

What can Australia do about its great productivity challenge?



The Grattan Institute's Saul Eslake and Marcus Walsh research, *Australia's Productivity Challenge*, examines Australia's current position with relation to productivity gains, examining what has driven them over the last twenty years but more importantly, what risks face us as a nation going forward. See the full article on The Grattan Institute's website at

http://www.grattan.edu.au/pub_page/069_report_productivity_challenge.html

We have taken one assertion in the paper, set out below, and examined it from our perspective of having worked at a site level across most industries in Australia: And we provide our views on what Australian business can do NOW to address the looming productivity threat.

What's falling between the cracks

'But to the extent that Australia's economic achievements have induced 'complacency', it is not confined to policy-makers. As the profit share of Australia's national income has increased to unprecedented levels during the past decade (apart from the period immediately after the global financial crisis), business has in general attached less urgency to the pursuit of productivity gains at the enterprise or workplace level (which is, after all, where productivity growth actually occurs). A survey conducted by Telstra (2010) found that, among over 300 organizations each with over 200 employees:

- > only 42% measure their productivity, have specific productivity targets and know what they are, while 25% don't measure their productivity at all;
- > only 22% believe that they can accurately measure productivity benefits when considering investment decisions;
- > only 34% of firms assign individual responsibilities for productivity improvements.'

P 25, Eslake, S and Walsh M, 2011, *Australia's Productivity Challenge*, Grattan Institute, Melbourne.

In the article *Australia's Productivity Challenge*, Eslake and Walsh rightly cite complacency as a risk for business, which has led them to not pursue or fully pursue productivity opportunities available. (p25) Yet they do not explore the implications of this issue, its link to other risks/factors nor how to address it. We suspect that this may be due to the focus on 'Measuring productivity across multiple workplaces' (p5) or industries, rather than what is occurring within specific businesses or on specific sites. One assumption that underlies much of the analysis is that the *current way of doing things* is productive, ie the only way to lift productivity is to introduce, for instance, new technology, which takes out a portion of labour. However, we suggest that you should start with an assumption that the current way of doing things has not realised its full productivity potential.

In our opinion, this area offers Australia one of the easiest and most logical ways to address and prepare us for the very real productivity challenges that lie ahead. In some respects, if we can address productivity at a workplace level, this may offer Australia its own version of the German *Mittelsrand*: leveraging our skills and education to produce excellence in the delivery of whatever operation we choose to be in. We set out below some observations of why we think that there is huge untapped potential available to us.

With the rapid growth in a number of our key industries, from mining to finance, there has been a heavy focus on introducing new technologies and methodologies to meet the growing needs of their customer bases. This is in response to a number of issues that you address in your article, from the surge in demand for our natural resources, the increased complexity and costs associated with our utilities, opportunities offered by new and emerging information and communications technology and the opening of our markets which has exposed us not only to increased competition, but made us aware of opportunities to operate outside our geographical boundaries, whether it is to move operations off-shore such as call centres and back office functions in India or sourcing of componentry manufacturing in China.

YET: how often has any industry or business fully realised the benefit of the range of investments that they have made? The answer is probably zero or so close to zero as to not matter. This is due to a range of issues:

- > Poor understanding and therefore realisation of the true potential of new technologies.
- > Seeking to 'tinker' too much – *we're different, so you'll have to modify it for us.*
- > Processes which do not match the new technologies and therefore introduce rework or redundancy.
- > Poor training of staff to FULLY realise the potential (plenty of training occurs, but is not backed up sufficiently well).
- > Poor or faulty metrics which do not truly reflect the performance of the operation. This can drive behaviours such as complacency and poor or misguided decisions.
- > Lack of alignment across an organisation on WHAT the metrics mean and HOW they should be used to drive actions.

- > Inadequate management practices, which do not focus sufficiently on the delivery of performance.
- > Poor management of frontline staff – leading to inconsistent performance.
- > Lack of visibility of when a process fails to deliver to standard.
- > Inconsistencies in process performance – the *gap* which we can recover.

Underlying this is the huge opportunity that if an organisation can ensure the **consistent** delivery of a process to standard or manufacturer's design specification rate, then there will be a huge lift in productivity. Often plant or processes can work to plate rate or standard – but not on a 24/7 basis. Many processes fail to deliver optimum performance except for small periods of a day. **It is the gaps in between that can be filled which offer us a huge potential uplift in productivity.**

Some of this is the focus of many organisations' business improvement functions. In our experience, it is seeking to understand the impact of this broad range of issues that will deliver significant and sustainable lifts in an organisation's true productivity – at the point where the process is executed.

This can look like many things:

- > In back office environments, it can be removal of unnecessary steps, duplication of effort, rework. This can be due to poor understanding of true process requirements and what the customer either wants or is prepared to pay for.
- > In mining and manufacturing environments, it can be the consistency of decisionmaking around how a process operates – each shift makes differing or unnecessary decisions, each of which degrades process performance.
- > Complex value chains creating an operation that performs at the level of its weakest link, underutilising other parts of the value chain.
- > Raw material feeds causing shifts in operating levels due to poor balance of product type to machine capability.
- > People replicating how others have done the job previously. On the job training can often instil unnecessary and wasteful/unproductive steps – *Why are we doing it like this? Because this is how we've always done it.*
- > Lack of integration between functions: operating in silos creates conflicting priorities, duplication, 'lost time', rework.
- > Unnecessary complication produces unneeded effort as well as errors and therefore rework.
- > Lack of clarity on management roles: what is their true function and how do they work to ensure the consistent execution of their processes.
- > Lack of reality in metrics: many organisations report and make decisions that are based on flawed or inconsistent data. It is usually accurate at a top line level, but as it becomes more granular, it becomes more inconsistent in how it is gathered, calculated and used. For many people at a front line, gathering data is an administrative activity (therefore of low value) rather than a support to management decisionmaking.

What can be done? Much of this is within the control of our businesses today. The issues may be complex to resolve, due to the level of sophistication in many of our industries. Many issues require a comprehensive approach. But much of the effort requires the toughest change of all: that of the behaviour of our people and our managers.

This is where the focus on education and skills development is critical. If we are a 'thinking' nation, then we need to enhance our people's ability to think critically and to examine how we currently deliver processes and services. Skills that allow our people to deliver business process improvement will deliver immediate lifts in productivity; sustaining those lifts depends upon putting in place the right tools to manage on an ongoing basis and defining management's role to include accountability for lifting productivity.

Only when management understand what productivity means in THEIR operation and when they are given tools, skills and accountability to improve productivity can it happen in a sustainable and consistent manner.

This would provide our industries with the capability to drive consistent high performance into their operations. It will lift productivity, in some instances substantially. And it can all be done now, with minimal investment beyond what is currently spent on managing and improving our operations.

This is what is currently falling between the cracks.