



Linea Insights

Productivity & Efficiency
A Double Edged Sword

What is Productivity?

Productivity generally refers to the value of goods and services produced per hour of labour used. Strong and growing productivity is widely recognised as key to a healthy economy and a foundation for wage growth and improved living standards.

UK Productivity

The situation in the UK remains challenged with output per worker-hour 2% lower than the pre crisis levels of 2008. By contrast the G7 group of rich countries output is 5% higher. As a comparator the French could take Friday off and still produce more than the UK does in a week!

Even more concerning, had productivity kept pace with the pre-2008 trend the UK population would be c.17% (on average) better off than it is today.

Why has Productivity Declined?

There are various reasons which culminate in the perfect storm to stifle productivity;

- A shortage of skilled (and in many instances unskilled) labour.
- A history of underinvestment in productivity enhancing technology.
- Remuneration packages which reward short-term focus, rather than acknowledge productivity and long-term sustainable growth.
- Zombie organisations which continue to trade unproductively due to low interest rates.
- An increase in part-time working and lifestyle career choices.

What is Efficiency?

Efficiency refers to the economic and cost-effective use of resources. In maximising outputs from given inputs, costs can be reduced and profitability improved.



Productivity & Efficiency Integration

Productivity and efficiency are explicitly linked. Organisations will look towards improved efficiency as a pre-cursor for sustainable enhanced productivity. However where productivity is sub-optimal there is often a tendency for organisations to focus on efficiency as a way to maintain or improve profitability.

Focused Productivity and Efficiency is key in achieving sustainable growth and long-term viability. The UK therefore urgently needs to address the reasons for declining productivity, that said these issues are complex, with no quick fixes. UK productivity and efficiency improvement consequently requires a focused long-term solution, which appropriately engages with the various stakeholders.

Operational Reality

Despite reduced productivity across the UK economy, employers state that their organisations have made significant year on year productivity and efficiency improvements.

Furthermore they have plans in place to achieve further savings in future years.

Employees state that they are working harder and longer hours to achieve productivity targets, with many regularly working through lunch breaks and on average only 77% utilising their full holiday entitlement.

The problem is that whilst employees are working harder, they are not necessarily working smarter. In some instances organisations are improving productivity but not associated efficiency (increased costs) or improving efficiency without a corresponding increase in productivity (unsustainable cost reduction). This is a fundamental result of not managing the inter-linkage between productivity and efficiency and organisations finding quick fix solutions to improve profitability or try to remain competitive.

What Does the Future Hold?

Given that there are no quick fixes to resolving the UK's productivity dilemma, it is inevitable that organisations will do whatever they can to improve efficiency.

Whilst this may be necessary for the ultimate survival of organisations, short-term productivity and efficiency improvement does present a potential social quandary which continues to drive a sequence of events which are already in motion;

1. An increasing number of people employed on minimum wage or zero hour contracts. 1 in 20 (1.2m) people now receive the minimum wage, a 100% increase since it was introduced in 1999. With a further 1.3m receiving wages of up to 50 pence above the minimum wage.
2. An increase in the use of cheaper migrant labour and the outsourcing of manufacturing and service provision to lower cost countries. The use of migrant workers has grown fastest in relatively low-skilled sectors and occupations, raising from 8.5% in 2002 to 29.3% in 2013.
3. The deployment of continually evolving technology and the social acceptance of robots, the growth of which is predicted to lead to unemployment levels of 50 - 75 percent as humans are replaced with robots and innovative technology. By way of example; driverless cars are quickly becoming a reality, which ultimately questions the long-term requirement for commercial drivers.

Clearly it is a potential doomsday scenario, driven by technological change, social acceptance and desire.

During the recession unemployment peaked at 7.8 percent. which resulted in rapidly increasing debt and government intervention, both of which will have lasting consequences. A five to seven times increase in the rate of unemployment would be inconceivable and unmanageable.



About the Author



Ian Chambers

A Business Improvement specialist with over 20 years' experience devising and leading complex Operational and Financial Turnaround, Transformation and Continuous Improvement Programmes.

With a background in Change Management, Lean Transformation, Financial & Commercial Management, Supply Chain / Procurement Optimisation and Programme Delivery gained within leading UK and International Public and Private sector organisations.

Ian possess an extensive track record of devising, managing and implementing comprehensive, multi-million pound, cross organisational transformation and continuous improvement programmes for NHS, Public and Private organisations and is an expert in delivering sustainable operational improvement and financial balance in challenging situations.

He received national recognition for collaborative programme delivery in the Government Efficiency Awards, was shortlisted as finalist in two further National Awards for NHS Transformation and achieved runner-up in the IFT Public Sector Turnaround Programme of the Year.

Ian holds an Honours degree in Business Management, is a Fellow at the Institute for Consulting, Fellow at the Institute for Operations Management, Fellow at the Chartered Management Institute, Fellow at the Institute of Logistics and Transport, Member of the Asia Transformation & Turnaround Association. Member of the Institute for Turnaround and committee member for the IFT North of England.

He has held numerous board and senior advisory positions, is a certified Lean Practitioner, Master Coach and a member of government and corporate turnaround panels.

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