

# Productivity

What is it and why does it matter?

---

Stephen Bevan, Head of HR Research Development, IES  
Honorary Professor, Lancaster University



ies

institute for  
employment  
studies

# Definitions and trends

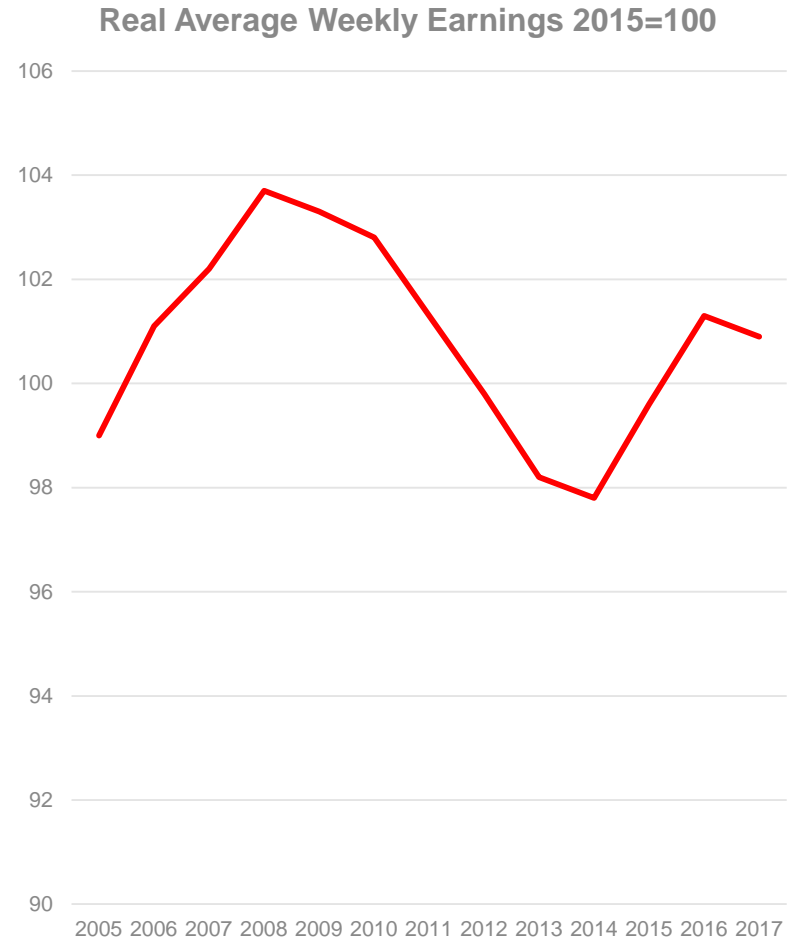
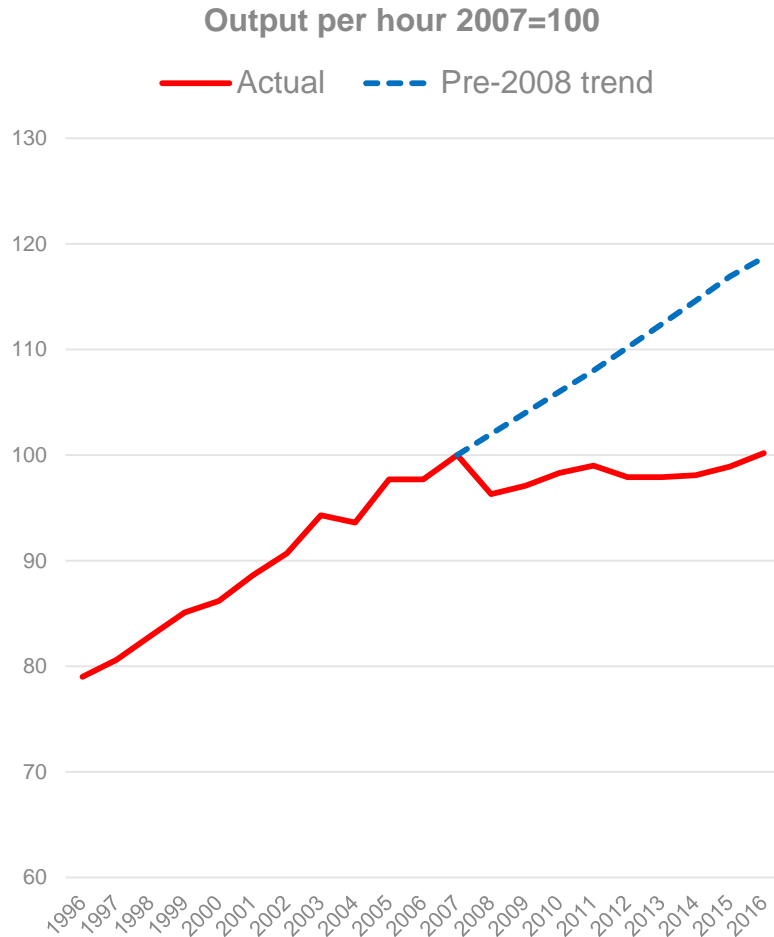
- Productivity refers to how efficiently inputs (labour & capital) are used to produce outputs (goods & services)
- Usually expressed as a ratio of units of output to units of input – output per hour worked is the most common
- Skills & technology often seen as key factors in growing output

# Why so important?

- Productivity is directly linked to living standards
- *‘Productivity isn’t everything but, in the long run, it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.’*

*Prof Paul Krugman*

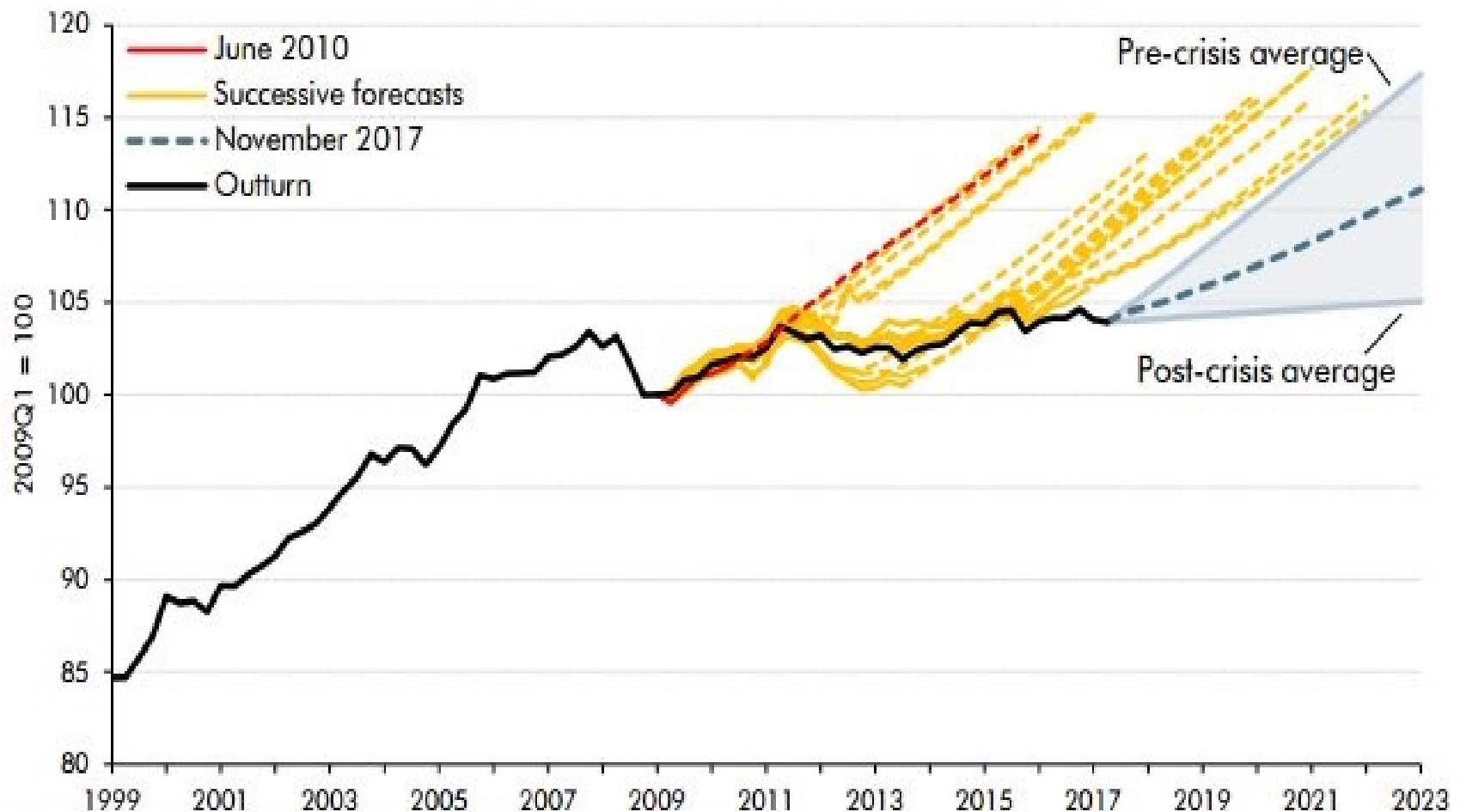
# Productivity & real wages stagnant



(Source: ONS, April 2017)

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/octtodec2016> ;  
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/supplementaryanalysisofaverageweeklyearnings/latest>

# Forecasting productivity?



Note: Solid lines represent the outturn data that underpinned the forecast.

Source: ONS, OBR

# Inputs & outputs in the workplace (1)

More seems to go into the workplace than comes out.

## Coming in:

- High investment of intangible, knowledge-based assets such as training, software & R&D
- Above average share of highly-educated people
- Above average share of good jobs compared with rest of EU

# Inputs & outputs in the workplace (2)

## Going out:

- Low labour productivity
- High levels of overtime & long hours working
- Underused skills (2<sup>nd</sup> highest rates of over-qualification in OECD)
- Slow wage growth

# Productivity puzzle?

Then there is the 'productivity puzzle'. Personally I don't think this is much of a puzzle, but it is most definitely a political challenge. It is really about the apparent impossibility of explaining why people who aren't paid very much don't produce very much, and why employers don't invest in technology to improve productivity when they have an apparently endless pool of poorly-paid workers to draw upon, and why politicians really like to have everyone employed even if they all have to be supported by the state because employers don't want to pay them enough to live on. People struggle to understand that if we want productivity, work cannot be a moral imperative and the accumulation of unproductive capital (particularly residential real estate) must be actively discouraged.

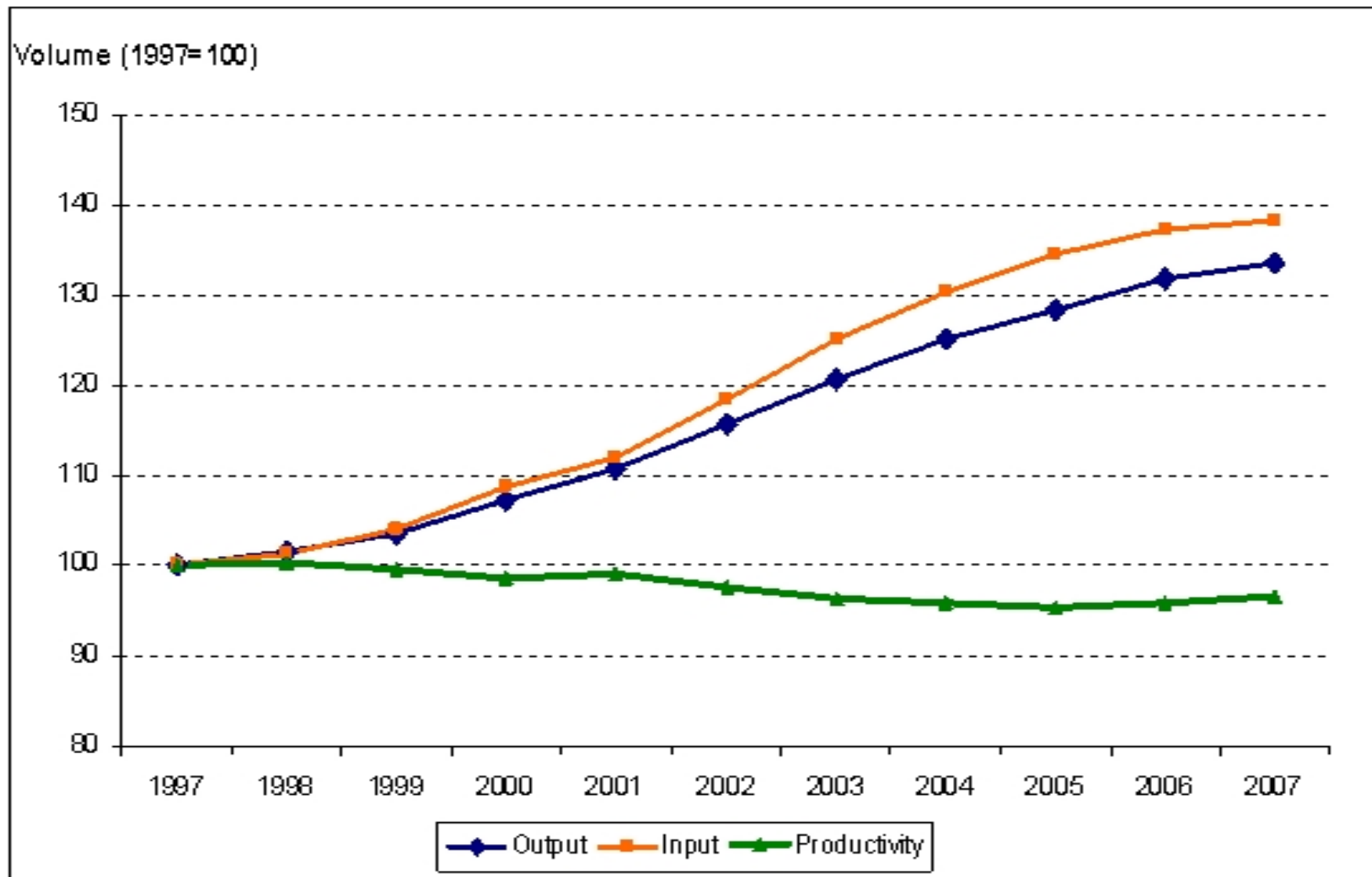
*Frances Coppola*

# Productivity vs. profits?

The low-wage economy creates a Catch-22. The cheaper it is to get staff, the easier it is for me to expand my business by taking more people on and the less likely I am to worry about how much they are producing. But the longer I go on relying on cheap labour, the more difficult it becomes for me to do any of the good things the experts say I should. The less profit I am making per worker, the more it will cost me to give my staff a pay rise or to invest in their development.

*Flipchart Rick*

# Public sector productivity?

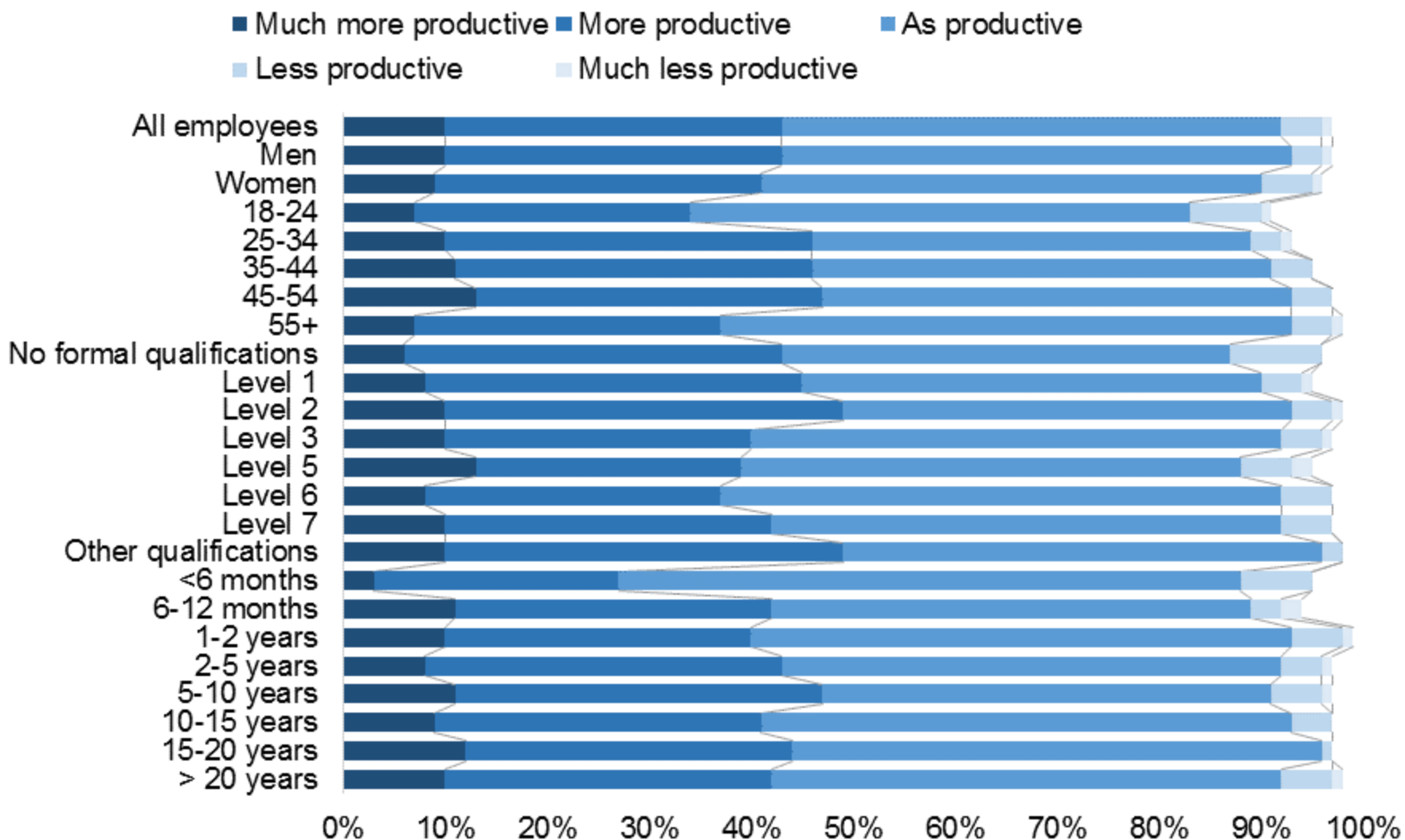


# Public sector productivity

- *'Increasing primary school classes from 30 to 100 children will treble teacher productivity'*
- ...quality issues are important but can get missed out if the simple input:output ratio model is used too rigidly

**Is it just about working harder?**

# Self-reported relative productivity by gender, age, highest qualification and length of time in job



Excludes 'don't know' responses

Source: CIPD *Employee Outlook* survey, autumn 2015

# **Workplace Initiatives to Improve Productivity**

# Questions

- Does your organisation routinely measure & report on its productivity?
- If yes, what measures do you use, how often do you report them and what 'levers' can you pull to improve them?
- If no, what are the challenges of measuring productivity? What, if anything, are you missing out on by not measuring it? Do you have plans to change this situation?

# Case Study 1

The Acas 7 Lever Model

# Acas 7 Lever Model

How productive is  
your organisation?

**Take the test**

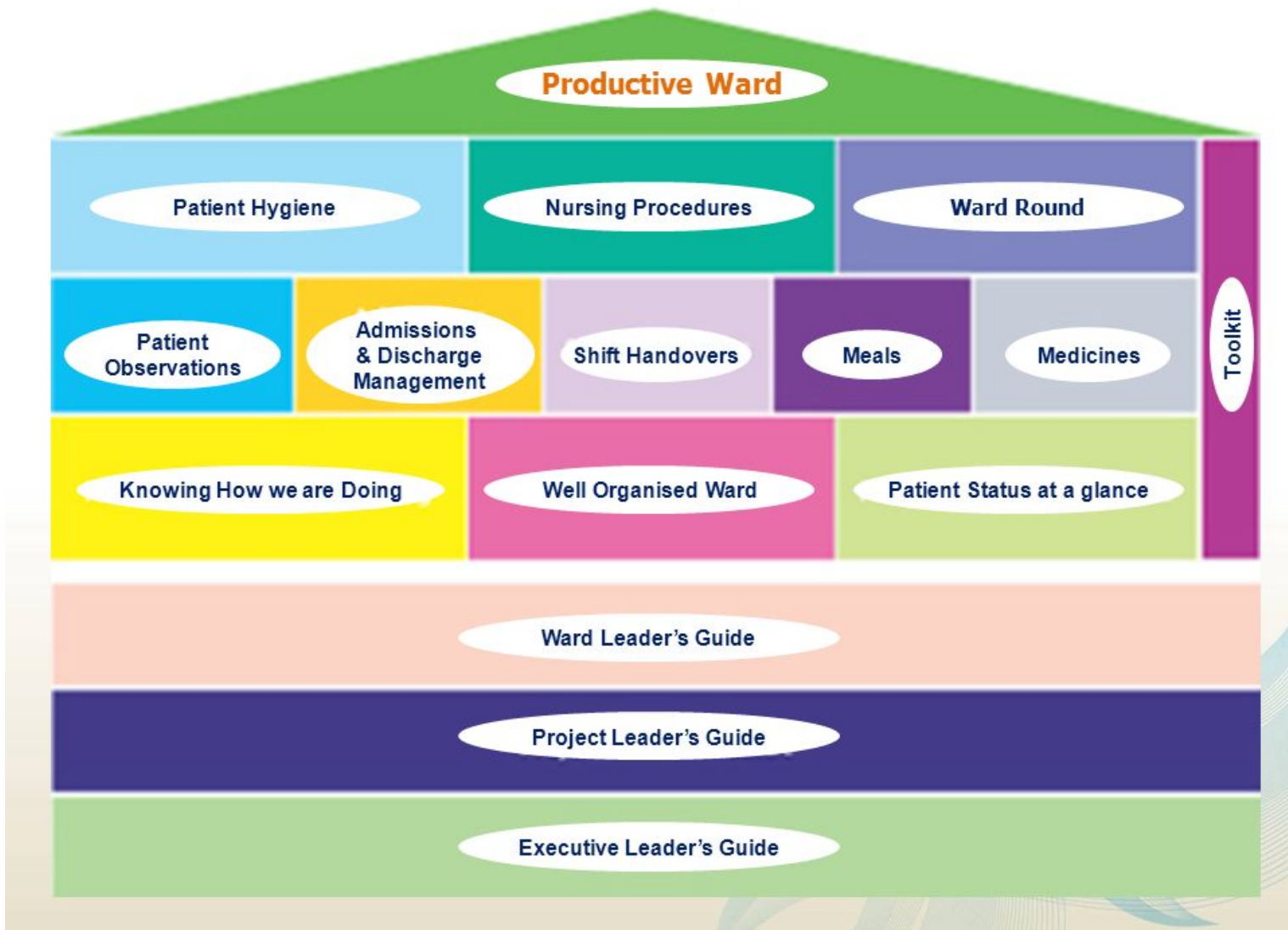
Acas' new **productivity tool** can help you identify, strengths as well as areas for improvement



# Case Study 2

## The Productive Ward

# Productive Ward



**What part does people  
management play?**

# **‘Cracking the Performance Code’**

## **Work Foundation Study**

- Survey of 3000 private sector firms
- Collected data on a range of business strategy elements (‘people’ only one of several)
- Economic analysis & case studies of Top 20 and Bottom 20 practices

## The Investigation

- The 'What' and the 'How' of high-octane business performance
- A total of 3000 UK firms of all sizes and from all sectors were surveyed and ranked in a Company Performance Index (CPI)
- Case studies of high-performing firms
- Comprehensive literature review
- Supported by some of the UK's top businesses



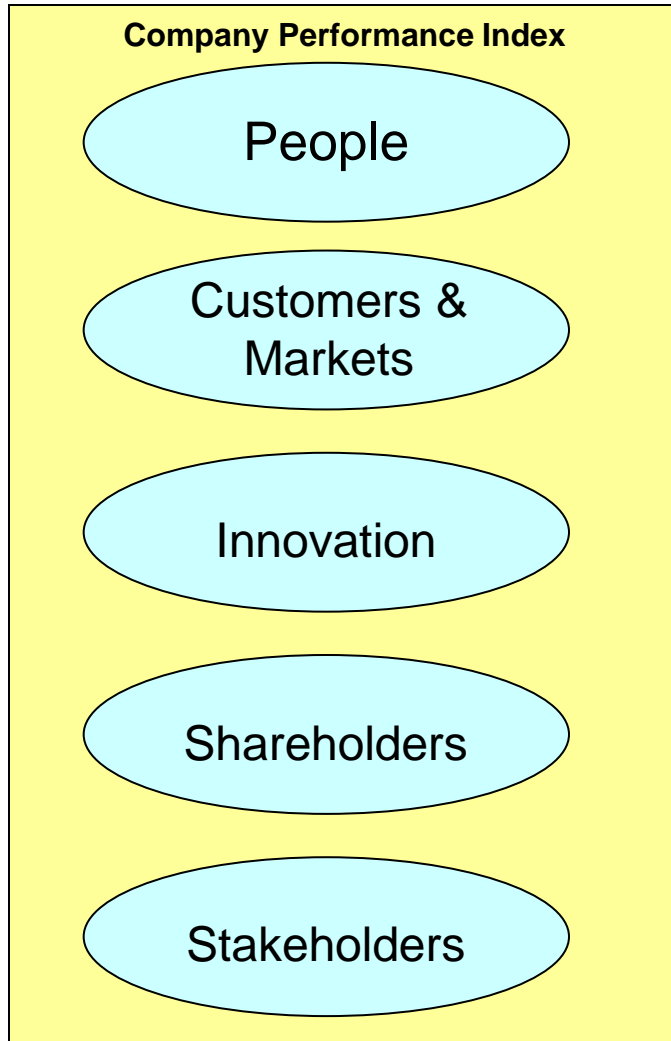
# The Performance Code

Five areas of strategic importance blended together:

- Customers and markets
- Shareholders and governance systems
- Stakeholder relationships
- Human resource practices
- Creativity and innovation management



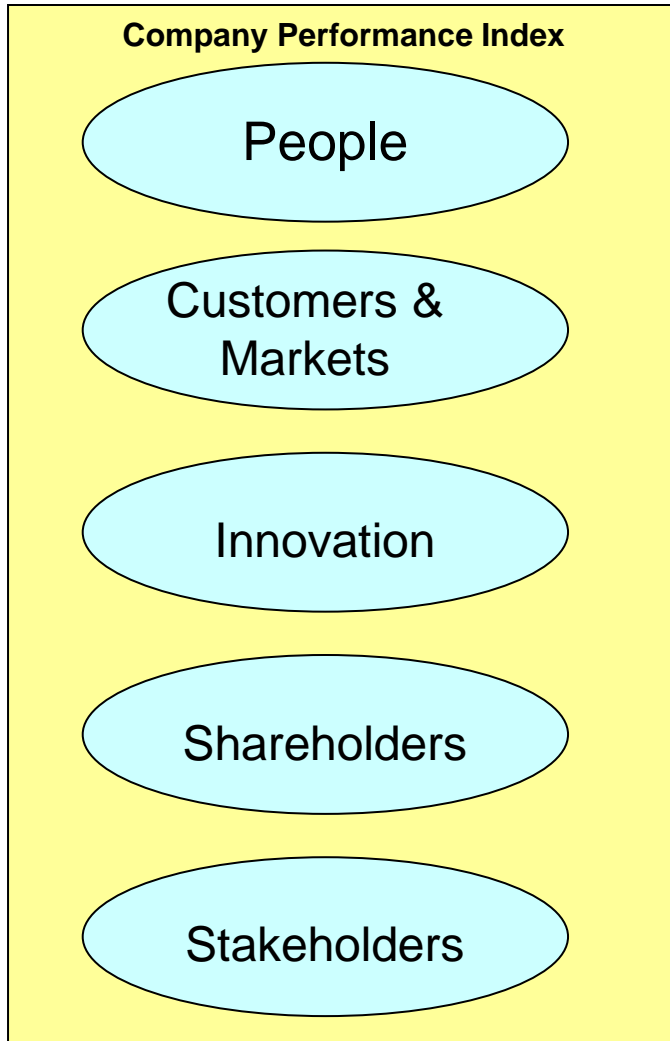
# Cracking the Performance Code



- The way firms combine these factors is decisive
- Emphasis on one to the exclusion of the others can be damaging
- Balanced & blended strategies are superior
- Drives 'hard' business metrics



# CPI & Business Performance



Revenue Growth

Added value per employee

Profitability

Share Price Performance

Productivity





## Revenue Growth

- Three-year revenue growth data – not just a ‘flash-in-the-pan’
- Strongly correlated with the CPI (.49)

### Conclusion

- The Higher up the CPI a firm scores, the stronger its Revenue Growth



## Added-value per Employee

- Added-value = the extra contribution made by each employee
- Again a significant correlation with the CPI
- Employees in high-scoring firms generate £1600 more added-value per head each year than those in low-performing firms

### Conclusion

- The higher a firm's CPI score the more extra value is created by each of its employees each year





## Profitability

- Gross Profit – a key financial indicator
- Strongly linked to the Added Value per Employee finding

## Conclusion

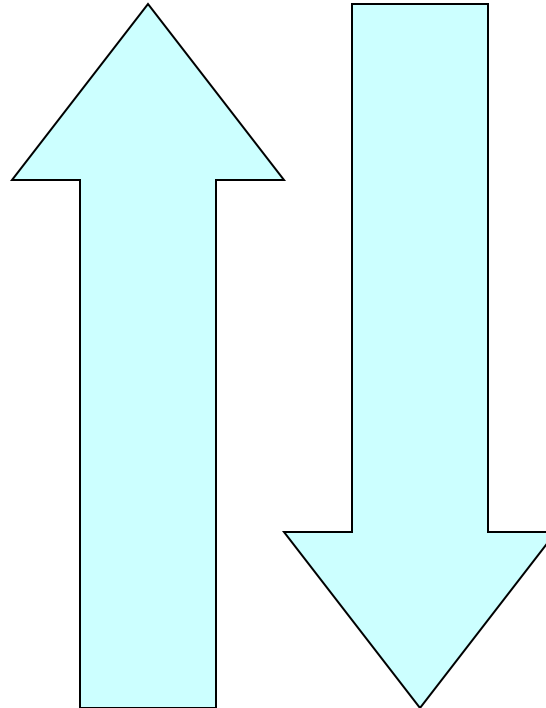
- A high CPI score is linked with higher profitability





# Share Price Performance

Top 20  
26 per cent



Bottom 20  
6 per cent





## Productivity

- We used total factor productivity
- Goes beyond 'Capital' & 'Labour' definitions of productivity – borrowed the DTI's definition recognising the value of 'intangibles' such as leadership

## Conclusions

- A high CPI score is strongly linked to high levels of productivity
- Bringing only 10% of our low performing firms up to the level of the top third would generate a 9-12% (or £2.5bn) increase in the productivity growth rate





## Other Key Data

- The high wage - high skill route to high-performance is more productive than low pay-low skill route
- US businesses operating in the UK are no more productive or profitable than UK businesses
- Medium-sized firms score consistently higher on the CPI than firms in other size categories



## Five Intangible 'Factors of Production'

Mediating mechanisms to convert strategy into practice:

- Structure
- Process
- Leadership
- Communication
- Culture and Employee Relations



## In High Performing firms

- Form follows function
- Processes are simple & informality is more common
- Information is openly shared between peers and networks of managers
- Leadership and management is visible and accessible
- There is a nervousness about the status quo
- Culture and employee relations pride, innovation and strong interpersonal relations



## In Low Performing firms

- There is a focus on a narrow range of financially driven output metrics
- Culture and performance dominated by bureaucratic process and internal structure rather than customer satisfaction or end product
- Leadership is focussed more on 'what the numbers say' rather than how top managers behave and interact
- There are more formal, structured interactions which are more 'set-piece' in format



# Challenges for Poor Performing Firms

1. Don't get hung up on structure
2. Keep processes simple
3. Share information openly
4. Make your leadership visible, accessible & decisive
5. Seek a culture which is restless, inclusive and focused beyond the short-term



# Reflections

- As a macro-economic metric, productivity can appear elusive & remote from organisational reality
- Improvements driven by policy & workplace practices
- Not just about working harder or ‘sweating assets’
- ‘Bundles’ or ‘clusters’ of high-performance practices – often with ‘people’ at the centre – seem to make a difference
- Identifying these for your organisation, implementing & sustaining them are likely to be critical

# Thank you

[www.employment-studies.co.uk](http://www.employment-studies.co.uk)

[Stephen.bevan@Employment-studies.co.uk](mailto:Stephen.bevan@Employment-studies.co.uk)

 @StephenBevan