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Improving Productivity

The UK's productivity is in critical decline, yet boosting employment rarely provides the solution. **Mary-Anne Baldwin** finds out how leaders are tackling this issue

UK-based businesses are trying to make lemonade from a mix of uncomfortably tart ingredients. While companies are typically employing more people on higher wages, those additional labour costs are not translating into greater productivity.

According to the UK's Office of National Statistics (ONS), UK unemployment is at 4.9 per cent – its lowest rate since September 2005. Meanwhile, wages rose 2.3 per cent in Q2 2016, in part due to April's 50p increase to the National Living Wage.

Despite this increased investment, Britain's workforce is 17 per cent less productive than our pre-financial crisis forecast would have us expect.

It's evident that something has to give. **Matthew Blagg**, CEO of Criticaleye, says: "Productivity is a major concern not just for the UK but globally.

Through strong leadership and technology, businesses must conjure up innovative solutions to stimulate production because the answer is in working smarter, not harder.

"Yet it doesn't stop there. For productivity to improve, businesses must ensure they have a clear strategy and purpose, and that their employee and customer engagement is not only effective but aligned."

We spoke to a range of business leaders to discuss how labour and productivity are challenging their business models, as well as to those who are championing innovative solutions:

Here's what they had to say: >

Phil Smith
Chair, UK&I
Cisco

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, not only for government, that needs to be addressed by us all.

It's a shocking fact that 75 per cent of people employed in the UK work for companies that are below the mean in their size and sector. The good news is that if we move those companies up by ten percentage points we could generate over £160 billion of added GVA [Gross Value Added] per year, which I think you'd agree is a prize worth fighting for.

For the last year, Sir Charlie Mayfield, Chairman of John Lewis, has headed the Productivity Leadership Group (PLG) of which I'm a part. It works across industries and in co-ordination with government on practical ways to address that productivity gap.

We've found that the UK is a very advanced consumer of digital technology for e-commerce and online shopping. However, we're 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.

Tim Doubleday
CFO
Casual Dining Group

Our industry is facing significant cost challenges, such as the national living wage, and we have to look at every opportunity to mitigate these pressures and maximise efficiencies.

We undertook some analysis to factor in the increased living wage and minimum wage, the apprenticeship levy and the gender pay gap. We're expecting a significant single-digit percentage increase in labour costs per annum up to 2020. It's not an insurmountable cost but one that we need to be mindful of and manage.

A big question in hospitality is what impact Brexit will have on non-UK workers. It is a live issue in our industry as 45 per cent of our workforce are British, 50 per cent are EU citizens and the other five per cent are from beyond the EU. We need to be mindful of this and our apprenticeship scheme will help us develop UK talent. We've initially taken on 100 apprentices with a target of 300 over the financial year, which is effectively one person per restaurant. We've put in a lot of effort over the last nine months to ensure we have the right educational partners to support our apprentices' training and development.

We recognise that we're in an industry in which retaining people is key, so while a number of competitors have cut benefits like free meals or reduced staff working hours, we're focusing on productivity. We want to position ourselves as an employer of choice, while also using leading-edge technology and best practice to drive top-line growth and efficiencies.

> *“There is no doubt that our country's productivity is important for our global competitiveness”*

John Duffy

CEO
Finsbury Food Group

We're a UK speciality bakery with over 3,000 employees and eight sites around the UK spanning everywhere from Scotland to Wales, and Salisbury to London.

As a large employer quite a lot of our people are factory workers or relatively unskilled, so moving the minimum wage from just under £6 to potentially £9 over the next four years means a fairly dramatic change to our labour costs.

Measures like increasing pension contribution requirements for employers, or the new apprenticeship tax, means there are a few additional social costs. That's going to have quite a profound impact over the next three to four years.

We're planning for that through automation, skill development and productivity improvements. It's going to be quite a key thrust for our sector and for our group.

We're very much trying to make sure we've thought about that, that we're prepared and remain competitive throughout that period.

> *"Nobody really knows what impact Brexit will have on organisations but I've noticed they are showing more caution and less optimism"*

Yetunde Hofmann

NED
CIPD (Chartered Institute of Personnel and Development)

Productivity is of particular concern because of the uncertainty caused by Brexit. Nobody really knows what impact Brexit will have on organisations but I've noticed they are showing more caution and less optimism.

In periods of caution, the short-term actions typically taken by businesses to ensure productivity is maintained, such as cutting training and development or redundancies, can adversely impact productivity in the long term.

The CIPD's recent report on the UK labour market shows a clear deterioration in hiring intentions over the next few months, which is a result of the Brexit vote. Nineteen per cent of employers say their workforce is likely to decrease and 21 per cent say Brexit will lead to cuts in investment for equipment, technology and training.

One way to counteract that is through better employee engagement, although for some businesses that has become a box-ticking exercise, which I'm quite sceptical about. It runs the risk of being selfish – of squeezing someone to do more.

The best way to improve productivity through engagement is with role modelling, communication and ensuring every person within the business, no matter their role or status, feels valued.