

Wastage adds up despite motivated workers

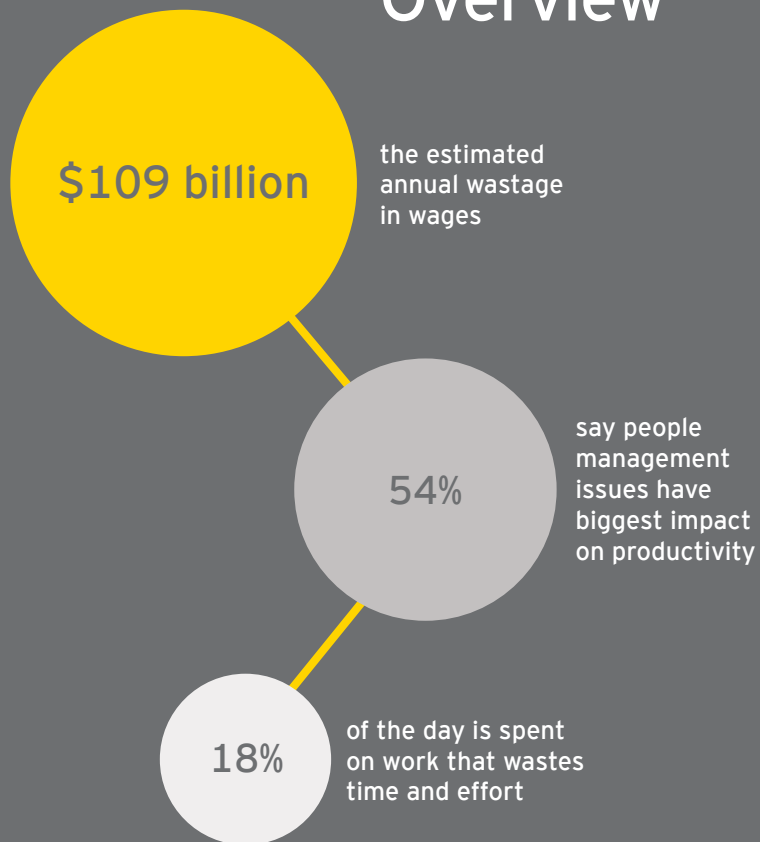
The Ernst & Young Australian Productivity Pulse™

Edition One – October

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Quality In Everything We Do

Introduction

Overview



The slowdown in measured economic productivity growth has been the subject of considerable recent debate. After at least a decade-long hiatus, productivity has found its way back in the Australian economic vernacular, and it's now permeating governments' agendas as well as the boardrooms of corporate Australia.

Despite this, only a small percentage of organisations measure and report on the productivity levels of their workers. This means the majority of Australian organisations do not have the insights they need to implement sustainable and effective measures to boost productivity.

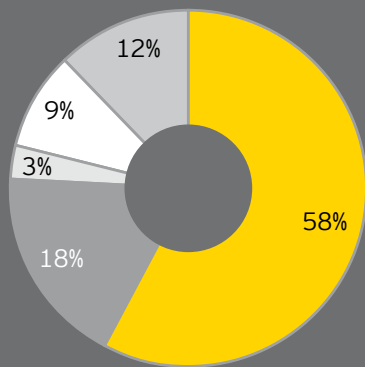
The Ernst & Young Australian Productivity Pulse™ (the *Pulse*) is the first survey of its kind, measuring Australian workers' sentiment around the biggest barriers hindering productivity, and the opportunities available to improve performance.

The *Pulse* surveys almost 2,500 workers, across various industries, regions and from all levels within organisations in both the private and public sector. This report focuses on four areas where organisations can be more effective, integrated and bold in raising their productivity and global competitiveness:

- ▶ **Organisation structure, design and operating model** – Removing all wasteful, bureaucratic, and non-value work and outputs
- ▶ **Technology** – Being more ambitious and effective in process automation and technological change
- ▶ **People management issues** – Developing and utilising the full talents and capabilities of human capital
- ▶ **Innovation** - Being deliberate and audacious with an innovation agenda

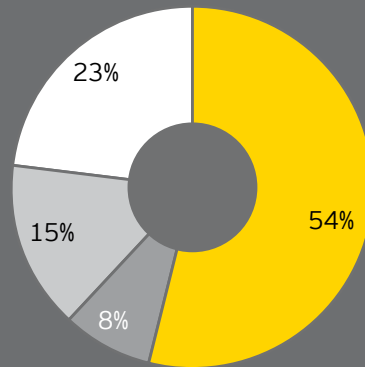
Executive summary

A worker's average day



- Work that added real value to my organisation
- Work that wasted time and effort
- Other activities that added value to my organisation
- Time networking with colleagues that added value to me and my work
- Activities that added to my personal development

Impact on productivity



- People management issues
- Technology
- Innovation
- Organisation structure, design and operating model

In analysing the productivity levels of a worker's average day, the *Pulse* showed only 58% is spent on work that directly adds 'real value'. Notwithstanding the 24% of the day spent on networking, personal development and other organisational curricular activities that are important to both individual and business performance, there is still a whopping 18% or almost a fifth of the day spent on work that wastes time and effort.

Given the annual wage bill in Australia is approximately \$606 billion, total organisational productivity wastage can be valued at about \$109 billion.¹

Imagine what could be achieved if you could eliminate the 18% wastage and reinvest it into other initiatives that boost productivity such as innovation and growth?

In rating the influences on individual productivity across four specific areas, 54% of respondents say people management issues have the biggest impact. Twenty-three per cent state organisation structure, design and operating model is a driving influence, while smaller minorities cite innovation 15% and technology at 8%.

There are some very encouraging trends around respondents' sentiment towards their organisations with 68% saying they were proud to work for their employer and 69% believing their work is valued.

However, there is definitely room for improvement with 39% not agreeing their organisation operates effectively, 20% saying their organisation needs to reduce bureaucracy and red-tape and a further 16% saying processes and systems needed to be simplified.

Despite encouraging acknowledgements of the value technology can bring to productivity, it appears Australian businesses are yet to fully embrace the IT revolution. Surprisingly, 39% and 42% respectively didn't agree they had access to the right technology or had the right training to apply the technology they do have effectively.

The nation's productivity decline cannot be simply blamed on Australian workers, with the *Pulse* showing an overwhelming 71% are motivated to do their job to the best of their ability – this statistic is also higher in certain areas.

Results reveal the majority of respondents understand the value of innovation on productivity levels, however many identify challenges and obstacles in achieving this within their organisation. In our view, the onus is now on business leaders to empower their employees to generate ideas that help drive the organisation forward.

¹Australian Bureau of Statistics, Australian Labour Market Statistics, August, 2011, www.abs.gov.au

Organisation structure design and operation model



Out of the four areas we identified as having the biggest effect on productivity, 23% of respondents cite organisation structure, design and operating model as the biggest influence.

There are some very encouraging trends around respondents' sentiment towards their organisation. Sixty-eight per cent are proud to work for their employer, 69% believe their work is valued and 78% have a clear vision of what is expected of them in their role.

Despite this rosy outlook, there is definitely room for improvement. Thirty-six per cent did not agree processes and systems in place assisted role execution, 41% did not agree organisation effectiveness and efficiency had the right level of focus and attention and 39% did not agree their organisation operates effectively.

The number one recommendation for improving general organisational productivity is to reduce bureaucracy and red-tape. Bureaucracy and regulation exist in organisations to manage risk,

assign accountability and ensure quality. However, they can and do have the unintended consequence of reducing organisations' flexibility, as well as adding a cost burden to operations – and as shown in our *Pulse*, shrinking productivity.

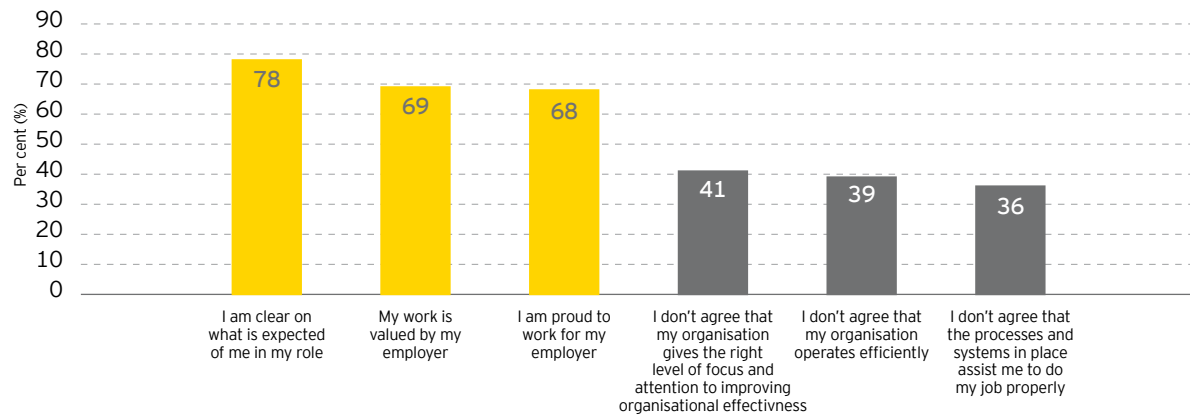
In reducing bureaucracy and red-tape it is important for organisations to take a holistic approach, identifying regulatory inefficiencies across the business as a whole, while also ensuring quality and high standards are not compromised.

Two of the biggest influences on organisational productivity are having a clear vision of the organisation's future and having confidence in leadership. Respondents from the professional, scientific and technical; and the finance and insurance sectors rank highly in both these categories. This is not surprising given organisations from these sectors generally place internal communication higher up on the business agenda and often have better resources and bigger budgets to ensure effective, timely communications to their employees.

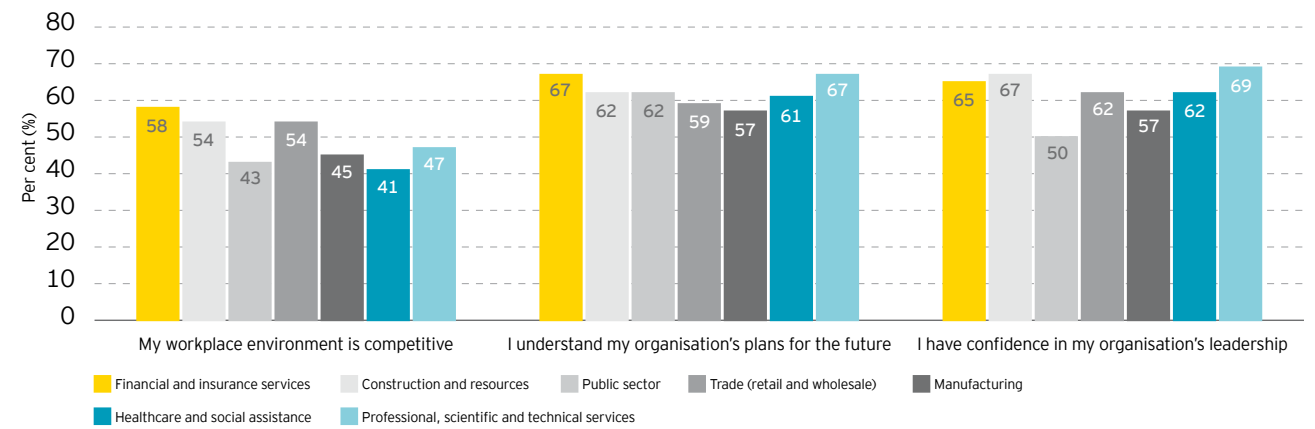
Another significant influence on organisational productivity is fostering a competitive workforce, where both the health care and social assistance and public sectors rank the lowest.

Recently there has been widespread media commentary on public sector productivity. Given that the survey shows this sector has a less competitive workplace environment, there is indeed opportunity to leverage and embrace a wider set of values that are more commonplace within corporates, including workplace culture, organisation dynamics and cutting back red-tape.

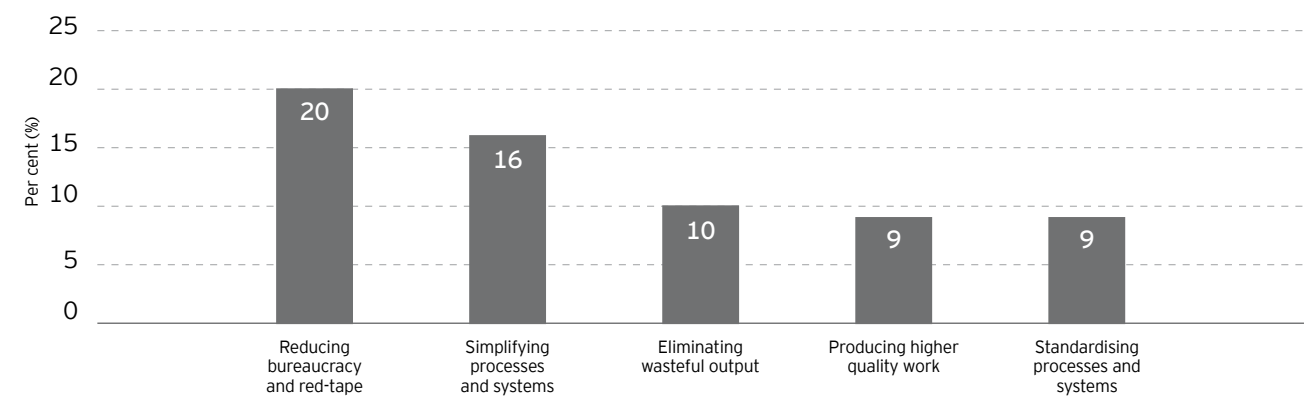
Organisation structure, design and operating model: key findings



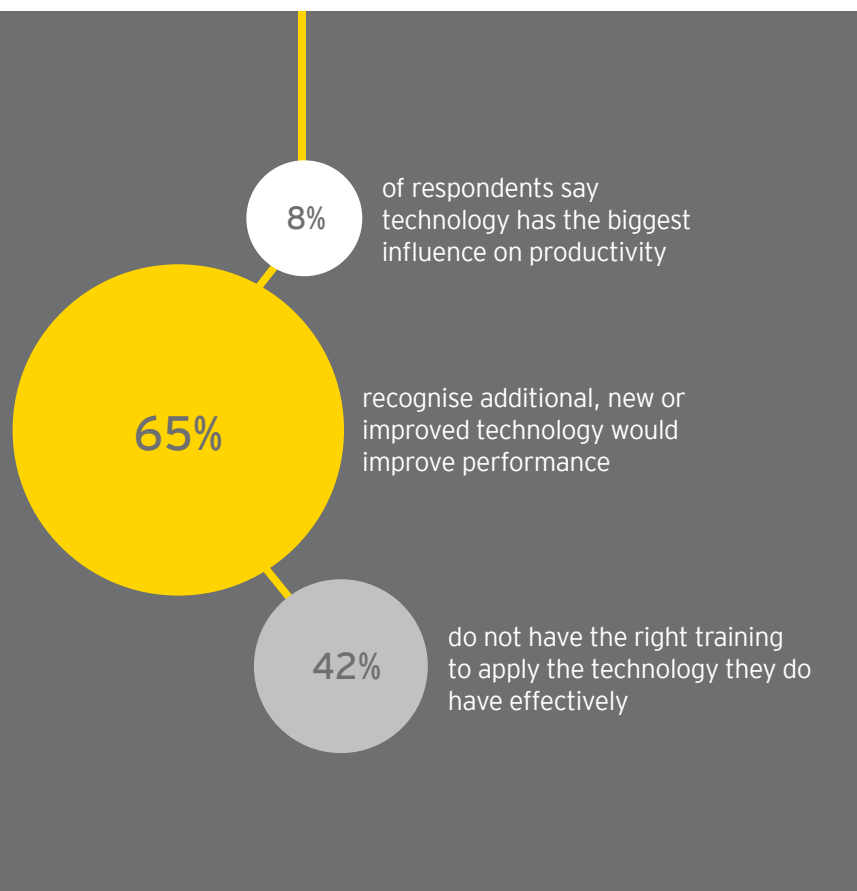
Organisation structure, design and operating model: industry perspectives



Organisation structure, design and operating model: key improvement areas



Technology



The connection between technology and productivity is obvious. Technology is an enabler of productivity.

Interestingly, out of the four areas we identified as having the biggest effect on productivity, only 8% of respondents cited technology as a key influence.

Arguably there has always been a performance gap between organisations that embrace technology and those who resist it. While the gap has been fairly steady for decades, it is now starting to widen dramatically.

Leading organisations are capitalising on technology advances to pioneer a whole new innovation paradigm based on the ways they measure, experiment with, share and replicate information.

The *Pulse* shows 62% of respondents feel technology is important to their role, 40% say technology has increased productivity levels and 65% recognise additional, new or improved technology would make their organisation more productive over the long term.

Despite these positive trends, it appears Australian businesses have still not fully embraced the value IT can add. Thirty-nine per cent don't agree they have access to the right technology and 42% don't agree they have the right training to apply technology effectively.

Unsurprisingly, results show the professional, scientific and technical sectors fare the best on the technology front, with 55% acknowledging technology has increased productivity levels over the past 12 months.

This is a contrast to the 36% figure in the public sector, and reinforces that the recent Federal budget announcement of an additional \$1.03 billion of IT spending in the public sector is highly needed². However, despite the government's ambition to drive public-sector productivity through the provision of top-notch IT, the key will be in its implementation. Only 48% of respondents from the public sector acknowledge their organisation has a successful history of implementing new technology and is progressive in its application.

²The Australian, \$1bn budget boost for public sector projects, May 2011

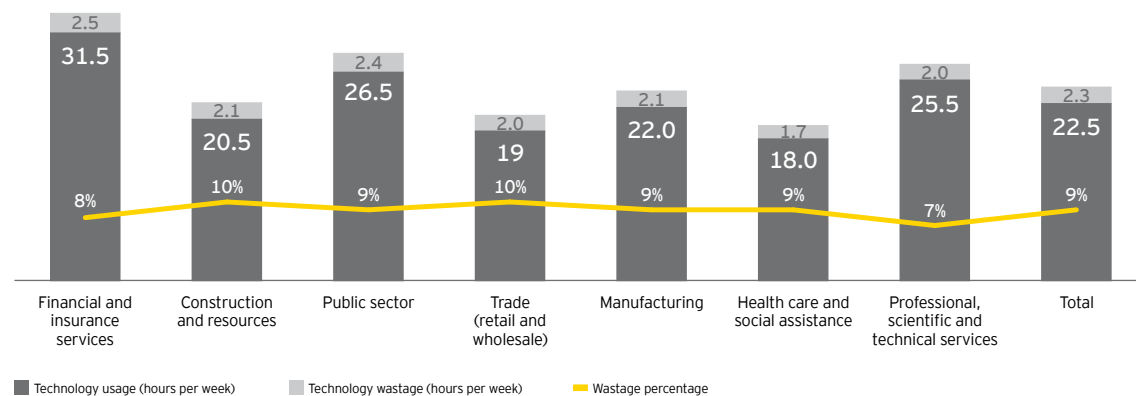
When it comes to technology wastage, the construction and resources; and retail and wholesale trade sectors rank the highest, showing approximately 10% downtime per week.

This level of wastage may be tolerable for the booming resource sector, however given the challenging outlook for retail as the sector continues to grapple with issues such as online, competition and declining consumer spending, 10% wastage associated with technology equivalent to two hours per person per week, could be detrimental.

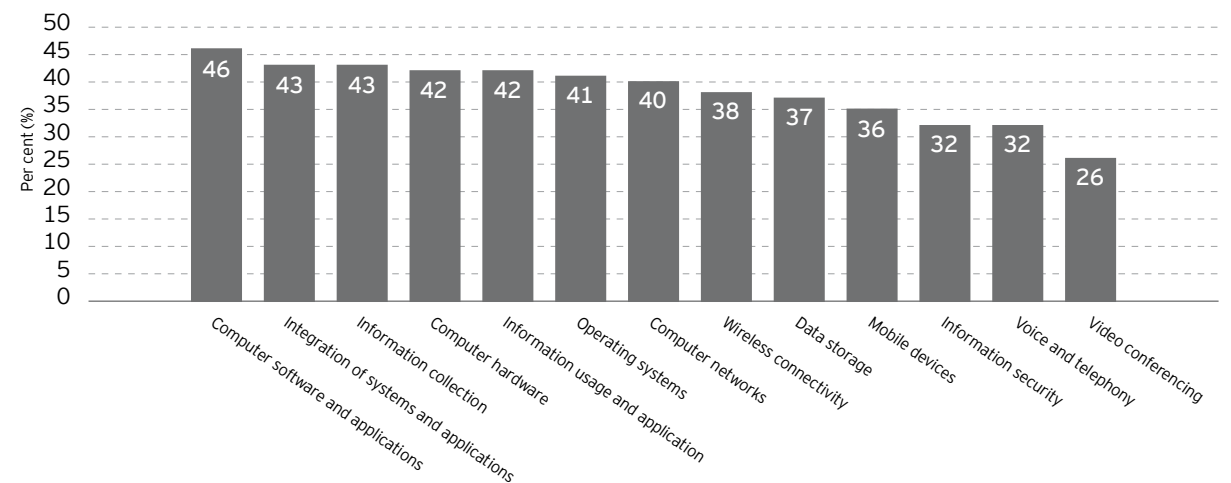
The *Pulse* shows significant technology changes are needed in computer software and applications, integration of systems and the way in which businesses collect and use information.

This is particularly true in the retail sector. Businesses should be harnessing technological tools and strategies to more effectively collect and use consumer data to tackle online competitors head on. Smart retailers will look to enhance the in-store experience by leveraging technology to employ targeted marketing campaigns to boost sales, provide an enhanced customer experience and realise operational cost savings.

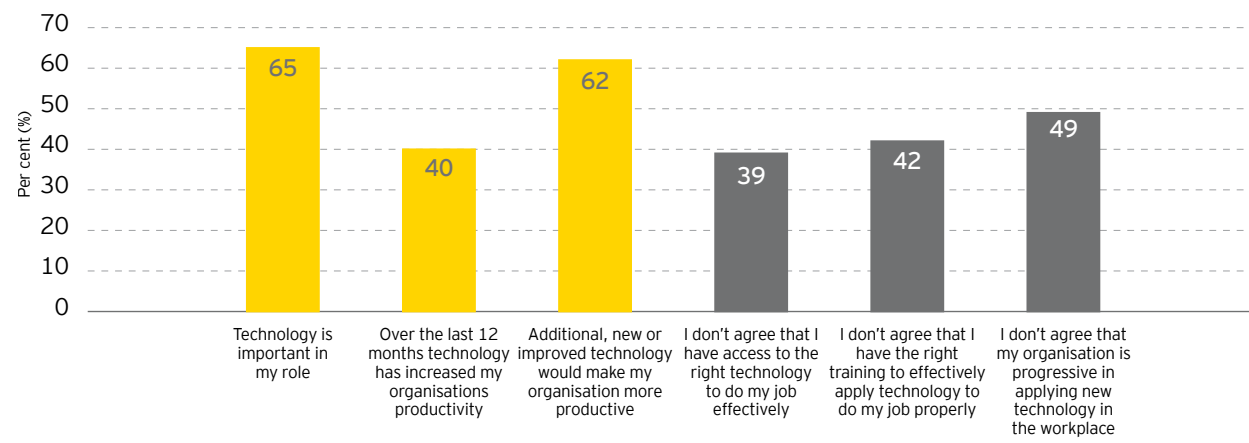
Technology: usage vs wastage



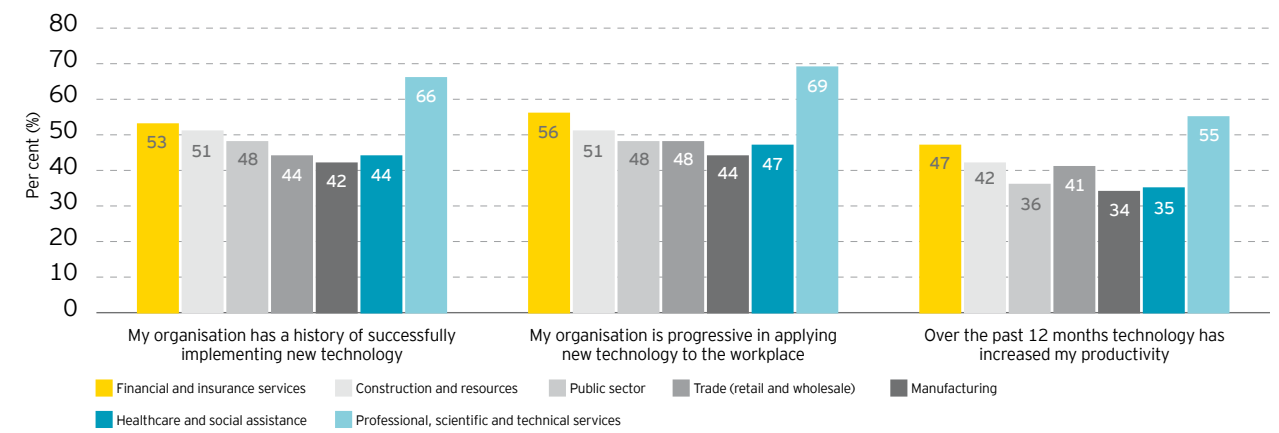
Technology: areas identified for significant change



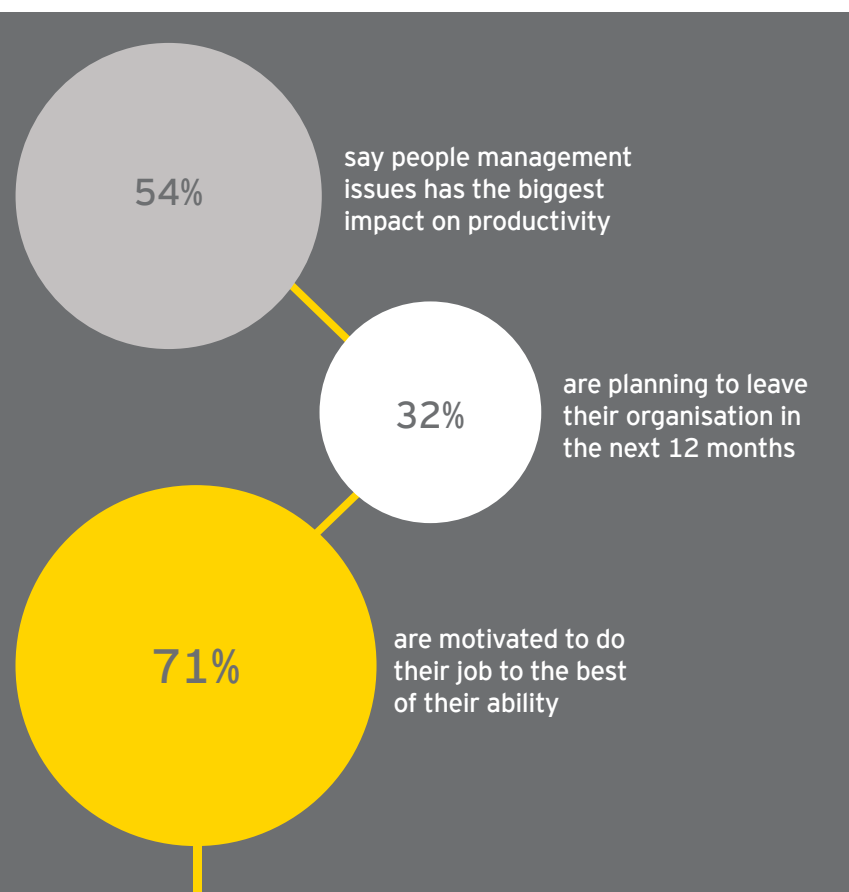
Technology: key findings



Technology: industry perspectives



People



When you look more closely at what has made some organisations' perform extraordinarily well compared to their competitors or peers, there is often a common denominator; a realisation of the value of people and understanding of their motivation drivers.

On that note, it is not surprising that out of the four areas we identified as having the biggest effect on productivity, 54% of respondents say that people management issues are the number one influence. The *Pulse* shows the nation's productivity decline cannot be blamed on Australian workers. An overwhelming 71% state they are motivated to do their job to the best of their ability yet only 62% say their skills are strongly utilised by their employer, leaving a staggering 38% of workers with skills that could potentially be used more productively in other areas.

The professional, scientific and technical; and health care and social assistance sectors have the highest motivation levels, skills alignment with job requirement and skills utilisation.

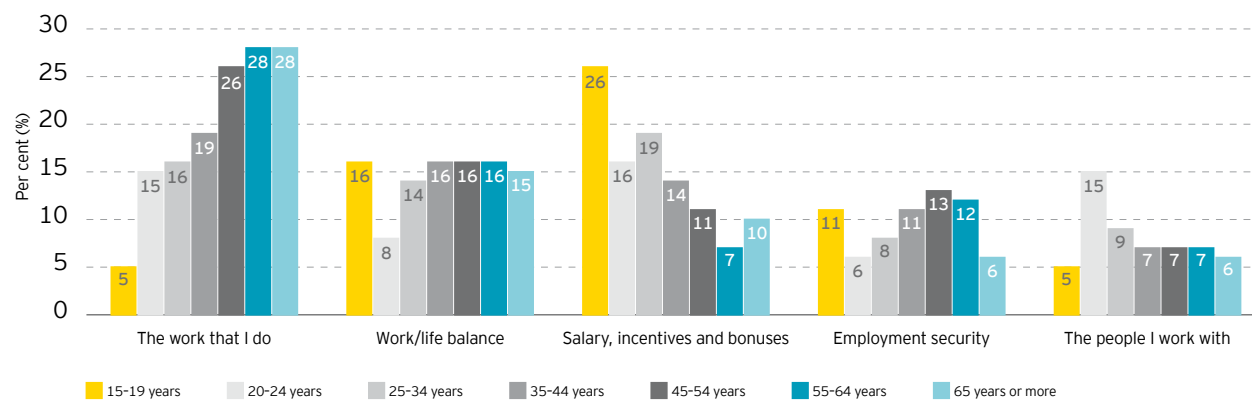
Conversely, the manufacturing; and retail and wholesale trade sectors did not fare so well, suggesting that significant improvements could be made around managing human capital more effectively.

The *Pulse* also uncovers a key relationship between age and motivation levels. Respondents from the 65+ age bracket are the most enthused, with 85% saying they are motivated to perform to their highest capacity, which is a stark contrast to 53% from the 15–19 age bracket.

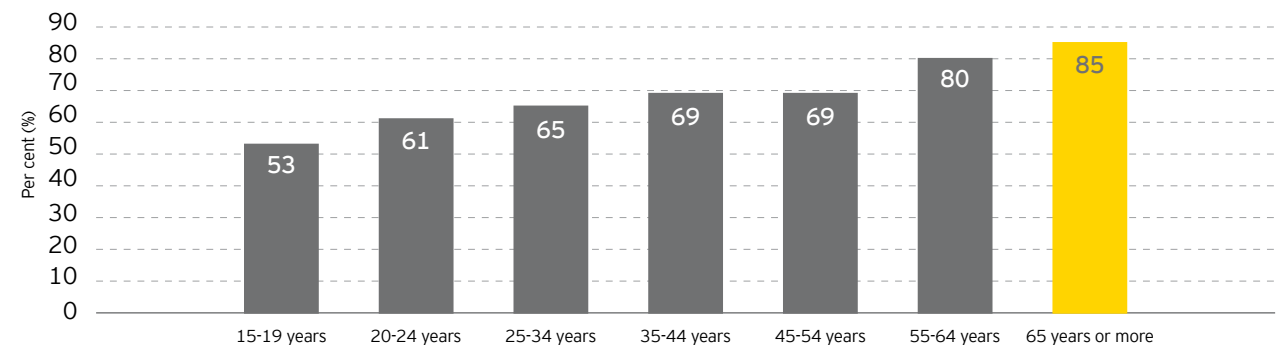
Adding to the business case for the mature worker, the *Pulse* reveals older workers are more likely to be motivated by the actual work they do, rather than incentives, salary, work/life balance or employment security. In fact, salary, incentives and bonuses came up short across the board with only 13% of respondents saying it was a driving factor - substantiating the notion monetary rewards are not the silver bullet in raising productivity.

Alarming, the *Pulse* shows 32% are planning to leave their organisation in the next 12 months with a further 35% already pursuing external opportunities. Failure to support career progression may be a contributing factor, with approximately half of all respondents not agreeing that there is a clear direction for their career.

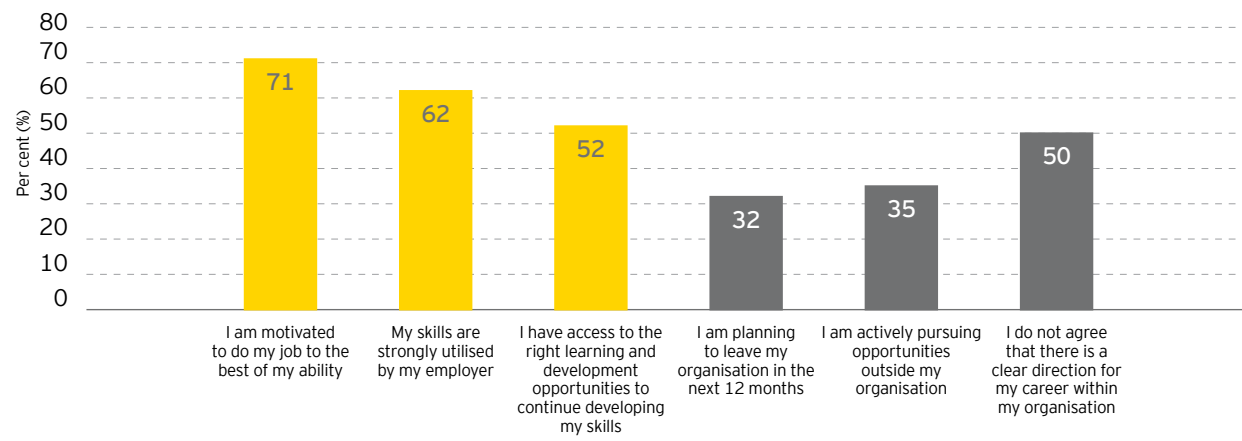
Top 5 motivators across age groups



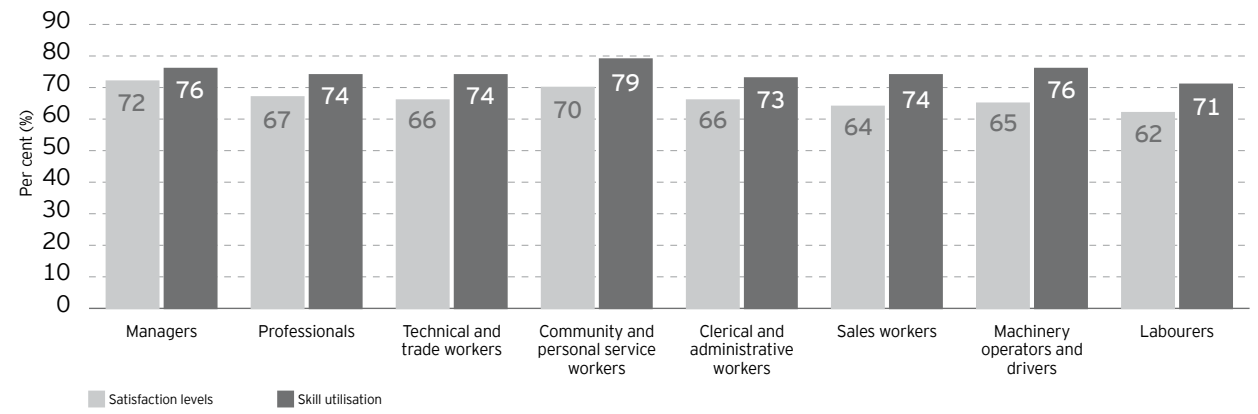
I am motivated to do my job to the best of my ability



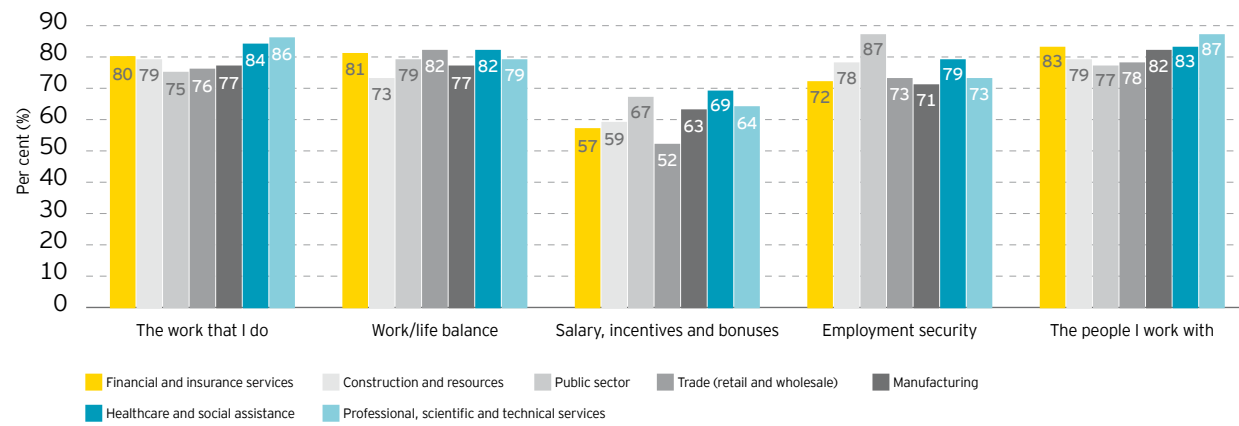
People management issues: key findings



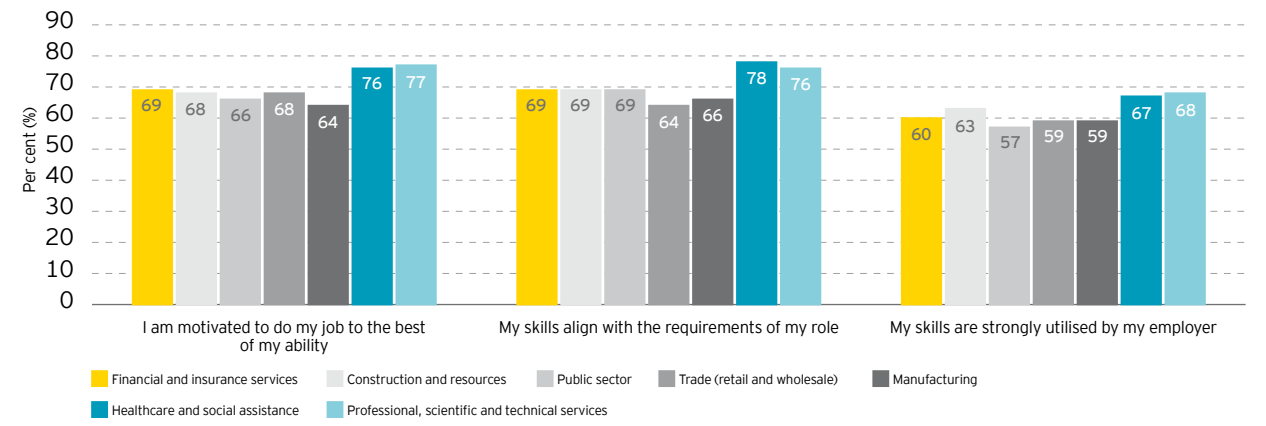
People management issues: satisfaction vs utilisation



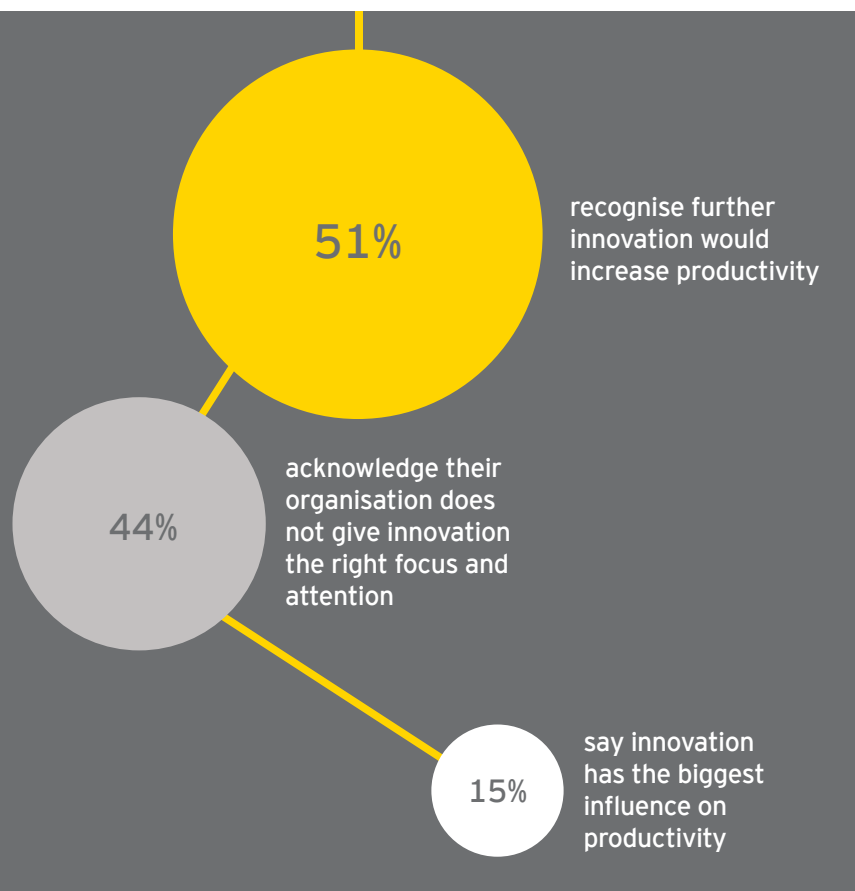
People management issues: industry perspectives



People management issues: industry perspectives



Innovation



It is hard to argue against the fact that innovation is a key driver of productivity growth and competitiveness of organisations around the globe. However the Pulse shows that out of the four areas identified in having the biggest effect on productivity, only 15% of respondents cite innovation as a key influence.

Results illustrate the majority of respondents understand the value of innovation on productivity levels, however many identify challenges and obstacles to driving innovation within their organisation.

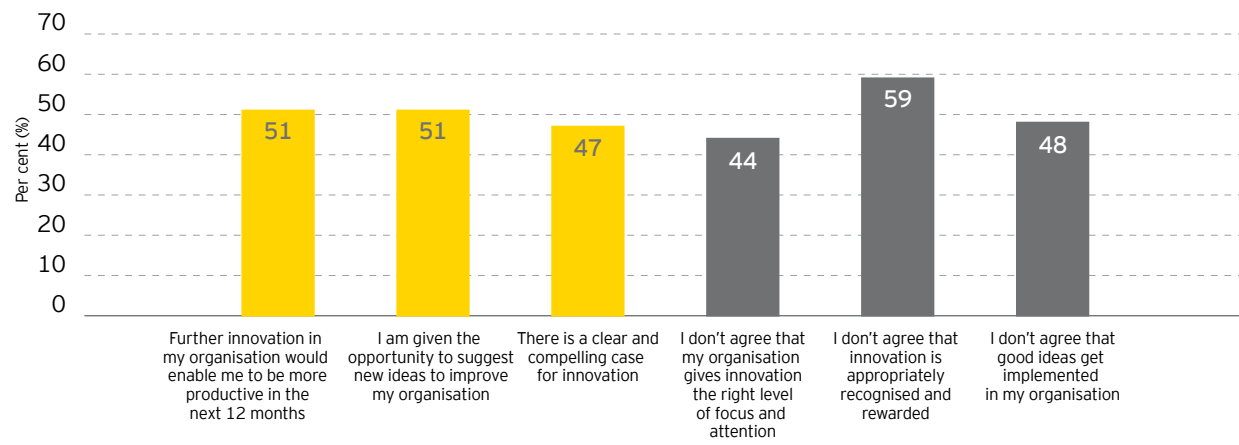
Fifty-one per cent say that further innovation would increase productivity, 49% acknowledge a clear and compelling case for innovation and 51% acknowledge they have the opportunity to suggest new ideas. In contrast, 44% did not agree their organisation gives innovation the right focus and attention, 59% did not agree innovation was adequately recognised and rewarded and 48% did not agree good ideas were implemented.

A recent study by the ABS analysed the economic theory behind market competition and innovation. The results show that organisations within markets with high competition levels had a higher propensity to innovate³.

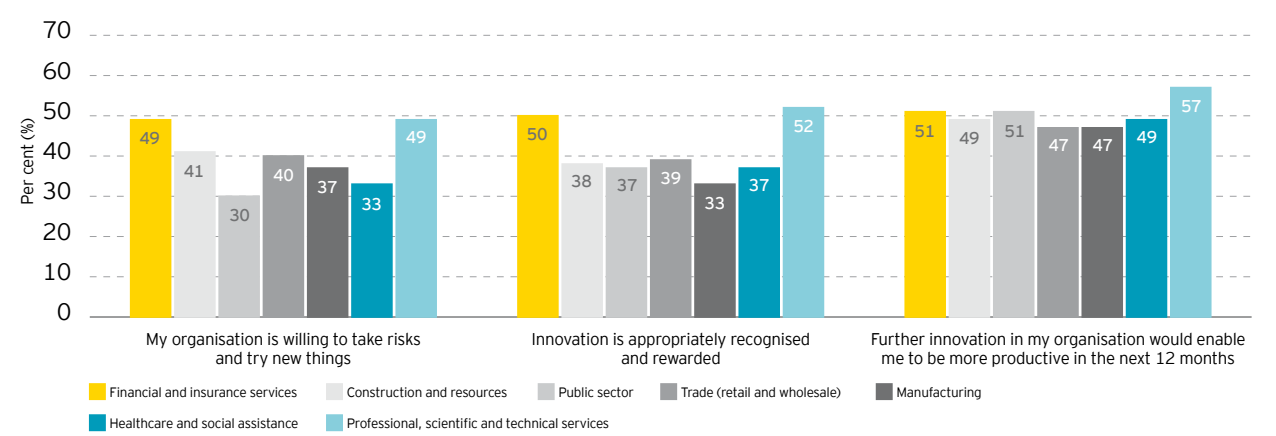
The Pulse also found this to be true, with organisations from competitive markets such as the financial and insurance; and professional, scientific and technical sectors being more willing to take risks and try new things, while less competitive markets such as the public; and health care and social assistance sectors are dramatically less inclined to embrace innovation. In saying that, respondents across the board are unanimous in recognising further innovation would increase productivity - so regardless of the sector, in our view, the onus is on business leaders to empower their employees to generate ideas that help drive the organisation forward.

³Australian Bureau of Statistics, Competitive markets and Innovation levels, August 2011, www.abs.gov.au

Innovation: key findings



Innovation: industry perspectives



The time to
act is now

Outlook

Although most organisations are at any one time tackling a number of the elements of productivity, it is not until they are faced with a crisis that they see the value in addressing the whole picture or implementing significant change. This is because people are more accepting of the need for change in the midst of a crisis and more comfortable being taken along for the ride.

Organisations that don't dare take their foot off the productivity pedal, even in good times, will always be better positioned in the race for growth than those who only see it as tool to use in a crisis.

The time to act is now.

Given that people management issues are shown to have the biggest influence on productivity, it will be important for organisations to focus a significant amount of their attention in this space. As the *Pulse* shows, the motivation is already instilled in Australian workers, however business leaders can take productivity to new heights by fostering an effective working environment where skills are fully utilised, learning and development opportunities are available and career progression is taken seriously.

Notwithstanding, technology, innovation and organisation structure, design and operating model are all important elements and must not be neglected.

Leading organisations will invest in new and leading technology to boost productivity levels simultaneously paying substantial attention to how software is deployed, rolled out and implemented.

Australian workers take satisfaction in working for their employers and are motivated when they feel their work is valued. However, ineffective processes and systems and a lack of visibility and clarity from leadership can have an adverse effect. Organisations that look to streamline and standardise processes and policies while also providing transparency around direction will be best placed to improve performance.

Productivity brought about by innovative thinking is all about value creation through the application of new ideas. Innovation can take many forms: from finding a cheaper way to make widgets, to finding a way to make those widgets work better, faster, and more efficiently.

However, the perceived risks and costs that are associated with being innovative can be a barrier for many organisations, and in many cases productivity growth through innovation is stifled across many sectors, industries and countries.

Innovation is a state of mind and is important for all managers to foster an environment that supports change and enhancement as part of business-as-usual.

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