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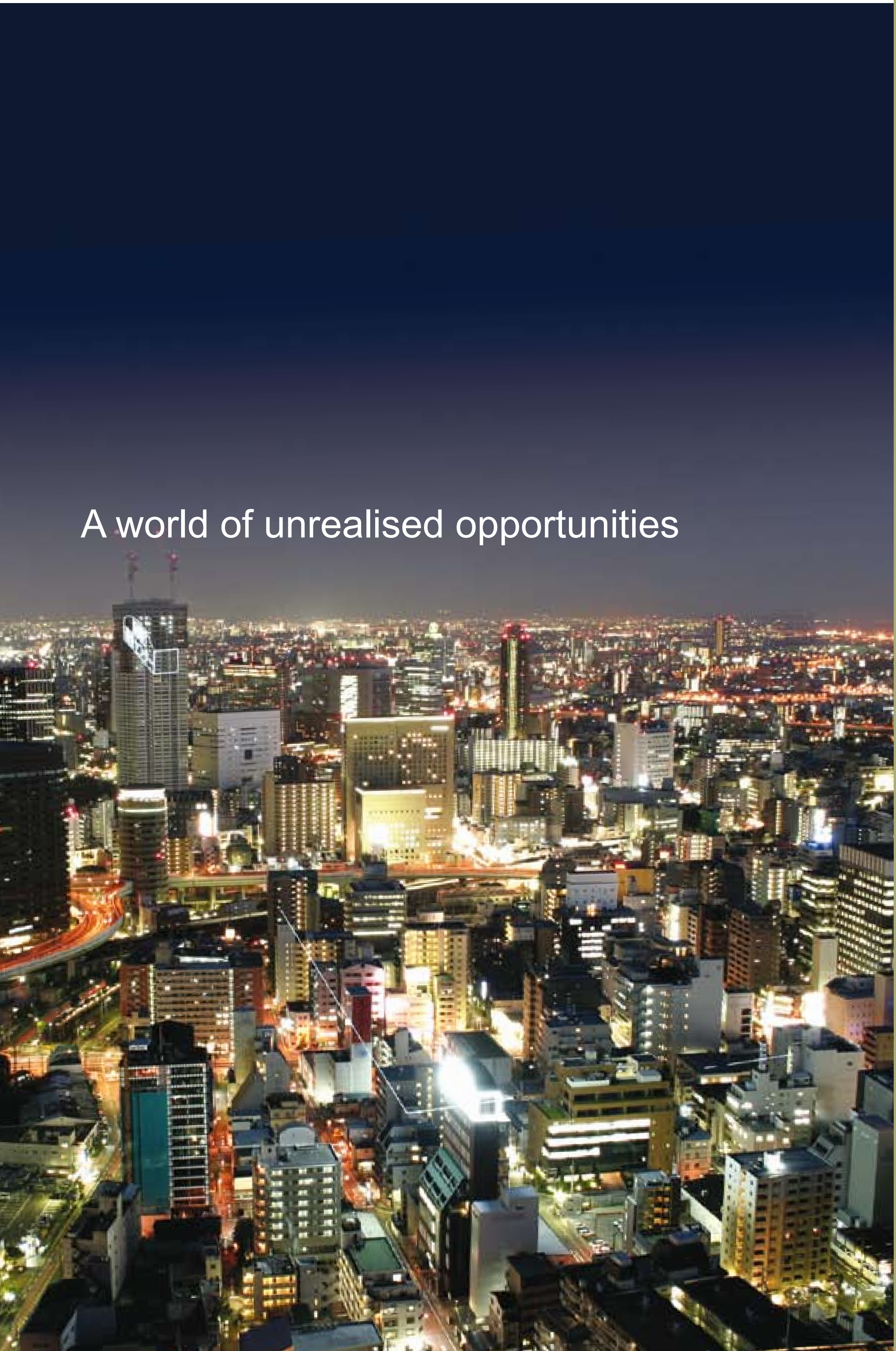

Global Productivity Report

2008

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About Proudfoot Consulting Proudfoot Consulting is the world's leading operations management consulting firm. For more than 60 years, Proudfoot Consulting has specialised in implementing change to achieve measureable and sustainable performance improvement in client companies. Its teams work with client company management, and with people of all levels of the organisation, to design and install programs and improve bottom-line financial results. Proudfoot Consulting is a part of Management Consulting Group plc, one of the world's top 25 consulting firms, and is headquartered in Atlanta, Georgia.

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About this report

The eighth annual study of global productivity produced by Proudfoot

The purpose of this report is to gain a better understanding of the opportunities and challenges companies around the world face when trying to improve their productivity.

The study examines current company productivity, the potential for productivity gains, the barriers companies must overcome in order to improve their productivity, and the initiatives companies are planning to drive productivity gains over the next 12 months. The findings contained in this report provide a wealth of insight for anyone concerned with productivity and performance at the company level.

The Proudfoot Global Productivity Report is unique because of its scope, scale, and sources of information. This year's report draws on three different sources of information:

- a survey of 1,276 mid-level managers in 12 countries around the world. The managers surveyed have insight into the day-to-day performance and productivity issues facing their companies. Those surveyed work for companies with annual revenues in excess of US$100m;
- analysis of proprietary data collected during Proudfoot client engagements in 2007. These engagements span a multitude of markets and sectors, and include information on the issues and opportunities facing workers and their supervisors; and
- interviews with senior executives from countries around the world. The focus of these interviews, conducted after analysis of the survey data, was to gain insight into how senior management views the issues, challenges, and opportunities identified by the survey.

The countries included in this year's study are:

Australia	Brazil
Canada	China
France	Germany
India	Russia
South Africa	Spain
United Kingdom	United States

This year's report also provides an analysis of the key productivity issues and opportunities faced by companies in eights sectors of the global economy. Those sectors are:

Automotive	Communications
Energy	Financial Services
Food & Beverage	Manufacturing
Mining	Retail

Proudfoot has published annual productivity reports since 2001. This year's report contains the most comprehensive and statistically robust findings yet. Comparisons are drawn between what is happening in companies today and what managers think could, or should, happen. Comparisons are drawn between countries and between sectors, and the report identifies those markets which are performing the best, and the worst, along key dimensions of productivity and productivity-related issues.

The survey of mid-level managers was conducted on behalf of Proudfoot by Kadence, a research firm based in London. Kadence also conducted the interviews with senior executives. The analysis of Proudfoot engagement data was conducted by Nicholas Crafts, a professor of economic history at The University of Warwick, assisted by Abay Mulatu.

The conclusions in this report are solely the responsibility of Proudfoot.

Foreword

Luiz Carvalho, Proudfoot Consulting CEO

"May you live in interesting times."

The precise origin of this familiar quote is unclear. It is purported to be an ancient curse by some, a proverb by others. Curse and proverb: two opposite sentiments. One suggests impending trouble, the other an opportunity to learn and grow.

The current financial turmoil can be viewed in much the same way. Many, including a host of high-profile, high-decibel television commentators, see the current global economic condition as the precursor to an extended worldwide downturn. Others will see the current state of the world's economies as an opportunity to correct past mistakes and lay the foundation for future economic health.

Impending doom or opportunity to grow. It all depends upon your perspective.

This report contains the perspectives of 1,276 managers scattered across twelve countries and eight sectors. They told us their companies have the potential to improve their productivity by almost 14% over the next two years. They also told us their companies – your company – will leave 30% of those potential gains untapped.

30% untapped potential. A curse or an opportunity?

We see it as an opportunity. An opportunity for companies to attack the barriers that limit productivity gains. An opportunity for companies to strip out policies and procedures which are misaligned or unnecessary. An opportunity for companies to tear down the silos which make communication and cooperation between departments difficult. An opportunity to overhaul ineffective functions, replacing them with programs and processes which give workers and managers the skills they need to be more productive, driving improved corporate ROI.

This is our eighth annual study of global productivity. It is by far the most comprehensive study we have ever undertaken, and presents data about productivity issues, barriers, and, yes, opportunities. The data paint a broad yet detailed picture of the opportunities companies have to improve their productivity.

I would like to take a moment to focus on just two of our findings. Managers spend 34% of their time on administrative tasks. Think about that. That's 1.8 days of every workweek spent on administration. Is that the best use of your managers' time? It could be, but I suspect that the answer is really that it isn't. Why are managers spending so much time on administration? Part of the answer is because they are buried under unnecessary paperwork. We asked managers how many management reports they receive each month. The answer is 10. Then we asked those same managers how many reports they need to do their job. The answer was 6.6. 34% of the reports managers receive each month are, in their view, unnecessary.

Definitely a curse. Certainly an opportunity.

This is not a time for the timid. It is a time for a balanced, rational assessment of the landscape inside your company and in the marketplace. The companies which will thrive in the coming years are the ones who will not retreat in the face of these challenges, but will instead push forward, continuously seeking to become more productive and more competitive.

Seize the opportunity.

Productivity overview

The story for countries

Unproductive time

- Unproductive workforce time rose 2.2 points in 2007, to total 34.3% of all time. This means that workers are spending 1.7 days of every workweek on unproductive activities.
- Only two countries covered in this report posted reductions in unproductive workforce time – Australia and the U.K.
- Of the countries covered in this report, Australian workers were found to have the lowest level of unproductive time (22.9%) and South African workers were found to have the greatest amount of unproductive time (41.8%).
- Unproductive supervisor time rose 1.4 points in 2007, to total 18.5% of all time – the equivalent of just under one full day per workweek.

Productivity gains are being left on the table

- When questioned, managers around the world said their companies have the potential to increase their productivity by 13.8% over the next year, but will only achieve 9.7% gains.
- Companies worldwide are leaving 29.7% of all potential productivity gains on the table.
- The countries expecting to leave the most productivity gains on the table are Australia (leaving 45.8% of potential gains untapped), the U.S. (45.3%) and Germany (43.0%).
- The countries expecting to capture the greatest share of their potential productivity gains are China (achieving 88.2% of potential gains), Russia (87.8%) and India (85.9%).

Critical barriers to improved productivity

- 1,276 managers around the world were asked to identify the most critical barriers which are preventing their companies from improving their productivity.
- The top six global barriers identified are:
  - number one barrier: staff shortages and an insufficient labour pool (cited by 27.4% of managers worldwide);
  - number two barrier: internal communication problems (cited by 25.1% of managers worldwide);
  - number three barrier: legislation and regulation (cited by 21.9% of managers worldwide);
  - number four barrier: low employee motivation and morale (cited by 21.2% of managers worldwide);
  - number five barrier: high staff turnover rates (cited by 19.9% of managers worldwide); and
  - number six barrier: quality of supervisors (cited by 19.6% of managers worldwide).

- The critical barriers to improved productivity in each country are as follows:

	Critical barrier(s) cited the most by managers		Critical barrier(s) cited second most by managers		Critical barrier(s) cited third most by managers	
Australia	Staff shortages and an insufficient labour pool	48%	High staff turnover rates	29%	Internal communication problems	20%
					Legislation and regulation	20%
					The quality of supervisors	20%
Brazil	Internal communication problems	47%	Low employee motivation and morale	24%	Problems with IT and communications technology	23%
					Lack of desire of senior management to implement change programs	23%
Canada	Staff shortages and an insufficient labour pool	35%	Legislation and regulation	24%	Problems with IT and communications technology	21%
China	Lack of training for general workforce	21%	Low employee motivation and morale	16%	Internal communication problems	15%
					Inability of general workforce to adopt change programs	15%
					Lack of management training	15%
France	Staff shortages and an insufficient labour pool	32%	Legislation and regulation	27%	Internal communication problems	25%
Germany	Internal communication problems	27%	Legislation and regulation	24%	Lack of desire of general workforce to adopt change programs	22%
India	Low employee motivation/morale	33%	Problems with IT and communications technology	31%	Inability of general workforce to adopt change programs	29%
Russia	Outdated equipment	35%	Staff shortages and an insufficient labour pool	34%	Lack of management training	32%
			High staff turnover rates	34%		
South Africa	Staff shortages and an insufficient labour pool	37%	Legislation and regulation	33%	The quality of supervisors	31%
Spain	Internal communication problems	39%	Lack of desire of general workforce to adopt change programs	32%	Staff shortages and an insufficient labour pool	31%
U.K.	The quality of supervisors	28%	Internal communication problems	26%	Legislation and regulation	21%
U.S.	Staff shortages and an insufficient labour pool	31%	Legislation and regulation	26%	High staff turnover rates	23%
Global	Staff shortages and an insufficient labour pool	27%	Internal communication problems	25%	Legislation and regulation	22%

The four levers of productivity

- Every firm has in its power the ability to address the critical barriers to improved productivity through a focus on four levers of productivity identified by Proudfoot. These are:
  - effective management;
  - the development of the workforce;
  - clearer communication; and
  - targeted training.

Focus on management

Effective management is integral to the running of companies and is a key lever of productivity

Please refer to Chapter 2 for a detailed discussion on management

- The quality of supervisors is a critical barrier for a fifth (19.6%) of managers surveyed worldwide. It was cited by the greatest share of managers in South Africa (31%), U.K. (28%), Spain (22%) and U.S. (22%). It was cited by the lowest share of managers in Germany (10%), China (13%), Canada (16%) and France (16%).
- The misalignment of corporate goals/objectives with staff performance and/or bonus metrics is a critical barrier for 15.7% of managers surveyed worldwide. It was cited by the greatest share of managers in India (29%), Russia (28%) and Brazil (22%). It was cited by the lowest share of managers in Australia (7%), Germany (8%) and France (9%).
- The inability of senior management to implement change programmes is a critical barrier for 14.5% of managers surveyed worldwide. It was cited by the greatest share of managers in India (26%), Russia (25%), Brazil (21%) and Spain (21%). It was cited by the lowest share of managers in China (7%), Canada (8%) and France (9%).
- The lack of desire of senior management to implement change programmes is a critical barrier for 13.3% of managers surveyed worldwide. It was cited by the greatest share of managers in India (26%), Brazil (23%), Russia (21%), Spain (21%). It was cited by the lowest share of managers in Canada (5%), Germany (6%) and France (7%).
- Supervisors are spending only 10.1% of their time on activities which have the greatest potential to increase the productivity of the workforce (i.e. active supervision and training).
- Supervisors are spending the largest portion of their time by far on administration (33.9%, down from 38.8% in 2006).
- Supervisors are buried under unnecessary reports. Managers worldwide are currently receiving 10.0 reports each month. When asked how many reports they ideally need to do their job, the answer was 6.6 reports a month. This is a report overload of 34.0%.
- The countries with the highest report overload figures are Brazil (60.8%), U.K. (50.7%) and U.S. (47.4%). The country with the lowest report overload figure is Russia (-6.5%), where managers would actually like more reports.

Focus on the workforce

Without effective development of the workforce, companies cannot expect to accrue productivity gains over the year ahead

Please refer to Chapter 3 for a detailed discussion on the workforce

- Staff shortages and an insufficient labour pool is a critical barrier for 27.4% of managers surveyed worldwide. It was cited by the greatest share of managers in Australia (48%), South Africa (37%), and Canada (35%). It was cited by the lowest share of managers in China (10%), Brazil (14%) and Germany (18%).
- Low employee motivation and morale is a critical barrier for 21.2% of managers surveyed worldwide. It was cited by the greatest share of managers in India (33%), Russia (32%), and Spain (29%). It was cited by the lowest share of managers in Germany (11%), China (16%) and U.K. (16%).
- High staff turnover rates are a critical barrier for a fifth (19.9%) of managers surveyed worldwide. It was cited by the greatest share of managers in Russia (34%), Australia (29%), and India (29%). It was cited by the lowest share of managers in China (8%), Germany (9%) and U.K. (12%).
- The inability of the general workforce to adopt change programmes is a critical barrier for 18.4% of managers surveyed worldwide. It was cited by the greatest share of managers in India (29%), Spain (27%), South Africa (23%) and Russia (23%). It was cited by the lowest share of managers in France (12%), Germany (13%), U.S. (14%), Canada (14%) and Brazil (14%).
- The general workforce's lack of desire to adopt change programmes is a critical barrier for 17.9% of managers surveyed worldwide. It was cited by the greatest share of managers in Spain (32%), India (24%) and Germany (22%). It was cited by the lowest share of managers in Canada (7%), China (10%) and France (11%).

Focus on communication

Whether internal or external, effective communication lies at the heart of any

Please refer to Chapter 4 for a detailed discussion on communications

- Internal communication problems are a critical barrier for a quarter (25.1%) of managers surveyed worldwide. It was cited by the greatest share in Brazil (47%), Spain (39%), and Germany (27%). It was cited by the lowest share of managers in China (15%), U.S. (18%) and Canada (19%).
- External communication problems are a critical barrier for 13.2% of managers surveyed worldwide. It was cited by the greatest share of managers in India (26%), Russia (21%) and South Africa (21%). It was cited by the lowest share of managers in Canada (3%), China (6%) and France (6%).
- Poor communication was the reason for 17.2% of unproductive workforce time in 2007. Put another way, workers spend over 2.5 hours each workweek (or three weeks each work-year) on unproductive activities because of poor communication.
- 15% of companies do not find overall communication easy, whilst three-quarters (72%) do find it easy. The greatest share of managers who do find communication easy are in India (88%), Australia (78%) and China (78%).
- 13% of companies do not find internal "top-down" communication easy. The greatest share of managers who do not find this easy are in Canada (26%), Brazil (20%) and Australia (19%).
- 11% of companies do not find internal "bottom-up" communication easy. The greatest share of managers who do not find this easy are in Canada (22%), Australia (16%) and Germany (15%).
- 22% of companies do not find internal communication between departments easy. The greatest share of managers who do not find this easy are in France (73%), Spain (31%) and Brazil (30%).
- 12% of companies do not find external communication with customers and/or suppliers easy. The greatest share of managers who do not find this easy are in France (33%), U.K. (16%) and Australia (16%).

Focus on training

Inadequate training – either in quantity or in quality – can severely impact a company's productivity

Please refer to Chapter 5 for a detailed discussion on training

- Lack of workforce training is a critical barrier for 17.4% of managers surveyed worldwide. It was cited by the greatest share of managers in Russia (30%), followed by those in India (24%) and China (21%). It was cited the lowest share of managers in Germany (11%), France (12%) and Canada (12%).
- Lack of management training is a critical barrier for 17.2% of managers surveyed worldwide. It was cited by the greatest share of managers in Russia (32%), followed by those in U.S (22%), Spain (21%) and India (21%). It was cited the lowest share of managers in Germany (7%), France (10%) and Canada (12%).
- Workers receive slightly more training each year than managers – 10.7 training days for workers vs 10.3 training days for managers.
- Workers in South Africa receive the most training (16.0 days) of any country surveyed, whilst workers in the U.K. receive the least (7.6 days).
- Managers in India receive the most training (17.0 days) of any country surveyed, whilst managers in Germany receive the least (5.4 days).
- 36% of managers surveyed worldwide think the amount of training workers receive is too little. 39% think the amount of training managers receive is too little.
- 16% of managers worldwide said their companies do not conduct formal and regular assessments of their training needs. This occurs most often amongst managers surveyed in Canada (32%), followed by Australia (24%) and U.S. (23%).
- 14% of managers worldwide said their companies' training programmes are not aligned with their companies' strategic goals. This occurs most often amongst managers surveyed in Australia (31%), Canada (23%) and South Africa (20%).
- 23% of managers worldwide said their companies do not assess the effectiveness of their training programmes. This is most often the case amongst managers surveyed in Australia (43%), Canada (35%) and South Africa (32%).
- When asked about their plans to drive productivity gains over the next 12 months, managers worldwide identified training as their golden solution:
  - 81% of managers are planning to invest in the skills development and training of their workforce. This was cited most often by managers in Spain (98%), followed by those in South Africa (91%), Brazil (88%) and Germany (88%);
  - 78% of managers are planning to invest in the skills development and training of management. This was cited most often by managers in Spain (89%), followed by those in Brazil (88%) and Canada (86%).

Plans to drive productivity gains over the next 12 months

- 1,276 managers around the world were asked about their plans to drive productivity gains over the next 12 months. The top five plans:
  1. invest in skills development and training of the workforce (cited by 81% of managers worldwide);
  2. invest in skills development and training of management (cited by 78% of managers worldwide);
  3. increase capital expenditure on IT and communications technology (cited by 58% of managers worldwide);
  4. invest in improved employee benefits to improve staff morale (cited by 58% of managers worldwide); and
  5. update the physical layout of existing operations (cited by 57% of managers worldwide).
- The top plans to drive productivity gains cited by managers in each country are as follows:

	Plan cited the most by managers		Plan cited second most by managers		Plan cited third most by managers	
Australia	Invest in workforce skills development and training	86%	Invest in management skills development and training	83%	An initiative to improve performance via culture change	78%
Brazil	Invest in workforce skills development and training	88%	Update the physical layout of existing operations	79%	Increase capital expenditure on IT and communications tech	78%
	Invest in management skills development and training	88%				
Canada	Invest in management skills development and training	86%	Invest in workforce skills development and training	83%	Update the physical layout of existing operations	68%
China	Invest in management skills development and training	79%	Invest in workforce skills development and training	73%	Invest in improved employee benefits to improve staff morale	71%
France	Invest in workforce skills development and training	84%	Invest in management skills development and training	81%	Update the physical layout of existing operations	66%
Germany	Invest in workforce skills development and training	88%	Invest in management skills development and training	79%	Update the physical layout of existing operations	55%
India	Increase capital expenditure on IT and communications technology	68%	Invest in workforce skills development and training	67%	Increase capital expenditure on plant and machinery	63%
Russia	Invest in workforce skills development and training	59%	Increase capital expenditure on IT and communications tech	48%	Increase capital expenditure on plant and machinery	46%
	Invest in management skills development and training	59%				
South Africa	Invest in workforce skills development and training	91%	Invest in management skills development and training	83%	Update the physical layout of existing operations	76%
Spain	Invest in workforce skills development and training	98%	Invest in management skills development and training	89%	Invest in improved employee benefits to improve staff morale	72%
U.K.	Invest in workforce skills development and training	82%	Invest in management skills development and training	79%	Update the physical layout of existing operations	69%
U.S.	Invest in workforce skills development and training	85%	Invest in management skills development and training	73%	Increase capital expenditure on IT and communications technology	70%
Global	Invest in workforce skills development and training	81%	Invest in management skills development and training	78%	Increase capital expenditure on IT and communications technology	58%
					Invest in improved employee benefits to improve staff morale	58%

Productivity overview

The story for sectors

Unproductive time

- Unproductive workforce time rose 2.2 points in 2007, to total 34.3% of all time. This means that workers are spending 1.7 days of every workweek on unproductive activities.
- Of the sectors covered in this report, workers in the Retail sector have the least amount of unproductive time (19.4%), followed by those in the Communications sector (32.3%) and the Financial services sector (32.8%).
- The workforce with the highest level of unproductive time is in the Mining sector (43.7% unproductive time), followed by the Food & Beverage sector (43.2%) and the Manufacturing sector (38.2%).
- Unproductive supervisor time rose 1.4 points in 2007, to total 18.5% of all time – the equivalent of just under one full day per workweek.

Productivity gains are being left on the table

- When questioned, managers said their companies have the potential to increase in productivity by 13.8% over the next year, but will only achieve 9.7% gains.
- Companies worldwide are leaving 29.7% of all potential productivity gains on the table.
- The sector expecting to leave the most productivity gains on the table is the Food & Beverage sector (leaving 37.2% of potential gains untapped), followed by the Energy sector (35.4%) and the Retail sector (33.6%).
- The sectors expecting to capture the greatest share of their potential productivity gains are the Communications sector (achieving 78.0% of potential gains), followed by the Financial Services sector (73.9%), and the Mining sector (73.4%).

Critical barriers to improved productivity

- 1,276 managers around the world were asked to identify the most critical barriers which are preventing their companies from improving in productivity.
- The top six global barriers identified are as follows:
  – number one barrier: staff shortages and an insufficient labour pool (cited by 27.4% of managers worldwide);
  – number two barrier: internal communication problems (cited by 25.1% of managers worldwide);
  – number three barrier: legislation and regulation (cited by 21.9% of managers worldwide);
  – number four barrier: low employee motivation and morale (cited by 21.2% of managers worldwide);
  – number five barrier: high staff turnover rates (cited by 19.9% of managers worldwide); and
  – number six barrier: quality of supervisors (cited by 19.6% of managers worldwide).

The critical barriers to improved productivity in each sector are as follows:

	Critical barriers cited the most by managers		Critical barriers cited second most by managers		Critical barriers cited third most by managers	
Automotive	Internal communication problems	26%	Staff shortages and an insufficient labour pool	22%	Low employee motivation and morale	21%
Communications	High staff turnover rates	28%	Staff shortages and an insufficient labour pool Internal communication problems	25% 25%	Low employee motivation and morale Inability of general workforce to adopt change programs	24% 24%
Energy	Internal communication problems	33%	Staff shortages and an insufficient labour pool	28%	Lack of management training	21%
Financial Services	Legislation and regulation	24%	Staff shortages and an insufficient labour pool Internal communication problems	21% 21%	Low employee motivation and morale Problems with IT and communications technology	20% 20%
Food & Beverage	Staff shortages and an insufficient labour pool	28%	Internal communication problems The quality of supervisors	24% 24%	Lack of management training	21%
Manufacturing	Internal communication problems	29%	Staff shortages and an insufficient labour pool	27%	Legislation and regulation Low employee motivation and morale The quality of supervisors Inability of general workforce to adopt change programs	20% 20% 20% 20%
Mining	Staff shortages and an insufficient labour pool	31%	Low employee motivation and morale	25%	Internal communication problems Legislation and regulation	24% 24%
Retail	High staff turnover rates	25%	Low employee motivation and morale	24%	Staff shortages and an insufficient labour pool	23%
Global	Staff shortages and an insufficient labour pool	27%	Internal communication problems	25%	Legislation and regulation	22%

The four levers of productivity

Every firm has in its power the ability to address the critical barriers to improved productivity through a focus on four levers of productivity identified by Proudfoot. These are:

- effective management;
- the development of the workforce;
- clearer communication; and
- targeted training.

Focus on management

Please refer to Chapter 2 for a detailed discussion on management

- The quality of supervisors is a critical barrier for a fifth (19.6%) of managers surveyed worldwide. It was cited by the greatest share of managers in the Food & Beverage (24%), Communications (22%), and Retail (21%) sectors. It was cited by the lowest share of managers in the Energy (9%), Financial Services (18%), Mining (20%), Automotive (20%) and Manufacturing (20%) sectors.
- The misalignment of corporate goals/objectives with staff performance and/or bonus metrics is a critical barrier for 15.7% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (23%), Retail (17%), and Financial Services (17%) sectors. It was cited by the lowest share of managers in the Mining (13%), Food & Beverage (14%), Energy (14%) and Automotive (14%) sectors.
- The inability of senior management to implement change programmes is a critical barrier for 14.5% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (18%), Mining (17%), and Manufacturing (17%) sectors. It was cited by the lowest share of managers in the Retail (9%), Energy (10%) and Automotive (12%) sectors.
- The lack of desire of senior management to implement change programmes is a critical barrier for 13.3% of managers surveyed worldwide. It was cited by the greatest share of managers in the Food & Beverage (16%), Manufacturing (14%), and Financial Services (14%) sectors. It was cited by the lowest share of managers in the Energy (10%), Mining (11%) and Automotive (12%) sectors.
- Supervisors are spending only 10.1% of their time on the activities which have the greatest potential to increase the productivity of the workforce: active supervision and training.
- Supervisors are spending the largest portion of their time on administration (33.9%, down from 38.8% in 2006)
- Supervisors are buried under unnecessary reports. Managers worldwide are currently receiving 10.0 reports each month. When asked how many reports they ideally need to do their job, the answer was 6.6 reports a month. This is a report overload of 34.0%.
- The sectors with the highest report overload figures are Mining (50.6%), Retail (37.7%) and Communications (36.3%).The sectors with the lowest report overload figures are Manufacturing (13.5%), Energy (18.4%) and Food & Beverage (24.5%).

Focus on the workforce

Please refer to Chapter 3 for a detailed discussion on the workforce

- Staff shortages and an insufficient labour pool is a critical barrier for 27.4% of managers surveyed worldwide. It was cited by the greatest share of managers in the Mining (31%), Food & Beverage (28%), and Energy (28%) sectors. It was cited by the lowest share of managers in the Financial Services (21%), Automotive (22%) and Retail (23%) sectors.
- Low employee motivation and morale is a critical barrier for 21.2% of managers surveyed worldwide. It was cited by the greatest share of managers in the Mining (25%), Communications (24%), and Retail (24%) sectors. It was cited by the lowest share of managers in the Energy (15%), Food & Beverage (19%), Financial Services (20%) and Manufacturing (20%) sectors.
- High staff turnover rates is a critical barrier for a fifth (19.9%) of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (28%), Retail (25%), Automotive (20%) and Mining (20%) sectors. It was cited by the lowest share of managers in the Manufacturing (17%), Food & Beverage (17%) and Energy (17%) sectors.
- The inability of the general workforce to adopt change programmes is a critical barrier for 18.4% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (24%), Manufacturing (20%), and Mining (20%) sectors. It was cited by the lowest share of managers in the Energy (14%), Automotive (14%) and Retail (15%) sectors.
- The general workforce's lack of desire to adopt change programmes is a critical barrier for 17.9% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (22%), Mining (20%), and Manufacturing (19%) sectors. It was cited by the lowest share of managers in the Retail (9%), Energy (10%) and Automotive (12%) sectors.

Focus on communication

Whether liaising internally or externally, effective communication lies at the heart of any organisation's productivity

Please refer to Chapter 4 for a detailed discussion on communications

- Internal communication problems are a critical barrier for a quarter (25.1%) of managers surveyed worldwide. It was cited by the greatest share of managers in the Energy (33%), Manufacturing (29%), and Automotive (26%) sectors. It was cited by the lowest share of managers in the Retail (19%), Financial Services (21%), Mining (24%) and Food & Beverage (24%) sectors.
- External communication problems are a critical barrier for 13.2% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (22%), Manufacturing (15%), and Food & Beverage (14%) sectors. It was cited by the lowest share of managers in the Energy (7%), Mining (11%) and Financial Services (11%) sectors.
- Poor communication was the reason for 17.2% of unproductive workforce time in 2007, or put another way, workers spend over 2.5 hours each workweek (or over three workweeks each year) on unproductive activities because of poor communication.
- 15% of companies do not find overall communication easy, whilst three-quarters (72%) do find it easy. The greatest share of managers who do find communication easy are in the Manufacturing (76%), Financial Services (74%), Mining (72%), Communications (72%) and Food & Beverage (72%) sectors.
- 13% of companies do not find internal "top-down" communication easy. The greatest share of managers who do not find this easy are in the Energy (19%), Retail (17%), Mining (14%), Food & Beverage (14%) and Automotive (14%) sectors.
- 11% of companies do not find internal "bottom-up" communication easy. The greatest share of managers who do not find this easy are in the Mining (14%), Food & Beverage (13%), Retail (12%) and Automotive (12%) sectors.
- 22% of companies do not find internal communication between departments easy. The greatest share of managers who do not find this easy are in the Automotive (29%), Mining (23%), Manufacturing (23%) and Energy (23%) sectors.
- 12% of companies do not find external communication with customers and/or suppliers easy. The greatest share of managers who do not find this easy are in the Energy (17%), Automotive (17%) and Communication (15%) sectors.

Focus on training

Inadequate training – either in quantity or in quality – can severely impact a company's productivity

Please refer to Chapter 5 for a detailed discussion on training

- Lack of workforce training is a critical barrier for 17.4% of managers surveyed worldwide. It was cited by the greatest share of managers in the Communications (22%), Manufacturing (19%), and Retail sectors (19%). It was cited by the lowest share of managers in the Energy (12%), Automotive (12%) and Financial Services sectors (14%).
- Lack of management training is a critical barrier for 17.2% of managers surveyed worldwide. It was cited by the greatest share of managers in the Food & Beverage (21%), Energy (21%), Manufacturing (18%) and Communications sectors (18%).
- Workers receive slightly more training each year than managers – 10.7 training days for workers vs 10.3 training days for managers.
- Workers in the Mining sector receive the most training (15.0 days) of any sector surveyed, whilst workers in the Energy sector receive the least (7.6 days).
- Managers in the Food & Beverage sector receive the most training (12.9 days) of any sector surveyed, whilst managers in the Energy sector receive the least (7.3 days).
- 36% of managers surveyed worldwide think the amount of training workers receive is too little. 39% think the amount of training managers receive is too little.
- 16% of managers worldwide said their companies do not conduct formal and regular assessments of their training needs. This occurs most often amongst managers surveyed in the Automotive (20%), Energy (19%) and Communications sectors (18%).
- 14% of managers worldwide said their companies' training programmes are not aligned with their companies' strategic goals. This occurs most often amongst managers surveyed in the Automotive (18%), Mining (16%) and Food & Beverage sectors (15%).
- 23% of managers worldwide said their companies do not assess the effectiveness of their training programmes. This occurs most often amongst managers surveyed in the Mining (34%), Food & Beverage (29%) and Energy sectors (24%).

- When asked about their plans to drive productivity gains over the next 12 months, managers worldwide identified training as their golden solution:
  - 81% of managers are planning to invest in the skills development and training of their workforce. This was cited most often by managers in the Automotive (88%), Mining (86%) and Energy sectors (84%). It was cited least often by managers in Retail (78%), Financial Services (80%) and Food & Beverage sectors (80%);
  - 78% of managers are planning to invest in the skills development and training of management. This was cited most often by managers in Automotive (84%), Manufacturing (83%) and Energy sectors (81%). It was cited least often by managers in the Retail (74%), Financial Services (75%) and Food & Beverage (78%) sectors.

Plans to drive productivity gains over the next 12 months

- 1,276 managers around the world were asked about their plans to drive productivity gains over the next 12 months. The top five plans:
  1. invest in skills development and training of the workforce (cited by 81% of managers worldwide);
  2. invest in skills development and training of management (cited by 78% of managers worldwide);
  3. increase capital expenditure on IT and communications technology (cited by 58% of managers worldwide);
  4. invest in improved employee benefits to improve staff morale (cited by 58% of managers worldwide); and
  5. update the physical layout of existing operations (cited by 57% of managers worldwide).
- The top plans to drive productivity gains cited by managers in each country are as follows:

	Plan cited the most by managers		Plan cited second most by managers		Plan cited third most by managers	
Automotive	Invest in workforce skills development and training	88%	Invest in management skills development and training	84%	Embrace a performance methodology	69%
Communications	Invest in workforce skills development and training	75%	Invest in management skills development and training	71%	Improve employee benefits to improve staff morale	61%
Energy	Invest in workforce skills development and training	81%	Invest in management skills development and training	81%	Increase capital expenditure on IT and communications technology	59%
Financial Services	Invest in workforce skills development and training	80%	Invest in management skills development and training	75%	Increase capital expenditure on IT and communications technology	61%
Food & Beverage	Invest in workforce skills development and training	80%	Invest in management skills development and training	78%	Increase capital expenditure on plant and machinery	66%
Manufacturing	Invest in management skills development and training	83%	Invest in workforce skills development and training	82%	Embrace a performance methodology	66%
Mining	Invest in workforce skills development and training	86%	Invest in management skills development and training	80%	Increase capital expenditure on plant and machinery	68%
Retail	Invest in workforce skills development and training	78%	Invest in management skills development and training	74%	Increase capital expenditure on IT and communications technology	64%
Global	Invest in workforce skills development and training	81%	Invest in management skills development and training	78%	Increase capital expenditure on IT and communications technology Improve employee benefits to improve staff morale	58% 58%

Chapter 1

The global productivity picture

Chapter 1 presents a comprehensive overview of global productivity issues focusing on current performance, future expectations, and barriers to improved productivity. It examines the differences which exist at the regional, country and sector level.

The findings are based on the results of quantitative research conducted with 1,276 managers who have first-hand day-to-day knowledge of productivity issues and performance in companies with annual revenues of over US$100m. These findings have been supplemented by a detailed analysis of data from Proudfoot on-site studies of worker and supervisor activities, collected during engagements with companies around the world.

Chapters 2-5 address each "lever of productivity" individually.

The amount of global unproductive time rises

The percentage of a worker's time spent on unproductive activities[1] rose 2.2 points to 34.3% in 2007. Put another way, workers spend 89.5 days of every working year (or 1.7 days of every workweek) doing things which do not deliver productive results for their company.

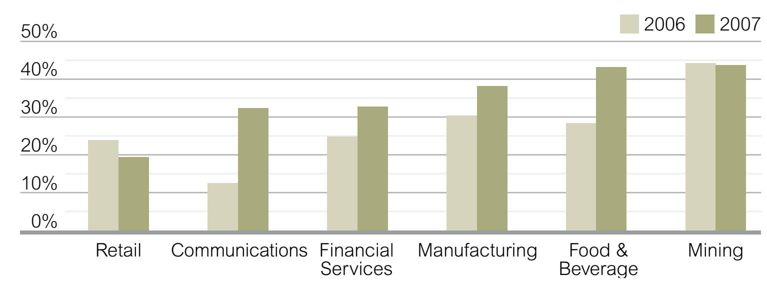
Unproductive time by country

Of the countries covered in this report, only two – Australia and the United Kingdom – posted reductions in unproductive workforce time in 2007. Unproductive time in Australia currently stands at 22.9% of the workweek while accounting for 26.0% of the workweek in the United Kingdom. In sharp contrast to these countries, unproductive time is 10-15 points higher in South Africa (41.8%), Germany (40.2%), Brazil (39.8%), France (38.8%), and the United States (37.4%), with all these countries posting increases in unproductive time in 2007.

Unproductive time by sector

When the data is analyzed by sector instead of at the country level, there is a great disparity in unproductive workforce time across sectors (Figure 1.1). The Retail sector emerged as the most productive, registering only 19.4% unproductive time, down 4.5 points from 2006. At the other end of the spectrum, the Mining sector suffers from the greatest share of unproductive time, reaching 43.7% of the average worker's workweek in 2007. This high share of unproductive time is down slightly from 2006, dropping 0.6 points.

Figure 1.1 Unproductive workforce time by sector



The rise in unproductive workforce time in 2007 reached across sectors, with the Food & Beverage, Manufacturing, Financial Services, and Communications sectors all suffering increases in unproductive time. In the Food & Beverage sector, unproductive time reached 43.2% of the workweek – equivalent to 2.16 days every week devoted to unproductive activities, joining Mining as the only sectors where unproductive time exceeded two days per week.

[1] It must be noted that is impossible for companies to use 100% of workers' time productively. Professor Nicholas Crafts of Warwick University (United Kingdom) has done research on the topic of unproductive time and has assessed that efficient businesses can expect to use 85% of time productively, or 15% unproductively.

Supervisors' unproductive time is also on the rise

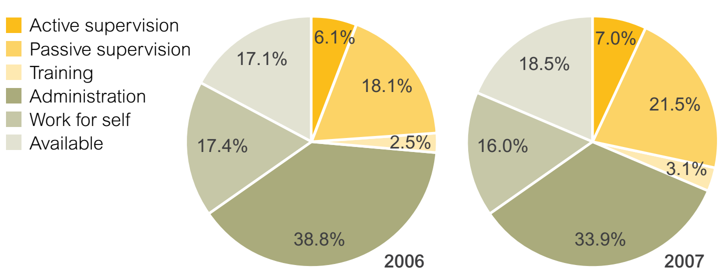
Unproductive time is not a phenomenon confined to the frontline workforce. The amount of unproductive supervisor time is also on the rise. Data collected by Proudfoot during its engagements around the world provides insights into how supervisors are spending their time and how that distribution of time is changing year over year.

Proudfoot has identified six major ways in which supervisors spend time during their workday. These are active and passive supervision of the workforce for which they are responsible, training of that workforce, administrative duties, work on projects which have been assigned to them, and available time, which is defined as time not spent on one of the major business activities already listed. Analysis of the Proudfoot engagement data shows that 18.5% of a supervisor's time – or almost one full day per workweek – was spent on these "other" activities in 2007, and this is the block of available, or unproductive, supervisor time.

Available, or unproductive, supervisor time is on the rise, increasing 1.4 points from the 2006 level of 17.1% of the average supervisor's workweek.

As Figure 1.2 shows, an analysis of the Proudfoot engagement data reveals a second issue with how supervisors are spending their time. Supervisors are spending the vast majority of their time on administration and very little time on the activities which have the greatest potential to increase the productivity of the workforce. Administrative duties currently consume 33.9% of the average supervisor's workday, over three times the amount of time spent on active supervision (7.0%) and training of the workforce (3.1%) combined.

Figure 1.2 Breakdown of supervisors' time



One reason for the high level of time spent on administration is too much paperwork. Managers reported receiving 34% more management reports each month than they need to do their jobs. The paperwork overload is most severe in Brazil, where managers report 61% of the reports they receive are unnecessary, and the United Kingdom (51%), as well as in the Mining sector (51%).

"If you don't understand what is possible in a day, then you've no reason to be celebrating successes."

Mandla Shezi
Managing Director, Hollard Life Company – Insurance, South Africa

"Five years ago, we believed that we worked in an efficient way. This belief was deconstructed and people realised there were better models to be implemented. On a scale of 0 to 10, we now deserve a 7 – or better!"

"We are at a point where productivity gains are still possible because of things that haven't yet been dealt with. There are companies ahead of us in this – no doubt."

Decio Carbonari de Almeida
Managing Director, Volkswagen Financial Services – Brazil

It is encouraging to note that the percentage of time spent on administration is falling. In 2006, supervisors spent 38.8% of their workweek on administrative tasks. The 4.9 point decline in time spent on these tasks is a positive development, but the 2007 level of 33.9% of the workweek spent on administration translates to 1.7 days of each supervisor's workweek spent on administrative duties.

This high level of time spent on administrative tasks is frustrating to the supervisors themselves. Managers surveyed were asked how much of their job should be allocated to administrative tasks. In North America and Europe, managers feel the ideal amount of time to allocate is approximately 25% of the workday. In the emerging BRIC countries, managers placed a greater importance on administrative duties, suggesting the ideal amount of time to be spent on these was closer to 40%. This wide disparity between perceived ideals in mature and emerging countries presents a unique cultural and business challenge for multinational companies who operate in both environments.

Productivity gains are being left on the table

With unproductive workforce time reaching as much as 40% of the workweek, it is not surprising that managers surveyed see the potential for double-digit gains in productivity at their companies over the next two years. As Figures 1.3, 1.4 and 1.5 show, these high expectations are uniformly held across regions, countries, and sectors surveyed.

The survey also asked managers about the level of productivity gains they actually expect to realise over the next two years. Figure 1.3 highlights the large gap between potential and expected performance observed in the research. On average, managers around the world believe they have the potential to improve their productivity by 13.8%, yet when questioned admitted that in reality they believe they will only achieve a 9.7% gain. The difference between the potential and expected gains over the next two years defines the unrealised opportunity. That difference is greatest in North America, where managers expect 43% of potential productivity gains to go unrealised. In Europe, unrealised gains reach 37%.

Figure 1.3 Productivity gains being left on the table by region

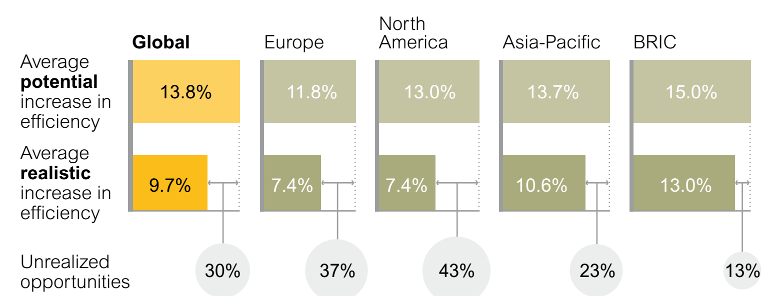


Figure 1.4 Productivity gains being left on the table by country

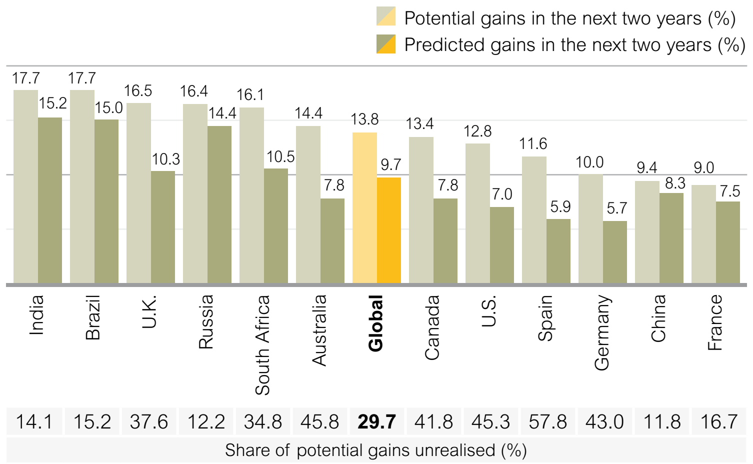
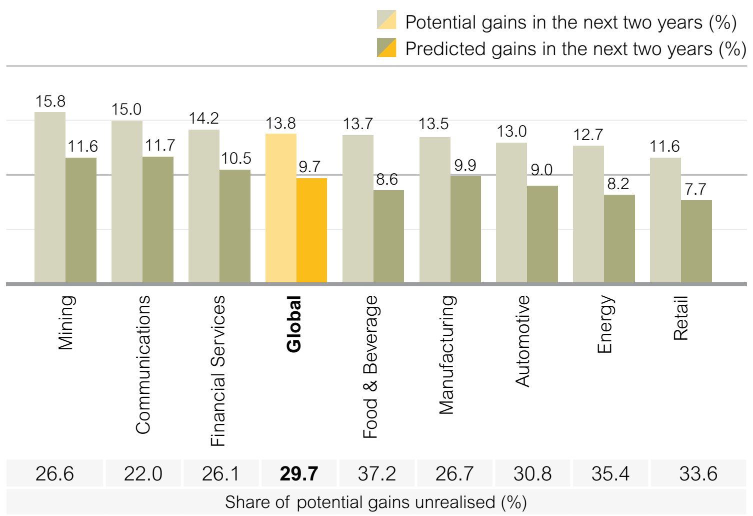


Figure 1.5 Productivity gains being left on the table by sector



In sharp contrast to the more mature countries of North America, managers in the BRIC countries are clearly the most enthusiastic about realising their potential gains, predicting they will improve productivity by 13% when the potential gains are estimated to be 15%. When potential and expected productivity gains are examined at the country level, those countries in which managers expect to capture the highest percentage of their potential productivity gains are China (88.2% of potential gains achieved), Russia (87.8%), India (85.9%), and Brazil (84.8%). Among the more mature economies, the managers most optimistic about realising potential gains are the French, who expect to achieve 83.3% of potential productivity gains.

Those countries where managers are least optimistic about their company's ability to achieve potential productivity gains are Spain (42.2% of potential gains achieved), Australia (54.2%), the United States (54.7%), and Germany (57.0%). This is consistent with the larger unrealised opportunities in more mature economies noted earlier.

There is a noticeable difference in the level of potential gains in productivity across sectors. Mining managers see the potential for productivity gains of 15.8% over the next two years, while their counterparts in the retail sector only see the potential for gains of 11.7%. Those sectors where managers expect to capture the highest percentage of potential productivity gains are Communications (88.0% of potential gains expected), Financial Services (83.9%), Mining (83.4%), and Manufacturing (83.3%). Those sectors where managers expect to leave the greatest share of potential gains untapped are Food & Beverage (only 62.8% of potential gains achieved) and Energy (64.6%).

Analysis of the managers surveyed also revealed some interesting results when categorised based on "high performers" (companies which have increased efficiency by more than 15% over the last year) and "low performers" (the rest of the survey). It was found that "high performers" are more optimistic about their ability to capture potential productivity gains, with only a 20% unrealised opportunity margin. "Low performers" on the other hand are more pessimistic, with an unrealised opportunity shortfall of 46%.

"I think ongoing productivity gains will be difficult, that's the nature of it. I think there are people who will do it better than others, who will be able to cope with the difficulty. These are people who will use their experience and actually look at what is achievable."

Matt Paterson
Head of Customer Service,
ING Australia – Financial Services

Key barriers to improved productivity

So what is standing in the way of achieving a greater share of potential productivity gains? Managers were asked to identify those barriers which present the greatest obstacles to improved productivity. The order of their answers varied depending on region, country, and sector, but several universal barriers emerged. The top six global barriers identified are:

- staff shortages and labour pool issues;
- internal communication problems;
- legislation and regulation;
- low employee motivation and morale;
- high staff turnover; and
- quality of supervisors.

Of these six lead barriers, almost all are internally focused, suggesting that companies have the power to reduce or eliminate these barriers on their own, without government intervention. This potential is echoed in the comments by an executive in a foreign-owned manufacturing company located in Germany: "*We will be putting a lot of effort into our internal activities in the next few years, as I believe they contain a lot of potential*".

Figure 1.6 Global barriers to improved productivity

Rank	Factor	Category	Percentage of managers surveyed who regard the factor to be a key barrier to improved productivity
1	Staff shortages and an insufficient labour pool	Workforce	27.4%
2	Internal communication problems	Communication	25.1%
3	Legislation and regulation	External	21.9%
4	Low employee motivation and morale	Workforce	21.2%
5	High staff turnover rates	Workforce	19.9%
6	Quality of supervisors	Management	19.6%
7	Inability of general workforce to adopt change programs	Workforce	18.4%
8	Lack of desire of general workforce to adopt change programs	Workforce	17.9%
9	Lack of training for general workforce	Training	17.4%
10	Problems with IT and communications technology	IT	17.3%
11	Lack of management training	Training	17.2%
12	Outdated equipment	IT	16.9%
13	Lack of funds to implement change programs	Financial	16.1%
14	Misalignment of corporate goals/objectives with staff performance or bonus metrics	Management	15.7%
15	The need to comply with strict safety standards	External	15.0%
16	Inability of senior management to implement change programs	Management	14.5%
17	Lack of desire of senior management to implement change programs	Management	13.3%
18	External communication problems between suppliers and customers	Communication	13.2%

Figure 1.7 Top ten barriers to improved productivity by country
(figures in dark green indicate the most critical barrier per market)

	Global	Australia	Brazil	Canada	China	France	Germany	India	Russia	South Africa	Spain	U.K.	U.S.
Staff shortages and an insufficient labour pool	27.4%	48%	14%	35%	10%	32%	18%	28%	34%	37%	31%	19%	31%
Internal communication problems	25.1%	20%	47%	19%	15%	25%	27%	25%	25%	20%	39%	26%	18%
Legislation and regulation	21.9%	20%	22%	24%	10%	27%	24%	28%	21%	33%	12%	21%	26%
Low employee motivation and morale	21.2%	18%	24%	17%	16%	23%	11%	33%	32%	17%	29%	16%	18%
High staff turnover rates	19.9%	29%	18%	20%	8%	18%	9%	29%	34%	24%	18%	12%	23%
Quality of supervisors	19.6%	20%	19%	16%	13%	16%	10%	21%	20%	31%	22%	28%	22%
Inability of general workforce to adopt change programs	18.4%	18%	14%	14%	15%	12%	13%	29%	23%	23%	27%	18%	14%
Lack of desire of general workforce to adopt change programs	17.9%	18%	18%	7%	10%	11%	22%	24%	18%	20%	32%	19%	18%
Lack of training for general workforce	17.4%	17%	15%	12%	21%	12%	11%	24%	30%	16%	17%	13%	18%
Problems with IT and communications technology	17.3%	17%	23%	21%	6%	8%	17%	31%	24%	11%	14%	13%	19%

"There is definitely a skills shortage, whether it's entry level admin staff, or technical roles. People no longer want to stay in their roles very long, so knowledge is becoming a lot more difficult to retain."

Matt Paterson
Head of Customer Service,
ING Australia – Financial Services

These barriers can be grouped into categories based on common themes. These categories are Workforce, Management, Communication, Training, External Factors, IT, and Financial (Figure 1.6). While each of the top six barriers will be discussed in more detail later in this chapter, a more comprehensive discussion of Workforce, Management, Communication, and Training barriers can be found in subsequent chapters of this report.

Number one barrier to improved productivity: staff shortages and an insufficient labour pool

The most commonly cited barrier to productivity at the company level around the world is labour related: staff shortages and an insufficient labour pool. This is an issue cited by more than one in four managers (27%), most prominently in Australia (48% of managers surveyed), South Africa (37%) and Canada (35%) (Figure 1.7). At the other end of the spectrum, only 10% of managers surveyed in China cited staff shortages and labour pool issues as a barrier to improved productivity. In Brazil, only 14% of managers cited the issue, leaving it outside the top ten barriers for the country.

Across most industries, staff shortages and an insufficient labour pool are proving to be a key issue (Figure 1.8). This is most notably the case in Mining, where 31% cited the issue, easily making it the number one barrier in the sector. Staff shortages were also identified as the greatest barrier to improved productivity in the Food & Beverage sector.

Analysis of the Proudfoot engagement data for 2007 found that an absence of appropriate skills amongst the workforce was the fourth leading cause of unproductive time, accounting for 14.9% of unproductive workforce time observed. And the problem is only getting worse: the share of unproductive time caused by the lack of the necessary skill set at the workforce level more than doubled in 2007 from the 2006 level of 6.5%.

For more in-depth analysis on the influence of staff shortages and an insufficient labour pools, please refer to Chapter 3.

Number two barrier to improved productivity: poor internal communication

Poor internal communication was cited as the second greatest barrier to improved productivity. Managers surveyed in Brazil and Spain cited this issue as the number one barrier in their countries (Figure 1.7). In Brazil, 47% of managers identified this as a key factor, while 39% of managers in Spain followed suit. Those countries in which managers were least likely to cite internal communication as a key barrier were China (15%), the United States (18%), and Canada (19%).

Later in the survey, managers were asked whether or not they agreed with the statement "It is easy to communicate ideas and information effectively between internal departments". This time, a different picture emerged. Globally, 68% of managers agreed with the statement, with

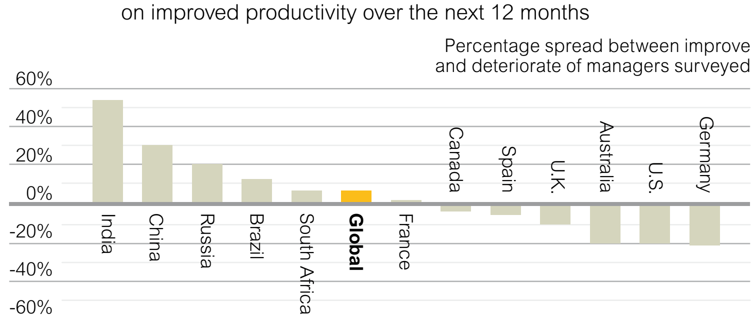
33% agreeing strongly. In France, only 17% of managers agreed with the statement (and only 5% strongly), the lowest response of any country. In sharp contrast to France, 92% of managers surveyed in India agreed with the statement, with 66% agreeing strongly, double the global norm.

Managers in the Energy (33%) and Manufacturing (29%) sectors ranked poor internal communication as the number one barrier to improved productivity in their sectors (Figure 1.8).

Figure 1.8 Top ten barriers to improved productivity by sector (figures in dark green indicate the most crucial barrier per sector)

	Global	Mining	Financial Services	Manufacturing	Food & Beverage	Communications	Energy	Automotive	Retail
Staff shortages and an insufficient labour pool	27.4%	31%	21%	27%	28%	25%	28%	22%	23%
Internal communication problems	25.1%	24%	21%	29%	24%	25%	33%	26%	19%
Legislation and regulation	21.9%	24%	24%	20%	20%	20%	14%	8%	21%
Low employee motivation and morale	21.2%	25%	20%	20%	19%	24%	15%	21%	24%
High staff turnover rates	19.9%	20%	19%	17%	17%	28%	17%	20%	25%
Quality of supervisors	19.6%	20%	18%	20%	24%	22%	9%	20%	21%
Inability of general workforce to adopt change programs	18.4%	20%	17%	20%	16%	24%	14%	14%	15%
Lack of desire of general workforce to adopt change programs	17.9%	20%	15%	19%	18%	22%	10%	12%	9%
Lack of training for general workforce	17.4%	16%	14%	19%	18%	22%	12%	12%	19%
Problems with IT and communications technology	17.3%	18%	20%	16%	14%	18%	14%	8%	21%

Figure 1.9 Managers' predictions on the impact of regulation on improved productivity over the next 12 months



"Lack of will can cause problems with internal communication. There has to be a systematic communication flow institutionalised throughout the organisation, from top to bottom. We organise the workload through committees – each meeting has minutes that are later distributed by intranet to all relevant departments, so the information flows automatically."

Decio Carbonari de Almeida
Managing Director, Volkswagen Financial Services – Brazil

At the other end of the spectrum, only 19% of managers in the Retail sector cited internal communication issues as a key barrier to efficiency, leaving it outside the top six barriers in the sector.

Analysis of the Proudfoot engagement studies revealed communication issues were the third greatest cause of unproductive workforce time in 2007. This factor was responsible for 17.2% of unproductive time observed, up slightly from 16.5% in 2006.

For more in-depth analysis on the influence of poor communication (both internally and externally), please refer to Chapter 4.

Number three barrier to improved productivity: legislation and regulation

Legislation and regulation was ranked as the third most significant barrier to improved productivity by managers around the world (Figure 1.6). What makes this barrier particularly challenging is that it is the one external barrier of the top six barriers identified, making it the one significant barrier managers are least able to address. In fact, when managers were asked what actions their companies planned to take in the coming year to improve productivity, lobbying for changes in legislation and regulations ranked ninth.

As with the other barriers discussed, legislation and regulation vary in importance across countries (Figure 1.7). Managers in South Africa (33%), India (28%), and France (27%) identified legislation and regulation as a barrier more often than their counterparts in other countries. In South Africa and France, legislation and regulation was the number two barrier cited, ranking only behind staff shortages and labour pool issues. This concern is echoed by Mandla Shezi, Managing Director of Hollard Life Company, an insurance company based in South Africa: "*Legislation plays a big role in our productivity. There has been an avalanche of new legislation that's set to protect consumers. We have to be continuously creative with our processes otherwise our costs will just be ballooning*".

Managers were asked if they thought the issue of legislation and regulation would improve, deteriorate, or stay the same over the next 12 months. Globally, 22% of managers thought the regulatory environment would improve, while 16% thought it would get worse, yielding a positive spread of 6 points (Figure 1.10). As Figure 1.9 shows, the most optimistic regions include the BRIC countries, led by India, with a positive spread of 54 points. China was second, with a positive spread of 30 points, followed by Russia (20 points) and Brazil (12 points). The more mature economies surveyed were the least optimistic about the regulatory environment in the coming year, with Germany posting a negative spread of 21 points, followed closely by the United States and Australia – each with 20 point negative spreads.

Number four barrier to improved productivity: low employee motivation and morale

Low employee motivation and morale is the fourth-ranked worldwide barrier to improved productivity, cited by 21% of managers (Figure 1.6). As with other barriers, the significance of low employee motivation and morale varies widely across countries and sectors. It is the leading barrier cited by managers in India (33%) and the number three barrier in Russia (32%) (Figure 1.7). Low motivation and morale tend to be a less significant barrier in more mature economies such as Germany (11%), the United Kingdom (16%), and Canada (17%). An executive in a foreign-owned manufacturing company located in Germany focused on raising the level of workforce morale, noting: "*To compete in Western Europe, we have identified an advantage in using increased employee motivation and input, rather than just cutting costs, which is also necessary*".

Low employee motivation and morale is a significant barrier in the Mining (25%) and Retail (24%) sectors (Figure 1.8). In both sectors, it stood as the number two barrier to improved productivity. In contrast to these sectors, low motivation and morale did not rank as a top-five barrier in the Energy (15%) and Food & Beverage (19%) sectors.

For more in-depth analysis on the influence of low employee morale and motivation, please refer to Chapter 3.

Number five barrier to improved productivity: high staff turnover rates

The fifth largest barrier to more efficient productivity identified by managers worldwide is a high staff turnover rate, cited by 20% of managers (Figure 1.6). This barrier is particularly important in the emerging countries of Russia (cited by 34% of managers) and India (29%) (Figure 1.7). But this is not just an emerging country issue: 29% of managers in Australia cited this as a critical barrier to improved productivity, ranking it number two in the country. In Russia and Australia, labour pool shortages and high turnover were the top two barriers cited, suggesting a strong linkage.

Given the ample volume of workers in China, it is not surprising that high staff turnover is one of the lowest-ranked barriers in China, cited by only 8% of managers in the country. What may be surprising is that only 9% of German managers cited high turnover as a critical barrier.

High staff turnover rates are a particularly acute issue in the Communications (cited by 28% of managers) and Retail (25%) sectors, ranking as the top barrier to improved productivity in both sectors (Figure 1.8). In the Retail sector, low employee motivation and morale was cited as the number two barrier to improved productivity, and it is not unreasonable to suggest a linkage between these two issues in that sector. Concurrently, it is not surprising to find the fewest managers citing high staff turnover as a barrier in the Energy and Food & Beverage sectors (cited by 17% of managers in each sector); these are the two sectors in which low employee motivation and morale was also cited by the lowest percentage of managers.

For more in-depth analysis on the influence of high staff turnover rates, please refer to Chapter 3.

"I think the labour force is much more mobile than it ever has been before. Employee loyalty is not what is was 10 or 20 years ago, meaning there needs to be constant attention to employee engagement in a business."

Robert Nason
Managing Director, Wagering, Tabcorp – Retail, Australia

Number six barrier to improved productivity: quality of supervisors

The sixth largest barrier to improved productivity worldwide is the quality of supervisors. This is the most important management-focused factor identified as a key barrier, demonstrating the importance of companies focusing on improving the quality of both their workforce and those in charge.

The quality of supervisors was cited as a barrier by 20% of managers surveyed. The markets most affected by the quality of supervisors are in South Africa (31%) (Figure 1.7). Mandla Shezi, Managing Director of Hollard Life Company, attributes this problem to his senior staff understanding the bigger picture: "*Many South African managers forget the fact that actually the job of leadership is to grow the company and to grow the individual. Business can only grow when its individuals are growing.*"

The barrier also represents a key hurdle to improved productivity in the United Kingdom (28%), with managers citing it as the number one barrier in their country. At the other end of the scale, Germany (10%), China (13%), Canada (16%), France (16%) and Brazil (19%) all sit below the global average.

Managers in service-based industries, such as Financial Services (18%), regard the quality of supervisors to have the lowest impact on their productivity out of all six barriers. On the other hand, industries such as Food & Beverage (24%) rank the influence of supervisors as their second highest factor impacting workforce productivity. Energy managers (9%) cite the quality of supervisors as the least significant barrier to improved productivity.

Analysis of the Proudfoot engagement data revealed that poor supervision was the second greatest cause of unproductive workforce time in 2007. This factor was responsible for just under a quarter (23.6%) of unproductive time observed, falling considerably from 33.3% in 2006.

An exploration into how supervisors' activities can influence the productivity of their workforce is detailed in Chapter 2.

Predictions about productivity over the next 12 months

Managers were asked whether they expect the barriers cited earlier in this chapter to improve, deteriorate or stay the same over the coming 12 months. Focusing on the top six barriers identified by managers, the mood is optimistic. As noted earlier, there is a 6 point positive spread on the issue of legislation and regulation (Figure 1.10).

Figure 1.10 Managers' predictions for the top six barriers to improved productivity over the next 12 months

	Top six barriers to improved productivity	Managers saying their situation will improve	Most managers saying their situation will improve		Managers saying their situation will get worse	Most managers saying their situation will get worse	
Staff shortages and an insufficient labour pool	27.4%	27%	India 51%	Russia 40%	19%	Australia 41%	Germany 34%
Internal communication problems between different departments	25.1%	61%	Brazil 77%	India 71%	1%	Canada 3%	India 2%
Legislation and regulation	21.9%	22%	India 56%	China 31%	16%	U.K. 31%	Australia 30%
Low employee motivation and morale	21.2%	50%	Brazil 71%	India 66%	6%	France 16%	U.K. 9%
High staff turnover rates	19.9%	29%	India/Russia 46%	China 35%	11%	Canada 17%	Australia 16%
Quality of supervisors	19.6%	56%	Brazil 73%	India 72%	2%	Germany 6%	South Africa 4%

That is, the difference between those managers expecting the regulatory environment to improve and those expecting it to worsen over the coming 12 months is 6 points in favour of improvement.

Looking at the remaining top barriers, managers across the world are most optimistic improvements will occur on the internal communication issue, posting a positive spread of 60 points (Figure 1.10). Managers are similarly optimistic about improvements in the quality of supervisors (54 point spread), and employee morale (44 point spread). While the outlook is positive for improvements in the areas of staff shortages and staff turnover, the positive spreads on these barriers are much smaller, 8 and 18 points, respectively.

The influence of external factors on productivity over the next 12 months

The managers surveyed are optimistic about the economic conditions they will be facing in the coming 12 months. Managers were asked to identify those external factors which they anticipate will impact their sector or country over the next 12 months. Some managers think overall economic conditions will improve, while others think they will worsen. The key indicator of overall country or sector confidence in the coming 12 months is the spread between the percent of managers who expect economic conditions to improve and the percent who expect them to decline. Globally, that spread is a positive 33 points. As Figure 1.11 shows, the positive spread is the greatest in emerging countries such as Brazil (+82 points), India (+60), and Russia (+48). It is worth noting that optimism also runs high in several European countries, including Spain (+44), Germany (+40), and France (+20). The only market surveyed in which the overall economic sentiment is negative is the United Kingdom (-14 points). (It is important to note that this data was collected before the latest upheavals in the global financial markets.)

"The type of rising costs we are seeing are verging on the ridiculous. You really have no control over it and then you try to pass on the price increases to your customers and of course they're pushing back, so it's a terrible challenge."

Ed Sanchez
CEO and President,
Lopez Foods – United States

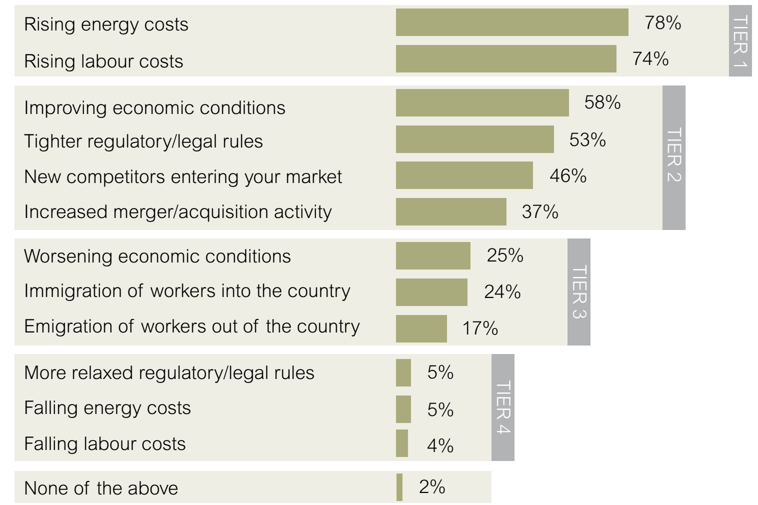
"The main obstacle to increasing productivity over the next 24 months perhaps would be putting investment projects on hold in connection to the credit crisis."

Igor Kamenetsky
Research and Forecast Director,
LSR Group – Construction, Russia

Figure 1.11 Managers' predictions about economic conditions over the next 12 months

Country	Percentage of managers expecting economic conditions to: improve	deteriorate	Percentage spread between improve and deteriorate
Brazil	89%	7%	+82%
India	72%	12%	+60%
Russia	54%	6%	+48%
Spain	65%	21%	+44%
Germany	60%	20%	+40%
Global	58%	25%	+33%
China	52%	19%	+33%
U.S.	55%	33%	+22%
France	58%	28%	+20%
Canada	52%	37%	+15%
Australia	50%	35%	+15%
South Africa	49%	43%	+6%
U.K.	38%	52%	-14%

Figure 1.12 Influence of external factors on productivity over the next 12 months



Given the current challenges facing many market economies right now, it should come as no surprise that the external factors managers expect to influence productivity the most over the coming 12 months are rising energy costs and rising labour costs (see Figure 1.12).

Virtually all managers surveyed in South Africa (94%) and the United Kingdom (91%) see the impact of rising energy costs as a key factor affecting productivity performance over the coming year. Food & Beverage (90%) and Manufacturing (85%) managers are also concerned about the impact energy costs will have on their productivity. At the opposite end of the scale, only 46% of managers in Russia, one of the leading energy resource providers, view rising energy costs as a key factor in their future productivity. This was not only the lowest level of reported concern, but significantly lower than the level of concern in the second lowest country, India, where 67% of managers expect rising energy costs to have a major impact on their productivity.

Some business leaders choose to view the challenge of rising energy prices as an opportunity for their companies to excel. An executive in a foreign-owned manufacturing company located in Germany noted "*the cost of energy is an additional chance to shine in cost management. From that point of view, it's not just a risk but an opportunity to gain advantages over the competition if you deal with that area early on and with success, rather than waiting and doing nothing*".

Figure 1.13 Tier 1 economic concerns of managers over the next 12 months

Country	Rising energy costs	Rising labour costs
South Africa	94%	89%
U.K.	91%	75%
U.S.	87%	80%
France	86%	71%
Spain	84%	84%
Australia	84%	88%
Canada	83%	82%
Germany	81%	78%
Global	78%	74%
China	71%	72%
Brazil	68%	69%
India	67%	56%
Russia	46%	47%

As noted earlier, the rising cost of labour is the other external factor most commonly expected to impact productivity in the coming 12 months. More managers cited this factor in South Africa (89%), Australia (88%), and Spain (84%) than in other countries. Russian managers are once again significantly less concerned about the impact of rising labour costs (47%), along with their counterparts in India (56%) – both of which are well below the global average of 74%.

Overcoming the barriers and driving productivity gains

Managers were asked about the actions their companies are planning in the next 12 months to improve productivity. As highlighted in Figure 1.14, when faced with a broad variety of solutions to solve their productivity challenges, the most common activities planned to boost productivity are investments in workforce and management training.

"We are constantly looking for improvements in productivity through projects that have already been identified and prioritised. We have managed to develop some 30 projects simultaneously, but our list of pending projects is longer than 250."

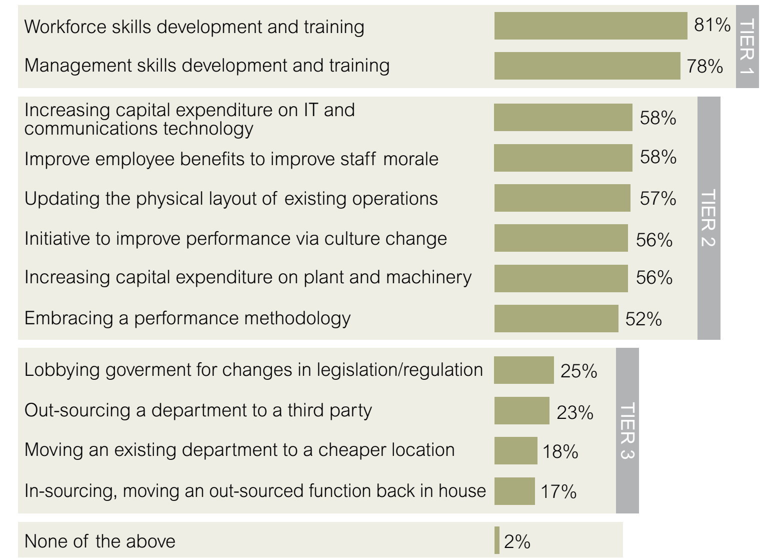
"In Brazil, we have to measure our productivity more quickly to compete with foreign companies. The big companies, the big banks, are very efficient here."

Decio Carbonari de Almeida
Managing Director, Volkswagen Financial Services – Brazil

"Over the next 12 months our plans certainly involve out-sourcing areas which we don't understand, like energy generation, to experts. Previously, we'd probably have said, we'll do that too, it's part and parcel, but nowadays we'd say, we need a kind of expertise which we don't have."

Executive in a foreign-owned manufacturing company located in Germany

Figure 1.14 Manager's plan to improve productivity over the next 12 months



81% of managers worldwide indicated their companies are planning to invest in workforce training in the coming year, with 78% reporting a similar investment in management training. These training investments were mentioned significantly more often than all other productivity enhancing activities, making them primary, or Tier 1, solutions.

Tier 2 activities to improve productivity focus on a broad range of planned solutions, ranging from capital expenditure on technology and updating the physical layout of existing operations to focusing on staff morale and improving staff performance through implementation of a culture change initiative. This last initiative, undertaking culture change, is one of the most challenging initiatives a company can launch. It requires a willingness to change on the part of both management and the workforce, and it requires a sustained long-term commitment. Globally, 56% of managers indicated their companies are planning to undertake this challenge. In Australia and South Africa, a significantly higher percentage of managers indicated their companies would be launching culture change programs in the coming 12 months (78% and 70%, respectively).

A number of countries are focusing on improving employee benefits to improve staff morale. While 58% of managers surveyed reported their companies would be making benefits changes in an effort to boost morale and drive productivity gains, the reported level was much higher in Spain (72%), South Africa (71%), China (71%), and Brazil (70%).

One other Tier 2 note: while 58% of managers reported their companies would attempt to improve productivity by investing in

IT and communications technology in the coming year, 78% of Brazilian managers reported planned investment by their companies in this area in the coming year.

The Tier 3 activities identified by managers focus more on externally-influenced activities. These include lobbying for regulatory changes, relocating departments or plants to company operations in other countries or regions, and the out-sourcing and in-sourcing of various functions.

Noteworthy among the Tier 3 activities is the data on out-sourcing and in-sourcing. What is interesting is not the percentage of managers in a given country or sector indicating intent to out-source or in-source by itself. Rather, what is noteworthy is the spread between out-sourcing and in-sourcing. Globally, 23% of managers indicated their companies had plans to out-source one or more functions. At the same time, 17% of managers indicated their companies intended to in-source previously out-sourced functions during the coming year, producing a global spread of 6 points.

When the data is analyzed at country level, the greatest spreads (indicating net out-sourcing above and beyond planned in-sourcing) are found in India (32 points) and France (16 points). South Africa, by contrast, reported a spread of -6 points, indicating more planned in-sourcing than out-sourcing in the market.

When out-sourcing and in-sourcing is analyzed at the sector level, only two industries posted spreads outside of the 3-6 point range seen in most sectors. The spread in Financial Services is 12 points, while Manufacturing managers reported an 8 point spread.

The four levers of productivity

The managers surveyed have identified, and this chapter has discussed, the key barriers to improved productivity and the initiatives companies will be implementing to drive productivity gains.

These barriers can be grouped according to the underlying drivers, or the levers, of productivity they reflect. They are:

- management;
- workforce;
- communication; and
- training.

The first two levers of productivity focus on the people within every organisation: the workforce and the management. Unless companies take a holistic perspective and examine each level of the organisation, including what is asked of the individuals at that level and the tools they are given, they will not be able to deliver the full productivity gains they seek.

"For us, the most important internal factor affecting productivity is the use of information systems. We made increases in productivity when we automated our processes. I would say that from now on, our productivity gains will rely heavily on the technology of automation of information."

Decio Carbonari de Almeida
Managing Director, Volkswagen Financial Services – Brazil

"Over the months ahead, we will be looking at how we can be more productive in our training, which will then lead on to be more productive and efficient in our workforce. We will be increasing the level of training during induction, orientation and then on-going."

Matt Paterson
Head of Customer Service, ING Australia – Financial Services

The second two levers of productivity look at two of the most important tools companies can use to drive productivity improvement – clear communication and effective training.

These levers of productivity are explored in greater depth in the following chapters.

Chapter 2

Focus on the first lever of productivity: management

Research conducted for this report revealed that one in five managers regard the quality of supervisors to be a key barrier to improving their companies productivity, yet what is being done to address this situation? This chapter examines how managers spend their time, and how their decisions can impact productivity.

The findings of this chapter are based on of the results of quantitative research conducted with 1,276 managers who have first-hand day-to-day knowledge of productivity issues and performance in companies with annual revenues of over US$100m. These findings have been supplemented by a detailed analysis of data from Proudfoot on-site studies of worker and supervisor activities, collected during engagements with companies around the world.

"I think the biggest stumbling block to productivity is when the best you will ever get out of a function or out of the unit is the best of that manager in charge. Instead it should be the collective best of the whole team."

Mandla Shezi
Managing Director, Hollard Life Company – Insurance, South Africa

Supervisors are becoming less productive

As mentioned in Chapter 1, Proudfoot has identified six major ways in which supervisors spend their time. These are:

- active supervision of the workforce for which they are responsible;
- passive supervision of the workforce;
- training of the workforce;
- administrative duties;
- work on projects which have been assigned to them; and
- "available time", which is defined as time not spent on one of the five major business activities listed above.

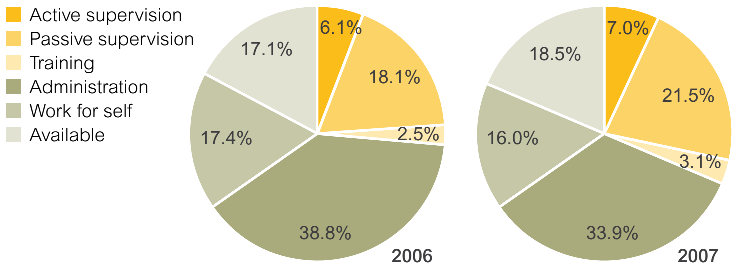
Analysis of Proudfoot engagement data showed that supervisors were less productive with their time in 2007 than in the previous year. 18.5% of a supervisor's time was spent on "other" activities in 2007, an increase of 1.4 points over the 2006 level of 17.1% of all work time. This block of available, or unproductive, supervisor time amounts to almost one full day per workweek.

Whilst "available" time increased between 2006 and 2007, it is worth noting that supervisors are not happy about this trend. When asked to design their "ideal" workload, allocating time across each of the six activities identified earlier, supervisors allocated only 5% of their time to "available" activities, indicating their desire to spend more of their time on productive activities.

Supervisors spend only 10% of their time on activities which improve worker productivity

As Figure 2.1 shows, supervisors are spending very little time on active supervision and training, the two activities which have the greatest potential to increase the productivity of the workforce. Proudfoot's engagement studies found that in 2007, supervisors spent a combined 10.1% of their time on active supervision or training. While this is a noticeable improvement from the 8.6% of time spent on these activities in 2006, it is still less than one-third the time supervisors spend on administrative tasks.

Figure 2.1 Breakdown of supervisors' time



How supervisors can influence workforce productivity

The ways in which supervisors spend their time influences their own productivity and that of their workers. An analysis of the Proudfoot engagement data on how workers and supervisors allocate time during their workday has identified linkages between supervisor time allocation and worker productivity (please refer to Chapter 3 for further details on how workers spend their time).

The analysis found a correlation between the amount of "available" time a supervisor has and the amount of unproductive time in a worker's day. Every 1 point increase in the amount of time a supervisor spends actively supervising his or her employees translates into an increase in the amount of time workers spend on productive activities of 0.2 points. Put another way, if supervisors increase the share of time spent on active supervision by 5 points, worker unproductive time falls by 1 point. The analysis also found that for every 1 point reduction in the amount of supervisors' available time, worker unproductive time falls by 0.1 percentage points.

It is important to note these two changes in how supervisors spend their time – increasing the share of time spent on active supervision or reducing the amount of available, or unproductive, supervisor time – are not dependent on each other. Each can occur independently.

Supervisors spend too much time on administration

As highlighted in Figure 2.1, the main activity occupying the time of supervisors around the world is administration. The portion of the day devoted to this activity declined between 2006 and 2007 – from 38.8% to 33.9%. The 4.9 point decline over the last 12 months is a positive development, but it still leaves 1.7 days of each supervisor's week, or 88.5 days each supervisor's working year, spent on administrative tasks.

As discussed in Chapter 1, this high level of time spent on administrative tasks frustrates managers in almost every market surveyed. Managers were asked to estimate the amount of time currently spent on administrative tasks; they were then asked how much time they would ideally like to spend on administration. As Figure 2.2 shows, managers report spending an average of 42% of their time on administrative tasks. They would like to see that cut to 30% of their time. The 12-point difference between actual and ideal time spent on administration is equal to half-day every workweek.

Put another away, 28% of the time managers currently spend on administrative duties is time they think would be better spent on other activities. The administrative overload is greatest in Spain and the United Kingdom, where managers think 40% of the time currently spent on administrative tasks would be better spent on other activities. In fact, managers in the more mature economies of Europe and North America report the highest levels of administrative overload, with managers in the emerging BRIC economies reporting the lowest levels of overload.

This disparity between mature and emerging markets may be driven by a differing view on the role of the manager. Managers surveyed in the BRIC markets tended to allocate more of their ideal workday to administration than did their counterparts in the more mature markets. BRIC managers view administrative duties as far and away the most important aspect of their jobs. In India and China, managers allocated over 44% of their ideal day to administration, a level above almost every other market's actual time spent on administrative tasks and 50% higher than the global norm of 30%.

"It is important that a management team is adaptable and has practices to continually keep people excited when there are somewhat mundane jobs, and make sure they are continually looking at improving processes and becoming more productive."

Matt Paterson
Head of Customer Service,
ING Australia – Financial Services

Figure 2.2 Supervisors' time spent on administration by country

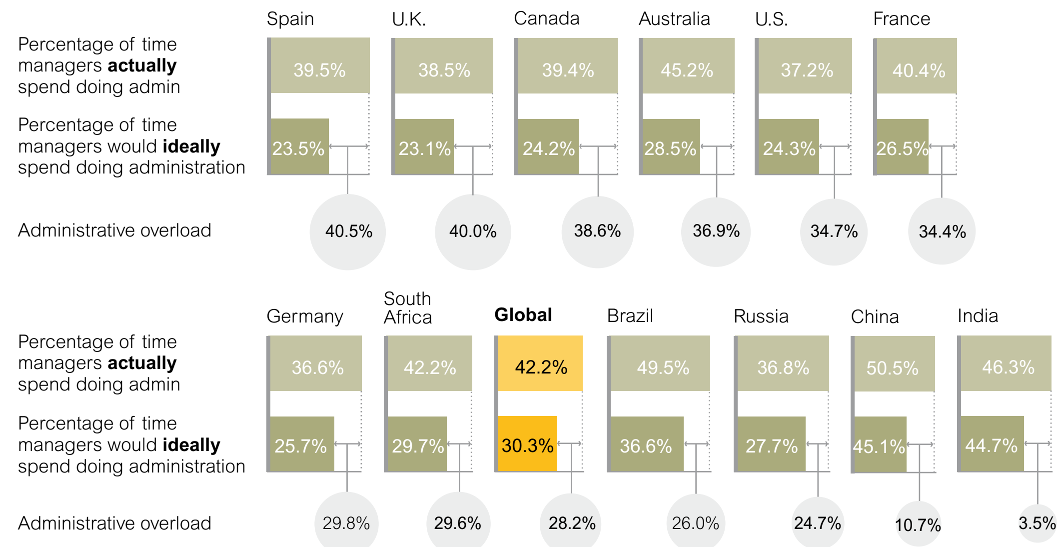
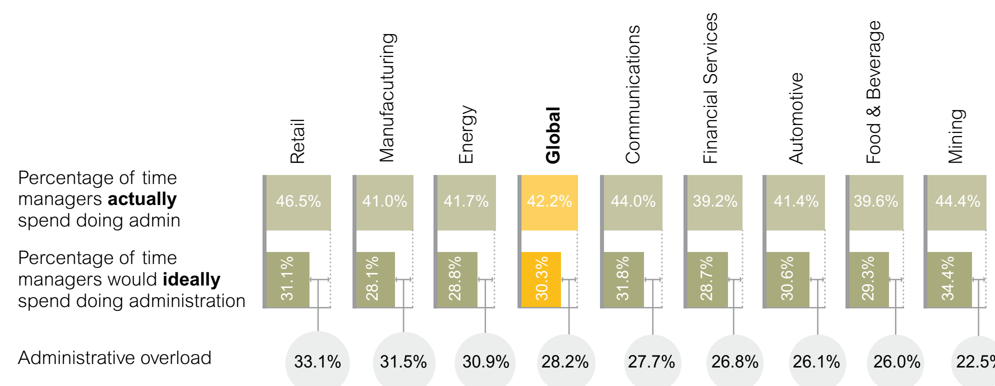


Figure 2.3 Supervisors' time spent on administration by sector



The data suggests there could be a linkage between management style and the amount of time managers spend on administrative tasks. As the data shows, BRIC markets are the top three markets in terms of share of time spent on administrative tasks. At the same time, the incidence of "command-and-control" management is greater in the BRIC markets than in the more mature economies of Europe, North America, and Australia. Managers in the heavier "command-and-control" markets also allocated more of their ideal day to administrative tasks than did their counterparts in the more mature economies, where "consensus-based decision-making" is more prevalent.

Analyzing time spent on administrative duties by sector reveals an interesting anomaly. Managers in the Retail sector report spending over 46% of their time on administrative tasks. This is the highest report level of any sector, yet Retail managers have fewer people reporting directly to them (13 people) than almost any other sector. One would expect the greatest administrative burden to rest on those managers with the greatest number of people reporting directly to them – and this is the case in the Mining sector, which reported the third highest level of time spent on administration (44%) and the highest number of people reporting directly to them (20 people).

Supervisors are buried under unnecessary reports

One of the key factors driving the high allocation of manager time to administrative tasks is report overload. An average of ten management reports land on the desks of managers around the world each month (Figure 2.4). When managers were asked how many reports they actually needed to do their job effectively, the answer was 6.6 per month. 34% of the reports managers receive each month are ones which, by their own admission, they do not need to do their jobs. The amount of time spent reviewing those unnecessary reports, added to the time spent by others preparing them, represents a tremendous drain on time which could be better spent on improving company productivity.

As can be seen in Figure 2.4, managers in Brazil receive the greatest number of reports of the markets surveyed (17) and suffer from the highest level of report overload: Brazilian managers reported over 60% of the reports they receive each month are unneeded. This is a markedly different result from those seen in other BRIC markets, where managers report receiving on average only one more report than necessary. In Russia, managers actually wish they could receive more reports than they currently do, suggesting business systems are still evolving in many companies in the market.

In South Africa, report overload is 46%. Mandla Shezi, Managing Director of Hollard Life Company in South Africa, thinks the report overload in his market is the result of the quality of managers: "*Frankly, it's a skills issue, meaning that managers work a level or two below where they should be. Senior managers do not feel able to trust those below them, so they set up indicators and alarms and monitors, so that they may feel good about what they have no control over*".

Managers in the Mining sector receive more unnecessary reports than their counterparts in any of the other sectors studied. Half of the reports Mining managers receive are ones they don't think they need to do their jobs. This stands in stark contrast to the situation in the Energy and Manufacturing sectors, where management appears to have a handle on reporting activity. In those two sectors, managers report receiving only one unnecessary report per month.

"I think that as an organisation grows and each individual understands his or her responsibility, administration by management should come down further. More should be done on strategy and organisational issues in the short-term and long-term".

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited – Manufacturing, India

Figure 2.4 Management report overload by country

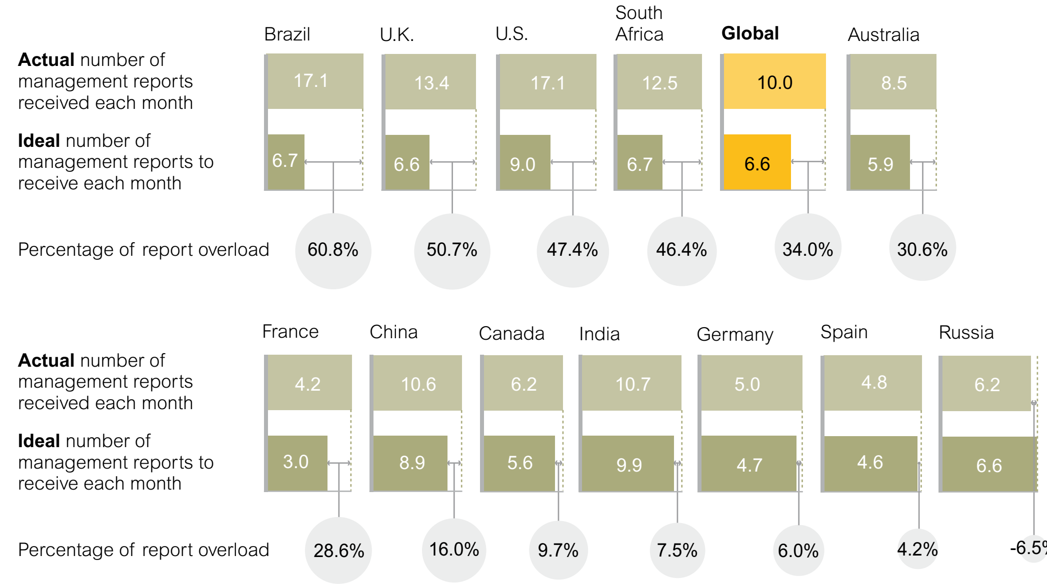
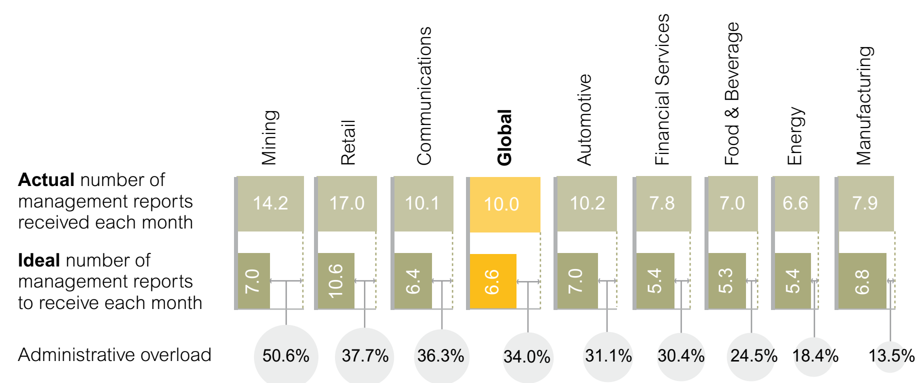


Figure 2.5 Management report overload by sector



How inadequate management can be a barrier to improved productivity

In every organisation, the quality of management has a direct bearing of the productivity of the workforce and the productivity of the company as a whole. An analysis of key barriers to improved productivity identified four management-related barriers which are preventing companies worldwide from improving their productivity. These barriers are the quality of supervisors (cited by 20% of managers), the misalignment of corporate goals and objectives with staff performance (16%), the inability of senior management to implement change programs (14%), and the lack of desire of senior management to implement change programs (13%). These barriers can be divided into two themes: day-to-day management; and the role managers play in implementing change programmes.

The quality of supervisors as a barrier to improved productivity

The most prominent management-related barrier to improved productivity is the quality of supervisors. This barrier was cited by 20% of managers surveyed worldwide, and is one of the top six barriers to improved productivity (Figure 2.7). It is the number one barrier to improved productivity in the United Kingdom and the number three barrier in South Africa and Australia.

"The downside risk of getting leadership wrong is far too high in that you'll lose employees, you'll lose engagement and you will lose customers. So management's leadership attitude to planning productivity and the process of productivity is much more important than it has been in the past."

Robert Nason
Managing Director, Wagering, Tabcorp – Retail, Australia

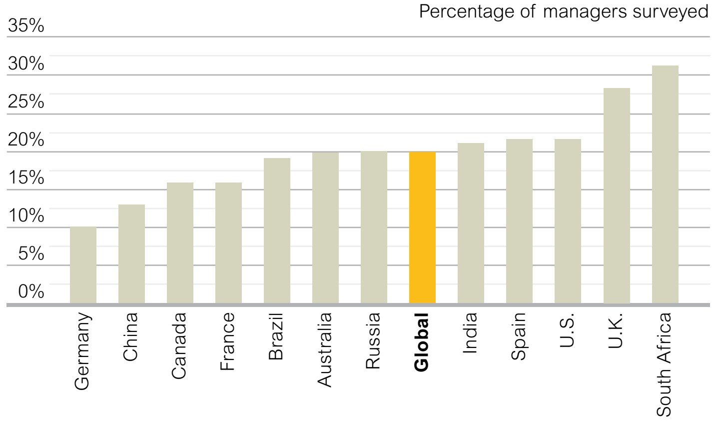
Figure 2.6 Management barriers to improved productivity

Rank	Factor	Category	Percentage of managers surveyed who regard the factor to be a key barrier to improved productivity
1	Staff shortages and an insufficient labour pool	Workforce	27.4%
2	Internal communication problems	Communication	25.1%
3	Legislation and regulation	External	21.9%
4	Low employee motivation and morale	Workforce	21.2%
5	High staff turnover rates	Workforce	19.9%
6	Quality of supervisors	Management	19.6%
7	Inability of general workforce to adopt change programs	Workforce	18.4%
8	Lack of desire of general workforce to adopt change programs	Workforce	17.9%
9	Lack of training for general workforce	Training	17.4%
10	Problems with IT and communications technology	IT	17.3%
11	Lack of management training	Training	17.2%
12	Outdated equipment	IT	16.9%
13	Lack of funds to implement change programs	Financial	16.1%
14	Misalignment of corporate goals/objectives with staff performance or bonus metrics	Management	15.7%
15	The need to comply with strict safety standards	External	15.0%
16	Inability of senior management to implement change programs	Management	14.5%
17	Lack of desire of senior management to implement change programs	Management	13.3%
18	External communication problems between suppliers and customers	Communication	13.2%

"You can't lift and drop the same type of change programme in different areas of an organisation. We tried to do a similar type of change in our technology area as we did in our operations area, but there's a very different culture, although overall they have the same company culture. So adapting the change programme to the needs of a particular department or leaders of that area is very important."

Matt Paterson
Head of Customer Service, ING Australia – Financial Services

Figure 2.7 The quality of supervisors as a barrier to improved productivity



Why is the quality of supervisors such a prominent barrier to improved productivity? The answer may lie in the skills managers have and the training they are given to develop those skills. The average manager receives just over 10 days of training per year. But in Australia and the United Kingdom, where the quality of supervisors is a more critical barrier to productivity, managers receive just over six days of training per year.

40% of the managers surveyed worldwide think that supervisors and middle managers need more training then they are getting. In Australia, over 60% of managers surveyed think supervisors and middle managers need more training than they currently receive.

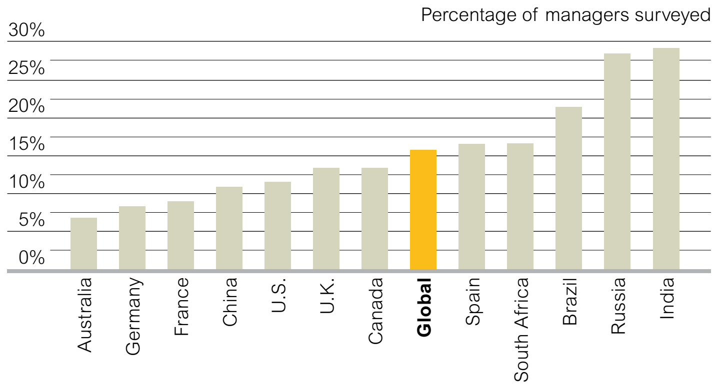
Misalignment of corporate goals and objectives with staff performance or bonus metrics

The second management-related barrier to improved productivity concerns the misalignment of corporate objectives with staff performance metrics. When this misalignment exists managers are measured – and often rewarded – on activities which don't necessarily support the corporate objectives. The result is often managers devoting their time to activities which do not drive productivity gains.

Job descriptions for managers often spend one line or bullet-point on managing a staff and several lines on producing a variety of reports, serving on key committees, and briefing senior management. Training may be mentioned in an omnibus statement about "developing the department (or team)". Little or no mention is made about how managers should supervise their workers. Consequently, managers spend their time producing a variety of reports, serving on key committees, and briefing senior management, but not focusing on the activities which could have the greatest impact n improving productivity.

As Figure 2.8 shows, the misalignment of corporate objectives and staff performance metrics is a more significant issue in emerging markets than in more mature markets. This misalignment was ranked by managers in India as the number three barrier to improved productivity. In Russia and Brazil managers ranked this misalignment as the number four productivity barrier.

Figure 2.8 Misalignment of corporate goals as a barrier to improved productivity



Engagement of management during change

Two of the four management-related barriers to improved productivity relate to the role of management during change. Change is an inevitable part of the day-to-day evolution of companies as new ideas and innovations are introduced. It also can be a dedicated programme which many companies undertake to target a particular element of their business which needs attention.

During change, there are three components which companies must address to achieve a successful outcome:

- effective supervision, guidance, and buy-in from management;
- understanding, support and buy-in from the workforce; and
- crystal clear communication between all parties.

All these issues are interlinked, and management has a distinct role to play in all three of them. The role of the workforce during change is explored in Chapter 3 and the importance of clear communication during change is detailed in Chapter 4.

Managers surveyed were asked to give their opinion on two metrics of senior management during change: the inability of senior management to implement change programmes and the lack of desire of senior management to implement change programmes. While these barriers ranked low in the hierarchy of productivity barriers (16th and 17th place, respectively), they can be almost insurmountable barriers to improved productivity. If senior management cannot or will not embrace change, the company will suffer as competitors innovate, change, and leave them behind.

"I think there is a lack of middle and senior management talent in China, which could lead to problems in the future, restraining our growth speed. This talent shortage will not influence our operation or our productivity at the current stage, but if we want to grow further or improve our efficiency, it is likely that we will need talent with better management skills."

Executive in a Chinese manufacturing company

"We are going through a lot of change at the moment, creating a new role of Head of Business Improvement because we are taking productivity a lot more seriously."

Matt Paterson
Head of Customer Service,
ING Australia – Financial Services

"I would guess that those two or three levels below me receive 2-3 days of specific training programmes each year. These are specific training programmes, not on-the-job training or the occasional situation where someone takes a couple of hours to show something that they have put together to their co-workers."

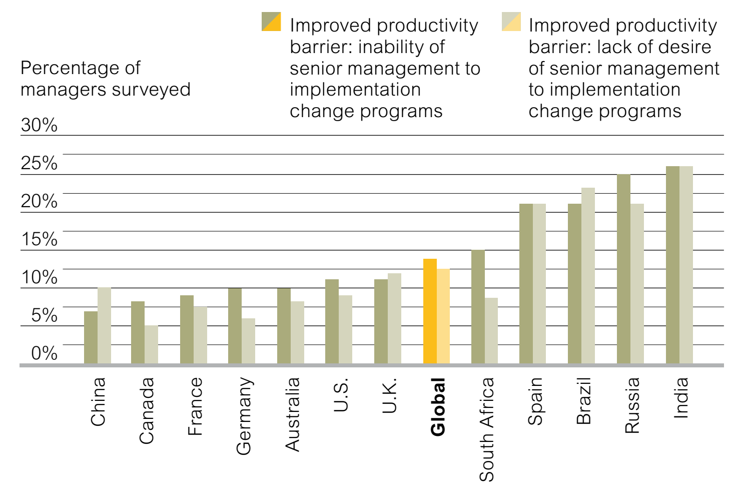
Executive in a foreign-owned manufacturing company located in Germany

The inability of senior management to implement change programmes is a skills issue. It is not that senior management doesn't want to implement change, it is that they cannot. This is a particularly critical issue in India and Russia, where over 25% of managers surveyed report their senior management teams are unable to implement change programs. The challenge is similarly steep in Spain (21%) and Brazil (21%).

The lack of skills to drive change may exist because senior managers are not given the tools to do so. Change-related training often focuses on new technologies or new performance methodologies, focusing on building technical competency. But it is only recently that change management training has been embraced by organisations. In those markets where the inability of senior management to implement change programmes is most acute, the integration of change management training into senior management training programs may be lagging.

The second management-related change barrier – lack of desire of senior management to implement change – is an interesting metric because it focuses on the motivation and desire of senior management to embrace change, rather than on the skill set necessary to implement change. This is a particularly critical issue in India (cited by 26% of managers), Brazil (23%), Spain (21%), and Russia (21%). In these markets, managers surveyed believe their senior management teams lack the desire to implement change programs. The lack of desire could be driven by several factors: first, with economic growth so robust in BRIC economies in recent years, managers in those markets may lack the desire to implement change programs because they don't sense a compelling need to do so; second, these are the same markets where their may be a change management skills gap. Absent the necessary skills to implement change programs, management may be less willing to make the effort, less willing to take the risk that comes with any change initiative.

Figure 2.9 Engagement of management to change as a barrier to improved productivity



Managers were asked if they think these conditions will improve, deteriorate, or stay the same over the coming year. The most optimistic managers are in Brazil, where 74% of managers in Brazil think their senior management teams will improve their ability to implement change programs. This is 27 points above the global norm. Similarly, 67% of managers in India think their senior management teams will improve their ability to implement change programs. As noted earlier, training can have a significant impact on the ability of managers to implement change programmes, and the majority of managers report their companies are planning to invest in management training in the coming year. Please refer to Chapter 5 to learn about this issue in further detail.

Brazilian managers are also the most optimistic about improvements in senior management's desire to implement change programmes. 72% of managers in Brazil, and 69% of managers in India, think they will see increased desire in the part of their senior management teams to implement change.

"I think you need an inclusive management style when implementing change. There will be resistance, but one big learning for us was that if you give people responsibility, they can over-achieve and can be very impressive."

Ed Sanchez
CEO and President,
Lopez Foods – United States

Figure 2.10 Managers' plans to improve productivity over the next 12 months by country (figures in dark green indicate the most cited plan to drive productivity per market)

	Global	Australia	Brazil	Canada	China	France	Germany	India	Russia	South Africa	Spain	U.K.	U.S.
Investing in workforce skills development and training	81%	86%	88%	83%	73%	84%	88%	67%	59%	91%	98%	82%	85%
Investing in management skills development and training	78%	83%	88%	86%	79%	81%	79%	60%	59%	83%	89%	79%	73%
Increasing capital expenditure on IT and communications technology	58%	58%	78%	57%	52%	41%	47%	68%	48%	62%	64%	59%	70%
Investing in improved employee benefits to improve staff morale	58%	50%	70%	51%	71%	43%	36%	63%	42%	71%	72%	53%	50%
Updating the physical layout of existing operations	57%	54%	79%	68%	36%	66%	55%	57%	18%	76%	42%	69%	68%
An initiative to improve performance via culture change	56%	78%	71%	65%	43%	45%	43%	50%	35%	70%	67%	68%	51%
Increasing capital expenditure on plant and machinery	56%	57%	64%	54%	44%	42%	43%	63%	46%	75%	57%	56%	64%
Embracing a performance methodology (Kaizan, Lean, Six Sigma)	52%	55%	57%	54%	44%	64%	38%	46%	20%	75%	65%	57%	53%
Lobbying government for changes in legislation and regulation	25%	37%	20%	31%	7%	25%	23%	21%	14%	42%	20%	22%	42%
Outsourcing a department to a third party	23%	31%	15%	20%	8%	33%	19%	44%	16%	20%	21%	24%	29%
Moving an existing department (or plant) to a cheaper location	18%	14%	23%	21%	12%	21%	14%	25%	6%	20%	17%	26%	23%
In-sourcing, or moving a previously outsourced function back	17%	30%	10%	15%	3%	17%	19%	12%	14%	20%	22%	23%	21%

Productivity plans for management-related issues over the next 12 months

Managers report their companies are planning to undertake a variety of measures to drive productivity gains over the next 12 months, three of which relate to management issues discussed in this chapter (Figure 2.10 and Figure 2.11). The most common management-focused initiative to drive productivity gains is investment in the training and skills development of management, cited by 78% of managers surveyed. Only workforce training and skills development (cited by 81% of managers surveyed), ranked higher on the list of planned initiatives to drive productivity gains.

The second management-related initiative to drive productivity gains over the next 12 months involves culture change. Executing a culture change initiative successfully requires the support and buy-in of the entire company, but particularly the support and buy-in of managers at all levels. Change initiatives bring uncertainty and fear, and it is the role

Figure 2.11 Managers' plans to improve productivity over the next 12 months by sector (figures in dark green indicate the most cited plan to drive productivity per sector)

	Global	Mining	Financial Services	Manufacturing	Food & Beverage	Communications	Energy	Automotive	Retail
Investing in workforce skills development and training	81%	86%	80%	82%	80%	75%	84%	88%	78%
Investing in management skills development and training	78%	80%	75%	83%	78%	71%	81%	84%	74%
Increasing capital expenditure on IT and communications technology	58%	58%	61%	53%	53%	60%	59%	60%	64%
Investing in improved employee benefits to improve staff morale	58%	66%	56%	57%	50%	61%	56%	55%	60%
Updating the physical layout of existing operations	57%	59%	51%	56%	65%	46%	56%	64%	59%
An initiative to improve performance via culture change	56%	59%	49%	64%	52%	48%	52%	64%	53%
Increasing capital expenditure on plant and machinery	56%	68%	38%	59%	66%	49%	58%	58%	52%
Embracing a performance methodology (Kaizan, Lean, Six Sigma)	52%	53%	39%	66%	48%	42%	41%	69%	45%
Lobbying government for changes in legislation and regulation	25%	35%	17%	22%	25%	18%	36%	26%	19%
Outsourcing a department to a third party	23%	24%	21%	26%	18%	27%	26%	28%	16%
Moving an existing department (or plant) to a cheaper location	18%	17%	15%	23%	15%	18%	12%	26%	18%
In-sourcing, or moving a previously outsourced function back	17%	24%	9%	18%	12%	23%	27%	25%	13%

of management through its words and actions to allay those concerns and foment acceptance of the new direction. (Please refer to Chapter 3 for information on the workforce's role in change programmes).

Implementing change initiatives is a more common activity in more mature markets than in emerging ones. Older, more established companies, are more likely to need a program of significant change to remain competitive than those companies which are younger and less bound by practices stretching back decades or more. Still, it is surprising to find 78% of managers in Australia reporting their companies will undertake change initiatives in the coming year. This represents a significant casting-off of old practices and culture across most of the Australian business community. Similarly high levels of planned change implementation are found in Brazil (71%), South Africa (70%), and Spain (67%).

Matt Paterson, Head of Customer Service at ING Australia, noted that: "*Persuading our workforce to embrace change is probably one of my number one priorities in my role. We've definitely realised that changing the culture and behavior of the individuals in the team and front managers is possibly the hardest thing, but the most important thing, to do*".

The third management-related plan to drive productivity gains is the adoption of a performance methodology such as Six Sigma or Lean. While 52% of managers surveyed worldwide report their companies will undertake this type of performance methodology initiative in the coming year, 75% of South African managers indicated that performance methodologies are in their companies' futures. Similarly, 69% of Automotive sector managers and 66% of Manufacturing sector managers report their companies plan to implement new performance methodologies in the coming year.

These types of initiatives cannot succeed without the support of management. That support has to go beyond simple acceptance of the new methodology. It requires that managers embrace the change with enough enthusiasm to serve as missionaries or ambassadors to the general workforce.

"In the past, organisations could have said to employees, 'ok, we are going through a major transformation, things are going to be rough for the next 18 months but we will come out at the end and we need you to bear with us'. Now employees evaluate that against, 'what's in it for me?' This represents a much greater challenge for management than perhaps has existed in the past."

Robert Nason
Managing Director, Wagering,
Tabcorp – Retail, Australia

Chapter 3

Focus on the second lever of productivity: workforce

Research conducted for this report revealed that unproductive workforce time is on the rise, yet what is causing this? Managers worldwide are more worried about factors relating to their workforces than any other category, but what is it that is concerning them so much? This chapter examines the working habits of workforces around the world, evaluating the impact their activities have on productivity. It also examines key workforce barriers to improving productivity over the next 12 months, and what plans managers have to address this.

The findings of this chapter are based on the results of quantitative research conducted with 1,276 managers who have first-hand day-to-day knowledge of productivity issues and performance in companies with annual revenues of over US$100m. These findings have been supplemented by a detailed analysis of data from Proudfoot on-site studies of worker activities, collected during engagements with companies around the world.

"The most important indicator of productivity is definitely wasted work in any shape or form. This can be measured very easily in manufacturing by measuring idle time or rejected quotas. It's more difficult to determine in administration, but lack of productivity manifests itself by drawn-out discussions, slow decision-making and catching up in any shape or form".

Executive in a foreign-owned manufacturing company located in Germany

Unproductive workforce time is rising

During 2007, workforces around the world became more unproductive. The percentage of a worker's time spent on unproductive activities rose 2.2 points to 34.3% (Figure 3.1). Put another way, workers spend 89.5 days of every working year (or 1.7 days of every workweek) doing things which do not deliver productive results for their company.

Of the countries covered in this report, only two – Australia and the United Kingdom – posted reductions in unproductive workforce time in 2007. Proudfoot's on-site engagement data found that unproductive workforce time in Australia currently stands at 22.9% of the workweek. It accounts for 26.0% of the workweek in the United Kingdom and 26.1% in Canada. In sharp contrast to these countries, unproductive time is 10-15 points higher in South Africa (41.8%), Germany (40.2%), Brazil (39.8%), France (38.8%), and the United States (37.4%), with all these countries posting increases in unproductive time in 2007.

When the data is analyzed by sector, there is a great disparity in unproductive workforce time across sectors (Figure 3.2). The Retail sector emerged as the most productive, registering only 19.4% unproductive time, down 4.5 points from 2006. At the other end of the spectrum, the Mining sector suffers from the greatest share of unproductive time, reaching 43.7% of the average worker's workweek in 2007. This high share of unproductive time is down slightly from 2006, dropping 0.6 points.

Figure 3.1 Global unproductive workforce time as a share of all (2006 vs 2007)

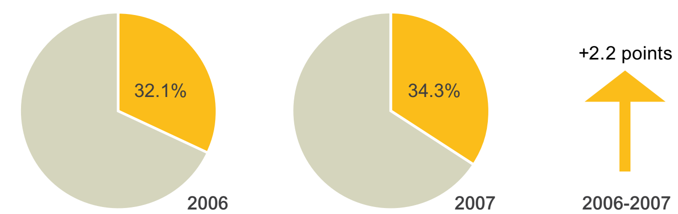
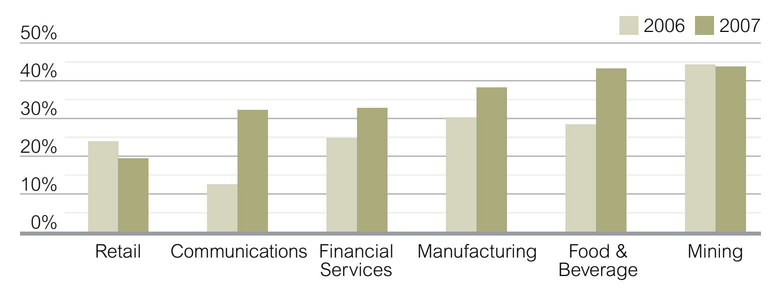


Figure 3.2 Unproductive workforce time by sector



The rise in unproductive workforce time in 2007 reached across most sectors, with the Food & Beverage, Manufacturing, Financial Services, and Communications sectors all suffering increases in unproductive time. In the Food & Beverage sector, unproductive time reached 43.2% of the workweek – equivalent to 2.16 days every week devoted to unproductive activities, joining Mining as the only sectors where unproductive time exceeded two days per week.

Summary of workforce barriers to improved productivity

Overall, workforces around the world are becoming less productive. To uncover why this is happening, managers were asked to identify the most important barriers preventing their companies from increasing their productivity.

As can be seen in Figure 3.3, out of the eight most significant barriers identified by managers worldwide, five relate to the workforce.

A workforce-related factor occupies the top slot as the most prominent barrier – staff shortages and an insufficient labour pool – cited by 27% of managers worldwide. This is followed by low employee motivation and morale (21%) in fourth place and high staff turnover rates (20%) in fifth place. Issues relating to the engagement of the workforce during change programmes fall just outside the "top six barriers" in seventh and eighth place.

Each of these workforce factors will now be addressed in turn, examining how each issue varies between countries and sectors.

Figure 3.3 Workforce barriers to improved productivity

Rank	Factor	Category	Percentage of managers surveyed who regard the factor to be a key barrier to improved productivity
1	Staff shortages and an insufficient labour pool	Workforce	27.4%
2	Internal communication problems	Communication	25.1%
3	Legislation and regulation	External	21.9%
4	Low employee motivation and morale	Workforce	21.2%
5	High staff turnover rates	Workforce	19.9%
6	Quality of supervisors	Management	19.6%
7	Inability of general workforce to adopt change programs	Workforce	18.4%
8	Lack of desire of general workforce to adopt change programs	Workforce	17.9%
9	Lack of training for general workforce	Training	17.4%
10	Problems with IT and communications technology	IT	17.3%
11	Lack of management training	Training	17.2%
12	Outdated equipment	IT	16.9%
13	Lack of funds to implement change programs	Financial	16.1%
14	Misalignment of corporate goals/objectives with staff performance or bonus metrics	Management	15.7%
15	The need to comply with strict safety standards	External	15.0%
16	Inability of senior management to implement change programs	Management	14.5%
17	Lack of desire of senior management to implement change programs	Management	13.3%
18	External communication problems between suppliers and customers	Communication	13.2%

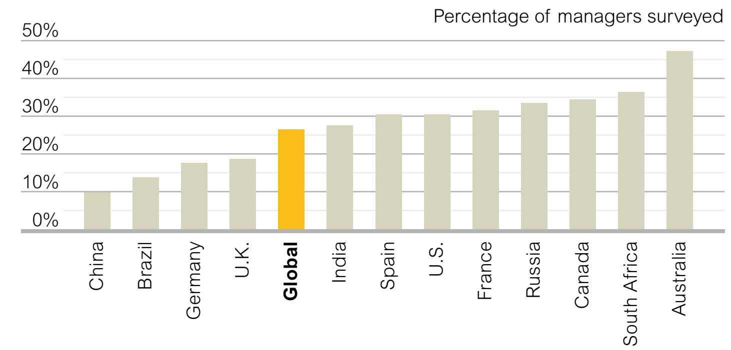
"Employees will drive productivity; not managers, not processes".

Mandla Shezi
Managing Director, Hollard Life Company – Insurance, South Africa

Workforce barrier: staff shortages and an insufficient labour pool

The most prominent barrier to improving productivity at the company level around the world is recruitment related: shortages of staff and an insufficient labour pool (Figure 3.3). This is an issue cited by more than one in four managers (27%), most prominently in Australia (48% of managers surveyed), South Africa (37%) and Canada (35%) (Figure 3.4).

Figure 3.4 Recruitment problems as a barrier to improved productivity



At the other end of the spectrum, only 10% of managers surveyed in China cited staff shortages and labour pool issues as a barrier to improving their productivity. In Brazil, only 14% of managers cited the issue, leaving it outside the top ten barriers for the country.

Across most industries, staff shortages and an insufficient labour pool are proving to be a key issue (Figure 1.8). This is most notably the case in Mining, where 31% cited the issue, easily making it the number one barrier in the sector. To combat this, many companies in the sector have introduced initiatives to widen the labour pool of skilled staff. An executive in a Chinese mining company explains: "*Because we have a problem recruiting suitable staff, we select several good quality universities in China and set up a scholarship for their students. They do not need to work in our company – what we want to achieve is to encourage the industry to invest in the development of talent*".

Staff shortages were also identified as the greatest barrier to improved productivity in a large number of sectors, including in Food & Beverage, Financial Services, Automotive and Retail.

Analysis of Proudfoot engagement data for 2007 found that an absence of appropriate skills amongst the workforce was the fourth leading cause of unproductive time, accounting for 14.9% of unproductive workforce time observed. And the problem is only getting worse: the share of unproductive time caused by the lack of the necessary skill set at the workforce level more than doubled in 2007 from the 2006 level of 6.5%.

Managers were asked whether they expect their problems with Staff shortages and an insufficient labour pool to improve, deteriorate or stay

"The labour market is very strong in Australia, so there is competition for talent probably more so than it ever has been and attracting good quality people is something that means you have to meet what the market requires to attract the right sort of talent".

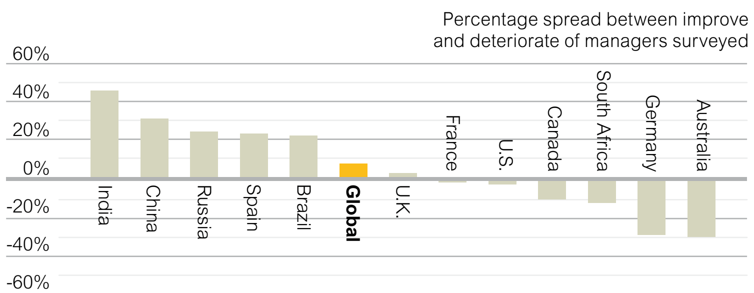
Robert Nason
Managing Director, Wagering, Tabcorp – Retail, Australia

the same over the next 12 months. Globally, 27% of managers think their situation will improve, while 19% think it will get worse, resulting in a positive spread of 8 points.

As Figure 3.5 shows, BRIC countries are the most optimistic, led by India with a positive spread of 46 points. Second came China (31 point positive spread), Russia (24 point spread) and Brazil (22 point spread) in fifth place. The only developed country optimistic about improvements in their staff shortage problem was Spain (23 point positive spread).

Apart from the United Kingdom (2 point positive spread), all other nationalities surveyed were less hopeful, with managers in Germany (-29 points) and Australia (-30 points) fearing the next 12 months the most.

Figure 3.5 Managers' predictions for labour pool issues over the next 12 months



Two additional factors which must be evaluated when looking at the barrier of an insufficient labour pool are the migration of workers and the cost of labour. 24% of managers surveyed worldwide said that immigration of workers will affect their companies over the next 12 months, as did 17% of managers referring to emigration (Figure 3.6). 74% are concerned about the rising costs of labour, whilst only 4% of managers think they will benefit from falling labour costs.

As Figures 3.4 and 3.6 demonstrate, managers in Australia find the labour pool a larger barrier than other nationalities surveyed. They are, therefore, looking to immigration to solve their problems, with 46% of Australian managers expecting immigration to alleviate their problems over the next 12 months. Other managers looking to immigration to lessen the labour pool barrier are those in Canada (48%), where concerns about the rising costs of labour are also high (82%).

The impact of workers moving out of the country is an issue worrying a large majority of managers in South Africa (59%). Mandla Shezi, Managing Director of Hollard Life Company in South Africa observed: "*Our biggest constraint to improving productivity is the shortage of skills, which is much more acute in this part of the world*", so it is easy to understand why an outflow of workers would negatively impact South African

"In Russia, the main market factor impacting productivity is the labour market. Labour shortages have led to salary rises of about 20-25% annually over the last few years, and this cost grows considerably faster than productivity. Certainly, such an increase in labour costs makes us think about increasing productivity of our workforce".

Igor Kamenetsky
Research and Forecast Director, LSR Group – Construction, Russia

"The famous German skilled worker is not available to the extent we would like to see. This increasingly applies to qualified work such as engineering and chemistry. We definitely suffer from a lack of qualified workers."

Executive in a foreign-owned manufacturing company located in Germany

companies. Managers in India (33%) and the United Kingdom (25%) also think that emigration will affect their companies over the next year, yet managers in India also expect falling labour costs to benefit their companies more than any other nationality surveyed.

Some managers do not believe the flow of workers – either in or out of their country – will affect their companies to any significant degree. This is the case amongst managers in France, Germany and China, where the issue is cited by less than 15% of managers surveyed.

A large proportion of managers across the board expect rising labour costs to affect their companies, ranging from 56% of managers in India to 89% of managers in South Africa. Very few managers expect to experience falling labour costs.

Figure 3.6 Predictions for the impact of labour-related factors over the next 12 months

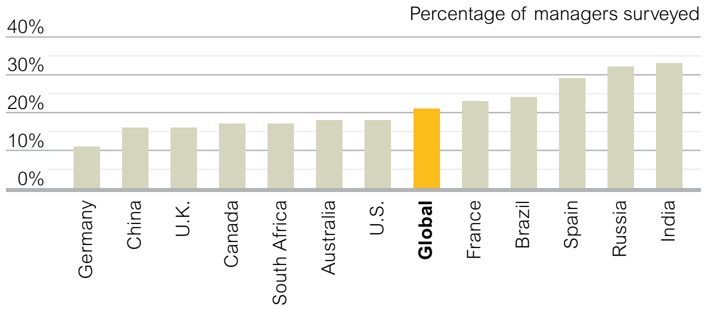
Country	Rank of managers citing labour pool issues as a barrier to improved productivity	Issues managers predict will impact them: migration into their country	migration out of their country	rising labour costs	falling labour costs
Australia	1	46%	9%	88%	3%
South Africa	2	29%	59%	89%	2%
Canada	3	48%	18%	82%	3%
Russia	4	12%	9%	47%	4%
France	5	8%	1%	71%	2%
U.S.	6	30%	4%	80%	1%
Spain	7	38%	14%	84%	4%
India	8	28%	33%	56%	8%
U.K.	9	29%	25%	75%	3%
Germany	10	11%	7%	78%	0%
Brazil	11	10%	17%	69%	7%
China	12	5%	6%	72%	10%
Global	–	24%	17%	74%	4%

Workforce barrier: low workforce motivation and morale

Low employee motivation and morale is the fourth-ranked worldwide barrier to improved productivity, cited by 21% of managers (Figure 3.7). It is also the second most important workforce-related barrier (Figure 3.3).

As with other barriers, the significance of low employee motivation and morale varies widely across countries and sectors. It is the leading barrier cited by managers in India (33%) and the number three barrier in Russia (32%) (Figure 3.7). Low motivation and morale, on the other hand, is a less significant barrier in more mature economies such as Germany (11%), the United Kingdom (16%), and Canada (17%).

Figure 3.7 Low workforce morale as a barrier to improved productivity



One of the key challenges facing managers in China isn't to improve the motivation levels of their staff, but to drive productivity improvements based on a different corporate culture, which can subsequently impact staff morale. An executive in a Chinese manufacturing company explains: "*One of our biggest challenges over the next few years is differentiation. In Chinese tradition everyone is equal, so differentiation is a challenge as it advocates the opposite. We run a program to evaluate the performance of our staff, with KPIs for each individual. Staff are given scores based on different performance levels, which are designed to be as quantitative as possible. With this system, things will be better.*"

Low employee motivation and morale is a significant barrier in the Mining (25%) and Retail (24%) sectors (Figure 1.8). In both sectors, it stands as the number two barrier to improved productivity. In contrast to these sectors, low motivation and morale does not rank as a top-five barrier in either the Energy (15%) or the Food & Beverage (19%) sectors.

During Proudfoot's on-site engagements, the issue of low workforce morale was examined. It ranked fifth as a cause of unproductive workforce time measured, accounting for 9.9% of all unproductive time observed.

During interviews with c-level executives, Proudfoot learned that in certain sectors, single factors such as safety can have a significant influence on workforce motivation and morale, and as a result, on productivity. This is certainly the case for JSW Steel Limited in India. Sharad Mahendra, Associate Vice President of Sales and Marketing explains: "*We are extremely, extremely safety-conscious. We use the latest technology and safety standards available, so that when our people are working, they feel secure that their safety is of prime importance. As they feel safe, their productivity as an individual goes up, which ultimately impacts the productivity of the organisation*".

Managers surveyed were asked whether they expect the level of employee motivation and morale in their companies to improve, deteriorate or stay the same over the next 12 months. Globally, 50%

"It is the employees and management who have control over our productivity, and that's based on how well they're motivated for it."

Ed Sanchez
CEO and President,
Lopez Foods – United States

"Employees need to be taken care of on a personal front and on a professional front. Three things are key: authority, responsibility and accountability. If you give this to an individual, the individual knows what their goals are and they will be happy to deliver. There should not be anything vague."

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited, Manufacturing, India

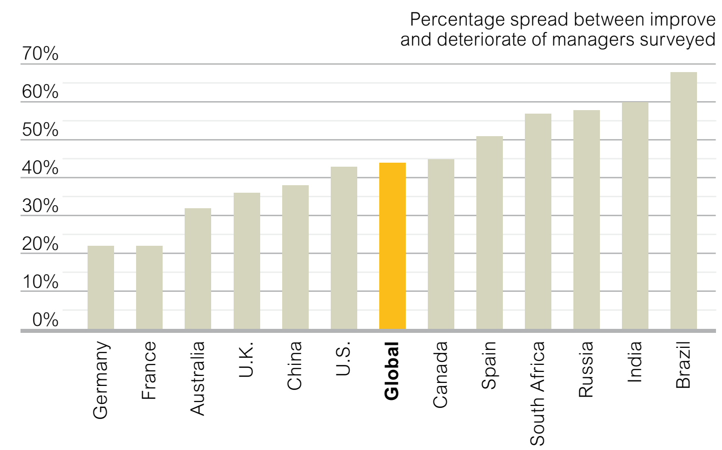
of managers thought their situation would improve, while only 6% thought it would get worse, resulting in a positive spread of 44 points. This is the most optimistic spread of all workforce metrics surveyed.

As Figure 3.7 demonstrates, every market surveyed posted a positive spread in their predictions on workforce motivation levels over the next 12 months. This could reflect managers' confidence in their ability to influence employee morale directly in the coming year.

Brazilian managers (67%) are the most confident in their ability to improve their workforces' morale levels, followed by India (60%) and Russia (57%). As seen when examining staff shortages, it is the more developed countries which are more pessimistic. Managers in France and Germany reported a positive spread of 22 points – which is low considering the global average is double that figure (44%).

A broad range of optimism was also recorded amongst managers in different sectors. The positive spread ranged from the lowest of 37 points (Financial Services) to the highest, or most optimistic, spread of 56 points – found in Mining, where only 1% of managers thought the situation would deteriorate.

Figure 3.8 Managers' predictions for workforce morale over the next 12 months



Workforce barrier: high workforce turnover rates

The fifth largest barrier to improved productivity identified by managers worldwide is high staff turnover rates, cited by 20% of all managers surveyed (Figure 3.9). It is also the third most important workforce-related barrier (Figure 3.3).

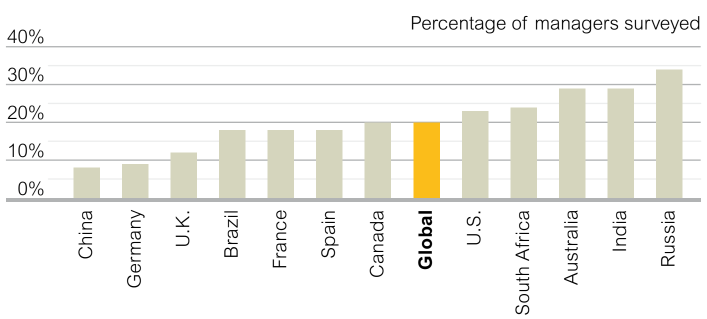
High staff turnover rates are a particularly significant barrier in the emerging countries of Russia (cited by 34% of managers) and India (29%). It is one of the top three barriers to improved productivity in

Russia and is the largest barrier in India. But a high staff turnover is not just an emerging country issue: 29% of managers in Australia cited this as a critical barrier to improved productivity, ranking it number two in the country. In Russia and Australia, labour pool shortages and a high staff turnover were the top two barriers cited, suggesting a possible linkage.

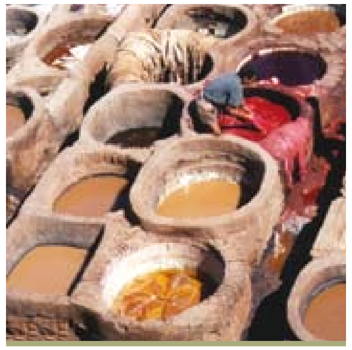
There are two scenarios which could explain this possible linkage: first, a shortage of workers with highly coveted skills could make those workers who possess the skills in question so valuable that they can profit enormously by jumping from opportunity to opportunity; second, a shortage of workers with highly coveted skills puts a greater burden on the employer to provide workers with the necessary training to develop those skills. Absent that training, workers find it more difficult to succeed. Failing to meet employer demands leads to low morale, which in turn fuels a desire to seek greener pastures at another employer, fueling a rise in staff turnover.

Given the ample volume of workers in China, it is not surprising that high staff turnover is one of the lowest-ranked barriers in China, cited by only 8% of managers in the country. What may be surprising is that only 9% of German managers and 12% of managers in the United Kingdom cited a high staff turnover as a critical barrier.

Figure 3.9 High staff turnover rates as a barrier to improved productivity



High staff turnover rates are a particularly acute issue in the Communications sector (cited by 28% of managers) and the Retail sector (25%), ranking as the top barrier to improved productivity in both sectors (Figure 1.9). In the Retail sector, low employee motivation and morale was cited as the number two barrier to improved productivity, and it is not unreasonable to suggest a linkage between these two issues that mirrors the second linkage scenario outlined above. Concurrently, it is not surprising to find the fewest managers citing a high staff turnover as a barrier in the Energy and Food & Beverage sectors (cited by 17% of managers in each sector); these are the two sectors in which low employee motivation and morale was also cited by the lowest percentage of managers.



"To prevent a high turnover of staff, the staff need to buy-in to where the company is going and what is the strategic direction – doing that in a fair fashion so that employees stay motivated with targets that they believe they can achieve. All of this is basically a question of leadership as well as people getting behind and supporting the management team, with the focus on employees."

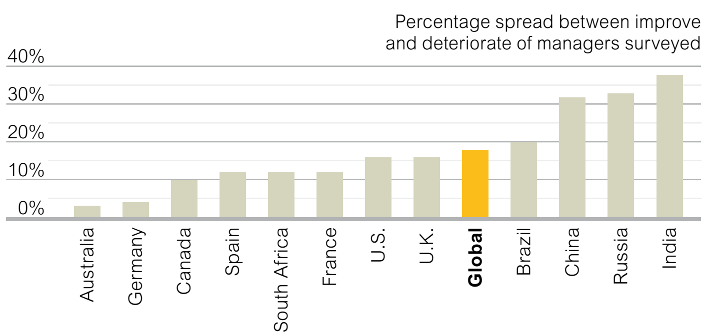
Robert Nason
Managing Director, Wagering, Tabcorp – Retail, Australia

During the interviews conducted for this report, many executives discussed their strategies to keep their workforces engaged, and therefore to reduce the rate of staff turnover. Two key methods emerged from these conversations: first, to make an effort to monitor how staff are feeling; and, second, to incentivise them with financial rewards. Matt Paterson, Head of Customer Service at ING Australia (Financial Services), highlighted this: "*To manage a high turnover of staff, we measure staff engagement. We look at a lot of reward and recognition programmes for our staff and we pay people quarterly cash bonuses to incentivise them, based on performance*". Igor Kamenetsky, Research and Forecast Director of the LSR Group (Construction) in Russia, also told Proudfoot that: "*Maintaining salaries at the average market level has been our main instrument for retaining staff*". Ed Sanchez, CEO and President of Lopez Foods in the United States aims to retain his staff through other benefits: "*To prevent turnover, you have to be competitive in wage and competitive in your benefits package; health care here in the United States is a big issue*".

When evaluating how the situation might change over the next 12 months, 29% of managers worldwide expect high staff turnover rates to improve and 11% expect them to deteriorate, leaving a positive spread of 18 points. It is only the four BRIC countries which have a positive spread greater than the global average. Managers in India lead the pack (38 point spread), followed by Russia (33 point spread), China (32 point spread) and then Brazil (20 point spread). It is also managers in India and Russia who are the most optimistic about improvements in staff turnover rates, as it was cited by 46% of managers surveyed in those countries.

Australian managers are experiencing the most severe problems with staff shortages (Figure 3.4), so it is not surprising to see a lack of optimism amongst Australian managers for the overall improvement to staff turnover rates. The positive spread is just 3 points. This is also the case in Germany, with managers only reporting an optimistic spread of 4 points.

Figure 3.10 Managers' predictions for high staff turnover rates over the next 12 months



Looking at the breakdown according to sectors, managers in the Energy sector reported a positive spread of 11 points. At the optimistic end of the spectrum, the Automotive sector has the highest positive spread (27 point spread) followed by Retail (26 point spread). The highest expectation for overall improvement was in the Communications sector (36% of managers surveyed), with a positive spread of 25 points.

Workforce barrier: engagement of the workforce during change

Other key workforce barriers identified by managers relate to the engagement of the workforce during change (Figure 3.3). Change is an inevitable part of the day-to-day evolution of companies as new ideas and innovations get introduced. It also can be a dedicated programme which many companies undertake to target a particular element of their business which needs attention.

During change, there are three components which companies must address to achieve a successful outcome:

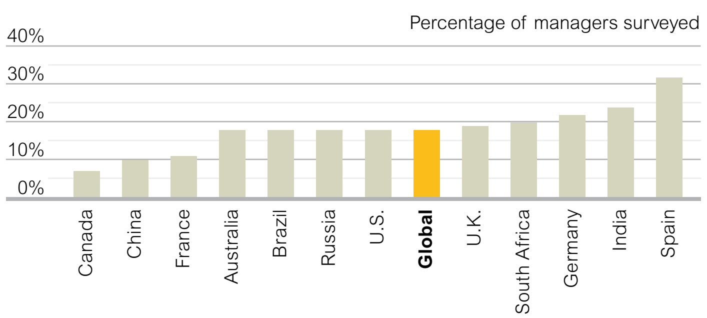
- understanding, support and buy-in from the workforce;
- effective supervision and guidance from management; and
- clear communication between all parties.

All these issues are interlinked, and the second and third of these components of successful change are discussed in more detail in Chapters 2 and 4 respectively.

Managers surveyed were asked to give their opinion on two metrics of the workforce during change: the lack of desire of the workforce to adopt change programmes and the inability of the workforce to adopt change programmes.

Looking at the first aspect – lack of workforce desire to adopt change programmes – just under one fifth (18%) of managers worldwide identified this is a key barrier to improving their productivity (Figure 3.11). 32% of managers in Spain cited this as a key barrier to

Figure 3.11 Lack of workforce desire to adopt change as a barrier to improved productivity



improved productivity, more than their counterparts, and significantly higher than any other market surveyed.

The executive interviews are quite revealing when it comes to evaluating the importance of workforce desire and the impact this can have on productivity.

Decio Carbonari de Almeida, Managing Director of Volkswagen Financial Services in Brazil explained the biggest challenge many senior managers face when introducing change programmes: "*In every change, the most difficult part of the process is moving people out of their comfort zone. Analyzing a problem is more complicated when it involves a change in mindset, changing the habits of people inside the organisation. When you create a programme that will interfere with company culture, there is no doubt that the biggest obstacle is the reaction of those affected*".

In order to help people through the change programme, employee engagement and collective support is crucial. For this to be achieved, it is essential that management receives buy-in from the workforce as early as possible. Mandla Shezi, Managing Director of Hollard Life Company in South Africa highlights that this, however, is not as simple as it sounds: "*Employee buy-in for change is not just doing a presentation. It is about engaging people at their level as to how the change is either positive or negative for them. And if it's negative, then very early on the plans to deal with that negativity must be laid upfront*".

Ed Sanchez, CEO and President of Lopez Foods in the United States, recounted a recent change programme his company initiated where the workforce was fearful certain roles would be cut. Yet, due to involvement of the workforce from day one, the programme overcame the initial resistance: "*We recently undertook a change programme, but our line people saw at it as a job elimination programme. So we got them involved and said here are our goals, this is not about people reduction, it is about increasing productivity. You need to communicate right up front and get buy-in from them, so they're able to lead it. That's the key.*"

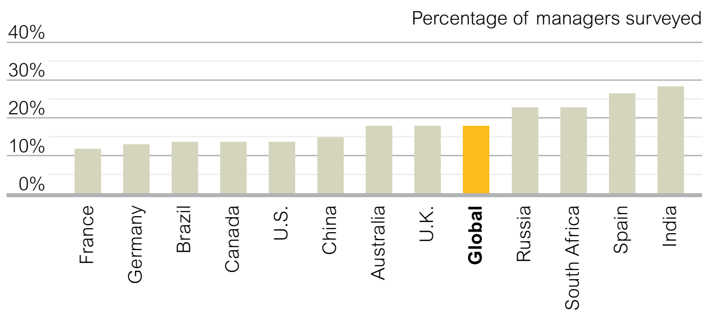
In some instances, however, the workforce can even become more engaged with the change process than those above them. As Decio Carbonari de Almeida notes: "*Curiously, in my experience, some lower level employees are quicker to understand why a change is happening and have then changed their attitude and behavior faster than their superiors. The managers then followed their lead.*"

When we look at the second change-related barrier – the inability of the workforce to adopt change programmes – a similar set of findings emerges. As highlighted in Figure 3.12, 18% of managers worldwide cited their workforces' inability to adopt change programmes as a key barrier to improved productivity. Managers in India (29%) and Spain (27%) once again top the global ranking for difficulties with the workforce during change.

Comparing Figure 3.11 with Figure 3.12, there are five nationalities which rate the inability of their workforce to adopt change programmes as a bigger barrier than lack of workforce desire to do so. These are Canada (spread of 7 points), India (5 points), Russia (5 points), South Africa (3 points) and France (1 point). In all these cases, effective training may reduce the barrier and help improve their productivity. This issue is explored in greater detail in Chapter 5.

Managers in Germany (-9 point spread), China (-5 point spread), Brazil (-4 point spread), United States (-4 point spread) and the United Kingdom (-1 point spread) all rate lack of desire as a bigger barrier than the workforce's inability to change. This suggests achieving effective workforce buy-in may be the solution to improving productivity in these countries.

Figure 3.12 Inability of workforce to adopt change as a barrier to improved productivity



Looking at managers' predictions for how the two change metrics will evolve over the next 12 months, managers worldwide think that the lack of workforce desire to adopt change programmes will improve (a positive spread of 46 points). A similar number of managers – a positive spread of 45 points – also think that workforce inability to adopt change programmes will improve.

The small difference between the motivation metric (lack of desire) and skills metric (inability) suggests companies need to focus on both elements in the year ahead to improve their productivity. This is a balance which many managers are already achieving: "*Taking a global approach, I think the combination of training staff, setting professional challenges and providing monetary rewards has helped us get through change.*" (Decio Carbonari de Almeida, Managing Director, Volkswagen Financial Services – Brazil).

Plans to drive productivity gains over the next 12 months

In order to engage employees and improve workforce productivity, managers are planning to introduce a variety of measures targeting the workforce.

Figure 3.13 indicates those plans cited by managers which are related to the workforce. The number one solution, identified by 81% of managers worldwide, is to invest in the skills development and training of the workforce. This is a key aim of managers in the more developed regions of Europe and North America, and less so in the emerging BRIC countries and the Asia-Pacific region. For a detailed discussion of training plans, please refer to Chapter 5.

The fourth most commonly-cited tactic to improve productivity in the coming year (cited by 58% of managers) is targeting levels of staff morale by improving employee benefits. Survey results indicated low levels of staff morale rate above average as a productivity barrier in

Figure 3.13 Managers' plans to improve workforce productivity over the next 12 months by country (figures in dark green indicate the most cited plan to drive productivity per market)

	Global	Australia	Brazil	Canada	China	France	Germany	India	Russia	South Africa	Spain	U.K.	U.S.
Investing in workforce skills development and training	81%	86%	88%	83%	73%	84%	88%	67%	59%	91%	98%	82%	85%
Investing in management skills development and training	78%	83%	88%	86%	79%	81%	79%	60%	59%	83%	89%	79%	73%
Increasing capital expenditure on IT and communications technology	58%	58%	78%	57%	52%	41%	47%	68%	48%	62%	64%	59%	70%
Investing in improved employee benefits to improve staff morale	58%	50%	70%	51%	71%	43%	36%	63%	42%	71%	72%	53%	50%
Updating the physical layout of existing operations	57%	54%	79%	68%	36%	66%	55%	57%	18%	76%	42%	69%	68%
An initiative to improve performance via culture change	56%	78%	71%	65%	43%	45%	43%	50%	35%	70%	67%	68%	51%
Increasing capital expenditure on plant and machinery	56%	57%	64%	54%	44%	42%	43%	63%	46%	75%	57%	56%	64%
Embracing a performance methodology (Kaizan, Lean, Six Sigma)	52%	55%	57%	54%	44%	64%	38%	46%	20%	75%	65%	57%	53%
Lobbying government for changes in legislation and regulation	25%	37%	20%	31%	7%	25%	23%	21%	14%	42%	20%	22%	42%
Outsourcing a department to a third party	23%	31%	15%	20%	8%	33%	19%	44%	16%	20%	21%	24%	29%
Moving an existing department (or plant) to a cheaper location	18%	14%	23%	21%	12%	21%	14%	25%	6%	20%	17%	26%	23%
In-sourcing, or moving a previously outsourced function back	17%	30%	10%	15%	3%	17%	19%	12%	14%	20%	22%	23%	21%

India, Russia and Brazil (Figure 3.7), so it is not surprising to learn that the countries reporting the highest incidence of plans to improve employee benefits in the coming year are in the Asia-Pacific region and the BRIC markets.

A third planned initiative which relates to the workforce is a focus on improving performance through initiating a culture change (56% of managers surveyed). As discussed earlier in the chapter, the engagement of the workforce from the start of any change is crucial, and whether or not buy-in is received has a key influence over its success.

Figure 3.13 evaluates the three workforce-related plans side by side by country. It is clear to see that the biggest workforce-centric initiative across all markets is a focus on skills development and training. Managers in the more developed countries plan to focus on training far more than on other workforce initiatives, whilst the BRIC countries are more balanced in their approach.

Figure 3.14 Managers' plans to improve workforce productivity over the next 12 months by sector (figures in dark green indicate the most cited plan to drive productivity per sector)

	Global	Mining	Financial Services	Manufacturing	Food & Beverage	Communications	Energy	Automotive	Retail
Investing in workforce skills development and training	81%	86%	80%	82%	80%	75%	84%	88%	78%
Investing in management skills development and training	78%	80%	75%	83%	78%	71%	81%	84%	74%
Increasing capital expenditure on IT and communications technology	58%	58%	61%	53%	53%	60%	59%	60%	64%
Investing in improved employee benefits to improve staff morale	58%	66%	56%	57%	50%	61%	56%	55%	60%
Updating the physical layout of existing operations	57%	59%	51%	56%	65%	46%	56%	64%	59%
An initiative to improve performance via culture change	56%	59%	49%	64%	52%	48%	52%	64%	53%
Increasing capital expenditure on plant and machinery	56%	68%	38%	59%	66%	49%	58%	58%	52%
Embracing a performance methodology (Kaizan, Lean, Six Sigma)	52%	53%	39%	66%	48%	42%	41%	69%	45%
Lobbying government for changes in legislation and regulation	25%	35%	17%	22%	25%	18%	36%	26%	19%
Outsourcing a department to a third party	23%	24%	21%	26%	18%	27%	26%	28%	16%
Moving an existing department (or plant) to a cheaper location	18%	17%	15%	23%	15%	18%	12%	26%	18%
In-sourcing, or moving a previously outsourced function back	17%	24%	9%	18%	12%	23%	27%	25%	13%

Looking at managers' plans by sector (Figure 3.14), it is once again the case that investment in workforce training is the key workforce-centric initiative in every sector surveyed. Managers in the Mining sector (66%) and Communications sector (61%) report the highest incidence of planned staff motivation initiatives of the sectors surveyed. This, however, is at the bottom of plans for managers in the Automotive sector, Manufacturing sector and Food & Beverage sector, all sectors which are increasing their efforts towards creating a culture change. These industries, excluding Food & Beverage, feel very strongly about the need for culture change, as it is cited by more than 60% of managers surveyed.

Chapter 4

Focus on the third lever of productivity: communication

A quarter of managers (25%) surveyed for this report identified internal communication problems as a critical barrier to improving their company's productivity, making this the second greatest barrier cited. This chapter evaluates how effective companies are at communicating both internally and externally, and how they envisage this situation will change in the future.

The findings of this chapter are based on of the results of quantitative research conducted with 1,276 managers who have first-hand day-to-day knowledge of productivity issues and performance in companies with annual revenues of over US$100m. These findings have been supplemented by a series of in-depth interviews with c-level executives from companies around the world as well as by a detailed analysis of data from Proudfoot on-site studies of worker and supervisor activities, collected during engagements with companies around the world.

How poor communication can hinder productivity gains

Effective communication lies at the heart of any organisation's productivity. Whether communicating between internal departments, up to senior management, down to the workforce at large, or to external suppliers – the effectiveness with which this is done is crucial. But it is clear that internal communication plays a more significant role in productivity improvement – or the inability to achieve productivity gains – than does external communication.

When asked to identify critical barriers to improved productivity, one in four (25%) managers worldwide cited internal communication problems, making this the second greatest barrier to productivity improvement (Figure 4.1). External communication issues, on the other hand, were cited by only 13% of managers, ranking at the bottom of all identified barriers.

When each of these barriers is examined at the country level, significant differences emerge (Figure 4.2). Almost half of the managers surveyed in Brazil (47%) cited internal communication issues as a key barrier to productivity – almost double the global norm and easily the number one barrier cited in the market. Internal communications issues were also cited as the leading barrier to improved productivity by managers in Spain (37%) and Germany (27%).

For contrast, one would ordinarily look to those markets where a lower percentage of managers cited internal communication issues as a barrier,

Figure 4.1 Communication barriers to improved productivity

Rank	Factor	Category	Percentage of managers surveyed who regard the factor to be a key barrier to improved productivity
1	Staff shortages and an insufficient labour pool	Workforce	27.4%
2	Internal communication problems	Communication	25.1%
3	Legislation and regulation	External	21.9%
4	Low employee motivation and morale	Workforce	21.2%
5	High staff turnover rates	Workforce	19.9%
6	Quality of supervisors	Management	19.6%
7	Inability of general workforce to adopt change programs	Workforce	18.4%
8	Lack of desire of general workforce to adopt change programs	Workforce	17.9%
9	Lack of training for general workforce	Training	17.4%
10	Problems with IT and communications technology	IT	17.3%
11	Lack of management training	Training	17.2%
12	Outdated equipment	IT	16.9%
13	Lack of funds to implement change programs	Financial	16.1%
14	Misalignment of corporate goals/objectives with staff performance or bonus metrics	Management	15.7%
15	The need to comply with strict safety standards	External	15.0%
16	Inability of senior management to implement change programs	Management	14.5%
17	Lack of desire of senior management to implement change programs	Management	13.3%
18	External communication problems between suppliers and customers	Communication	13.2%

but doing so in this case can be misleading. Only 15% of managers in China cited internal communication issues as a barrier to productivity gains. While this is the lowest level noted in any market, internal communication issues still rank as the number two barrier to productivity gains in China, trailing only low employee motivation and morale.

When the impact of internal communication issues on productivity is examined at the sector level, the importance of effective communication is magnified. Internal communication issues were ranked by managers as one of the top two barriers to improved productivity in six of the eight sectors studied worldwide (Figure 4.3). Managers in the Energy, Manufacturing, and Automotive sectors identified this as the number one barrier standing between their company and productivity gains.

Looking at external communication issues, analysis revealed that managers are less concerned. Eighteen barriers to improved productivity were identified, and managers ranked problems with external communication to suppliers in the bottom quartile of barriers in seven of the twelve markets surveyed. For this reason, the remainder of this chapter will focus primarily on internal communication issues.

Figure 4.2 Communication as a barrier to improved productivity by country

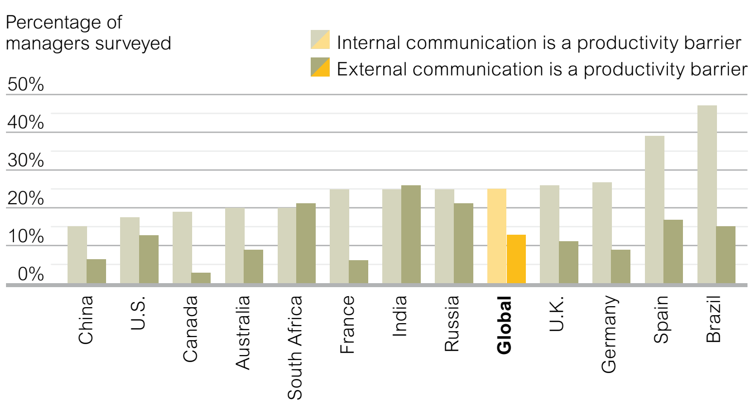
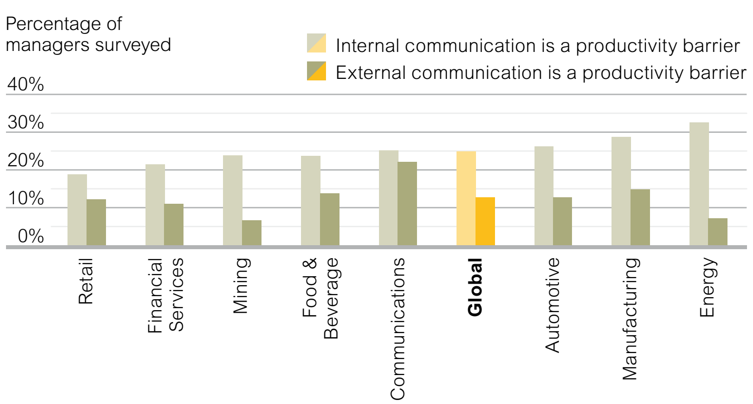


Figure 4.3 Communication as a barrier to improved productivity by sector



"Lack of will can cause problems with internal communication. There has to be a systematic communication flow institutionalised throughout the organisation, from top to bottom. We organise the workload through committees – each meeting has minutes that are later distributed by intranet to all relevant departments, so the information flows automatically."

Decio Carbonari de Almeida
Managing Director, Volkswagen Financial Services – Brazil

Before leaving external communication issues entirely, it is worth noting that in two markets external communication problems were cited as a top ten barrier: India (ranking tenth); and South Africa (ranking sixth). These are the only two markets in which managers cited external communication problems as a greater barrier than internal communication problems (India 26% vs 25%; South Africa 21% vs 20%).

The impact of poor communication

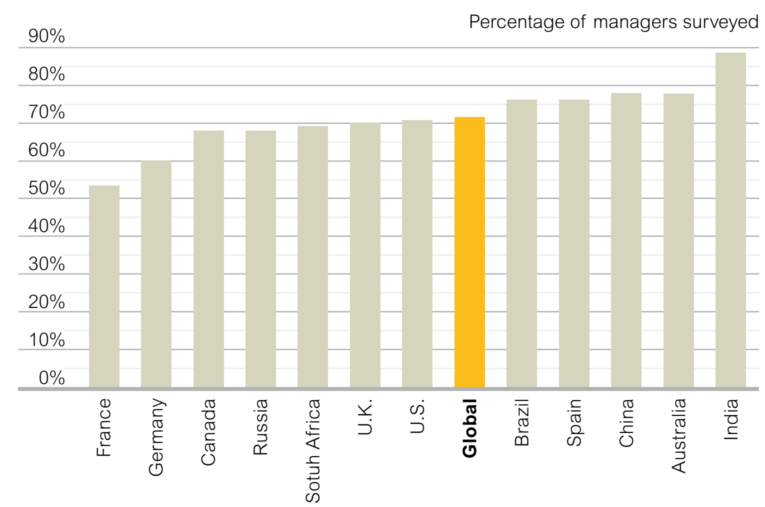
The impact of poor communication on productivity was measured by Proudfoot during its engagements with companies around the world. Poor communication was identified as the number three driver of unproductive workforce time in 2007. Of the total unproductive worker time observed, 17.2% can be attributed to poor communication. Put another way, over 2.5 hours every workweek – just over three workweeks of every year – are spent on unproductive activities because of poor communication.

Ease of communication

Managers were asked about the ease of communicating within their company, as well as communicating externally with their suppliers. The communication questions were broken into four areas: top-down communication; bottom-up communication; communication between departments; and external communication with suppliers. The results were examined individually and aggregated to get a measure of overall ease of communication in different markets and sectors.

72% of managers worldwide agreed that overall communication was easy in their company (Figure 4.4). In only one market, India, did more than 80% of the managers agree that communication to all key constituencies was easy. The market in which communication is the most difficult is France, where only 54% of managers surveyed agreed communication is easy in their company.

Figure 4.4 Ease of communication by country



Ease of communication is fairly consistent across sectors. 76% of managers in the Manufacturing sector agree communication in all its forms is easy within their company, making it the top communicating sector. The sector in which communication appears the most difficult is Energy, where only 66% of managers reported easy communications within their company. The spread between the highest and lowest scoring sectors is only 10 points, a very small spread, indicating communication issues are driven less by sector differences than by differences in business cultures across markets.

How companies communicate internally

It is possible to analyze internal communication in three ways: top-down communication to the workforce at large, bottom-up communication from lower levels to senior management; and communication between departments. Figure 4.5 looks at country and sector performance by these three metrics.

Internal communication is easiest in India. The country ranks first in two of three dimensions of internal communication and ranks second in the remaining dimension. It bears noting that the top markets in each communication dimension are almost exclusively emerging economies. Spain ranks second in ease of top-down communication, making it the only mature economy to rank among the category leaders. One hypothesis for the relative ease of communication in the BRIC markets could be the relative lack of older, more established, firms bound by years of hierarchical traditions. The growth of the BRIC economies has been paced by newer firms and younger workforces keen to break from the established traditions of more mature economies – including those traditions and habits surrounding internal communication.

Managers in India find top-down communication easier than managers in other markets, with 89% of managers in the market citing the ease of top-down communication in their organisations. At the opposite end of the scale, managers in Canada find top-down communication the most difficult, with one in four managers (26%) disagreeing with the sentiment that top-down communication is easy. While Brazil, an emerging market, ranks second for difficulty of top-down management, it should be noted that the remaining BRIC markets posted the lowest levels of difficulty with top-down communication.

Looking at ease of bottom-up communication in organisations, Brazil (84%) and India (83%) are the markets where this type of communication is easiest. 80% of managers in the United States agreed that bottom-up communication is easy in their company. This is a sentiment shared by Ed Sanchez, CEO and President of Lopez Foods in the United States: "*I think that people have to feel that management is approachable and we have an open door policy in all of our plants. Even the crew that packs the meat, if they can't get an issue resolved, they're welcome to come and talk to me about it.*"

"The younger folks can adapt really quickly to this e-mail and instant message that we've gotten into, but it takes the rest of us a little longer. So I've tried to instill within the departments to pick up the phone and call. This has helped our cross-departmental communication a lot".

Ed Sanchez
CEO and President,
Lopez Foods – United States

Highlighting the difference in ease of internal communication which exists between emerging and mature economies, it is worth noting that the markets which find bottom-up communication most difficult are mature economies. Managers in Canada, Germany, France, and Australia report the most difficulty with bottom-up communication.

Those markets in which communication between departments is easiest are once again emerging economies: India (92%) and China (80%), although it should be noted that Australia (79%) is also a market where managers find communication between departments quite easy.

Communication between departments is where the greatest levels of difficulty are observed across all dimensions of internal communication. 22% of managers worldwide find this type of internal communication difficult in their organisations, the highest level for any form of communication. The problem is most acute in France, where a staggering 73% of managers said they find cross-departmental communication difficult – 51 points higher than the global average! Following France, although not too closely, is Spain, where 31% of managers report difficulty communicating between departments. More mature economies and their older, more established firms, can suffer from the institutionalisation of poor practices over time, creating the kind of silo mentality which thwarts easy communication and co-operation between departments.

From a sector perspective, 29% of managers in the Automotive sector cited the difficulty of communication between departments in their companies, making this the sector which has the greatest difficulty with crossdepartmental communication.

When evaluating the ease of internal communication across its various formats, it is interesting to look at how a company's

Figure 4.5 Ease of internal communication

		Global	Most managers agreeing out of markets/sectors surveyed			
Agree	It is easy for senior management to communicate down to workforce	77%	India 89%	Spain 83%	Financial Services 81%	Manufacturing 79%
Agree	It is easy to communicate up to senior management	77%	Brazil 84%	India 83%	Financial Services 79%	Manufacturing 79%
Agree	It is easy to communicate between internal departments	68%	India 92%	China 80%	Communications 71%	Retail, Food & Beverage 30%

		Global	Most managers disagreeing out of markets/sectors surveyed			
Disagree	It is easy for senior management to communicate down to workforce	13%	Canada 26%	Brazil 20%	Energy 19%	Retail 17%
Disagree	It is easy to communicate up to senior management	11%	Canada 22%	Australia 16%	Mining 14%	Food & Beverage 13%
Disagree	It is easy to communicate between internal departments	22%	France 73%	Spain 31%	Automotive 29%	Energy, Mining, Manufacturing 23%

management style can impact ease of communication. For every internal communication metric, managers whose companies employ a "consensus-based" decision-making style find it easier to communicate than those from organisations which rely on the more traditional "command-and-control" management style.

External communication with suppliers

67% of managers worldwide think it is easy to communicate with external suppliers. The phenomenon of easier communication in emerging markets noted during the discussion of internal communication also exists when external communication is examined. There are four markets where at least 75% of managers agree that external communication with suppliers is easy. The BRIC region accounts for three of those markets: India, China, and Brazil. Similarly, the three markets reporting the greatest difficulty in communication with suppliers are more mature, developed economies: France, Australia, and the United Kingdom (Figure 4.6).

The French communication problem which emerged during analysis of interdepartmental communication manifests itself again in external communication with suppliers. One-third of managers in France (33%) find communication with external suppliers difficult. This is twice the next-highest reported level of difficulty.

Of managers who find it easy to communicate with external suppliers, there is a spread of 8 points between those who work in companies employing a "consensus-based" decision-making management style and those who work in a "command-and-control" organisation. This suggests a company's management style has less of an impact on external communications than it does on communications within the company.

Importance of communication during change

When undertaking a change programme, effective communication has a critical and direct bearing on the success of the change initiative. With over half of managers surveyed (56%) indicating their companies are planning culture change initiatives over the next 12 months to improve productivity, the importance of effective communication is magnified.

Figure 4.6 Ease of external communication

		Global	Most managers agreeing out of markets / sectors			
Agree	It is easy to communicate out to suppliers	67%	India 88%	Spain 79%	Manufacturing 78%	Financial Services 69%
Disagree	It is easy to communicate out to suppliers	12%	France 33%	Australia, U.K. 16%	Energy 17%	Automotive 17%

"If you can offer staff the motivation or incentives to change, or give them a good reason to change, they will change."

Executive in a Chinese manufacturing company

Figure 4.7
Predictions for communication problems over the next 12 months

	Internal communication expectations		External communication expectations	
Country	improve	deteriorate	improve	deteriorate
Brazil	77	0	65	0
India	71	2	66	2
Spain	70	1	47	3
Australia	65	2	41	4
France	65	2	39	3
Global	61	1	45	2
U.S.	59	2	30	1
U.K.	58	0	40	1
Canada	57	3	35	1
Russia	56	0	53	1
South Africa	56	2	42	5
Germany	49	2	30	2
China	48	0	41	0

In-depth interviews with c-level executives revealed the various ways communication plays an integral role before, during, and after any change programme. Decio Carbonari de Almeida, Managing Director of Volkswagen Financial Services in Brazil, explains: "*In implementing changes, management needs to have an honest dialogue – honest in so far as its objectives. You have to state clearly that 'we are here and want to get to this point'. You have to make it clear that decisions are made for the survival of the company as well as the risks of not engaging in the process. Once people are convinced, even if they suffer some negative effects, there is an understanding of the situation and employees feel more motivated.*"

For some countries with high staff turnover and retention rates, effectively engaging employees during a change initiative is especially important. The role clear communication plays during any transformation is highlighted by Robert Nason, Managing Director of Wagering at Tabcorp (Retail) in Australia: "*In a strong labour market, making sure you meet employee needs and maintain staff engagement is very important. I think that it is something as a business we have learnt: the need to really focus on that and make that a key element of the transformation process*".

Looking at how companies best communicate their objectives during change, Matt Paterson, Head of Customer Service at ING Australia (Financial Services) discusses how his company has adapted its methods to best engage its employees: "*I think a high level of communication is important during change in a variety of aspects. We've done a lot of work in terms of reducing written communications and increasing verbal communications as well as setting the context and the purpose – really pushing people through the change*".

Yet when the change programme is over, it is important that clear and consistent communication does not end as well. This is also a key factor for Paterson: "*When changing, I think that's the most important aspect is to continue the conversation after the change. You have to monitor the success, talking to people around that, rather than ticking it off and moving on to the next thing*".

Outlook for communication over the next 12 months

Managers were asked how they expect communication problems to change over the next 12 months – will they improve, stay the same, or get worse? Managers are optimistic about improving the ease of communication in the coming year, with only 1% globally believing that internal communication problems will get worse, and only 2% expecting external communication problems to deteriorate (Figure 4.7).

Brazilian managers are the most optimistic of those surveyed about improvements over the next year. 77% of Brazilian managers surveyed expect internal communication problems to improve and 65% expect the same with external communication issues. Managers in India, already ranking at or near the top on all forms of communication, expect communication to become even easier.

Chapter 5

Focus on the fourth lever of productivity: training

Research conducted for this report revealed that 80% of companies worldwide are planning to focus on employee skills development and training to improve their productivity over the next 12 months. This chapter examines the impact ineffective training programs can have on productivity, the amount of training currently being received by both the workforce and management, and how this is expected to change in the future.

The findings of this chapter are based on of the results of quantitative research conducted with 1,276 managers who have first-hand day-to-day knowledge of productivity issues and performance in companies with annual revenues of over US$100m. These findings have been supplemented by a detailed analysis of data from Proudfoot on-site studies of worker and supervisor activities, collected during engagements with companies around the world.

Training barriers to improved productivity

Inadequate training – either in quantity or in quality – can severely impact a company's productivity. 17% of managers surveyed worldwide identified the lack of training for their workforce and the lack of training for management as key barriers to improving their productivity (Figure 5.1). This chapter focuses on the key training barriers to improved productivity and discusses how managers are planning to drive productivity gains through training.

Effective training can impact a number of other barriers to productivity. Effective training can improve communication (internal and external), boost staff motivation, improve the quality of supervisors, give employees greater ability to embrace and adopt change programmes, and make staff feel more valued – leading to reduced turnover rates.

Workforce training barriers

The lack of adequate workforce training was cited as a more significant barrier to productivity improvement by managers in emerging markets than by their counterparts in more mature economies (Figure 5.2). 30% of managers in Russia cited inadequate worker training as a key barrier, the highest level noted in any market. Managers in India (24%) and China (21%) also cited this as a critical barrier facing their companies. Managers in China ranked inadequate workforce training as the number one barrier standing between them and improved productivity.

Figure 5.1 Training-related barriers to improved productivity

Rank	Factor	Category	Percentage of managers surveyed who regard the factor to be a key barrier to improved productivity
1	Staff shortages and an insufficient labour pool	Workforce	27.4%
2	Internal communication problems	Communication	25.1%
3	Legislation and regulation	External	21.9%
4	Low employee motivation and morale	Workforce	21.2%
5	High staff turnover rates	Workforce	19.9%
6	Quality of supervisors	Management	19.6%
7	Inability of general workforce to adopt change programs	Workforce	18.4%
8	Lack of desire of general workforce to adopt change programs	Workforce	17.9%
9	Lack of training for general workforce	Training	17.4%
10	Problems with IT and communications technology	IT	17.3%
11	Lack of management training	Training	17.2%
12	Outdated equipment	IT	16.9%
13	Lack of funds to implement change programs	Financial	16.1%
14	Misalignment of corporate goals/objectives with staff performance or bonus metrics	Management	15.7%
15	The need to comply with strict safety standards	External	15.0%
16	Inability of senior management to implement change programs	Management	14.5%
17	Lack of desire of senior management to implement change programs	Management	13.3%
18	External communication problems between suppliers and customers	Communication	13.2%

In contrast, managers in the more developed economies of Europe and North America were far less likely to cite inadequate workforce training as a significant barrier to productivity. Only 11% of German managers cited this barrier, followed closely by France (12%), Canada (12%), and the United Kingdom (13%).

Managers in the Communications sector were the only managers who cited the lack of adequate workforce training as a significant barrier to improved productivity within their sector (Figure 5.3). 22% of sector managers cited this barrier, ranking it the sixth most significant barrier challenging their ability to improve productivity.

Management training barriers

While managers in emerging markets were the most likely to cite the lack of adequate workforce training as a significant productivity barrier, concerns about the level of management training were more universal (Figure 5.2). While almost one-third of Russian managers (32%) cited the lack of adequate management training as a key productivity barrier, over one-fifth of the managers in the U.S. (22%), Spain (21%), India (21%), and Brazil (20%) voiced similar concerns.

The lack of adequate training is the critical productivity barrier in China. As noted earlier, Chinese managers ranked inadequate workforce training as the number one productivity barrier; inadequate manager training ranked number three in the market.

Managers in two sectors, Food & Beverage and Energy, cited the lack of adequate management training more often than their counterparts in other sectors (Figure 5.3). 21% of managers in each of these two sectors cited this barrier, ranking it fourth among productivity barriers in each of the two sectors.

Figure 5.2 Lack of management and workforce training as a barrier to improved productivity by country

"Without training, it is impossible to survive in the long-term."

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited – Manufacturing, India

"We view our training as an investment, it's not a cost. It is a continuous process. Every two to three weeks there is some training programme happening".

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited – Manufacturing, India

Figure 5.3 Lack of management and workforce training as a barrier to improved productivity by sector

Current training levels

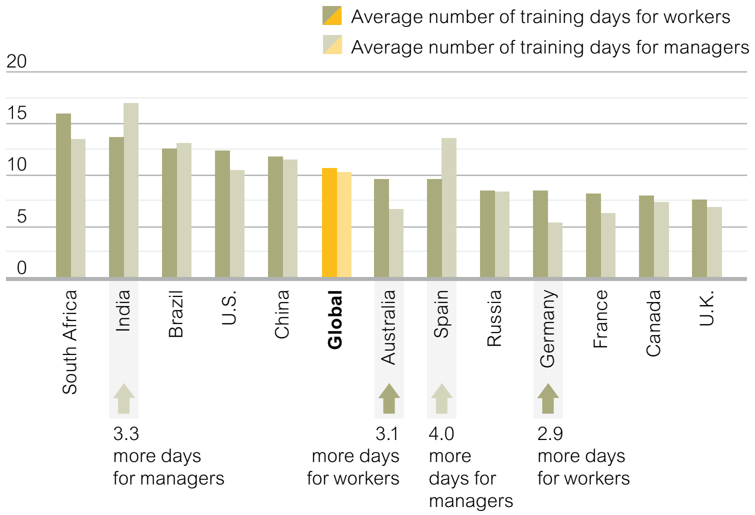
While managers cited the lack of adequate training as a key barrier to improved productivity, it would be erroneous to assume that the crux of the issue is simply the amount of training managers and workers receive. The quality of the training received, which will be discussed shortly, may also be a contributing factor in training issues.

The amount of training workers and managers receive varies widely across markets and sectors. On average, workers receive slightly more days of training each year than do managers, 10.7 days per year vs 10.3 days, respectively. However, as Figure 5.4 demonstrates, there is a great deal of variability around these global norms.

In nine of the twelve markets studied, workers receive more training than do managers. The highest levels of worker training are found in emerging economies such as South Africa (16.0 days per year), India (13.7 days), and Brazil (12.6 days). These are high-growth markets where the demand for skilled workers often exceeds the available supply, increasing the need for training. But labour pool issues are not the only driver of corporate training programs. Igor Kamenetsky, Research and Forecast Director of the Russian-based LSR Group points to a different training motivation: "Our internal training programmes are not drawn up in response to the labour shortage Russia is experiencing, but with the aim of increasing productivity. They focus on qualifications and productivity."

The lowest levels of worker training are found in the more mature, slower-growth economies of Europe (Figure 5.4). The United Kingdom (7.6 days), France (8.2 days) and Germany (8.5 days) are all among the markets delivering the fewest worker training days annually.

Figure 5.4 Number of days spent on training by country



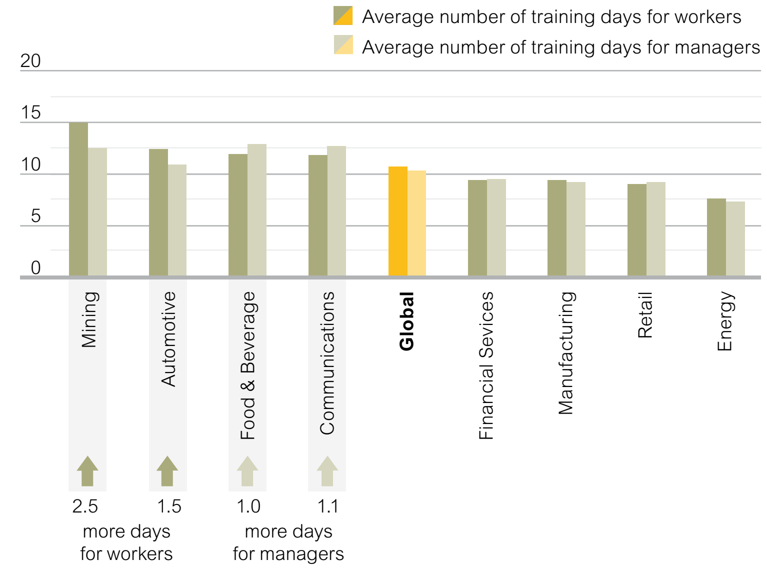
Managers in India, Spain, and Brazil receive more days of training annually than do workers in those markets. Indian managers receive an average of 17.0 days of training annually, over three days more than the second-highest level of manager training, found in Spain (13.6 days). Once again, the lowest levels of manager training are found in more mature economies such as Germany (5.4 days), France (6.3 days), and Australia (6.7 days).

Many of the managers surveyed think the current levels of management training are insufficient. On average 39% of managers think the amount of training managers receive is too little. In Australia, a low manager training market, 62% of the managers think managers in the market receive too little training. In the United States, 53% of managers share a similar perspective. Even in Spain, a market where managers receive a greater amount of training than in most other countries, 32% of managers surveyed think the amount of management training is too low.

Just over one-third of managers surveyed (36%) think the amount of training workers receive is too little. In some markets and sectors, the dissatisfaction with the current level of worker training is much higher. In South Africa, 47% of managers surveyed think the amount of worker training is too low, the same level of concern found among managers in the Automotive sector.

The score for the Automotive sector stands out because workers in the sector receive 12.4 training days per year, the second highest level of any sector studied (Figure 5.5). Energy workers receive fewer days of training (7.6 per year) than their counterparts in other sectors. Yet, only 27% of managers in the sector think the current level of worker training is too low, the lowest such level of concern of any sector studied.

Figure 5.5 Number of days spent on training by sector



The sector which provides workers with the most training is the labour-intensive Mining sector, where workers receive an average of 15.0 days training per year. A C-level executive in a Chinese mining company explained why training is so important in his company: "*Training is the area where the Mining industry in the West differs from that in China greatly. We think that everyone should be trained. Our standard on environmental protection is higher than what the Chinese government has set. Therefore everyone should be trained on this. These are the basics*".

The Financial Services industry ranks 1.5 days below the global average for the 9.4 days it plans to spend training its workforce this year. Matt Paterson, Head of Customer Service at ING Australia (Financial Services) discussed his company's training problems and explained how he has adapted his approach to workforce training in response. 48% of Australian managers reported severe problems with an inadequate labour pool in the country, and this is a factor impacting ING Australia: "*We are finding more and more that it is harder to get new recruits into our eight-week induction training programme, even though it's one of the more successful training programmes in Financial Services in Australia. So over the last 18 to 24 months, we have introduced more flexible training courses and catered the needs to the new recruits more*".

The quality of training

Inadequate training is not simply a function of insufficient amounts of training. The quality of the training delivered to workers and managers is critical, and it is here that many companies fall short.

Specifically, they fall short in several key areas:

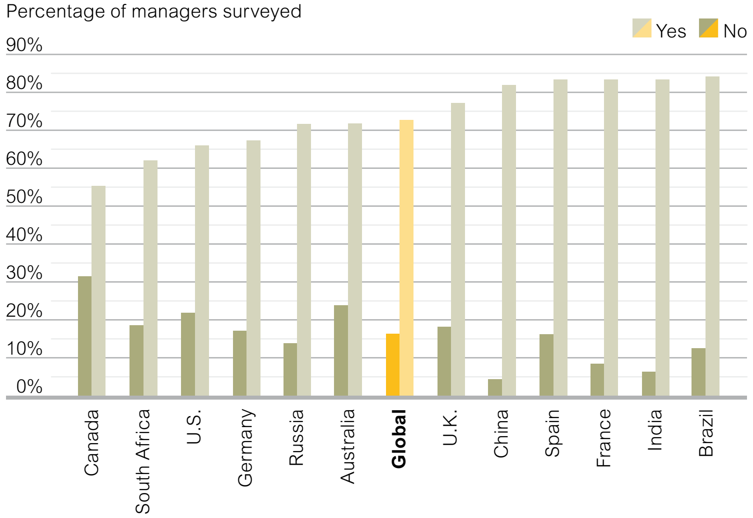
- assessment of training needs;
- alignment of training programs with strategic goals; and
- assessment of the effectiveness of training programs.

Assessing training needs

Managers were asked whether training needs within their company are formally and regularly assessed. The vast majority of managers (74%) reported their companies conduct formal and regular assessments of their training needs (Figure 5.6). In five markets, over 80% of managers indicated needs assessment is a regular part of the training development process: Brazil (84%), Spain (83%), France (83%), India (83%) and China (82%).

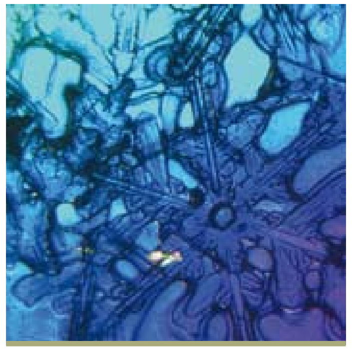
What is more interesting, however, is the share of managers who say their companies do not regularly or formally assess their training needs. These are the companies where training decisions and curricula are based on anecdotal evidence and long-standing traditions rather than on an accurate and up-to-date assessment of the company's training needs. 16% of managers worldwide reported their companies do not regularly assess their training needs. However, in Canada, 32% of managers reported their companies do not assess their training needs. This is far and away the highest level reported, but Canadian companies are not alone in failing to assess their training needs. Almost one-quarter of the managers in Australia (24%) and the United States (23%) reported similar situations in their companies.

Figure 5.6 Does your company regularly assess its training needs?



"We have just conducted a comprehensive needs analysis of where our managers are at and what sort of training gaps exist. We are seeing a lot more of our management team being supported in doing external studies – MBA training, those sort of things. These are tools for the development of management, instead of just internal training, as they may have been in the past."

Robert Nason
Managing Director, Wagering,
Tabcorp – Retail, Australia



"We see training as part of every strategic initiative that we do. We have this at the forefront rather than the end of any initiative or project."

Matt Paterson
Head of Customer Service,
ING Australia – Financial Services

These are the markets where companies are wasting a good share of their training investment, spending money on training programs which may or may not address their true training needs because they don't know what those needs truly are. This approach virtually guarantees a lower return on the company's training investment.

It is worth noting that the countries where managers report the greatest lack of a formal needs assessment process are all mature markets. The emerging BRIC economies, in contrast, are among the markets reporting the highest incidence of training needs assessment.

Many executives interviewed emphasised the importance of continually evaluating what training is needed in their organisation and how it best can be delivered. An executive from a mining company in China explained his company's training needs assessment process: "*Our strategy team holds meetings twice a year to determine the strategic aims of the company. When they have been ascertained, training forms part of these objectives. Training programmes are used to co-ordinate and assist the achievement of these strategic aims. For example, they will be organised in line with our one-year plan, three-year plan and five-year plan*".

Sharad Mahendra, Associate Vice President of Sales and Marketing of JSW Steel Limited in India divides his training objectives into three parts, each with a specific timescale and evaluation period: "*Functional training is something that has to happen this year, strategical training is what will give us business stability for the next 2-3 years and organisational training is how we can add capacity over the next 3-5 years*".

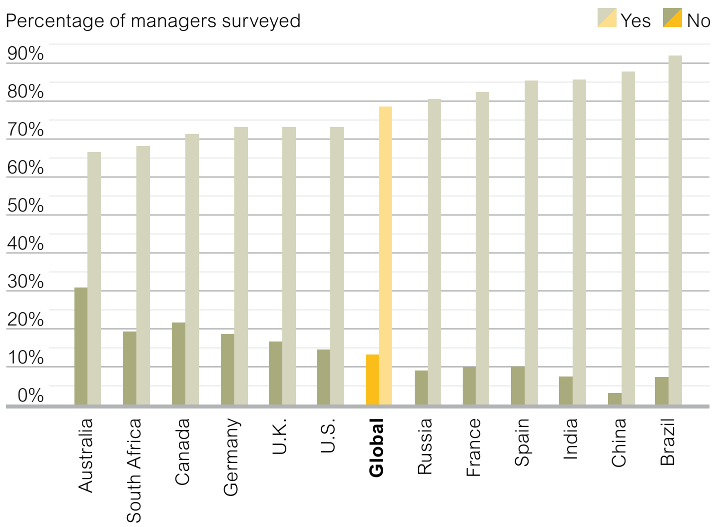
Aligning training programmes with strategic goals

Managers were asked if their companies' training programmes are aligned with the organisation's strategic goals of their company. 79% of managers surveyed think that alignment exists in their organisations. It is critical that training programmes are consistent with the company's goals to maximise the return on the firm's training investment.

The markets where organisations are doing the best job of aligning their training programmes with their strategic goals, strengthening the desired skills and capabilities of managers and workers, are primarily the emerging markets. In Brazil, 93% of managers surveyed reported alignment between training and strategic goals, the highest level observed in any market (Figure 5.7). Following close behind Brazil are China (88%), India (86%), and Spain (86%).

According to Mahendra, it is also highly effective at using training to help meet his company's strategic goals: "*Our training is a joint exercise with our HR department. We identify the areas we need to improve, we say what will be the positive result of this and that is in line with our objectives. The training needs are identified at the beginning of the year, when we are preparing the business objective for each individual. We decide whether they need internal training, cross-functional, or external behavioural training when an outside faculty comes in.*"

Figure 5.7 Are your company's training programmes aligned to strategic goals?



"I need to know what our aims and goals are when we define training programmes, so that I can measure its success, steer it in a different direction or even make it accessible to a larger number of employees."

Executive in a foreign-owned manufacturing company located in Germany

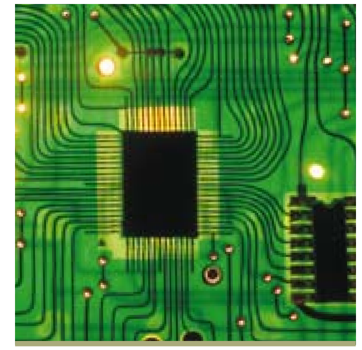
Managers in the Financial Services sector reported the highest level of alignment between training and strategic goals of any sector. 87% of sector managers surveyed indicated their organisations do indeed seek the kind of alignment which enhances the ability of training to drive productivity gains. Similarly high levels of alignment were seen in the Retail (80%), Energy (80%) and Manufacturing (80%) sectors. As one Chinese manufacturing executive noted, "*training programmes have to be adjusted to accommodate the needs of the company at a specific time. They should not be conducted in just one way in just one direction forever*".

The markets where managers cited the greatest lack of alignment between training programs and strategic goals are the more developed economies. Almost one-third (31%) of managers in Australia reported their companies do not align their training programmes with the organisation's strategic goals. This is the greatest lack of alignment reported, eight points higher than the lack of alignment reported by Canadian managers (23%).

Assessing the effectiveness of training programmes

If companies fail to assess the effectiveness of their training programmes, they cannot determine the value of their training investment. Without this assessment, companies increase the risk of continuing to fund ineffective programs which fail to deliver the anticipated productivity gains, pouring good money after bad.

Managers were asked if their companies' do indeed assess the effectiveness of their training programmes (Figure 5.8). Only 63% of the managers surveyed reported their companies evaluate the outcome



of training programmes. Continuing the trend seen in other dimensions of training, companies in the emerging BRIC markets are the most likely to evaluate the effectiveness of their training programmes. 81% of managers in China report their companies assess the effectiveness of their training programmes, the highest level reported in any market. Following close behind China are Brazil (77%) and India (74%).

Mandla Shezi, Managing Director of Hollard Life Company in South Africa explains his company evaluates training programmes for a specific reason: "*When it comes to measuring returns of training programmes, companies do not have a very clear sight of the cost they avoid by having skilled staff. We're quite big on measuring cost avoidance, so we always look at how to shift targets and grow sales, without growing staff and costs. And obviously we also attribute some of that to training*".

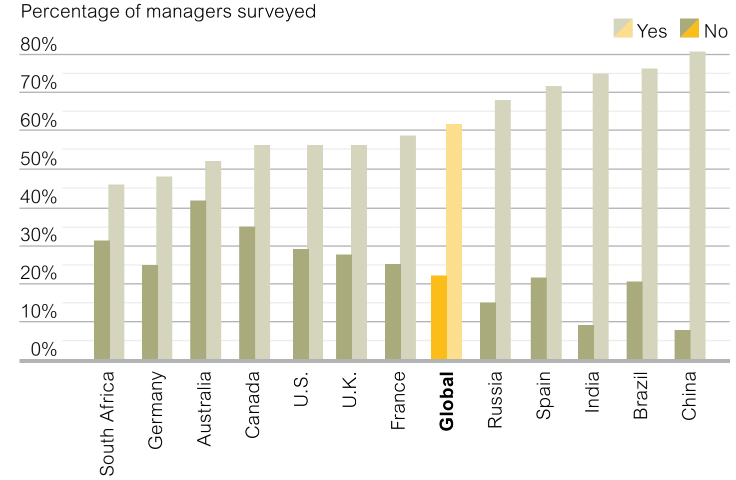
At the other end of the scale, Australian and Canadian managers once again report the greatest lack of evaluation of the effectiveness of their training programmes. 43% of Australian managers indicated their companies do not conduct such assessments, as did 35% of Canadian managers. These results are significantly above the global average of 24%. Four of the five markets reporting the greatest lack of assessment in this area are more mature European or North American markets.

Looking at this metric by sector reveals that over one-third of managers in the Mining sector indicated their companies do not evaluate the effectiveness of their training programmes. This is particularly noteworthy because workers in the Mining sector receive more training per year than their counterparts in other sectors. The highest level of training coupled with the highest concentration of companies which do not assess the effectiveness of that training is a recipe for a poor return on the investment in training in the Mining sector.

"Training is very important and it is one of our major focuses with the way the organisation is growing and the way we see ourselves in four years, five years from now."

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited – Manufacturing, India

Figure 5.8 Does your company assess the effectiveness of its training programmes?



A similar toxic blend of conditions exists in the Food & Beverage sector, where managers receive more training than managers in any other sector. 29% of managers in the sector report their companies do not undertake an assessment of training effectiveness, the second greatest lack of evaluation noted in any sector.

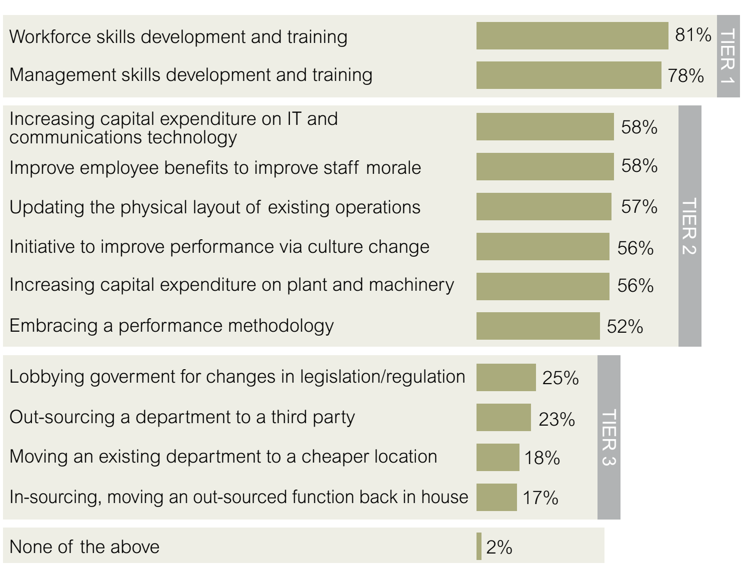
Matt Paterson, Head of Customer Service at ING Australia discussed how his company evaluates staff training programmes: "*We assess our training programmes by looking at people's skills. We have a very detailed performance and incentive programme that links to leadership and behavioural competencies, around active management for our leaders and key performance indicators which are measured daily, weekly and monthly. These are reviewed formally and continuously. We also survey our employees twice a year and ask them about the level of training and also about the level of changes and change management, and get their opinion on that*".

Driving productivity gains through training over the next 12 months

Companies consider investing in training programs to be one of the best ways to improve their productivity. Investing in workforce training and investing in management training were identified by managers as the two most common actions companies plan to take to drive productivity gains over the next 12 months (Figure 5.9). Workforce training and management training were cited by significantly more managers (81% and 78%, respectively) than all other initiatives companies are planning to undertake to drive productivity in the coming year.

Companies are increasingly viewing training as a must-have component of any plan to drive productivity gains. As Figure 5.10 shows,

Figure 5.9 Managers' plans to improve productivity over the next 12 months



"When a person has undergone behavioural training, we evaluate it quarterly – a person's behaviour cannot change overnight. But if it is functional, where his performance is pertaining to the operations which he is handling, then we don't wait. I think on a monthly basis I should be able to understand what the improvement is."

"If there are two people in a department who have undergone training, we get them to conduct a similar kind of programme for the other employees in the department, so we get to understand how much they have understood."

Sharad Mahendra
Associate Vice President of Sales and Marketing, JSW Steel Limited – Manufacturing, India

"I think there is a difference between knowledge based training, where you should expect an immediate return, versus cultural change based training, where I think you have to measure that over a couple of years."

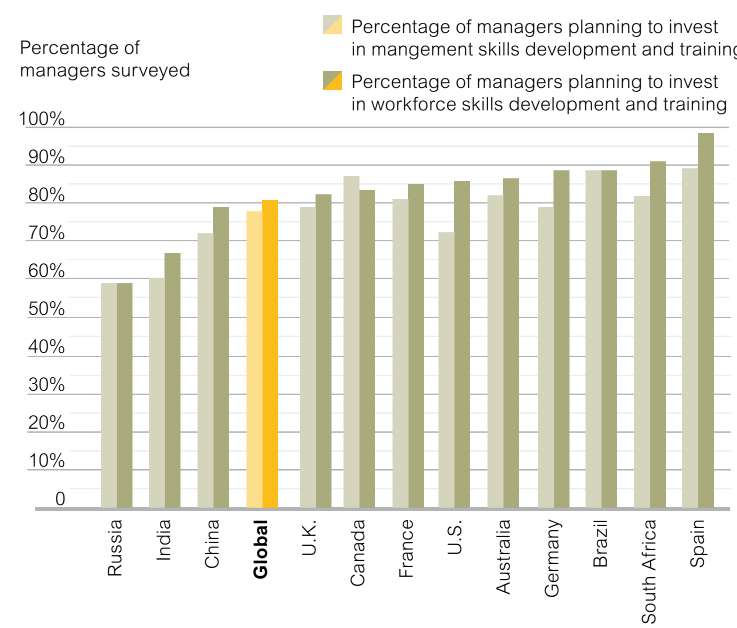
Robert Nason
Managing Director, Wagering, Tabcorp – Retail, Australia

98% of managers in Spain report their companies are planning to invest in workforce training and skills development over the next 12 months, well above the global norm.

Interestingly, while the BRIC countries do the best job of assessing their training needs, aligning their training programs with company strategic goals, and assessing the effectiveness of their training programs, managers in those markets report the lowest incidence of planned investment in worker training programs in the coming year. Only 59% of Russian managers report their companies are planning to invest in worker training initiatives in the coming year. Also at the lower end of the rankings are India (67%) and China (73%). It is important not to lose sight of the fact that despite having some of the lowest levels of planned training initiatives, over two-thirds of the managers in these markets report their companies are planning to invest in worker training and skills development.

While these figures could be interpreted as suggesting that managers in emerging markets place more value on other initiatives to drive productivity gains, there is another perspective. Because more companies in these markets take the time to assess their training needs, align their training programs with company strategic goals, and assess the effectiveness of their training programs, companies in these markets may have a much more accurate picture of their true training needs than their counterparts in the more developed Western markets. This more accurate assessment could give these markets the flexibility to deploy their investments differently, minimising the amount of wasted training dollars and freeing up more capital for other initiatives which could deliver productivity gains.

Figure 5.10 Tier 1 plans to drive productivity over the next 12 months



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