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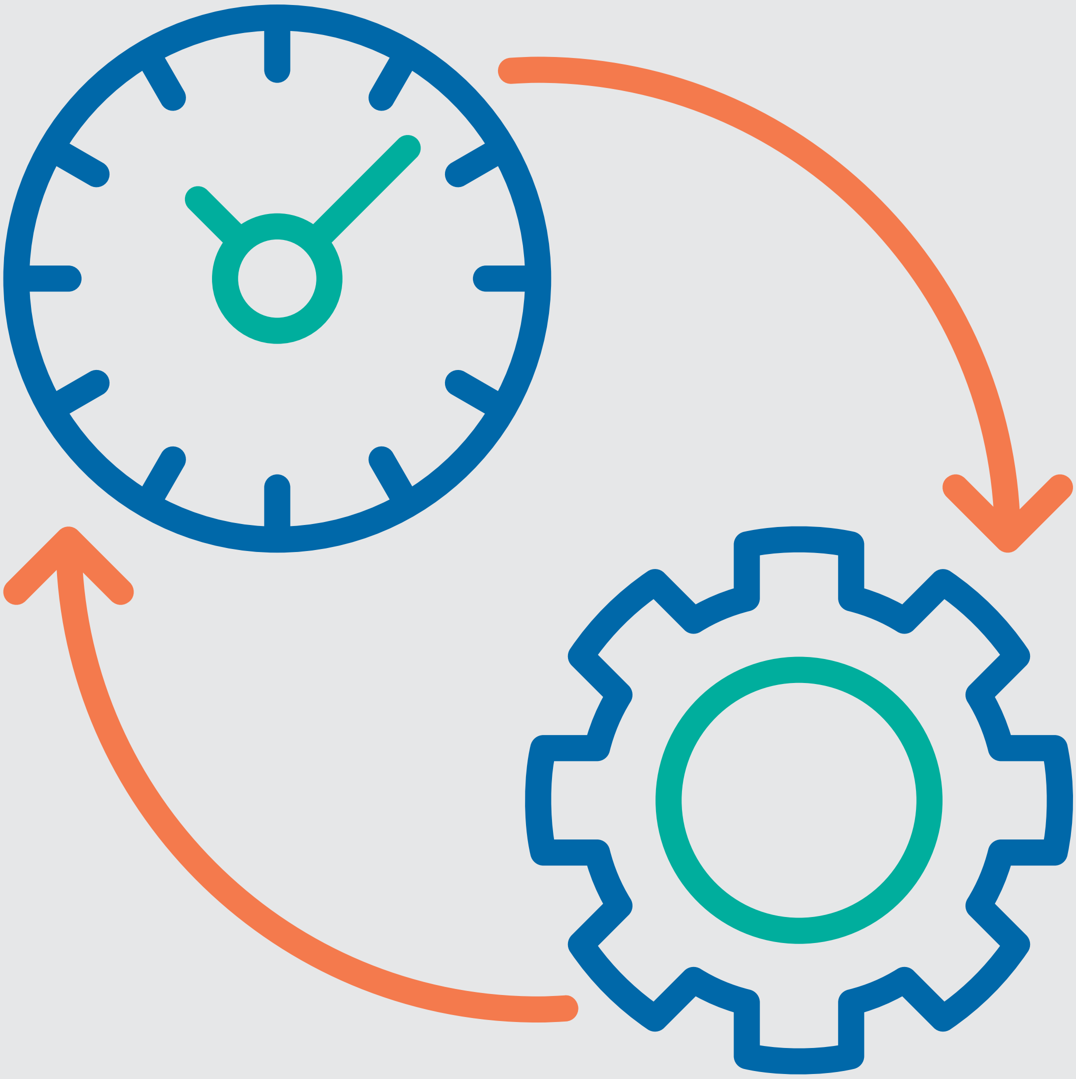

# Productivity: A Force for Good

**Mark Palmer**, Managing Director at OEE Consulting, discusses why and how UK businesses should address the productivity problem

Often wrongly demonised as a tool to inflict more suffering on hard-working people, economists from all sides of the political spectrum agree that productivity is a force for good, which drives growth and improved living standards.

Increasing productivity boils down to a simple equation of output over input; it means getting more out without the need for increased human effort.

There are plenty of ways to achieve productivity gains, some of which are:

- Automation
- Better customer experience
- Higher skills levels
- Improved human organisation (motivation, work design)
- Economies of scale (higher volume together with standardisation)
- Higher utilisation of a fixed asset
- Process redesign (working smarter)

Are these improvements worthwhile for businesses? The UK government certainly thinks so, marking it as a key focus and providing £23 billion to the National Productivity Investment Fund, earmarked for spending between 2017-18 and 2021-22.

If productivity were to be raised by one per cent each year, we would see £240 billion of growth to the UK economy within a decade. These gains could have a big impact on post-Brexit confidence and future trade agreements.

## Mind the Gap

The UK's lagging productivity figures often make headlines. So, why has the UK fallen behind?

> *“If productivity were to be raised by one per cent each year, we would see £240 billion of growth”*

**Exports:** Highly productive countries, such as Japan and Germany, cater for an export demand far greater than domestic demand. They also remain price competitive, despite a strengthening currency, due to their ability to drive up productivity gains.

In contrast, the UK has not fully exploited export markets. For example, an 'island mentality', use of the imperial measurement system, and a declining interest in manufacturing has limited the market for UK goods.

**A Low-Cost Welfare State System:** A key part of the UK staying competitive with many European counterparts has been the lower cost of employing people in the UK. By remaining competitive through lower employment costs (and relatively low employer's national insurance), there has been very little impetus to invest in automation.

**Tax Credits:** Tax credits have subsidised employment, financially supporting private sector outsourcers who pay wages that would otherwise not meet living wage levels. It generates a lag on innovation and productivity by reducing the impetus to drive down costs in other areas.

It also reduces the need to invest in upskilling people for more complex tasks. The introduction of the Living Wage is beginning to make inroads here, by shifting the cost burden of employment onto employers. >

**Phil Smith**
Chair, UK&I, Cisco

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“There is no doubt that our country's productivity is important for our global competitiveness, particularly in a new post-Brexit world, but it also has a fundamental effect on our standards of living.

Since the recession, UK productivity has significantly lagged the G7 average and has basically flatlined. This is an important issue, that needs to be addressed by us all, not just Government.

[The UK is] significantly behind our international peers on the automation and digitisation of our business processes. There are also many industry specific solutions that can significantly drive productivity, such as management practices, employee engagement and, not surprisingly, digitisation.”

Read more from Phil Smith here or why not sign up for our Executive Breakfast?

**The Working Week and the So Called 'Black' Economy:** At a national level, productivity is measured by GDP divided by the hours worked, and the working week varies enormously by country.

In France, for example, many senior managers have opted out of the 35-hour week in return for better career prospects. Their working hours are often considerably longer than 35 hours, but national calculations fail to take this into account.

Conversely, the majority of workers are bound by a 35-hour working week agreement in France, meaning employers have had to examine other means of increasing output other than expensive and regulated overtime.

Countries with a large black economy, and therefore many unrecorded working hours, will also skew national productivity calculations. It will be interesting to see if and how the emerging gig economy in the UK influences the numbers going forwards.

## The Future for UK Productivity

New and exciting frameworks are emerging that will unite technology teams and business improvement professionals. We are seeing many examples of how the two functions can work in conjunction with one another, driving valuable improvements.

Technology investment is producing a significant economic dividend, which organisations choose to invest in different ways. We believe those reinvesting into redefining how they engage with their customers, and how they provide value, will succeed.

*"Our response to the evaporation of cheap labour must be to innovate and explore new ways to meet requirements"*

The use of better ergonomics, higher skilled people, improved use of technology, third generation outsourcing and increasing automation will all drive improvements. Those who are simply using short term gains to drive temporary margin increase or reduce prices will not do so well.

Many are wondering what part Brexit will play. By potentially reducing our ability to access low-paid, unskilled workers there will be a greater need to drive productivity at a macro level. For example, France and Japan have been investing in automated farming methods, using driverless tractors, drones and robotic pruners. The world's first entirely automated lettuce farm is due for launch in Japan later this year.

Our response to the evaporation of cheap labour must be to innovate and explore new ways to meet requirements.

Leaders must focus on upskilling workers to bring them into the workplace. In many European countries, employers with over 50 people have to spend two per cent of their payroll on training, but there's no equivalent requirement in the UK. The power of well-paid and highly skilled people to deliver better economics outcomes for all is undeniable.

While simple tasks can be automated, there will always be a need for nuanced, creative, human work. Companies should re-evaluate what their customers want, and how they can best provide it. Many improvement activities add value because they free up time for people to get stuck into the important decisions, driving change in their organisation. ■

**Mark Palmer**
Managing Director
OEE Consulting

Mark Palmer is the Managing Director of OEE Consulting, the UK's leading specialist in business design, operations improvement, customer experience, and strategy implementation.

Mark started his career working for the French automotive systems supplier Valeo, where he established one of the first Business Improvement and Innovation Academies in Europe. Whilst at Valeo he was Management Director for the UK Division, and Director of Management Development for the business globally.

After joining OEE Consulting in 2001, Mark started the process of translating world class operations thinking into the service industry, which included spending a year as Head of Operations Excellence at Lloyds TSB, before becoming MD in 2008.

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