



Lifelong
Education
Institute

Skills and Productivity: *Why does it matter?*

In partnership with:



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CONTENTS

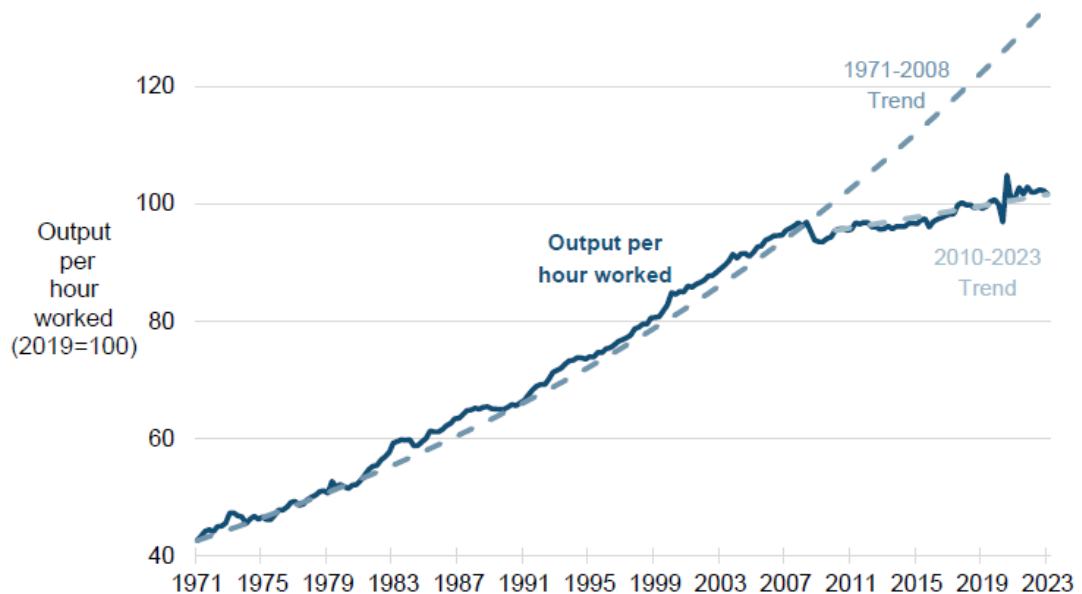
1	INTRODUCTION	1
2	UNDERSTANDING PRODUCTIVITY	2
3	SKILLS AS A BARRIER AND DRIVER OF PRODUCTIVITY	4
4	KEY OBSERVATIONS.....	8

1 INTRODUCTION

A recent survey by City and Guilds highlights how employers and employees perceive productivity and the relationship with skills development.

Productivity in the UK has been sluggish since the financial crisis of 2008, with economic growth since 2010 less than half the rate of growth of the preceding decade. Productivity has continued to lag other G7 countries like the US, Germany and France, effecting the wealth and general wellbeing of the nation. This is a problem, which if it is not addressed will damage our ability to raise living standards and improve public services. It is why the Government has made productive growth its number one mission.

Figure 1: UK productivity growth since the financial crisis



Source: Skills England analysis of ONS data¹

¹ Skills England: Driving growth and widening opportunities, DfE, September 2024

2 UNDERSTANDING PRODUCTIVITY

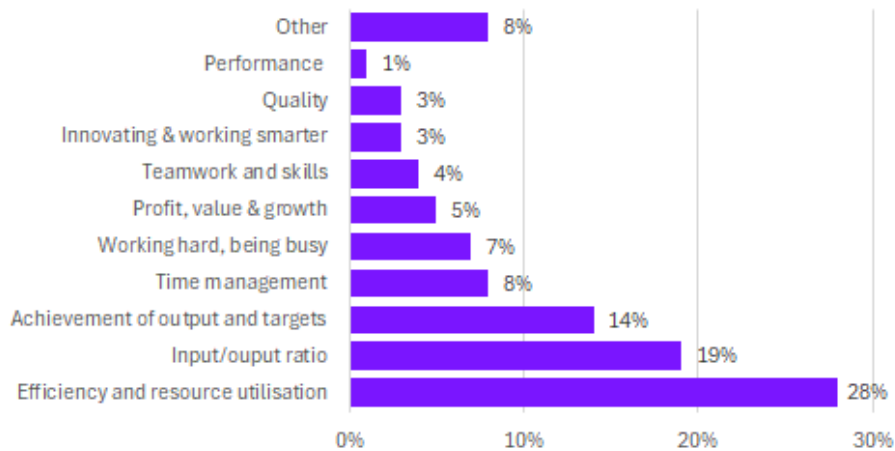
Productivity is a measure of economic performance that applies a ratio of inputs (such as staff costs, plant machinery and raw materials) to outputs (the value of goods or services created). The standard measure of labour productivity for firms and nations is how much output is produced per worker per hour worked. Higher productivity means that a business produces more product (GDP) or adds more value (GVA) for each worker it employs. This translates into higher wages and the ability of employees to spend more in the economy leading to economic growth.

But how well do businesses and workers understand this as a driver for growth? And does it matter whether they do? A recent survey by *City & Guilds* explored the perceptions of productivity and skill development in the UK workforce, focusing on how businesses and individuals assess productivity. This study, conducted by Opinium Research, surveyed 2,000 working-age adults and 1,000 senior decision-makers across key industries like transport, energy, construction, and engineering.

Employers were asked an open, unprompted question about how they define productivity. This elicited nearly 800 individual responses, many of which include a number of factors. However, when coded and grouped into a single category we find that less than 20% of employers define productivity in terms of the standard measure, as a ratio of economic inputs to outputs. Nearly 30% of employers intuitively understand productivity as a specific measure of efficiency or effectiveness in business which impacts their bottom line. The third highest category (14%) relates to the achievement of business outputs, targets and goals, suggesting a strong focus on outcomes as the purpose of their work. A small minority (7%) define productivity in terms of working hard and being busy, while 8% see productivity as an effect of good time management.

Noticeably few employers (4%) identified skills or workforce development as a major component or driver of productivity.

Figure 2: How do employers define productivity

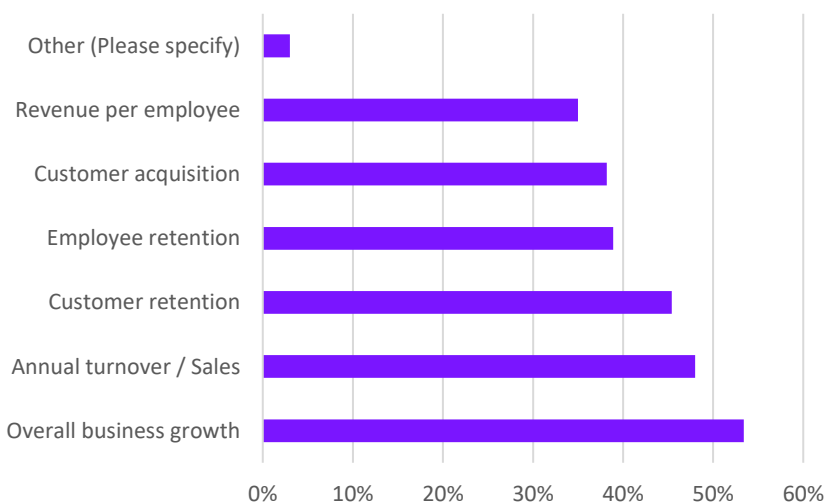


Source: Employer survey by Opinium, analysis by the LEI

Despite these findings, the large majority of employers (89%) in responding to more structured questions, stated that their businesses are productive with half (50%) indicating that they are ‘very productive’ although less than this (39%) feel that they are ‘somewhat productive’. A substantial number (20%) sense that they are less productive than 10 years ago. This observation about falling productivity is consistent with the actual performance of the UK economy and suggests that there is significant scope for potential productivity gains.

When prompted with specific questions about how they measure productivity businesses indicated that they use a number of indicators of which overall business growth (53%), annual turnover (48%), and customer retention (45%) are the most prominent.

Figure 3: How do you measure productivity in your business?



Source: Employer survey by Opinium, analysis by the LEI

3 SKILLS AS A BARRIER AND DRIVER OF PRODUCTIVITY

In thinking about what might hamper or improve productivity the *City & Guilds* survey highlights differing views between employers and employees. From a worker's perspective, higher salaries (43%), improved work-life balance (36%), and flexible working options (30%) are key motivators. While employers identified technological needs (32%) and skills (31%) as a major barrier.

Skill gaps and limited access to training are recognised as having a negative impact on personal and organisational growth. Among job seekers, 31% feel they lack the right skills for employment, but confidence rises to 51% among those considering a career change. The majority of workers cite on-the-job learning (67%) and online courses (53%) as the main sources for skill development.

Employers are increasingly investing in employee training, with 67% planning upskilling initiatives in the next year. However, there are disparities in access to training with junior staff receive more frequent training (every 17 weeks) compared to senior staff (every 15 weeks). However, ***over a third of employees feel a lack of skills has prevented career progression or higher salaries.***

The survey also identifies generational differences in attitudes toward education and its alignment with career outcomes. Younger workers express greater confidence in advancing their careers compared to older employees with 58% of employees aged 30-39-years old feeling that their education aligns naturally with their career path compared to 38% of those aged 50-60.

Almost a quarter of all businesses recognize the importance of training for inclusivity, such as unconscious bias training (23%) and supporting neurodivergent employees (24%).

3.1 The role of skills in productivity

Skills are widely understood to play an important role in the UK's productivity shortfall and mismatches between what businesses need and the skills of working age people are highlighted as one of the key issues, which if addressed could improve economic performance.

The UK has a longstanding problem with skill utilisation with more than one in three workers (36%) self-reporting as having skills capable of more demanding duties than those they are currently expected to fulfil. The ONS estimates that almost one in three graduate workers (31%) were overeducated in 2017, while the Skills and Employment Survey (SES) finds no significant change in the share of jobs requiring graduate level qualifications (Henseke et al. 2018).

Skills England has calculated that if the skills mismatch in the UK economy were brought into line with higher performing OECD nations, then average labour productivity could be increased by as much as 5% (equivalent to current GDP being over £100bn higher).²

3.2 Industrial sector and place

The *City and Guilds* survey identified a pronounced place-based and sector-based dimension to skills. Lower-income regions and nations of the UK were acutely affected by a lack of confidence around the skills required to *enter the workforce*, including the West Midlands (47% of respondents), Wales (also 47%), East Midlands (>50%), and Northern Ireland (71%). Meanwhile, respondents in the South West reported particularly low confidence around the skills needed to *change career* (47%).

These same regions include those that reported the greatest decline in productivity over the last 5-year period (the East Midlands and South West), the regions where respondents felt most acutely that they lacked the skills to overcome the evolving challenges in their industries (Wales and West Midlands, as well as the North West), and the regions where respondents reported the strongest link between lack of skills and stagnating career progression in their current workplace (East Midlands and Wales, alongside London).

There is also a divergence between different sectors in how they assess future skills challenges over the next 10 years. This is shown in the table below.

	<i>Most employers DO intend to invest in reskilling/upskilling</i>	<i>Most employers DO NOT intend to invest in reskilling/upskilling</i>
<i>Workforce generally HAS necessary skills to meet future challenges</i>	Engineering	Building and property (including real estate)
<i>Workforce generally LACKS necessary skills to meet future challenges</i>	Energy IT	Construction Entertainment, leisure, and hospitality

² Analysis by Skills England - [Output per hour worked, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

Breaking these down in more granular terms, business-owners in several sectors identified particular skills deficits among their workers that need targeted investment in reskilling and upskilling.

Sector	Skills deficits
Building and property (including real estate)	Employability, environmental/social issues and regulation, management, new/emerging technical skills
Charity	AI tools and techniques
Construction	AI tools and techniques, environmental/social issues and regulation, industry-specific regulation, management, new/emerging technical skills, time management
Government	AI tools and techniques, time management
Healthcare	Cultural knowledge, language skills

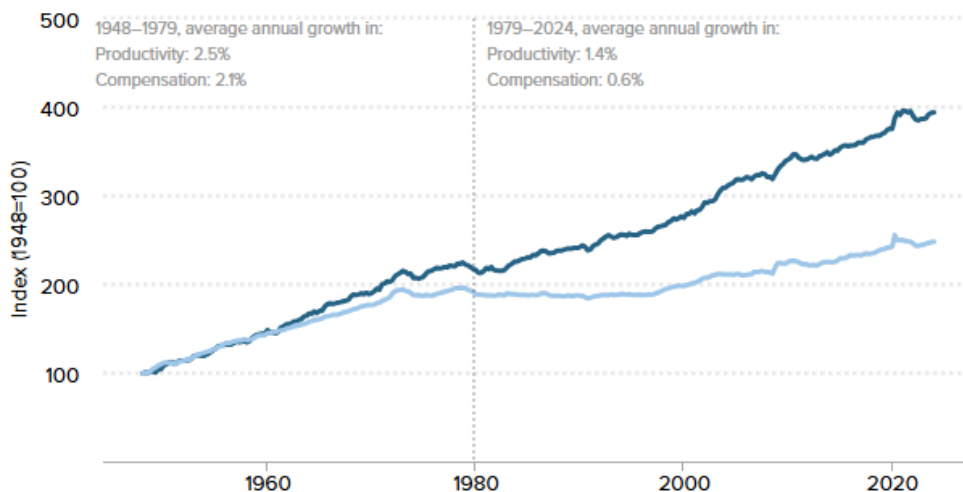
The survey findings provide insight into the state of skills accessibility and expected skills acquisition across the UK, which in turn offer a clear steer for Skills England and education providers. While there are concerns about the UK workforce as a whole, there are notable place-based and cross-sectoral differences in the picture of skills availability and skills readiness. Since sector specialisms tend to cluster in certain geographies (e.g. automotive industries in the West Midlands) this suggests that tackling the skill needs of firms in place should be a priority for the new industrial strategy and Mayoral Combined Authorities.

3.3 Inclusive growth

Skills are seen as an important aspect of inclusive growth, enabling people to participate and progress in the labour market by taking advantage of economic opportunities that can help businesses, and the country, achieve broad based prosperity from which all can benefit. An effective skills system can help to tackle inequality, attract investment and drive productivity. Inclusive growth envisions economic growth as a rising tide that can lift all boats. This at least is the theory.

The United States has consistently had the highest productivity rate in the G7, measured by GDP per hour worked. Yet the gap between productivity and pay has increased dramatically since 1979. The productivity-pay gap is not so wide in the UK but chasing productive growth highlights the potential for an uneven distribution of wage compensation which labour market and taxation policies must aim to address.

Figure 4: Productivity growth and hourly compensation growth in the US



Source: Economic Policy Institute, December 2024³

There is also a trade-off between productivity and employment growth. Since greater productivity through innovation and application of technology can lead to fewer jobs. Unfettered and unregulated growth that tolerates high levels of unemployment and under-employment, and which suppresses wage growth at the lower end of the income distribution will only serve to widen inequalities. This highlights how skills development needs to be carefully calibrated with wider policy considerations.

There are live debates about whether we are measuring the right things and whether productivity is the metric that matters most in human activity.⁴ But as the Nobel Prize-winning economist Paul Krugman famously wrote, “Productivity isn’t everything, but in the long run, it is almost everything”. The biggest opportunities for inclusive growth and achieving higher living standards come not from squeezing more out of labour, but from shifting resources into production with higher social value.

³ [The Productivity–Pay Gap | Economic Policy Institute](#)

⁴ [Outcomes over outputs: Why productivity is no longer the metric that matters most](#)

4 KEY OBSERVATIONS

The *City & Guilds* survey identifies some difficulties among employers and employees in understanding the meaning and importance of productivity. Particularly how it is defined and measured in the workplace. To this end the ONS have designed an online [calculator](#) to enable business to better assess this. But through careful prompting the survey also underscores the importance of aligning skills development with workplace needs to boost productivity. Key observations include:

1. **General awareness of productivity:** Employer awareness of what drives productivity, and the role of skills could be improved.
2. **Investing in skills:** Employers and policy makers must prioritise upskilling initiatives, particularly in under-resourced sectors with the greatest potential for growth.
3. **Enhancing flexibility:** Providing modular, accessible training options can address barriers to skill acquisition among the existing workforce.
4. **Bridging generational gaps:** Tailoring learning and development opportunities to meet the unique needs of different age groups can foster a more confident and capable workforce.
5. **Focus on sector specialisms:** A sector approach which is sensitive to place is needed to drive productive growth in key industries while addressing regional disparities. In place, industry based, education models are required.

The findings highlight the complex interplay between skills, technology, and organisational culture in driving productivity, emphasising the need for a cohesive, future-focused approach to workforce development.

Skills and Productivity

Why does it matter?

This paper presents the findings of a recent survey by City and Guilds, which highlights how employers and employees perceive productivity and the relationship with skills development.

