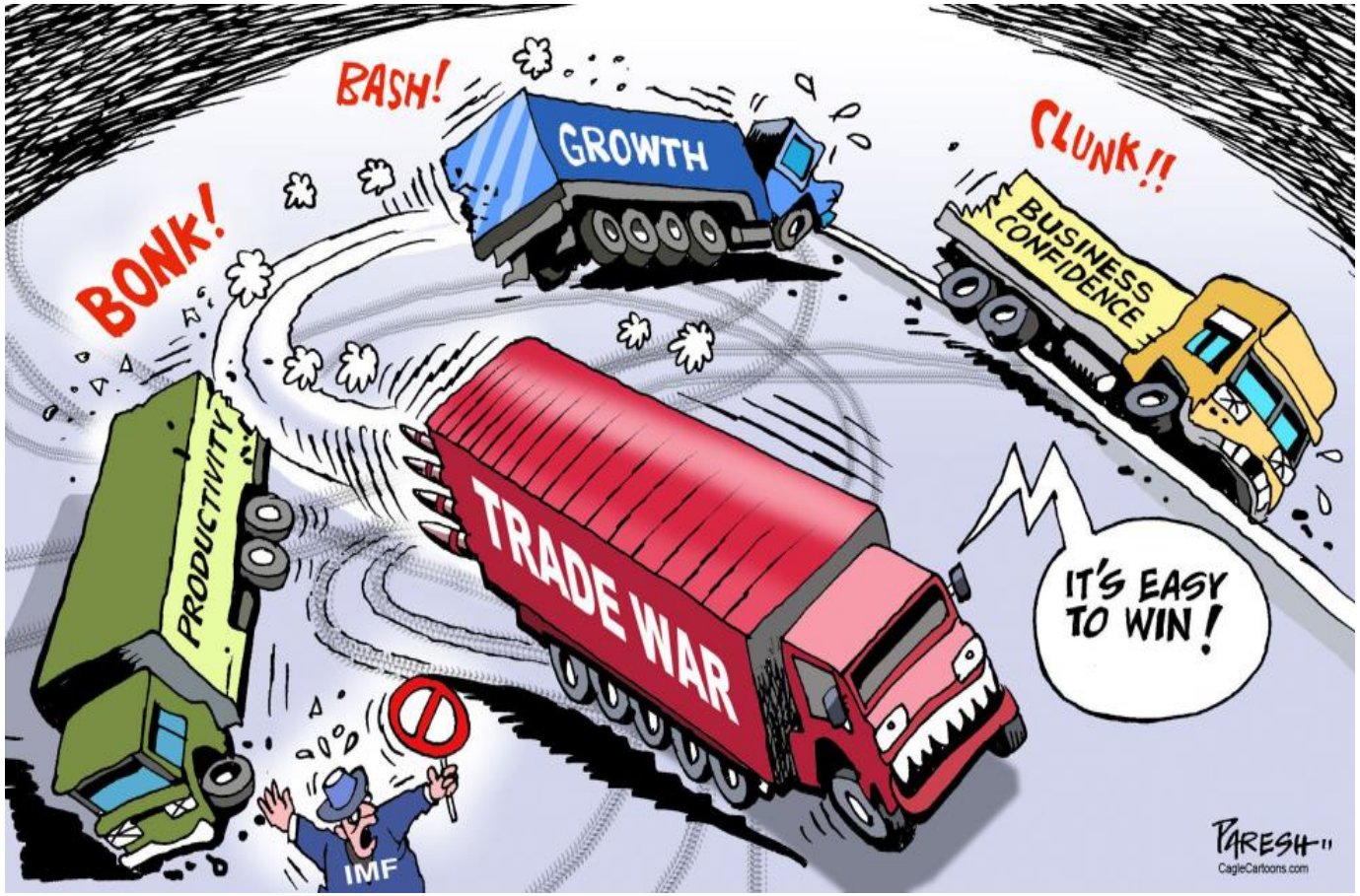
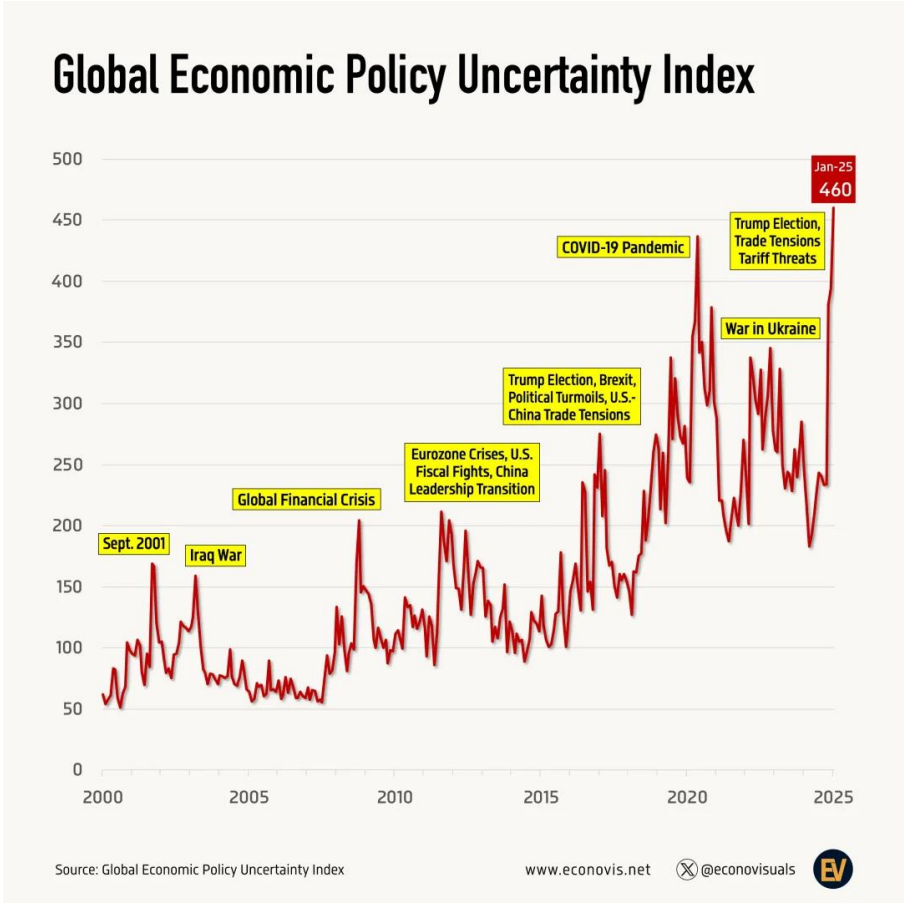
MAKING PRODUCTIVITY STRATEGIC

Bart van Ark
The Productivity Institute
University of Manchester

IT'S DIFFICULT TO NOT GET DISTRACTED





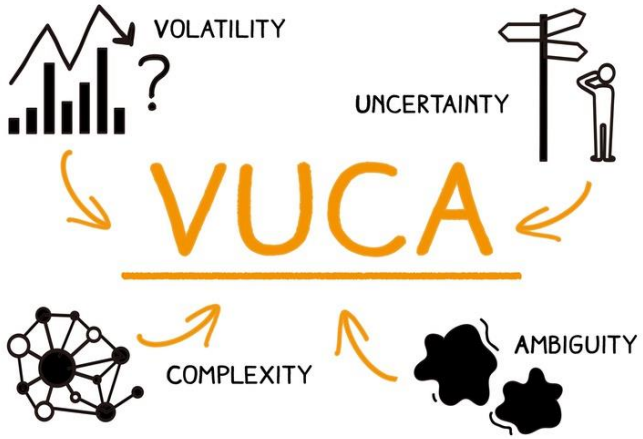
HOW CAN PRODUCTIVITY HELP (OR NOT?)

Perceptions of productivity (positive and negative)

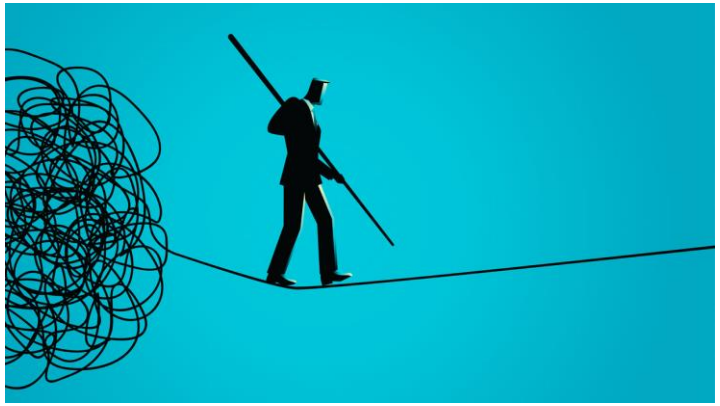


PRODUCTIVITY IS AN IMPORTANT BUT NOT ALWAYS POPULAR DRIVER OF BUSINESS SUCCESS



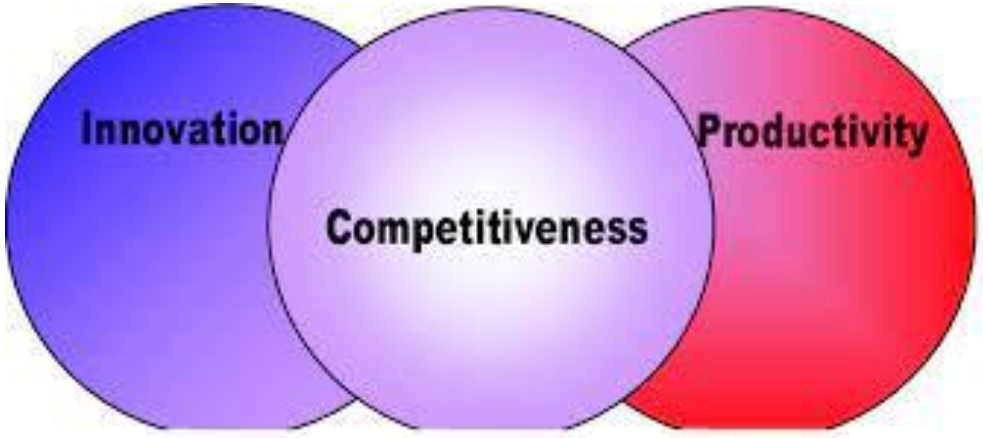


- Doing more with less
- Budget cuts and efficiency drives
- More “sweat”
- The end of my job
- The end of the environment
- Stress and burnouts



WHY PRODUCTIVITY MATTERS

- Drives long-term growth
- Creates resources to invest
- Makes firms grow faster
- Create jobs that fetch higher wages
- Make people more innovative
- Make people healthier and more engaged
- Creates better outcomes for others: people, firms and places

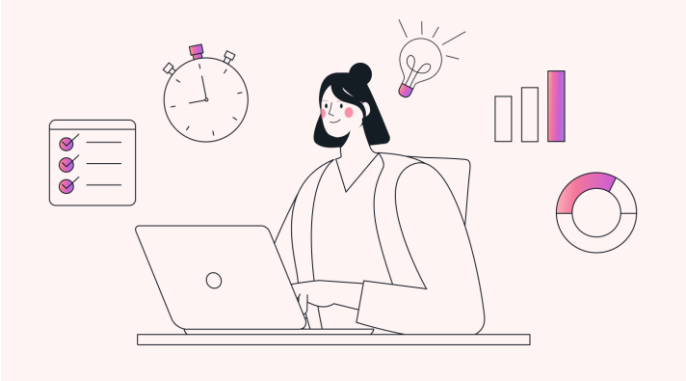




PRODUCTIVITY, EFFICIENCY OR BOTH?

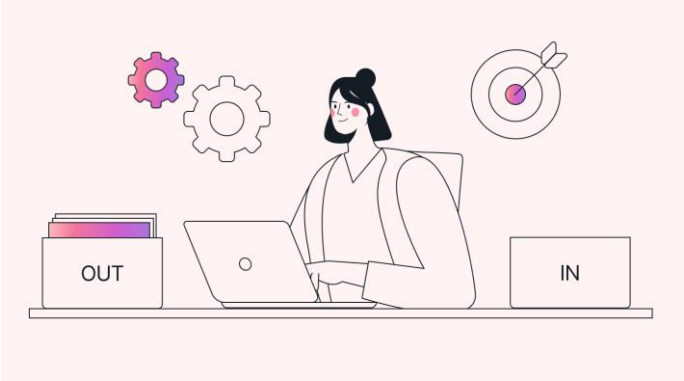
Efficiency

- **Task oriented**
- **Monetary (sales/cost) or piece rate (quantity/unit)**
- **Focus on doing more in less time and few resources**



Productivity

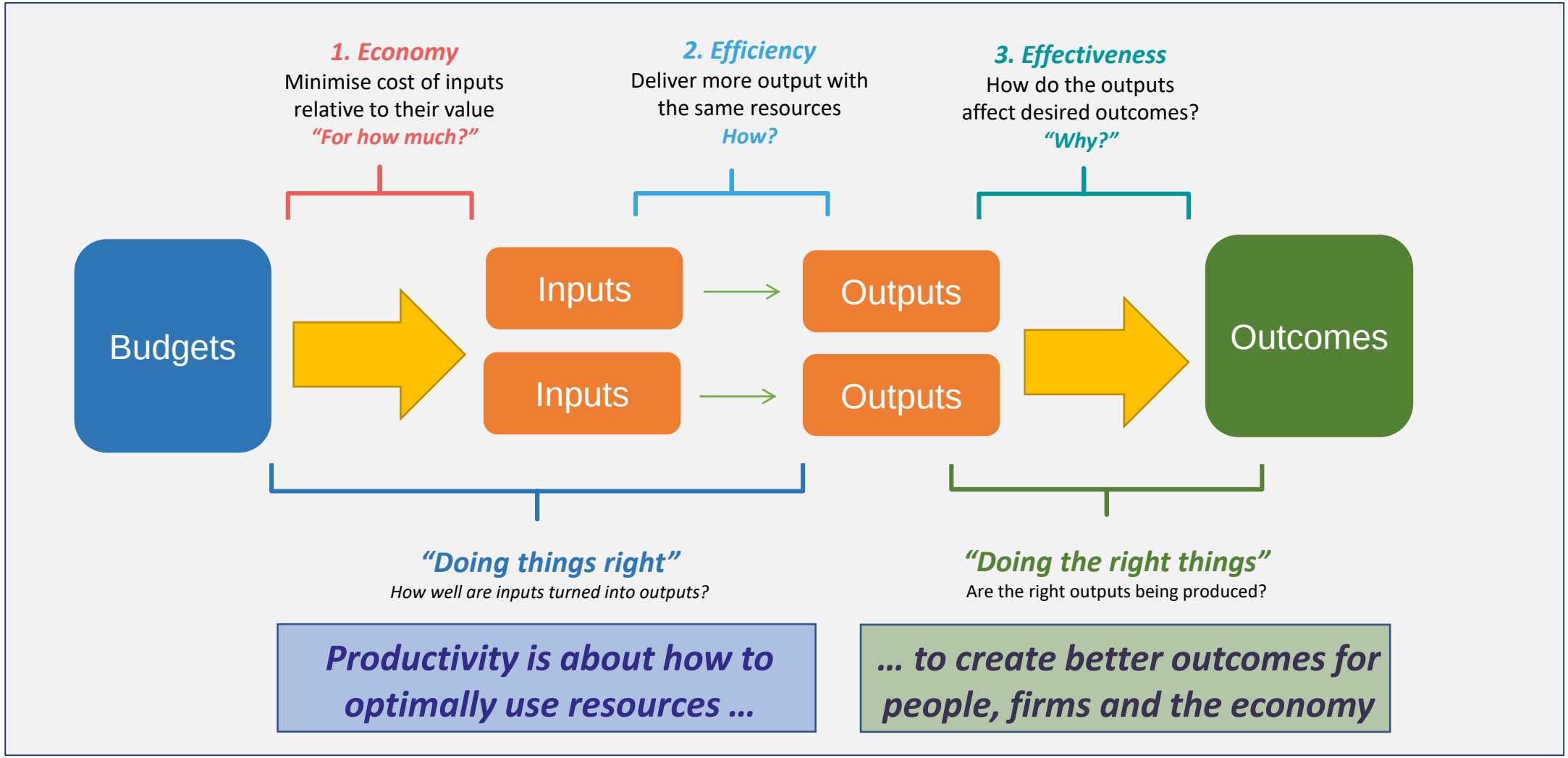
- **Business oriented**
- **"Real" measure (output/input)**
- **Focus on how to combine limited resources to create better outcomes**





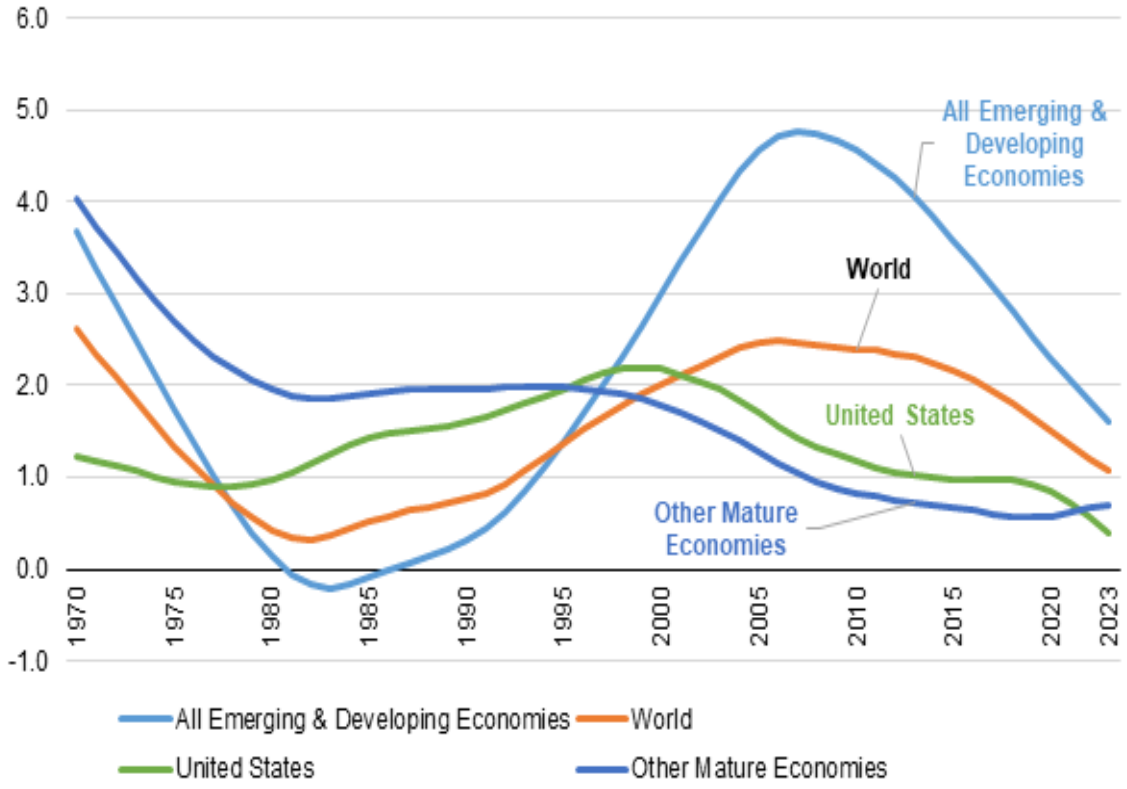
Source: Motion, Efficient vs. Productive: Cracking the Code in the Workplace (https://www.usemotion.com/blog/efficient-vs-productive)

PRODUCTIVITY CAN BE DONE AT ALL LEVELS OF THE DELIVERY CHAIN

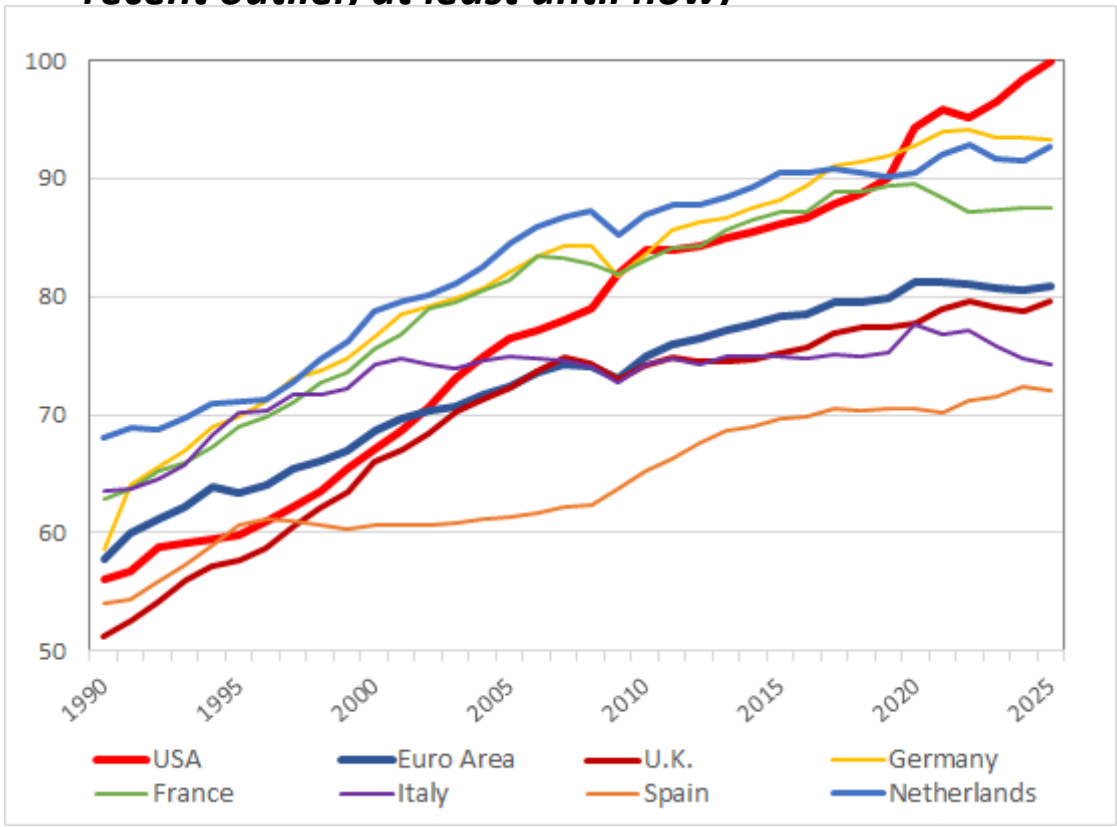


THE GLOBAL ECONOMY HAS BECOME INCREASINGLY "PRODUCTIVITY-POOR"

Productivity growth has globally weakened and is very widespread …



… and productivity levels have stagnated (with US as recent outlier, at least until now)



Source: The Conference Board

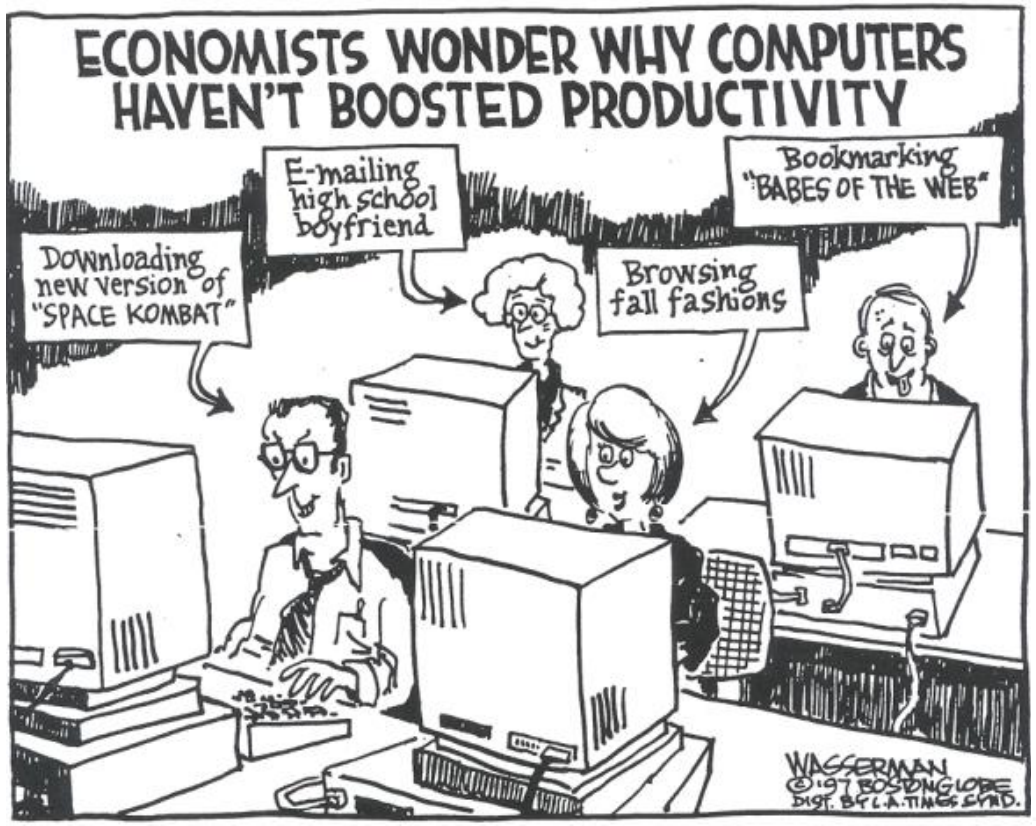
NOT ONE REASON FOR THE PRODUCTIVITY SLOWDOWN

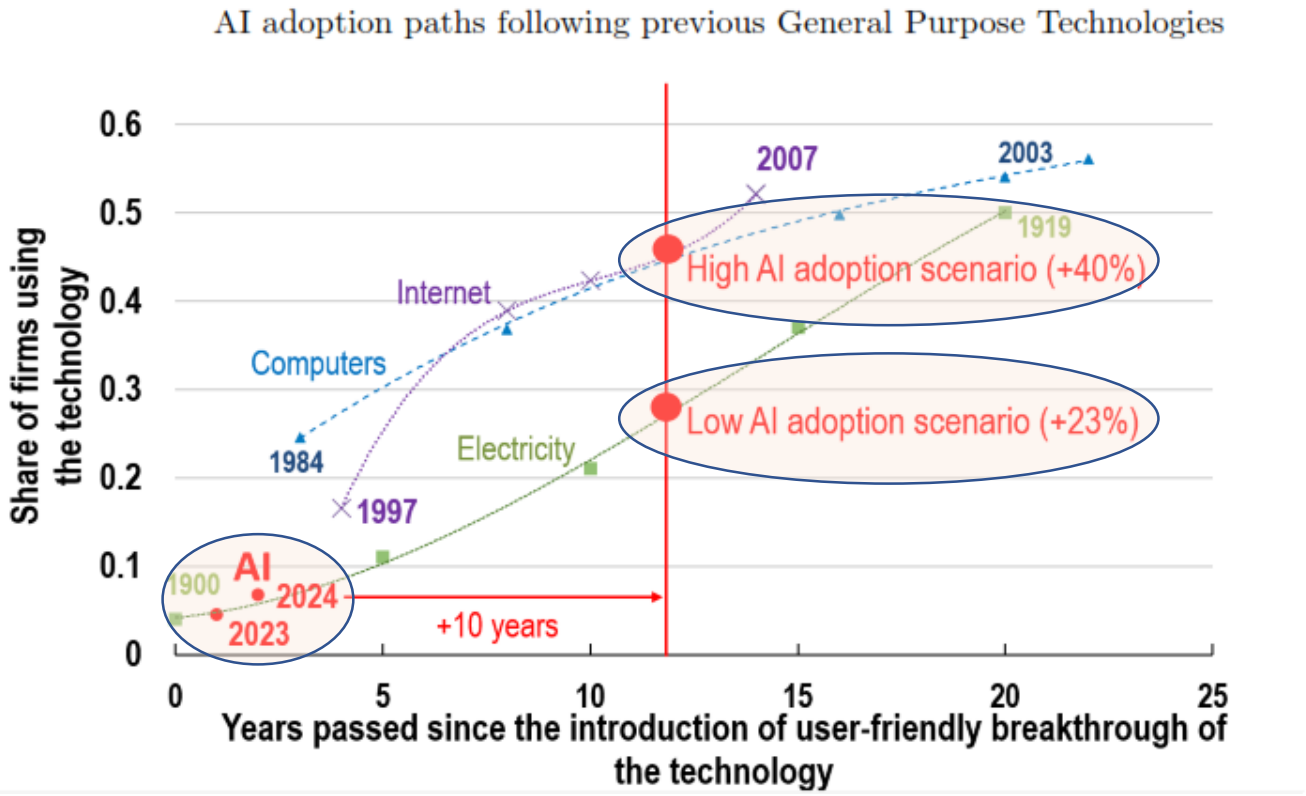
- **Mismeasurement** – measuring productivity in an increasingly services-based economy is hard
- **Demand-side issues**:
  - **Short-term**: weak productive investment (e.g. aftermath of global financial crisis or interest rate increases), weak consumption (e.g. aftermath of pandemic, inflation and cost of living crisis)
  - **Long-term:** more low-productivity personal and public services as economies richer
- **Supply-side issues**
  - **Short-term:** Supply-side "shocks", including pandemic, supply chain disruptions, stagflation, trade wars, political uncertainty
  - **Long-term**: End of catch-up potential of emerging markets, demographics (ageing, mobility, labour shortages), climate change
- **Counter-productive policies**: regulation, tax, competition, globalisation headwinds, inequality
- **Weaker diffusion and slower adoption of technology (*the productivity paradox*)**
  - "Winner takes all" effects and "superstar firms"
  - Weaker diffusion and slower adoption of (digital) technologies
  - Time lag between adoption and productivity impact

THE PRODUCTIVITY PARADOX IS NOT NEW

"Computers" are everywhere but in the productivity statistics

Or: crossing the "valley of death" to realise the gains from digital transformation

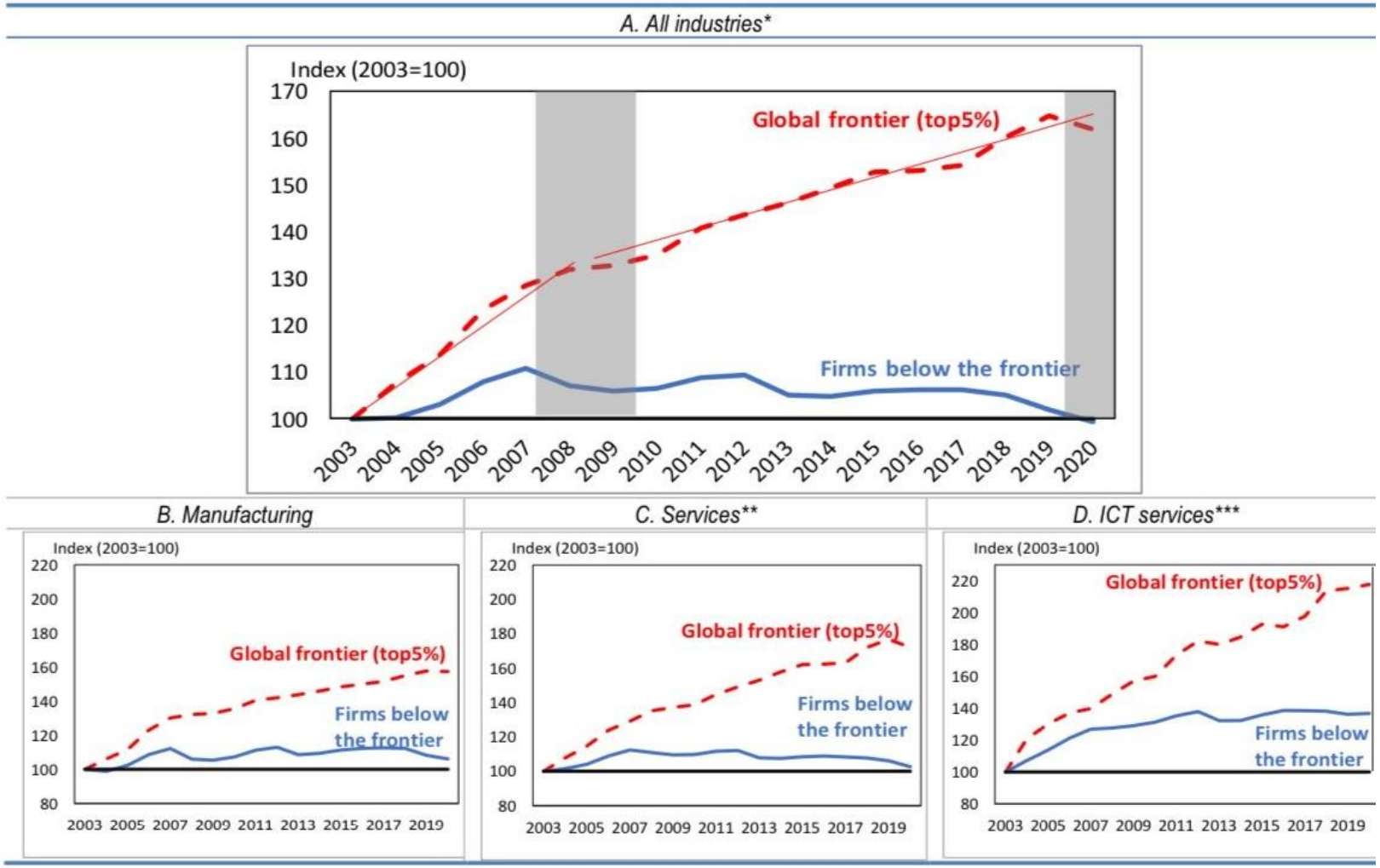




Source: OECD

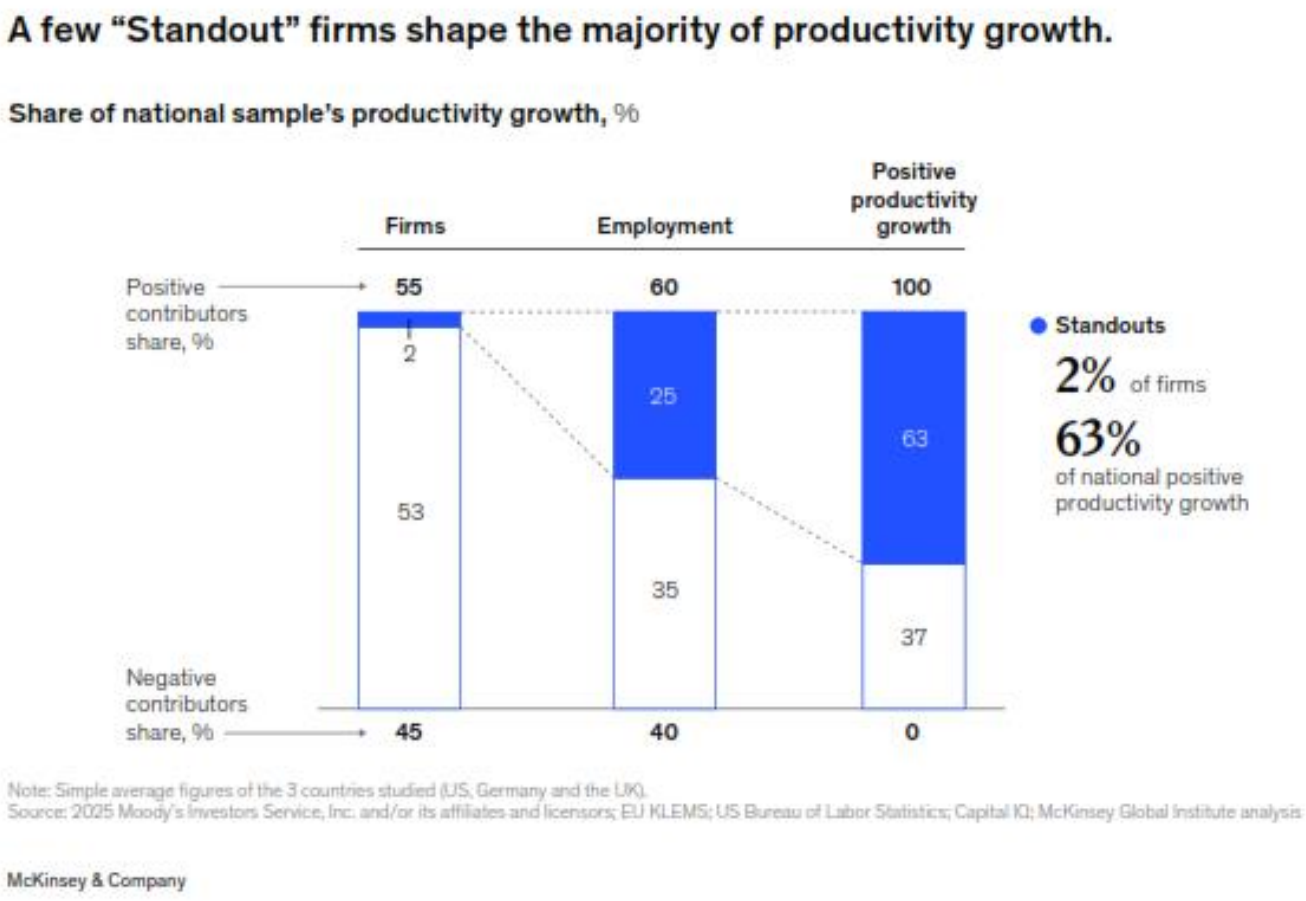
PRODUCTIVITY GROWS AT THE FRONTIER OF BEST PERFORMING FIRMS, BUT LESS OR NOT AT ALL ELSEWHERE

Labour productivity of the top 5% of firms at the global frontier and all other firms below the frontier



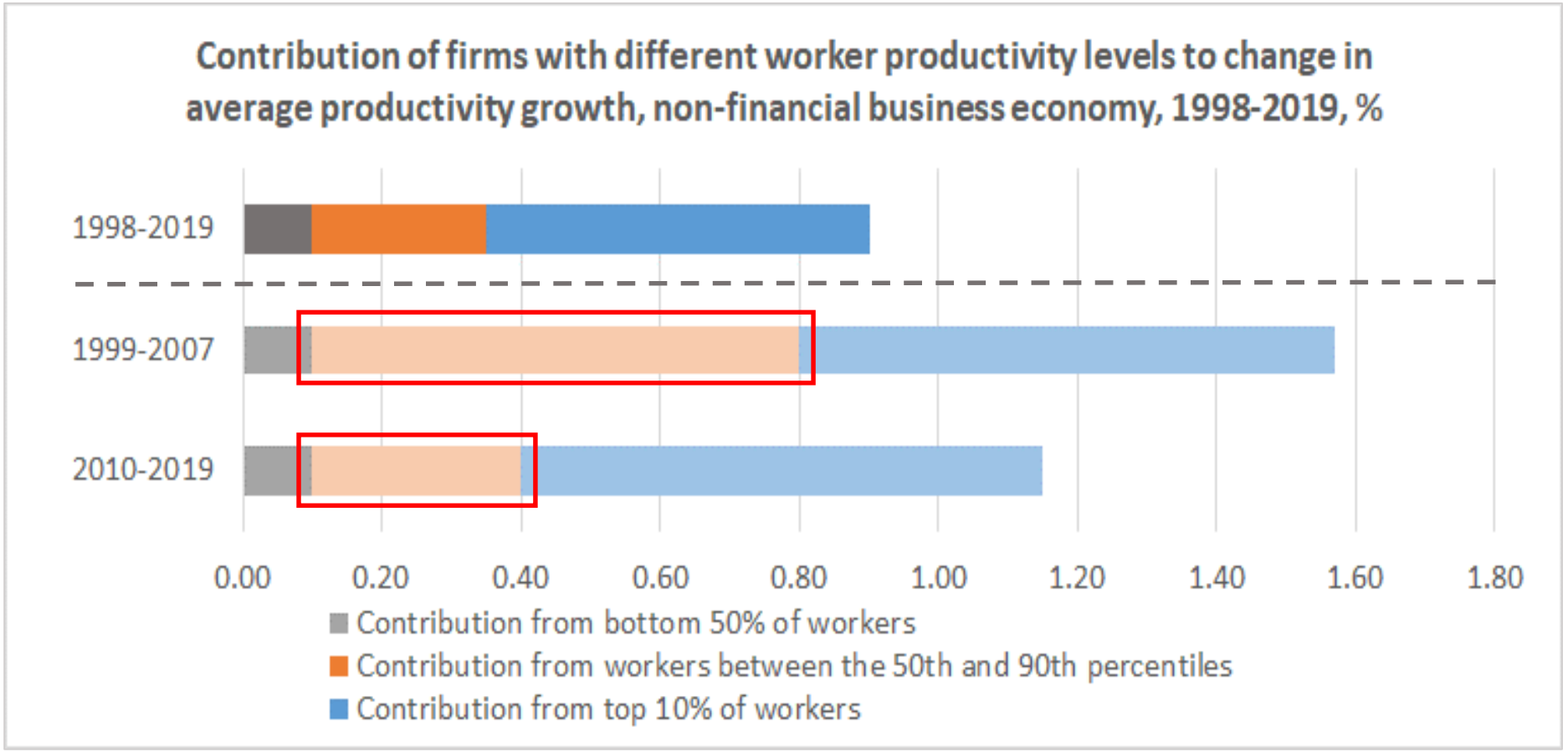
Source: OECD

A FEW “STANDOUT” FIRMS SHAPE THE MAJORITY OF PRODUCTIVITY GROWTH



Bron: McKinsey Global Institute (2025)

FIRMS IN THE 5-9TH DECILE OF THE PRODUCTIVITY DISTRIBUTION ACCOUNT FOR ALL OF THE PRODUCTIVITY SLOWDOWN IN THE UK

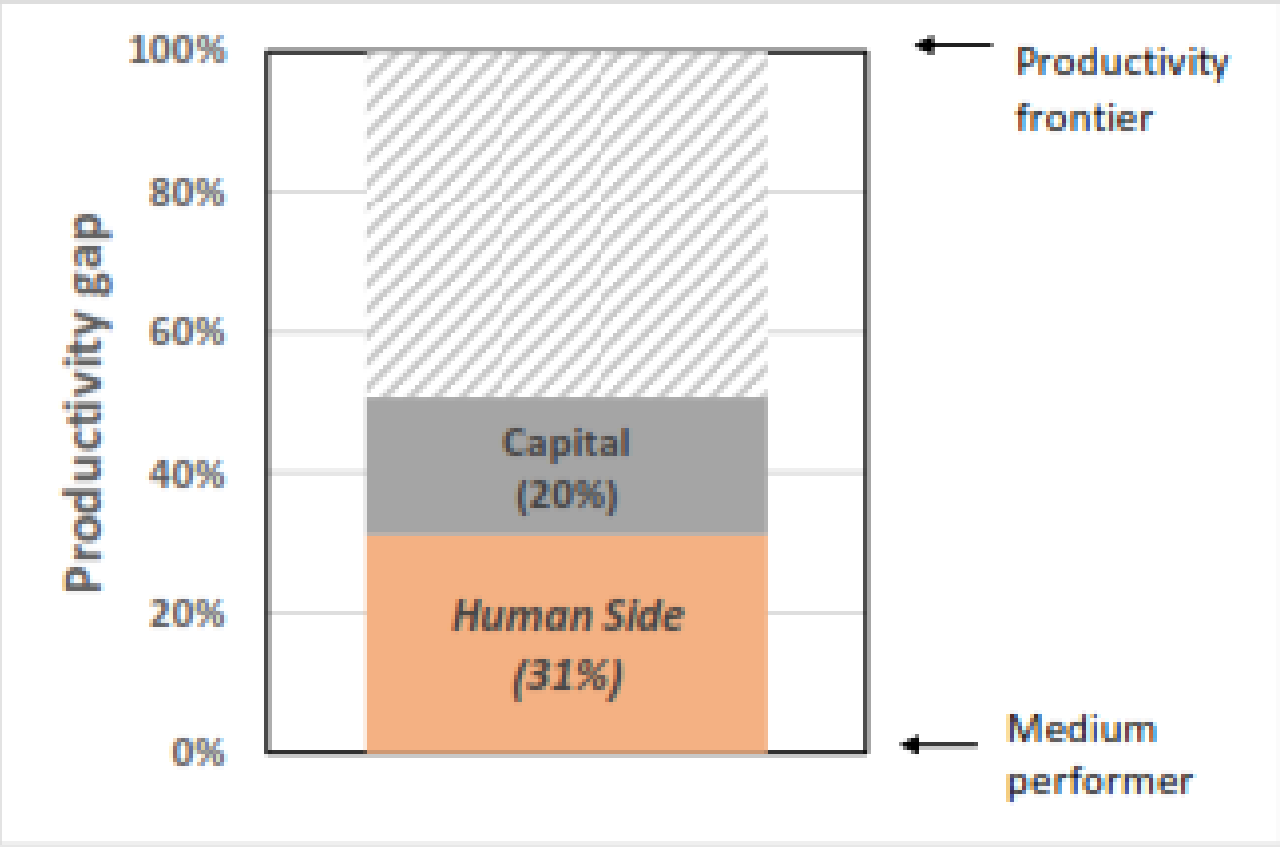


Firms that are performing above average but below the top 10% performers have not been able to continue to do so.

Source: ONS, Firm-level labour productivity measures from the Annual Business Survey, UK: 1998 to 2019, 2022

NO SILVER BULLET TO BECOME A PRODUCTIVITY LEADER …
… PEOPLE AND INVESTMENT MATTER BUT IT'S NOT ALL

The productivity gap between the most productive firms and the medium performer is only explained for half by traditional productivity factors (people & investment)



Source: OECD

"***HUMAN side***" accounts for:

- Skill structure
- Demographic composition:
  - Age
  - Gender
  - Foreign cultural background
- Firm organisation measures:
  - Manager-share
  - Task diversity

"***CAPITAL side***" accounts for:

- Machinery and equipment
- R&D, software, data, etc.

But a large range of "**IDIOSYNCRATIC**" factors:

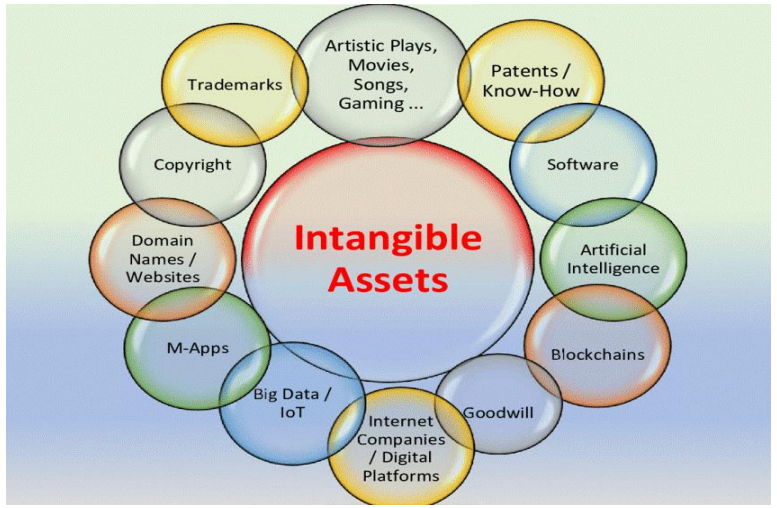
- Organisational capital
- Brand, design, etc.
- Culture (continuous learning and innovation)

PRODUCTIVITY IS A MEASURE BASED ON TANGIBLE "PRODUCTS", BUT AN INCREASING PROPORTION OF VALUE DERIVES FROM INTANGIBLES

INNOVATE



INTANGIBLES



INVEST



INTANGIBLE ASSETS HAVE RISEN IN IMPORTANCE BUT EUROPE STILL MUCH LESS INTANGIBLE THAN US

Tangible Assets

Equipment
Machinery
Buildings
Vehicles
ICT hardware
Land



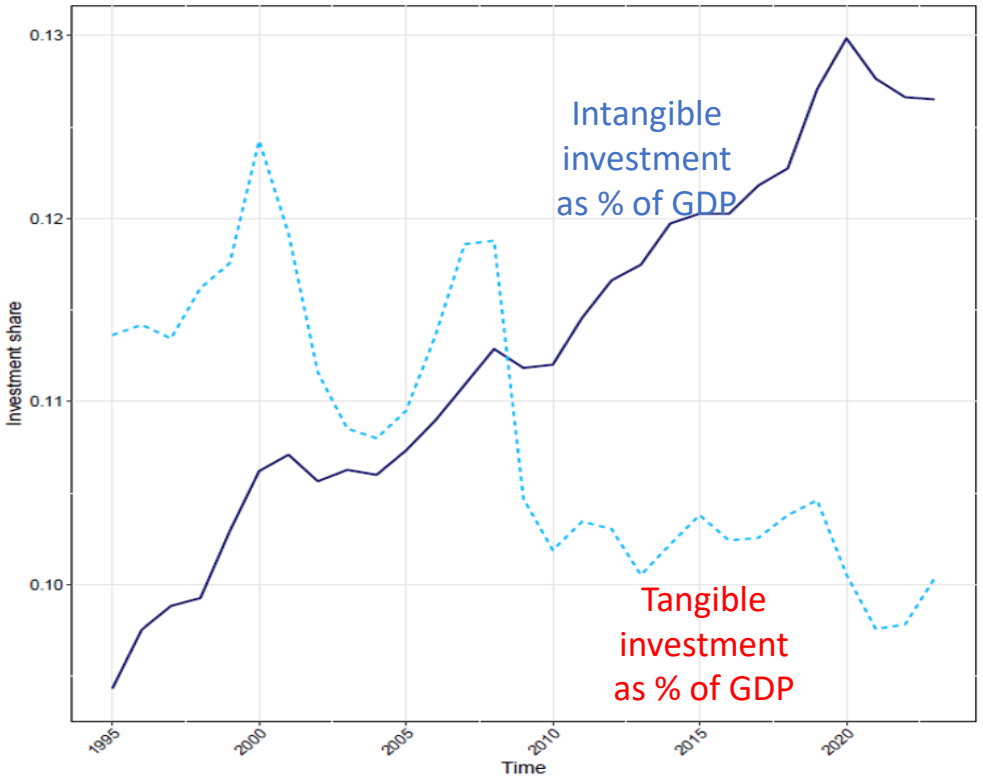
Intangible Assets

Software & databases
Innovation property:
- R&D
- Mineral exploration
- Design & originals

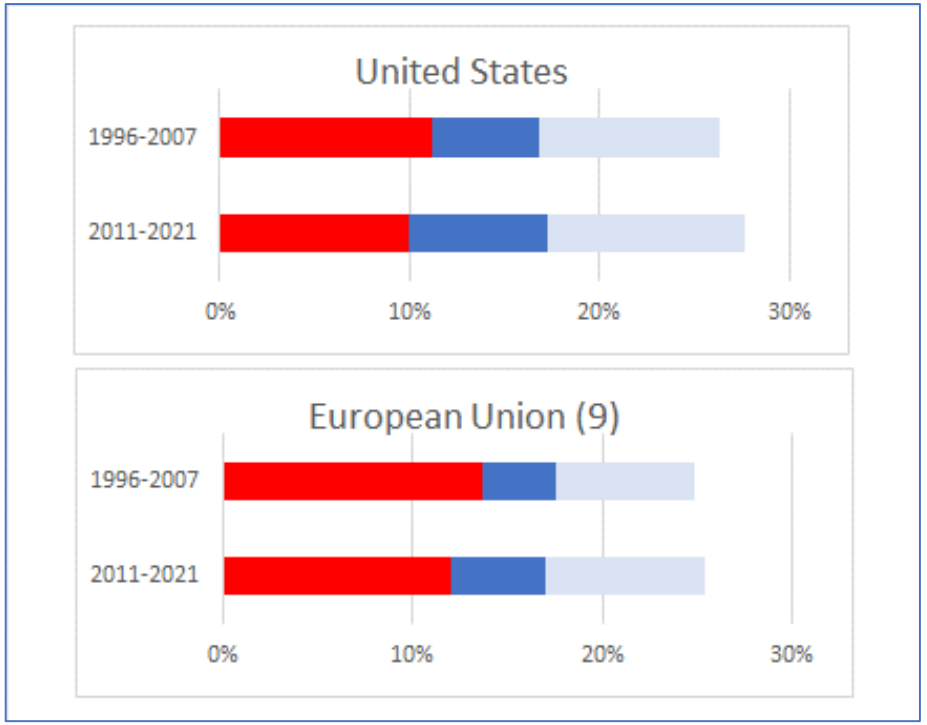
Economic competencies
- Market research & branding
- Organisational capital
- Business training



Average share of tangible and intangible investments in (%)



Intangible investment
Tangible investment (excl. residential structures)



Tangible investment
Intangible investment – Tech innovation (R&D, software, databases)
Intangible investment – Business innovation (economic and business competencies)

Source: EUKLEMS-INTANProd

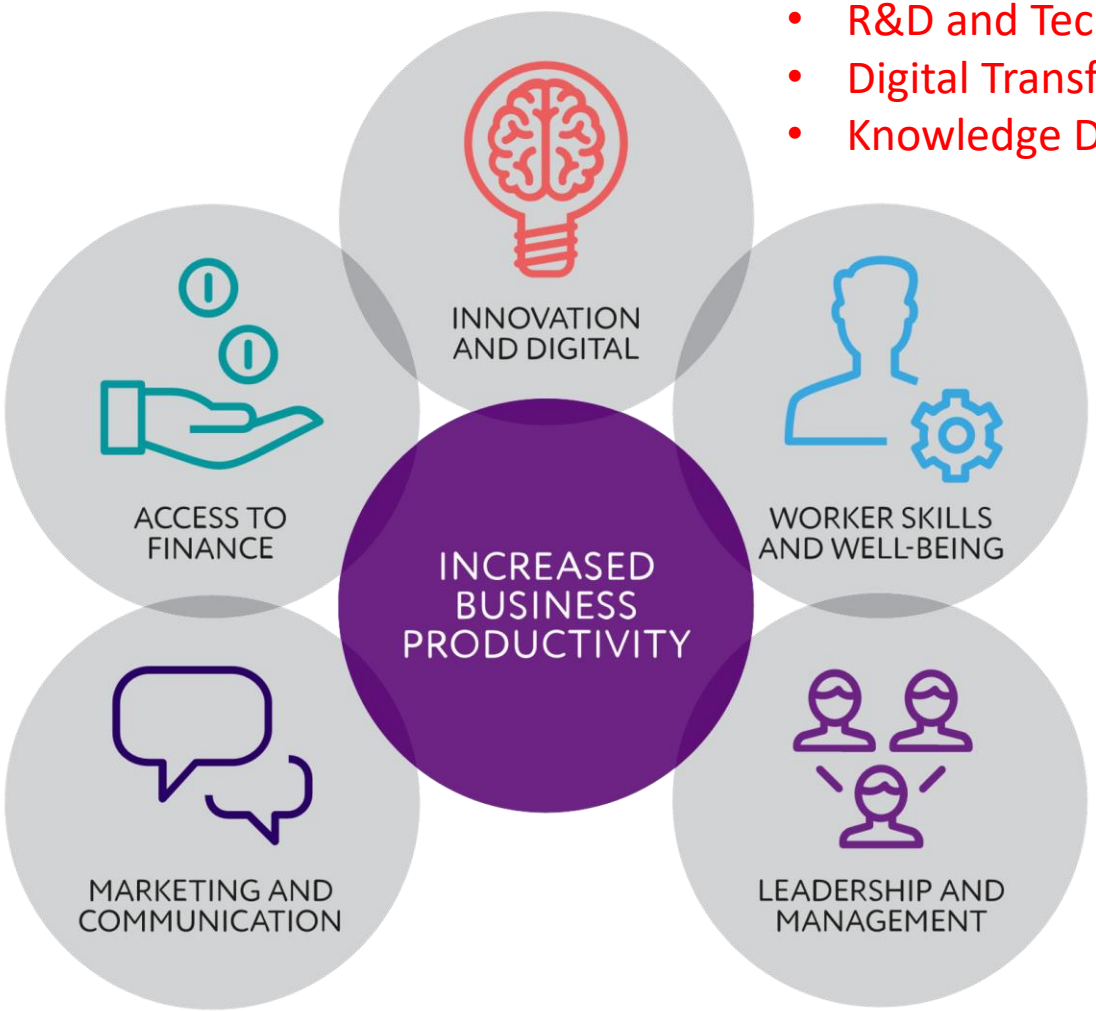
WHAT DOES PRODUCTIVITY MEAN FOR BUSINESS?



https://youtu.be/U6ZlE6xFBms

FIVE AREAS OF PRIORITY TO RAISE PRODUCTIVITY IN BUSINESS

- R&D and Technical Change
- Digital Transformation
- Knowledge Diffusion



- Finance for Investment
- Strategic Cost Management
- Valuing Intangible Assets

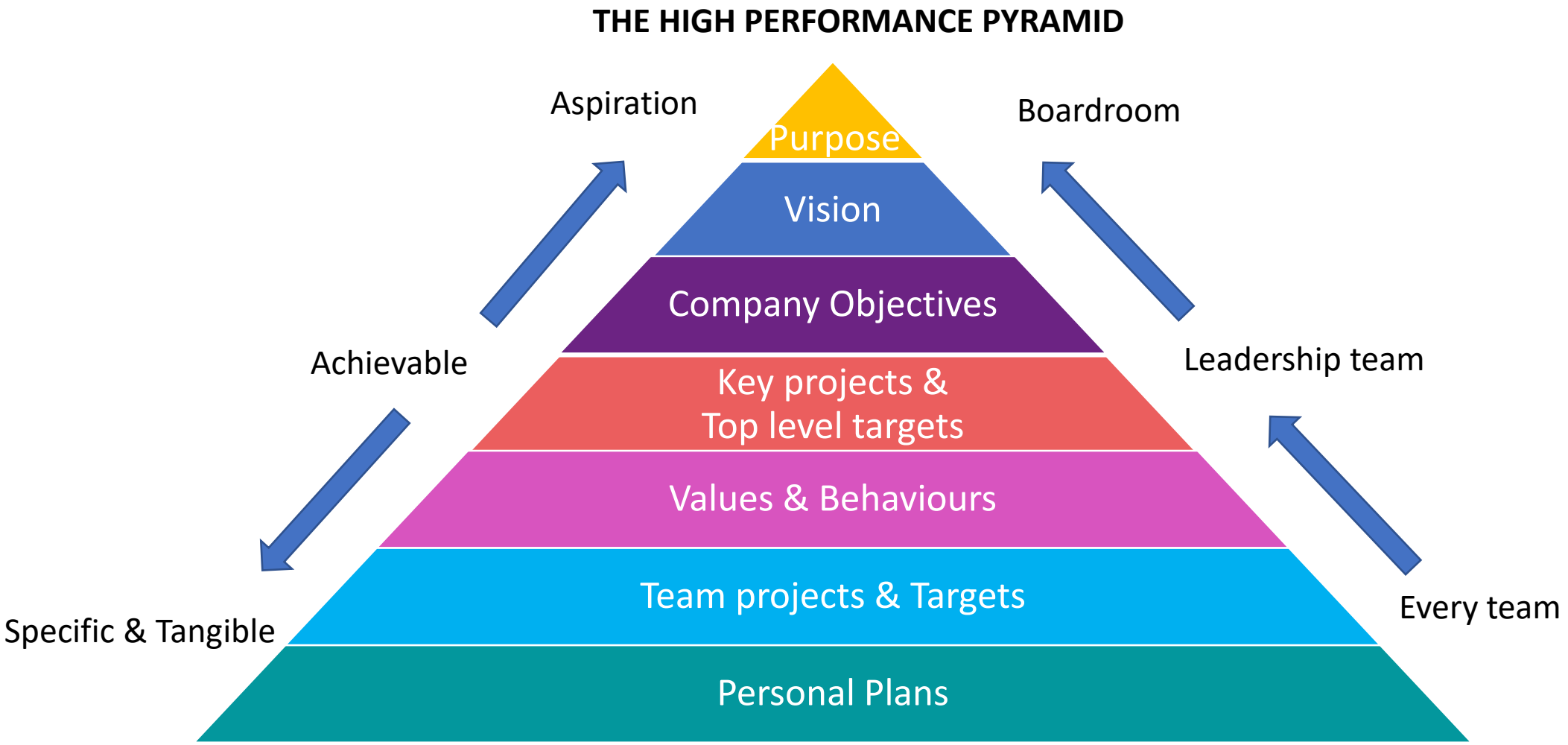
- Worker Skills and Training
- Engagement and Well-Being
- Agility and Adaptability

- Branding as an Asset
- Data Analytics
- Collaboration and Communication

- Inclusive Leadership
- Managing Outcomes
- Flexible Teams

Source: The Productivity Institute

WHERE DO WE START AT THE TOP OR AT THE BOTTOM?



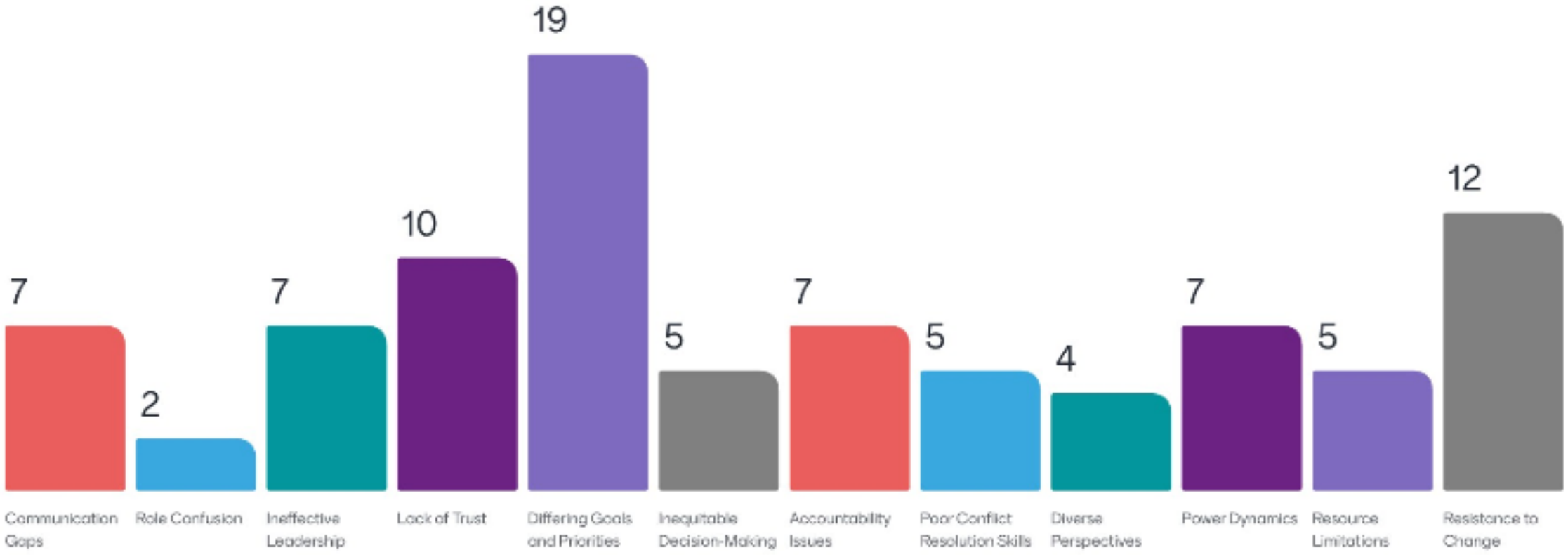
Source: Based on McNair et al. (1990) and Loehr and Schwartz (2001)

A KEY ASPECT OF THE PRODUCTIVITY NARRATIVE IS TO JOIN UP DIFFERENT PERSPECTIVES



Source: The Productivity Institute

WHAT ARE THE BIGGEST BARRIERS TO BETTER COORDINATION IN THE LEADERSHIP TEAM?



TAKEAWAYS FOR PROCUREMENT, CONTRACT AND SUPPLY MANAGEMENT

1. It's difficult to not get distracted …
   - ***… but productivity is key to helping companies become agile and resilient***
2. Productivity happens across the delivery chain of the firms …
   - ***… but getting it right at the front end, makes the job much easier down the line***
3. Productivity is done across the supply chain …
   - ***… with 2nd, 3rd and 4th tier suppliers' being of critical importance***
4. Intangible assets are more important for value creation and business investment
   - ***… but practices to measure and manage intangibles are still underdeveloped***
5. Key business productivity drivers connect various functions in the organisation
   - **… and leadership and collaboration is critical in joining them up**



https://www.productivity.ac.uk/