

Perceptions of productivity

**How medium-sized businesses
approach productivity**

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About Competenz

Competenz is owned by our industry partners – New Zealand's companies in the Engineering, Manufacturing, Baking, Food and Beverage Manufacturing industries.

Our main focus is to help companies achieve greater efficiencies and productivity through the ongoing development of industry skills and workplace learning.

Each year we help approximately 12,000 people in our key industry sectors to gain the knowledge and skills they need to make a positive and valuable contribution to their company's performance.

New Zealand's productivity challenge

Kiwis work long hours but produce less than their European and Australian counterparts. Closing this gap and improving our standard of living depends on our ability to raise outputs per worker. This requires being open to new ideas and applying new skills, technologies and work practices in the business. The effective development and utilisation of workplace skills is vital to improving New Zealand's global competitiveness and requires a focused effort and strategic approach across training institutions, industry, unions, businesses and government. The call is challenging but ignoring the issue will see the productivity of New Zealand businesses lag further behind their global competitors.

So what exactly is productivity?

In an economic sense, productivity is the goods and services produced from each hour of work. In essence, improved productivity is the magic elixir of economic progress and it is why we live better than our grandparents did, without the need to work longer hours.

Technically, productivity is the ratio of output to input. It is a measure of how efficiently and effectively a business or an economy uses inputs such as labour and capital to produce outputs such as goods and services. Therefore, increased productivity entails the higher production of goods and services utilising the same amount of labor and capital. However, it is not merely about cutting costs but “doing things right” and “doing the right things” to achieve maximum efficiency and value.

So why is this important?

Increased productivity benefits the economy, businesses and ultimately people in terms of higher income and improved living standards. It is essential for a company's

“The key to increased productivity is a committed leader – someone focused on both the ideas and the detail. Strategies to help lift productivity fall into place thereafter. Highly skilled people also lift productivity, but strong leadership is required to guide those people.”

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continued growth, competitiveness and survival. Industry feedback indicates that the up-skilling of staff members has the effect of promoting innovative behaviour. This investment in skills also creates workers who are more capable and able to adapt to new technologies. In general, skilled employees work more quickly and accurately, require less supervision, accept more responsibility and are better communicators.

The current perceptions of productivity

Our research shows that business owners in New Zealand are constantly looking for ways to improve productivity, and with it, their bottom lines. Asked about the key areas for improving productivity, respondents' first thoughts centered on the need to train their people. However, most resort to changing processes instead, perceiving that it is easier to change a process as opposed to a person.

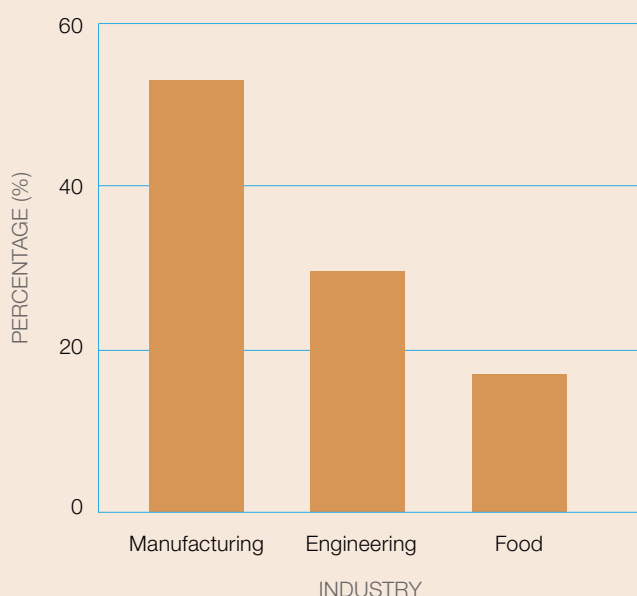
And, interestingly, the businesses surveyed that had the highest growth over the past few years favoured more investments in people than processes, suggesting an investment in people is a better driver in improving productivity than processes.

The survey

Competenz commissioned a survey to measure medium-sized business owners' perceptions of how best to increase productivity. The survey was conducted in July 2010. A total of 200 businesses employing between 20–50 people were surveyed. Of those companies, 53% are manufacturing, 30% engineering and 17% food companies¹.

Respondents were sampled at random, nationwide. However results showed that medium-sized manufacturing, engineering and food businesses are more concentrated in regional and provincial centres: 35% of respondents were Auckland-based, 14% Christchurch-based, 4% Wellington-based and the balance of 47% spread regionally.

Distribution of sample across various industries



¹ Food is processing, non-farm, not restaurant or café, but includes bakery.

Key findings

- Productivity is very important to medium sized businesses.
- 86% of businesses had made changes to improve productivity in the last two years.
- Business owners believe that 'better trained staff' is the number one way to improve productivity; 62% strongly agree that 'skills training will increase productivity in my business'.
- In practice, however, training staff only ranked fourth in what businesses actually did to improve productivity.
- The most common action businesses took was to improve business processes (37%).
- 78% of businesses would seek advice on becoming more productive, but there is no clear source for advice.
- 73% of businesses think changes must return gains within one year or less.
- High growth firms are 16% more likely to make changes to increase productivity than high decline firms, with 18% more likely to have made more than one change in the last two years.
- High decline firms favour investment in process whereas high growth firms favour investment in people.
- Ironically, there are more business process improvements in high growth firms, while high decline firms end up with fewer improvements.
- This suggests investing in people is related to higher business growth and more improvements in business process.

The results

People and Processes

Manufacturing is the biggest employment sector in Auckland and the second largest across the country, making up 11.5% of the national workforce. Thus, the performance of the manufacturing sector is not only critical to the employment scene in New Zealand but also to the general well-being of the economy.

A high proportion of manufacturing jobs were lost as a result of the recent economic downturn which saw consumers restrain and limit their spending. Despite this, the sector as a whole continues to slowly but steadily expand – creating new jobs and boosting the economy.

Without prompting them with any examples, respondents were asked what they thought would increase productivity in their business.

Just over a third of respondents said that ‘Better Trained Staff’ would increase productivity, indicating that this factors strongly for a significant proportion of businesses.

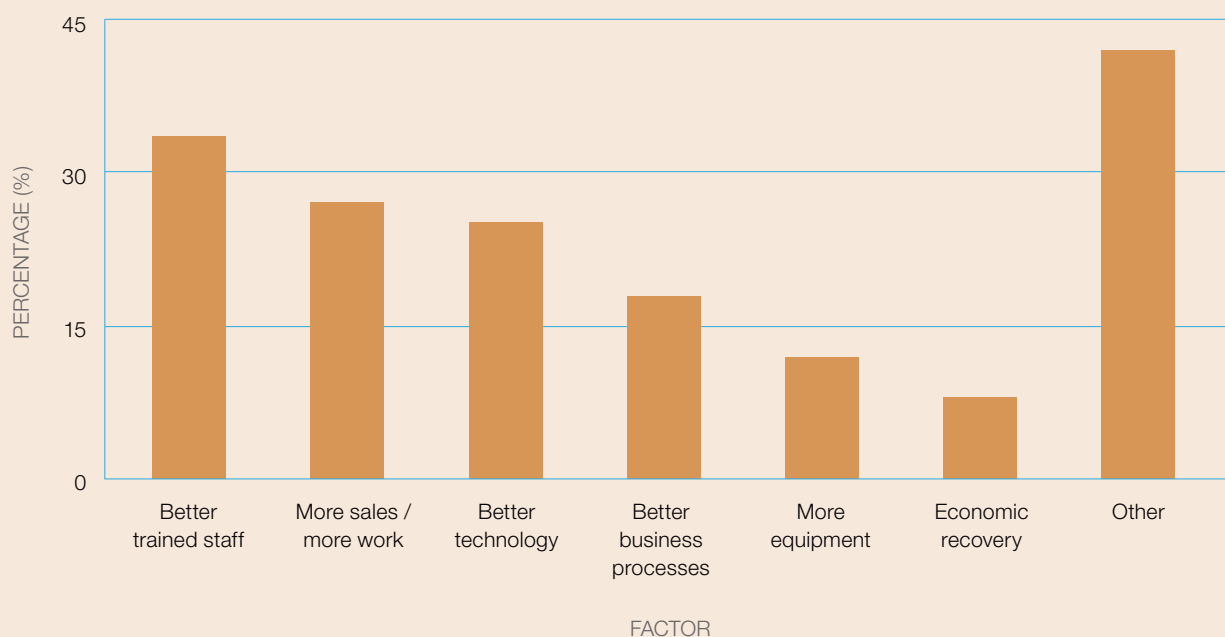
Interestingly, 27% of medium sized businesses indicated they had spare capacity or they needed more sales/work to increase productivity and there was almost no mention of the numerator in the productivity equation – increasing the value of products and services.

However, employers also cited a wide range of other approaches suggesting that a mixture of activity is required as opposed to a silver bullet singular approach.

“New Zealand businesses are traditional in their thinking and therefore risk missing out on global trends. Speed of change – the thinking of owners, managers and leaders – is critical to increasing productivity.”

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Business owners citing various factors as being important for productivity improvement



Seven key drivers for change

Increasing productivity is not just about short term ways to improve the bottom line. It requires being open to new ideas as well as adapting to and deducing how new skills, technology and work practices can improve the business. It involves exploring all the ways that workplaces can do things better and smarter.

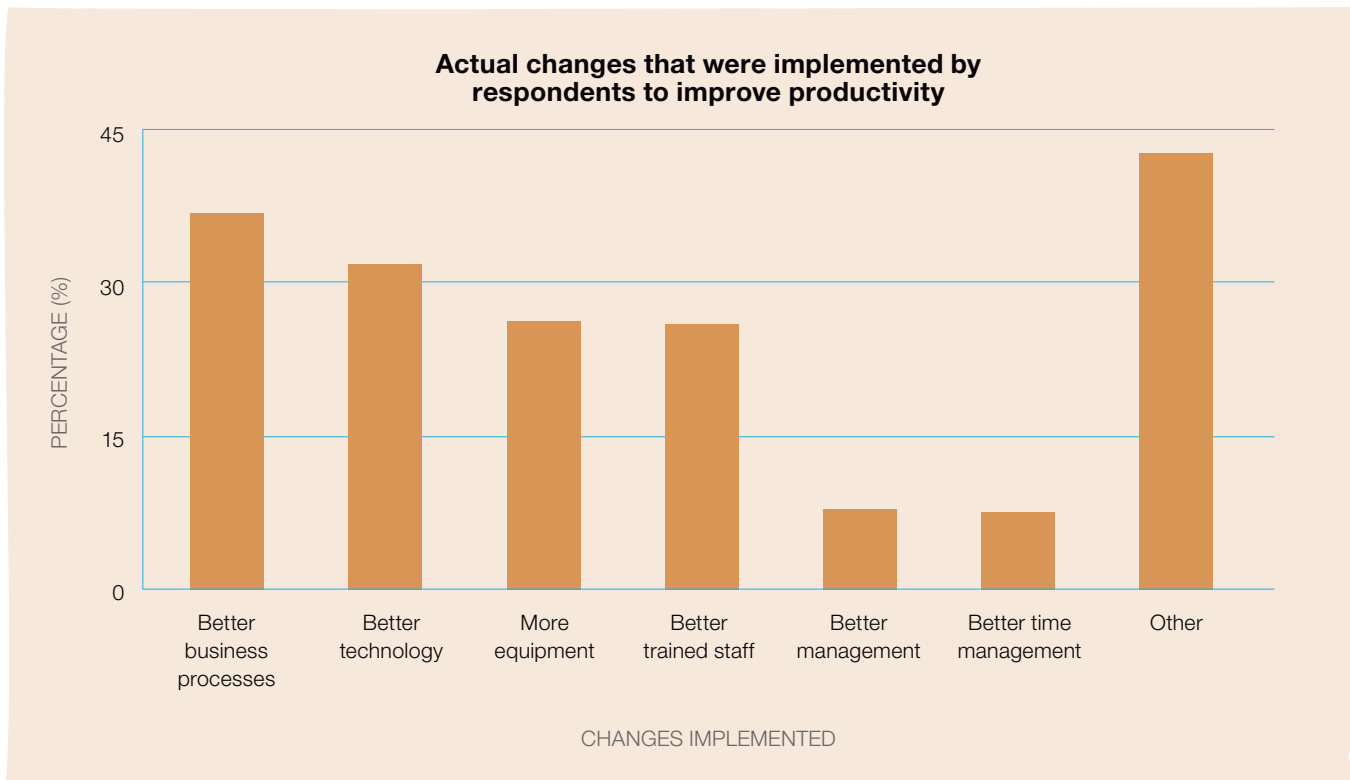
There are no quick fixes and a number of factors are important to lifting productivity. The seven key drivers of productivity are:

- A capable management team that delivers strong leadership
- Creating a productive workplace culture
- Using technology intelligently
- Investing in human capital to ensure that staff are skilled and motivated
- Good organisation to create 'fit' between the various parts of the business
- Investing into the business network by developing strong business connections
- Measuring and evaluating performance by tracking inputs, processes and outputs

Source: Department of Labour – The Workplace Productivity Challenge

“Currently there is no coordinated leadership from Government or the Tertiary Education sector around improving productivity in our businesses. New Zealand has a disparate group of agencies with no central coordination, which is a shame as business owners can do a great deal with good advice. If the new Productivity Commission is going to provide leadership and direction, it will be a good thing for industries. However, if it is just a regulatory framework standing in the way of businesses increasing productivity, then it will not work.”

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“Low growth companies often think they can’t afford to pay for advice. We say be open to taking advice. Know when to ask for help and have an open mind. Expose yourself to more people working in a similar environment, going through a similar process and network effectively.”

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Medium-sized businesses agree productivity is important

Of those medium-sized businesses surveyed, 86% indicated that changes had been made to their business to increase productivity in the last two years. This is promising, but there is a large gap between what businesses think to be important in increasing productivity and what they actually do to increase productivity.

For example, although 34% of businesses cited the importance of better trained staff, only 26% had actually implemented changes to bring about this outcome. Instead, it would seem that implementing better processes, technology and acquiring more equipment take precedence over up-skilling of staff. The responses are summarised in the graph above.

Don't make excuses

There was a small minority of respondents that did not focus on the need to increase productivity and there were varying reasons for this. These ranged from “not being able to afford to” and “don't have the time”, through to an outright rejection of the need to increase productivity.

Allowing time for improvements to be made to a business is a critical factor in improving productivity. When there is no focus or time set aside, a business can often lurch from one crisis to another without ‘bedding in’ improvements.

Reason	Percentage (%)
Can't afford to do it	5
Don't need to	4
Have too little work	2
Have not thought about it	2
Already efficient / productive	2
Don't consider it important	1
Not sure how to increase productivity	1
Too busy	1
Already monitor	1
Just starting staff training	1

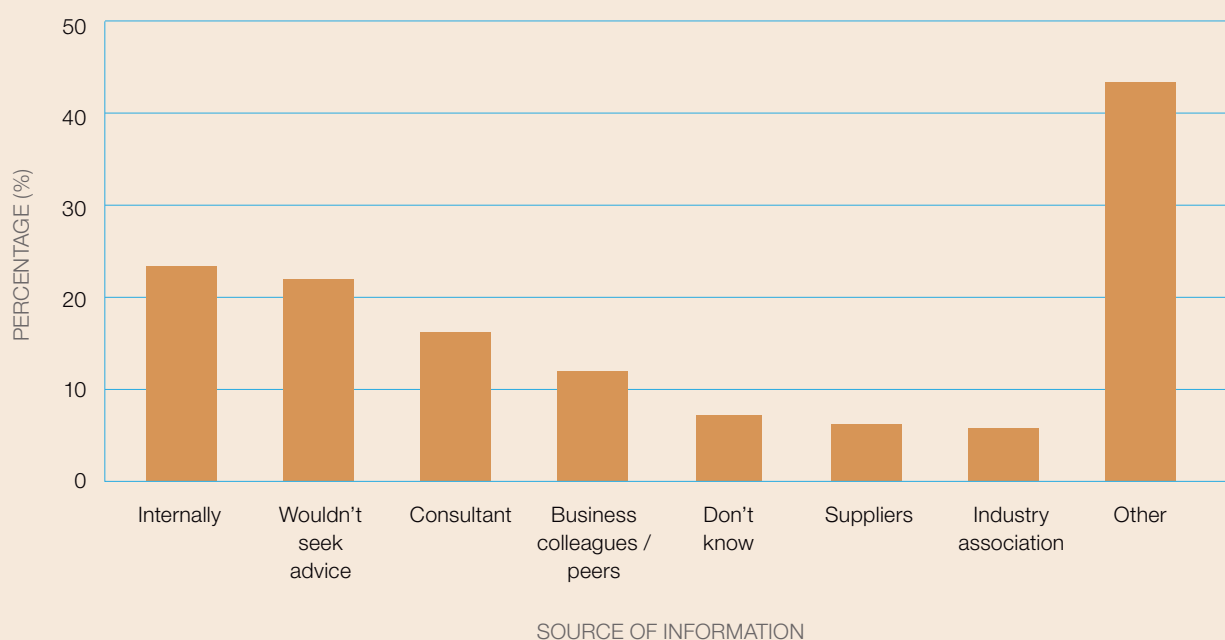
Summary of the top reasons as to why productivity is not addressed

Who do you turn to?

There is clear evidence that a high proportion of New Zealand businesses do not know where to turn to for help. As shown in the graph below, peers within their business and social networks are a popular first port of call. Worryingly, 22% of respondents would not even ask for advice or help. Furthermore, it is evident that businesses face a confusing array of consultants, gurus and agencies when they are looking for sound and

objective advice on improving their staff or processes. This presents a strong case for industry owned organisations or industry training organisations (ITOs) being tasked with cutting through the noise to present independent and well-researched guidance.

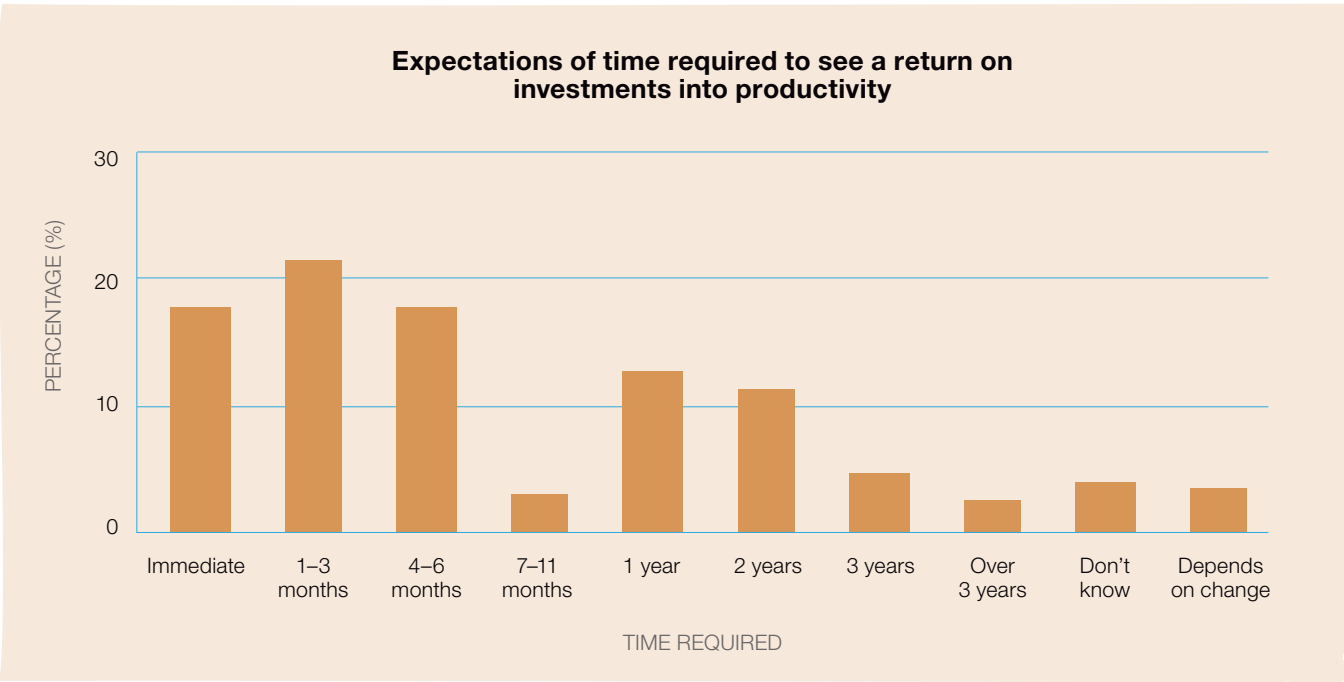
Sources of information respondents turn to for advice on improving productivity



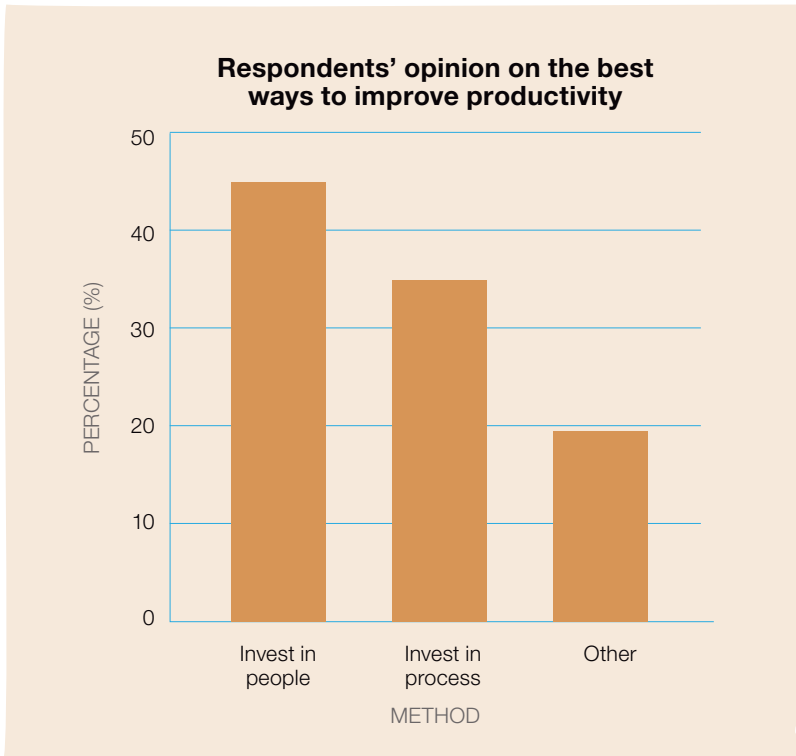
People make the difference

According to the businesses surveyed, changes to increase productivity – be it with people, processes or technology – must generally show results within a year to be seen as worthwhile. 39% think gains must be made within three months or less while 18% think gains must be immediate. This

short term mind-set is problematic as local and international research consistently indicates that certain investments and changes require a longer period to deliver a return on investment. The best practice approach is to have a balance of short term gains and long term perspectives ensuring quick wins and future gains.



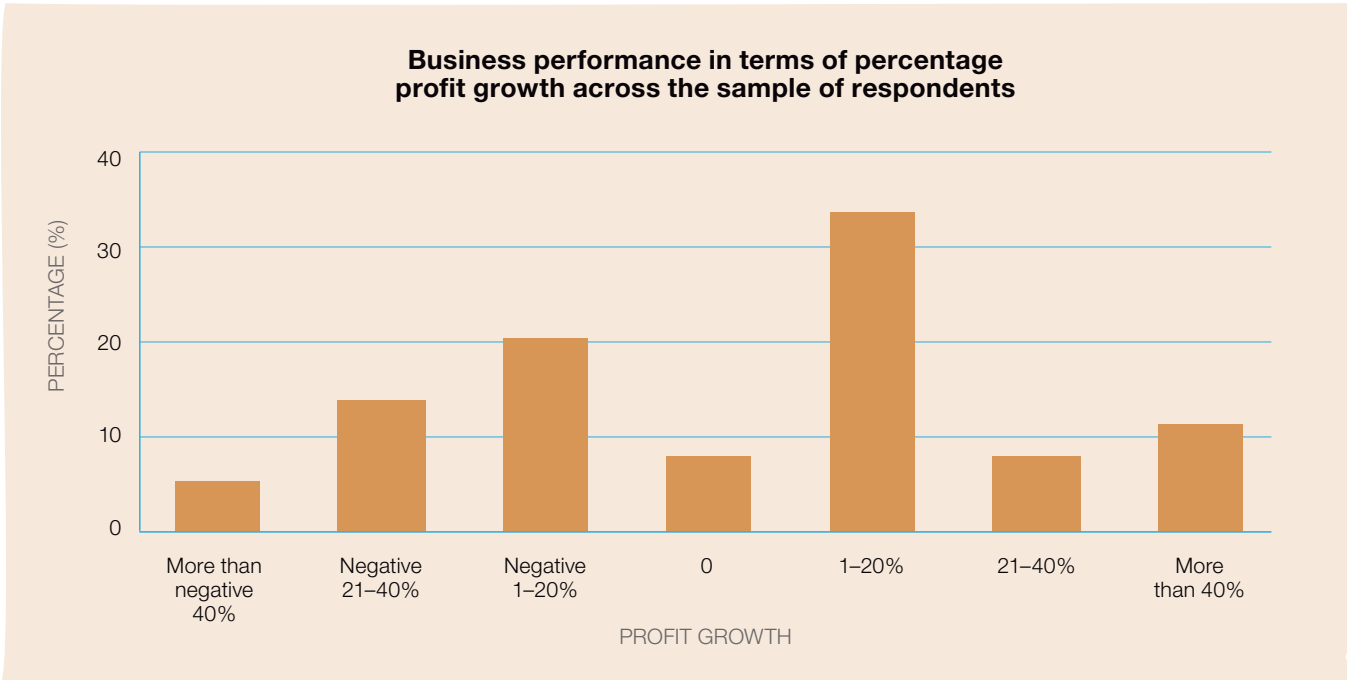
As shown in the graph on the right, the majority of respondents said investing in people is the better investment to lift productivity while 35% preferred processes. Other options were seen as a combination of people and processes; plant and equipment, investing in technology, updating equipment and Organisational Performance programmes.



The right change can create growth

Change does not in itself create growth. Instead, it is the right change that creates growth. However, this begs an obvious question; if the right change is so important, how do businesses go about finding out what the ‘right changes’ should be?

Regardless of whether respondents had implemented changes to their business practices, 34% of those surveyed said their business had experienced profit growth between 1–20% in the last two years, while 11% had enjoyed profit growth of over 40%.



Looking further into the business practices of the high growth group, a small but statistically significant correlation can be seen – high growth firms are more likely to be changing their business to increase productivity than high decline firms. It is apparent that investments into productivity are a focus of high growth firms. As summarised in the table on the right, the high growth firms are 18% more likely to have implemented more than one change. The high-decline group is two-and-a-half times more likely to have made no changes at all.

Number of changes to business to increase productivity	High growth group	High decline group
No changes	11%	27%
One change	20%	22%
Two changes	37%	22%
Three changes	17%	17%
Four changes	6%	3%
Five or more changes	9%	9%

Summary of the number of changes implemented to improve productivity by respondents in the high growth and high decline group

Which do you think is the better investment to lift productivity in your business?	Percentage within rate of growth / decline				
	High growth group	Medium growth group	No growth / decline	Medium decline	High decline group
Invest in people	43%	52%	53%	37%	39%
Invest in processes	23%	35%	40%	50%	39%
Other	34%	13%	7%	13%	22%

Growth firms are more likely to favour investments in people than processes. Decline firms are equally or more likely to favour investments in processes to improve productivity.

The table above shows where each group believes they should invest when attempting to lift productivity in their business. Growth firms favour investing in people, and declining firms favour investing in processes.

The table to the right shows where they actually invested to make improvements in their business. Ironically, there are more business process improvements in high growth firms compared to high decline firms, who favour investment in business processes but end up with fewer improvements.

The high growth group are 23% more likely to have improved business processes, and 15% more likely to have incorporated better technology in the last two years. They are also 15% more likely to have made other sorts of changes to improve productivity.

It appears that favouring investment in people is related to higher business growth and more improvements in business processes. Investment in people should therefore be an attractive proposition for business owners.

Types of changes to business to increase productivity	High growth group	High decline group
Better business processes	54%	31%
Better technology	43%	28%
Better trained staff	26%	25%
More equipment	23%	19%
Better time management	11%	6%
Adding value to products / services	6%	17%
Other	51%	36%

Summary of the types of changes implemented to improve productivity

“Signing people into training is the easy part. Supporting, encouraging and mentoring those people through their training (in conjunction with the ITO) to reach their full potential is the hard part. However, training not only improves people’s ability to do their job but also provides them with a sense of achievement and self worth that increases their confidence in themselves. These silent benefits are often the most important.”

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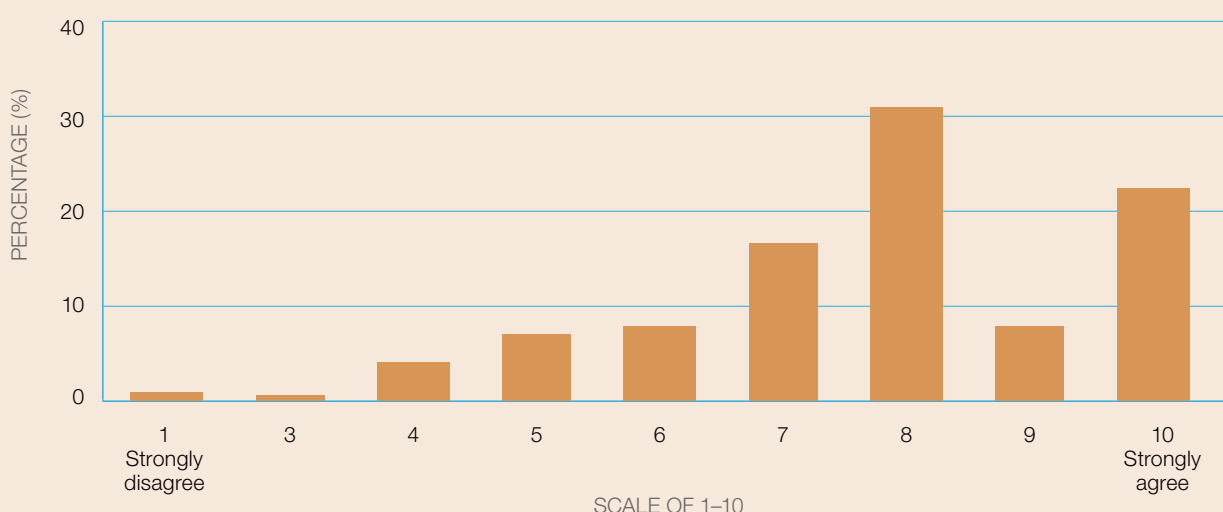
Small change gives big gain

There is a direct correlation between making the right change to business practice and increasing productivity. The questions business owners need to ask include: Have I got the right product and market and can I adapt to changes in markets?

The one constant that can assist businesses is people.

The survey also showed that 62% of medium sized business owners and managers strongly agree (rating of 8 or above) that skills training will improve performance and productivity.

Respondents who agree that investment in staff will improve productivity



Meeting the challenge

The challenges faced by businesses to remain competitive have led to a growing demand from medium-sized manufacturing employers for external support and advice on improving productivity and performance. This has been further highlighted by difficult economic conditions that have placed pressure on profit margins and has fueled the need to operate leaner and smarter in order to survive.

This survey shows there is no one accepted way to improve productivity. However, a large proportion of respondents used a combination of up-skilling people and improving processes to improve performance. While investment in processes is important, an investment in people is paramount for the long term health of a business as well as reaping the full benefits of investments made into processes.

Investing in people is not easy and requires a clearly thought out, long term training strategy that complements the organisation's key business objectives. Investing in people is an integral part of improving productivity and while medium-sized business owners are committed to training, they find getting the right solution difficult.

As an Industry Training Organization (ITO), Competenz is in a well-placed position to facilitate conversations about business issues as well as providing advice and support services around staff training. Organisations of all sizes can benefit from training their employees and Competenz will work with external training providers to deliver individually tailored qualifications and programmes to suit individual business needs.

With the continued emphasis on operational efficiencies, investments in people are a better driver of more productivity improvements than simply investing in the surface issue, the business processes.

“Because we see skill development as part of the process, we don’t see our role restricted to just developing skills. We take an advisory role – a holistic business approach. Competenz’s role is to add value across the whole business.”

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If you want more information with any aspect of industry training contact Competenz on:

T: 0800 526 1800

E: info@competenz.org.nz

Web: www.competenz.org.nz