The enigma of declining productivity growth.

Large listed companies are failing society in many ways but the most depressing phenomenon by far is that productivity growth has slowed down since 2001. The only genuine basis for economic growth is eroding. This is despite extraordinarily benign circumstances for entrepreneurship after 2008: negligible cost of capital, low wages, low effective tax rates and increased pricing power, to list a few.

The OECD concludes that only 5 % of the companies improved productivity. The rest, presumably led by the best and the brightest, have been treading water.

My diagnosis is that these businesses have been forced into a straightjacket that has made the decline in productivity growth almost inevitable. Where macro economists continue to grope in the dark, I take a micro economic perspective to identify the causes of the problem.

The villain of the piece is the so called Anglo-Saxon Enterprise Model. Superficially a very attractive way to go about business, embraced by most listed companies in the US and in Europe. A conspiracy without conspirators.

However, its key characteristics are also its fundamental flaws. Each of those flaws has a negative impact on productivity growth

In this model, the business's objective is to optimise shareholder return on investment. This is a choice. In the US this objective lacks a legal basis. In continental Europe it is in violation of the law. The assumption that comes with it is that a constant rise in profit per share will be the most effective way to reach this objective.

Plausible as its sounds this causal connection is missing. In the long run share prices are driven by economic profits. In the short term it is anybody's guess.

The implication is that all the efforts and sacrifices being made to improve profit per share will not produce the desired outcome. Capital and talent are being wrongly allocated on an unimaginable scale.

The quickest and seemingly least risky way to increase profits is by cutting cost which is synonymous with a reduction in manpower. It is a dark secret that most programmes do not meet their financial targets and the costly effects on employee commitment and of the breakup of the informal organization and of operational and commercial networks, are ignored.

Pushing profits also puts pressure on investment. The inevitable short-term losses harm corporate profits. It also leads to a preference of acquisitions over investment as acquisitions can be put on the balance sheet which reduces harm to short term profits. Where investments are risky, acquisitions fail in 60% to 80% of all cases.

The concentration on profit per share also explains the frantic buying back of shares. In real life, this amounts to an admission by the management that it is unable to identify value creating investments.

All three popular policies are driven by the large skewed remuneration packages of the management, whereby up to 80 percent is variable and to a large degree tied to profit per share or the share price itself.

The second key characteristic of the Model is the trust in individual leadership. The rationale is that only individuals can inspire, that only individuals can act quickly and decisively and that only individuals can be held accountable.

This doctrine comes at a high price. We are all limited in collecting and processing information. We have far too much confidence in our capacity to predict. Our judgements are clouded by an astonishing range of biases and stereotypes. Our confidence in our skills to read human behaviour and to convince our fellow man has no basis in fact.

The victim is the quality of decision making, with enterprises making commitments at the expense of productivity growth.

The third key characteristic is the reliance on target setting and control for each manager and each employee coupled to significant rewards and severe punishments. J&J used to have a policy called: three strikes and you are out. No longer. The new policy is two strikes and you are out. In short, management by fear.

It is all about offering shareholders the illusion of control, by focusing on financial and other quantitative parameters. Such systems are based on discredited concepts of learning and harm the motivation, the wellbeing and the health of middle management and employees.

In many listed companies the problem is compounded by the belief that internal competition about the means required to achieve the targets will bring out the best in people.

Is anyone be surprised by the lack of trust, a condition for cooperation, in turn required for productivity growth?

It is time to put the spotlight on businesses such as Svenska Handelsbanken, Statoil and Novo Nordisk that have managed to escape the straight jacket and perform structurally better than their Anglo-Saxon competitors.

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