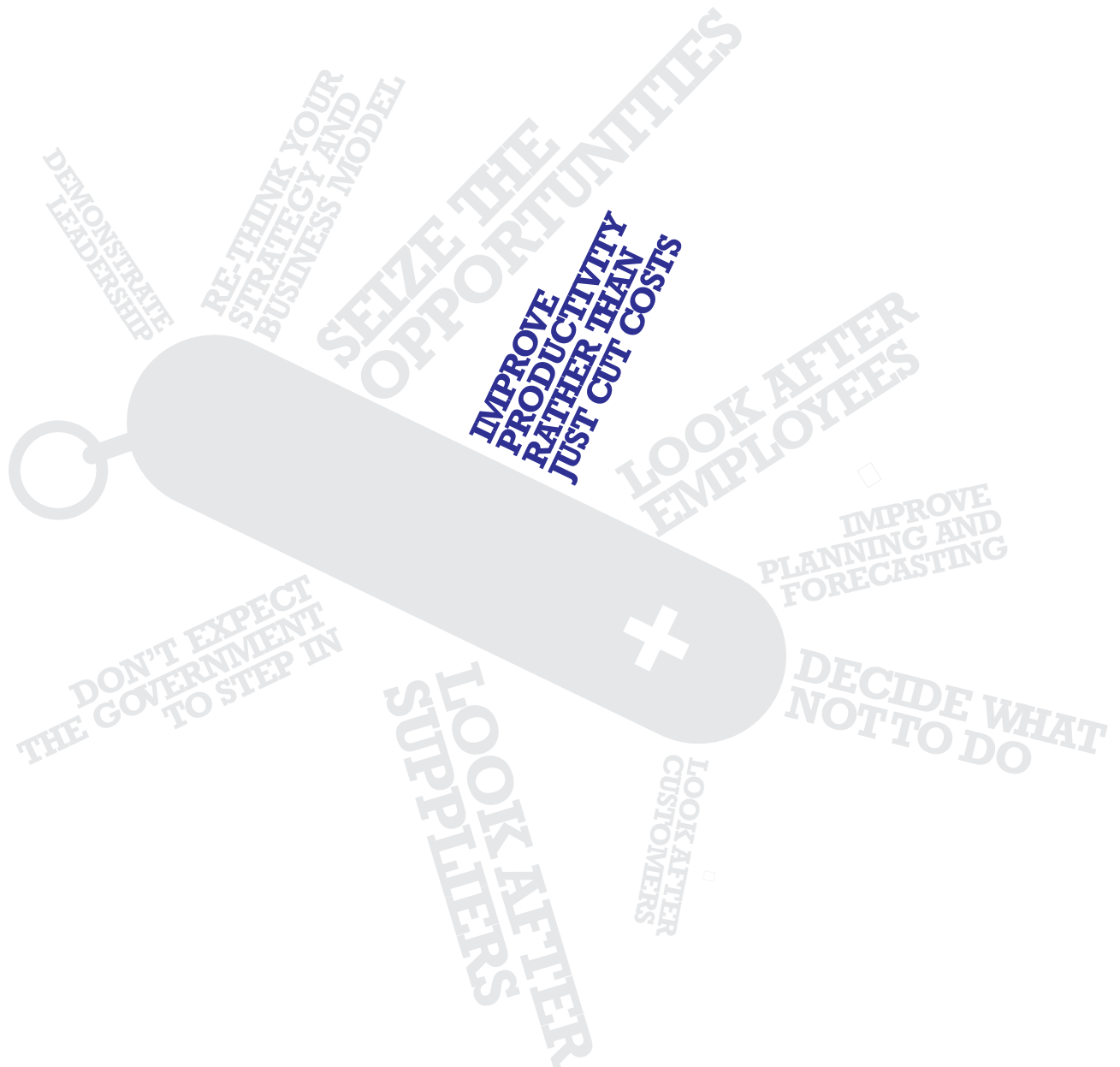


Getting more from the same

Delivering sustainable productivity improvement



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Foreword

The dramatic financial turmoil of recent weeks has led to significant drops in company valuations, a pull back on risk taking and an aggressive tightening of credit. We face tough times ahead in which the importance of improving productivity – producing more from the same or from less – has rarely been more important.

Achieving sustained productivity improvement can require a complex mix of initiatives, leadership and inclusive engagement, yet at its heart, it is straight forward. It's about working smarter to produce more output from the same or less input. Successful companies have always been those that grow revenue without incremental increases in either labour or capital. That is, those companies that grow productivity.

In global terms productivity in the UK, whilst catching up, still lags behind that of our major competitors. In sponsoring this report, we are seeking to promote the importance of productivity, both to the economy at large, but more importantly to the individual businesses that make up UK plc. In recent years, partly driven by success in the US, productivity improvement has become synonymous with technology and investment in this area has contributed significantly. But in producing this report we have sought to consider other equally important productivity levers, in order to draw a more inclusive picture of where and how improvement can be achieved.

With the global economic slowdown taking hold, more and more businesses are looking for productivity gains. Some will look at off-shoring and while this could help, it is just one of the approaches that can be adopted. Indeed, one that will do little for the wellbeing of existing employees or necessarily the UK economy. At Trinity Horne we remain convinced that dramatic productivity improvements remain to be achieved within UK businesses with minimal expenditure – our Operational Performance Reviews within both the public and private sectors prove this time and again.

We hope that this report will positively contribute to raising awareness of the opportunities to grow productivity. It provides a fascinating insight into the relative impact different levers can have and a perspective on how these are likely to contribute in the future.

Brendan E. Cahill
Chief Executive Officer
Trinity Horne

Contents

Executive summary	3
The productivity gap	4
What drives productivity and how is it measured?	6
Has productivity improved?	10
Levers of productivity	14
Behavioural change as a key driver of productivity	18
Critical success factors for improving productivity by changing employee behaviour	24
Glossary	25
Contributors	26
About the authors	27
About the sponsor	27
About the MCA	27

Note on methodology and sample

This report is based on a survey of over 80 CEOs, CFOs and COOs in both public and private sector organisations. 27 percent of the respondents were from organisations with over 5,000 employees. MCA also interviewed over 20 consultants and managers with responsibility for productivity improvement.

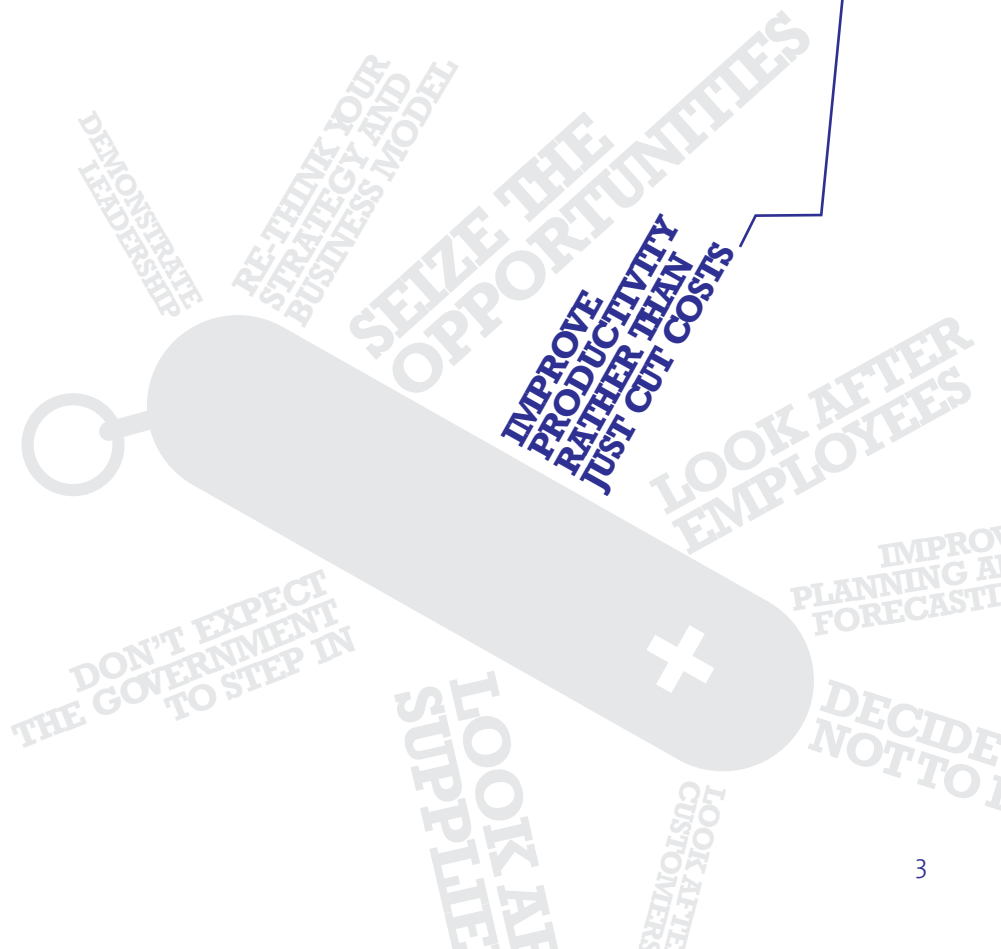
Executive summary

After more than a decade of sustained economic growth, the UK was still struggling to close its productivity gap with other industrialised nations. Then came the credit crunch and the current economic slowdown, which have created a new urgency in all sectors around performance initiatives that seek to improve productivity, without increasing capital or headcount.

Many organisations have adopted tools and methodologies, such as Lean Production and Six Sigma, from leading companies around the world and have attempted to replicate their success. Of the various productivity levers available to organisations, **technology has seen the greatest investment in recent years, but has only made an average contribution to performance improvement. Behavioural change, however, has had a significant impact, but has received relatively little investment.** This imbalance seems unlikely to change in the next three years, in spite of the fact that equal importance is now assigned to these two levers.

Organisations are, however, beginning to realise that technology will not improve their productivity unless they also address employee engagement and motivation at all levels. The first step towards doing this is to **ensure that appropriate and consistent measures are used** across the organisation, that everybody understands how their work contributes to these and how they will be rewarded. One-off, isolated performance initiatives may yield results in the short term or in specific areas of the business, but their benefit will not be sustained. **Successful organisations incorporate performance improvement into their daily business processes** and make it part of their culture.

Leadership plays a particularly important role in providing impetus, clarity and focus for the rest of the organisation, but **it is the front line managers who can make the greatest contribution to productivity** improvement. They are closest to the customer and to the teams who are delivering the products and services on a daily basis. If they are not emotionally committed to changing the way things are done, then performance will not improve. But many managers have received very little formal management training and have no experience of organisational change. **They need to be given the tools and techniques** to actively support and coach their teams rather than simply checking and administering.



The productivity gap

Productivity – for the purposes of this report productivity is defined as the amount of output per unit of input (labour, equipment or capital).

By many measures UK labour productivity is still considerably lower than other major industrialised countries: our output per hours worked is 13 percent lower than Germany, 18 percent lower than the US and 20 percent below France, although the gap is narrowing¹. Since 1997 our GDP growth has been driven mainly by increases in employment and capital (especially information technology) rather than by increases in overall efficiency². But with the prospect of an extended downturn and no big technological developments on the horizon, how can we close this productivity gap?

To some extent our inferior performance can be attributed to cultural differences. “The US has a greater sense of urgency regarding performance improvement. They don’t procrastinate as much,” explains Steve Smith at Quest Worldwide. “We are not as aggressive about change as some other countries and are perhaps a bit myopic,” adds Steve Watmough at Xantus.

Managers in the UK tend to view the word ‘productivity’ with suspicion and for those who have lived through previous recessions, it is often associated with redundancies. “Historically, productivity improvement has been a taboo subject in the UK and often associated with reduced quality, whereas nothing could be further from the truth,” explains Brendan Cahill at Trinity Horne. “In reality, it’s in everybody’s interest to improve productivity, which will ultimately save jobs rather than take them away.”

Others attribute our lower productivity to a number of structural and policy issues, such as lower investment in innovation and a skills deficit. Since the early 1980s there has been a decline in research and development as a proportion of national income and seven million adults in the UK lack functional numeracy³. Other factors, including regulatory and tax burdens and overstretched transport, make the UK an increasingly difficult place to do business. “If you look at the different aspects of competitiveness, the UK has a high score for finance and a low one for labour markets, high for scientific infrastructure and low for tax and public finance,” adds Shlomo Maital of the Samuel Neaman Institute, Technion, Israel.

To some extent we have also been victims of our own economic stability. From 1992 we enjoyed the longest period of sustained economic growth for over thirty years and many believe that this made us complacent. “In periods of high employment, people become less productive,” explains Mike Nugent at Mouchel Management Consulting. “We had a long period of growth with low unemployment and people weren’t worried about losing their jobs.” “There has been a lack of focus on productivity in the UK,” adds Brendan Cahill. “Technology investment has given the US in particular substantial productivity gains over the last 20 years. In the UK we have been slower to make that investment.”

But it’s not all doom and gloom and the national statistics do indeed mask pockets of excellence. “Japanese motor companies in the UK are as productive as anywhere else,” explains Steve Smith. “We seem to have more mediocre companies than excellent ones like Tesco or Unilever, which manage their businesses from the top down rather than scrabbling around to get results.”

“The US has a greater sense of urgency regarding performance improvement. They don’t procrastinate as much”

Steve Smith, Quest Worldwide

Indeed in some sectors we are more productive than other G7 members. “Property and construction in some Western countries actually lags behind the UK sector,” comments Russell Poynter-Brown at Davis Langdon. “Arguably, this industry underperformed for many years and then following Sir John Egan’s report on the sector ten years ago, more organisations have adopted systems thinking and lean production.” Arun Aggarwal at Tata Consultancy Services agrees: “In my experience UK financial services are more productive than in the US. Many financial services institutions in the US are archaic and the UK would not suffer by comparison.”

The changing structure of our economy also makes it more difficult to compare us with other countries. “We have low levels of manufacturing and high levels of services, where productivity is more difficult to measure,” explains Mark Goodridge at ER Consultants.

In recent years many organisations in both the public and the private sectors have adopted performance improvement initiatives such as Lean Production, Six Sigma and Continuous Improvement, some more successfully than others, but this has still not translated into improved productivity for the UK as a whole. “Management practice and development has been neglected in the UK,” explains Steve Smith. “Managers often don’t know how to performance manage in order to get the best out of their organisation,” adds David Nicholson of Siemens. “In European business there is more propensity to train and develop leaders at all levels. In the UK we don’t provide on the job training of any calibre,” agrees Alistair Dornan of Right Management. “We promote people but we don’t support them.”

Another reason for the lack of success of these initiatives may be the tendency for UK management to take a ‘quick fix’ approach to performance improvement. “There is a strong focus in the UK on short-termism with quick wins and a need to be cash neutral in year one,” explains Daniel Meere of PIPC. “Elsewhere in Europe there is more of an acceptance that human capital issues take more time because severance pay is higher and the process more protracted. This means their expectations for short term gain are lower. There is also more analysis in Europe before diving into performance initiatives. In the UK it’s often seen as a quick and dirty exercise.”

Clive Geldard of Solving Efeso agrees: “The short tenure of company executives means that they flit between initiatives looking for a quick fix. Performance improvement requires hard graft and consistency over time. Tesco is a good example of a company that is consistent in how it solves problems.”

“Managers often don’t know how to performance manage in order to get the best out of their organisation”

David Nicholson, Siemens

What drives productivity and how is it measured?

What drives productivity?

Whilst we may still lag behind other industrialised countries, modern UK management is no longer complacent about productivity. Every single respondent in the MCA survey said that productivity was important to their organisation and the majority (89 percent) said that it was very important (see Figure 1). Furthermore, the majority of respondents (75 percent) said that productivity was more important to their organisation than it was three years ago and nobody said it was less important (Figure 2).

However, when the same organisations were asked whether they had a performance improvement strategy, only 72 percent replied positively and nearly 19 percent don't have one (Figure 3). If this were extrapolated across the UK, our productivity could be improved by 20 percent simply by starting to address the issue in a strategic way.

So what makes an organisation allocate substantial time, energy and money to performance improvement? Over the last three years the main driver has been cost reduction (48 percent) with a further 36 percent aiming to both reduce costs and increase revenue, whereas only 16 percent saw increased revenue as a primary goal (Figure 4). Looking forward to the next three years (Figure 5), increasing revenue has become a much more important driver (32 percent) and less emphasis is placed on cost reduction (26 percent).

This shift in focus reflects a certain maturing of the approach to performance improvement, with organisations realising that cost cutting can have a detrimental effect on productivity in the longer term. "Organisations world-wide focus obsessively on cost reduction, often slashing costs at the expense of important investments in R&D and innovation," comments Shlomo Maital. "Productivity is the inverse of cost, but expressing the metric and the goal as something positive, something to grow, is more energising than expressing it as something to reduce, especially when cost reduction is interpreted as getting rid of people,"

Figure 1

How important is productivity to your organisation?

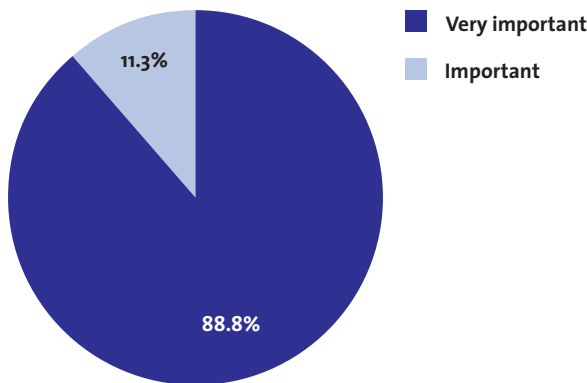


Figure 2

Is productivity more or less important to your organisation than it was three years ago?

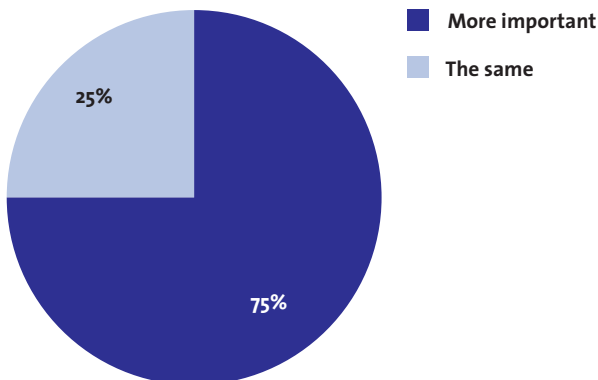
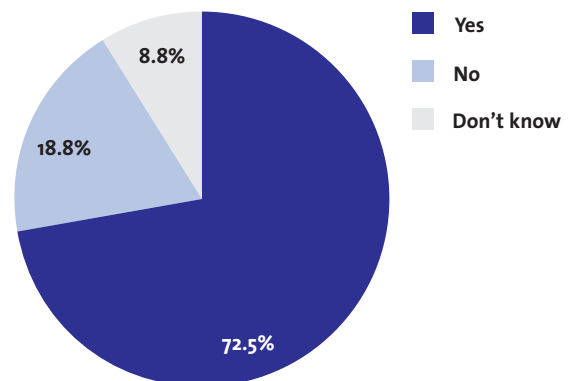


Figure 3

Do you have a performance improvement strategy?



21 percent of respondents now see service improvement as the most important driver (Figure 5). “We are seeing a renewal of customer service as a driver for performance improvement,” says Steve Smith. “The private sector is working out how it can focus better on customer needs and use these to drive improvements internally.” “Efficiency or productivity is beneficial not just for the bottom line, but also from an employee morale and quality of service perspective,” adds Arun Aggarwal. “Flabby and inefficient organisations often have poor quality and service.” “It has become more of a value-based equation than a cost-based one,” concludes Neil Bullen at Turner and Townsend.

Winning and retaining market share is also a key driver for future productivity gains, with 15 percent of respondents citing this as the most important driver. “We are increasingly moving into a competitive environment where we are up against smaller more nimble organisations,” explains David Nicholson. “Performance improvement is about gaining market share.”

Figure 4

What has been the most important productivity driver over the last three years?

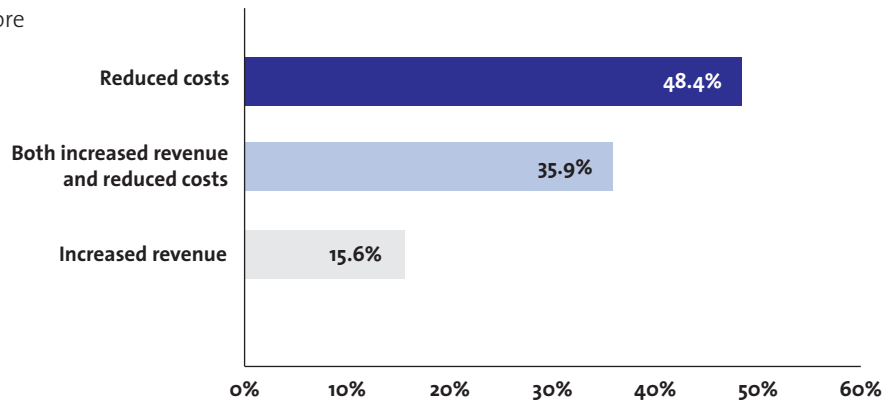
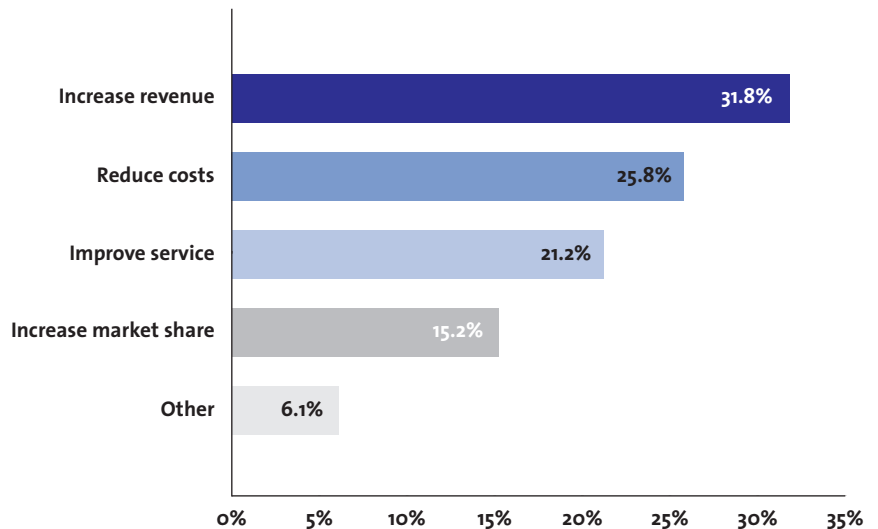


Figure 5

What is driving productivity over the next three years?



What has changed?

The credit crunch and slowing economic growth are putting greater pressure on both private and public sector organisations to improve their productivity without increasing costs. “Companies postpone change programmes and performance improvement in a benign environment,” explains Steve Smith. “Outsourcing and supply chain integration have already been quite well done, but are not enough. More imagination is now going into how to achieve further improvements and how to get more from the same resource.”

There is a growing realisation that performance improvement needs to be applied throughout the organisation continuously to have any sustained impact on productivity. “Organisations are looking for programmes of improvements rather than ad hoc Lean or Six Sigma initiatives,” explains Stuart Smith at Bourton Group. “Those that don’t have Continuous Improvement are starting to look like dinosaurs. Some are enlightened, others don’t know what they don’t know or really struggle to start a performance improvement programme.” Arun Aggarwal agrees: “The days of documenting processes, designing new ones and then creating a technology project are gone. It is increasingly about an integrated, holistic view of the business and technology.”

UK managers have been slow to embrace the concept of productivity, but have learnt the hard way that it has to be part of business as usual rather than some isolated project. “It’s about a mindset shift so that performance improvement is considered a business process rather than an initiative or an ancillary activity. It needs to be part of the culture,” says Gail McKee of Watson Wyatt.

Over the last ten years many organisations across the sectors have invested heavily in enterprise-wide IT systems and some have chosen to outsource a number of their business processes. Many feel that the benefit of these investments has not yet been fully realised for a variety of reasons, largely behavioural.

“Large blue chip organisations in IT and telecoms are becoming more focussed on sweating their assets,” explains Ian Brumwell of Trinity Horne. “They have

invested in IT and Business Process Improvement and are now focusing on productivity improvement through people. Business process outsourcers have had their honeymoon period. Those that succeed will be those that drive out productivity improvement, firstly to keep their clients and secondly to achieve their own operating margins.” Aidan Brennan from KPMG agrees: “A lot of the benefits of large scale transformations have not been delivered. There is a huge opportunity to get more productivity improvement out of these investments. Change hasn’t been managed in these organisations.”

It could also be argued that having implemented the technology and process re-engineering, managers now have more time to focus on the human aspects of performance improvement. “In the late ‘90s and early ‘noughties’ there was a lot of focus on technology projects,” explains Clive Geldard. “Big ERP projects are now in place and senior directors have the capacity to refocus on operational performance.”

Globalisation has undoubtedly increased both the opportunities to improve productivity, through technology and offshoring, as well as the level of competition experienced by organisations. “At Siemens we are also facing the challenge of globalisation and moving from a federation of organisations to a single global organisation,” explains David Nicholson. “We work hard to ensure that our processes are harmonised and we eliminate any hint of the ‘not invented here’ syndrome.” Gail McKee agrees: “The playing field is levelling around the world due to technology. You can now access lower labour costs and if jobs are to be retained in higher cost countries, people need to be more productive.”

Measuring productivity

In order to improve productivity it has to be measured in a meaningful way and only five percent of our survey respondents felt that their organisation was doing this very effectively (Figure 6). Most felt that they were measuring it effectively (61 percent), but worryingly, 30 percent said that their organisation was not doing it effectively.

So how do organisations in the public and private sector measure productivity and performance?

“Simply put, it’s the amount of output per unit of input,” explains Brendan Cahill. “At one level it could be revenues per employee, whilst at another it could be insurance claims processed per hour or yards of carpet laid per man-day. The key to measuring productivity is consistency of application and the actions taken in response to what its measurement is telling you.” Trinity Horne has developed an organisation-wide measure, Bottom Line Productivity, which looks at revenue growth per employee and the amount of capital employed.

DEMONSTRATE
LEADERSHIP

RE-THINK YOUR
STRATEGY AND
BUSINESS MODEL

WHAT HAS
CHANGED ?

IMPROVE
PRODUCTIVITY
RATHER THAN
JUST CUT COSTS

As we evolve into a service-based economy, outputs and inputs have to be defined and measured differently. Gail McKee agrees, “As we become more of a services and intellectual capital based economy it is harder to measure productivity.” Many organisations have adopted the Balanced Scorecard approach to measuring individual and business performance. “You need a balanced view of productivity – output per worker doesn’t tell you everything,” explains Steve Smith. “But even Balanced Scorecards can be poorly used – they are often built upwards from existing metrics rather than downwards from the strategy. Productivity is much more sophisticated these days – you need to look at both lagging indicators (outputs) and leading indicators (process metrics which can be changed to improve outputs).” The Balanced Scorecard has proved very effective for some, but does tend to focus on the more tangible elements of performance. “Many organisations use a Balanced Scorecard approach, but often it just looks at the bottom line, i.e. cost savings,” explains Stuart Smith. “Few measure cultural change.”

“Productivity, i.e. number of widgets per hour can be a very crude measurement,” adds Arun Aggarwal. “A broader measurement of performance is needed, which includes the quality of the customer experience and the added value alongside the baseline measures around efficiency.”

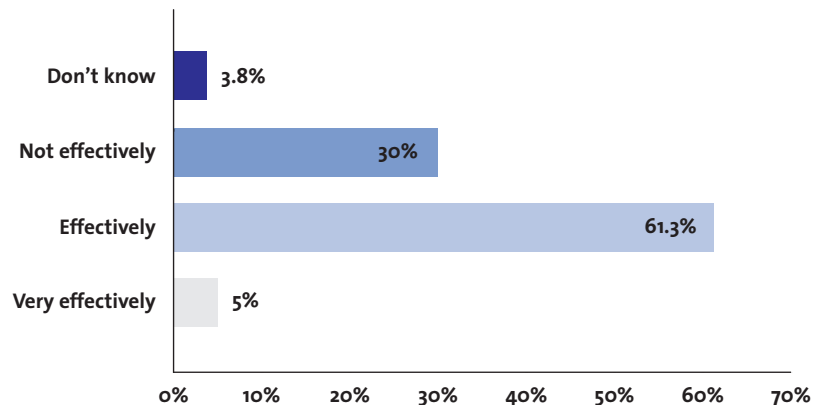
Productivity measures vary considerably for different sectors. “Our clients use standard performance metrics such as profitability and Return On Capital Employed,” explains Mark Goodridge. “Underneath that there are performance measures specific to the organisation around cost or customer transactions.”

Russell Poynter-Brown works in the construction sector, which has been making up lost ground on performance improvement in recent years. “Most organisations in this sector don’t really address productivity as well as they could. It is largely measured by cost, timing, and number of defects. Historically the construction industry has focused on lag indicators, i.e. what happened 3-6 months ago. We are trying to encourage them to also look at lead indicators, which are a more tangible measure of what is happening now and what will happen in the future. For example, we are working with the Department for Communities and Local Government on an affordable housing productivity and efficiency initiative, which brings together housing providers, local authorities and housing associations. They are not just measuring the savings accrued from the collective purchasing of labour and materials, but also the improved efficiency.”

At telecoms provider, Virgin Media, a lot of innovative work has been done on the productivity of engineers. Operations Director, Paul Hutchinson, explains: “We have an accreditation scheme and there is an

Figure 6

How effectively does your organisation measure productivity?



expectation that engineers will achieve so many points before they can be promoted. Each individual has a balanced scorecard so there is an equal emphasis on quality and quantity. Productivity is based on points per day per technician and this drives a certain behaviour i.e. ‘I want as much as I can fit into a day in order to achieve my productivity target’. If they meet the metrics over time they get to move up a pay band. This means that the strategy is aligned with the guys in a way they can understand.”

David Nicholson heads up the global service desk operations at Siemens. “Amongst other things, we closely monitor ‘agent contacts per hour’ (productivity) and also the counter measure to that, ‘first call resolution’ (quality). This ensures that we balance quantity with quality.”

“The public sector does not have the same financial measures as the private sector, so has to come up with surrogates,” explains Mark Goodridge. “In the public sector measurement can be as crude as headcount or outputs, for example, building a school on time, or in the better cases it can be about meeting specific objectives, for example, completing a school that changes educational outcomes,” adds David Cox at Mott Macdonald.

“Retailers have a high cost of sales due to their facilities and will look at sales per square foot. Providers of administrative services will look at cost per member served or number of members served per employee,” adds Gail McKee.

Measurement against internal targets and objectives is essential in performance improvement, but equally important is the benchmarking of the organisation against others in the same sector. David Nicholson explains: “We are constantly benchmarking our services against our competitors, so we understand how to stay ahead in terms of service, quality, innovation, customer satisfaction etc. Consequently, we ensure that we remain competitive and we position ourselves as the obvious choice for our customers and prospects.”

Has productivity improved?

Whilst UK productivity may lag behind other industrialised countries, the good news is that it is improving. Only ten percent of our survey respondents' organisations had not increased their productivity over the last three years (Figure 7) and 30 percent had improved it by 6-10 percent (Figure 9). The majority achieved or exceeded the improvements they expected, but 27 percent achieved fewer improvements than they expected (Figure 8).

Looking forward at the next three years, three times as many organisations estimate that they will achieve a 21-30 percent improvement and almost half as many organisations estimate that they will achieve a 1-5 percent increase (Figure 9). This would indicate that managers are feeling more confident that greater productivity improvements will be possible over the next few years, as they realise the benefits of previous investments. The overwhelming majority (97 percent) expects to improve their productivity in the next three years (Figure 10).

Virgin Media provides broadband, internet, telephony and TV to residential and business customers. By making small but significant changes to the way their engineers operate, they have achieved substantial cost savings and service improvements. Operations Director, Paul Hutchinson explains: "We used to give residential installers work based on a set number of jobs in a day, but we found that some were finishing at 7pm, some at 2pm. So we converted every job into a point loading, and estimated the time taken for each job. This provided us with several million pounds in cost savings."

"We have also used Lean in designing the layout of our vans, in order to make sure the amount of time spent on each job is minimised. The engineers were spending about twelve minutes going back and forth to the van, so we used 'Lean Sigma' to design a kit, which meant they only needed to go to the van once. We also looked at how stock was picked up from the store. Our engineers used to spend 38 minutes each day doing this – it now takes 12 minutes. With 3,500 engineers this is a huge opportunity."

Hutchinson continues: "A key measure for fault engineers is the repeat fault rate, which can vary from 1-16 percent. We used to just look at the average rate, but by also looking at individuals we have managed to get the average down to less than five percent, which can be a massive saving in a year. There was resistance to this change from some – we have people who have been here for many years and are used to managing in a certain way. But we have given them the tools and systems and made it incredibly easy to monitor an individual's performance."

Outsourcing provider, Siemens AG, provides a network of global service centres for organisations in all industries and has been using performance improvement to enhance their customer experience. Global head of service desks, David Nicholson, explains: "We have strengthened our ability to work closely with customers to forecast work levels, understand new products and strategies and the economic factors that relate to their business. This enables us to anticipate what we are required to do for them – that way we can deploy the right people with the right skills and tools at the right time."

Figure 7

Has your organisation improved its productivity in the last three years?

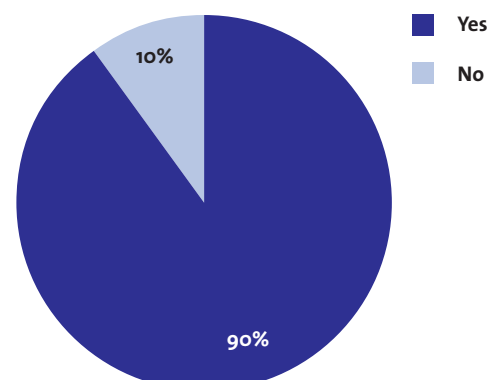


Figure 8

Has your organisation achieved the productivity improvements it expected in the last three years?

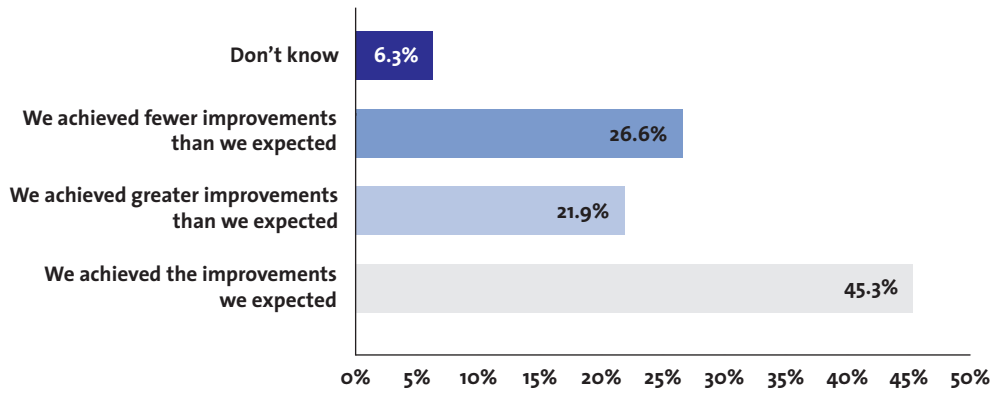


Figure 9

Estimated productivity increase in the last/next three years

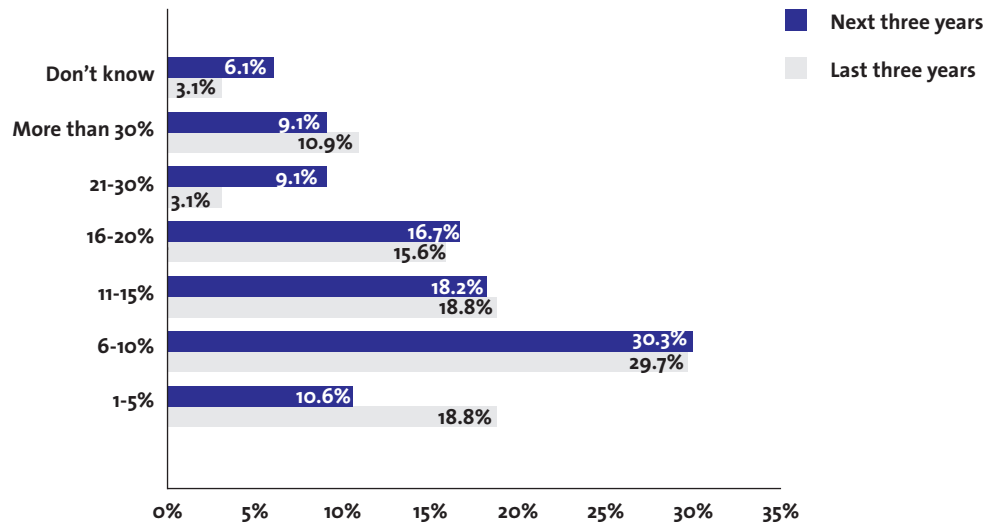
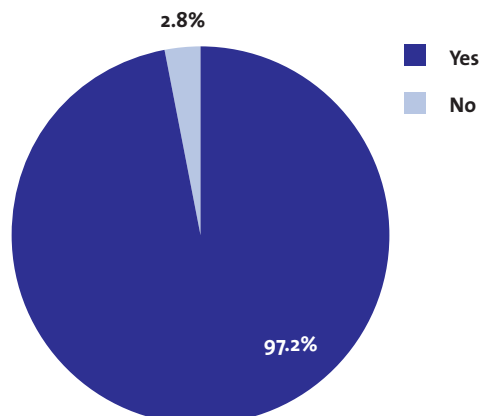


Figure 10

Is your organisation looking to improve its productivity over the next three years?



How different sectors approach performance improvement

Some sectors have been better than others at addressing productivity, applying a combination of levers and adopting techniques such as Lean and Six Sigma. “Those areas of the economy where competition is at its highest are the most interested and focused on performance improvement,” explains Brendan Cahill. “The IT and telecoms sectors, for example, are highly focused on productivity as well as the business process outsourcers, whose business is performance improvement.”

Some businesses lend themselves more readily to the application of such initiatives, indeed their very survival may depend on it. Steve Culp of Accenture believes that those organisations with the shortest supply chains tend to have more success in these initiatives because they have faster business cycles, making the implementation and measurement of initiatives easier. “Retailers are good at performance improvement when the margins are very tight,” adds Clive Geldard. “This forces a culture of managing key performance indicators very closely.”

The public sector is starting to catch up with the private sector in terms of adopting performance improvement techniques, but is facing different challenges due to its culture and the nature of its funding. “There is more drive in the private sector because the low hanging fruit went a long time ago,” explains Ian Brumwell. “The government, however, has focused on IT platforms because of the nature of its organisations, but there is a massive opportunity here around people.” “In the private sector it’s a harsher reality and an uncomfortable ride if you don’t perform,” adds Daniel Meere.

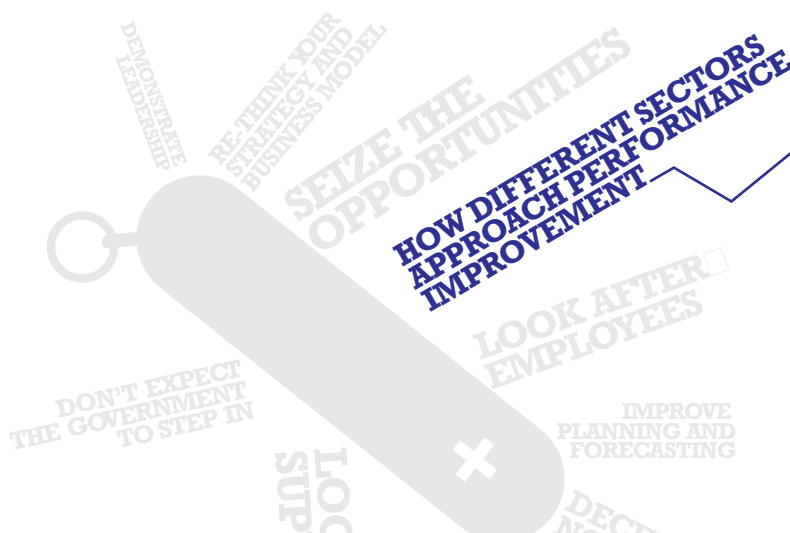
Manufacturing

The manufacturing sector lends itself easily to the application of performance initiatives, with its focus on the production of tangible outputs and short business cycles. It has also been a sector where globalisation has facilitated the adoption of techniques such as Lean and Continuous Improvement, which have been so successful in the Far East. “In genuinely global sectors such as FMCG and manufacturing, organisations get the benefit of seeing performance in different parts of the world. They can see what works best and can move activities to different regions,” explains Steve Watmough.

“The manufacturing sector has had to be good at performance improvement,” adds Stuart Smith. “They have constantly been under competitive threat. Those manufacturing operations left in the UK are quite lean and fit.”

But there is still room for improvement in this sector, which cannot afford to rest on its laurels. “Manufacturing in the West has had to respond to the challenges from the East,” adds Steve Smith. “But they are still not perfect. They know about Lean, but don’t always run a holistic programme. They narrow it down so that it is digestible and then they are disappointed with the results.”

“The manufacturing sector is best at process efficiency, but has the biggest disconnect between sales and operations. Business is drummed up but the delivery isn’t sufficiently geared up,” adds Daniel Meere.



Public sector

“Public sector performance improvement is driven by higher expectations of service delivery with lower funding. In order to meet these diverging expectations performance has to be improved,” explains David Cox. “The private sector is driven by shareholder return and the public sector is driven by a wide range of factors: politicians who change policy, public perception of service levels, rather than absolute measures of service, and trade unions. This all makes life more complicated.”

Without the constant imperative of profitability and shareholder value, public sector performance takes on a whole new meaning. “It’s easier in the private sector – the goals are clearer. In the public sector it’s less tangible and policy drivers make it more complicated,” says Mike Nugent. “The priorities in the public sector are different. Some areas may not be productive, but are at the heart of an organisation’s *raison d’être*. Productivity has to be balanced against the policy drivers.”

There is also less flexibility about how projects can be funded and implemented. “Public sector projects are subject to greater scrutiny and regulation, particularly in relation to procurement, for example. In the private sector the regulatory regime is more relaxed in some respects, but public companies are still accountable and there is more emphasis on financial performance. The gap is narrowing between the two, partly because the public sector is recruiting very capable people from the private sector,” Russell Poynter-Brown.

So the public sector is catching up in terms of its approach to performance improvement and indeed in some areas is teaching the private sector a thing or two. Alistair Dornan explains: “The public sector is ahead of the private sector in its innovation and approach to health and wellbeing in the workplace.” “Some local authorities are grasping the opportunity and are doing some really smart stuff,” adds Neil Bullen. “They have a systemic approach, good governance models and ambitious targets. They are not afraid to challenge themselves. This is driven by a need to improve customer service.”

But there is still considerable scope for improvement. “The public sector needs to adopt a more challenging and benchmarking approach,” explains Mike Nugent. “There is no competitive driver like in the private sector and a tendency for stasis over time so it has to be artificially created.”

“The public sector does not have the ability to be directive that the private sector has. It’s more about building consensus,” adds Mark Berman at Hitachi Consulting. Mark Goodridge agrees: “The public sector tries to be more involving and engaging, which means they may miss more radical approaches.” “People tend to move around more in the public sector and getting ownership can be difficult,” adds Stuart Smith. “In the private sector senior management wants to make an impact even if their tenure is short.”

Financial services

The credit crunch is presenting enormous challenges for organisations in financial services and most businesses in this sector will be forced to re-evaluate their productivity in the coming months as the industry restructures.

“The most cyclical sectors and those that have seen the most turbulence tend to be good at performance improvement, for example financial services,” comments Mike Nugent. But within financial services some are more focused on their productivity than others. “The investment banks struggle with performance improvement because they have a very short-term focus and it is difficult to push through performance programmes,” explains Arun Aggarwal. “Their focus is on the front office origination as opposed to day-to-day operational processes.”

Private equity firms on the other hand can teach most UK organisations a thing or two about performance. Aidan Brennan explains: “Private equity firms have consistently demonstrated an ability to drive productivity and efficiency in their businesses. They are very focused on results, have a clear business case and do not indulge in complexity. They are not tied to the historical ways of doing things that you see in large corporates.”

“In the private sector it’s a harsher reality and an uncomfortable ride if you don’t perform”

Daniel Meere

Levers of productivity

There are numerous ways of addressing productivity and these are often referred to as 'levers', for example innovation, technology, process. Most performance improvement initiatives will incorporate several, if not all of these levers, although some will focus more on one than the others. An organisation's choice of levers will depend on the challenges it faces, its appetite for change and its budget.

"There is a spectrum of radical to incremental performance improvement," explains Mark Goodridge. "If you can reinvent the organisation and start from scratch, that has the greatest impact. Otherwise it depends how much money you have."

Shlomo Maital believes there are two types of levers, "One is capital deepening – for example, providing workers with expensive capital such as computers. The other is working smarter – getting employees to achieve more results with the same resources – or Total Factor Productivity."

RE-THINK YOUR
STRATEGY AND
BUSINESS MODEL

**LEVERS OF
PRODUCTIVITY**

IMPROVE
PRODUCTIVITY
RATHER THAN
JUST CUT COSTS

LOOK AFTER
EMPLOYEES

**RELATIVE
IMPORTANCE
OF LEVERS**

Relative importance of levers

When asked which levers made the greatest contribution to performance improvement over the last three years, respondents indicated that leadership (22 percent), process improvement (19 percent) and behavioural change (19 percent) were the most effective (Figure 11). Outsourcing and innovation made the least contribution with six percent each. However, when we look at the relative investment in these levers over the last three years, technology was ranked top by 31 percent, followed by process improvement with 25 percent and structural change with 17 percent. So whilst technology saw the greatest investment, it only made an average contribution to performance improvement, whereas behavioural change made a significant difference, but received relatively little investment.

Looking forward to the next three years (Figure 12) behavioural change will continue to make an important contribution (23 percent), however this time its impact will be matched by that of technology (23 percent) and once again closely followed by process improvement (20 percent). It is predicted that leadership will fall back into fourth place with 15 percent. When asked to indicate expected levels of investment in these levers over the next three years, 32 percent of respondents put technology way ahead of the others and behavioural change received a relatively low 11 percent.

So whilst the experience of the last three years has shown that behavioural change has a greater impact on performance in spite of lower levels of investment, organisations still expect technology to deliver substantial productivity improvements and are willing to invest even more in this area at the expense of behavioural change programmes.

Figure 11

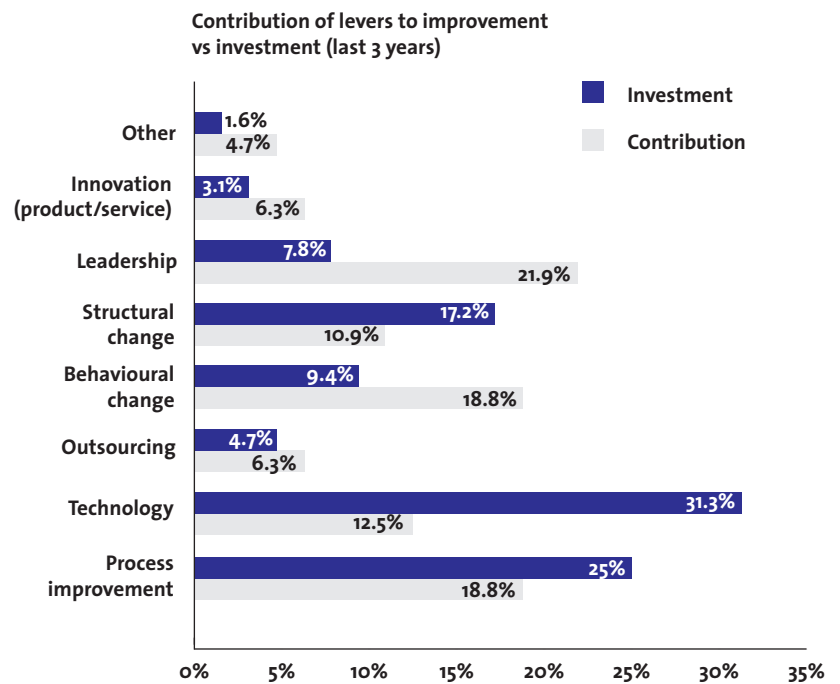
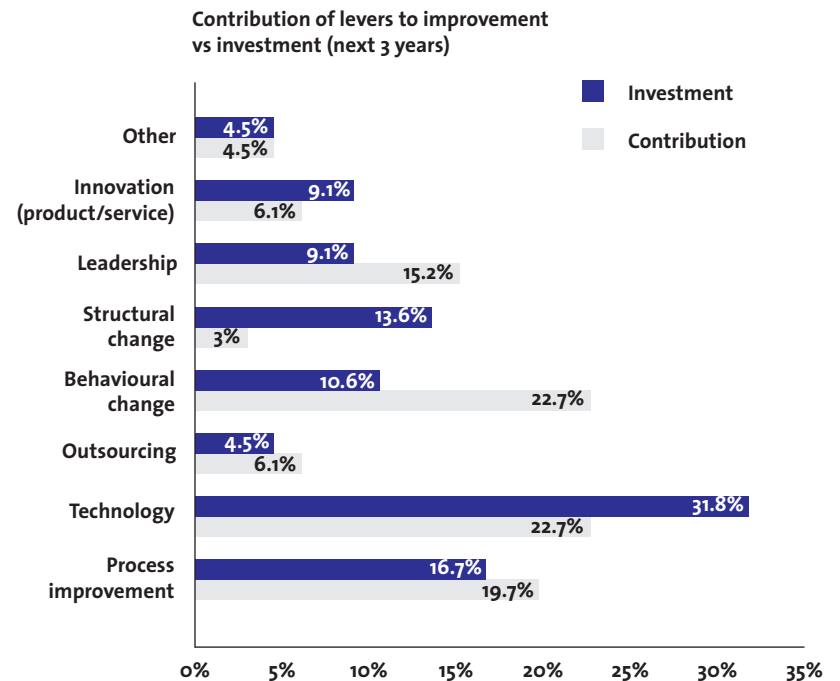


Figure 12



Process improvement

Process improvement has been one of the top three contributors to productivity over the last three years (Figure 11) and is predicted to retain its importance in the future (Figure 12). Relative expenditure in this area has, however, been scaled back, which may indicate that organisations are relying less on external support in this area, having invested heavily in Business Process Re-engineering in the past. Many organisations have built up their own internal expertise in Six Sigma, Lean etc.

This will always remain a key element of performance improvement. Daniel Meere explains, “There is no point in just speeding up a poor process, so you have to re-engineer the process first and then automate.” “You can take cost out by reducing headcount for example,” adds Stuart Smith. “But if you just do that and don’t change the underlying processes, then you create potential failures.”

Technology

Technology’s contribution to productivity is predicted to almost double over the next three years, as it moves from fourth place to joint first with behavioural change (Figure 12). In the past there has been a huge discrepancy between the relative investment in technology and its contribution to performance improvement (Figure 11). This is predicted to narrow over the next three years as organisations start to realise the benefits of technology by focusing more on behavioural change.

“IT is one of the biggest elements of cost and differentiation,” explains Steve Watmough. “For many organisations it is potentially the greatest lever. We are seeing a much tighter focus on cost in relation to IT. The challenge is to work out the right cost and the right level of risk for the business.”

But it’s not just about cost. IT can help organisations to work in completely different ways. Arun Aggarwal explains: “We look at innovative ways of using technology to improve or automate processes, for example, collaboration and communication within large companies. This doesn’t just offer cost benefits, it also improves the quality of ideas, knowledge sharing, innovation etc.”

Technology’s importance as a driver of productivity is unlikely to diminish. Greg Hart, Head of Global Transaction Operations at Siemens, explains: “You won’t get endless productivity improvement through people alone. You need to support this with investment in process and technology. There are some repetitive jobs which are soul-destroying and should be automated anyway. We are also facing an aging population in the UK and the benefits of offshoring are cyclical with employee attrition and wage inflation.”

Outsourcing

Interestingly outsourcing remains one of the lowest contributors to performance improvement according to our survey, with relatively low investment levels. This could be because organisations have seen outsourcing primarily as a way to remove cost from an organisation, rather than to improve performance.

“Technology, offshoring and outsourcing are key performance levers,” explains Arun Aggarwal. “We help to improve an organisation’s performance by outsourcing and offshoring services. They get the same service at a lower cost.”

The outsourcing market is responding to this shift in emphasis from pure cost reduction to performance improvement. Sean Wells at Atos Consulting explains: “Outsourcing is becoming more competitive as the number of large deals dries up. The market is focusing on specialist expertise as opposed to commodity outsourcing. Clients are buying in capabilities that they couldn’t develop rapidly, particularly in financial services.”

Structural change

The contribution of structural change to performance improvement has dropped from 11 percent to just three percent, in spite of relatively high levels of expenditure. Major structural change is not undertaken lightly by any organisation and usually coincides with significant events such as a recession (downsizing), mergers and acquisitions or large scale outsourcing deals.

Leadership

Leadership is predicted to drop from the most important lever of performance improvement over the last three years to number four in the future, in spite of a relative increase in investment. This may reflect a feeling, amongst the leadership itself, that they can only do so much to initiate and sponsor change, the lion’s share of the contribution has to come from others within the organisation.

Innovation

Innovation's contribution to performance improvement is relatively low but consistent, in spite of a tripling of levels of investment. This may be a reflection of the complacency induced by the last decade of economic growth in the UK. "If you are in a very bad economic situation, that can often be a stimulus for innovation. If you feel safe and comfortable, you don't take risks," explains Stuart Smith.

The fact that investment in this area has tripled might indicate that organisations appreciate the importance of this lever, but are uncertain as to what impact it will have on their productivity. "Performance improvement goes in cycles," explains Arun Aggarwal. "We have swung back toward efficiency and consistency of service, but the ability to innovate with products or services will be an increasing battleground."

"Innovation is a crucial component of productivity," explains Shlomo Maital. "It is only by understanding customers and customers' customers that organisations can provide high quality products and services. Organisations that create innovative products in high demand are by definition productive." "A lot of organisations don't make the effort to identify the issues which are critical to clients," adds Steve Smith. "You need to know what the customer wants so you can reduce wastage."

At Siemens the globalisation of their service desk business has created both a new impetus for innovation and a source of ideas and best practice. David Nicholson explains: "We are taking a Six Sigma approach to continuous improvement. Additionally, because we have centres all over the world, this presents a huge opportunity to implement best practice. All our Global segment leaders meet regularly to discuss technology, process, structure, performance, reporting, management and quality. They learn from each other and agree on the optimum ways of doing things. As a result, clients don't need to worry about where they are serviced from – the customer experience is globally excellent and consistent."

"Innovation is a crucial component of productivity"

Shlomo Maital

Behavioural change

Behavioural change has been and will continue to be one of the top three contributors to performance improvement. Indeed it has moved from joint second place with process improvement to joint first place with technology. Investment in this area, however, is still relatively low. This may be because organisations are reluctant to buy in professional support in this area, believing it is something they should be able to sort out themselves. Many think this is a key factor in our failure as a nation to close the productivity gap with other industrialised countries. "We need to engage people better," explains Steve Smith. "We have had a decade of not properly engaging people and this shows."

So why is behavioural change moving up the agenda? Alistair Dornan explains: "There is a strong pressure to do more with less. Internal communications have been improved and there has been heavy investment in IT. Where will the next economies come from? Organisations are turning to innovative solutions in human capital performance." Sean Wells agrees: "There has been substantial investment in technology and business process re-engineering as well as crude cost cutting measures in the last recession. Nowadays companies understand better the benefits of developing their staff. Some of the toughest financial services companies are developing their softer skills."

Many believe that changing the behaviour of leaders and managers is fundamental to the success of any performance improvement initiative. Brendan Cahill explains: "You can have excellent systems and processes, but if you get the people bit wrong, you will not optimise the improvement potential available to you, and even if you do, it will not be sustained. The key to sustained productivity improvement is the behaviour of the front line managers and leadership." "You have to incentivise the right behaviours and not just individual behaviour, but the contribution to the business as a whole," adds Daniel Meere.

The wellbeing of employees can have a dramatic impact on behaviour and many organisations are looking at absence, morale, physical and psychological health and their impact on performance. "The UK is no worse than other countries in terms of absence and sickness," explains Alistair Dornan. "India is also having problems with its long hours culture. But there is a greater commitment in the UK to make improvements and we are leading the next evolution in this work. There is a strong link between health and productivity. The trick is to help organisations to move away from a focus on illness to proactive management of wellness." Gail McKee agrees: "We are seeing a new focus on health and productivity of the workforce. Employers can do a lot to help, for example in the area of stress which is the number one reason why people may leave their firm in nearly every country."

Behavioural change as a key driver of productivity

According to our survey, the most important factors in improving productivity over the last three years have been, in fairly equal measures, the ability to engage and motivate employees, getting the buy-in of front line management and getting the buy-in of senior management (Figure 13).

Looking forward at the next three years, employee engagement looks set to become the most important factor, with an overwhelming 41 percent, way ahead of the other factors. Performance measurement and targets are estimated to reduce in importance by over two thirds and level of investment will become twice as important. All of this would indicate that organisations are refocusing their performance improvement initiatives and spending around engagement, motivation and buy-in of employees at all levels, in other words, behavioural change.

Why do performance initiatives fail?

Of the ten percent of respondents whose organisations have not improved their productivity over the last three years (Figure 7), 40 percent attribute this failure to an inability to engage and motivate employees, reinforcing the conclusion that this is the single most important driver of productivity (Figure 14). “If the people with the biggest influence have not bought into the improvements in the first place, it is destined to fail,” says Steve Watmough.

Performance improvement can involve major organisational change and those individuals not directly involved in the process can feel disenfranchised or insecure. “More mature organisations see performance improvement as an opportunity, but many go into it with a heavy heart,” explains Neil Bullen. “You need to engage people so they don’t feel threatened.”

“In too many organisations you go through waves of costcutting and it becomes very negative and demoralising,” adds Mark Goodridge. “People need a clear sense of where the programme is taking the organisation and how much stronger it will be as a result. Many Business Process Re-engineering initiatives haven’t embraced the human dimension sufficiently. They quickly come up against ‘does this mean job losses?’, which dramatically reduces the engagement.”

Research by Watson Wyatt shows that four things drive productivity: commitment of the employees to the firm; providing them with the tools and processes to get the job done; ensuring they understand the business goals and how their job fits in; and ensuring that they trust their employer to act with integrity. Gail McKee explains: “A performance initiative is not something you can just layer on top like the icing on the rest of the business. When GE was successful in improving its results, a lot of companies wanted to copy their performance management practices without understanding where they were in terms of culture - what was the starting point, and what efforts would be needed to improve their own performance.”

Not only do people at all levels in the organisation need to understand and buy into the business case for performance improvement, they need to be made accountable in a realistic and practical way for their contribution to this change. “They are the ones who make a difference,” explains Paul Hutchinson at Virgin Media. “In the past a lot of people looked up the ladder and said, ‘what are you going to do about it?’ Now they take responsibility.”

“Failure to link productivity growth with recognition (not necessarily financial) will dampen these initiatives,” explains Shlomo Maital. “Create incentives and metrics that make productivity growth worthwhile to all employees: recognise and celebrate achievement and the results will follow.”

Figure 13

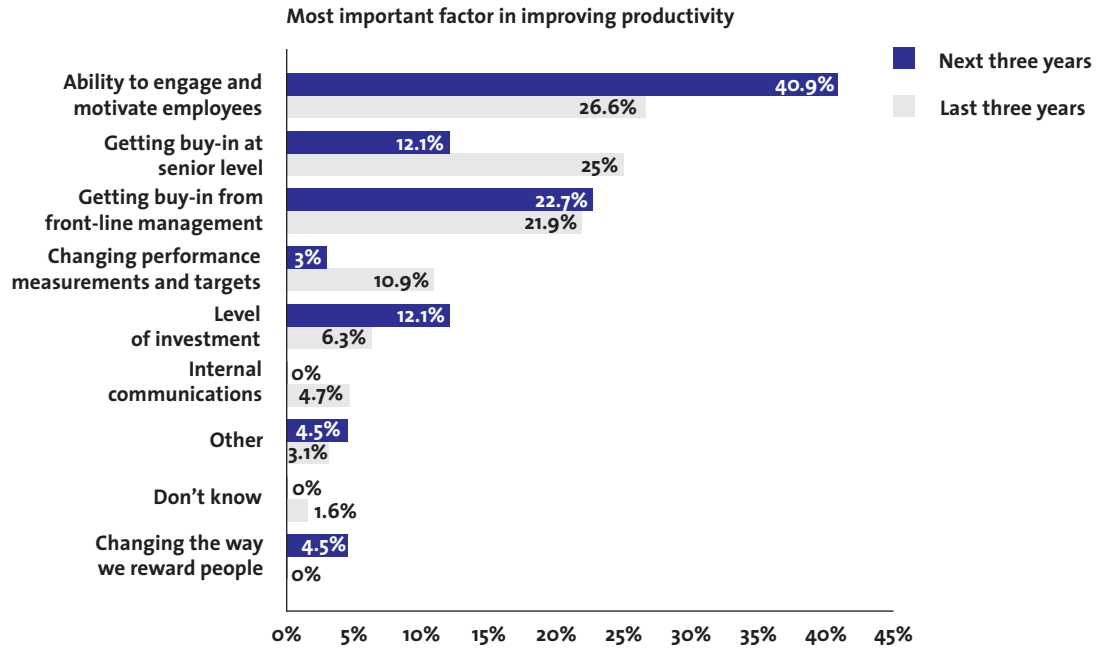
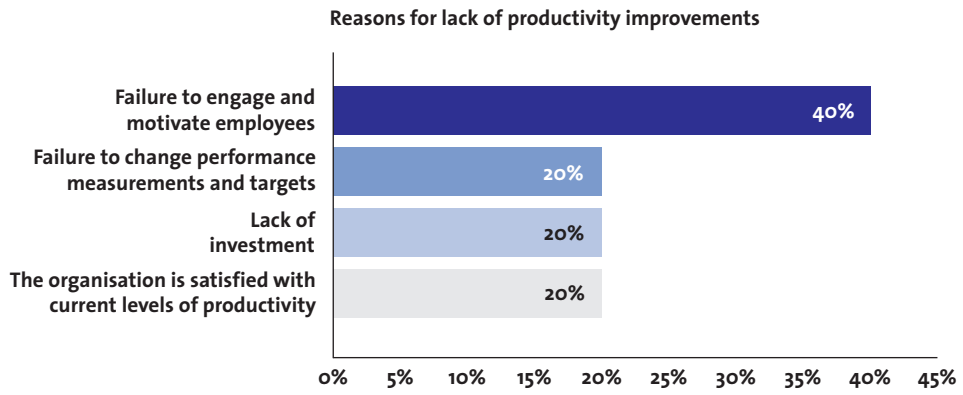


Figure 14



So let's look more closely at some of the reasons why organisations are failing to manage behavioural change in a way that improves productivity.

- **Poor or non-existent measurement**

Of those organisations which have not improved their performance over the last three years, 20 percent attributed this failure to an inability to change performance measurements and targets (Figure 14). Many initiatives fail simply because appropriate measures have not been agreed at the outset and/or organisations have failed to monitor their performance against them.

This is another area where the UK seems to struggle in comparison to other G7 countries. Ian Brumwell explains: "Other countries are much more focussed on gathering the evidence so they can understand the problems and appropriate solutions."

"Management begins with measurement," explains Shlomo Maital. "You cannot manage what you do not measure. Many companies do not have a consistent system in place for measuring and comparing productivity across all business units." "It's about having the right information to take the right decisions," adds Steve Culp. "You need the least amount of the most important information. In many organisations you have the opposite."

At Mercer Outsourcing the introduction of appropriate measures had a dramatic impact on their performance. Jill Robinson, head of customer service delivery, explains: "We didn't have any metrics and we didn't know whether we were productive. If you have the right information you can understand why some teams perform better and you can implement best practice. It's what you draw from the information and how you address issues, that is important."

So how should organisations measure their performance and how can they be sure they are measuring the right things? "At PIPC we've worked with a lot of clients who have struggled with putting in a baseline," explains Daniel Meere. "We've worked with them to develop something which is reflective of the business cycle and set realistic targets against this. The highest score is not always the best target for the organisation initially."

"A lot of companies work very hard, but not necessarily at the right things," explains Clive Geldard. "Traditional measures of productivity are functionally arranged using key performance indicators and incentives. You might be achieving excellent productivity in the factory, but overall productivity could be poor. You need to make sure that metrics relate to the end-to-end processes required to service customers. For example, in retail a key metric is shelf availability to the customer. This has a multitude of different components and stakeholders, so most of the supply chain will focus on this."

Choosing the right performance measures is essential if behaviour is to be changed in a positive way. Shlomo Maital explains: "You get the behaviour that you measure. Inappropriate productivity measures will drive inappropriate behaviour." "There should be a clear relationship between the things you measure internally and what drives value in the market, so that the metrics actually drive positive behaviour," adds Steve Culp.

If one measure is given too much emphasis, however, this can have a negative impact on other aspects of performance. Arun Aggarwal explains: "You need to take a holistic approach. If you are striving for pure cost reduction, the quality of service will deteriorate. If people are measured on a single dimension this will affect their behaviour and the initiative will fail."

"When organisations give themselves goals and measures, which are not linked to the strategy, the programme fails," adds Aidan Brennan. "For example, one organisation was measuring factory performance, but excluded the time when the factory was not operating. This resulted in 33 percent of underutilised assets. If they had been aware of this they could have rationalised their manufacturing and transferred work from other sites. Their measures of utilisation were misleading."

- **Lack of alignment and integration**

When agreeing the performance measures for each part of the organisation it is important to ensure that they are aligned with each other in a way that supports the overall business strategy. "Most firms organise themselves around functions, which are poorly synchronised," explains Clive Geldard. "For example managers struggle to reconcile the sales forecast with production and purchasing. The challenge is to get the functions to work in a joined up way."

Measures should not only be consistent across the organisation, but should also be appropriately interpreted at each level. Brendan Cahill explains: "Applying a consistent method of productivity improvement that cascades down the organisation is equally important, yet regularly it skips whole layers of management."

"In the construction industry communication along the supply chain is a huge challenge," explains Russell Poynter-Brown. "You are dealing with a bespoke project almost every time and every site is different. There is a legacy of adversarial contracts that encouraged a degree of separation and poor communication. However, in the last ten years the industry has adopted more widely partnering and alliancing. This has improved communication and productivity."

• Ad hoc initiatives vs sustained improvement

One-off, isolated performance initiatives may yield results in the short-term or in specific areas of the business, but their benefit will not be sustained. Steve Culp explains: “In uncertain times many organisations try to introduce short cycle, practical initiatives, which do not match the business objectives and do not drive out the right results in the long term.” “True productivity improvement as a cultural norm takes four to five years to become embedded,” explains Greg Hart, Head of Global Transaction Operations, at Siemens.

“Companies struggle to hold performance gains over a longer period of time,” adds Clive Geldard. “In 12 months’ time many companies move onto the next big thing. They don’t go back and audit the performance improvement from the earlier project. Leadership needs to give people time to work the solutions through. There is a tendency to chop and change in the search for a panacea.”

So how can organisations take a longer term approach to productivity?

“Improvement should be part of the day job not just a one off exercise,” explains Stuart Smith. “It should become part of the mindset of managers. They have to do their job today and improve it tomorrow. We use a Lean daily management system, which maintains a Continuous Improvement culture right down at grass roots. It involves things like daily stand up meetings, making sure everybody is aware of the measures and understands what good looks like.”

“You have to approach performance improvement in a systemic way or it will fizzle out,” explains Neil Bullen. “This requires different skills and a concerted effort. Many organisations try to weave this into ‘business as usual’ but you need a dedicated resource.”

Stuart Smith concludes: “It’s like a diet; you need to commit to it and follow the principles. It’s easy to say ‘we did Lean and it didn’t work’.”

• Lack of sponsorship

In Figures 11 and 12 we saw that leadership was predicted to drop from the most important lever of performance improvement over the last three years to number four in the future, in spite of a relative increase in investment. This does give cause for concern as one of the main roles of leadership in performance improvement is their active sponsorship of the associated initiatives. “If senior management is not behind an improvement programme, it will not start,” explains Stuart Smith. “They need to be on board and engaged.” Brendan

Cahill agrees: “Without visible, strong and consistent leadership, most if not all performance initiatives are destined for mediocre results or failure.”

“It has to start with the CEO and the Board. If they don’t get it, it’s hard for those in the middle to get it,” explains Gail McKee. “Nothing will happen unless you have good leadership,” agrees Mark Goodridge. “Their primary role is to understand what the performance gap is and the best way of closing it – should it be an incremental change or something more radical. They need to drive through the change and make sure they end up with humans who are motivated and committed to make it happen. If they can’t persuade their own team it’s going to be suboptimal.”

The leadership needs to make some tough decisions about the future of the organisation. Arun Aggarwal explains: “Performance is hugely influenced by the right strategy. If you are in a business where you find it hard to compete, performance initiatives are going to struggle. Lloyds TSB, for example, under Brian Pitman got the strategy right – they pulled out of non UK retail where they couldn’t compete.”

“Leadership also needs to ensure that the senior management are acting together and not acting independently. That can be enormously disruptive,” adds Mark Berman. “You need consensus at board level regarding the drivers for performance improvement. You need to give people personal responsibility for its delivery,” says Mike Nugent.

Another key role for the sponsor is to provide clarity and focus around the objectives of the initiative. “Those companies which get the best results have a clear focus on what actually drives value for them and identify those parts of the organisation which are not business critical in the longer term,” says Steve Culp. “You need clear objectives and goals,” adds Mike Nugent. “If you don’t have that clarity, the organisation becomes flabby with personal empires and duplication of effort and resource.”

Aidan Brennan agrees: “The business case needs to be clear and compelling. Unless the metrics link back to a real business case the organisation will continue to question and challenge the programme. Many organisations set overcomplicated and unrealistic goals and try to achieve too much. If you give yourself too long, everything gets deferred. You need to put pressure on the system to make change happen. It’s about sending a clear message as to why this is necessary and being unequivocal about it being delivered.”

An impersonal, company-wide email can do more harm than good – leaders are expected to take a more direct approach. “These guys are stepping

down into the workplace and being very visible,” explains David Nicholson. “We use language that the agents understand. In some organisations the messages get cascaded, but there is no relevance for ‘grass roots’ employees.” Jill Robinson agrees: “Leadership is about inspiring and enthusing people to want to make a difference and giving them the time and space to do it.”

Greg Hart at Siemens believes strongly that leaders at all levels must play an active role in performance management: “You need an infrastructure that rewards performance to requirement and sanctions underperformance. This must pervade every department, not just the operations arena.”

One of the reasons performance initiatives fail is an inability to sustain the programme on a day-to-day basis. It is the leadership team’s responsibility to make sure that the organisation does not become distracted. Daniel Meere explains: “Leadership needs to focus on less, so the organisation can deliver more. Organisations often try to improve everything at once. This dilutes the focus and saturates the business with change it can’t digest.”

The role of front line managers

Whilst all employees must understand the relevance of performance improvement to their job, the success of any initiative will depend on the extent to which first and second line managers are committed to change, and their ability to manage that change on a day-to-day basis. Neil Bullen explains: “Front line managers have more of an emotional attachment to realising change in their department. Some embrace it wholeheartedly, some tow the party line. If some resist it they will undermine the corporate objectives and the change will fail.”

Perhaps one of the reasons why less importance is now attached to leadership as a performance driver (Figure 12) is the fact that the term ‘leader’ has a different meaning in an era where we are all expected to take responsibility for performance, rather than waiting for someone to tell us what to do. Steve Smith explains: “We used to just concentrate on the management, but clients now want the whole workforce to be thinking like managers. The team leaders are driving productivity. In some cases they are doing what two or three layers of management used to do.”

Brendan Cahill agrees: “Leadership is not just about senior management. It is as important that the front line managers are ‘on side’, wearing the same shirts and facing the same goal posts. For a business to be truly productive, empowered leaders need to exist at every level.”

Front line managers can also make a valuable contribution to the performance improvement strategy by providing feedback on customers and products. “Their role is to act as a challenge to senior managers,” explains Mike Nugent. “Good leaders recognise that they need to utilise the strengths of their people, who know more about delivery and how the organisation works.” “Well intentioned individuals at HQ decide what the customer wants, but they are not closest to the customer,” adds Daniel Meere. “You need to create an environment where front line managers can put their ideas forward.”

At Siemens, the front line managers play a key role in performance improvement. Greg Hart explains: “They are constantly matching the resources to demand at the coalface. They are driving improvement daily and hourly by managing variation and raising the bar. They have to make sure that the ‘Takt Time’ is maintained – the production heartbeat of the organisation.”



But many managers have received very little formal management training and have no experience of managing change. Brendan Cahill explains: “Most first line managers have been promoted, not because they are good leaders or managers, but because they were good engineers, agents or operators. Equipping these managers with the appropriate skills, tools and knowledge to manage and lead effectively is so often ignored. Most front line managers spend their time in front of PC screens or in meetings – their comfort zones. Instead they should be out there with their team, providing coaching, guidance, assistance and support.”

Steve Smith agrees: “I see a lot of expensive managers not being clear about what they are doing, running about producing reports and fire-fighting rather than thinking about the competition and the customer.” “In construction they are good at their craft, at bringing together specialists and subcontractors, but are not typically focussed on Systems Thinking or Lean Manufacturing for example,” adds Russell Poynter-Brown.

So how can these often overstretched managers be transformed into performance leaders? “Their role is changing,” explains Stuart Smith. “They are now seen as coaches and team leaders rather than managers. You have to give them the tools and techniques to lead not just manage. Some find it very difficult.”

Following the acquisition of NTL and Telewest, Virgin has embarked upon a behavioural change programme, ‘Lead the Revolution’, which aims to drive consistent behaviour across the Virgin brand. Paul Hutchinson explains: “You might be an absolute technical wizard, but if you are no good with customers you are no good for us. We are moving the emphasis from technical excellence to behavioural excellence. If we have to choose between a guy who can put a plug on in 25 seconds and one who can’t, but who is much better at customer service, we would take the latter.”

All Virgin Media employees are receiving training in performance improvement. Paul Hutchinson explains: “We are investing in Lean/Sigma and are setting up a boot camp for all levels right down to the front line. Once someone becomes a green belt they have to lead a project using the methodology.” Hutchinson believes strongly that this training is having a significant impact on the way people work. “If you get a group of people in a room and ask them to look at something, you get very different answers from those that have been through the training to those who haven’t.”

At Siemens, front line managers are encouraged to take a more proactive approach to management. David Nicholson explains: “Our team leaders spend 75-80 percent of their time on active leadership: coaching, floor walking and hands on management. There is little value in team leaders spending lots of time on admin and emails. Our first level managers are encouraged to be on the floor with their teams, supporting them and checking actual vs. planned performance every 15-30 minutes, thus making sure we meet our targets.”

David’s colleague, Greg Hart, explains how the performance management system supports this behaviour: “Daily, weekly and monthly service and production commitment meetings are held at all levels. All managers and team leaders are developed and coached in performance management and supported by a production services team that monitors, develops and maintains the system until it embeds.”

At Mercer Outsourcing all managers have recently attended a three day programme, which focused on team-working, and are now putting their learning into practice while being observed and critiqued by senior managers. Jill Robinson explains: “The manager’s job is to set the parameters that people are expected to work under, help them to prioritise and to resolve issues for themselves.” The programme has already had an impact on performance. “They have learnt how it makes a difference when a team really performs as a team. If you have eight people in a rowing boat and they don’t know what they are doing it will capsize. But if you are synchronised and pulling in the same direction you just zip along! The team manager is the cox.”

As well as providing front line managers with the tools and techniques to manage change, they also require an incentive to make the initiative succeed. “You need to understand what motivates people and this is not necessarily money,” explains Russell Poynter-Brown. “If construction companies can retain good people for the duration of longer term contracts, they can then deploy more sophisticated performance management techniques. Contractors and others do operate incentive schemes, but this can sometimes be at the expense of overall value for money. “Most people take pride in doing a good job – it’s not just about money,” agrees Ian Brumwell.

Neil Bullen concludes: “The days of one off performance improvement are gone. It has to be a continuous cycle of improvement. This will require a shift in competency management – people need change management skills.”

Critical success factors for improving productivity by changing employee behaviour

Most performance improvement initiatives consist of a number of productivity levers, of which behavioural change is the most important. Levels of employee engagement and motivation will largely determine the extent to which all the other levers will be successful. This report and survey highlight six critical success factors for focusing on behaviour in order to improve productivity.

- 1. Get sponsorship at a senior level**

Leaders should provide focus and clarity around the business case for change and the performance objectives. It is their role to maintain the impetus of the programme and to ensure that there is unity at a senior level. Leadership needs to demonstrate its commitment to performance improvement by being visible at all levels of the organisation.
- 2. Involve the front line managers**

First and second line managers can provide valuable feedback on customers, products and services. They often understand the business better than anybody else and should constantly be consulted on anything related to performance improvement. This will also help to build their commitment to change.
- 3. Measure the right things**

Choose a small number of relevant performance metrics, be consistent in their application and monitor them regularly. Make sure that the measures are aligned across the business and drive the right behaviour in all parts of the organisation.
- 4. Communicate the business case and metrics**

Ensure that all employees understand the reasons for change and translate the metrics into meaningful objectives for each part of the business and each individual. Make people accountable and reward them for their contribution to productivity improvement.
- 5. Give managers the tools and skills they need to manage performance**

Help the front line managers to be active managers, coaching and floor-walking rather than answering emails, doing admin and fire-fighting. Introduce them to performance improvement methodologies and encourage them to use these from day to day. Change the focus from technical excellence to behavioural excellence.
- 6. Give it time and make it part of business as usual**

Don't expect instant results and manage others' expectations in this regard. Incorporate performance improvement into job descriptions and business processes. Stop viewing it as a one off initiative.

OUR
AND
MODEL
SEIZE THE
OPPORTUNITIES
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PRODUCTIVITY
RATHER THAN
JUST CUT COSTS

LOOK AFTER
EMPLOYEES

IMPROVE
PLANNING AND
FORECASTING

DECIDE WHO
NOT TO

LOOK
CUST

Glossary

Balanced Scorecard is a concept developed by Robert Kaplan and David Norton to measure business performance against strategic goals from four key perspectives: customer; internal; innovation and learning; financial.

Business Process Re-engineering (BPR) is a management approach which aims to improve the efficiency and effectiveness of the processes that exist within organizations. The key to BPR is to determine how organisations can best construct these processes to improve how they conduct business.

Continuous Improvement/Kaizen is a Japanese philosophy that focuses on continuous improvement throughout all aspects of an organisation, from manufacturing to management. By improving standardised activities and processes, Kaizen aims to eliminate waste.

Enterprise Resource Planning (ERP) is the planning of how business resources (materials, employees, customers etc.) are acquired and moved from one part of the organisation to another. An ERP system allows the use of a single database for a variety of business functions.

Lean Manufacturing/Production is the practice of a theory of production that considers the expenditure of resources for any means other than the creation of value for the presumed customer, to be wasteful and thus a target for elimination.

Productivity is the amount of output produced by an organisation compared to the amount of input i.e. labour, equipment or capital.

Return on Capital Employed (ROCE) is used in finance as a measure of the returns that a company is realising from its capital employed. It is commonly used as a measure for comparing the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital.

Six Sigma is a business management strategy, originally developed by Motorola, that today enjoys wide-spread application in many sectors of industry. Six Sigma seeks to identify and remove the causes of defects and errors in manufacturing and business processes.

Systems Thinking is a unique approach to problem solving in that it views certain “problems” as parts of an overall system, rather than focusing on individual outcomes and contributing to further development of the undesired element or problem.

Takt Time can be defined as the maximum time allowed to produce a product in order to meet demand. In a lean manufacturing environment, the pace time is set equal to the Takt Time.

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About the sponsor

Trinity Horne is an evidence based business transformation consultancy. They help their clients to achieve sustained productivity improvements of between 15 percent and 30 percent in operational environments including field, contact centre and back offices in the finance, utilities, government, IT and telecommunications sectors. They do this by maximising the effectiveness of business processes and employees, typically through a combined focus on management systems, process design and behavioural change. Their outcome driven approach, products and methodologies, value based proposition and their ability to implement sustainable change uniquely position Trinity Horne to drive results through change.

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About the Management Consultancies Association

The Management Consultancies Association (MCA) was formed in 1956 to represent the consultancy industry to its clients, the media and government. Management consultancy is an increasingly important industry for the UK economy, with revenues for 2007 estimated at £8.5bn. MCA members represent around 70 percent of the UK consulting sector, employ around 30,000 consultants and work with the FTSE 100 and all government departments. MCA supports its member firms with a range of services including events, publications, interest groups and public relations. The Association also works with its members to attract the top talent into the industry and is the main source of data on the UK market.

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