FOCUS · The growing productivity divide between firms

A phenomenon that is causing a lot of debate among academics and policymakers is the low productivity growth in most advanced economies. Although this is a global trend, substantial heterogeneity across firms is observed (see the enclosed chart).

For instance, the so-called «frontier firms» in 2003 (those who exhibited higher productivity) also managed to maintain a higher growth rate in productivity than other companies in subsequent years.[1] Proof of this is that, between 2003 and 2013, OECD «frontier firms» in the manufacturing sector averaged 2.7% growth year-on-year while growth for the rest was just 1% (the difference is even larger in the services sector).

The increasing productivity gap between firms is mainly explained by two factors: technological advances and globalisation.

Regarding the first factor, it is worthwihile noticing that technological improvements are not only related to robotics and the automation of production processes but also to organisational improvements, the development of new ideas, etc. Although, historically, new technologies have always been taken on board initially by a small number of companies (think of the looms in textile factories, the first computers, etc.), these improvements have gradually spread to other firms. However, several academic articles suggest this «spreading» of technology has stagnated in the past few years. This would explain the increasing dispersion in companies' levels of productivity.[2] Such stagnation can be attributed to two factors: the increasing complexity of technological advances and the limited number of workers capable of taking advantage of such improvements.

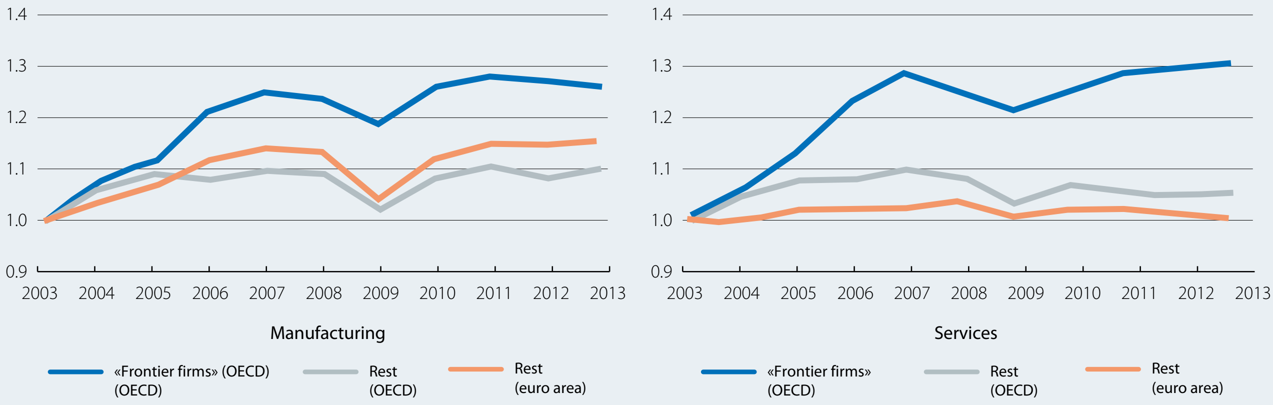
Another feature which might also help to explain the growing productivity gap is the fact that technology is helping the more productive companies to expand. A case in point are the new online platforms that compare the price and quality of a wide range of products (insurance, flights, hotels, etc.). Such sites help the more productive companies to gain market share and enjoy higher growth rates. They can therefore take more advantage of economies of scale, helping them to maintain a higher rate of growth in productivity.[3]

Globalisation is another factor which may have increased the disparity between productivity levels in companies. A globalised environment encourages certain firms (typically the largest and most internationalized) to become more commercially interrelated (in economic jargon, more active in global value chains). This greater interconnectivity fosters the exchange of ideas and technological advances between the more productive companies, allowing them to incorporate these improvements in their production processes. Globalisation has also helped certain firms to decentralise part of their production (for instance, offshoring to lower income countries) and concentrate on those productive segments with higher added value, also with higher growth in productivity.

This increasing disparity between firms in productivity terms is not trivial, as it has important social and economic repercussions. For example, it can result in a greater disparity in corporate earnings and wages.[4] It is therefore crucial to promote a framework that encourages the spreading of technology. It also needs to ensure that the benefits provided by a more international economy at the aggregate level are available to as many companies and workers as possible.

Productivity * by company type

Index (1 = 2003)



Note: ** Apparent labour productivity is defined as the added value per hour worked (euros per hour).*
Source: *ECB (Economic Bulletin, May 2017).*

1. See OECD (2016), «The Productivity-Inclusiveness Nexus».
2. See ECB, «The slowdown in euro area productivity in a global context», Economic Bulletin, No. 3/2017.
3. See OECD (2016), «The global productivity slowdown, technology divergence, and public policy: A firm level perspective»
4. See OECD (2017), «The Great Divergence(s)».