

Solving the productivity puzzle

Business leaders must play a greater role in driving labor productivity improvement initiatives.

According to *The Economist*, if there is a harsh lesson to be learned from China's recent panic it's that the rest of the world needs to raise its level of productivity. Long gone are the days where relentless Chinese expansion could be relied upon to keep the global economy moving, and despite external factors that promote robust productivity growth, companies continue to lose ground. If tackling productivity at the microeconomic level is the key to unlocking a nation's true potential, then business leaders must be part of the solution.¹

The rules have changed

Economists and other pundits across the globe are championing several theories to explain the perplexing labor productivity trend that is evident in today's global economy. Steady productivity growth has long been considered a critical component of economic progress – driving the expansion of gross domestic product (GDP) and higher living standards. However, data from *The Conference Board* shows a long-term downward trend in growth that actually began in Europe in the 1990s.²

Productivity dropped significantly following the financial crisis and output per worker slumped as a result of weaker demand. Yet, despite sturdy economic growth since the downturn, productivity improvement (i.e. the notion of getting more out of each hour worked) remains low in many parts of the world. Jason Furman, Chairman of the White House Council of Economic Advisors indicates U.S. labor productivity has averaged



Jean Peyrelevade (France), former Chairman and CEO Credit Lyonnais:

“One of the most important sources of productivity is the ability of the CEO to change the organization of the company as a whole, as well as the internal organization of each business unit. With the

rapid evolution of the digital economy, many existing processes - especially those concerning customers' expectations and needs - have to be redesigned. The organization has to permanently adapt to its clients, not the other way around. Failing to do so leaves useless tasks in place, as well as unproductive structures and staff. Change regularly the organigrams and revisit all the processes - these are key to productivity.”

¹ <http://www.economist.com/news/leaders/21662544-fear-about-chinas-economy-can-be-overdone-investors-are-right-be-nervous-great-fall>

² <https://www.conference-board.org/retrievefile.cfm?filename=The-Conference-Board-2015-Productivity-Brief.pdf&type=subsite>

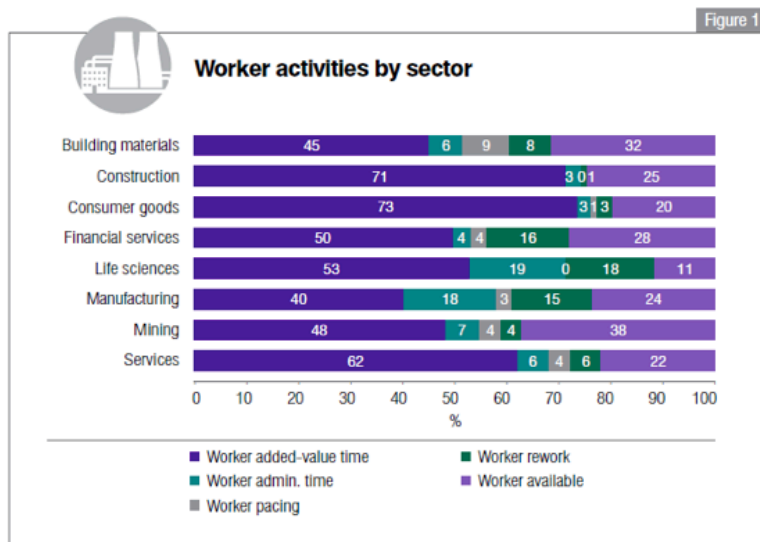
0.7% annually since 2010, whereas from 1948-2007 it averaged an annual rate of 2.3%.³ A new report from the OECD compared annual growth rates for labor productivity across 32 countries during 1995-2004 and 2004-2013. Interestingly enough, Spain was the only country out of 32 in the study that did not have lower productivity growth in the second decade compared to the first.⁴ This is the reason why economists and other experts are starting to believe that the rules of the game have changed.

The labor productivity conundrum

C-level executives have a pivotal role to play given their ability to directly influence productivity within an organization. Labor productivity is a key determinant of overall performance and a top priority for chief executives looking to realize the full potential of their respective organizations. However, most businesses claim to be unsatisfied with their level of productivity. Our findings show that executives are generally aware that untapped opportunities exist, but have trouble finding or leveraging them. So, therein lies the question: What should senior executives do next?

Untapped potential

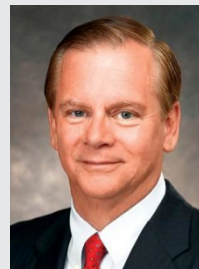
In 2014, Alexander Proudfoot conducted a detailed study to provide insight into the state of productivity in EMEA organizations at a critical point in the world economy's post-recession recovery. The results of this study provide a snapshot of worker productivity by broad industry sector and EMEA region.



Bernard Attali (France), former CEO Air France:

“I have noticed that decentralized organizations are more productivity driven than monolithic structures. This is probably because it’s much easier to tackle efficiency issues in separate business units

where everybody can be assigned specific goals with specific motivation tools. A simple rule to remember: the more you decentralize your company, the more flexibility there is to increase its productivity.”



Bill Johnson (USA), former CEO HJ Heinz:

“Despite the current downturn, there are ways to increase output. It often requires a cultural transformation – one that requires change on every level of the organization – to

make it happen. Getting people to buy in to your plan and behave a certain way takes a significant amount of time and energy. There is no shame in seeking outside expertise to accelerate this type of initiative.”



Mike Critelli (USA), former CEO Pitney Bowes:

“Productivity improvements invariably require many individuals to change the way they work, often with some perceived risk to their continued employment. Few

people will voluntarily make such changes. CEO leadership and focus are needed to ensure that these adjustments take place, and that they are sustained - painting a clear picture as to why work process changes will benefit the company and its employees.”

3 https://www.whitehouse.gov/sites/default/files/docs/20150709_productivity_advanced_economies_piie.pdf

4 <http://www.oecd.org/eco/growth/OECD-2015-The-future-of-productivity-book.pdf>

Managing the talent pool

Given the speed at which markets are evolving, effectively managing talent will allow a company to grow. Investing in human capital to develop skills, capacity, flexibility and adaptability creates a solid foundation for developing a long-term competitive advantage. Today's severely depleted talent pool is a serious issue across multiple markets and sectors. Companies need to be smarter about how valuable resources are deployed, and talented workers need to be able to focus on highly specialized tasks. Making a conscious effort to reduce wasteful working practices that restrict worker capacity will increase output and inevitably boost morale.

The role of innovation

Product innovation is a widely acknowledged, powerful driver of growth. Companies across developed economies that compete against organizations with lower cost structures can leverage new products or innovation in order to stimulate growth. This is where the need for a highly skilled workforce comes into play. Furthermore, many of our C-level executive clients see an inseparable link between customer centricity, human capital and innovation, as well as the importance of diversity on innovation teams.

Role of management

Skilled workers often have the capacity to do more when they are allowed to concentrate on tasks that require their unique skills. The trick is to eliminate those non-value added tasks that limit the capacity of the more highly skilled technicians. It is management's responsibility to make sure that people with unique skills are utilized properly. For example, the labor efficiency rate for a client that manufactured parts for the automotive sector had dropped as low as 55%. Within four months, throughput increased by 23% as a direct result of redistributing highly skilled resources to other departments in need.

Other important managerial responsibilities include:

Employee motivation and morale

Giving employees every opportunity to fulfill the obligations of their roles will make an impact on both the operational and financial performance of the organization. This is accomplished through training, mentoring and coaching. A strong foundation of employee skills at all



Frank Feder (Brazil), former CEO Alcoa Latin America: "Business leaders in middle-income countries have a particular responsibility in executing labor productivity initiatives. According to recent reports, productivity in these countries average 30% less than U.S. levels. Consequently, improvement initiatives must necessarily go deeper and faster. The combination of internal and external resources to drive these initiatives is strongly recommended."



Portia Molefe (Africa), current Executive Director Ubu Investment Holdings: "I wonder how companies could develop mechanisms for employees with a track record in innovation to bet on their own ideas. This would reallocate resources -both time and money- towards the testing of the innovation before broader application in the enterprise. Innovations encompass both product (require risk capital) and process (space to try out new ideas without managerial intervention). Companies also need to create similar opportunities for some risk taking by the up and coming."



Michael Miles (UK), former Chairman Schroders and former CEO Cathay Pacific Airways: "Improving productivity remains a key responsibility for the chief executive. Too often the focus on this is abrogated and delegated down with the view that operations are the primary responsibility of those working at the point of execution. While the day-to-day operations are the responsibility of line management, there must be leadership from the C-suite to ensure that continuous improvement is always at, or near the top of the priority list."

levels will contribute to streamlined processes, improved employee morale, increased accountability and a sustainable competitive advantage.

Quality of supervisors

Training needs to include the development of critical management and supervisory skills. All too often, employees are promoted to supervisory positions without the skills needed to become effective leaders. The management team must be able to properly develop effective supervisors, as well as strengthen the abilities of skilled workers.

Internal communication

Change programs focused on productivity typically fail unless managed and communicated effectively. If a business is to change as a whole, everyone in the organization must understand what they need to do on a personal level to make the transformation a reality.

Conclusion

Despite a weak global economy, CEOs must continue to focus on high-quality and sustainable business growth. The strategies they are using reveal a long-term commitment to capacity building and developing cultures that stress innovation, engagement and accountability within the organization. And while the debate surrounding the strongest drivers of productivity growth rages on, businesses that are capable of adapting to change and acquiring/retaining quality talent will be best positioned for long-term success.



David Eldon (Asia), former Chairman and CEO HSBC:

“Too often I have seen even the best companies say the right things about their people and then fail to do the right things. Maybe it’s human nature, but there is more to be gained by collaborative and inclusive management - accepting that

on every team there must be a captain. Sign up for the principles, then implement the practice. I’m also concerned about how few of our C-suite colleagues understand the changes being created by technology and innovation. It’s like driving a car: you know how to do it, but might not fully understand what makes it run. These are the colleagues that set policies and create vision statements for a generation who have no input into the process. Just because a generation is young doesn’t mean it has no input.”



David Turnbull (Asia), former CEO Cathay Pacific:

“Companies often establish change teams or productivity improvement teams. The idea, in principle, is obvious. However, in my experience, these teams can be very resistant to

outside advice. Such advice is sometimes viewed as a hostile takeover, with the end result being a rather narrow view of what needs to be done. Typically, the division or department heads know where productivity or cost inefficiencies lie within their own operations, and much can be gained by external coaching to improve costs and productivity relatively quickly.”



Dato' Zainal Abidin Putih (Malaysia), Chairman CIMB Bank Berhad:

“Global markets are freer and more open than ever. This offers unfettered opportunities for companies to sell their goods and services. However, this freedom also means more and

stiffer competition. Productivity and being ever mindful of the need to be continually improving are the keys to a winning business strategy in this type of environment.”

For other Global Advisory Board insights – [click here](#).