIPD estimates that up to £2bn of levy-backed funding could have been spent on just four generic management apprenticeship standards over the past six years. This substantial level of public funding has helped develop just 170,000 managers (costing on average nearly £12,000 per manager starting a management apprenticeship). This represents less than 2% of the UK’s 10 million managers.

Furthermore, although it is not possible to quantify it exactly, it is likely that hundreds of thousands of employees each year become managers of people for the first time. Only a fraction of these will ever be enrolled in a management apprenticeship.

Business support

Governments can also sponsor interventions and campaigns that seek to improve management capability within firms directly. These have typically been delivered as part of a suite of 'business support' interventions (although 'business improvement' may be a more accurate term).

Such initiatives are not new. Twenty years ago, the (then) Department of Trade and Industry ran a National Business Improvement Service, aimed at small firms and offering a range of guidance, exhortation and opportunities to learn and form networks – not a million miles away from what followed (see below).

Under the Coalition Government, the (then) Department for Business, Innovation and Skills launched a Growth Accelerator service in 2012, bringing together different (but familiar) sources of assistance: business coaching, support for leadership and management training, and access to peer and alumni networks. This programme was unusually successful in almost meeting its target for businesses supported: according to the interim evaluation, it was on track to assist 23,000 businesses within three years, against a target of 26,000.

The programme ended in 2016, presumably for political reasons (its association with the Coalition Government). The UK Government's subsequent Industrial Strategy, however, included an attempt to improve management capability and tackle barriers to the widespread adoption of basic technology and management practices – the Business Basics Programme. This was a fund to encourage adoption of modern business practices by SMEs. Final evaluations of all the approaches funded by the programme have yet to be published, although aspects of its experimental and developmental remit have been taken up by others.

In many ways, business support has been the Cinderella of policies to improve the performance of British businesses. Certainly, the costs to the taxpayer can be miniscule in comparison with those of interventions like R&D tax credits. For example, according to an analysis of UK Government data by the National Audit Office, in 2016/17, BEIS business support schemes providing advice on growth and productivity cost £20m, while in the same year, the various tax reliefs for business cost the taxpayer more than £11bn.

Be the Business

The business-led Productivity Leadership Group concluded that "the UK's productivity levels could be improved by increasing the management skills of business leaders and accelerating the adoption of certain business technologies". As a result, Be the Business was set up in 2017. It is an independent charity that aims to create a movement to tackle the UK's productivity challenges.

Be the Business offers online support (such as guidance) plus mentoring and networking opportunities. In its latest annual report, it reported that 10,900 business leaders had taken part in one of its programmes.

Be the Business receives government funding to help meet the costs of providing this support (a cumulative total of just under £29m had been paid by the end of 2021/22).[7]

CIPD practical experience: People Skills

The CIPD, with financial support from the JPMorgan Chase Foundation, carried out a pilot of its People Skills initiative in three locations, with the aim of improving the people management capability of SMEs. The pilot ran from July 2015 to October 2016 in Hackney (east London), Stoke-on-Trent and Glasgow. A small bank of independent HR consultants was recruited to provide up to two days of free employment and people management advice to small businesses on demand. Take-up of the service exceeded expectations in Stoke and Glasgow: 449 SMEs made an initial enquiry and 416 proceeded to work with an HR consultant. Take-up in the Hackney pilot was lower, reflecting difficulties embedding the scheme in the local business support infrastructure.

An independent evaluation demonstrated demand for HR support among SMEs, and that a model of bespoke, face-to-face provision by independent consultants was an effective way of meeting it. The initial evaluation also found owner-managers were more likely to report their organisation was better or much better than similar firms in their sector on measures of workplace relations, labour productivity and financial performance after using the People Skills service than they were before using it. These benefits also came through in the in-depth qualitative interviews with participating owner-managers.

Further development of the initiative was supported by the Business Basics Programme (see above), working with SMEs of different sizes in the West Midlands. The project also tried to evaluate how different marketing messages drive interest and participation from SMEs. Interventions are often held back by poor awareness, complexity, limited manager time and a lack of shared language between business and government. The full evaluation of this pilot, along with other Business Basic Programme trials, has not yet been published.

Help to Grow: Management

Help to Grow: Management was announced in early 2021 as part of the UK Government's new Growth Plan. It is a 12-week programme of learning, networking and mentoring open to managers or leaders of businesses with between five and 249 employees, delivered through business schools. Participants pay a fee of £750, which is 10% of the cost, with the balance paid by the government. The minister then in charge of the scheme told parliament it was a "mini MBA-style programme" that would help 30,000 small businesses over three years.

In theory, the programme appears to focus on the right targets. Unpublished CIPD analysis suggests the strategic positioning of a business – such as whether to aim for a basic or higher-quality service – has a stronger effect on its (relative) productivity than adoption of any particular management practice. But could the scheme hit enough of these targets to make a difference to UK productivity? Would enough small firms be willing to pay £750 up front for lessons in what can seem abstract, esoteric topics far removed from the day-to-day challenges of making and selling? Experience with People Skills suggests it can be hard to attract businesses even when the assistance is free of charge and more tailored to immediate issues such as providing advice on recruitment, job descriptions and employment contracts.

This was recognised right from the beginning. An assessment by the most senior civil servant responsible, made in February 2021 (though not published until January 2023), described the 30,000 target as "ambitious", warning "there is a risk whether [it] is feasible to fully reach this target by 2025".

Help to Grow: Management had a patchy start. In 2021/22, its first year, government data show £19.2m was spent against an initial forecast of £59m, a 68% underspend. According to initial evaluation reports, fewer than 3,000 SME leaders registered. The latest evaluation reports point to increased take-up in 2022/23, but numbers going through the programme are still well behind initial forecasts.

Although initial feedback from business leaders who participated in the scheme is generally positive, the shortfall in recruitment of businesses means the initial impact of the scheme must have been significantly lower than was originally intended.

Conclusions

This is an important area. Longstanding weaknesses in management capability and the link to workplace productivity suggest there is a role for government in helping to address them. But current policies and approaches risk falling short of the hoped-for impact.

First, because they have **failed to engage enough SMEs**.

Most SMEs face fundamental barriers to growth arising from their attitudes, experience and mindset, or from the market they operate in. UK Government research papers from 2015 and 2019 suggest that in very few cases does poor growth result purely from the lack of capacity or expertise that existing interventions seek to address.

Indeed, the language of 'growth' – Growth Accelerator, Growth Hubs, Help to Grow schemes – may be part of the problem. According to a report commissioned by Be the Business, a third of small businesses did not want to grow, in terms of increasing their turnover. However, the vast majority of small businesses do want to improve in some way, be it profitability, resilience, sustainability, even a better work–life balance for the owners.

Sadly, overoptimistic expectations of business take-up aren't new, as a 2020 NAO report showed. Part of the reason may be the constant chopping and changing of policies and the organisations charged with delivering them. Evaluations suggest the engagement of competent and trusted delivery partners is critical to securing take-up by SMEs. For example, the evaluation of the Growth Accelerator scheme showed it almost met its targets because it was able to draw on the expertise and contacts of people involved in recruiting firms for earlier such schemes. The CIPD's People Skills pilots also showed that, for this type of support to be effective, it needs to be embedded in the business support infrastructure, for example through Local Enterprise Partnerships, Growth Hubs and chambers of commerce.

There is a difficult balance to be struck between simplicity (avoiding complexity, 'one-stop shops') and institutions being stable enough for businesses to develop trust in them. A recent ReWAGE evidence paper concludes: "Long-term commitment from business support intermediaries is necessary if small business owners are to participate in effective business and HR support programmes."

Second, the **design of current interventions has been in some respects self-defeating.**

The Apprenticeship Levy created an unhelpful incentive for larger employers that pay the levy to rebadge existing management training as management apprenticeships. This has arguably made it more expensive to train managers and meant there is less levy funding available for apprenticeships to tackle technical skills shortages in the economy and for young people.

Similarly, evidence so far suggests Help to Grow: Management may be pitched at too high a level for many small businesses, costing too much in time and money to access, and being remote from the day-to-day challenges of running a small business.

Consequently, **there is a strong case for a review of publicly funded management qualifications and business support programmes designed to build management capability**. This should inform the development of an accessible, high-quality, locally delivered business support service that can over time help a large number of SMEs improve their management capability.

More broadly, **there is a need for a different approach to industrial strategy**, with a view to influencing the business environment and raising management capability across the economy. Such an approach should recognise that management capability and behaviour are affected by a wide range of interdependent policy areas, including skills, innovation, digital adoption, growth/business support, employment relations, labour regulation and enforcement.

Recommendations

1 Improved labour market enforcement

The measures proposed in the Labour Market Enforcement Strategy to raise knowledge and awareness of employment rights are confined to the remits of the current enforcement bodies. More wide-ranging measures are needed, such as a Know Your Rights campaign and/or a significant increase in Acas or Citizens Advice funding.

There is also an urgent need to improve labour market enforcement through the establishment of a Single Enforcement Body, with a strong remit and resources for preventive advisory work to support employer compliance. Further details can be found in the CIPD's revamping labour market enforcement report.

2 Reform the Apprenticeship Levy

Making the Apprenticeship Levy a more flexible training levy would remove the employer incentive to develop generic management skills via an apprenticeship. This would leave more public funding to invest in apprenticeships for young people, who most need and benefit from them, and in apprenticeships that address key technical skills shortages. Public funding to boost management capability should focus on SMEs, which most need and benefit from support to build their people management and development capability.

3 Review and improve business support designed to raise management capability

Review publicly funded management qualifications and business support programmes designed to build management capability, to understand what types of support work best. Develop an accessible, high-quality, locally delivered business support service for raising management capability.

4 Adopt a new broader approach to industrial strategy

Prioritise the development of a a broad-based industrial strategy that seeks to influence the wider business environment across the whole economy, rather than focus on a small subsection of high-growth or R&D-intensive firms.

Notes

[1] Initiatives to improve UK productivity are not new but are often highly context-specific. An example illustrates the point. In 1969, the (then) Department of Employment and Productivity launched a Manpower and Productivity Service, whereby consultants worked with organisations to improve their efficiency. While there are similarities to current activities, such as the best practice interventions sponsored by Acas, there are also substantial differences. Assistance then was mainly to larger, unionised firms – including nationalised industries – reflecting a context where the UK's productivity problem was seen to be down to large firms and (especially) challenging industrial relations. As a result, a large part of the service's effort was spent on checking 'productivity agreements' between management and unions, which were sometimes used to get round the incomes policies in place at the time.

[2] People in employment (excluding the self-employed) who were managers or supervisors (35.3% = 9.95 million). Source: Annual Population Survey January–December 2022.

[3] The exact number cannot be calculated because the Labour Force Survey (used to create the Annual Population Survey) only collects data on workplace size, not business size. According to the Annual Population Survey January–December 2022, 4.76 million [out of 9.95 million] line managers worked in private sector workplaces with fewer than 250 employees. Some of these, though, will be part of larger businesses (such as bank branches or retail outlets).

[4] Source: Labour Force Survey, October–December 2022.

[5] About 16% of graduate managers had a degree in 'business and financial studies', which is where people with management degrees would be found, but also graduates in subjects such as marketing or accountancy. Of course, some managers with degrees in other subjects may have picked up some management education along the way.

[6] This is necessarily a subjective calculation. It includes owner/proprietors, partners in a business, and 'board-level' managers. Of course, people who self-described as senior or middle managers may also have influenced the direction or the achievements of their employer. However, they chose not to describe their management role in these terms.

[7] Source: Report and consolidated financial statements.

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