

Productivity needs to be demystified

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The measure is confused with the concept

Productivity is classically measured as a ratio between input and output.

$$\text{Productivity} = \frac{\text{output}}{\text{input}}$$

Productivity is about how much or how many resources have been consumed in the production of goods and services. This is just a measure and should not be confused with the concept itself, which is much broader and deeper: 'However, productivity is very deep and broad at the same time, and has universal application. It is influenced by everything that we do at the national, organisational and individual level – be it behaviour, methods, technology, values, management systems and styles, products, training, and skills.'

Too much emphasis on the input side of the equation

People have, historically and worldwide, placed emphasis on the input dimension of the productivity equation. They have, in fact, placed more emphasis on the labour part of the input dimension.

Their objective was to achieve productivity improvement through reducing input – specifically through reducing labour costs. For them, productivity meant producing more and more using less and less. This stems from the paradigm of looking only at the consumption of input per unit of output – the less input used per unit of output, the higher the productivity.

The outside world has moved on, but

unfortunately South Africa seems to be fixated in that era. This is a real pity because this emphasis on inputs, particularly on labour, is the last thing we need in South Africa's high unemployment environment. It might have worked worldwide in the very long past when trade among nations depended on production costs and low cost production was an absolute advantage.

Reality of the borderless village (ie globalisation) has challenged the theory of low cost being an absolute advantage simply because it is unsustainable. This thinking was replaced by the theory of competitive advantage. Countries have competitive advantage in companies and industries that make intensive use of factors they possess in abundance and/or exclusivity.

Systemic holistic approach

The input side of the productivity equation is outdated. It is also applied incorrectly by managers who misunderstand the fact that labour productivity does not depend on labour alone.

Labour productivity also depends on technology, work methods, management systems, and working conditions, among other factors. It must also be noted that most of these factors are management driven. In fact a number of studies worldwide have confirmed that low labour productivity can be attributed to management rather than labour because productivity is an accumulation of all factors and how well these factors are managed.

In fact, labour is so intertwined with other resources that one cannot have labour productivity as a stand-alone measure. Labour and capital productivity measures should be challenged because they are misleading and divisive. For example, the NPI has been disseminating historical statistics comparing labour productivity to capital productivity since the early 1980s.

The graphs showed that although both labour and capital productivity were low, labour productivity has been increasing while capital productivity has been declining. This is misleading because the main reason for the increase in labour productivity was a decline in total labour. Capital cannot be retrenched, hence, the decline in capital productivity.

We need to do away with the factor productivity measures and instead we must stick strictly to multi-factor measures that take all the measures that affect productivity into account.

The distinction between 'production' and 'productivity'

The distinction between 'production' and 'productivity' also needs to be critically examined. 'Production' indicates the volume or quantity of goods/services produced or delivered. It is the output dimension of the productivity equation. It can be expressed in numbers, volume, money and other terms.

'Productivity' always compares production output to the consumption of input (labour, materials, space or money). It is therefore possible to achieve higher production by improving productivity or by increasing the quantity of inputs involved.

Productivity renaissance

The output dimension of the productivity equation has become increasingly important.

Improving performance and productivity and gaining competitive advantage involves more than reducing costs. It involves introducing better products and delivering them to satisfied customers. Goods and services must be designed and manufactured in a manner to satisfy customer requirements in terms of quality, cost, delivery etc. They should also be designed and manufactured to enhance quality of life. This implies that outputs should not have a negative impact on the society.

There is an urgent need for a rebirth of the productivity paradigm. There is an urgent need for a 'productivity renaissance'. There needs to be an urgent shift from emphasising the input dimension of the productivity equation to emphasising the output dimension of the productivity equation.

Productivity should be seen as an integrating concept that should always be contextualised in its socio-economic conditions. People should emphasise the output side of the productivity equation – productivity should be perceived as the value adding content in goods and services and the achieving of customer needs. It is this understanding of productivity that must be given priority in the present highly competitive environment. However, we need to also broaden the input side of the equation.

Intangible resources such as attitudes, motivation, information, knowledge and time have emerged as being perhaps more important than tangible resources. Finally, as a result of their creative and thinking abilities to develop and implement changes, people remain a fundamental source of productivity rather than a mere resource. We need to synthesise productivity with sustainable development.

All the above should be done in a manner that will enhance the quality of life and promote a healthy lifestyle.