

## 6 | PEOPLE ARE THE SOLUTION TO THE PRODUCTIVITY PUZZLE

Nita Clarke

*Flat-lining productivity levels are holding back growth. Meanwhile, workers feel disconnected from the places in which they work and the businesses for whom they work. By giving employees a genuine voice in the workplace we can maximise our potential for growth and prosperity.*

**C**reating a 21st century economy in the UK has never been more challenging or more important as we live through the fourth industrial revolution, with new technology, artificial intelligence, robotics and mind-blowing scientific discoveries turning our world upside down.

But we are trying to meet that challenge with one hand tied behind our back, as a consequence of the long-standing productivity gap between the UK and the other advanced economies. True, following the recession of 2008 and a long period of stagnation, before the economic shock caused by Brexit, the UK economy had finally returned to growth and is outpacing most of our European neighbours. However, despite this modest growth and a strong jobs recovery, there is growing concern over our flatlining productivity.

Productivity grew at an average of 2.9 per cent over the 30 years from 1988-2008 before slumping with the

recession. However, unlike the trend following previous downturns, productivity has stagnated for the last seven years. It remains below the peak reached in 2008 and is now 15 per cent below what we would expect had it followed the pre-crisis trend. After making up ground on fellow developed countries, the productivity gap is starting to open up again. Having almost caught up, we are now 17 per cent below the average for the rest of the G7.

Productivity is a crucial measure of the health of an economy. It is a vital determinant of wages – strong and growing productivity means employers can afford wage rises. Increasing productivity in low-wage occupations such as retail, cleaning and care will be particularly important following the introduction of the ‘national living wage’ in April 2016. It is also vital if we are to compete internationally in the so-called ‘global race’. And in the context of sharply reduced public spending, increasing productivity in the public sector is crucial to maintaining standards.

## **The productivity puzzle**

But why has productivity stalled? Of course investment in new and effective plants, machinery and processes is vital, as is having an effective market and growth strategy. Companies trying to run their business with a mainframe computer will not match the productivity of those using the cloud. Steam driven cotton weaving looms are unlikely to match the output of the serried ranks of weaving robots on show in China. The market for a new twin-tub washing machine featuring a mangle is likely to be limited (despite the current nostalgia for all things retro).

But there is compelling evidence that what happens on a day-to-day basis in the workplace – where the rubber hits the road – is an absolutely crucial determinant of effective productivity. Put simply, too many employees

find their abilities and skills under-utilised at work; they may be working extremely hard, but ineffective business organisation and processes means much of this effort is wasted. Too many employers don't listen to their staff; just one in two employees say their manager is good at seeking their views and only one in three say they allow employees to influence decision making. Too often managers are not up to scratch and organisations fail to explain their purpose to staff, with the result that staff remain unmotivated.

Resistance to change is endemic across organisations, and many employees characterise their organisations as low trust. Very few organisations really listen to their employees and consequently have little idea about life on the ground. They too often fail to invite or follow up on employees' ideas about product or process improvement. Many employees report that their skills and abilities are under-utilised at work.

For example, a recent survey by the Smith Institute found that nine out of 10 employees said they were familiar with the term 'productivity' and think it is 'important' – but half say they are less productive than two years ago, and 68 per cent say they're working harder. Most think higher productivity results in fewer staff, less job security and harder work. Employees say that managers need to value quality and measure what's important and not just what's easiest to count. Although one in three are worried that technology will threaten their employment, eight out of 10 see technology as necessary and want to embrace it. The problem, however, is that 76 per cent say their employer doesn't consult them on introducing new technology. The majority of managers don't listen to employee suggestions to improve productivity – most think only short-term. And employees want better management and a fair deal for productivity gains – better pay, a better work-life balance, and more training

There isn't a chief financial officer in the land who would accept a situation where cash was flying out the door because a company's IT regularly performed at a third of its capacity. So it is curious that we as a country accept the fact that according to every survey, only about a third of our workforce is actively engaged at work, without recognising that solving this engagement gap could be a major contributor to improving performance, and helping to solve the productivity puzzle.

The ORC Global Perspectives survey of thousands of employees across 20 countries found the UK had the third lowest levels of engagement, 10 per cent behind the global average. A study published in 2012 by Engage for Success and endorsed by business leaders in a letter to *The Times*, suggested that if the UK was able to raise engagement levels at work up to the level of that experienced in the Netherlands, it would be worth an extra £26bn a year to UK GDP. What a waste of people's potential, what a loss of productivity and what a cost to the nation.

## **Enabling engagement**

Employee engagement, according to the Institute of Employment Studies, is "a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of the business context, and works with colleagues to improve performance within the job for the benefit of the organisation." There are at least 50 other definitions, but whatever the formula, effective employee engagement places unleashing the commitment, enthusiasm, skills and abilities of employees at the heart of organisational success – with processes and procedures aligned to that approach, rather than getting in the way.

A report I co-authored with David MacLeod in 2008 found four key enablers of engagement in organisations; the evidence suggests that making progress

in these areas could make a substantial difference to workplace performance.

### Strategic narrative

The strategic narrative is about having “a strong, transparent and explicit organisational culture which gives employees a line of sight between their job and the vision and aims of their organisation.” Employees need to find meaning and purpose in their work. They need to see how their individual graft and toil contributes to something greater, something that they can buy into and believe in. Otherwise work becomes merely contractual and transactional – you come to work and do what you’re told just because you have to.

Looking at the Workplace Employee Relations Study (WERS) – a large survey of the UK workforce – there seems to be some way to go here. Two in three employees (65 per cent) agree or strongly agree that they share the same values as their organisation. But just 16 per cent strongly agree, indicating some room for improvement.

### Engaging managers

Line managers are absolutely crucial to employee engagement. The MacLeod report identified the importance of having engaging managers who “offer clarity, appreciation of employees’ effort and contribution, who treat their people as individuals and who ensure that work is organised efficiently and effectively so that employees feel they are valued, and equipped and supported to do their job.”

Again, while the headline figure from WERS is reassuring – with two thirds (64 per cent) saying that relationships with managers are good/very good – just one in five (21 per cent) believe they are very good.

## Employee voice

Voice is central to employee engagement. Our report defined voice as having a situation whereby “employees’ views are sought out; they are listened to and see that their opinions count and make a difference. They speak out and challenge when appropriate. A strong sense of listening and responsiveness permeates the organisation, enabled by effective communication.”

There is evidence of a voice deficit. The European Trade Union Institute rate the UK as second bottom of the league in the EU in terms of employee participation – beaten into last place only by Lithuania. Evidence from WERS shows that just one employee in two (52 per cent) says that managers are good or very good at seeking their views. Fewer still – just one in three (32 per cent) – say that managers are good or very good at allowing employees to influence decision making.

This is a significant cause for concern. If employers are to benefit from the expertise and experience, the ideas and innovation of their employees, they need to allow and indeed encourage them to speak up.

Many of our most productive industries tend to buck the trend of low voice and low involvement. Take the automotive industry or the aerospace sector, where high levels of union membership and high levels of employee involvement go alongside incredibly high levels of productivity.

## Integrity

The final enabler of engagement is integrity. This is defined as “a belief among employees that the organisation lives its values, and that espoused behavioural norms are adhered to, resulting in trust and a sense of integrity.”

Again, there is evidence of some work to do here. WERS shows that just one in two employees (50 per cent) agree/strongly agree that managers keep their promises. Only slightly more (58 per cent) agree/strongly agree that managers deal with employees honestly.

## Solving the puzzle

So better employee engagement may offer part of the answer. But what can be done about it? There is a role here for employers, for employees and unions, and for government.

Employers need to think about how they engage with and involve their workforce. They need to ensure that they have a strong strategic narrative, giving employees a clear line of sight between their role and the organisation’s purpose. There need to be engaging managers who are skilled and equipped to motivate their teams. There must be a strong and robust employee voice, with people able to speak up and contribute their ideas. And there needs to be a sense of integrity, with actions and behaviours reflecting organisational values.

Trade unions can be vital actors here. Some of our most productive industries tend to buck the UK trend of low voice and low involvement. There are numerous examples of trade unions working with employers to increase productivity for the benefit of both sides; Unite’s relationship with advanced manufacturing organisations, for example, has helped make our car factories some of the most productive in the world.

Government too needs to play its part, by ensuring that the small and medium size business sector in particular has access to good management and leadership training. Organisations like the Chartered Institute of Personnel and Development (CIPD) and Chartered Management Institute (CMI) have been vocal in the need for a national network of small business support. What's more, government is also directly and indirectly a major employer itself – and placing great leadership and management alongside strong employee voice at the heart of public service delivery becomes even more important for services under pressure to provide more for less.

Labour desperately needs a narrative which tells a story of the UK and its citizens living and succeeding in the 21st century global economy. Successful organisations, working at their full capacity, with engaged employees fulfilling their capabilities, must be at the heart of our response. We need to work with all the stakeholders in the world of work to develop the solutions that will deliver a more productive economy with stronger and shared growth feeding through to better living standards and prosperity. If Labour is to regain credibility on the economy, it must identify solutions to the productivity puzzle.