Productivity: getting the best out of people

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• UK productivity: long term problem, short term puzzle
• Workplace productivity: new analysis of CIPD surveys
• What are the implications for business and government?
UK productivity: long term problem, short term puzzle
## The UK’s relative productivity decline

<table>
<thead>
<tr>
<th>Year</th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK GDP per hour worked ($1990)</td>
<td>2.55</td>
<td>4.30</td>
<td>6.91</td>
<td>13.93</td>
<td>22.68</td>
</tr>
<tr>
<td>Mean annual growth rate</td>
<td>-</td>
<td>1.20</td>
<td>1.30</td>
<td>3.10</td>
<td>2.10</td>
</tr>
<tr>
<td>UK rank (out of 16)</td>
<td>2nd</td>
<td>4th</td>
<td>7th</td>
<td>13th</td>
<td>14th</td>
</tr>
<tr>
<td>Overtaken by:</td>
<td>Australia</td>
<td>USA Canada</td>
<td>Switzerland Netherlands Sweden</td>
<td>Belgium Germany Denmark France Austria Norway</td>
<td>Italy</td>
</tr>
</tbody>
</table>

Source: Crafts (2002)
The UK’s relative productivity renaissance?

DECLINE AND REBOUND: RELATIVE GDP PER CAPITA FROM 1870

Source: LSE Growth Commission
The UK’s current productivity standstill
(Output per hour worked, 2008Q1=100)

Source: Office for National Statistics.
The UK loses ground to its competitors again
(Current price GDP per hour worked, 1990-2013, UK = 100)

The black columns are the 2008 data. The time series for Germany and the G7 excluding the UK begin in 1991.
Source: Office for National Statistics.
Possible explanations for the productivity puzzle

- Measurement/composition of economy effects
- Composition of labour force effects (recent growth in low skilled labour, self-employed)
- Investment (tangibles and intangibles)
- Less “creative destruction”:
  - Workplace closures during recession and after less than expected (“zombie companies”?) (Bryson and Forth 2015)
  - New entrants have less of a productivity advantage
  - Does this predate the recession? (Mason et al, 2014)
- Low job turnover
- “Capital shallowing” (Pessoa and Van Reenen 2013)?
- Employers and employees preferred more employment to less – even at expense of real wage stagnation?
As if the list of factors believed to hold back UK productivity isn’t long enough already …

- Quality of UK basic education and vocational skills system
- Quality of management and leadership
- Management-employee relations (trust, engagement)
- Relatively low business and public investment in physical, human capital and R&D
- Corporate governance and City short-termism: access to “patient capital”

Paris Exhibition of 1867 prompted bouts of agonising about shortcomings of technical education … 1868 Royal Commission (the Taunton Report) advocated the adoption of the Prussian school system!

Macmillan Committee (1931) first to look at small business access to finance (Greene and Patel 2013)
And what about workplace innovation?

- Relationship across European countries between ‘flexicurity’ model and discretionary learning/workplace innovation

- “Growing evidence shows that workplace innovation practices which empower employees to make day-to-day-decisions, challenge established practices, contribute ideas, and be heard at the most senior levels, lead to better business results, as well as enhanced workforce health and engagement. Most businesses are either unaware of this evidence, or are unable or unwilling to act on it. Surveys demonstrate a gap between “what works” and common workplace practice” (Totterdill 2015).

Source: Lorenz (2015) based on EWCS
Workplace productivity: new analysis of CIPD surveys
About the study

- Provides an employer perspective on productivity
- Examines employers’ understanding of ‘productivity’ and how important it is to them
- Provides insight on what helps to explain variation in productivity/performance across organisations – which employers may be able to use to their advantage
Data

- Labour Market Outlook survey (LMO)
  - Conducted June 2014
  - Online survey of 1,026 people with responsibility for HR in their organisations
  - Representative of all organisations with 2+ employees
  - Optional ‘productivity focus’ module – 74% agreed to answer this

- HR agility survey
  - Part of broader study into agile working which also included an employee survey and qualitative research (CIPD 2014)
  - Conducted September 2014
  - Online survey of 633 people with responsibility for HR in their organisations
  - Representative of all organisations with 2+ employees

This study is restricted to private sector organisations.
Do organisations talk about productivity?
(% of private sector organisations who agreed that productivity was a term often used within their organisation when discussing how to improve business performance, n=468)

Source: CIPD Labour Market Outlook, summer 2014.
Do organisations measure productivity?

(\% of private sector organisations who said their organisation had measures of productivity, n=468)

Source: CIPD Labour Market Outlook, summer 2014.
Do organisations understand what productivity means?

We asked all respondents

‘Which of these two phrases is the better description of your organisation’s understanding of productivity?’

- ‘Amount of goods and services our organisation produces’ (31%)
- ‘Amount of profits/savings generated by each activity’ (50%)
- Neither – we have our own understanding of productivity (11%)
- No understanding of productivity (6%)
- Don’t know (3%)

We asked all respondents who said they had productivity measures

‘How does your organisation measure productivity?’

- Answers were often very brief and many provided insufficient information to establish precisely what was being measured
- Where enough concrete information was provided on measures, they were often gross rather than net measures and/or did not standardise by unit of time, employee etc.
- When firms said they were measuring performance, we suspect they were often talking about broader business performance

Source: CIPD Labour Market Outlook, summer 2014.
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Source: CIPD Labour Market Outlook, summer 2014.
Some of those productivity measures …

Labour productivity e.g. number of hours labour needed to clean x number of rooms

We have a whole dept in head office and each store has a spin off of this. As hr we train our managers in productivity measures

BADLY. FUSZY QUALITITIVE

Profit generated per employee after overhead costs

EBITDA per employee

Leadership study, mystery shopper, staff survey

in many ways

We are a sales organisation so productivity would be measured in volume of sale

We have a number of key performance indicators relating directly to the work we do.

I work for a utilities company for gods sake

CIPD
Does it matter? We say no if firms are doing these three things well …

- Having conversations about how to improve the business
  - Ones that involve and engage the whole business
  - Ones that lead to improvement

- Collecting data on meaningful performance measures
  - Contextualised for the business rather than abstract
  - Clearly understood
  - Used as part of a performance management system

- Investing in understanding how performance data are generated
  - Sources of variation are understood – you can ‘look under the bonnet’
How important is productivity as a business priority?
(% of private sector organisations, n=388)

Growth of market share in existing or new markets 60%
Cost management 59%
Improving productivity 41%
Regulatory compliance 29%
Product innovation and quality improvement 28%
Customer service improvement 25%
Improving organisational responsiveness to change 24%
Increasing sustainability 19%
Improving corporate responsibility, reputation and brand 17%
Significant refocus of business direction 16%

Source: CIPD HR agility survey, summer 2014.
Which HR practices improve productivity?
(% of private sector respondents who had identified ‘increasing productivity’ as a business priority, n=157)

- Workforce and succession planning: 60%
- Performance management: 59%
- Improving leadership and management capability: 51%
- Training and development: 51%
- Knowledge sharing: 44%
- Improving match between HR and operational demand: 43%
- Organisation design/restructuring: 41%
- Improving employee wellbeing and resilience: 39%
- Reward management: 35%
- Increasing employee engagement and trust: 35%
- Adjusting terms and conditions: 29%
- Cultural transformation: 26%
- Improving HR service delivery: 24%
- Increasing workforce diversity: 21%

Source: CIPD HR agility survey, summer 2014.
Self-assessed productivity relative to UK peers and competitors

(% of private sector organisations, n=468)

<table>
<thead>
<tr>
<th>Category</th>
<th>Well above average</th>
<th>Above average</th>
<th>Average</th>
<th>Below/well below average</th>
</tr>
</thead>
<tbody>
<tr>
<td>No talk/no measure</td>
<td>10%</td>
<td>32%</td>
<td>38%</td>
<td>8%</td>
</tr>
<tr>
<td>Talk/no measure</td>
<td>10%</td>
<td>42%</td>
<td>49%</td>
<td>12%</td>
</tr>
<tr>
<td>Talk and measure</td>
<td>12%</td>
<td>42%</td>
<td>39%</td>
<td>13%</td>
</tr>
<tr>
<td>Customer service</td>
<td>10%</td>
<td>32%</td>
<td>43%</td>
<td>8%</td>
</tr>
<tr>
<td>High quality</td>
<td>13%</td>
<td>41%</td>
<td>35%</td>
<td>4%</td>
</tr>
<tr>
<td>Added value</td>
<td>9%</td>
<td>42%</td>
<td>39%</td>
<td>7%</td>
</tr>
<tr>
<td>Low cost</td>
<td>12%</td>
<td>30%</td>
<td>37%</td>
<td>11%</td>
</tr>
<tr>
<td>Premium quality</td>
<td>14%</td>
<td>38%</td>
<td>37%</td>
<td>5%</td>
</tr>
<tr>
<td>Basic/standard quality</td>
<td>2%</td>
<td>37%</td>
<td>49%</td>
<td>10%</td>
</tr>
<tr>
<td>10000+ employees</td>
<td>20%</td>
<td>38%</td>
<td>30%</td>
<td>6%</td>
</tr>
<tr>
<td>1000-9999 employees</td>
<td>12%</td>
<td>33%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>250-999 employees</td>
<td>6%</td>
<td>33%</td>
<td>59%</td>
<td>0%</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>6%</td>
<td>42%</td>
<td>37%</td>
<td>12%</td>
</tr>
<tr>
<td>10-49 employees</td>
<td>11%</td>
<td>40%</td>
<td>38%</td>
<td>5%</td>
</tr>
<tr>
<td>2-9 employees</td>
<td>9%</td>
<td>37%</td>
<td>34%</td>
<td>11%</td>
</tr>
<tr>
<td>Private services</td>
<td>12%</td>
<td>36%</td>
<td>39%</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing/production</td>
<td>10%</td>
<td>27%</td>
<td>49%</td>
<td>12%</td>
</tr>
<tr>
<td>All private sector</td>
<td>11%</td>
<td>37%</td>
<td>39%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Totals do not add to 100% because ‘don’t know’ responses are not reported.
Source: CIPD Labour Market Outlook, summer 2014.
Self-assessed productivity by training activity
(% of private sector organisations, n=468)

% of workforce trained in last 12 months:
- 10% or less: 5% Well above average, 29% Above average, 39% Average, 18% Below/well below average
- 11-25%: 6% Well above average, 38% Above average, 50% Average, 4% Below/well below average
- 26-50%: 8% Well above average, 40% Above average, 45% Average, 5% Below/well below average
- 51-75%: 12% Well above average, 45% Above average, 37% Average, 6% Below/well below average
- 76-100%: 19% Well above average, 39% Above average, 33% Average, 4% Below/well below average

Training spend in last two years has:
- Increased: 21% Well above average, 40% Above average, 31% Average, 2% Below/well below average
- Stayed the same: 8% Well above average, 39% Above average, 42% Average, 8% Below/well below average
- Decreased: 3% Well above average, 31% Above average, 47% Average, 14% Below/well below average

Organisation uses:
- Apprenticeships: 13% Well above average, 38% Above average, 42% Average, 5% Below/well below average
- Work placements: 14% Well above average, 43% Above average, 36% Average, 4% Below/well below average
- Internships: 20% Well above average, 40% Above average, 31% Average, 5% Below/well below average
- No type of placement*: 12% Well above average, 31% Above average, 39% Average, 11% Below/well below average

All private sector: 11% Well above average, 37% Above average, 39% Average, 7% Below/well below average

* Organisations that did not offer apprenticeships, work placements, internships or ‘other’ placements (the latter were too small a number to be reported separately).
Totals do not add to 100% because ‘don’t know’ responses are not reported.
Source: CIPD Labour Market Outlook, summer 2014.
Self-assessed performance relative to competitors
(% of private sector organisations, n=388)

<table>
<thead>
<tr>
<th>Category</th>
<th>Significantly ahead</th>
<th>Ahead</th>
<th>Holding steady</th>
<th>Behind/significantly behind</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-9 employees</td>
<td>13%</td>
<td>18%</td>
<td>55%</td>
<td>7%</td>
</tr>
<tr>
<td>10-49 employees</td>
<td>12%</td>
<td>27%</td>
<td>49%</td>
<td>9%</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>11%</td>
<td>34%</td>
<td>48%</td>
<td>8%</td>
</tr>
<tr>
<td>250+ employees</td>
<td>15%</td>
<td>28%</td>
<td>42%</td>
<td>12%</td>
</tr>
<tr>
<td>Family culture</td>
<td>17%</td>
<td>23%</td>
<td>48%</td>
<td>9%</td>
</tr>
<tr>
<td>Structured culture</td>
<td>11%</td>
<td>27%</td>
<td>44%</td>
<td>15%</td>
</tr>
<tr>
<td>Dynamic culture</td>
<td>15%</td>
<td>41%</td>
<td>39%</td>
<td>3%</td>
</tr>
<tr>
<td>Results-oriented culture</td>
<td>13%</td>
<td>27%</td>
<td>49%</td>
<td>9%</td>
</tr>
<tr>
<td>Content with current culture</td>
<td>17%</td>
<td>28%</td>
<td>42%</td>
<td>10%</td>
</tr>
<tr>
<td>Wish to change current culture</td>
<td>8%</td>
<td>25%</td>
<td>54%</td>
<td>11%</td>
</tr>
<tr>
<td>All private sector</td>
<td>14%</td>
<td>27%</td>
<td>46%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Totals do not add to 100% because ‘don’t know’ responses are not reported.
Source: HR agility survey, summer 2014.
Self-assessed performance by agile working practices

*(difference* in % of private sector organisations who said they were ‘ahead’/‘significantly ahead’ of their competitors from the private sector average (41%), n=388)*

- Mobile/remote working, 7%
- Quality circles, -11%
- Employees select own tasks, -15%
- Annualised contracts, -11%
- Short hours contracts, -12%
- Output-only, -19%
- Non-hierarchical structure, 7%
- Technology for internal knowledge sharing, 8%
- Mobile/remote working, 7%

Source: HR agility survey, summer 2014.
Multivariate analysis

LMO data

- **Dependent variables**: Relative productivity and change in productivity over previous 12 months (both self-assessed)
- **Independent variables**: Whether ‘productivity’ a term used in organisation, whether productivity measured, market positioning, industry, size of business, training activity, employment of migrants, change in output over previous 12 months

HR agility survey data

- **Dependent variables**: Speed of response relative to competitors, effectiveness of response relative to competitors, performance relative to competitors (all self-assessed)
- **Independent variables**: Whether ‘agility’ a term used in organisation, size of business, organisational culture, use of atypical work, use of flexible resourcing practices, use of flexible working practices, policies on flexible working, use of skill deployment practices, use of smart/agile working practices, use of workplace flexibility practices plus agility (speed and effectiveness of response) feature in the equation for relative performance
Selected results: LMO data

**Significant positive effects**
- Training activity (for both % of workforce trained in last year and trend in training spend for past 2 years)
- Firm size (on productivity growth for firms with 10,000+ employees)
- Output growth in past 12 months

**Significant negative effects**
- If productivity not measured (weak effect)
- Standard/basic quality strategy
- Firm size (on relative productivity for firms with 50-249 employees)
Selected results: HR agility survey

Significant positive effects

- Agility (both speed of response and effectiveness of response)
- Whether ‘agility’ term used in organisation
- Firm size (1,000+ employees – largest size band)
- Selected practices with positive effect: use of apprenticeships/trainees, technology to encourage internal knowledge sharing, 360 degree feedback, mobile/remote working

Significant negative effects

- Organisational culture (negative effect if organisation wishes to change culture in next 5 years)
- Selected practices with negative effect: Flexitime, jobshare, leadership development to encourage staff involvement, technology to encourage ideas from outside, Quality Circles, home working, working from car
Health warnings, qualifications etc

• Survey respondents are people responsible for HR – how well informed are they about business performance or operational effectiveness?

• Single cross-section surveys

• What’s missing?
  • Product market characteristics
  • Exposure to international competition
  • Quality of management (rather than simply whether a practice was used or not)
  • Innovation capability
  • Management-employee relations (trust, engagement etc.)
What are the implications for business and government?
‘What of this could I use in my business?’

- How much **control** does the business have over what it is trying to change?

- Does it have the **capability** to make the change?

- What is the **contingency** (goodness of fit) with everything else it is doing?
Potential areas for improvement

Focus on performance (see earlier)

Market positioning – stronger focus on quality? But do firms have the leadership, capabilities and resources to turn a choice into reality?

Organisational culture – Does the culture fit the business now and in the future? Managers need to be self-critical and seek the views of employees, customers etc.

Maintain investment in training across the business

Adoption of smart/agile management practices – both capability and contingency are important here and this requires a degree of management sophistication
How can government support workplace improvement?

- Better co-ordination across labour market facing Departments
- More visible recognition of the importance of workplace factors
- Support behind a ‘movement’ for change - direct or indirect (e.g. via bodies such as UKCES, Nesta)
- Facilitate experimentation and organisational learning
- Business support focused on eco systems and networks as well as individual firms
- Build culture and infrastructure for lifelong learning
- Lead by example in the public sector?
References


