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CIPD
Championing better work and working lives

The productivity challenge: unlocking workplace potential

> Despite some positive developments, the Union continues to face a number of structural problems that hold back productivity growth.

Background
The European Commission says that: *'Competitiveness is at the top of the Commission's political agenda as it is the basis for strong and sustained economic growth and improving living standards'* (EC Directorate-General for Economic and Financial Affairs 2015). Promoting productivity growth is crucial to improving competitiveness in Europe, but an ageing and slowly growing population means that the scope for more growth just by making more use of labour is limited in the long run, says the Commission. Over the longer term, EU competitiveness and prosperity must rely on productivity growth – we must produce more with less.

This does not mean that people, and workplaces, can't be more productive by better utilisation of people's skills and talent: as the Commission points out, there is a need for the EU to use resources in better ways. National governments' macro-economic policies and EU-wide structural reforms have a significant role to play in boosting productivity, but recent CIPD research sheds a light on some of the more micro-level workplace practices that can improve business performance.

This briefing is drawn primarily from reports on productivity researched and written by CIPD Chief Economist Mark Beatson. The research includes survey information based on samples of senior business leaders and HR professionals. Although the studies have been conducted mainly with reference to the UK's productivity performance, the findings on how productivity can be improved at enterprise level can be applied (albeit to varying degrees) to workplaces across the EU.

The Commission's productivity perspective
Despite some positive developments, the Union continues to face a number of structural problems that hold back productivity growth, namely the difficulty in developing high-tech sectors, especially in information and communication technologies (ICT) producing industries and ICT-using services, where prospects for productivity growth are higher (EC Directorate-General for Economic and Financial Affairs 2015). Therefore, the EU aims to put in place the right conditions to enable companies to realise their full business potential in high-productivity-growth activities. For this, *'while appropriate macroeconomic policies are important, the ongoing implementation of EU-wide structural reforms is fundamental, as the Union needs to improve market functioning,'* says the Commission.

While the implementation of reforms to boost productivity are to a great extent the responsibility of each member state, the Commission says it has an important role to play in three fundamental areas:

1 ensuring the success of the Lisbon Strategy's objective of a co-ordinated EU-wide agenda of structural reforms that will maximise the potential interaction and synergies between the reforms implemented in the different member states

2 improving the functioning of Economic and Monetary Union (EMU)

3 completing the internal market to ensure that markets function well across the EU, enabling consumers and business to reap the full benefits of the process of economic integration.

Productivity levels in the EU
Before comparing relative productivity levels in the EU, it is useful to define what we mean by productivity. In principle, there are many ways to measure productivity, but the most common measure used is labour productivity, and the two statistics usually quoted are output per hour worked and output per worker. Therefore, productivity can be thought of as how effectively organisations, and the people working in them, produce value from available inputs. It's difficult to think of something more important for the success of any organisation, yet, as shown in our research, understanding of the term in UK business is patchy (CIPD 2015). We found that a third of businesses in the UK don't measure their productivity and many of those that say they measure it appear in practice to be thinking about business performance more generally.

Table 1 shows labour productivity according to OECD statistics based on GDP per hour worked (expressed as US dollars in constant prices and adjusting for differences in the cost of living). As it shows, EU productivity growth is low compared with the US. Of the 23 EU member states included in the table, Luxembourg has by far the highest productivity in 2014, at 92.5, followed by Belgium (66.8), the Netherlands (64.8), France (64), Denmark (63.6), Germany (63.5) and Ireland (63.3). Among the member states included, Latvia and Poland have the lowest labour productivity (27.3 and 29.5, respectively).

Although our research shows that understanding of productivity seems to be patchy in many firms, we do not think this is necessarily a barrier to improving productivity.

Productivity: Getting the best out of people
The CIPD research report *Productivity: Getting the best out of people* primarily examines labour productivity from a UK perspective (CIPD 2015). It shows how the implementation of certain workplace practices and how employers manage their people have an important role to play in improving productivity. The analysis relies on data which are specific to a UK workplace context, and so its application to organisations across other EU member states needs to be considered within each national context. In the UK, for example, there is a framework of employment legislation and largely a voluntarist approach to employment relations. This means that, providing employers operate within this legislative framework, they have a considerable amount of freedom in how they organise the workplace. This includes decisions on collective bargaining and trade union recognition, as well as human resource policies and practices such as training.

In contrast, in some other EU countries the workplace context is rather more tightly defined by factors such as national legal frameworks and social partnership arrangements, including sectoral agreements. Therefore, the flexibility that some enterprises have to vary workplace practices could be more limited, with less scope to differentiate themselves in terms of their leadership and management approach. Despite this caveat, we believe that aspects of the findings from our UK research will still have – albeit varying – relevance for many enterprises wishing to improve their labour productivity. The findings highlight the role that HR professionals can play to help raise productivity, through people management approaches such as workforce and succession planning and improved leadership and management capability.

Understanding productivity at enterprise level
Although our research shows that understanding of productivity seems to be patchy in many firms, we do not think this is necessarily a barrier to improving productivity. What matters is paying attention to business performance. Organisations where there are widespread discussions about how to improve business performance – backed up by measurement of key outcomes – appear to perform better than firms where there are no such discussions.

Our analysis showed no significant relationship between self-assessed productivity and whether the term ‘productivity’ was used in conversations about how to improve the business. In our view, what matters is *having those regular conversations about how to improve the business*, using them to involve and energise the entire workforce and then implementing the outcomes of those discussions with pace and vigour. Whether profits, sales, costs, productivity or some other term becomes the focus of those conversations is unlikely to make much difference provided that people within the organisation share a common understanding of its meaning.

Table 1: Level of GDP per hour worked in US dollars in 2014

Australia	53.9
Austria	56.7
Belgium	66.8
Canada	50.6
Chile	26.0
Czech Republic	35.3
Denmark	63.6
Estonia	31.4
Finland	53.2
France	64.0
Germany	63.5
Greece	35.9
Hungary	31.1
Iceland	42.9
Ireland	63.3
Israel	37.5
Italy	50.5
Japan	41.2
Korea	31.9
Luxembourg	92.5
Mexico	20.2
Netherlands	64.8
New Zealand	39.8
Norway	85.0
Poland	29.5
Portugal	35.1
Slovak Republic	38.1
Slovenia	39.6
Spain	51.0
Sweden	57.4
Switzerland	60.8
Turkey	30.8
UK	49.2
US	**67.4**
Euro area (19 countries)	**56.0**
European Union (28 countries)	**49.9**
G7	58.2
OECD (total)	**49.0**
Non-OECD member economies	
Latvia	27.3
Lithuania	32.3
Russia	26.4
South Africa	21.2

Source: OECD dataset: level of GDP per capita and productivity (extracted 10 November 2015)

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In our view, what also matters is having robust *measures of performance* that form part of an effective *performance management system* which is used to drive improvement. Furthermore, measures on their own are of limited value without an *understanding of the business processes that generate the data* and the ability to relate performance measures to the efficient and effective working of the business. While the classic textbook definition of productivity may not strike a chord with many firms, efficiency and effectiveness are two closely related concepts that will have much greater currency in not only UK firms but in enterprises across the EU.

Our analysis suggests possible ways for businesses to raise their productivity. In considering the implications, there are three questions we think any business should be asking:

1. How much control does the business have over what it is trying to change?

2. Does it have the capability to make the change?

3. What is the contingency (goodness of fit) with everything else it is doing?

The analysis suggested there are statistically significant relationships between the following variables and the relative productivity/performance of individual businesses:

- Recent performance and growth of the business – businesses that had grown recently were more likely to rate their productivity highly.

- Organisation size – the largest firms were more likely to have seen recent productivity growth.

- Strategic positioning in the market – firms basing their strategy on 'premium quality' were more likely to rate their productivity highly than firms basing their strategy on 'standard/basic' quality.

- Internal culture – firms that think they will need to change their internal culture in the next five years are less likely to rate their performance highly than firms that are content with their current culture (which type of culture seemed not to matter).

- Whether performance is measured and talked about within the firm – firms that have conversations about 'productivity' or 'agility', or say they measure productivity, are more likely to rate their productivity highly.

- Training and development – firms that had trained most of their workforce in the past 12 months or had increased their training expenditure in the last two years are more likely to rate their productivity highly.

- Use of specific management practices designed to improve agility and performance – we asked firms whether they used a wide range of management practices associated with 'smart' or 'agile' working. Some of these practices had statistically significant effects on performance – some were positive and some were negative.

We turn now to consider in more depth how HR can leverage some key people management practices to improve productivity in their organisation.

HR practices to boost productivity

The management practices used within a business can have an impact on productivity; the quality of management and leadership in an organisation affects both its competitive positioning and its culture. Trust and engagement are necessary for businesses to get the best from their workers, and this applies to enterprises across the EU, regardless of their geographical location.

According to our research, the most commonly mentioned ways in which HR can help to raise productivity are through workforce and succession planning (60%), performance management (59%), improving leadership and management capability (51%) and training and development (51%).

Our analysis confirms that investment in training is associated with higher relative productivity, especially when this is both regular and all, or nearly all, of the workforce receives regular training. For example, workforce training is typically a necessary condition for effective implementation of complementary investments in tangible assets (such as new machinery or ICT) or intangible assets (such as brand or new management practices).

Our results also suggest that business leaders need to pay attention to organisational culture. What matters here is not whether or not a particular type of culture is evident in the organisation, but whether or not managers think the prevailing culture is the right one for where the business will be in five years' time. Periodic reflection is needed about the culture of the business and its suitability for the challenges ahead. This will need to include the alignment of internal culture with external market positioning. Managers need to be self-critical in doing this and test their perceptions of 'what it's like to work here' against those of employees and customers.

Our analysis suggests that management practices associated with 'smart working' or 'agile working' can have negative as well as positive effects on performance. This means that firms need to think carefully before implementing new practices, either singly or as part of a 'package'. Are the practices in question addressing the issues of greatest concern to the business? Does the business have the capability to implement them effectively? And how

There is tentative evidence to show that successfully implementing HPW practices has the potential to enhance productivity at a workplace level.

do they fit with other workplace practices and the general approach to people management?

Can high-performance working (HPW) enhance productivity?

We have also seen the spread of what we term high-performance working (HPW) practices in some countries over the past couple of decades (see Box 1). While originating from North American thinking on human resource management, HPW practices are also consistent with long-standing traditions in a number of north European countries on improving the quality of work and organisational innovation. HPW practices aim to improve skills utilisation and encourage employees to put more discretionary effort into their work (CIPD 2014). A wide range of practices can be placed under this heading, including multi-skilling, teamworking, formal selection and induction programmes, incentive pay, formal appraisal systems and information and communication mechanisms. There is tentative evidence to show that successfully implementing HPW practices has the potential to enhance productivity at a workplace level.

Adoption of HPW practices is not as widespread in the UK as appears to be the case in Germany, the Netherlands and the Nordic countries – countries with a long tradition of public authorities, employers and employees working together to improve the quality of work and encourage workplace innovation (CIPD 2014). Of course, these countries differ from the UK in many other ways, but we think there should be more debate around what we can learn from these models and how that learning could be used to drive improvement in other European countries, including the UK.

The research literature on high-performance working suggests that its (positive) impact on performance is often increased when particular 'bundles' of practices are combined (CIPD 2014). While the application of these practices depends on the organisational context (such as industry), the overall principle underlying the effectiveness of 'bundles' of practices is that, when combined, they represent a more coherent approach to people management. This in turn increases the likelihood that the approach becomes embedded within the organisation.

In other words, when considering different options for workplace change, managers occasionally need to take a step back and consider their combined effect as well as look at each option in isolation – the cumulative impact may exceed (or fall short of) the sum of individual changes (CIPD 2015). Managers should also consider how the impact of workplace change can be reinforced when it is embedded in the organisation's culture and ways of working. Of course, it may sometimes be the prevailing culture and ways of working that need to change.

Furthermore, introduction of HPW practices needs to be combined with a careful focus on organisational culture. A study of service businesses in Australia found that three types of business culture – those focused on people and their development, on the achievement of results and on innovation and change respectively – were all positively correlated with high-performance working. However, there was a negative correlation between high-performance working and business cultures focused on stability and management control (Boedker et al 2011).

Box 1: International approaches to high-performance working: a UKCES evidence report

In 2011, the UK Commission for Employment and Skills (UKCES) undertook an independent assessment of high-performance working (HPW) based on seven countries (Stone 2011). The chosen countries had either achieved success in widely adopting HPW or placed a significant policy emphasis upon encouraging firms and organisations to adopt HPW approaches. Sweden, Finland and Germany were selected as acknowledged front-runners in organisational innovation activities, along with Ireland, Canada, Australia and New Zealand, all countries that had recently investigated how they might intervene to encourage HPW.

The report says that a strong message from the countries studied is that skills development alone is not guaranteed to result in innovation and increased productivity. The background to HPW policy in all case study countries was recognition that a stronger focus on leadership, management and culture at the workplace level provides opportunities to better utilise existing skills and that productivity gains can be achieved by engaging workers in realising their greater potential.

The study also found that a strong feature in all the countries studied is the commitment of social partners to programmes of support for HPW. A social partnership framework (typically, government, employers and unions, but sometimes including research institutes) is a central feature of policy initiatives in the case study countries. Indeed, those countries with less developed social partnership arrangements devote considerable effort to ensuring that the relevant social partners are both supportive and fully engaged with the policy process relating to HPW.

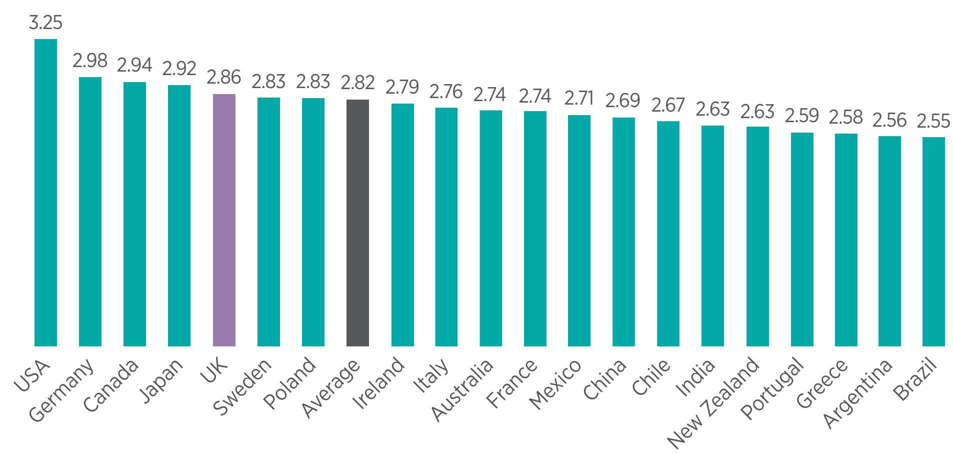
Source: Stone 2011, UKCES.

Box 2: The World Management Survey (WMS)

Over the past decade, a very significant advance has been made in the measurement of management practice through the development of what is now known as the World Management Survey (www.worldmanagementsurvey.org). This survey aims to measure management practice directly by asking managers whether they use a specified list of management practices at their establishment and – by further questioning – providing an interviewer-generated and quantified assessment of the effectiveness of each management practice (where it exists). This allows an overall management practice score to be computed for each establishment surveyed as well as scores for 'bundles' of individual practices (such as those covering people management). The survey was originally developed for manufacturing firms and the database now covers firms in 20 countries. The mean score for each firm is on a 0 to 5 scale.

As Figure 1 shows, the survey enables comparisons to be made for people management practices including recruitment, retention of valued employees, building a high-performance culture and the use of performance management systems to reward high performance and sanction ineffective performance (CIPD 2014). The findings show that *general* management capability varies between countries; therefore, improving this could be as important as encouraging HPW in terms of enhancing productivity.

Figure 1: International comparisons of people management scores in manufacturing firms, 2004–10 (mean score for businesses sampled)



The people management element refers to the six talent management fields.
Source: World Management Survey database.

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