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Use of technology key to higher productivity

By Chris Giles
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Walk into any McDonald's or Starbucks and you could be forgiven for thinking you were in the US.

Staff accents and the menus may differ a bit in York compared with New York but the outlets look pretty much the same, the staff do the same jobs, and a Big Mac is a Big Mac. More importantly for the British economy, research out today shows that productivity levels are similar too.

The research goes a long way to proving that the US productivity miracle of the past 10 years is not ex-plained by the US business environment being better; rather, US companies are simply better at using computers and other technology to drive productivity higher.

Remarkably, the effect explains most of the gap in productivity growth between the US and the UK over the past decade.

The US productivity performance since 1995 has made other countries envious. After decades when European output per hour had been catching up, the US's productivity suddenly left Europe in its wake.

US output per hour grew by 2.5 per cent a year on average between 1995 and 2004 compared with 1.5 per cent in the 15 members of the EU before enlargement.

Further work by research institutions such as the National Institute of Economic and Social Research and the US Conference Board were able to prove that the difference was accounted for almost exclusively in sectors of the economy that used technology intensively. Retail, wholesale and finance sectors were most important.

But a big puzzle remained. Was the growing gap ex-plained by the US enjoying particular advantages, such as better regulations, less intrusive planning laws or more physical space, or was there something special about the way US companies operated?

The answer, according to the Centre for Economic Performance at the London School of Economics, is clear. John Van Reenen, CEP director, says it is "almost a slam dunk" in favour of better US management, use of information technology and corporate practices.

Using detailed data held by the Office for National Statistics about the performance of more than 7,000 private sector establishments in Britain, the CEP researchers were able to demonstrate that US-owned establishments in the UK managed to increase productivity pretty much like their parent companies at home.

The detailed analysis confirmed that the big productivity differences were in industries that used IT heavily. US-owned multinationals in the UK, such as Asda or Starbucks, got more out of their workforce than other multinationals, such as Tesco, and much more than purely domestic companies. Output per employee in US-owned establishments was 40 per cent higher than domestic ones, and the amount of IT capital used was 17 per cent higher than multinationals with non-US owners.

For the first time, the new data allowed researchers to estimate what proportion of the productivity difference was because of US establishments having more IT, and what proportion was down to them using it better.

Mr Van Reenen said al-most 80 per cent of the difference came from the use of computers. "The higher re-turn to IT is seen only in US multinationals; non-US multinationals look like domestic UK firms in terms of getting the most out of IT."

US companies were managed differently from non-US companies in two important respects, he added. They had more "aggressive" human resources practices, promoting good performers quickly and getting rid of weaker performers and they de-volved greater managerial autonomy in the implementation of IT systems to local plants rather than trying to run everything centrally.

The good news for Europe is that these are business practices that can be copied as they are not innate features of the US.

Managerial practices can also be imported through takeovers, such as Wal-Mart's takeover of Asda, so long as Europe does not erect barriers around its prized companies.

The bad news is that the ability of European companies to use IT as effectively as their US counterparts is so large, that any catch-up is likely to take some time.