

Solving The Productivity Puzzle.

Industry Forum Insight
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Industry Forum
Business Excellence Through Inspired People

Introduction

The UK productivity puzzle continues to be in the news, partly because the bald facts are so startling. The UK economy's long term productivity growth trend (around 2 percent per year) has deviated from a standard growth curve from 2008 since and has flatlined. The UK in competitive terms is now apparently weaker than Italy and Spain, never mind Germany and the US. This puzzle remains even after due allowance is made for the unusual reliance of the UK economy on financial services - which have suffered various obvious troubles - and the extractive energy sector where resource depletion has combined with other turbulent factors.

Job Growth

The economic debate surrounding the 2015 election made us all aware that the UK has nonetheless been very successful at creating jobs (although the latest numbers raise the question of whether this trend is now waning.) How these jobs have been created and filled has fed into the debate about immigration which remains high profile because of this Government's commitment to renegotiate the terms of UK participation in the European Community and the refugee crisis.

The think tank, IPPR, has just pushed a detailed productivity analysis and has found that between 2012 and 2014 around half of the weakness in productivity growth can be attributed to an unfavourable shift in the structure of the economy. Jobs growth may have been strong over these years, but it was disproportionately in low value-added and low-paid sectors of the economy, and a larger proportion of the labour force now works in these relatively low-productivity sectors.



Manufacturing Advisory Group (MAG)

While the Manufacturing Sector adds significant value to the UK economy, the Industry Forum Manufacturing Advisory Group (MAG) is strongly of the view that the country needs more volume manufacturers to raise national productivity. It considered this issue in depth when it met in September 2015. The Manufacturing Advisory Group, or MAG for short, is a programme of meetings aimed at providing senior executives the opportunity to share, hear and debate topical issues and challenges with leading experts and thought leaders.

The Group led by Industry Forum's Chairman, Mike Baunton, aims to provide a focus for those responsible for manufacturing in their organisations to enable open discussion on best practice, identify the critical influences on sustainable success, as well as shaping the future of Industry Forum.

MAG - Productivity

MAG considers that productivity must be a hugely important driver for those responsible for manufacturing, whether in large multi-national corporations or single site SMEs. MAG points to the example of South Korea where labour rates are not so different from the west and yet productivity is highly competitive. It is impossible for a high wage economy such as UK to compete with lower cost countries on cost reduction - even China is discovering that a low wage strategy is a vulnerability for its manufacturing sector.

MAG - Skills Dimension

MAG believes that the skills dimension is critical to making progress on productivity. UK PLC needs to incentivise manufacturers to develop people skills appropriate for manufacturing. MAG is well aware that many manufacturing firms are experiencing a difficulty recruiting qualified engineers. Engineers must possess a portfolio of skills that is widely applicable in today's economy such as teamwork, project management, numeracy and familiarity with the digital domain and digital tools. Part of the solution to the engineer shortage felt by manufacturers is to make sure the offer is truly competitive in today's labour market. Top candidates seek work in firms that match a broad set of personal requirements. MAG thinks that Corporate Social Responsibility is becoming a fundamental requirement for manufacturing organisations as gifted employees want to work for companies that are socially responsible.

MAG - Added Value

MAG stresses that added value rather than, say, cost reduction must be the focus. Producing high customer added value at high levels of productivity is the way forward and the right organisational culture and leadership are vital. Management needs to retain responsibility for quality plus a number of key HR operations.

MAG observes that currently in the UK workforce a significant proportion of university graduates are in roles that do not require a degree. This must raise questions about the quality of management and leadership in many UK firms. Some analysts believe the decline in workplace training in the UK comes from employers relying on graduates to pick things up as they go. MAG is aware that too many people are still doing jobs that generate more low added value.

Employee Engagement

MAG knows from practical experience that employee engagement is a crucial aspect of the organizational culture that is a major driver of high and rising productivity. For example, a member of the MAG was able to achieve a 45% increase in productivity (measured by OEE) by allowing employees to implement changes without their manager's permission, as long as they met safety standards. In the experience of one MAG member, if a competent employee makes a mistake care is needed in the feedback given so that it does not come across as blaming. Good employees will blame themselves anyway and you risk demotivating them. Sustaining high motivation is essential in achieving workplace change. The basic requirement of people to feel secure is a major cause of resistance to change so make sure any change development is worth the effort.



Understanding Costs

MAG points out that a degree of sophistication is needed to develop an appropriate productivity strategy in a specific firm. While various measures can be used to monitor productivity there is no one methodology that is applicable in every situation. From 'OEE' to 'Added Value per £ of Payroll', the choice of which one to use depends on the maturity of the company and situation. It can be misleading to work just with averages when the study of specific extreme cases can be very valuable.

MAG also recommends a careful approach to calculating individual product costs. The allocation of development and marketing costs for example has to be done in a way that makes sense in the context of how a firm operates. Improvements can be made by clearly understanding costs, but this is easier said than done. In particular, most costs will be incurred on operations that add value. The lean capability of learning to see waste is the foundation of driving productivity up. Where the cost arises from outsourcing an operation it is important to establish that the value added is commensurate. Where the outsourcing involves foreign currency transactions extra complexity comes into the assessment.

To make manufacturing processes more productive some areas should be de-skilled by using automation but at the same time the workforce should be given extra value adding skills such as problem solving. Even though autonomous systems capability is progressing all the time it is important to realise that currently problem solving has to be a workforce capability.

What are the implications for UK Productivity?

So what are the implications for UK productivity? The transport equipment manufacturing sector which includes automotive, aerospace and rail has been forging ahead on productivity and is set to maintain this progress. UK aerospace has linked its growth ambitions to a strong focus on national supply chain development through Sharing in Growth, SC21 and related programmes. This work confirms the importance of pushing higher aspirations all the way down the supply chain. The quality of the supply chain is also vital for automotive and has been a major priority for the UK Automotive Council. Major improvements have been secured in the last four years. Tesla in the US, the innovative and potentially disruptive maker of electric powered high performance cars, shows just how challenging it can be sustaining the growth mindset within a fast moving hi-tec supply chain. Tesla are revising downward their current year projections even as they strive to ramp up production volumes because of difficulties in their supply chain.



Here in the UK the new Hitachi manufacturing investment in Darlington will almost certainly lead to performance improvements in that part of the railway equipment supply chain in the UK. The North East engineering sector has already benefited a great deal from Nissan's long term commitment to developing its supply chain and so supply chain development is firmly embedded in the regional manufacturing culture. This is another good example of how the UK transport equipment manufacturing cluster has in depth experience of raising manufacturing productivity. These approaches can be transferred to other sectors within the UK economy as part of the national drive to raise productivity.

Introducing Industry Forum

Industry Forum helps a wide range of manufacturers to understand, optimise and improve both manufacturing capability and business performance. Over 250 organisations in 30 countries trust Industry Forum to deliver and maintain sustainable improvement.

Activities range from single training day activities, through facility transformation projects to global corporate improvement programmes. All Industry Forum activities are designed to provide maximum benefit to the client organisation whilst building internal team capability to sustain and continually improve.

Analyse and transform your manufacturing and supply chain operations. Provide interim resource and skills. Inspire and train your key staff. Audit, benchmark and monitor the lasting improvements and efficiencies we'll create together.

Industry Forum Consultants and Engineers utilise a blend of approaches to best support the client's context and needs in Manufacturing Operations, New Product Introduction, Management Systems and Supply Chain Management.

If you're interested in attending a session of Industry Forum's Manufacturing Advisory Group or would like to learn how Industry Forum could support your manufacturing organisation then email enquiries@industryforum.co.uk or call 0121 717 6615.