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Pushing for productivity

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TODAY, AS Malaysia makes efforts to rev up its economic engine, a new buzzword is making the rounds. Productivity. The P-word is being touted as the panacea for Malaysia's economic problems.

But many questions surround productivity. Firstly, what is productivity? Can it be measured and quantified? Can this mysterious X-factor really be increased? Does the average Mat really understand the concept, or is it just a word to which he's paying lip service? Most importantly, how does one persuade Malaysians to drink the bitter medicine of productivity?

The Collins English Dictionary defines (economic) productivity as the capability of producing goods and services that have monetary or exchange value. Or in simplified terms, how much output you get from your inputs.

To produce goods and services, an organisation uses assets, which traditionally have been viewed in terms of `hard' equipment like machinery. Says Ismail Adam, director general of the National Productivity Corporation, `There are four different aspects that affect productivity.' One, human resources which encompasses training, skills, etc. Two, management systems which covers factors like working conditions. Three, technology such as information technology (IT). And fourth, capital such as new machinery and equipment.

Oddly, little mention is made of people, or the human capital aspect, in the balance sheet of businesses. Rather, people are measured as payroll and training costs and expensed in the profit and loss statement, which seems to imply that people are disposable and good only for the short-term.

A skewed viewpoint, perhaps. Says consultant Wan Ainun Radzi of Organisational Renewal Inc (ORi), `If you have two organisations with the same assets, and one performs better than the other, the reason is clear. It's usually people. Adds Ismail, `The fastest way to improve productivity is through improving human resources and quality management systems. Improving capital and technology takes more time.'

Ignoring human intellectual capital, the `soft' asset, has been perilous, in hindsight, for some of the Asian tigers. Certain economists believe that the Asian growth miracle was due mainly to investments in `hard' assets, and not to increases in productivity by people. In his controversial thesis `The Myth of the Asian Miracle', Stanford economist Paul Krugman argued that Asian growth came about because of the shift from agriculture to industry. The result? Growing industrial assets combined with cheap farm labour pushed economic and company growth to dazzling heights even though commensurate growth in human productivity was lacking.

Closer to home, Tan Sri Ramon Navaratnam wrote in June 1997 that, `Our rapid growth has been largely due to the heavy doses of capital investment which gave 50 per cent of our economic growth.' According to the 1996 Productivity Report released by the National Productivity Corporation, Malaysia's productivity grew at a slower rate of 5.7 per cent in 1996 compared with 6.6 per cent in 1995. (Refer Graph 1.) This lower productivity growth was due to the slowdown in the construction and electricity sectors and in the global demand for semiconductors and electronics. In a nutshell, `Productivity was down not because people were unproductive but because there was less activity,' says Ismail.

However, from 1993 to 1995, while Malaysia's productivity growth exceeded that of Hong Kong,Taiwan and South Korea, we lagged behind the

tiger economies in terms of relative productivity levels (refer Graph 2). As an illustration, in 1995, while a Malaysian worker was able to generate US$ 1 of GDP (gross domestic product), a worker in Singapore contributed US $2.79, in Hong Kong US$ 2.61, in Taiwan US$ 1.74 while a South Korean produced US$ 1.27.

`But in terms of growth, we are doing okay,' states Ismail. `We've been growing (productivity) at a rate of five per cent annually for the last five years. I think if we can sustain a rate of between five and six per cent we should be all right.' Of course, Ismail warns that productivity figures for last year will probably be skewed by the problem-laden last months of 1997. Right now, 1997 numbers have not been crunched yet so he can't provide Malaysian Business with fresh productivity data.

Prime Minister Datuk Seri Dr Mahathir Mohamad said in November last year that targeting higher productivity to offset inflation has become even more pressing in view of the current economic problems. The prime minister said that only rising productivity, either through more efficient work or higher productivity on equipment investment, could overcome inflation.

So how do we enhance productivity? Two ways. One, there's a need to trim the fat. Two, we need to work harder and more efficiently.

Says Florence lles, managing director of compensation consultants Watson Wyatt Sdn Bhd, `Experience tells me that vast improvements have been made in productivity but there is still room for improvement.'

How much room? Plenty, judging by the cost-cutting exercises which local companies are putting in place. One of the more popular areas of attack is payroll costs. In the present difficult economic environment, some companies have announced a freeze on increments. Sources say some construction and property development companies, the sectors worst hit by the downturn, are also cutting basic pay.

Although pay cuts, pay freezes and job cuts are an anathema to the man-in-the-street, they're a logical step for companies intent on shearing costs. Why? Because wage increases have outstripped productivity for the past four years in Malaysia. For instance, says Iles, just look at the gap between pay increases and inflation between 1993 and 1997.

During this period, inflation rose between three per cent and four per cent while pay increases were double-digit, averaging 10-10.5 per cent. On average, real wages increased between five per cent and 5.5 per cent annually for the past four years. `Which is great for people but at the same time there's a dichotomy. While people have a better standard of living, it's coming not because people have progressed but because companies are doing well,' says Iles. In other words, when companies produce great bottomlines, their people are magnanimously rewarded for their performance (or lack of).

Without doubt, the tight labour market was another catalyst behind fat pay increases and bountiful bonuses. For instance, one company paid out six months variable bonus (plus two months contractual bonus) for 1996 on a piecemeal basis over the first eight months of 1997. The rationale for such generosity is obvious to keep staff from straying to the presumably greener pastures of the opposition. It's hard to walk when you're getting double salary for eight months. Says Iles, `In some manufacturing organisations, their staff turned over almost completely in eighteen months. One company had a 120 per cent turnover rate.' Ergo - the shortage of labour leads to high wages without an improvement in performance. In other words, people produce the same amount of work but cost more.

In a way, the current economic problem is a blessing in disguise. Why? Companies are now forced to trim wastage and fat in order to emerge leaner and more competitive.

But Wan Ainun cautions, `What kind of changes are companies making? Are

they activity-based or value-added? And when companies cut jobs, are they rightsizing or downsizing?' Cut too close to the bone, and the organisation falls behind its rivals due to insufficient assets.

Which begs the question - just how do analysts and human resource consultants know the current state of productivity in an organisation? Payroll costs are the common indices, says Iles. Normally, productivity is measured by comparing payroll costs with various profit and loss elements like sales and revenues, thereby providing various payroll ratios. (Refer Table 1.)

On their own, these naked numbers won't tell you anything about the company's productive health. But historical trend analysis can provide a diagnosis. For example, how much have sales increased this year compared with last year if remuneration has gone up by X amount. Of course, it's also necessary to filter out other source elements which may have had an impact on total productivity, such as new investments in IT and cutting-edge machinery.

Benchmarking is another tool used by the consulting corps to gauge productivity. In this method, companies' productivity ratios are compared with those of their peers in the same industry. Ideally, productivity should be measured on an industry-wide basis because factors like capital intensiveness versus labour intensiveness can distort figures.

Says Wan Ainun, `In a capital-intensive industry like oil and gas, revenue per person is RM1 million. For every head count we show how much sales revenue is generated.' It's different in a service industry like financial services, where revenue per person is RM2,441. Similarly, the ratio of manpower to operating costs varies from industry to industry. For banking, 44.78 per cent of operating expenditure (including depreciation) consists of human resource costs whereas in oil and gas, total manpower cost accounts for only 11.83 per cent of operating expenditure.

But what's the point of crunching all these numbers? Explains Ainun, the trendline will show a company where its people-handling methods are flawed. Improve the `soft' side or the ability to maximise people productivity, and voila, the data improves.

This, of course, is easier said than done. One way, says Iles, is to ensure that employees understand precisely their role in the company. `Today's organisations are service-oriented. They must improve service. Essentially, people's jobs are to add value to the organisation by improving service.'

Not many Malaysians understand this, obviously. After all, countless Malaysians have had rude encounters with frontline sales staff.

Ideally, says lles, `Organisations should provide a work contract, instead of just a job contract.' For instance, the latter tells the employee that he's supposed to work Monday till Friday, 9.00 am to 5.00 pm for X amount of compensation. There might also be information on medical benefits, number of days leave per year and other fine details. On the other hand, a work contract defines the employee's role and tasks.

In addition to better and clearer job definition, tying pay to performance is the key to raising productivity. Employees must understand, says Iles, that if they don't perform, they don't deserve increments and bonuses. In an Utopian workplace, underperformers won't get rewarded while those who just meet their quota would get increments that matched inflation. Only prime performers would get fantastic increments and bonuses.

But how would an employee be appraised? How can an employer cull high achievers from the run-of-the-mill workers and the deadwood? Via performance appraisals, says Iles.

However, these aren't a perfect tool. Appraisals can rouse that sleeping

bogeyman in all workplaces - favouritism, nepotism and cronyism. We've all seen cases where the best at ingratiating behaviour wins big because he or she butters up the boss.

In such cases, says Iles, use 360 degree appraisals where the appraisal of one employee is then checked by his appraiser's boss and colleagues provide input on their peers' and superiors' appraisals. But she admits that appraisals are difficult to carry out in the Asian culture. `They're very difficult for Asians to do. They only work in selected organisations where the culture is right.' One reason - a lack of transparency.

`Organisations have to be a lot more open and transparent. This openness must be demonstrated by the people right at the top who must be prepared to have dialogue. But I don't think we're there yet,' says lles wryly.

Communication between boss and subordinate is also hindered by the hierarchical nature of Malaysian organisations. In other words, Malaysians have the biggest chasm between boss and employee. Result: Ideas originating at grassroots levels often aren't transmitted upwards to the powers-that-be, resulting in frustrated employees and possibly, a lumbering dinosaur of an organisation.

The solution to this crisis of candour - employee empowerment.

Management needs to loosen the reins of power and allow employees to demonstrate some sense of initiative. According to Wan Ainun, `Decision-making in Malaysia is always concentrated at the top management level. As a result the employees feel a lack of involvement in the decision-making process. `When an employee doesn't feel involved, there's very little urgency to be productive.

And it is urgency which is at the root of productivity, more so than a desire for money and promotions. In the end, material rewards are extrinsic. Once a person doesn't desire cash and kind, it is intrinsic desires which count. Ainun defines this innate need to perform as a `passion, a hunger to do one's best, the best that one can'.

Oddly enough, this is the best time for Malaysians to rediscover and spark their passion for productivity. We've been successful for so long that we've become complacent, used to the good life. We've lost some of the drive to be competitive, the best, the most productive. These are trying times and we will certainly not risk sounding soppy or unabashedly patriotic if we extend the rallying call of `Malaysia Boleh!' to include the exhortation borrowed from super shoe maker Nike to:`Just do it.'

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