

Why productivity is more than just a buzzword

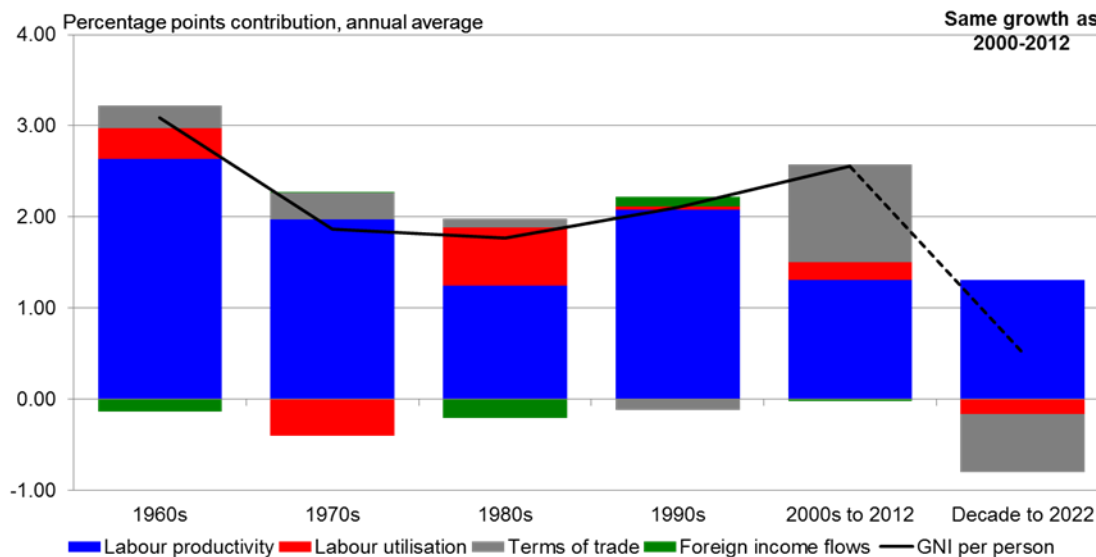
In an uncertain world, the threat to Australia's prosperity is real. That's why productivity is more than just a buzzword: it's the way of the future.

By David Hand

Productivity is a hot topic in business and always in the news. Yet there is much confusion around what this buzzword actually means. It's talked about conceptually, as though everybody knows what it means. But there is widespread misunderstanding about what productivity actually is and how to improve it.

In Australia today, we face an uncertain economic climate. According to a recent Productivity Commission Report, in an environment of poor productivity growth, Australia's prosperity in the 2000s has been maintained by fantastic terms of trade. Now that the terms of trade are at risk of being reversed, our immediate future is difficult without a focus on productivity. A key graph in the report shows the threat:

Contributions to growth in average incomes – same labour productivity growth as last 'decade'



Source: <http://www.pc.gov.au/news-media/speeches/income-outlook/20130918-national-income-outlook.pdf>

What this graph shows is that with the reversal in Australia's terms of trade, if our productivity growth remains the same as it was between 2000 and 2012, incomes won't keep up with inflation and that is what is happening now.

For many business leaders, productivity has become an unpopular term. It's assumed that productivity is a passing catchphrase, and will disappear like many business concept fads do. However, with Australia facing real economic threats, the word productivity will not disappear. We can no longer avoid thinking about Australia's declining income growth. The angst that is being felt regarding the decline in prospects for the millennials is a significant outcome of low wage growth that is not keeping up with inflation. Wage, or income growth, has been completely overwhelmed by housing price growth. Though a number of factors have driven the housing affordability crisis, low wage growth is one of them and the productivity challenge is a key part of the picture.

Productivity can vastly improve people's lives — but for this to occur, it needs to be experienced at the personal and business level. It's not enough to just talk about productivity in macro terms such as regulations, tax policies and international trade.

Productivity doesn't really deserve its uncool image.

Principles about productivity & how to make it work:

1. Productivity is not about working harder or longer

Contrary to popular belief, productivity describes how to work fewer hours with less effort. Working overtime doesn't increase productivity and neither does taking a pay cut. Both these measures may drive down costs, but they are unrelated to productivity. Productivity is about maximising your time, skills, and energy, like getting all your work done by lunchtime and taking the afternoon off. It's about doubling your income while giving your customers a price reduction at the same time. If you run a small business and find you work really long hours all the time and at weekends, you are not productive though you may get more done than if you work fewer hours. Take an honest look at where you spend the time and introduce some discipline into what you do. Treat activities like exercise or meeting with friends or seeing your family as valid, value adding tasks in your day. Believe me; most of what you do when you surrender this type of activities does not add value.

2. Productivity can help solve operational issues

Maximising productivity at an individual and team level can help you overcome and eliminate operational problems. Such problems often mean disappointed customers, stressed staff, and added costs. Solving operating problems means you save the cost of putting up with them. This is a genuine lift in productivity and you will see cost reductions as well as a less stressful workplace.

If you introduce the concept of prevention into your work environment, productivity improvement will follow. To operate with prevention, think about the operating and customer service problems you recently experienced and the time and effort you went to in solving them. Then work on a process change that will stop the problem happening again. For example, if a product was not in stock, review with your supplier what to change to have it in stock in future, such as changing re-order levels.

3. To maximise productivity, first understand and define your process

Before you can leverage productivity in measurable ways, it's critical to understand what your process does, what your customers want, and how you can deliver that product or service. You must be able to measure it; particularly when it comes to output and your customers' requirements for quality, service and/or delivery. A good, honest look at this may reveal significant opportunities, such as variable service levels. Once you have defined your processes, put them in writing, then review every other thing you do that is not part of your process and seek to eliminate some of it. Some things are an unavoidable overhead, such as adhering to government dictated regulations but you should challenge the rest.

4. Throughout the process, don't ignore technology

While you're reassessing internal structures and service offerings, it's almost certain that your competitors will be improving their own offerings through technology. Powerful disruptive forces are at work against traditional ways of doing things. If you drive a taxi or manage a hotel, you will be experiencing this right now. A bus company that kept bus conductors would not be in business in our modern society today, and the possibility of driverless buses is no longer in the realm of science fiction.

5. Metrics are absolutely vital to productivity

Many business managers and leaders see lost productivity as normal because they don't separate operating problems from normal processes. Things go wrong so regularly that the problems are now embedded in the process. To combat this, put metrics into your process with a blue sky approach, and the opportunities will appear. These sorts of standards are what is possible if you have no problems or barriers whatsoever so that if you don't meet them, you know that something has gone wrong and you can isolate it and deal with it.

Remember that metrics that highlight problems will be more difficult to get because variance, the gap between what you planned for and what actually happened, can be confronting. If you have a business environment where most energy goes into dealing with the person who stuffed up rather than what process changes can be done to reduce future stuff ups, variance to plan will be difficult to obtain. We see world's best practice in the airline industry. Because human error causes fatalities, enormous effort is put into making it impossible for human error to have an effect.

6. With measures in place, start taking action

Once you have made the necessary measurements, it's time to implement new strategies and start taking action. Some of your variances will be difficult or virtually impossible to fix, while others will be straightforward and simple. Think outside the box and solutions may appear unexpectedly.

7. Create behavioural change to drive productivity

When it comes to driving productivity, behavioural change is absolutely crucial. In fact, at the heart of productivity are people — their emotions, relationships, personalities, skillsets, and so

on. Tools, technology, and process redesign all play their part, but in the end, if human beings are involved, it's the behavioural model you adopt that makes the difference.

Summary

Productivity is loaded with meaning because it has a profound impact upon people's lives. In our current market economy, the challenge for all of us is to stay in business by leveraging productivity. Improving productivity is one of the most significant interventions that protect our jobs and businesses.