

Missing millions

How companies mismanage their most valuable resource



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Introduction

Companies often cite people as their most valuable asset, but how effectively are employees going about their work, and what prevents them from working optimally? After the plethora of management and quality improvement fads of the past 20 years, you would be forgiven for thinking that these questions have been studied for decades, their answers found long ago.

Yet anyone with any recent work experience will be familiar with the errors, unnecessary repetition, confusion, mismanagement, and other inefficiencies that still characterise, to some degree, every organisation regardless of size, location, and whether public or private sector. So what is going on?

Even though governments know that high labour productivity is a vital ingredient for building strong national

economies, many of the measures they implement to improve it appear to be wasted. Contributions to GDP amounting to many billions are not being realised. Could it be that something fundamental is being overlooked? And what of the companies themselves? Does senior management know how much of its workforce's capacity is being wasted? Does it really care? And what is being done about the missing revenue being lost?

At Proudfoot Consulting we have deep experience in measuring the productivity performance of individual companies all over the world. It has been the cornerstone of the firm's activity for 55 years. In producing our annual productivity studies we hope to answer most of these questions.

For this report, we used a sample of 1,440 detailed studies from projects¹

undertaken in seven countries: Australia, France, Germany, South Africa, Spain, the UK, and the US. The results are based on more than 10,000 hours of observing how people work² and the barriers preventing them from operating most effectively. This work is complemented by an analysis of 400+ responses to a survey of business leaders in seven countries. This aims to compare our findings with business leaders' perceptions of these same barriers. It also provides insight into what they believe to be their capacity to improve productivity. This is the third global study we have produced in this format, allowing comparative trends to be shown. For the first time, we also provide commentary on our findings from leading economists in some of the countries surveyed.

We believe this latest report will be of value to anyone interested in organisational efficiency, and in particular to business leaders and large institutional shareholders, as well as those who create policies that influence business.

It is our contention that companies of all types across all sectors and in all countries studied are still operating at levels well below their true capability. We outline here the common factors preventing them from operating at their optimum level.

Much debate takes place about economic and productivity performance at national levels but this, in our view, is often at the expense of understanding and tackling productivity at the microeconomic level. This report is our effort to redress that balance.

Cost of wasted labour by country (US\$), 2002

Australia \$42.72bn or 10.4% of GDP
France \$104bn or 7.3% of GDP
Germany \$224.34bn or 11.3% of GDP
UK \$132.11bn or 10% of GDP
US \$1,067.96bn or 10.3% of GDP
Note Top-level figures only are shown here for brevity. Precise details of these calculations are available on request.
Data sources US Bureau of Labor Statistics website. Groningen University Growth and Development Centre website. OECD, "Main Economic Indicators" (2003). IMF, "International Financial Statistics" (2003). Federal Statistical Office of Germany website. Australian Bureau of Statistics, "Australian Economic Indicators".

1. Although a typical client assignment looks at all factors that affect company productivity, this report examines Proudfoot's findings of how companies deploy and manage labour resources only.

2. See "Research methodology" section of Appendix for more detail about how Proudfoot Consulting undertakes a typical client study.

Executive summary

Proudfoot Consulting's annual productivity reports measure actual performance, between countries, of people at work. They also identify the barriers preventing them from working optimally with the time available.

Having identified the barriers and their importance ranking (i.e. how frequently they occur), we then conduct an opinion survey, asking a representative sample of senior executives to rank the importance of those same barriers.

We also ask the same group about their companies' productivity performance. This allows us to gauge how closely aligned those running companies are with the realities of what is actually happening at the operational level.

Productivity study

Section one: Detailed results

This aspect of the report comprises findings from 1,440 detailed studies from companies in seven countries: Australia, France, Germany, South Africa, Spain, the UK, and the US.

Lost time

Productivity levels across the countries studied averaged 61% of optimum capacity.¹ Although this is a 2% improvement on the findings of our

2002 report and indicates a continuing trend, this still equates to 87 working days lost per person, per company, each year. This is five fewer days than we found in 2002 and ten fewer than in 2001.

Country comparisons

Six of the seven countries have experienced productivity growth. The exception is Germany, although it still shares the accolade of "most productive country" with the US, both of which achieve 63% labour time utilisation. South Africa is still the least efficient at labour utilisation but has improved dramatically with a 13% increase, the highest of the countries studied. Elsewhere, Australia improved 1% but this still only takes it back to its 2001 level. France improved 3%, continuing a yearly trend since 2001, and this is despite the imposition of working hours regulation. The UK's performance, up nine points to 60%, also showed a marked improvement attributable to heavy downsizing, probably in the Financial sector. Spain, studied for the first time, shows a surprising 60% productivity level. Taken together, our results indicate that the US's leadership in labour productivity has narrowed considerably over European competitors recently. Only three percentage points now

separate it from the worst performing countries in this group.

Causes of productivity loss (barriers)

The main causes of reduced productivity are shown, in descending order of importance, in the table below.

Poor management (taking together "insufficient management planning and control" and "inadequate supervision") is still the largest single reason for productivity loss, equating to 67% of lost time. The results show a slight deterioration in management performance on previous years. This year, "low morale", "IT-related problems" and "ineffective communication" all declined in significance as contributors to productivity loss. Conversely, we observed a continuing rise in productivity loss caused by "inappropriately qualified workforce".

Industry sector analysis

For the first time since these reports began, we have produced data on the best and worst performing industry sectors. Top performers are Telecommunications, Automotive, and Transport. The worst performing sectors are Food & Beverage, Manufacturing, and Healthcare. Workers in the best performing sector (Telecommunications) are 15% more productive than those in the worst performing sector (Food & Beverage).

Section two: Salesforce effectiveness

Also for the first time we looked specifically at how effectively companies are deploying their salespeople. This is a labour area of traditionally high overhead, and is crucial to business and financial performance. The striking findings are that salespeople spend too little time actively selling (10%) and too much time on problem solving (16%) and

Reasons for lost productivity

	2001	2002	2003
Insufficient management planning and control	43%	43%	41%
Inadequate supervision	22%	23%	26%
Poor working morale	14%	12%	11%
Inappropriately qualified workforce	6%	7%	9%
IT-related problems	8%	8%	7%
Ineffective communication	7%	7%	6%

administration (27%). They are also only about half as effective as they could be when they do finally engage a customer actively. From our studies, we conclude that companies can expect to double sales performance by improving six areas of competency outlined in this report.

Executive opinion survey

This aspect of the report comprises data taken from more than 400 responses to an email survey of senior executives in seven countries. We asked respondents to estimate their productivity results for 2002, their expectations for 2003, and their predictions for 2004.

We then asked them to estimate the maximum margin by which productivity could be increased both with, and without, additional capital investment. Finally, we asked them to rank, in importance terms, the same barriers identified in our company labour productivity studies reported in “Productivity Study”, Section one: Detailed results.

For the first time since these reports began, we asked questions specifically about salesforce effectiveness, as we believe this is a critical activity worthy of closer analysis.

Productivity results 2002—executives report surge in output

Our analysis of organisational productivity reported earlier is in line with some macroeconomic reports² identifying a slow but steady improvement in productivity beginning

in 2002. However, executive opinion is that output was noticeably higher than the story portrayed in both our study and official reports. Almost two-thirds of those polled (61%) said productivity had improved by up to 15%, with another significant proportion (16%) stating even higher figures.

Expectations for 2003—strong productivity improvement trend set to continue

Around the world, business optimism has returned with most executives now apparently believing that the global economic downturn is behind them. More than 78% expect to realise productivity increases in 2003, with almost a third (29%) stating they expect to see double-digit improvement. Only 6% said they expected to see a decrease.

Forecast for 2004—no end to improvement visible in the near term

Seventy-seven per cent of executives forecast that their organisation’s productivity would increase in 2004. Only 4% predicted a decrease.

Maximum productivity potential—capital investment still seen as “silver bullet”

Not surprisingly, 39% of executives believe that new capital investment would allow them to achieve productivity improvement of greater than 10%. Without new capital expenditure this figure drops to just 13%. Executives, it seems, still cling to the mistaken belief that the only way to get more out of their organisation’s labour resource is to spend money. Data elsewhere in this report shows that companies have average

untapped productivity reserves of approximately 40%, yet executives continually fail to see this as the quickest and most obvious route to improving output. By not acting on this, they are cumulatively missing out on billions of potential revenue.

Perceptions of productivity barriers—“executive myopia” still endemic

Although we show above that good planning and control of work is consistently the single most important factor to get right when attempting productivity improvement, just 3% of executives identified it as such. Executives are also way off the mark in understanding the importance of other factors affecting productivity.

What do executives think they are doing?

Executives perceive “effective communication” to be the number one factor in improving productivity and they spend 28% of their available time on this. Our company studies show that this ranks low as a major contributor to improved productivity. They also say that managing crises, solving acute problems or doing work that could be delegated also takes up almost a quarter of their time (22%). Strategic thinking and planning, plus measuring and monitoring the business plan, account for roughly equal proportions of remaining time. From this evidence, we conclude that executives are busy doing the wrong things. The most important aspects of their role—planning, monitoring, measuring, and supervising—receive too little attention.

1. Optimum capacity is defined as 85% of the total of 225 average working days available per annum (allowing for weekends, vacations, public holidays, and training), which equals 191 days.

2. “Productivity growth tends to decline during a recession and recover during an upswing in the economic cycle, a reflection of the fact that firms hoard labour.” Extract from *Productivity: The key to competitiveness of European economies and enterprises*, the Commission of the European Communities, May 2002.

Productivity study

Section one: Detailed results

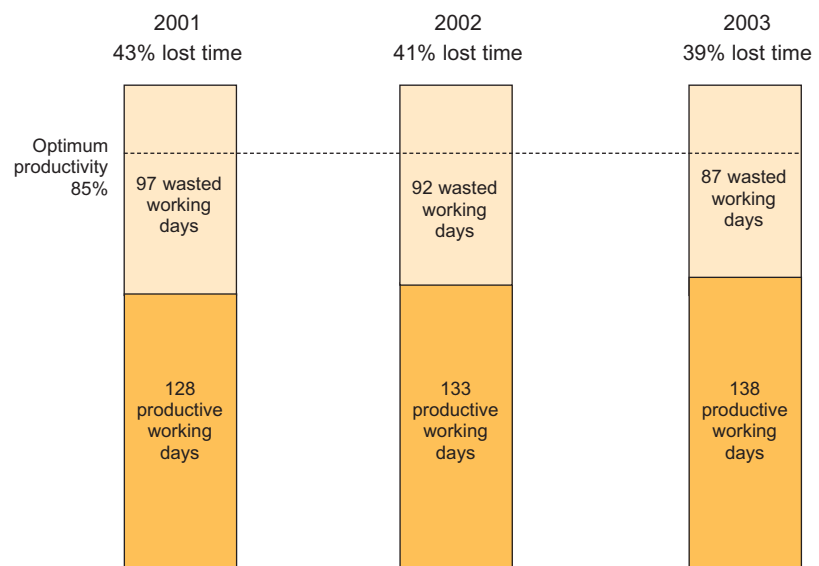
This aspect of the report comprises findings from 1,440 detailed studies from companies in seven countries: Australia, France, Germany, South Africa, Spain, the UK, and the US.

Lost time

Across the countries included in this study, the average productivity level was 61%. Although this is a 2% increase on the figure for 2002 and shows a continuing positive trend since 2001, we believe this is a likely consequence of headcount reduction, yielding higher output per head, rather than outright productivity improvement per se. However, those companies that have achieved this are best placed to capitalise on the next wave of economic growth.

This average figure of 61% is still far short of what we believe to be the optimum productivity level of 85% of available time. Enormous unrealised potential, therefore, still remains. On average, companies are still wasting 87 out of 225 working days, per employee, per year.

Working days lost, 2001–2003



Global average working days: 225

“Managers and workers would be much more effective if they did half of what they are doing, but did it right, without delay, and remained focused on that half.”

Country comparisons

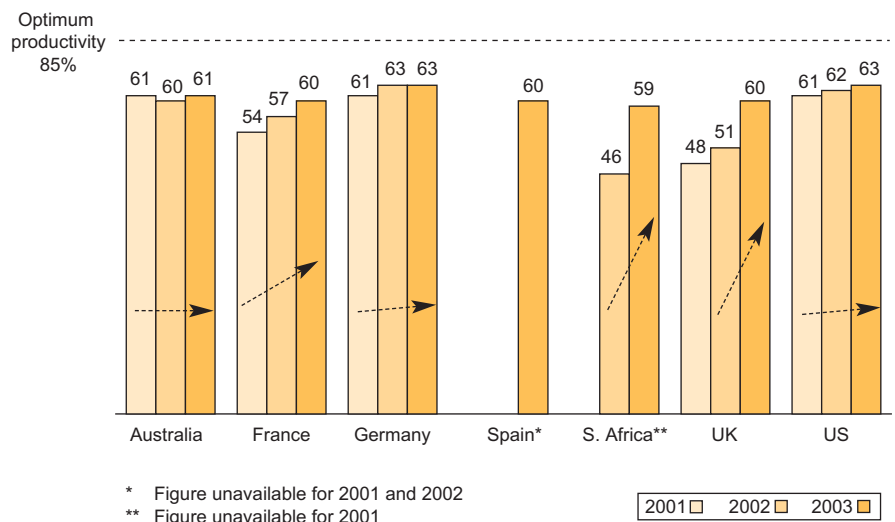
Our findings show a small increase in productivity across the seven countries studied. Two countries, Germany and the US, share the accolade of “most productive country” this year, both with productivity levels of 63%, though it should be noted that our figures are not adjusted to allow for US employees working longer hours and taking fewer holidays. France made gains over last year, continuing a 3% per annum trend—this is despite the impact of its adherence to a statutory working hours reduction, apparently validating the maxim that “work expands to fit the time available for its completion”.

The UK and Australia were close behind the leaders, achieving 60% and 61% respectively. This is a particularly strong performance by the UK, which scored only 51% in 2002, and represents the second highest percentage point shift. The UK’s performance could be flattered because as for all our studies, our sample excludes the public sector. The significant job losses in the Financial Sector have resulted in a shift in employment from the private to the public sector.

Mirroring last year’s study, South Africa had the lowest productivity of all seven countries studied at 59%, despite showing a marked improvement over its previous year’s score of 46%.

It is interesting to note that, overall, the gap between the highest and lowest figures has closed significantly this year, with just four percentage points separating best and worst performing countries. The laggards are improving their game, sending a strong message to the top performers about the threat of growing global competition.

Productivity levels by country, 2001–2003, %



Global average working days: 225

Productivity loss analysis

Our analyses identified six reasons that most frequently prevent companies from achieving optimum productivity. Following the top-line results, these are shown in descending frequency of occurrence in the chart opposite. Further on, we explore each reason in turn, with examples of our analysts' observations made during their fieldwork. Individual country statistics are displayed for ease of comparison.

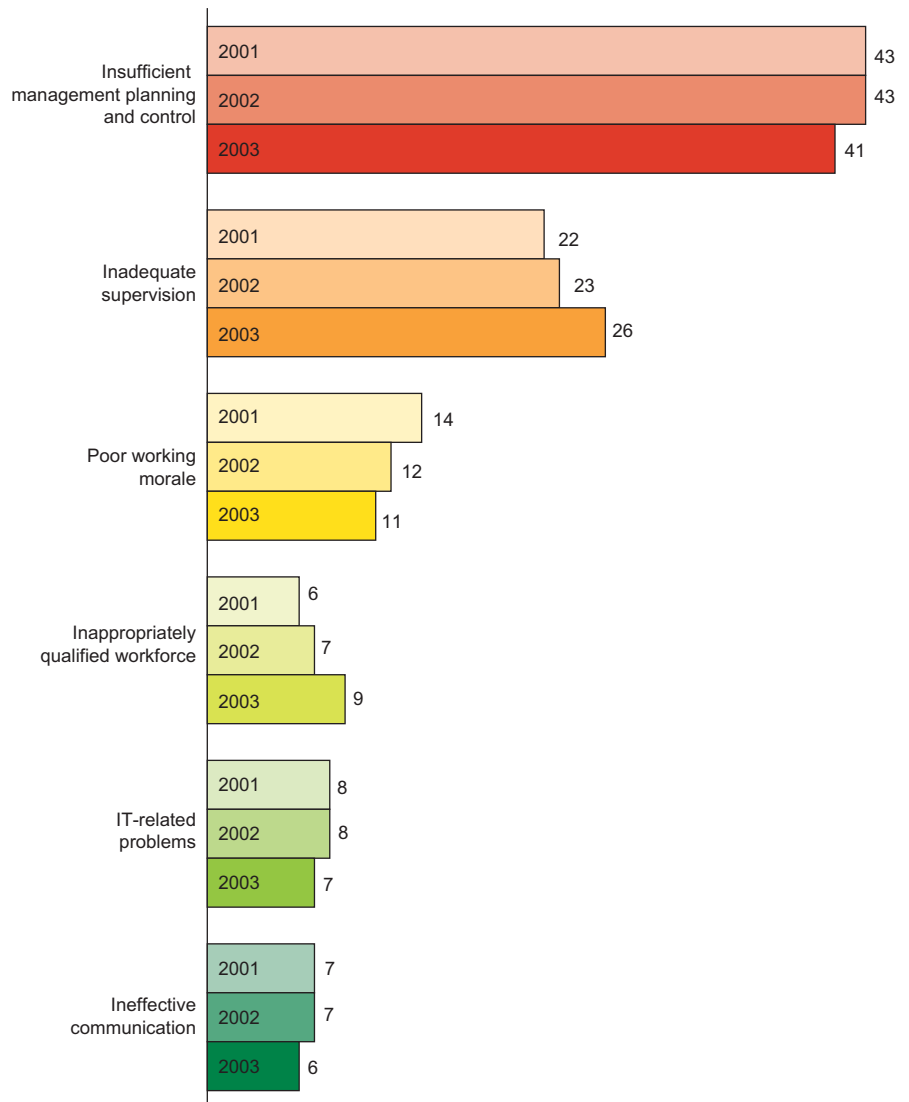
Top-line results

Taken together, insufficient management planning and control and inadequate supervision still account for a large majority of all productivity loss (67%). We note almost no improvement in these two factors over a three-year period, indicating a serious, deep-seated issue: managers and supervisors are still misusing their time. Companies either consider this issue to be a low priority or are unable to address it.

This year, we found that an inappropriately qualified workforce is again rising in importance as a productivity inhibitor. This, we believe, reflects the increasing use of casual, part-time or interim labour resources, which often lack permanent staff's familiarity of systems and processes. In turn, they require closer supervision, and increase the likelihood and frequency of mistakes.

Poor working morale, which is responsible for 11% of lost time, has again improved, albeit only marginally, continuing the trend from the baseline set in 2001. IT-related problems accounted for 7% of lost time, again a marginal improvement over 2001. Ineffective communication (6%) was the least reported cause, as in 2002 when it tied for last position with inappropriately qualified workforce.

Reasons for productivity loss, 2001–2003, %



1 Insufficient management planning and control (41%)

“Managers are busy doing the wrong things”

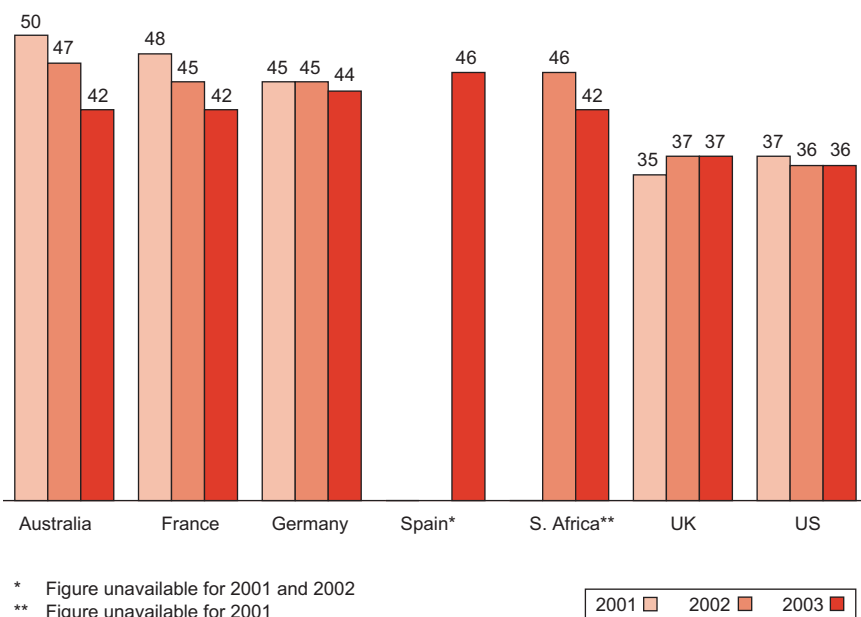
Although this factor shows improvement by two points compared to 2001, this was still the single biggest reason for lost productivity. Spain suffered the most from this shortcoming, which accounted for 46% of lost productivity. The US was the least hindered by it, at 36%, with the UK just one point behind it. Australia and France on 42% continue on a general improvement trend but still trail the US and UK by a fair margin. Germany moved ahead by just one point to 44%. Encouragingly, no country fared worse than in 2002, although we feel this should not mask

the real finding: companies are falling way short of the potential they could achieve.

Few doubt that managers are busier than ever, but our research leads us to conclude that far too many are busy doing the *wrong* things.

Factors we observed in this category included: non-existent, poor or inappropriate measurement procedures; objectives set too low, too high or against peers rather than “absolute”; problems ignored or not anticipated; inadequate reporting; key performance indicators not set or performance poorly measured; planning from an existing (and usually inherently flawed) perspective, instead of from an optimum potential perspective; acceptance of a degree of failure as routine and therefore built into future plans.

Insufficient management planning and control, 2001–2003, %



Analysts’ observations

Make sure you have real operational indicators, not just the typical financial ones, and ensure their use in a systematic way relating input and output based on intelligence rather than simple information.



Make a significant effort to ensure the real status of the organisation is not being diluted by the reporting and management structure that is in place. Be 100% certain that your subordinates are not telling you what they think you want to hear, keeping the bad news to themselves.



Get control at the point of execution.



All too often people spend time behaving in a busy manner but on the wrong things. Managers do not have a clear grasp of the key drivers of the business and are therefore not directing effort most effectively.



Believing you know how your operation works is different to seeing how it works.



Having got the cost down, no one else knows how it was done . . . they say they do . . . but I have to keep explaining.



2 Inadequate supervision (26%)

“Middle managers act like a ‘dampcourse’—nothing gets through them”

Inadequate management supervision is the second most frequently observed reason for productivity loss. First- and second-line managers were either unavailable or ineffective, sometimes both. This factor was responsible for 3% more lost time than in 2002. In South Africa almost one-third of unproductive time was caused by this. Worryingly, in some countries this reason for lost productivity has continued to grow, most notably in Germany but also in France.

Conversely, the US, the worst performer in 2001 at 28%, has continued its improvement trend since then, scoring 24%, two points better than average. The UK recorded no change at 25%, one point better than average.

We noted: absence of people skills; too little time devoted to anticipating and preventing problems; too much time spent on hands-on operations and dealing personally with detail; lack of understanding of the role of the manager as coach and facilitator; poor communication skills; unclear instructions; acceptance of a slack work ethic; a culture lacking urgency; and inadequate management training.

Analysts’ observations

Workers do not decide what is expected or acceptable—that is management’s job. Managers are responsible for setting the rules and providing positive or negative feedback.



A lot of supervisors keep on believing they are doing their job right by working hard on fighting fires.

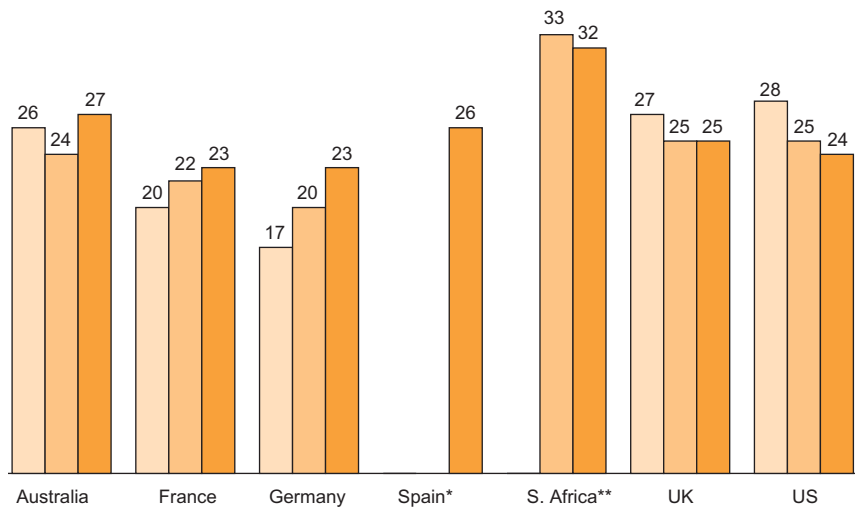


Making changes without a structured approach is like driving at night with no lights and no road signs.



Having asked for change, it does not mean it will happen.

Inadequate supervision, 2001–2003, %



* Figure unavailable for 2001 and 2002

** Figure unavailable for 2001



3 Poor working morale (11%)

“Ability alone is insufficient. You also need loyalty, enthusiasm, sincerity, and team spirit”

Poor working morale accounted for 11% of lost productivity globally, 1% down on last year. The US had the biggest problem with poor working morale in 2002 but this year has been surpassed by France (16%). This year’s widespread industrial action in France supports these findings. Morale was far less of a factor in South Africa, at 5%. The UK, after showing a marked improvement between 2001 and 2002, now fares worse than average at 14%.

Of particular interest is the correlation between figures for “poor working

morale” and “inadequate supervision” in both France and Germany. We conclude that the latter has a disproportionate effect on the former, and believe senior managers should pay particular attention to this. Workforce morale is affected negatively when workers are not clear about what is expected of them and why.

Morale in Australia continues to fall as a factor affecting productivity and, at 6%, is almost half of its 2001 figure (11%).

Aspects of poor working morale we observed included: people feeling undervalued and poorly rewarded; an absence of positive team spirit; low motivation; lack of attention to quality; unwillingness to see a job well done; and a poor sense of belonging.

Analysts’ observations

You need continuous improvement management, not a continuous improvement manager.

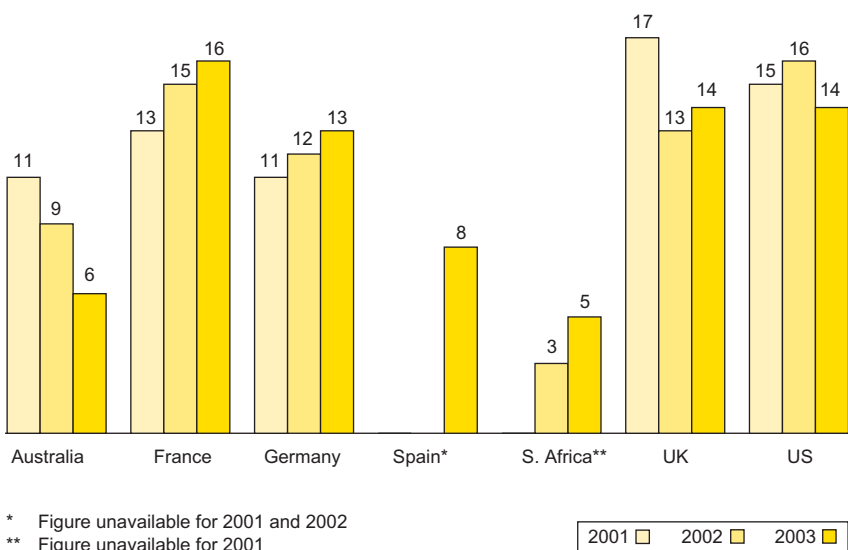


Having to explain to a new continuous improvement manager what has been done suggests that future change will be slower and that new ideas will be based on what exists.



The choice of who to use to make the necessary change is fundamental, but is secondary to where to reassign them in the company to ensure the change sticks.

Poor working morale, 2001–2003, %



Productivity study
Section one: Detailed results

4 Inappropriately qualified workforce (9%)

“What is needed is the right people doing the right things at the right time”

Inappropriately qualified personnel accounted for 9% of lost time worldwide, a small but continuous increase on the previous two years. The highest figures are recorded in Australia (13%) and the UK (11%). At 10%, the US figure shows a 100% increase since 2001 in this factor as a reason for wasted time. There are several explanations for this. First, an increase in the use of temporary, casual, and interim staff who lack know-how or permanent employees’ familiarity with the business. Second, many companies have implemented downsizing programmes, leaving those

who remain to “muddle through”, taking on extra responsibilities without adequate training. Third, we believe it reflects cutbacks in training expenditure.

Germany, at 4% for the second consecutive year, was the least affected by this issue.

Both under-qualified and over-qualified employees can have a detrimental effect on productivity. We observed: tolerance of solitary skill sets, reducing flexibility in the workforce; absence of multi-tasking; employees performing tasks they had not been adequately trained to undertake; work flow interruptions through misunderstandings and inadequate training; and supervisors not understanding the skills of individuals, and therefore not deploying their talents optimally.

Analysts’ observations

Developing my people worked when they were full time on a project. I had to work as well ensuring they were reintegrated into the business.

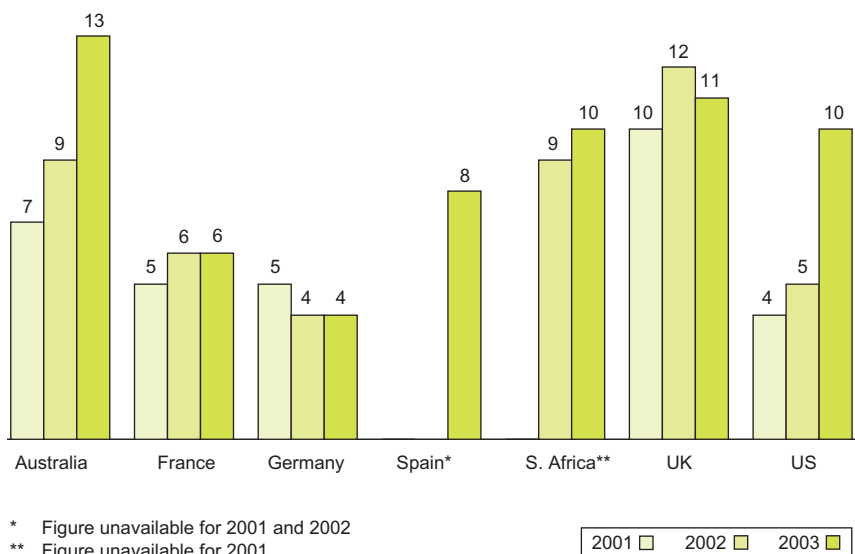


Before I move supervisors and managers into other areas, I need to know they can understand the area, not just management.



Moving people should be based on ability. Anything else removes part of any sustainability you had.

Inappropriately qualified workforce, 2001–2003, %



* Figure unavailable for 2001 and 2002
** Figure unavailable for 2001



5 IT-related problems (7%)

“The more technology you have, the greater the chance of technology problems”

Globally, problems with information technology (IT) as a factor affecting productivity fell one point to 7% in 2003. Matters improved in Australia (5%) and the UK (9%), but worsened in Germany, France, and South Africa. Those countries most beset by IT-related issues are also those that invest most heavily in it.

Problems related to IT included: communicating by email when face-to-face communication would have been more appropriate; information overload; too much data being produced and not enough information; time wasted searching for misplaced or badly stored information; computer downtime; corrupted data through virus and worm infections; systems not communicating with each other properly; duplicating data unnecessarily; applying IT to existing business processes instead of reviewing, redesigning, and improving them first and then implementing IT.

Analysts’ observations

People still mistakenly see technology as a productivity panacea. Taken in isolation, information technology can deliver only part of an organisation’s full productivity potential.



Invest in the best technologies but never underestimate the effort needed to get people to use them optimally.



Considering IT as anything except another department will hinder and slow productivity improvements . . . letting IT believe it is anything except another department will stop productivity improvements.

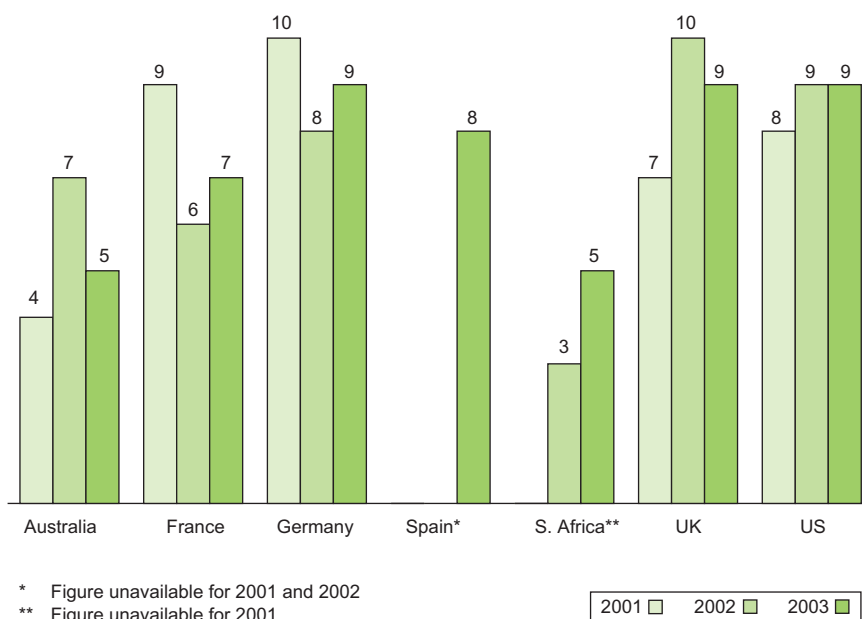


“How well do you know your department?” is a question you should ask of IT.



A guided tour of your IT function is no different to an office or factory tour, as I found out; the improvements were amazing . . . problems solved using normal language.

IT-related problems, 2001–2003, %



6 Ineffective communication (6%)

“We have two ears and one mouth and would do well to use them in that proportion”

Ineffective communication was responsible for 6% of unproductive days globally, 1% down on 2002. This year the UK and Spain at 4% were the countries least beset by this problem, although the UK’s performance lowered slightly with a 1% rise on 2002, taking it back to 2001’s score. At 7%, Germany improved its score in this area significantly, but still fares worse than average, sharing highest score with the US and Australia, the latter

recording almost 100% year-on-year growth in the incidence of this factor over a three-year period.

We found that communication varied between companies from complete absence to levels approaching information overload. Typical problems included: use of jargon and technical terms instead of simple, unambiguous language; “silo” mentality, with departments operating independently of, and with no consideration for, others; confusion over the company’s objectives; absence of job descriptions, key performance indicators, and appraisal systems; and no formal feedback process.

Analysts’ observations

Communication should be a core competency by which all managers are measured.



A communication is about listening and understanding before acting.

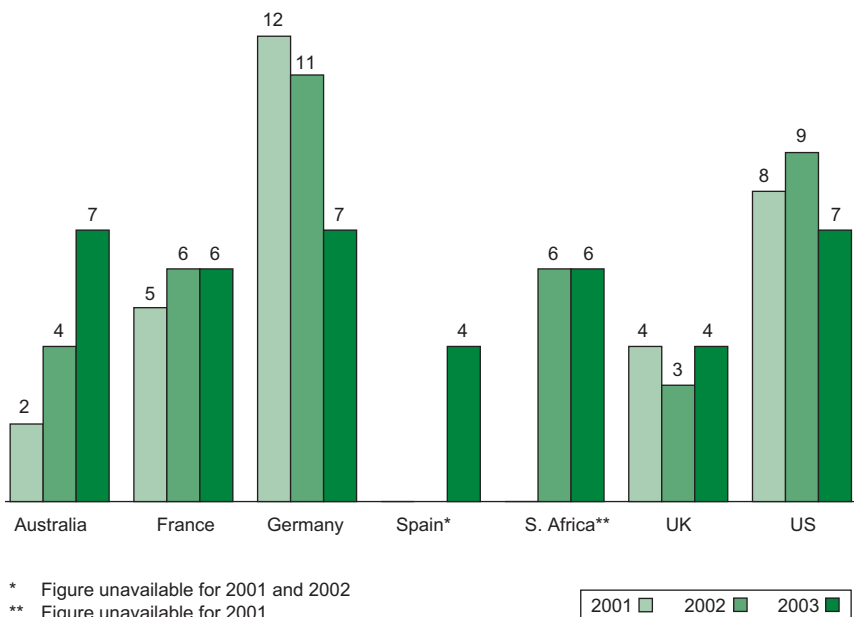


Seeing is believing, but you have to understand what you had to start with . . . without an analysis or review this is difficult . . . everyone needs to know the common starting point.



Productivity improvements do not suddenly happen; they also need to be understood throughout the company.

Ineffective communication, 2001–2003, %



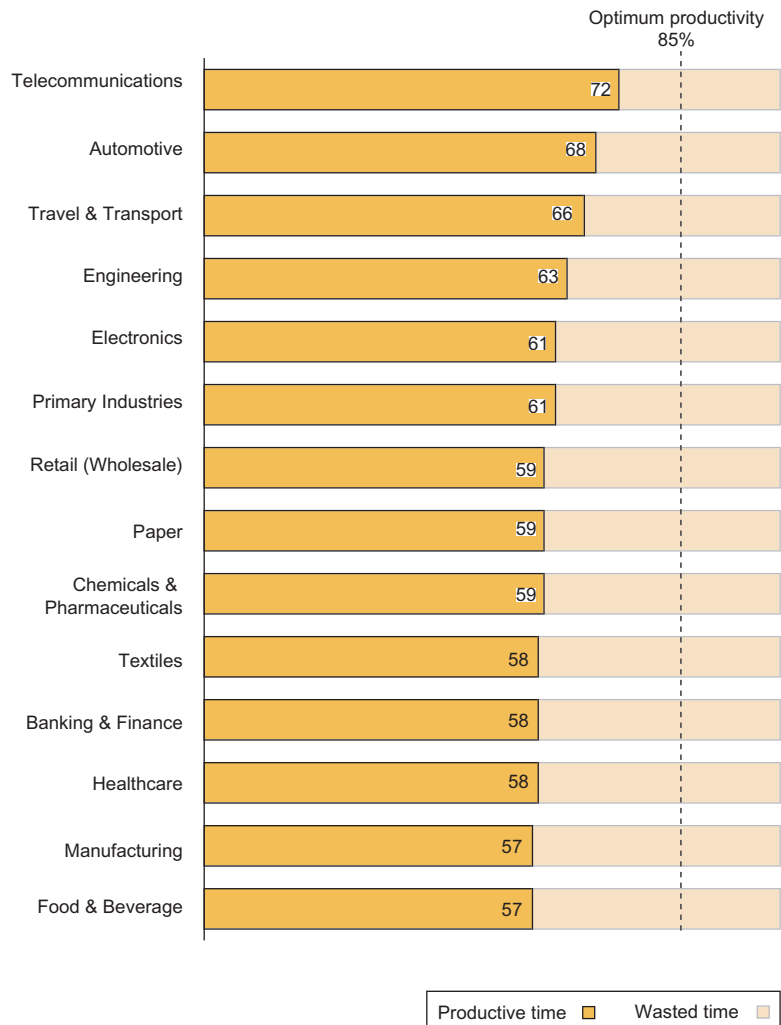
Industry sector analysis

This is the first time we have produced data on productivity performance by industrial sectors. Our findings show some correlation between market sector competition and productivity—those industries that are deregulated, have high levels of global competition or are undergoing massive change also exhibit high levels of productivity (e.g. the Telecommunications and Auto-

motive sectors). Conversely, those with fewer competitors and/or operating in regulated markets are less productive (the Banking & Finance sector).

We found the best performing sector to be Telecommunications, which achieves 15% more productive days than the worst performing sector, Food & Beverage.

Productivity levels by sector, %



Productivity study

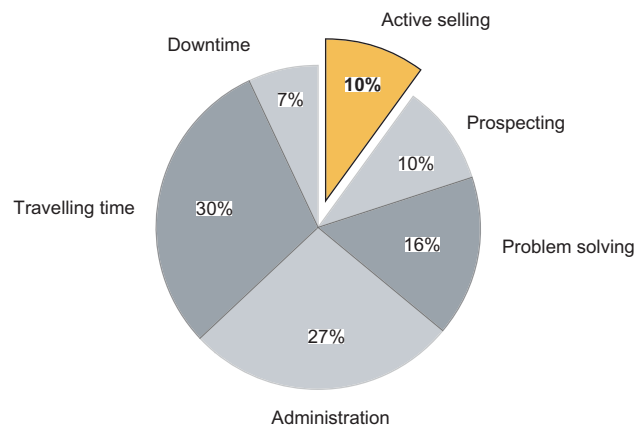
Section two: Salesforce effectiveness

Appearing in this report for the first time is an analysis of salesforce productivity and effectiveness, grouped by industry sector.

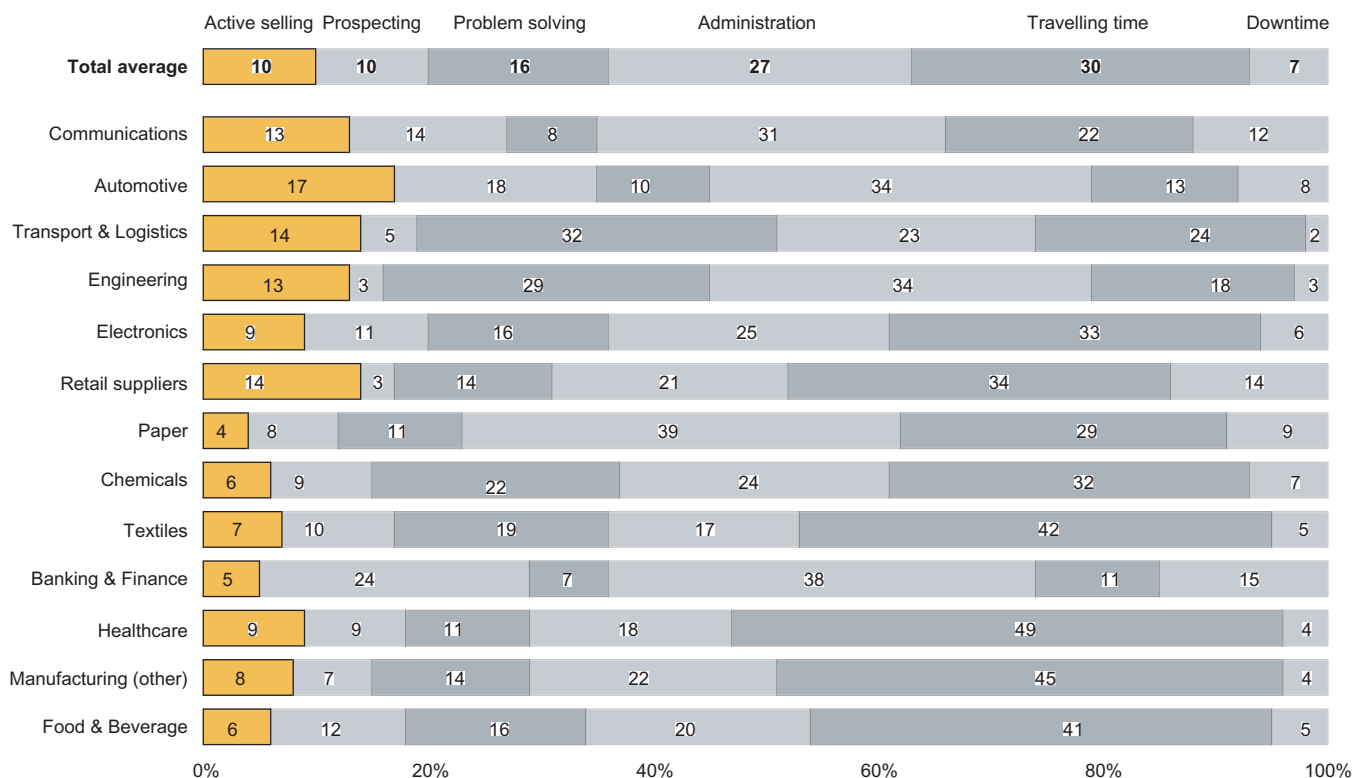
Using the same methodology, we monitored how salespeople spend their time during a typical working day, recording activity into six categories: active selling, prospecting, problem solving, administration, travelling, and downtime.¹ We also examined how effective they were in six key areas of competency, described on page 17.

Use of time

The figures tell a number of stories. The most surprising, for many, will be the small amount of time salespeople spend actively selling to customers, relative to the very high figures reported in most industrial sectors for time spent on administration and problem solving. Salespeople, it appears, are bogged



Industry breakdown of time spent



1. Downtime is defined as activities that do not directly relate to and/or add value to selling. Lack of, and inappropriate planning and scheduling of, customer/client meetings (done in previous weeks and days) are often not seen as downtime. The result is significant and a major reason for the current level of ineffectiveness.

down by paperwork and customer service issues. And when they are not dealing with those, they are travelling. For example, almost half of all available time is spent this way in the Healthcare sector.

Our data also shows salespeople in Engineering and Transport & Logistics are more often dealing with customer problems, diluting their specified functional effectiveness by performing a dual role of customer service or account manager.

Effectiveness

Having already reported that salespeople spend little time actively selling, how effective are they when they finally get to do this? If we take all six competencies shown below together, the simple answer is, “About half as effective as they could be”.

- ▶ *Preparing the sales call:* knows what he/she wants to achieve before contact
- ▶ *Positioning:* establishes a purpose and earns the right to proceed. Knows how to add value
- ▶ *Discovering and building:* asks questions to understand the customer’s business and needs, and explores the impact or consequences of a need/solution, creating a sense of urgency
- ▶ *Presenting and resolving:* discusses pros and cons of available options to decide the best solution
- ▶ *Securing:* seeks commitment to achieve a sale or advance negotiations to another stage
- ▶ *Aftersales service:* Ensures all commitments are met, reviews issues identified, and seeks other issues to resolve

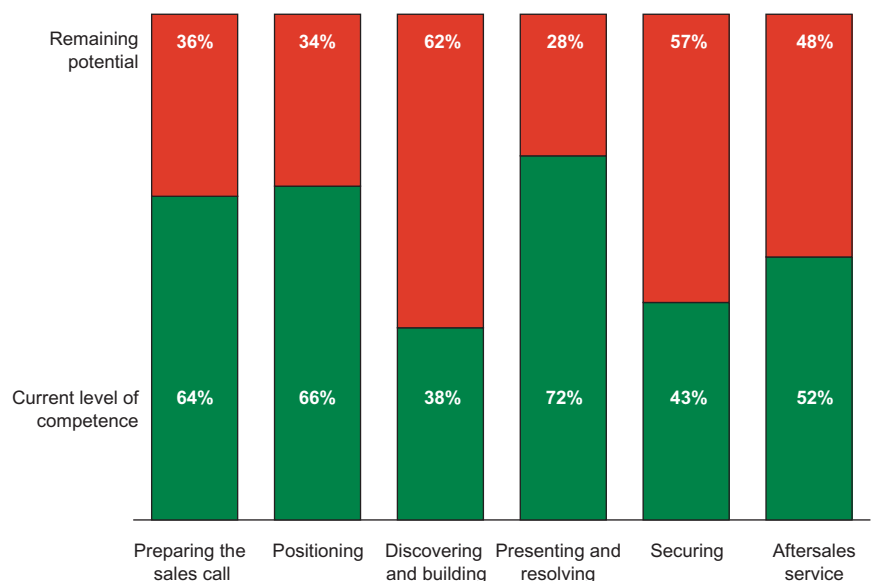
We observed the greatest deficiencies in “discovering and building” and “securing” skills, two of the most important competencies required in an effective salesforce. Companies tackling just these two issues alone can expect to sell more goods or services and with greater frequency. Those that maximise their salesforce effectiveness in all six areas can expect sales performance to almost double.

Some of the common issues we found during our analyses include: poor call quality and inadequate monitoring;

training seldom reinforced or properly coached in the field; through force of habit and lack of management focus, the same customers are called repeatedly, while those with potential but who are harder to deal with are ignored; ineffective back-office support diverts time from the field; weak, or cumbersome, sales reporting systems; computerised (and expensive) sales information systems are not used to full advantage; follow-up by management is not effective, i.e. they might get call reports, but provide no feedback or help to salespeople.

“Salespeople are not engaging customers often enough and, when they do, they’re appalling. It’s almost as if they’re performing some kind of sales prevention role”

Sales effectiveness—six areas of competency



Executive opinion survey

Here we report the findings of an opinion survey of senior executives, comparing the results with the outcome of our analyses of individual company labour productivity, outlined in “Productivity study”, Section one: Detailed results.

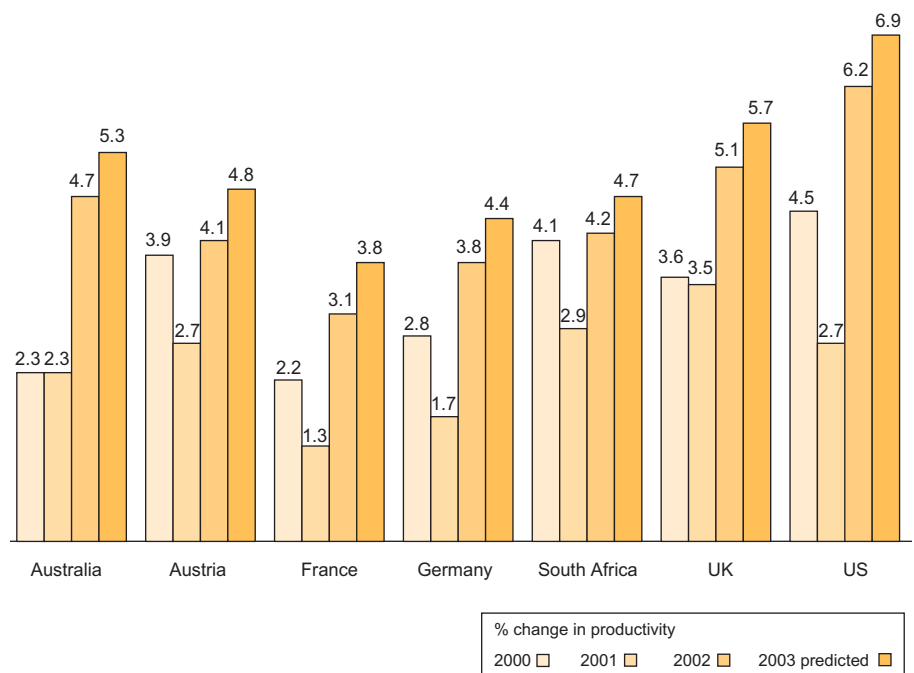
We received responses from more than 400 executives of medium and large sized businesses in seven countries: Australia, Austria, France, Germany, South Africa, the UK, and the US.

Respondents were asked to answer five general questions about productivity and four specific questions about salesforce effectiveness. The graphs here show trend data for the former since 2000.

Executives say productivity is improving, but is this over-confidence?

This year, for the first time, we have seen more respondents reporting improved productivity (up by 13%). During 2002, almost two-thirds of those polled (61%) said productivity had increased by as much as 15%, with 16% reporting an even higher figure. While this supports the improvement trend of our company productivity analyses, it is noticeably higher than in our results. One year ago, executives were predicting improvement levels for 2002 much more closely aligned to the results our analyses show have actually been achieved. We think this difference between “perceived” and “actual” results could be attributable to increased economic optimism.

Productivity growth rate August 2000–2003 (weighted average), %



Strong return to optimism

Turning to predictions for productivity performance in 2004, almost three-quarters of executives (74%) are forecasting continued improvement by as much as 15%, reflecting a return of optimism not seen since before the last economic downturn.

Executive perceptions “out of touch” with reality?

We then gave respondents the list of six factors we know influence productivity performance and asked them to choose the three they felt were most important in contributing to improved results. Just 3% said “proper planning and control” was important, yet our analyses show “insufficient management planning and control” to be the number one factor contributing to under-performance over three consecutive years. Respondents also ranked “effective communication” and “appropriately qualified workforce” highly, whereas we believe these factors, though still important, have less impact than they are perceived to have.

Proper planning and control	3%
Good management	19%
Better working morale	14%
Appropriately qualified workforce	19%
Improved IT environment	18%
Effective communication	24%
Other	2%

Time spent wisely?

Given that we know the factors influencing productivity performance, we decided to explore how executives typically spend their time. “Strategic thinking (planning)” and “planning, monitoring, and measurement account

for less than half of available time (49%), although our analyses of actual labour productivity show these activities to be especially important in improving performance. Almost one-fifth of executive time is spent on “crisis management and/or solving acute problems”, a higher than expected figure given that respondents might reasonably be expected to give conservative answers.

Strategic thinking (planning)	24%
Planning, monitoring, and measurement	25%
Internal communication	21%
External communication	7%
Crisis management and/or solving acute problems	17%
Work, which could/should be delegated	5%
I don't know	2%

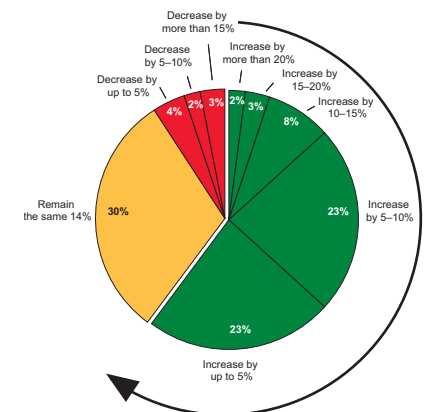
Executives believe salespeople are more efficient than they are

Almost three-quarters of those we questioned (72%) say their salespeople spend more time (>10%) actively selling to customers than they actually do. And almost half (49%) think they are engaged in this activity for significantly more time (>30%). It is clear from our studies that this perception is way out of line with reality. Only 12% of those surveyed said their salespeople were “very good” at converting leads into sales; 40% said they were only “average” in this critical area of competency.

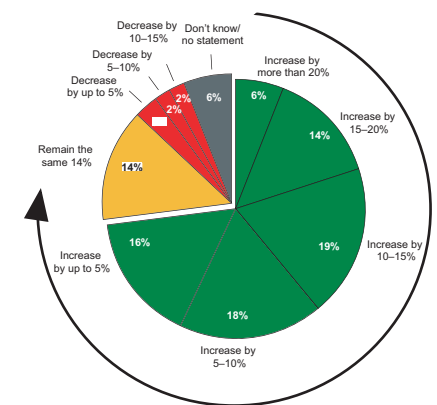
Capital expenditure still seen as “silver bullet”

Finally, we asked respondents to state how much productivity could be improved during 2003 both with and without new capital investment. More than three times as many executives believe they could improve productivity by more than 10% with new capital investment than without.

Without capital expenditure, 57% think productivity will increase in 2003



With capital expenditure, 73% think productivity will increase in 2003



Economists' viewpoints

Australia

Improving productivity within the Australian context

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This issue of Proudfoot's global productivity study points out the detrimental effects of an "inappropriately qualified workforce" on the productivity of firms. Clearly getting a good match between workers and jobs is an essential ingredient for a highly productive organisation.

In my comments, I would like to explore further the link between loss of productivity and the nature of the workforce, and in particular what role might be played by the fraction of casual employees in the overall pool of workers. This focus seems especially apt in Australia's case. The chart on p.12 of this report shows a sharp increase in the amount of productive time lost by Australian firms in 2003 relative to 2002, which is attributed to an inappropriately qualified workforce.

Presence of "casuals"

Australia's rate of "casual employment" is high relative to other countries, but part of the difference may lie in the official definition. An Australian worker is classified as "casual" if he or she does not receive paid holiday or sick leave as part of their working conditions. Casual employees may be employed either full time or part time. Although there is often a perception that casual employment is generally temporary and uncertain, in practice, many employees classified as casual have in fact been with the same employer for years. Having said this, I will ignore

any potential definitional differences in the remainder of my remarks.

Recent research at the Melbourne Institute, based on data from the Household, Income and Labour Dynamics in Australia (HILDA) survey, revealed the following characteristics of casual employees in 2001: 57.2% were female; well over half were single people with no children under the age of 15 (of these, 28.4% were males, 25.9% females); another 28.1% were partnered females (of these, 13.9% had at least one child under 15). These general characteristics suggest that people in the role of "primary bread-winner" are less likely to be in casual employment.

The make-up of the casual labour force is potentially important in addressing the question of whether and how the number of such workers affects productivity. The HILDA data also suggest that although casual jobs tend to receive lower satisfaction ratings than other jobs, this result is mainly due to lower ratings by males employed full time in such jobs. Casual workers employed part time were no less satisfied, on average, than those employed in non-casual jobs. These data by themselves do not rule out the possibility that casual workers are by nature less productive. To the extent that higher staff morale is correlated with higher productivity however, this result means that the productivity levels of casual employees

should be no different to those of their “permanent” counterparts.

Data from the Australian Bureau of Statistics suggest that the ratio of casual employees to the total employed workforce has been essentially constant over recent years. The share of casuals in the Australian labour force was 27.3% in 2000, 27.2% in 2001, and 27.3% in 2002 (the latest year for which data are available). These figures suggest that the sharp increase in the share of the Australian workforce that is inappropriately trained (p.12), if measured accurately, is due to some factor or factors other than the share of casual employees in the workforce.

Cyclical nature of job matching

Strong labour demand would ordinarily imply a higher (potential) rate of mismatches, as companies are more concerned with filling vacancies than with shopping around for the best person. Conversely, when demand for workers is weak, companies would be more likely to lay off workers, and/or be

much choosier in hiring new personnel.

The figures in the chart below help us to get an idea of how these cyclical factors might influence the productivity of US and Australian firms. These figures are the average percentage changes in employment for the two countries over the past three years (plus figures up to July for 2003). Only total employment data are available for the US, while the Australian data permit a breakdown into full-time and part-time employment growth.

Australian employment growth has been well above that in the US over this period; the 2003 data show double the rate of jobs growth in Australia relative to the US. In the context of the cyclical factors discussed above, we would expect US firms to have less productivity loss due to job mismatches, as firms lay off their least productive workers and scrutinise new hires more closely. In contrast, the graph on p.12 suggests that US firms have been hiring and firing exactly the wrong people.

In Australia, positive jobs growth may have contributed to more mismatches, but this seems unlikely given the relatively slow rates of growth. Total employment growth is only just returning to its pace of 2000. One might also think that the more rapid growth in part-time employment might contribute to more poor matches between firms and workers. While it is true that part-time employment growth has been accelerating (figures for the 1997–99 period are 3.8, 2.9, and 3.7% respectively), this has not translated into an increased share of casual employees in the total workforce (see above).

Taken together, these comments suggest that the relationship between productivity and the composition of firms’ workforces is considerably more complex than a simple story about matching jobs to employees.

	Australia			US
	Full time	Part time	Total	Total
2000	2.7	3.6	3.0	2.3
2001	-0.4	4.9	1.0	0.8
2002	0.7	5.2	1.9	0.8
2003	1.9	4.2	2.5	1.2 (up to July)

United Kingdom

Encouraging performance from the UK

Nicholas Crafts

Professor of Economic History

London School of Economics

The bottom line that emerges from the 2003 Proudfoot productivity study is one of improved performance by UK firms, with the waste of labour time falling from 34% to 23% of hours worked. This has been achieved in the context of weak growth in the national economy, declining business investment, and virtually no growth in private sector employment. The Proudfoot sample echoes the national macroeconomic picture recorded in the most recent Office for National Statistics estimates where labour productivity measured in terms of output per job has picked up to an annual growth rate of 2.3% per year in the first quarter of 2003 compared with 0.5% per year in the first quarter of 2002.

Before British management gets too excited by this improvement in productivity outcomes, it should be stressed that waste of labour still hurts the British economy a great deal. Based on average costs of labour to employers and the volume of hours worked in the private sector, I estimate that the waste amounted to about £88bn in 2002 or a little under 10% of GDP. By way of comparison, the Chambers of Commerce estimate that the cost to business of additional regulation under the present government amounts to £20bn per year, an imposition that they clearly regard as outrageous. As before, Proudfoot identifies the major reason for this unproductive labour time as

failures of management planning and control and inadequate supervision of workers. And, as last year, executives do not appear to attach a high enough priority to reduction of these weaknesses and do not fully appreciate their role in undermining labour productivity.

Analysis of UK productivity growth by economists has increasingly emphasised the role of inadequate managerial effort in many firms where shareholders exercise weak control over management. In the jargon, these companies suffer from "principal-agent" problems in which managers' interests are not well-aligned with those of the owners who find it hard to monitor how effective their executives are in pursuing the painful process of implementing better working practices and other innovations. Only when top management is forced outside its comfort zone by weak profitability are these problems addressed more vigorously. In the UK this is reflected in the shakeouts of labour and improved productivity that have resulted from recent recessions.

Economic theory suggests that the antidote to these "agency" problems is competition in the product market coupled with strong anti-trust policy and deregulation. This helps reveal to shareholders when management is failing them by providing yardsticks, generating warning signals like loss of market share while at the same time

giving more opportunities to sharpen incentives in the contracts written for senior managers. In this regard, it is very significant that Proudfoot's analysis shows that the least waste of days by industry occurs where competition is relatively fierce.

This analysis of the role of competition as an important force in promoting better productivity outcomes has been embraced by the current UK government and is a major reason for the legislation that has enhanced the powers of the Office of Fair Trading and stiffened the penalties for anti-competitive behaviour. Proudfoot's study suggests that this is broadly on the right lines and perhaps implies that further action to reduce barriers to entry, for example, by revising planning restrictions should be considered seriously.

All of this is also highly germane to the very pressing problem of the delivery of public services. If principal-agent problems lead to substantial waste of labour in the private sector, then it seems highly likely that this is even more true in the public sector where control mechanisms are weak and competition is largely absent. Addressing this issue could be a vital weapon in combining adequate public provision of health, education, and law enforcement services with a tax burden light enough not to deter innovation and investment in the private sector.

Clearly, this year's Proudfoot study provides encouraging news about UK productivity and it is good to read a report on this issue in which UK firms do not appear to be lagging behind their international rivals. Nevertheless, there is still much greater scope for more efficient use of labour than senior management seems to recognise. Perhaps this is an issue on which the now fashionable greater shareholder activism could usefully focus.

United States

Reducing inefficiency in the American workplace

Edmund S. Phelps

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In classical economics, which is slowly losing influence, the organisation and instruction of employees were taken to be perfectly efficient. The impediments to a country's economic success were seen to be the scarcity of capital and, in a great many countries, barriers to entrepreneurs and financiers that blocked economic progress and made business life a drudgery.

Modern economists understand that, in any economy open to progress, there exist managerial challenges within firms, large and small. Where these challenges are met unsuccessfully or not addressed, inefficiency results. So, very possibly, a firm with essentially the same workforce in terms of skills and information as other firms might show a much lower—or a much higher—level of productivity, measured by output per employee, than the others do. Whole countries may appear to have low-productivity economies for no other reason than inefficient management of the existing workforce, its other resources or the accessible technology.

Yet modern economics has not been good at obtaining measures of how firms and countries are doing in holding down this inefficiency and how much progress it is making in that regard in recent years. Neither has it been good at making distinctions in the kinds of inefficiencies that occur and classifying them into manageable categories. Nor has it recognised that

some activities (or inactivity) in a firm's workforce may seem to constitute slacking or shirking but are really just a necessary catching one's breath before the next task. The results in the Proudfoot survey represent some useful progress in all three of these directions.

Clearly employees in management functions, including middle-level managers, occasionally need time to reflect on recent experience and developments with an eye to formulating new goals and designing new initiatives. Organisation psychologists in recent decades have written extensively on managers' need for pattern recognition and for idle curiosity and serendipity; this sort of cognition takes time. Inspiration cannot happen without taking the time, generally a long time, to think. Proudfoot's report suggests that an optimum level of "nose to the grindstone" is around 85% of the workday, leaving 15% for assessment, problem-solving, and inspiration.

The striking thing is that, despite this generous allowance of 15%, the report estimates that, in the global sample as a whole, 39% of time was wasted; only 61% of potentially available time was used productively.

It is also somewhat surprising that, among the OECD countries in the sample, the results here do not differ radically from one country to another—and this despite the fact that the sample in each country is not so large

as to leave little possibility for sampling error. Germany and the US are doing best with regard to this inefficiency. But, as the report notices, the two OECD countries that were at the bottom a couple of years ago, France and the UK, have pulled up to the efficiency level estimated in the two top countries. There is a special reason for France's seeming gain in efficiency, however. With the introduction of the 35-hour work week there, workers had to utilise their time better to get the unchanged amount of work done.

There are some macroeconomic reasons to find plausible the country scores on the individual sources of inefficiency. Inadequate supervision is estimated to have shrunk markedly in the US and less so in the UK—unlike the developments in France and Germany. The former countries were experiencing a powerful Internet boom up to the year 2000, during which innovations presented huge problems for the supervision of workers. Now, with the ebbing of that boom, managers have had time to get on top of their supervisory problems.

The US is scored poorly on efficiency lost from inappropriately qualified workforces, while France and Germany are rated highly on this count. This makes sense as the continental European countries adopt policies that, as a by-product or by intent, keep the least qualified in the working-age population. Furthermore, the US economy has been shedding

employees, especially in the past year, far more than the continental European economies have. So it is to be expected that US firms are encountering difficulties in the reassignment of tasks from the expensive employees let go to the surviving employees, who are deemed a better bargain. Also, the US continues to have rapid introduction of the new information technologies productivity, far more so than in continental Europe. So it does not cast the US firms in a bad light that they constantly encounter deficiencies and mismatches in the skills possessed by some of their employees.

The results on employee morale are certainly of great interest. For those of us who still retain a fair amount of support in America's economic system, it is gratifying that the US—which for a while reported morale levels worse than those in Germany and France—has improved quite a lot this year, while France is now the worst and Germany is worsening. I would guess that the differences in levels should not be taken very seriously. Measured morale may reflect experience relative to aspirations rather than experience alone. The figures do suggest, though, that there are really serious morale problems in South Africa, Australia, and Spain.

Appendix

Research methodology

History of Proudfoot Consulting's productivity studies

The first study was in 1992 using data gathered in Austria, Germany, and Hungary. It was designed to provide an in-depth analysis into the causes of reduced labour productivity in those countries.

As interest in our work grew, Proudfoot Consulting decided to extend its work to include other European countries as well as the US, South Africa, and Australia. We commissioned these studies on an annual basis, providing statistics that can be used as a benchmark.

Proudfoot Consulting's global study 2003

Proudfoot Consulting used a sample of 1,440 detailed studies from projects undertaken in Australia, Austria, France, Germany, South Africa, Spain, the UK, and the US.

These studies are conducted by consultants who observe individuals within companies as they perform their daily tasks. Each study typically lasts 4–8 hours. This year's report is based on a minimum of 10,368 hours with management and sales staff, conducting an in-depth analysis of each company's processes and approach.

We conducted studies across a representative sample of businesses including the Finance, Automotive, Retail, Natural Resources, and

Telecoms sectors. We divided the studies into five functional categories:

1. *Administration*—e.g. HR, finance, accounting, information technology, law
2. *Indirect Production*—e.g. service and maintenance, production preparation, production planning, R&D, quality control, construction, energy/environment
3. *Warehouse*—e.g. dispatch, material management, fleet management, inter-company transport
4. *Production*—e.g. direct manufacturing areas
5. *Sales and Marketing*—e.g. sales staff, field representatives, office staff, marketing, and purchasing

The analysis of management time covered areas such as active and passive supervision, time spent on administration, travel, training, and manual work.

Executive opinion survey

To complement the global productivity study, we conducted an email survey and received responses from more than 400 senior executives in: Australia, Austria, France, Germany, South Africa, the UK, and the US.

Glossary of terms

Productive time

Time spent by any member of staff on activity that is relevant to his/her job function and is of value. This ranges

from making sales calls and writing marketing collateral to receptionists putting calls through to relevant employees or time spent usefully in company meetings being updated on the business's progress or new initiatives.

No company can ever have productivity levels of 100%—optimum productivity levels are considered to be 85%.

Unproductive time

This is time spent by employees on an activity that does not add value. Unproductive time can fall into two categories—business and personal time. Business-related unproductive time ranges from the IT system crashing, to time wasted by waiting for meetings to start, or duplicating tasks that have already been completed by someone else.

A proportion of any employee's time is inevitably spent on, for example, personal phone calls or emails. This also equates to unproductive time.

About Proudfoot Consulting

Proudfoot Consulting implements change to achieve measurable and sustainable performance improvement at no net annualised cost to its clients. Proudfoot Consulting's teams work with the management teams of companies, and with the people throughout their organisations, to design and install programmes that increase their bottom-line results. Proudfoot Consulting is part of the Management Consulting Group.

About Management Consulting Group

Management Consulting Group PLC is the umbrella organisation for a range of specialist consultancy offerings. The business operates throughout the world.

Another of its companies is Parson Consulting, a conflict-free financial management consultancy focused on realising greater effectiveness, reliability, efficiency, and speed of operations for finance and support functions.

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