

PRODUCTIVITY: WHAT BUSINESS THINKS

PAPER #6 OF THE MCA PRODUCTIVITY CAMPAIGN



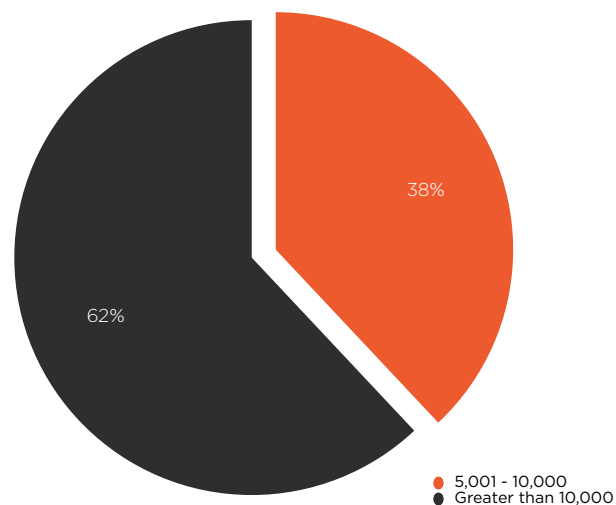
PRODUCTIVITY: WHAT BUSINESS THINKS

Business leaders are serious about productivity. Their insights are sophisticated

VIGA To get to grips with how the issue of productivity is really understood in major businesses, we commissioned our research partners VIGA to survey industry leaders. The results were fascinating.

The survey focused on key verticals: Financial Services, Digital and Technology, Manufacturing, Retail, and a general infrastructure and regulated industries category, including Energy and Resources firms, Transport and other Infrastructure concerns. Firms targeted were large. SMEs (firms with revenues under £50m) were qualified out. So too were firms with staff numbers below 5000. (Figures 1 and 2.)

Figure 2 Number of employees



In practice, the additional qualifying out on staff size means that the 14% of respondents in the £50m - £250m scale in Figure 1 are towards the top end of that bracket, while 68% of respondents came from firms with turnover of over £1bn, with 25% in the £1-5bn range, 20% £5-10bn, and 23% representing firms of more than £10bn turnover. So the sample is very substantially weighted towards very large enterprises.

Figure 1 What is the gross annual revenue of your organisation?

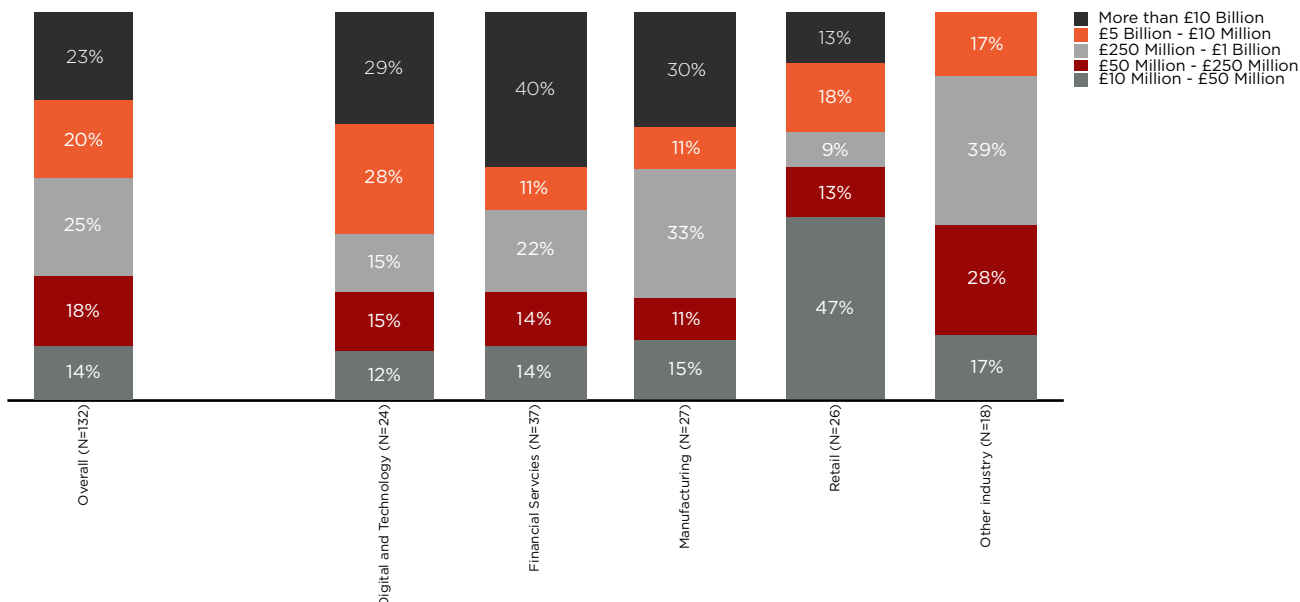
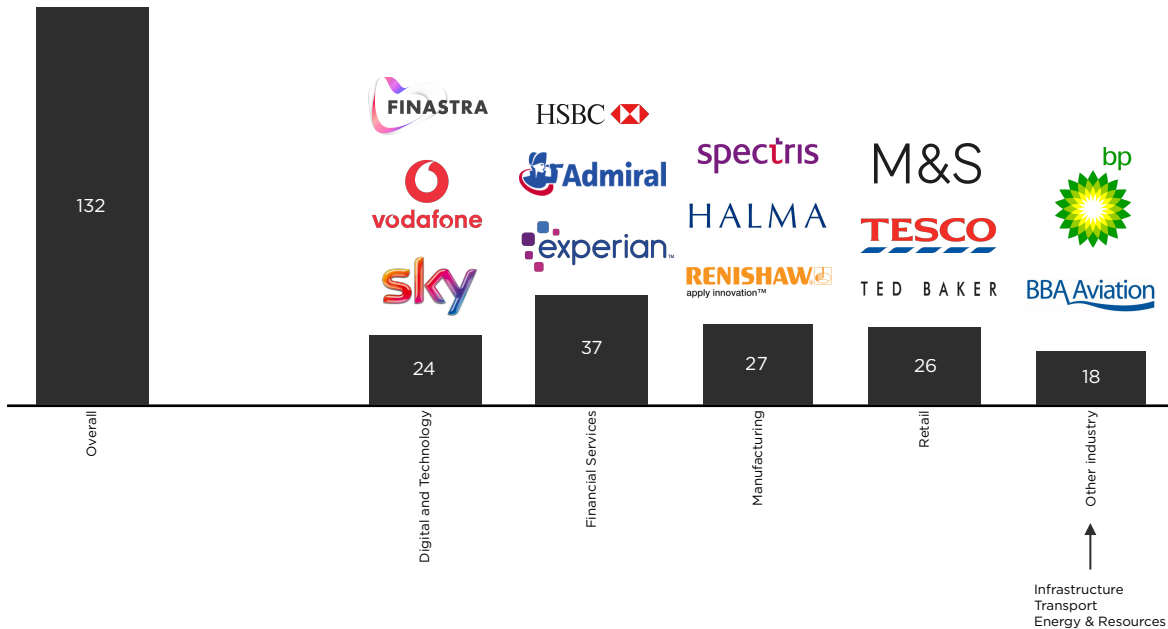


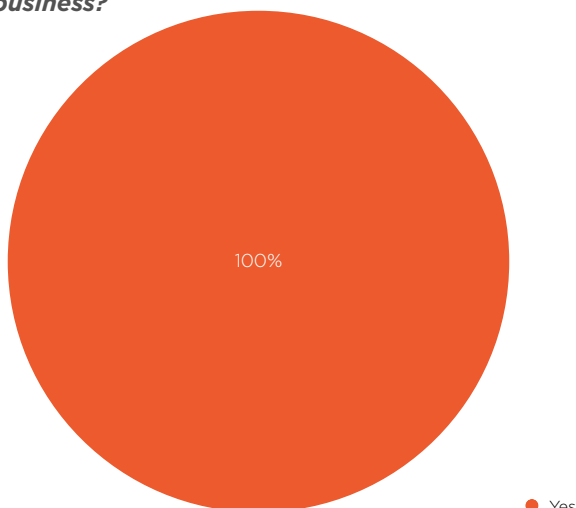
Figure 3 Distribution of Relevant Industry Verticals



Accordingly, some of the UK's most substantial brands responded to the survey, including Sky, Vodafone, HSBC, Admiral, BP, M&S, and Tesco. (Figure 3.) 9% of respondents were board members, 43% C-suite or director level, 48% in senior management.

Some commentators suggest that productivity is a major concern of policymakers but matters much less to businesses themselves. So we asked businesses straight out whether productivity mattered to their firm. (Figure 4.)

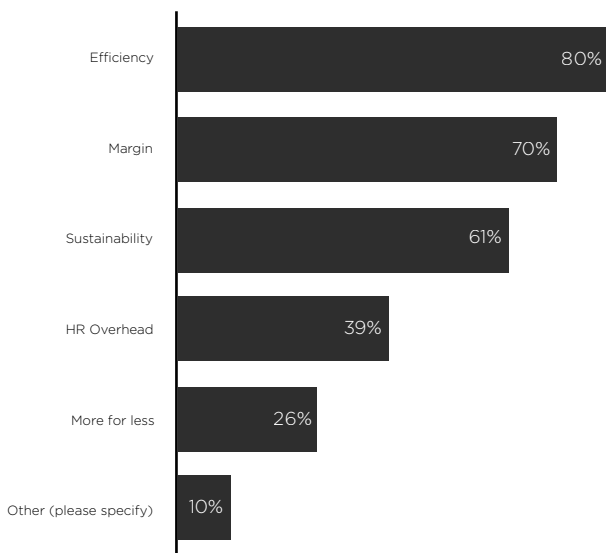
Figure 4 Does productivity truly matter to your business?



100% of respondents said it did. Even allowing for the productivity bias in a survey on productivity, this is a startling result.

Perhaps more startling still was the relationship between what might be termed 'traditional' reasons for seeking productivity gains and an emerging 'modern' narrative. Respondents were asked to choose from a list of reasons why productivity mattered. The summary of their responses on the one hand seems unsurprising. But actually an interesting picture begins to emerge. (Figure 5.)

Figure 5 Why does productivity matter to your business?



The preponderance of selections of efficiency is the unsurprising part. Indeed, it is frequently felt that when businesses or commentators talk about productivity, they really mean efficiency, even though technically that is a different thing. However it is striking that efficiency was more frequently chosen than margin and that, moreover, there is a significant interest in the relationship between sustainability and productivity.

One explanation is the nature of business's understanding of both productivity and efficiency.

The following narrative was provided respondents on productivity's importance. (Figures 6.)

If one substituted the word 'efficiency' for 'productivity' in Figure 6, then the statements would indeed remain coherent. But only if efficiency were understood in its most comprehensive sense. Indeed, these assertions imply that the respondents see productivity as *fundamental* to their business success, even to the very *identity* of their businesses.

Figure 6 Qualitative responses to 'Does productivity matter?'

"Because you need to be **Productive** in work for it to truly bring financial gains. If you aren't **Productive**, you may be earning, but not reaching your potential..."

"**Productivity** is essential to deliver an effective and efficient service and products to customers..."

"**Productivity** has a direct effect on bottom line and market share..."

"You rely on **Productivity** heavily to make profits..."

"We need **Productivity** for growth..."

"For manufacturing, **Productivity** increases are a major element of profitability..."

"Without impressive **Productivity** levels, my business' all-around competitiveness is greatly reduced..."

"Without **Productivity** we have no business..."

"Businesses that are not **Productive** fail!"

"**Productivity** leads to higher profits and greater shareholder returns. Higher **Productivity** results in better motivated staff..."

"**Productivity** is one of the best ways of measuring the success of a business..."

"**Productivity** defines a company as a brand."

"Increased **Productivity** leads to more efficiencies and increased output/outcomes..."

"**Productivity** releases cash to reinvest in the business and returning greater funds to shareholders..."

"I believe **Productivity** is essential for the wellbeing of a company..."

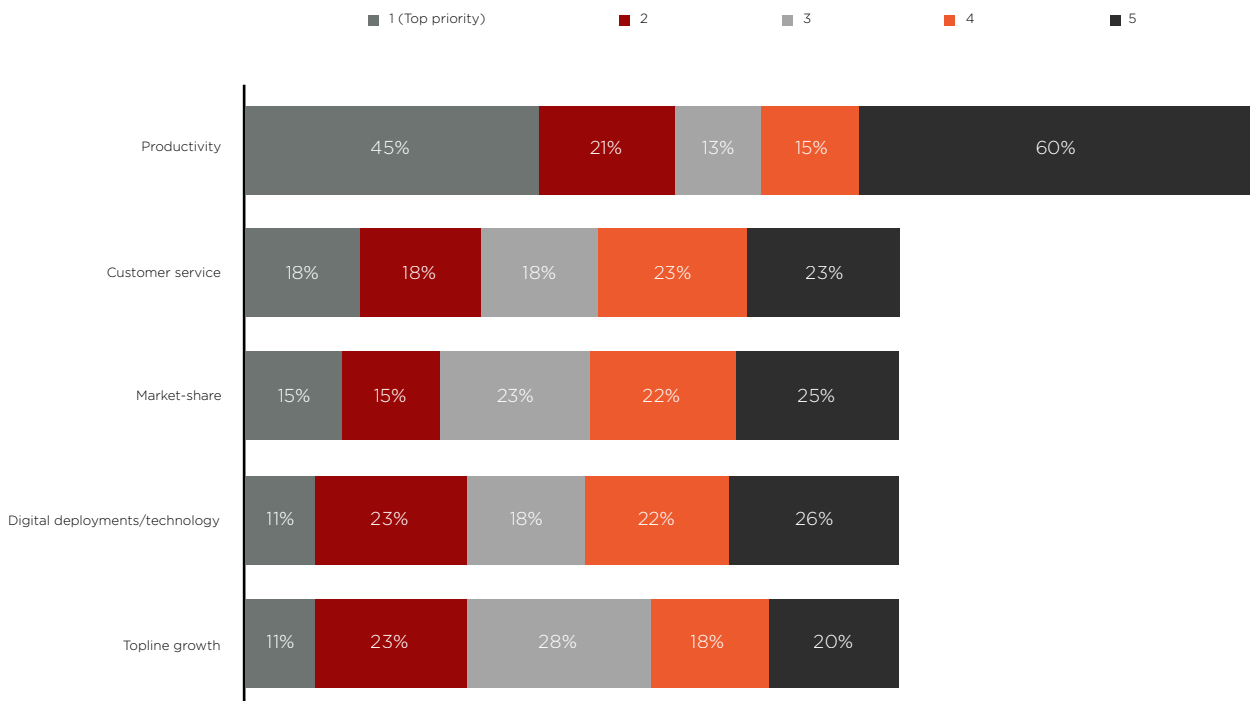
"Without impressive **productivity** levels, my business' all around competitiveness is greatly reduced."

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"For Manufacturing, **productivity** increases are a major element of profitability."

That fundamental quality is also borne out by the priority respondents accorded productivity relative to other business challenges, such as customer service, topline growth, market share, and deployments of digital technology. (Figure 7.)

Figure 7 How does productivity rank relative to other challenges?



That so many more respondents should have ranked productivity first than any other category is striking. That so few should have ranked topline growth as the first consideration is also remarkable. Moreover that customer services is in second place may be linked to other dynamics in the survey.

Indeed, this linkage may especially relate to a substantial minority thread in the survey. We asked respondents whether they preferred to characterise productivity in terms of inputs to outputs or inputs to *outcomes*. (Figures 8 and 9.)

Figure 8 Do You Prefer Inputs/Outputs or Inputs/Outcomes Productivity Measure

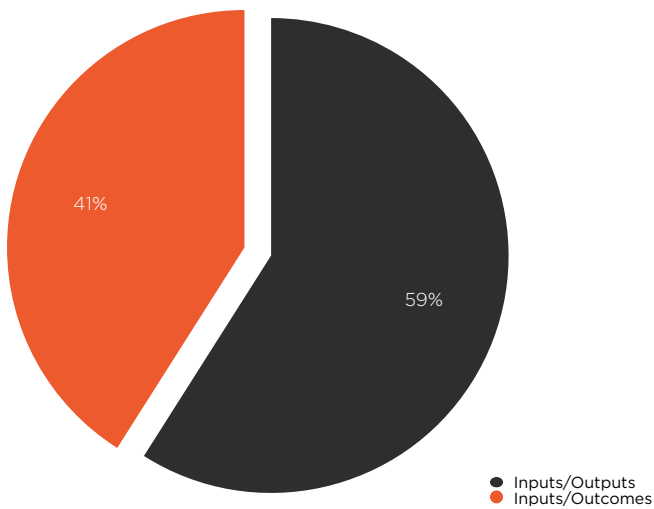
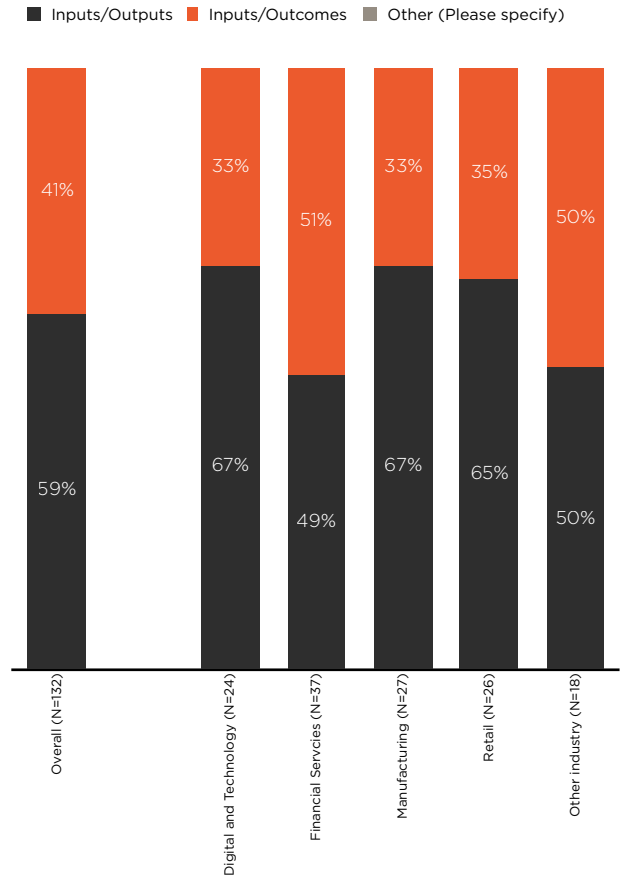


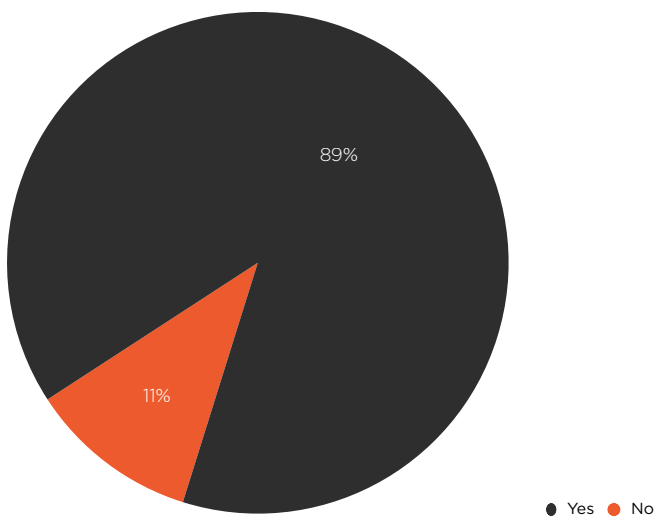
Figure 9 Do You Prefer Inputs/Outputs v. Inputs/Outcomes - Industry Breakout



While the majority of respondents chose the more traditional output definition, a substantial minority chose outcomes. Broken down, there is a majority for the outcome definition among Financial Services respondents, with substantial minorities in the other sectors. An outcome-focused idea of productivity may be connected with the association some respondents made between productivity and brand image. Further, it seems to relate to the importance respondents accord customer service in general. In a service economy such as the UK, achieving outcomes for customers is what builds businesses. In the Digital Age, where customer value may be delivered through non-traditional means and consumption can relate to products that are more or less intangible, that customer outcome dynamic is intensified. It will be interesting to see whether this substantial minority becomes a majority over time. Indeed, in our view, intelligent debate and fresh thinking about productivity would be encouraged by an outcome-focused understanding of productivity.

Evidence from the survey on the degree to which digital deployments enhance productivity was intriguing. A clear majority indicated that digital had enhanced productivity. (Figure 10.)

Figure 10 *Have you found digital deployments within your organisation have improved productivity?*



When explaining why, respondents provided some useful perspectives.

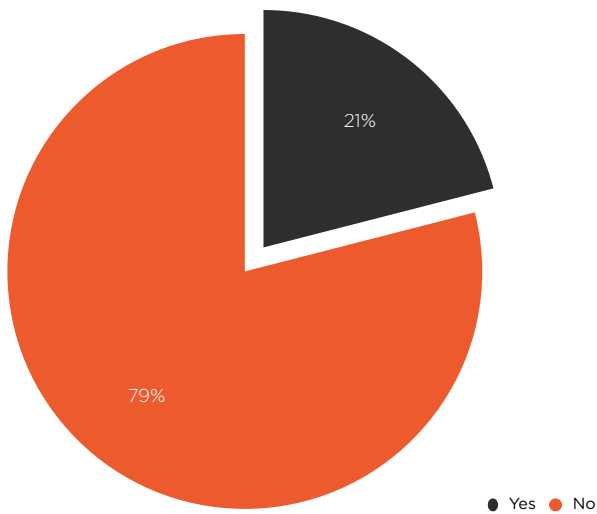
Figure 11 *How digital deployments have Improved productivity*



Summarised in Figure 11, there are sound points about improvements in process efficiency. However, there is again a customer narrative. Respondents highlight the potential to reach customers in volume and speed, very much in keeping with the need for a real-time product image and business model central to the Digital Age. Indeed, some stress the opportunity digital deployments afford to free up human resources to focus on customer outcomes. This is all consistent with the brand-value, customer and outcome threads of the survey.

However, a substantial minority indicated that they had been disappointed at the results of digital transformations. (Figure 12.)

Figure 12 *Have you experienced unexpectedly low productivity gains/returns from a digital deployment?*



Their reasons why tended to relate to time, training and intriguingly Brexit issues. (Figure 13.)

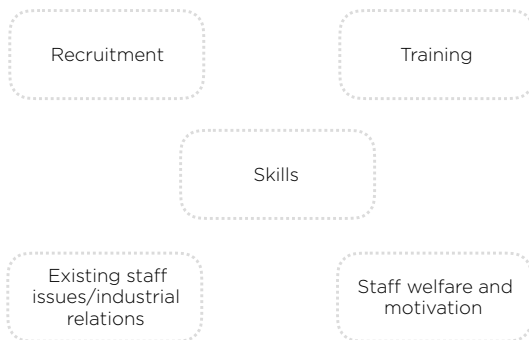
Figure 13 *Reasons for low digital impact on productivity*



Positivity about digital overall accompanied by a substantial minority recognition that realising its benefits can be challenging accords with other MCA research. Digital's gains have been important, even significant. But as slower productivity growth in the UK's major enterprises corporates since 2008 than before the Financial Crisis suggests, it has yet to be transformational. There is still untapped digital potential.

The range of responses relating to other productivity challenges partly bears this out.

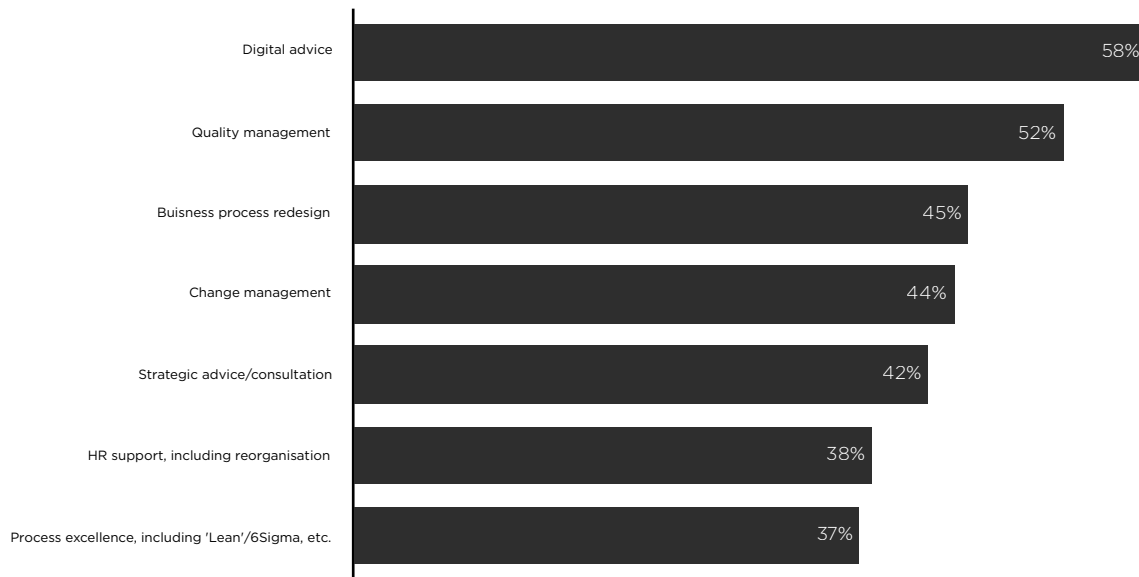
Figure 14 *How digital deployments have improved productivity*



As summarised in Figure 14, some respondents indicated that they had problems with existing staff on productivity. Others highlighted the challenges in getting the right staff (presumably in terms of skills) for productivity initiatives. This may well link back to the problems associated with certain digital deployments. However, although a few industrial relations issues were flagged, respondents were on the whole nuanced and sensitive in their references to staff questions. Some respondents flagged up training needs and even staff welfare. In other articles in this series, we have drawn attention to the desire of many MCA firms to see the term productivity 'detoxified', by stripping it of its associations of staff pressure and relating it instead to the business equipping staff to do work more effectively and enjoy more fulfilling jobs. There are many elements of this survey that seem to accord with this view.

We asked respondents to indicate what their future advice needs in relation to productivity might be. (Figure 15.)

Figure 15 Consulting support



While the importance of digital advice is unsurprising, given the pattern of existing demand for advice services (digital is the largest consulting service line), quality management is an intriguing second choice. This may relate to the fact that quality process failures have set back the productivity (and the brand image) of major organisations in areas such as automotive or the charitable sector. More generally, it may be an aspect of the digital issue itself. Digital realises some productive value. But a culture of digital excellence, with skilled and adequately supported staff working with new technologies to create strong outcomes for clients, is the real prize.

the consulting industry, the challenge will be to recognise the priority businesses accord this theme – and develop suitable productivity offers.

Finally, we asked what respondents wanted from policymakers.

Figure 16 *How policy makers can help*



The responses summarised in Figure 16 were very varied, from supply-side worker incentives to reductions in regulatory burdens. Striking however was the degree to which clearer thinking and more tangible support on productivity from government was requested, as well as the removal of Brexit-related uncertainties.

From the survey, it is reasonable to conclude that businesses approach productivity with seriousness and thoughtfulness. There are subtle nuances here wholly missing from many government pronouncements or calls for evidence, rather belying the notion that the topic is a policymaker preoccupation and an optional extra for business. Indeed, respondents see productivity as a business *fundamental*, one related to brand identity. There is an emerging productivity narrative here too that differs from just 'getting more out of staff'. That view prevails of course, but perhaps in more thoughtful, even benign form. Productivity is increasingly linked to business image, customer satisfaction and the attainment of outcomes, all achieved through digitisation and a preoccupation with quality. For



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