productivity insights network

PIN - Productivity Projects Fund

Small Project Report

Relating Productivity to Organisational Context

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About PIN

The Productivity Insights Network was established in January 2018 and is funded by the Economic and Social Research Council. As a multi-disciplinary network of social science researchers engaged with public, private, and third sector partners, our aim is to change the tone of the productivity debate in theory and practice. It is led by the University of Sheffield, with co-investigators at Cambridge Econometrics, Cardiff University, Durham University, University of Sunderland, SQW, University of Cambridge, University of Essex, University of Glasgow, University of Leeds and University of Stirling. The support of the funder is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

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BACKGROUND & AIMS

In a 2016 UKCES-funded applied research project (SQW for UKCES, *Evaluation of the UK Futures Programme: The Jaguar Land Rover High Performance Working Practices Programme*, 2016) developed and tested a fully-customised process to introduce High Performance Working (HPW) principles and practice. The outcomes were more productive environments, created through employer-led enhancement of employee engagement and discretionary contribution, with demonstrable business benefits. The findings included the signal benefit of the employer-led methodology, from the initial self-assessment through the consequent improvement projects design and delivery to the closing evaluation.

The aims of this project were to strengthen the link between the HPW processes and the productivity agenda. It will derive and test a framework and methodology for a company to (1) articulate its own take on productivity to align with its business environment, operations and plans, (2) specify appropriate success factors, measures and targets, and (3) propose mechanisms to link these parameters with value added criteria.

The project was conducted by two co-researchers – Clive Reynolds of Strategic Capability Ltd and Colin Siddle of Ryton Management Consultants Ltd.

Productivity Research: Improving the connections between productivity, performance and value creation

Our focus has been on the current situation within organisations, rather than trends or sectoral, regional or national considerations. Our work over the past five years regarding HPW concludes few organisations explicitly refer to productivity; whilst they have all been fully concerned with operational and business performance there appears to be a lack of connection between this and measuring productivity. This apparent contradiction is also observed in recent publications.

The most common measure of productivity used by politicians and policy-makers is labour productivity, or value added (VA) per employee (Roper, Hathaway and Driffield, 2019). These authors found that the VA concept “was either unfamiliar or had little meaning in the context in which interviewees were operating. Instead, interviewees tended to equate the term ‘productivity’ with measures of operating efficiency often linked to physical outputs or throughput.” In particular, they found that “the lack of understanding and awareness of value added on the part of many interviewees often made it difficult to have a meaningful conversation about this specific measure of productivity. Instead discussions often defaulted to a focus on measures of operational efficiency with little reference to their contribution to overall value added.”

The PIN Pioneer project ‘Unpicking the productivity narrative in UK manufacturers’ led by Professor Jillian McBryde of the University of Strathclyde, (McBryde et al, 2019). confirmed the existence of the disconnects described above, finding that “disappointingly, the prevalent focus across the productivity narratives was on efficiency and meeting the plan and volume, rather than adding value” with “a high level of variance about the definition of productivity, and diverse measures used”. Our project aim was to study how these productivity ‘narratives’ and factors have a unique expression for a specific organisation, and their utility in their pursuit of value creation and productivity.

METHODOLOGY

Basic design & original format

The data that covers two primary aspects: (i) what productivity really means in a specific organisational context, and (ii) how an organisation can establish, measure and develop its capacity and capability to optimise and maximise value creation. Our original proposal was to collect data through six case studies of organisations in different sectors/activities. In each organisation we intended to facilitate a short series of workshops, to encompass engagement, interactive discussion, and follow-up. Each step would be conducted in face-face mode. Engagement would be with the senior management team; interactive discussion with a nominated representative group; and follow-up with a combination of senior team and the representative group.

Impact of Covid 19 and redesign

After only one engagement meeting, the arrival of Covid19 lock-down made further face-face workshops impossible. We therefore adapted to using online communication and collaboration platforms. The revised process has enabled outcomes to meet project objectives fully, and we gained some significant unforeseen learning points. The redesigned process evolved as follows.

Initial engagement for the subsequent five case studies was achieved by email, phone and video conferencing with senior management. A set of questions/discussion points (trialled with the first case study) informed the development of a formal, broad-based questionnaire inviting textual responses. Preliminary questions concerned an individual's personal understanding of the meaning of '*Productivity*' within the organisation, and 10 keywords they would instinctively find useful when communicating about productivity. The main section explored links with *Value Creation*, and its significance alongside operational management and performance improvement. This was captured into Google Forms and used as a briefing mechanism with the 'first contact' senior manager of prospective case study companies. In all cases they decided to proceed with the process, and they then nominated participants to meet us in an online workshop. Of the six case study companies, three nominated their senior management team, two nominated middle managers, and one nominated a combination of senior and middle managers.

The workshop process was analogous to an extended, multi-person semi-structured interview. Each participant was first given access to the Google Forms questionnaire, to be completed online and independently. Their responses were captured into Excel, and the complete set passed back to them shortly before the workshop in an easily-read pdf form, for familiarisation with their colleagues' views.

The workshop was run in either Microsoft Teams® or Zoom®, according to their usual practice; one project researcher led the facilitation, the other attended to observe and make notes.

As a first step in the workshop, a short slide presentation was used to help participants distinguish between the specific *meaning* of 'Productivity' for their organisation, its *relevance* to Value Creation in their market context, and its historical/current *performance* levels. To aid this step through visual means, we adapted the Kano Model[1] into a *Productivity & Value Creation* framework. This was used to identify 'value-adding attributes' which (a) customers would value, or (b) customers would expect as basic, or (c) were internal enablers/CSFs for the first two categories. This framework was introduced to the group along with examples from their questionnaire responses. This step was

[1] The Kano Model (Dr Noriani Kano, Tokyo University of Science, 1984) compares *customer satisfaction* ('Delight' versus 'Basic') with individual product or service features against *how fully implemented* they are.

added to the process as it had become clear in the first workshop that the different perspectives were a source of confusion which needed to be constantly addressed during the discussion of responses.

The medium for discussion was the Excel workbook, to which had been added a 'consensus row' in which we had pre-entered a consolidation of the individual responses: grouping responses by theme and eliminating duplication. This was interrogated, and a final consensus edited in real time as necessary to arrive at the most valid set of statements of their separate and several views. The questionnaire review was completed with presentation of the full set of suggested keywords for a new selection to be made with the benefit of insights gained during the process. One researcher facilitated this process, while the other observed and made notes of the conversation and examples quoted.

Within both the questionnaire and the workshop, the concluding step was an individual '3-2-1' reflection and capture step along the lines '3 things I have learnt, 2 things I will do, 1 thing I will explore'. Immediately after the workshop, all responses and outcomes were transferred to a Word document and circulated back to the participants, which completed this phase.

The in-company follow-up was for senior management to review outputs; complete the *Productivity & Value Creation* framework including assessment of current strengths and weaknesses; consider and articulate the implications of all the results for their organisation; and feed these views back.

Please note that the process materials and a full presentation of the case study results using the participants' own words can be found at Project Outputs. This document evidences the effectiveness of the process used and its potential impact on operational management and performance.

CASE STUDY RESEARCH - RESULTS & FINDINGS

Case study selection

The approach was to engage with six organisations with as much sectoral and product/service difference as possible, with a strong bias towards SMEs. For the purposes of this project 'Place' was not a criterion for selection since the field of study was an organisation's specific business activities, not a comparison between businesses or their geographical environment.

The six organisations (anonymised) are shown in Table 1.

Table 1: Case Study Companies

	Sector	Activities	Main product /service	Size
Company A	Many	Engineering/ Manufacture	Process equipment	Small SME
Company B	Hospitality	Hotel & leisure	Hotel & leisure	Medium SME
Company C	Many	HR Consultancy	Recruitment, Talent Management	Small SME
Company D	Aviation	Engineering / Manufacture	High-tech major components	Medium SME
Company E	Defence/ Aerospace	Manufacture	Complex piece parts	Small SME
Company F	Many	Third-party Logistics	Full service solutions	Large

Case study results

Meaning of 'Productivity'

Workshop participants identified Value-Adding Attributes of their unique organisation in its business context, and their categorisation as 'delighters - customers value', basic - customers expect', or 'internal enablers/CSFs'. The first two categories are associated with marketplace perceptions. All organisations gravitated towards their own view of their strengths. This gave a credible first-sight list of key attributes, but little evidence was provided into a robust division between 'delighters' and 'basic'. The importance of 'Customer Intimacy' as a means of making the necessary distinction became recognised in this discussion. The third category (CSFs etc) was developed throughout the process, with a noteworthy breadth of topics, recognition of relevance and acceptance that a number currently require performance improvement.

The final exercise to review the selection of keywords that reflect productivity for their business resulted in individuals making an average change overall of almost 50% from their own original suggestions.

Each organisation now has a set of material from which to develop its own common language and criteria for value creation and productivity, and a stronger bedrock on which to build a process of performance evaluation and prioritising improvement activities for the business.

Current relevance

The workshop developed considered the relationship between (i) responses made concerning those value-adding attributes which either add to the organisation's USP and brand value or are expected by the marketplace and (ii) responses made concerning the meaning, relevance and importance of productivity in their organisation. All the teams were able to establish cause-and-effect links between

a productive environment and the value-adding attributes specific to their organisation and its marketplace context, and therefore the means to drive value creation more effectively.

All the teams acknowledged that historically this linkage has not been used explicitly, or even used at all. In some cases, it has been represented by lagging KPI indicators for reporting purposes. For all organisations the process raised the perception of its relevance, and its potential to stimulate, underpin and drive critical improvements and thereby increased value added.

The process clearly revealed that measurement connected with these topics has at best been fragmentary, and there was little evidence in most of the organisations of the systems approach needed for coherent and sustained achievement of business excellence. Development of the Value Creation & Productivity framework in the workshop and follow-up activity enabled them to create a first-sight model for future development including the definition of appropriate KPIs and their provision via existing or enhanced systems and processes.

The future

During the workshop, participants described the likely and important changes they perceived over the coming 2-3 years. Reference to products/services, USP & brand, and a measured and sustainable productive environment supporting every aspect of value creation was cited in every case. Particular mention was made by a number of the organisations of the importance of customer intimacy and a systematic approach. The specific operational enhancements given most prominence were purposeful, steady advancement of digitisation and systems integration, much better use of KPIs, and associated culture changes needed to achieve all of the above.

These objectives were backed up by the individual '3-2-1' responses fed back to us, ranging across Value Creation; Meaning of Productivity; Measurement/Systems; Leadership, Management & Teams; and Personal Contribution. An illustrative selection of these responses is included in the Project Outputs report.

The post-workshop completion of the Value Creation & Productivity framework by each organisation divided the organisation's value-creating attributes into those which they believe to be current strengths and those they acknowledge are current weaknesses, and assigned an existing or potential KPI to each attribute. They also documented their considered meaning of productivity to the organisation, and a vision of their productive environment fifteen months hence, i.e. by the beginning of 4th quarter 2021. Every case study company therefore now has a self-generated strategy, and all have commenced the definition and delivery of a prioritised action plan.

Case Study Outcomes

Regarding Roper, Hathaway and Driffield (2019)'s record that 'VA/employee was almost never touched on, and a significant number of participants began by talking about operational efficiency rather than value added', this project's questionnaire and workshop process ensured that value creation was a fundamental consideration. Each organisation's unique set of value-adding attributes were basic to our conversations and to their future thinking and action plans.

Equally, the 'high level of variance about the definition of productivity and diverse measures used' described in McBryde et al (2019) were borne out in our project. However for us this concern became a **strength** when used as the basis for a real productive environment in a given organisation. Of the common factors their project identified the one that was universally mentioned was IT, and the role that digitization/digitalization must play in the future.

McBryde et al (2019) also found that the 'perception of a productivity problem is not widespread among interviewees'. This issue was found to be mixed amongst our participants. In the questionnaire's opening responses we could find a complete range within a single company from

'we hit our delivery programme so we are productive' to 'our processes are wasteful and require constant manual intervention'. By the end of the project process every team had moved to an analytical appreciation of productivity requirements for value creation, with any areas of weakness acknowledged to be a 'productivity problem'.

Project Objectives

Outcomes against the project's stated objectives are as follows.

Demonstrating the means for aligning and measuring productivity improvements to the specific context of an organisation, and clear identification of the value add to the organisation; and a framework and methodology for customising and deploying these findings in a wide range of businesses. These two objectives have been met in full, as described in this report, and evidenced in the Project Outputs report.

The role of this framework and methodology in associated work such as the ongoing pursuit of employee engagement through HPW. This process can be deployed as a thorough engagement activity prior to the first full stage of an HPW programme. In this project the motivation and commitment to embark immediately on improvement programmes has been notable (contrary to certain previous experiences where ownership and momentum had been hard to establish). Deeper insights into - and understanding of - the relevance, importance and opportunities for value-adding practices significantly enhance the capacity of an organisation to set itself up to best effect to undertake the HPW programme. In practical terms the processes of this methodology will enable carry-over enhancements to the methodology of the associated work. For example in our HPW methodology: the content of the Self-Assessment Audit, and establishing a 'level playing field' for all participants, irrespective of role or seniority; the vision, objectives and priorities setting phase following the audit.

The potential for the development of an innovative index of productivity capability and performance, and associated Dashboard, which best reflects business realities and facilities more effective leadership and management in raising competitiveness. This project confirms the worth of pursuing this potential. The value-adding attributes themselves and the productive environment delivering them are unique to each organisation, so the index must be both generic in nature and capable of incorporating these characteristics without distortion. It is possible that the thinking behind OEE used in manufacturing could be a stimulus for an appropriate Productivity Index. The 'Value Creation & Productivity' framework used in the project has provided a graphic 'Picture of Productivity' and could be developed in this direction through aggregating individual value-adding attributes and their KPIs. We are currently working on a plan to develop this opportunity further. Initially we see some subjectivity and a combination of quantitative/qualitative parameters, building progressively to a demonstrably objective and suitably quantified measurement process.

To provide greater insights into resolving issues associated with the national productivity agenda. This project has demonstrated the possibility of marrying top-down and bottom-up approaches to resolve many of the issues which have previously been rehearsed and researched. Across a range of sectors and a variety of manufacturing/service activities organisations have developed new perceptions and concrete opportunities to enhance their value creation and productivity using their unique criteria, parameters and measures. Their resource input has been minimal – between half and one full day - and can be expected to be massively outweighed by the gains. At an organisational level the feed-through to improvements under conventional measures should be both rapid and sustainable. If the use of the process is scaled up then benefits should be apparent at sectoral and at regional level. The data obtained from the process should also inform sectoral/regional intervention design and funding.

CONCLUSIONS & FURTHER WORK

The concluding statements in *The Productivity Paradox* (Goldin et al, 2019) stated that "going beyond mismeasurement is therefore necessary". We fully concur with their statement, which chimes with our own learning and working drawn from a combined 80 years plus of industrial experiences and working with academia to develop and implement successful organisational models.

This new data greatly enhances our understanding of how little the *'productivity'* conversation has progressed. The new data sits alongside observations of middle managers and directors in facilitated workshops grasping the potential benefits from taking positive actions to *engage colleagues* and subsequently following through with a passion to identify the 'correct' measures for their business. This paper described the positive experiences enjoyed by a range of SMEs, from a small new start-up business to a large global business created in 1949. The paper also references the insightful contributions made in responding to the questionnaire used to initiate the conversations leading to consensus around ambition and aspiration to be the best.

Since March 2020, in the heat of business lockdowns and the depths of a COVID pandemic together with 26 business directors/managers we have successfully developed, trialled and road-tested a new 'recipe' for organisations that is now oven-ready and available to adopt, adapt and embed for wider and scaled-up application. In our opinion, and evidenced through application by our new '*Users and Trialists',* adopting organisations can confidently expect to increase *productivity* because *they will have clearly defined what productivity means for their own business!*

Further work is required to consolidate the relationship model and learning process which concentrates on extending the potential for greater value creation and adopters being coached towards the dual goals of Customer Intimacy Level 5 – Supplier of Choice status (otherwise described as elevating organisations from *Great* to *World Leading*), and the profound benefits of engagement and discretionary contribution arising from *High Performance Working*.

Observing the workshop conversations and capturing real time comments also revealed that the drift continues away from the principles of TQM (1980's – 2000+) where organisations routinely and systematically trained all employees to adopt customer, quality, right first time, continuous improvement and clearly stated processes throughout as being essential in a highly productive environment. The paper also draws attention to the knowledge loss experienced across many sectors. This is evidenced by the lack of understanding and application of business models developed for everyday business use. It is increasingly clear that the basic elements of Customer Intimacy (operational excellence, technical excellence and customer excellence) are lacking in some organisations. The completed questionnaire and case studies also reveal the continuing lack of thinking and or strategies for further adoption of digital technologies as a catalyst for driving productivity.

Finally it is clear from the six completed case studies that *'office based work'* and *'working from home'* have taken new directions during the COVID lockdown with some indications organisations are seeking to optimise the potential benefits from technology driven systems and find new ways of delivering operational excellence. *Note: This point needs further research and investigation to understand the real productivity potential for organisations and employees. It may result in a major focus on job design/content possibly leading to organisations requiring fewer people and higher levels of investment in training for others.*

References

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