

POLICY ➤ PROGRESS

Productivity in the Workplace

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Foreword

by David Choat (Director, Policy Progress)

We all know that New Zealand could do better and be more effective in its economic performance. But when we discuss solutions, too often we gravitate to ‘big-picture’ macroeconomic ‘fixes’, which may (savings rates) or may not (tax cuts) have anything to do with the problem at hand.

Owen Harvey doesn’t. His has been a consistent voice, urging to us to look at and think carefully about what happens *within* the workplace – and what we can do to improve that.

Owen brings together the best and most progressive work in the ‘management’ literature with an appreciation of public policy settings and the contribution they can make.

This short pamphlet provides a useful introduction to his ideas and their implications, which extend to achieving a more environmentally sustainable way of working.

The case for the “workplace” as a locus for productivity improvement

Almost all of what constitutes national “debate” about how to lift New Zealand’s productivity, and characterises our various attempts to improve it, focuses on macro-level inputs such as capital investment, new technology, and skill development. These inputs, together with our obsession with removing regulatory impediments (ala the Brash Productivity Report), have historically constituted the sum total of our national strategies to improve our productivity performance, and as the “head-banging” metaphor goes: “if you always do what you have always done, you will always get what you always got.” This remains true for previous governments of every hue, apart from some small investment in workplace productivity initiatives by the last Labour Government.

Even when researchers and commentators, such as the New Zealand Institute, pinpoint labour productivity as an issue, they add a few more intangibles to the list, but essentially still come up with the need for greater micro-level investments in these same inputs:

“lifting labour productivity depends on improving the drivers of labour productivity; entrepreneurship, innovation, skills and talent, investment and national resources.¹

To be sure, available skills, capital deepening and so on, have a significant effect on labour productivity (New Zealand has amongst the lowest levels of technology intensity per worker in the OECD – about 32nd out of 37 according to a 2002 UNIDO report). However, it is in the arena of multi-factor productivity where potentially the greatest long term gains can be made. This is because virtually all OECD countries are following a similar macro and input-led policy pathway to improving national productivity as New Zealand, which means we are unlikely to gain any particular advantage (in fact low capital and technology investment levels means we will probably continue to go backwards following this strategy alone).

¹ New Zealand Institute, *A goal is not a strategy: Focusing efforts to improve New Zealand productivity*, August 2010, p. 2, http://www.nzinstitute.org/Images/uploads/A_goal_is_not_a_strategy_-_Full_report.pdf.

What always seems to elude policy makers and commentators alike is the fact that it is in *the workplace where all these inputs come together* – more or less effectively. What happens in the “black box” of the organisation hugely determines multi-factor productivity outcomes, and is therefore well worth paying attention to. What does happen there is of course hugely complex and challenging which in itself is sufficiently scary for policy-makers to steer away from with rationalizations such as, “*what happens inside the firm is the business of the owner*” (apart from employment and health & safety legislation of course). So what happens or doesn't happen inside the firm is largely regarded as the province of management, or the owners (which cuts to our Anglo-Saxon deification of property rights, but that is another story).

Our management quandary

In that particular realm, there is a growing commentary around management capability, or lack thereof, which almost everyone, including Business NZ and the Institute of Management, acknowledges as a particular issue in New Zealand (there is a similar on-going commentary about the calibre of corporate governance but we will

leave that aside for the moment). However, even here, the capabilities being referred to typically include such things as know-how around commercialisation, internationalisation, management of innovation, or more technically oriented disciplines such as supply chain management.

While there is a paucity of data available to back this assertion (beyond countless anecdotes!), there is one recent study that tells an interesting story. The Ministry of Economic Development, Treasury and the Department of Labour in 2009 engaged the University of Technology Sydney to employ a methodology developed by the London School of Economics and McKinsey, and applied in 16 other countries, which involved surveying 152 medium to large manufacturing firms in NZ to assess New Zealand management capability.²

The Executive Summary of *Management Matters* reports:

² University of Technology Sydney and LSE Centre for Economic Performance, *Management Matters in New Zealand – How does manufacturing measure up? Findings from the New Zealand Management Practices and Productivity global benchmarking project*, Ministry of Economic Development, 2010, http://www.med.govt.nz/templates/MultipageDocumentTOC_43278.aspx.

New Zealand managers surveyed are 'average to middling' by global standards. Management practices in New Zealand manufacturing firms rank tenth among the seventeen countries that have participated in this research so far. New Zealand falls in the second tier of countries in terms of its management performance. Among the three areas of management, certain dimensions within operations and performance management have room for improvement to catch up with the global best performer. People management emerges as the weakest area, where New Zealand firms trail most behind global best practice."

A sampling of other findings, including the effects of firm size and ownership patterns (larger and multinational firms are likely to be better managed), are as follows:

- Organisational hierarchy is also significantly related to management scores, indicating that optimally balancing organisational structure and (greater) managerial autonomy is crucial.

- While the international study found increased labour market flexibility correlated with a superior people management score in a number of countries, the New Zealand findings do not support this. New Zealand has over the years developed a relatively flexible labour market, but does not score well in people management practices.
- The nature and characteristics of people management, including collaborative workplace relations and an open organisational culture, are primarily determined by firms themselves rather than by the structure of the labour market.
- New Zealand managers tend to over-rate their firms' management performance. Their self-assessed scores of how they see their firm performing do not align with the firm's management score as assessed through the interview scoring grid.

This study suggests that instilling effective management practices and promoting a high-performance workplace culture has the potential not only to build sustainable competitive advantage within business enterprises but

also to boost national prosperity. It also implies this may be difficult to achieve given low levels of self-awareness about their capability on the part of managers!

In terms of policy implications the report notes:

policymakers may consider how public policy can help inculcate higher-order competencies for dynamic capability building, foster the development of intangible processes and management techniques to significantly improve productivity and promote a transformation of management and workplace performance. Doing so may ultimately translate into improved productivity and better firm performance. However, as improving management capability is a co-evolutionary adaptive process of doing-by-learning, firms must take the lead in order to reap the benefits.

This is a belated but significant acknowledgement of the importance of “intangibles” (such as workplace relationships and consequent culture, good process design, etc) and hints at some form of, as yet unspecified, partnership between government and organisations in searching to create the capabilities

required to lead more productive workplaces. It remains unclear as to what the status of this report is and how it rates among the priorities of those ministries with an economic development remit.

It is encouraging having this form of problem recognition (albeit backed by a single “credible” survey) and a list of the things that might need to be done to address this issue which lies at the heart of our workplace productivity performance. However, this is just the beginning of “peeling the onion” of workplace productivity.

Social dimension of workplaces

Before delving further, it is worth observing that there are also compelling social policy reasons for focusing on lifting management capability and the quality of our workplace performance; namely most of us spend a considerable part of our adult lives in these workplaces.

Kafka-esque stories of dysfunctional, motivation sapping workplaces are rife in this land. It is not just the minority of mean and incompetent managers who can claim the credit here but otherwise functioning, well-intentioned

adults mal-adapting to the toxic or hopelessly designed environments they find themselves being asked to manage in.

Imagine what heights of productivity could be achieved, how much stress and sickness could be avoided and how much more relaxed our evenings at home could be, if only we could work out how to work well together.

Beyond this lies the very real issue of creating workplaces that enable people to develop capabilities not only for the instrumental reason of improving performance for the benefit of owners, but also to improve their chance of leading more meaningful lives outside of work.

Digging a little deeper

For reasons of both enhancing productivity and improving the quality of our working lives it is worth exploring why our workplaces don't function as well as they might. There is plenty of evidence about what we can or should do to improve workplace productivity. We have the technology to make significant improvement

but somehow we mostly fail to adopt “good practice.”
Why *is* our management performance so poor?

There is a whole body of international literature over the last two decades, much of it normative, about the emergence of high performance work systems (HPWS), which are required to meet the global competitive challenges of flexibility, responsiveness and innovation. The literature and research argue that most developed economies are in transition from a dominant Fordist model of production (characterised by economies of scale, product standardisation, separation of thinking and doing and therefore highly supervised) to a new model (HPWS). The new model requires:

productive flexibility and process standardisation at the level of the management of production; the application of knowledge, and less direct supervision in the sphere of work organisation; and flexibility and organisational commitment at the level of employment relations.³

³ Gregor Murray et al, *Work & Employment Relations in the High Performance Workplace*, Continuum, New York, 2002, p. 55.

Of course, these principles are difficult to achieve and are often in contradiction (e.g. greater flexibility at the cost of efficiency, and less job security making commitment to the workplace difficult to achieve), yet they still lie at the heart of most efforts to transcend Fordism. Furthermore, human desires for power and control and fear of change, often override “rational” efforts to improve performance. So moving to these new forms of work needed to be globally competitive is no easy matter, which helps to explain slow rates of diffusion of new practices, uneven or partial take-up (rather than transformation), suggesting experimental and uncoordinated workplace change.

Obstacles to new ways of working

Perhaps the biggest obstacle to diffusing better ways of working in New Zealand workplaces is our version of the still dominant Fordist management paradigm. Hierarchy, which reinforces status and “them and us” power relations, along with an unconscious conformity to a quantitative and mechanistic view of organisations, that sees them as a series of component parts that can be separately driven to perform, still predominate when it comes to the crunch. Reinforcing these embedded

tendencies is a commonly observed preference of New Zealand managers, borne out by the MED study referred to above, for dealing with technical, marketing and financial issues rather than the “fuzzy and soft” work of building teams, developing good workplace relationships and attending to the detail of designing processes that meet customers’ needs.

In contrast, a new management paradigm is beginning to emerge in the very best workplaces. It derives from two sources: the first is the Toyota Production System which is widely regarded as the most successful of any in the world; the other source is thinking from quantum physics, evolutionary biology, cosmology and systems theory that are being increasingly applied to organisations.

Both sources converge around the idea of organisations as natural living systems that replicate the features found in every living organism. Thomas H Johnson in his book *Profit Beyond Measure* provides a good introduction to this paradigm.⁴

⁴ Thomas H Johnson, *Profit Beyond Measure*, Nicholas Brealey Publishing, London, 2008,

In brief, the three primary principles that scientists consider sufficient to account for all phenomena in the universe are *self-organisation*, *interdependence*, and *diversity*. Self-organisation means the power of everything to sustain its own unique identity. Preventing any single entity in nature from using its self-organising power to grow without limit is the principle of interdependence – that everything relates to everything else. Instead of only one atom there are many. Interaction between unique entities transforms a propensity for extensive growth into a capacity to generate new things in a recursive process that generates endless newness, or, the third principle, diversity.

Nature self organises unique output in a cyclical process that continuously reabsorbs its own output as feedback.⁵

Newness can mean constant change – the central discovery science has made about the nature of the universe.

⁵ Johnson, *op. cit.*, p.36.

Johnson argues persuasively that businesses, like Toyota, that (seemingly quite by coincidence) emulate the principles of natural systems can achieve “rich ends from simple means”. They have discovered that pattern and order can emerge from within by minimizing management intervention. So the natural way to manage is not to impose plans and controls in an effort to shape results but to discover and nurture appropriate relationships. The standards encoded in every step of the work (like DNA) and the constant feedback among workers reflects the principle of self-organisation. The continuous flow that links every part of the system to the web of inter-connected relationships reflects the principle of interdependence. Finally, the ability of each worker to change the steps that he or she undertakes as part of their normal work reflects the principle of diversity.

In this system, all work responds directly to a particular customer’s specific needs and all work consumes only those the resources required to meet those particular needs, and no more. Moreover, every worker in the system can vary steps and transform material/information differently in

response to each customer's unique order.⁶

Interestingly, Johnson goes well beyond the workplace to consider the application of these principles more broadly. When managers (and politicians?) use mechanistic principles of measurement and control to run living business organisations they generate myriad dysfunctions: shortened life spans for the average company, demoralised workers, turbulent communities and a decaying eco-system – as seemingly limitless growth is pursued. Johnson, Peter Senge, and Margaret Wheatley among many others, argue that the answer lies in business (and political) leaders instilling throughout their organisations the principles that guide the operation of living systems. To do so requires disciplined practices, sustained attention to how work is done, nurturing every step of the work at every moment: in other words a shift from “managing by results to managing by means” (Johnson's primary thesis).

This kind of thinking requires more than just some changes in management training. It suggests the need to build a new knowledge base for management if we are to truly break with the dominant mechanistic world view

⁶ Johnson, *op. cit.*, p.38.

that delivers such dysfunction and poor workplace productivity outcomes.

Fortunately, there are a number of real live examples of this kind of organisation emerging in New Zealand and around the world.

What to do?

What this might mean for government policy on workplace productivity is a big question indeed, and certainly a long term project. A couple of starting points to stimulate a wider discussion are set out below.

Johnson argues that the logic of managing by means and organising work in line with natural principles can be extrapolated beyond the firm to the human economic system.

Relentless growth is having an adverse impact on the global eco-system.

“Causing those conditions is the thought that humans, through technology, can endlessly lift natural constraints on human growth and

accumulation. That thought has shaped how companies organise work to achieve quantitative targets aimed at growth and accumulation. Management by means now proposes a way to organise work that is slower, quieter, and more likely to ensure human survival in Earth's ecosystem, while being sufficiently profitable to ensure the long term survival of companies.” (p.7 Johnson et al)

The scale of ecological calamity facing China⁷ just may be the trigger to force such a radical re-think but in the meantime, in more comfortable environments such as ours, it is hard to see such a shift taking place. However, there is certainly no harm in beginning to chart such a direction for New Zealand – one that would see us consciously supporting a move towards management by means that would have both productivity benefits and “good work” outcomes for our citizens.

⁷ China's energy consumption per unit of GDP is six times that of the US and pollution discharge is 12 times the world average. 90% of rivers running through cities suffer from severe pollution, and two-thirds of Chinese are faced with poor air quality. (see Pan Yue, “Growth vs. Ecological Calamity in China”, *New Perspectives Quarterly*, vol 23 , issue 23, 2006.

One thing is clear; there is growing evidence of significant performance and cultural shifts occurring in New Zealand companies that have taken a serious approach to implementing “lean thinking” (a Western synthesis of the Toyota Production System). In the search for improved performance in tough economic times a growing number of New Zealand companies are finding that when they pay close attention to work processes including empowering staff to contribute their process knowledge, new and improved workplace relationships tend to follow as do increased capacity and improved company performance (without any job cuts!). A further interesting consequence is that once these companies get their core processes under control they suddenly find they have freed up time that can be devoted to business improvements – new products, new markets, and new business models – that help them to move up the value chain.

Facilitating the more rapid diffusion of “lean done well”, together with a long term and fundamental reassessment of management education to move it towards natural systems thinking rather than mechanistic/authoritarian models of organisation, would certainly contribute to creating an environment that supported a shift towards

management by means. This can be complemented by building a decent research and evaluation capacity to enable the “co-evolutionary adaption of learning by doing” within workplaces undergoing change to be shared more broadly.

Also to be considered in the mix is a realignment of the institutional support framework for making such a shift. In the current environment, new work practices are often introduced in the context of cost-cutting and down-sizing and can lead to loss of job security and work intensification. New Zealand and international experience of union/management partnership where the twin objectives of “good business and good work” are simultaneously on the table can help to mitigate these negative experiences of new approaches to work.

New Zealand managements’ on-going obsession with unitarist approaches to human resource management where unions are side-lined in favour of “direct employee engagement” to win staff commitment but without any real security, are unhelpful and unsustainable. Nor do they alter the underlying management paradigm one jot.

Institutional support for partnership approaches, with consequent legislative support to enable unions to truly reflect collective employee “voice”, along with labour market adjustment mechanisms to ease job security fears, would contribute significantly to creating an environment that would speed the diffusion of high performance and sustainable work systems.

What happens in the workplace matters hugely in terms of New Zealand’s productivity performance and the quality of working life of its citizens. We need to pay close attention to this as a fundamental driver of our economic and social performance and well-being.

About the Author

Owen Harvey is a Director and consultant for Innovation & Systems Ltd. He has extensive experience in organisational development, change management, workplace productivity and labour market issues. Owen has consulted with many public and private sector organisations on a variety of strategic, structural, productivity-related and workplace relationship issues. He is an Associate of the Department of Labour's Partnership Resource Centre.

About Policy Progress

Policy Progress is a policy 'think-site' devoted to developing and supporting progressive initiatives and ideas in Aotearoa–New Zealand.