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REINVENTION: WHAT IS THE APPROACH? CREATING CAREER CHANGE

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POST BREXIT**

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Why is productivity such a puzzle for policymakers?

British firms appear to have a severe blind spot about creating value for customers.



Chris Humphrey and Malcolm Ross argue why creating real value for customers can improve productivity and add as much as £130 billion to the economy.

Brexit, Donald Trump's election, the rising price of PG Tips...many things have been described as calamitous and dismal recently, including Britain's productivity performance, which has been the worst in 150 years. Andy Haldane, the Bank of England's chief economist said that, "rectifying this disaster is the UK's most important policy challenge, far more so than Brexit". Productivity dominates the government's recent Green Paper on industrial strategy, which single-mindedly aims "to improve living standards and economic growth by increasing productivity and driving growth across the whole country".

Britain has become a high-employment, low productivity economy. Chancellor of the Exchequer Philip Hammond said "it is shocking" that "in the real world it takes a German worker four days to produce what we make in five". Productivity improvements could add as much as £130 billion or 7.5% a year to the economy, dwarfing the £52 billion annual shortfall in the public finances. Two-thirds of British workers are in the 'long tail' of underperforming businesses with productivity below the industry average, and The Secretary of State for Business Innovation and Skills said

that if Britain matched America, GDP would increase by a staggering 31%.

The cause of Britain's "productivity puzzle" is clear, except to many policymakers and influencers. There is much talk about better infrastructure, including the Northern Powerhouse, investing in technology, and improving skills, human capital, and leadership. The skills shortage is a consistent theme; the UK ranks 16th out of 20 in the 'Organisation for Economic Co-operation and Development' (OECD) countries for the proportion of people with technical skills, and nearly three-quarters of organisations report a deficit of management and leadership.

Pinpointing mediocre management Hamid Mughal, director of global manufacturing at Rolls Royce said, "UK managers need to be more ambitious for their companies. Too few are interested in becoming best in their field."

The answer to the productivity puzzle was provided in 1974 by Peter Drucker,

management guru, who said that the only valid goal for a business is to "create and keep a customer" so it is astounding how rarely, 40 years on, policymakers talk about customers. Andy Haldane's recent speech focuses entirely on how efficiently labour and capital inputs are used, but at no point mentions customers. Efficiency is important, but the government's industrial strategy is particularly revealing because it refers to productivity 88 times in 132 pages, but never analyses the effectiveness of firms at creating value for their customers.

Britain has world leading sectors, including aerospace, automotive, the life sciences, the creative industries, digital, financial services and professional and business services, but world beating firms on average are much less likely to develop in the UK. According to the OECD, the UK ranks third for start-ups, but 13th for the number of businesses that successfully scale-up, so British managers appear to be much less effective than their

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term, knee-jerk reaction to the slightest business downturn. Improvements should target a customer value driver directly, or indirectly by removing hassle from the employee experience. Process improvements that, for example, make it quicker for staff to collect costumes at Disney or clock-on at a national sports stadium, leaves them less frustrated at the start of the working day, so much more likely to be courteous to both colleagues and customers.

Polymakers and commentators in the UK unwittingly appear to have a severe blind spot when it comes to productivity. Profits are the sum of revenues minus costs, where revenue is the numerator and costs the denominator, but whenever they talk about productivity it's all about the denominator; they are obsessed with cutting costs. Costs are important and need to be managed, but the growth of the numerator is even more important, and is achieved by creating sustainable customer value.

A silver lining is that productivity levels are so low relative to Britain's international competitors that the potential for improvement is huge, and the government at last is building a strategy that should make a difference. However, it is worrying that, according to Kate Barker of the Industrial Strategy Commission, "years of simply exhorting businesses to buck-up has made no difference", but that current thinking does not do enough to improve individual firms. Government can and must set the scene, but individual firms must take much more responsibility for designing a delivery system that focuses resolutely on creating value for customers. Firms that blame the government, or concentrate only on denominator productivity, are not just missing a huge opportunity, but are also risking the insidious failure that Brexit will lay bare.

Creating customer value focuses the benefits of improved productivity much more directly into commercial and competitive advantage, and is self-reinforcing. Employees are in a connected loop, working more productively in a cohesive team, taking satisfaction from an organisation that is successful, because it creates real value for its customers. 

international peers at nurturing businesses that customers truly value.

The Walt Disney Company stands out because it has a highly intentional framework for operationalising customer value across a complex organisation. We spent more than 30 years at Disney, and now other organisations can learn how to achieve consistent and sustained growth by using proven principles for building customer value into the entire business ecosystem. This includes a rigorous methodology for understanding customer expectations at a functional, social and emotional level.

Technology is multiplying the interactions that define the brand experience, making customers ever more demanding and requiring companies to become increasingly complex. In a fragmented multi-channel world commercial success never comes from cross-functional improvisation, so businesses must be crystal clear what their customer's value, and crucially avoid any tendency for inefficient and demoralising micromanagement. A framework acts like a magnetic field, pointing everyone consistently in the same direction and human resources is then deployed strategically to sustain it throughout the entire business.

The framework includes observable, coachable and, importantly, prioritised standards and behaviours that help boost productivity by connecting all employees to what customers really value, and creating the operational precision that many organisations lack. Disney for example has four standards – safety, courtesy, show and efficiency – that are internalised by each and every employee irrespective of job title or seniority, and prioritised into a non-negotiable hierarchy. They act as a tiebreaker when decisions conflict, so at Disney, safety trumps courtesy, and both are prioritised over efficiency.

All productivity decisions must be taken through the filter of the customer value framework, avoid negatively impacting the employee experience, and be properly integrated and resourced through the annual planning process of individual business units. Intentionally planning to improve productivity by say 3% every year helps instill a habit of continuous improvement by encouraging everyone to look out constantly for both marginal gains and game changers. It also alleviates the morale-sapping fondness of cost preoccupied management for turning to productivity only for a short-