Leadership for sustainable productivity

Concluding Report
December 2001

The ILO's ***e-Forum on Productivity 2001*** examined the contribution of productivity improvement to economic, social and ecological sustainability. It thus also covered sustained productivity improvement—any organization which does not consciously strive to continuously raise 'the efficiency of its effectiveness' is condemned to failure.

To focus minds and to stimulate exchanges, participants were invited to discuss and illustrate two propositions:

> ***The only real way of inducing a company to change its sustainable (in the meaning of 'the efficiency of its effectiveness') productivity behaviour is to increase its profitability—leaving 'social and ecological sustainability' to a subsequent phase.***
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> and
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> ***The symbiotic relationship between productivity improvement and social and environmental concerns is such that sustainable productivity improvement is attained through approaches that integrate the concerns of social and ecological sustainability.***

This report presents excerpts from contributors on these two, seemingly opposing stances and examines possible conclusions. It also draws on presentations to APO's 40th anniversary congress run in conjunction with Singapore's PSB 20th anniversary, the ILO's *Global Employment Forum* and UNIDO's E4PQ regional forum in Warsaw. Virtually all contributors are 'productivity preachers' (rather than 'productivity practitioners'), those helping the 'doers' within organisations to improve their results. Views presented to the e-forum were based on individuals' experiences and on-going actions aimed at companies' and organisations' productivity improvement approaches (i.e. 'economic sustainability') built on corporate (organisational) social sustainability both *internal* and *external* to the enterprise/organisation, which also include at least elements of 'ecological sustainability' (i.e. approaches which pay attention to ensuring that there is no—or only minimal—environmental degradation and, if possible, environmental improvement).

> N.B. The names of contributors are given before each quotation. A full list of contributors is attached. The full list of invitees is available on this website.

1. On leadership and leaders

"Leadership" and leaders for—and of—productivity can be individual or collective: an organisation, just like a nation, can provide leadership even though it does not have a prominent leader.

(**Jens Dinesen, Denmark**): The notion of leadership implies the notion of the leader. To focus on the leader makes good sense since leaders and their capabilities are important. The leader can often be the one person in a company with both an overview of its activities and the ability to make change and investment decisions. A common expectation is that the good leader is a person with a high working capacity in the interest of the company, combined with a good social reputation in the family and the local community. This kind of leader will have the ability to combine, fairly, both shareholder and stakeholder interests.

(**Masaya Miyoshi, Japan**): With the Japanese economy in a prolonged slump and with no signs of recovery in sight, a paradigm shift in Japanese capitalism is fast taking place.

Most of the systems and traditional practices that underpinned half a century of economic growth are now in a state of systemic fatigue. The dynamism of the Japanese economy has as a result declined and costs have increased. Confronted by intensifying mega-competition, the economy has been exhausted.

Against this backdrop, Japan's overall competitiveness has continuously declined which is attributable to a number of factors including: (1) the ailing financial sector still heavily burdened with huge amounts of non-performing loans, (2) inefficient domestic market oriented businesses, many of which still remain under government protection and restriction (distribution, transportation, construction, real estate, energy and others), (3) the ineffective and outdated infrastructure in education, legal system, administrative system, etc. from the viewpoint of activating and innovating private business activities, as well as the ever-increasing government debt which will eventually expand tax and social security burdens. In addition, the labour market made relatively immobile by the so-called "Japanese employment practices of seniority and long-term employment contract", is currently proving to be a negative factor.

As regards the strengths, the Japanese economy still possesses a long list of factors that are waiting for further exploitation. Also, as government and business, both independently and jointly, work hard to strike out measures and steps to push ahead structural reform and to enhance competitiveness.

An increasing number of new factors are being added to the list, above all the determined attitude of the Koizumi Administration to restructure the supply side of the economy and to equip the industry with IT technology. The Japanese majority will support it in spite of the likelihood that many will suffer from painful adjustments.

(**Tsutomu Inoue, Japan**): In Japan traditions are still strong and may get in the way of progress. For example, in the west e-commerce is growing rapidly and the use of the electronic signature is steadily growing. In Japan, however, a name stamp is used in the same way as it has been for over a thousand years. And there are no plans for electronic stamps in Japan. Nor are there free phone calls as in the US or Canada.

Much of the blame is laid at the feet of the once-government telephone monopoly, NTT. And the internet is underutilised which is … dooming the country's economic recovery to fall further behind other more flexible nations which have embraced the opportunity presented by the net and electronic commerce. Japan is lagging behind at a time when the expansion of e-commerce is considered to be the driving force behind the increased competitiveness of US corporations. … Despite a wealthy, educated, technology-obsessed population, Japan's shift on-line is plagued by the legacy of its post-war economic miracles.

(**John Parsons, Botswana**) A leader has to be comfortable within a complex (if not, necessarily, difficult) milieu, which is something that very few can do … . Leadership competencies can perhaps be taught, qualifications and experience can be gained, the right attitude can be adopted (although if not natural this would be stressful); but learning to manage extreme complexity is a developmental process that few will traverse.

Perhaps the dilemma for modern leaders can best be summed up in the words of Tom Peters: 'You can't keep it up! You don't have all the answers!' … . For Peter Senge leaders who think they are in charge or in control are deluding themselves. … Even Jack Welch didn't do it on his own despite what the accounts may suggest.

So the intelligent response has been the cultivation of the leadership (or executive) team and more meaningful relations between management and labour.

2. The most productive nations

(**Dirk Pilat, OECD**): Summary of an article in the Canadian *International Productivity Monitor*, Editor: Andrew Sharpe—Number Three, Fall 2001

The OECD secretariat was asked by its member countries in 1999 to examine the variation of growth (and productivity) performance, analyse its causes and provide guidance for policy making.

Among its findings are that Australia, Ireland and the Netherlands registered markedly stronger growth of GDP per capita in the 1990s compared with the 1980s, with Finland, Canada, Greece, Iceland and Sweden following in the second half of the decade. One important reason for this growth has been the simultaneous improvement of labour productivity and labour utilisation—i.e. more people worked more productively. In contrast, some European countries had strong productivity growth, but low employment growth … Their higher productivity growth may have been achieved by a greater use of capital or by dismissing (or not employing) low-productivity workers.

Labour utilisation points to the importance of labour market performance in explaining growth differentials. Labour productivity can be increased … by improving the quality of labour used in the production process, increasing the use of capital and improving its quality, and achieving greater efficiency in the combination of these factors of production—Multi-Factor Productivity. MFP reflects many types of efficiency improvements, notably improved managerial practices, organisational changes and innovative ways of producing goods and services.

As regards the impact of investment in Information and Communication Technologies (ICT) on productivity growth, OECD studies indicate that the greatest impacts were found in the USA, Australia and Finland and the smallest in Japan, France, Germany and Italy. The impact usually takes time to show up, but ICT-intensive services—such as wholesale and retail trade and finance—have demonstrated above-average MFP growth. (Indeed, in the 2001 McKinsey study contesting the high impact of ICT on US productivity growth in the later 1990s, these industries were seen to have the lion's share of growth.)

MFP growth rose particularly rapidly in Australia, Canada, Denmark, Finland, Ireland and Sweden. Its probable sources are more efficient blending of labour and capital, organisational and managerial changes and enhanced innovation driven by the increased level of competition (regulatory reform and greater openness to international trade and investment). The entry and exit of firms and changes in market shares are important drivers of productivity growth, since new firms typically use a more efficient mix of labour, capital and technology than the existing. R&D and technological change are also important drivers of innovation, with countries that invest in their own R&D appearing to benefit most from foreign R&D.

Aggregate analysis of productivity growth may hide significant differents in trends across economic sectors. … Shifts of resources from low- to higher-productive industries have, historically, been an important driver of productivity; today a large contribution to overall productivity growth patterns comes from productivity changes *within* industries in the non-farm business sector.

(**Geoffrey Owen, FT November 7, 2001**) '(There are at least) two varieties of capitalism: liberal market economies (LME) and co-ordinated market economies (CME). CME companies have a competitive advantage in industries that call for the patient accumulation of specialised technical competence, offset by a disadvantage in industries characterised by radical and discontinuous change. LME companies are in the reverse situation. Hence, Germans are strong in mechanical engineering and other sectors that call for highly skilled workers engaged in 'diversified quality production', while the Americans score well in semi-conductors and biotechnology.

The authors of '*Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*' (Ed. Peter A Hall & David Soskice) argue that the durability of the German system stems from a conviction on the part of all the actors, including employers, that non-market co-ordination, involving consensual links between government, business and trade unions, is better, at least for Germany, than the LME approach. …

The wider question is whether the German system can adapt, not merely to globalisation but also to the shift in industrial structure that is taking place in all the advanced industrial countries, from the medium-technology sector in which German companies have excelled, towards knowledge-intensive goods and services where the rate of technical change is faster. The federal government has been trying to encourage more entrepreneurial innovation, with some success in the case of biotechnology; but as international competition intensifies, the constraints imposed by the German system may become increasingly dysfunctional.

… differences between the UK and Germany, in social policy as well as in worker consultation and vocational training, are more fundamental than is often supposed. .. . Advocates of Anglo-American capitalism have to recognise that Germany's reluctance to tamper with the status quo is based not simply on conservatism or inertia but on the fact that, so far, it has worked rather well.'

3. Ephemeral national leadership?

(**Chairman of Singapore's National Innovation Council**): The main factors contributing to Asia's economic growth since 1960 are:

- An abundance of hard-working labour resources
- The availability of capital from domestic savings and foreign investment
- A strong focus on productivity—a crucial driver of economic growth
- A stable political environment focusing on economic development and prosperity
- Tripartite collaboration (government, labour and management) at the national level
- Good labour-management relations at the enterprise level.

(Moderator) So leadership for sustainable productivity can be provided at the national level. However, it often appears to be ephemeral.

In *Employment Revival in Europe*, Peter Auer, ILO, describes labour market success in Austria, Denmark, Ireland and the Netherlands. Faltering in at least 2 of these countries has been noted in the course of 2001:

Ireland's economy languished in the early 1980s and became critically ill in 1986. All parties came together to take drastic action. This was spelled out in successive 3-year national partnership programmes, which have in particular set out wage increases for the coming 3 years. This has enabled management and trade unions to concentrate on key issues for Irish competitiveness—corporate strategy, technical change, training in the workplace and working practices. Since 1987 the number and scale of strikes have fallen and industrial conflict has centred on union recognition and corporate restructuring, rather than pay—it has become the '*Celtic Tiger*'.

The country's benchmarking procedure has indicated that it is Europe's leader in its annual growth rate of labour productivity and near the top in several other of the eight elements of competitiveness it considers important; but it also realises that it has much to learn from elsewhere on an on-going basis. For instance, labour productivity is way above Irish average in the multinational companies, but way below in 'home-grown' companies. Thus what is of particular concern at present is the large scale of redundancies in these multinational companies. A member of the government has declared the Tiger era to be past.

So should Irish leadership in economic (and labour productivity) growth be considered over? The nation's action in 2002—with its national 'partnership' approach and structures to push this down to enterprises—should be followed with interest.

(**Hilde Kees, Belgium**): According to NRC Handelsblad, 3rd December, 2001, Michael Porter said 'You can throw the Polder Model in the trashbin. For a decade the Netherlands has reaped success from wage restraint, cost reductions and helping an increasing number of individuals find work. … the Netherlands has been in advance of its neighbours, but the life cycle of the model is nearing its end.'

'Economic growth can only be sustained in the long term if productivity increases. In the long term welfare can only grow if more goods and services are produced per hour worked. Such improvements in (labour) productivity can only be achieved through innovation, through the adaptation of technologies and through new approaches to work.'

In his book *The Competitive Advantage of Nations*, Porter contends that successful countries have sectors where producers, sub-contrators, consumers and governments all work closely together and help each other innovate. 'Cluster' is the key term for such sectors. In his book Porter saw the Dutch cut flowers industry as an example of a successful cluster. …

Taking up Porter's warning, the economics minister pointed to new examples where Dutch technology was doing well, such as solar energy and the use of the scenting capacity of the parasite wasp to detect drugs. But Porter considered that the Netherlands—despite good government R&D—is backward in R&D, on which 50 per cent of long term economic growth depends. This can be seen when plotting the growth in the number of Dutch patents registered in the USA against economic growth per capita. For Dutch scientific knowledge generates too few patents. And there is far too little cooperation between university and industry in the Netherlands.

Other countries, notably Finland and Sweden, are now far in advance of the Netherlands in the area of innovation potential (Taiwan, South Korea and Singapore are the world leaders). ‘The Scandinavians carried out their transformation in times of crisis … If the Netherlands do not act now, they will be faced with a crisis in five years time.’

(Moderator): To boost **Britain's** productivity performance, the minister of finance in the new Labour government in 1997 focused first on macro-economic reforms—monetary policy independence for the central bank and long-term planning for public finances. In 2001 the same minister re-focused on micro-economic tools ‘to close the productivity gap between the UK and its competitors—an issue he sees as fundamental to improving Britain's long-run competitiveness.’ (FT August 1st, 2001). The key tool is the Competition Act to enhance competition and so lead to a cultural change in business. The aim is to create ‘a modern business framework with enterprise and productivity at its very heart.’

(**Carlos Ataide Garcia, Portugal**): Portuguese productivity is currently a "concern" of every institution, private or governmental, but not much is really being done.

The "Comission for Social Concertation" meets regularly with the Prime Minister. It is composed of members of the labour unions and CIP, the Confederation of Portuguese Industry. The Commission's major productivity concern is to index salaries to productivity. CIP and the private sector are however demanding that public administration become more productive, since its budget exceeds 50% of Portugal's GDP. On the other hand, the labour unions claim that the Government and the private sector miscalculate the productivity index, to keep salaries down.

In late 2001, the Prime Minister announced a huge programme on innovation to increase productivity; however, it lacks coherence regarding productivity measurement and improvement programmes.

(**Koh Kasuga, Japan**): JPC-SED—the Japanese productivity center—will certainly survive over the next few years, because its cash generating system (developed over the past 50 years) still works. However, the Japanese economic recession does make damaging impacts on this system. If the current economic downturn continues further, our earnings will dwindle quickly.

JPC-SED's operations are not dependent on the government funds (they currently represent less than 3% of the budget); rather it depends on support from industry and the trade unions, which is where JPC-SED's market is. JPC-SED must be seen as a more important and useful organization by these stakeholders if we are to improve our chances of getting orders.

We are now concentrating our efforts on becoming a "public policy proposer". Our chairman meets Prime Minister Koizumi in open support of his policy in public, criticizes bitterly the bureaucracy and politicians who are against restructuring. We urge the chairman of the National Trade Union Congress to come up with a new trade union goal now that the post-war system has become obsolete. We tell the Mayor of Tokyo to change the capital city of Japan elsewhere—he is flabbergasted, but other mayors love this idea! We have 11 committees dealing with restructuring Japan, each producing a half-yearly report. Since we select the chairmen and committee members (15~25) from most highly regarded as well as the most popular industrial leaders/trade union officials/academics/politicians, every time reports are produced, they are taken up avidly by the media. We want to promote JPC-SED's name, and thus promote its products.

Lets see if this works.

4. Ephemeral corporate leaders

(Moderator): The Swedish-Swiss company ABB has been a powerful example of successful corporate leadership for almost a decade from its creation in 1986. Under the same leadership (CEO Percy Barnevik), ABB flourished using a variety of concepts to ensure that the company was continuously ‘lean’ and ‘agile’ (remember the very successful ‘T-50’ programme aimed at halving the time for doing all sorts of things?), investing in its ‘human resources’ and understanding of markets. But in the autumn of 2001 Mr Barnevik announced his resignation as chairman of the ABB board (a post he had ‘retired’ to some 5 years ago from being the company’s CEO) because of its continuing poor performance and the continuing need to ‘downsize’ (it employed 215,000 persons worldwide, now 160,000, with a further 12,000 job cuts announced).

In the same autumn Ford also experienced a significant top management change: its non-family, professional CEO was replaced by a family scion as the company’s fortunes declined in the face of a stand-off with its tyre supplier over one product in particular and the attractiveness of its products compared with the competition in general. In 1999 (Financial Times, 31.10.01) the company completed ‘Ford 2000’ which while only partially successful from an operational standpoint… brought billions of dollars of cost savings. (But) … in the three months to September 2001 Ford made a $502m loss. … (and) labour productivity has declined and employee morale has suffered. … Ford used 25.74 man-hours to build an average vehicle in North American in 2000, up from 24.85 in late-1997. By contrast, GM and Chrysler have showed significant improvements over the same period. The Japanese have made little progress but still hold a convincing advantage over US rivals.

Nor can we forget ENRON, the darling of the gurus like Gary Hamel who saw it as a best practice case of balancing ‘optimisation’ (or sustained productivity) with innovation.

An editor of the Financial Times (‘*Hail the chief executive*’, The World in 2002, The Economist Publications) has warned of the dangers of the corporate world having developed cults of individual CEOs claiming the credit for successfully managing ‘Me, Inc’. Recent research has shown that senior managers—‘leaders’—now last on average 4.7 years in their job compared with 8 years in 1991. Running a company has become too hard for one person alone.

Accenture has drawn up a list of 14 qualities that leaders of the future will need, which only a superhuman can possess (such as ‘personal mastery’ and ‘living the values’). The dean of the Yale School of Management considers that ‘historians will conclude that the pressures of the era have proved much greater than anything most of these leaders could surmount. As a group, global CEOs will be seen as captains of small ships in turbulent seas—rarely able to chart a steady course and to maintain control of their own fate.’

Chantiers de l’Atlantique[1]

Since 1997 there has been a turn-around of the *Chantiers de l’Atlantique* shipyards in

1 Taken from the very last issue of the SABENA magazine

Saint-Nazaire (France), a part of the Alstom group, thanks to a Harvard MBA, Patrick Bossier. His approach ("*Cap 21*") differed from shipyard restructuring elsewhere: he decided to double output, cut costs by 30% and offer vessels 20% cheaper. The company could thus escape the vicious circle of its production volume being limited by the willingness of the French state to provide subsidies.

Bossier focused on the areas where the shipyard had a reputation for expertise and quality: complicated cruise liners and ferries. What it did best was design the ships and assemble their hulls and superstructure. The rest of the work was sub-contracted.

Cap 21 has helped pioneer a revolution in the way giant ships are built. 'Painstaking design work enables the ships to be built under cover in sections weighing hundreds of tonnes that are then fitted into place on a slipway by giant cranes like a three-dimensional jigsaw. A thousand or more ready-made guest cabins are slotted into place like dominoes in a box. Huge expanses of glass are glued on to the superstructure, using techniques unthinkable a few years ago. To minimise noise and vibration, the latest ships are propelled by electrical motors mounted on external pods, powered by an on-board power-station located in the funnel.'

In spring 2001, the shipyard had an order book of €3.7bn, including €770m for the *Queen Mary 2*.

To deliver the transition from recovery to long-term success, Bossier has launched a new efficiency drive: *Cap 21+*. 'The role of the manager is to convince and mobilise the players'.

5. Corporate productivity, quality or profitability? Means and ends

The focus of the forum was *sustainable* productivity. It thus covered on the one hand the concept that productivity is a continuing process that is never fully achieved—that it can be *sustained*—and, on the other, that it must ensure a balance between economic, social and ecological aspects—that 'holistic' approaches make it *sustainable*. But what is the role of profitability in achieving such sustained and sustainable productivity?

(**Harvey Goodwin, Canada**): Productivity is a relatively new concept to (Canadian) corporate management. It is becoming increasingly important with the onslaught of new, and hence unknown, competition through the relatively new phenomenon of free trade demanding shortened product life cycles and ever more emphasis on innovative product development. However, as a concept productivity generally refers to the macro-economic level, and government has given precious little information to companies on its importance and meaning to them.

(**Jens Dinesen, Denmark**): To be able to be concerned with social and ecological sustainability, there must be room for it in the actual business of the company. What is ecologically sustainable will be based on sound social and economic principles, but there needs to be a feedback loop. In the long run ecological sustainability will be a prerogative for the first two. For leaders to make decisions leading towards ecological sustainability requires them to be expressed in financial units, the unit of business.

A leader of a financially sound company has considerable leeway for choosing the means for maintaining its competitiveness. This can be achieved by raising productivity, developing products, enhancing the efficiency of purchasing and sales, etc. Some choices will lead towards ecological sustainability; others will not.

In the present leadership paradigm most of the easy choices will not lead to either social or ecological sustainability. Making people redundant is one of the easiest choices, albeit opportunistic and short-sighted approach; but it is an integral part of the dominant and generally accepted philosophy of the market economy and globalisation.

Often choosing a more sustainable solution means going “up stream” for the leader. The whole system of distributing profits—and thereby the incentives and possibilities for development of more sustainable solutions—gives priority to innovation in the individual company. It is difficult to make innovations that depend on changes in a whole value-chain or in infrastructure.

(**Peter Rehnström, Finland**): It is not the mission of a company to promote sustainable development and social responsibility. Nor is its task to promote social well-being in society. This is the responsibility of society as a whole.

The most important goal for a company is to be profitable. Such a goal is achieved in the market economy by providing goods and services that fulfil the needs of the customer at a price more favorable than that of the competition. Failure to achieve this condemns the company to oblivion—i.e. no jobs and no payment of taxes.

Promoting sustainable development and social responsibility is the purpose of society as a whole, which consists of citizens (‘civil society’), consumers and government. The role of government is to set out the context and ‘boundary values’ in which the company should operate. It does this through laws, rules, regulations and taxes. Consumers play their role in the market place: if they do not want footballs produced by child labour or raw paper with no recycled content or components from sub-contractors with high accident rates, the company has to adjust to the demand.

Thus, the most effective means of promoting corporate social responsibilities is the market mechanism.

(**Sergiy Luchaninov, Ukraine**): Ukrainian companies are only interested in profit. This means that they cannot be ‘sold’ productivity improvement except through demonstrating the relationships between profitability and productivity, and the meaning of price recovery, etc. Managers trust numbers more than words. So we are searching for appropriate methods for measuring multi-factorial productivity and performance. We can thus show the impact of each factor and of each product, which is a source of future managerial decision-making.

(**Financial Times, 26.06.01**): Mondragon Corporacion Co-operativa announced in June 2001 a €3.3bn investment programme designed to double turnover and create 16,000 new jobs. Mondragon is Europe’s largest industrial co-operative—and its most successful, employing 53,000 people. The lack of shareholders has been its strength. It does not have to pay dividends and it can sacrifice profitability in order to expand. It has shown a concern from its beginning with the quality of management and the creation of stable jobs. Its chairman insists that job creation is its fundamental aim. Its success has also depended on its ability to maintain efficiency. The promotion of worker education through its university and research centres has helped productivity.

(**Jens Dinesen, Denmark**): Not only are Danish service institutes but also some highly successful companies (such as Grundfos A/S) non-profit. We are too ready to accept that shareholding is the ultimate type of ownership and that leaders and shareholders consider only profit as the key.

(**Peter Morse, Canada**): The main focus of SMEs is trying to improve their profitability. Indeed, most SME managers (in Canada) do not fully understand the dynamics of productivity

- they are basically focused on the 'day to day' issues of their own company;
- in trying to meet the challenges of 'global competitiveness', it is difficult for them to know whom they are competing with, and what the key competitive factors are in the global marketplace;
- many SMEs have limited resources to invest in the most modern equipment and technology; as a result, 'best practices' are not always being followed;
- most SMEs would love to be able to sustain an effective on-going 'productivity improvement' programme, if possible within a sustainable economic, social and ecological framework; but few have found out how to do it well, or where to start.

One approach to productivity improvement that is being tried on a sustainable basis (in Canada), over a five year period, is to focus on a specific industry sector, and work very closely with key firms and industry stakeholders to set up a productivity improvement programme among a large group of participating firms. With the project being driven by the industry association, the government has listened and provided funding for development work.

In order to respond to the limiting factors mentioned above, a family of performance measures has been set up that are easily understood, based on firm level data which is readily available. Productivity measures will be tied in with corporate performance measures. Performance benchmarks will then be established among the group of firms, based on the 'top quartile level' results, and 'best practices' will be determined based on the top performing firms, or from elsewhere, if necessary. Company management will more easily accept performance benchmarks that are based on their own industry, rather than from a generic data bank, and will use the data with more confidence in planning their performance improvement initiatives.

Firms will learn what areas of their operations are performing below benchmark level, and what potential impact there is on profitability in each area, by implementing the necessary corrective measures to bring performance up to benchmark level. The firm is then well positioned to make rational decisions on productivity improvement initiatives, considering their respective return on investment.

One can easily understand the benefit to a firm of participating in a sustainable five year programme, which tracks the progress of integrated performance improvement, rather than providing a 'one-shot report card', that may or may not lead to corrective actions. As always, when dealing with competing firms in a given sector, the key to successful recruitment of participants, and use of their proprietary operating data, depends on a recognized guarantee of complete confidentiality. Otherwise, firms will not go to bed with their competitors.

(**Ishida Masaru, ILO**): Financial sustainability is essential to protect the core competence of the company: to innovate in products and business processes for improved quality, lower cost, and faster services. Thus the right financing and cash flow strategies must ensure enhanced financial sustainability at the same time as minimizing social sacrifice and sharpen competitiveness by preserving core competence within the organization.

(**Milan Gregor, Slovakia**): The quality movement started in Slovakia around 1993. It was considered if not a panacea for manufacturing problems at least *the* major approach for ensuring the international competitiveness of Slovakian products. So there followed a major process of ISO certification.

However, companies forgot about costs, notably because labour was very cheap compared with western Europe.Once costs were "discovered" top management started redundancy actions (1998 onwards). Some major companies have subsequently paid attention to labour productivity with training actions for human resources; but it is only in 2001 that they are starting to examine their capital productivity (through RoI analyses, etc). Yet even these companies have virtually no notion of holistic or TFP. It is the Slovak Centre for Productivity which plays the leadership role here.

This shifting focus of business towards productivity has attracted several foreign consultancies. Currently, some use is being made of quality and productivity analyses combined, such as FinPro, and more sophisticated forms of value-added which has in several company cases been seen as a declining proportion of revenues.

(**Július Michać, Slovakia**): Many economic indicators have been used in the Slovak Republic under the former system, such as 'work productivity' and 'gross economic gains'. Today, the value-added approach is the best, since it is a very logical way of expressing productivity as the source of satisfaction of all stakeholders.

(**László Soós, Hungary**): Perhaps the main reason for the lack of business interest in productivity actions in Hungary is that they have generally been subsumed in the quality actions of the 1990s, with quite widespread use of TQM, etc.

(**UIMM, SI—juillet 2001—**article on the 2000 Baldridge Quality Award in the UAW Solidarity review (United Automobile Works' labor union). The Dana Corp. trade union official interviewed emphasised the importance of quality and labour-management cooperation: 'Our members have the right to go to their supervisor to say that something is not good enough', and stated that employees give continuous attention to the problems of productivity and quality.

Mass customisation means the selling of highly individual products on a mass scale and eliminating waste of time and materials (The Economist, July 14th 2001).

Lean manufacturing techniques have been extended to the whole value chain, upstream and downstream from the factory. 'BTO—Build to order' (rather than to stock) trims work-in-progress and inventories (and overstocking). It has saved Nissan $3,600 per vehicle. Corporate systems need to become more agile and faster. Dell's direct sales over the phone and internet has enabled it to grow (40%) at more than double the PC industry annual average. But BTO is still ten years distant.

Photographic development has been reduced from 5 days to 1 hour through 'distributed manufacturing' in the form of mini-labs—small, local units closer to the user.

60% of German cars are built in response to customer orders (not necessarily 'customised'). The 'International Car Distribution Programme' aims to find out how to supply and please more customers at lower cost. The '3DayCar' project seeks to apply the Dell PC model to car making: the time for order-to-delivery of a typical car is 42 days. However, actual production takes 2 days, the rest consisting of handling paper-work, scheduling parts and determining a slot in the manufacturing process.

However, BTO exaggerates peaks and troughs in demand—and profits come from working at 80% capacity. (Fleet buyers have programmed orders.) So there is a move to 'virtual BTO'—the appropriate product is available somewhere in the system (regional distribution centres with buffer stocks—which means that 76% of British customers get exactly what they want). There is a need for incentives to bring in orders for different waiting times (such as seats on flights).

To overcome the problem of the paint shop being the bottleneck, SMART cars have metal frames on which to hang coloured outer panels.

The demand-pull supply chain consists of: "Build-to-forecast"—"Build to replenish"—"Build only against customer order". Lean manufacturing and quality control techniques are being combined to track the occurrence of faults and spot even the tiniest variations in the processes—divergences from standard procedures. One example of BTO is provided by Maytag. It produces washing machines in three different ways: on a traditional conveyor belt, in work stations and (for top quality machines in 'build to replenish') cells of teams where the 'work is less mindless than performing single, repetitive tasks, and each operator can see what is going on around him'. In the teams no time is wasted by workers looking around for parts—'everything is brought to the worker, as if he were a surgeon'. Quality has improved by 55%, work in progress cut by 60%, a huge physical area has been freed up and capacity has been increased by 50%.

6. Social sustainability: competence development

(**Ishida Masaru, ILO**): Corporate social accountability does not mean employment protection and social security, but rather increased staff employability by human resources development for their competency and survival in the face of continuous restructuring caused by globalization. This requires developing communication, linguistic, ICT, professional and management skills as well as cooperation and team work skills for increased core competency and employability. This should ensure smooth transition for staff to bridge employment from one job to another, or from one company to another without disrupting their income. Bipartite efforts within the company, complemented by tripartite community support, should make this transition process easier without giving rise to economic and social hardships. Displaced workers must be rescued by effective social safety nets.

(**Joseph Prokopenko, ex-ILO**): Today economic sustainability increasingly depends upon competence, knowledge and methods. But attitudes and culture are also important. I am not in favour fighting Taylorism in the most of today's companies: too many people still do not use their time as fully as necessary in the workplace. Therefore, the best companies, together with social incentives, still use mechanisms which leave no room for people to procrastinate.

(**UIMM—SI février 2001**): Swedish (NUTEK) research shows that companies focusing on the development of the competences of their staff have a 50% higher profitability performance than others. Their productivity is also higher, but to a smaller extent. The same companies also cooperate more on R&D with other companies and give their employees greater flexibility in planning and implementing their work.

(**Július Michać, Slovakia**): There is a 'redundancy paradox: The priority is to be productive during regular working time. In the case of drastic downsizing of headcount, companies in Slovakia are now experiencing the paradoxical result that their employees have to work overtime.

7. Blending economic and social sustainability

(**Will Friedman, USA**): Instead of investing in their people, too many of today's organisations become infatuated with technology or outsourcing important functions. When employees are confined to narrow roles, with limited participation, organisations are more rigid and less creative and productive. In contrast, when they work in carefully crafted, participatory teams, they and their organisation benefit from the sharing of skills, the interchange of ideas and the synergy of coordinated action.

Teams are effective when they are encouraged and authorised (1) to think for themselves and make decisions within their own sphere of responsibility and (2) to contribute ideas to the larger enterprise and to challenge themselves and management to do better. This implies a democratic, open climate, so that workers become partners in the achievement of organisational excellence.

Truly participative, well-designed work teams can have a profound impact on productivity, the quality of working life, customer satisfaction and more. They do this by engaging the workers, gaining their discretionary effort and intimate knowledge of work processes, and leveraging their effort through complementary group action. (From WorkinAmerica Institute's "Teams Work", 2001)

(**UIMM, SI—aout-septembre 2001**): An article describes a 'high-performance work organisation' programme between a US trade union and a chemical company launched when the workers became aware that neighbouring companies' continued existence was threatened by globalisation. The partnership has brought about increased productivity and job security. Workers now influence virtually all aspects of production. 'We now have the impression of working *with* the company and not *for* it'. The figure for outsourcing work was reduced from $4m in 1998 to $1m in 2000.

(**IPA, UK**): Since the early 1990s, research has highlighted the business advantages of partnerships and, with changing economic pressures and shift in employment policy, its appeal has widened. More and more organisations are now taking partnerships a stage further. … An earlier attempt at change management at McVities (biscuit-makers) proved difficult so managers were keen to ensure that the latest process should be more effective. Its approach to employee involvement meant that managers as well as shopstewards had to adjust to changing roles. However, careful planning, training and consultation helped the partnership to flourish—and to cut costs and absence levels.

(**Robert Taylor on the *Changing face of labour relations*, FT 31.08.01**): In the UK recently a significant number of employers has displayed greater readiness to negotiate with trade unions to promote workplace change by consent. Under the fashionable term "partnership", companies seek to improve productivity. Trade unions in the UK and elsewhere in Europe are rebranding as allies in business-led innovation rather than as forces of resistance to change. Modernisation, work restructuring and job redesign are recasting shopfloor attitudes more positively and flexibly. So we see a shift from traditional forms of industrial relations based on voluntary accommodations and negotiated compromises with a recognised acceptance of differeing interests towards a system that balances a partnership model with agreed concerns and employee acceptance of at least a basic framework of rights. But determining the balance will arouse a widespread debate…

(**M. Aihara, ILO-Japan**): The key to improving productivity is mutual trust between labour and management on three points: 1. Security of employment, 2. Fairly sharing the fruits of productivity, and 3. Consultation between labour and management.

(**Masahiro Nowatari, Japan**): For economic sustainability, we should reconsider 'Teamwork' from the point of view of quality of working life. In the world of industry, many tasks and jobs have been managed through the interaction of many people—and this same activity will continue into the foreseeable future. But we have ignored the meaning of this key word, using it only conceptually. Teamwork must take place whenever people work to facilitate QWL. People want always to have pleasure in working. This is true sustainability. When we think of social sustainability we need to think further than making new 'socio-technical systems', beyond the 'Toyota system' as an excellent manufacturing system for productivity but not humanity. We need 'industrial social sustainability unifying humanity with productivity, but we also need to understand what the role of the psychologist is in economic and social sustainability and what sort of behaviour is required for sustainable productivity.

(**Jens Dinesen, Denmark**): Making sustainable solutions where profits are shared among different groups of shareholders and stakeholders requires a joint effort, in which both private and public leaders must participate. They will have to express leadership as a part of a team. They will have to combine their efforts in a 'united innovation'. This means joint ownership and fair share of the profits, the most difficult part being to find a way to share profits between private and public bodies. This will probably require new thinking for many of today's leaders.

(**UIMM, SI—octobre 2001**): An agreement was reached in September between the company and the Volkswagen Group works council and endorsed by the Metall trade union setting up a new production unit—the '5000x5000 project'. This will eventually employ 5000 unemployed persons for new jobs for a flexible 35 hour working week averaged over 6 months for which they will be paid a gross wage and premia amounting to DM5000, once the probationary period has been completed and the employee receives an open-ended employment contract.

(**UIMM, SI—août-septembre 2001**): The national labour research institute (IAB) made a survey of the relations between financial participation and productivity in establishments in east and west Germany. Productivity increases clearly result, both directly and indirectly: through the feeling of 'belonging' to the company, improved climate, enhanced information flows (horizontally and vertically), increases in employee suggestions, greater willingness of wage-earners to invest, more attention to handling and machines, better awareness of costs, greater identity with the company and collaboration, greter employee opennes to technological change, reduction in labour turnover and falls in absenteeism.

(**European Foundation, Dublin—communiqué 12/2001**): Employee participation, including financial participation, is a productive factor and not a cost factor for enterprises. It can make a significant contribution towards one of the European Union's main strategic objectives: to make the Union 'the most competitive and dynamic knowledge-based economy in the world'. Moreover, there is no evidence that employee share ownership and profit sharing schemes weaken the representative roles of trade unions and works councils.

8. Environment and sustainable productivity

(**Bethan Hutton, Business in Japan, Financial Times, December 6, 2001**) The hollowing out of Japanese industry may have had its economic downsides, but it has certainly brought benefits for the environment.

For most of the 20th Century, Japanese had a poor record on dealing with the environment. In trying to catch up with Western industrialised nations, economic growth was given higher priority than preventing environmental degradation. … It is only in the last decade that Japan has started paying attention to problems such as the highest dioxin levels; now large Japanese companies are trying to make up for lost time. While the government is playing a role by introducing tax incentives, penalities and other regulations, much of the impetus towards environmental improvement is business-led.

From being a notorious 'throw-away' society, Japan is transforming itself into a country where just about everything—from car parts to egg shells left over from making mayonnaise—is increasingly being recycled. Since April 2001 all old televisions, fridges, air conditioners and washing machines must be collected and recycled, rather than dumped in landfill sites. The law will soon be extended to other products, including cars and personal computers. This has spurred manufacturers to develop more easily recyclable products with fewer parts, less use of mixed materials and designs that are easier to take apart.

Even without legal pressures, many Japanese manufacturers have set themselves targets for recycling old products or waste materials—disposing of waste is costly in a small and densely populated island (and incineration is no longer a solution). Some companies are setting themselves ambitious targets for reducing their output of waste destined for landfill. Canon reduced its landfill waste by 96 per cent by 2000, saving itself Y340m annually in waste disposal charges. Another focus of attention is reducing energy consumption and improving energy efficiency before legally binding targets are set by the government in 2010 (under the Kyoto Protocol). Moreover, Japan's energy prices are at least 50 per cent higher than the OECD average.

Growing environmental awareness has also created some completely new business opportunities. Several companies have set up subsidiaries specialising in advising on energy conservation or promoting the use of co-generation systems for industrial users. Software companies have come up with programs to help users track and reduce energy usage and calculate the environmental impact or amount of carbon dioxide emitted by a product during its lifetime.

Much of the work on improving environmental performance is voluntary, but it is becoming increasingly easier to compare companies performance. Since the environment ministry published guidelines for environmental accounting in 1999, most large companies have started compiling annual environmental accounts, published alongside their financial data. The increasing transparency of companies' environmental records acts as a strong incentive to improve them. Peer pressure also plays a role: Keidanren has formed about twenty industrial groups and set voluntary targets for reducing waste, improving energy efficiency, cutting greenhouse gas emissions and other more industry-specific environmental goals.

In difficult economic times companies could easily abandon environmental issues in order to concentrate on the bottomn line. But for many Japanse companies such as Sony, Toyota or Toshiba, reducing environmental impact has become an integral part of their long-term business plans.'

(**John Parsons, Botswana**): Do organisations and nations really *need* to grow?

Since the world's population is growing, simple arithmetic and conventional wisdom dictate that, if living standards are to improve, economies must grow faster. Economic growth is generally fuelled by a combination of increased resource consumption and improvements in productivity. The living standards presently enjoyed by a relatively small proportion of the world's population in the so-called rich nations have been made possible by the consumption of enormous amounts of energy – most of it from non-renewable sources such as oil. Conversion of energy to matter and matter to energy does not affect the total stock of energy (the first law of thermodynamics – the law of conservation of energy), but it inevitably increases the level of unavailable energy (the second law of thermodynamics – energy transformation increases entropy).

Apart from the longer term consequences of building an economic and social infrastructure based on the consumption of vast amounts of non-renewable energy, rapid transformation of energy into matter and matter into energy brings its own penalty – increased pollution. The green movement has long recognised this, of course, which explains in part its protest actions at World Bank, IMF and WTO meetings. However, the type of preventative actions proposed even within the so-called green productivity movement (use of more renewable sources, recycling, etc.) fail to really address the basic issue: the earth simply does not have the resources to offer the poor billions the same lifestyle as the rich millions.

Although the efforts of conservationists and those who foster waste reduction and recycling should not be belittled, nor the basic notion of productivity undermined—which has the potential to bring about relative decreases in resource consumption—such percentage improvements could in no way compensate for the order of magnitude increases in energy consumption if the poor billions of Asia, Africa and South America enjoyed the same lifestyle as the rich millions of north America and Europe.

To be credible, the productivity movement has to seriously embrace a philosophy that is not rooted in unbridled economic growth and one which explores ways to gain acceptance of this from all those at different levels of economic, social and psychological development. This is not elitist; it is merely pragmatic acceptance of the realities of the laws of thermodynamics. We also need to radically redefine how and why national and international productivity organisations promote productivity and the role of productivity in a world that is likely to be quite different from how we have come to imagine it. In short, we need a radical rethink.

9. Leadership for developing countries

(**Rajaumbang Saragih, Indonesia**): In developing countries undertaking productivity and quality awareness and promotion campaigns, nationally or within companies, is not sound. Practical instruments, processes, techniques and programmes are needed. The lack of such actions has contributed to the declining competitiveness of Indonesian companies.

Despite the availability of technology-, employee-, product-, task- and material-based concepts and techniques, the problems arises with the *how*—the money, the leadership and the commitment.'

(**APO News, November 2001**): Fiji recently appointed a minister for labour, industrial relations and *productivity*. The nation's 'productivity awareness campaign' consists of three projects:

1. the development of a system for gathering productivity data at enterprise, sectoral and national levels;
2. developing model companies in areas such as housekeeping and quality circles, and
3. creating a pool of industrial engineers who will help corporations improve their performance.

The minister sees world-class performance by business as a prerequisite for survival as the world today no longer tolerates average or mediocre standards. In order to achieve this, it is necessary to think differently—about who the customers are and how to service them, about relations with suppliers and subcontractors, about systems and processes used in work and about employer-employee relationships.

(**Leo Mertens, ILO Mexico**): A recent ILO regional workshop examined institutional learning, applying participative productivity measurement and enhancement methodologies (*ProMes* and *Competency Management*). Participants were consultants with experience in coaching the application of ProMes, 5S and competency management in the area. The findings of an evaluation study concerning the impacts of three years promoting an integral productivity and training approach in 85 SMEs throughout the country were presented at the ensueing seventh national productivity conference of the Dominican National Training Institute (Infotep). Infotep distributed an interactive CD dealing with the basic principles of the methodology to the 500 SME participants attending the conference, and announced the start of a Help Desk for users of the methodology. The methodology includes modules on financial, organisational and human resource development (group and individually – competency based).

(**John Parsons, Botswana**): There is a twofold reason why so many organisations in Botswana have ostensibly embraced a need to transform. First, Botswana has reached the stage where both private and, particularly, public institutions need to adopt a more strategic, customer-focused way of life. There is additional pressure on parastatal organisations (which currently supply, *inter alia*, all the utilities, development finance, low cost housing, research and most of the transport) to begin commercialising with a view to eventual privatisation. Many of these do not lack technological resources but all have a poor service record both with business and the general public.

Secondly, because of a combination of high diamond revenues and generally good governance, Botswana can afford to spend quite heavily on consulting support for such ventures.

The movement has been further spurred by the entry into the market of new private sector activities (especially international banks and cellular phones), some understanding of the changing dynamics by top level management and some energised younger people (often with overseas education).

All the organisations trying to improve their performance seek to embrace the notions of both *internal* and *external* sustainability (see Parsons' contributions for more).

(**UIMM, SI—février 2001**): An article presents the experience of a Danish valve manufacturer—Danfoss—in the Ukraine. It indicates that the company does not hire anyone aged 35 or more because of their inability to work in the company's work culture. The company's two most difficult problems are dealing with the bureaucracy and corruption.

(**Leo Mertens, ILO Mexico**): Most, if not all, methodological approaches to enhance productivity through HRM have their cycles of enthusiasm and crisis; frequently the approach does not 'survive' impacts from outside the firm (market slow-down, financial problems, etc.). Little research is available on how to sustain the approaches and methodologies and stimulate innovation in them. Promoters tend to highlight the 'success story sides' and scarcely mention the 'cycle' side. This is a major issue for the institutional accountability of impacts. One conclusion is to classify three levels of impact: (a) impulse: firms apply a new method or approach for a short period of time; (b) partial: firms apply and commit themselves partially and for a limit of time to the methodology or approach and in the first crisis they prefer to abandon; (c) robust: firms continue applying despite internal and external originated crisis, and are able to sustain a continuous improving trajectory. The last ones are the rarest…

(**Muhammad Yunus, Bangladesh**): Some successful designs for bringing about sustainable productivity are more than a quarter of a century old and still provide inspiration. Notable in this respect is the 'Grameen family of companies' whose philosophy is that productivity comes from the utilisation of resources. Utilisation requires labour and capital to work together. In the simplest formulation, the productivity of labour increases as we increase capital per person. If we bring in technology productivity increases per person even if the quantum of capital is the same. Unemployed poor people have no capital to work with. Therefore their productivity—and, hence, their income—is zero. But it does not have to be that way. We have not created any institutions to help them find access to capital. (So the Grameen Bank—a cooperative now with 12,000 employees throughout the world—was established to lend to the impoverished, especially women, who needed only a little capital to become productive and has spread to help the same group into the digital age.)

Micro-credit and IT both have a common capacity—the capacity to empower the poor, particularly poor women. Much of this cannot be measured in dollars and cents. I am convinced that the best way to change a society is to give dignity and self-reliance to the poor women in that society. Both IT and micro-credit do it very effectively. They mutually reinforce each other when it comes to addressing the issue of poverty.

Another Grameen company, Grameen Communications, is working towards creating e-healthcare, e-banking and e-education through what is being named "Grameen Digital Centers", using the fibre-optic network of Grameen Phone and broadband connectivity to be created by another new Grameen Company—"Grameen Information Highway".

Whether the poor can afford IT or not, whether an illiterate person can handle IT or not, will depend not on the amount of investment needed by the poor, or the complexity or operation of IT. It will depend on the appropriateness of the institutional environment around the poor and the rate of return on the investment they will be making. Micro-credit can provide such an appropriate institutional environment.

10. International leadership: ***ILO***

(**Allan Larsson**)**:** Two new elements—the new perspective of more and better jobs for one billion people, and the new approach to employment as the centrepiece—have led to the ILO discusion paper *The New Global Agenda for Employment*. Employment policy cannot be confined to a traditional fight against unemployment—it has also to be focused on the generation of more jobs, viable and sustainable jobs, and on more productive jobs, on decent work.

In *The New Global Agenda for Employment*, productivity is a matter of great importance. It is the basis for competitiveness and business success. It is the basis for real wages and improved working conditions, the necessary economic basis for decent work, the way to fight poverty. Furthermore, improved productivity counteracts risks of inflationary pressure and gives more room for growth-oriented macro-economic policies. It is a matter of common interest for employers and workers, for governments and global actors.

Productivity is created by change, by expanding trade, by new technology, by business and entrepreneurial initiatives. Thus, the promotion of change is a cornerstone of a successful employment policy. This side of employment policy, often neglected, has to be strengthened.

However, such changes have a profound effect on the labour market and on working conditions, creating winners and losers, including some and excluding others. To counteract these risks, employment policies must give more attention to the socially acceptable management of change.

This leads us to the core of the discussion paper, a recognition that labour markets are different from markets for goods and services. While competition and "creative destruction" are necessary in markets for goods and services, they may lead to a race to the bottom in the labour markets and to exclusion from working life. Thus the labour market needs both a policy for human resource development and a social floor in the form of labour standards and social protection, both a policy to promote "best practice" and a policy to prevent "worst practice".

Thus, we need to give more emphasis to the promotion of change for productivity and we need to give more emphasis to the management of change for widely shared prosperity—*both* flexibility for enterprises *and* security for workers, not an either-or policy. This is one of the central policy messages in the *The New Global Employment Agenda*.

(**Tom Cox, Saudi Arabia**): ILO leadership in placing productivity to the foremost can be very beneficial if their representatives in various countries utilise their influence to persuade governments to allocte funds for collection and analysis of sector, sub-sector, employment and productivity data.

Using Saudi Arabia as an example, each 5-year development plan calls for the collection and analysis of data to ensure that the proposed plan is actually implemented. However, annual budgets reflect insufficient allocations to accomplish planned goals. Thus, at the operational level there is not a true commitment as other priorities (office renogotiations, travel, seminars, etc) take precedence over collection of quality data. Thus, endless seminars and public announcements are not based on fact, which means that inefficient allocation of scarce resources continues in an endless cycle. Poor allocation of scarce resources is a major reasons why a country selling one quarter of the world's oil cannot average a 2% growth rate. Resources allocations are made on political grounds or guesswork—hardly efficient in the 'information era'.

11. Influence factors on sustainable productivity …

Independent variables …

(**John Parsons, Botswana**): The nature of the improvement intervention follows Deming's notion that *philosophy* must precede *attitudes*, which must precede *skills and abilities*, which must precede *tools and techniques.* Far too often we attempt to 'plug in' the tools and techniques without the benefit of the foundation of philosophy (constancy of purpose), correct attitudes and appropriate competencies.

However, they will certainly have to be modified in the light of size, industry/sector, workforce composition and the level of privatisation or commercialisation that exists. Privatisation per se (i.e. a simple transference of ownership) is largely irrelevant, although private sector organisations tend to have a greater propensity and incentive to deliver than public sector ones.

(**Joseph Prokopenko, ex-ILO**): Sustainability is relatively easy to achieve by companies having a reasonable combination of old and new economies (capital and knowledge intensive companies). But it is less easy for companies which are either capital or knowledge intensive, and even less so for companies dominated by unskilled, labour-intensive patterns. Moreover, private businesses having a good balance between profitability and social considerations are more sustainable than most public corporations where political considerations are more important than the social and economic.

… holistic approaches …

(John Parsons, Botswana): To the extent that the complexity associated with today's organisations is matched by the ability of leaders and managers to handle that complexity, more holistic approaches will be adopted. Leaders that understand that cause and effect are separated in space and time and that without personal accountability nothing can succeed will intuitively reject narrowly focused approaches that concentrate, for example, merely on labour productivity. Success will depend far more on the vision and competence of the leadership than on external factors.

(**Joseph Prokopenko, ex-ILO**): It is neither labour nor capital productivity that is more important but total productivity. There could be periods when the emphasis should be on capital productivity and others on labour productivity. Redundancies should be avoided by every means, but if they cannot (this depends on the quality of leadership) the whole company should be saved as a priority, not a few people. Some people who do not fit the organization should be encouraged to leave (examples are provided by ILO, UN, WHO and other organizations promoting social considerations themselves remove people who do not fit).

(**Július Michać, Slovakia**): Labour productivity is the most visible, attractive and important factor contributing to corporate productivity. In other words, without increasing labour or people productivity it is impossible to ensure the productivity of all the variables.

… working harder vs smarter …

(**John Parsons, Botswana**): Knowledge work will dominate workforces of the future and thus the 'working smarter' aspect will be vital. However, generally, successful organisations are also characterised by a high work ethic that may or may not involve working longer hours but will be characterised by a highly motivated workforce that may well *choose* to work in more concentrated ways.

(**Joseph Prokopenko, ex-ILO**): Both "working harder" and "working more intelligently" are still important. Actually, to work more intelligently often requires thinking hard, and this is often more difficult then just working hard physically. I would integrate these approaches in proportions depending on specific situations, size and the sector in question.

… so, enhancing productivity produces stress?

(**John Parsons, Botswana**): Handling the symptoms of stress is generally not the best approach, although sometimes this is clearly necessary. According to Tor Dahl the biggest cause of stress in the workplace is unproductive behaviour. Help people become productive and the need for stress therapy will be drastically reduced.

(**UIMM, SI—janvier 2001**): According to a Swedish government working group, stress at work can worsen when there is a generalised reduction in working time—but work pressure can be reduced when individualised approaches are taken.

12. Contributors' conclusions

(**Peter Rehnström, Finland**): Some companies combine ethical and business thinking to be forerunners in adopting approaches to 'sustainable development'. But it is difficult for a CEO to explain to his board that he wants to run a 'clean company' if he does not make a reasonable profit unless he can demonstrate other advantages, at least in the longer term. Civil society can be supportive of companies' ethical thinking, but responsibility for sustainable development cannot be left to the sole assessment of companies.

In fact there are three ways to encourage a company to support sustainable development:

- The enlightenment of its management and owners;
- The market-driven approach of 'sustainability is good business';
- The law-and-order approach.

In free societies working within the rule of law, the market-driven approach is the only one which is self-sustaining. Needless to say, it requires customers and consumers themselves to be enlightened.

(**John Parsons, Botswana**): Relying on the market mechanism to provide the most effective means of promoting corporate social responsibilities is a strategy that is unlikely to work in countries where staying alive, finding safety, and dealing with feudal age conditions matter most. Such developing populations have no built-in filters to the materialistic excesses epitomised in the programmes and commercials that they receive on their (satellite) TV screens. These images merely provide a vision to which they aspire and, as will be argued later, cannot possibly realise.

(**Harvey Goodwin, Canada**): A *successful company* is one that maintains its chosen position in its market and provides an acceptable return to its stakeholders. Success therefore relates to sales level, to sales growth, to profitability, to staff attraction and retention, to environmental stewardship and to its contribution to its social community.

(**John Parsons, Botswana**): Unless and until a truly holistic approach to large-scale transformation and lasting change is taken, the fads (including such techniques as business process re-engineering which has a 70% failure rate) will never be effective, especially as organisations and environments become more complex. The missing dimension lies in the ability to properly integrate the social and technical aspects. This is couched in many different ways but, in the end, it comes down to managing the mix between the observable (exterior manifestations such as systems, tools and techniques, strategy, structures and so on) and the interior human dimensions of individual consciousness and collective culture.

Making culture shifts merely a *step* in the improvement process (as most approaches do because they are rooted in objective, observable space) will reduce all efforts to two dimensional 'flatland' with little prospect of meaningfully engaging the workforce. This would be bad enough if the workforce were predominantly blue-collar but, in today's world of the white-collar knowledge worker, it represents a disaster.

Contributors to this forum from countries that are dealing with highly complex situations allude to the need for, and emergence of, the team or at least some form of democratic partnering. Those dealing with less complex (but no less difficult) situations appear to be still looking for tools and techniques – total quality, ISO 9000, micro lending

(**Ishida Masaru, ILO**) A lack of leaderships at the international, national, institutional and local community levels, means that enterprises have to resort to more radical restructuring and down-sizing, sacrificing employment for their own survival. Otherwise, they simply go bankrupt and create even more serious social disasters, or they have to be bailed out by government money for revival—a moral hazard in the free market economy. Thus economic, social and environmental sustainability may depend upon effective leadership at all levels including international, national and local governments and institutions as well as corporations and individuals.

(**Joseph Prokopenko—ex-ILO**): *In the short term* to ensure its own and its core employees' survival, a company sometimes needs to take urgent anti-crisis measures. And it is, by the way, a very social approach: trying to save a company, even though the drastic measures are not appreciated by everybody.

But as a *long term approach* or a corporate behavioural pattern, 'profit first' makes little sense. Profit is an important criterion of the quality of leadership and employees, of company competitiveness and productivity.Today's top know-how and technology can be bought or copied—but sustainability cannot. Sustainability is the result of the quality of corporate processes, cultures, value chains, networks, clients and community relationships and strategy which, in turn, are the outcome of the quality of the company's human resources and, particularly, its leadership.

In the *long term* people do not like 'delayed social and physical consumption'—they want it now, immediately.

(**Jens Dinesen, Denmark**): For there to be a more substantial movement towards sustainable societies somebody will have to take the initiative, a leader (who is) independent of both individual companies and political pressure groups and has sufficient resources to take the first step.

The first step could be to refine the idea and to establish a group of leaders from companies and state agencies with a special concern for innovation and sustainability. This group could act as a “think tank” that could point out areas and technologies with substantial potential for sustainability where demand will be easy to initiate if innovation is made. The group should be put together in a way that gives it the power to allocate the money needed to make the R&D investment. In the second step the “think tank” would commission researchers to collect data validating the demand and the possibility of combining known technologies and companies in an effort to ensure further innovation. The third step would consist of some of the members of the “think tank” making agreements and allocating resources to start a joint innovation project to realise a promising idea. And the fourth step would be for the process to become a commercial venture.

The ‘*Centre Contracts*’ of the Danish Agency for Trade and Industry provide the means whereby private companies, research institutions and research and technology organisations (RTO) make joint projects in close collaboration with corporate R&D. Ideally initiatives should come from companies, but experience indicates that most initiatives come from an RTO. Some current centre contracts address issues of sustainability, one being a project aimed at limiting industry’s water consumption and pollution by re-use of processing water. That a contract with such a broad aim is being carried out demonstrates the business acumen of the RTO which initiated this project.

It is of paramount importance that leaders take decisions with a holistic conception in mind. Building sustainable development from the uni-dimensional viewpoint of the economic, the social and the ecological is impossible. Good leadership must grow from experience, dialogue and development for no-one is omniscient as we are moving into unmapped territory.

(Paul De Grauwe, Financial Times, November 8, 2001): ‘… A well-functioning social security system creates a social capital that ultimately improves the productivity of a nation. This allows more resources to be used for social security. Clearly, large social spending does not automatically raise the productivity of a nation. The key is efficient government.

… globalisation works likes Adam Smith’s ‘invisible hand’. It puts pressure on nations to be more competitive and forces government to be efficient, whether they like it or not. Those that succeed improve the competitiveness of their country and are rewarded by more welfare for their citizens; those that fail reduce productivity and competitiveness and are punished by less welfare for citizens. In this sense, globalisation can force governments to be more responsible to the needs of their people.’

(**Peter Rehnström, Finland**): Having read the draft report I think that, since there is obviously political pressure to make companies become more socially responsible, it is essential to point out that these activities have to be mainly based on voluntary corporate actions.

This means that politicians and organisations such as the European Commission and the ILO, which seek to promote "leadership for sustainable productivity" must find the right ways and means. The underlying assumption is that by leading the organisation in this way, the company will be more profitable because of the positive productivity outcomes that participative management gives.

Can we prove this? Yes I think we can by the results in many research programmes. Do we have good examples? Yes I think we have. These "best practises" must be utilized in order to convince other leaders.

In addition, it is the role of politicians to ensure that if a company can become more profitable by working according to these principles, the company should get the credit for doing it. Let it keep the profit and not be further taxed.

13. Moderator's conclusions

1. Successful leadership in the past and present can provide *inspiration* for the future, but it cannot be copied *or replicated* into the future. In other words, 'best practices' in leadership for sustainable productivity are as likely to be as ephemeral on the corporate as on the national level. Nevertheless success stories are useful to examine since they provide benchmarks and, with them, means for inspiration.
2. Individuals and groups (be they teams, enterprises or nations) which strive to continuously improve their productivity are, on the whole, those which provide the best social and ecological performances. The factors explaining success are clear, but the relative proportions between them remain highly contested.
3. Broad involvement is essential if productivity actions are to be really 'holistic' and hence likely to be economically, socially and environmentally sustainable. But to move from broad analysis to decisions and implementation, leaders and leadership—not necessarily visible to the outside world—are needed which fit the culture concerned.
4. There are limits beyond which enterprise and the enterprise, as *the* wealth-generating institution of society, cannot go if they are to continue to serve society in the medium and long term. However, enterprise survives and thrives within societies—local, national and international—which set (and often—too often for existing enterprises—change) the rules of the game.
5. Thus, the overall 'majority verdict' of the forum is that sustainable productivity leadership arises from the forces of competition operating within an environment where boundaries (albeit not too constraining) are set by governments at all levels, coupled with the interplay of democratic 'civil society'—consumer choice together with the influence of organised interest groups.

Recent publications on corporate leadership[2]

Since the 2000 productivityforum several books have been published which, although

2 Reviewed in various issues of the Financial Times

they do not respond definitively to the statements around which the 2001 forum is taking place, elucidate the issue of leadership.

In *Breaking the Code of Change*, Michael Beer and Nitin Nohria provide the edited papers to a conference which debated theories dealing with the constant demand for change. These break down into two groups (resembling Douglas MacGregor's Theory X and Theory Y): the advocates of 'Theory E' see companies as striving to create shareholder value. They believe that change should be driven from the top and that the chief executive should not be concerned about what the workers think. For 'Theory O' advocates, companies, rather than driving change from the top, need to ensure the involvement of all their employees.

So should companies be run for the sake of profit and in the shareholders interest alone? Or do all the stakeholders together play significant roles in the longer term success of the company? To some extent, the answer seems to be geographical: 'shareholder value' predominates in the Anglo-Saxon world, but is increasingly felt in Asia and continental Europe. Companies move their simpler production facilities to low cost countries, which also have fewer employee rights. Indeed, some economic historians (for instance David Landes—*The Wealth and Poverty of Nations*—a keynote speaker at the 2000 International Productivity Symposium in Curitiba, Brazil), when drawing the lessons of globalisation thus far, argue that such *delocalisation* is in fact the most effective approach to raising productivity worldwide—the more so given the powerful voices of international human rights' and environmentalists' groups and the views expressed in companies' shareholders' meetings in 'developed' countries.

As regards theories 'E' and 'O' there can often be a discrepancy between what is practised in 'normal times' and what happens in times of crisis. Thus the most visible recent cases relating to the European Community's directive on worker information and communication concern its non-respect by companies (public as well as private) which are steeped in continental Europe's 'social market economy': staff are suddenly made redundant and enterprises closed. Where partial redundancies and closures are made, the remaining staff can become demotivated, resentful and guilty (see Sämi Berner).

Despite the reiterated benefits for employability of 'life-long-learning' to 'recycle' the existing workforce to perform new jobs (and the existence of national 'ageing workforces' programmes), there would seem to be a lack in the literature of convincing cases of companies which convert ageing workers from their traditional to newly-in-demand skills. Indeed, it is striking that at least in continental western Europe (which is supposedly sitting on a 'demographic time-bomb' of a decreasing proportion—the workforce—having to pay for an ever increasing proportion—the retired) still by far the most cherished instrument for facilitating corporate change is 'early retirement'.

Charles Handy (*The Age of Paradox*, 1994) and Arie de Geus (*The Living Company*, 1997) have contributed significantly to bringing out and grappling with the issue of 'paradoxes'. More recently, this issue was taken up by Paul Evans (*Management 21C*, editor Subir Chowdhury). Good management has to continuously resolve a variety of paradoxes. He notes that on the wall of every Lego (the Danish toy manufacturer) manager's office is a plaque with the '11 paradoxes of leadership'. These include 'to be able to build a close relationship with one's staff … and to keep a suitable distance', 'to be able to lead … and to hold oneself in the background', 'to be a visionary … and to be able to keep one's feet on the ground', and 'to be dynamic … and to be reflective'. And L'Oréal's slogan is *Être poête et paysan en même temps*—to be a (creative) poet and a (thrifty) peasant at the same time.

In *Built to Last* (1997) Jim Collins and Jerry Porras showed that the companies most admired by top executives were not only all highly successful stock market performers but also that they had a purpose, an ethos beyond making money. By sticking to this ethos they generated better shareholder returns in the longer run—though did not always get the best short-term profits.

In his latest book, *Good to Great*, Collins strives to become more practical. He examines companies whose shareholder returns with dividends re-invested were at last 3 times higher than the US market average for 15 years to 1996. The author claims that quiet, determined, unobtrusive leadership is one of the keys to success—contrasting with flamboyant, publicity-hungry executives from less successful firms (…with one, GE, exception!). These 'reticent executives' provided better ledership because they knew their companies inside out—virtually all were internal appointments. With none of the liabilities of charisma (notably having to be kowtowed to), they listened. Staff did not strive to impress them.

Human resources' management was one of the keys to the success of companies analysed in *Good to Great*: the first action of their leaders was to find 'the right people', and to get rid of those that did not fit in, starting from the top. They made no mass redundancies, unlike companies that underperformed the market which have a 'chronic addiction to lay-offs'. The leaders did not spend much time motivating their staff, because all that needs to be worried about in a successful company operated by the right people is not to demotivate them.

Strategy was decided only when the right team was in place. This was done quickly, after having responded to 3 questions:

- What could they be the best in the world at? Having lost the opportunity to compete with Merck to be a leading pharmaceutical company, Abbott Laboratories decided to become world-class at products that improve the cost-effectiveness of healthcare. This meant concentrating on such areas as diagnostic devices to ensure that patients are given the right treatment.
- Secondly they analysed what drove their economic success. A pharmacy chain, Walgreens, decided to concentrate on profit per customer rather than profit per store. Whereas 'profit per store' would have led Walgreens to look for cheaper locations in less convenient places, concentrating on profit per customer visit meant the company could place the stores where more people could visit them, generating higher profits.
- Thirdly, what did the companies care most about? It turned out that all were unconventional, 'finding charisma in nappies, not in chief executives'. These leaders take a complex world and reduce it to simple ideas.

Writing on the issue of the deficiency of a theory of modern management and leadership (FT June 21st, 2001), the Financial Times labour affairs editor Michael Skapinker starts by noting that the concerns of the anti-globalisation protesters—over pollution, sweatshop factories and the threat to small communities—resonate widely. Perhaps this is because there is no big idea, no all-encompassing theory to enable chief executives to deal with this situation. The internet has yet to find its Frederick W Taylor, Henry Ford, Alfred Sloan, Douglas McGregor or W. Edward Deming.

‘Does this matter? How much help is management theory anyway to the messy task of running a company? Management theories cannot answer every question, but they provide a sense of direction. The theorists helped to define what the purpose of business was. And no one can work effectively if they do not know the purpose of their enterprise. They devised their theories to match the demands of their time:

Taylor—still influential—broke down tasks and measured them; Ford developed the assembly line; Sloan the divisionalised corporation—all were responses to the rapid rise in output and the size of the company which sprang up to manage it.

McGregor’s stress on the human side of enterprise came in the 1960s when a post-war generation was demanding more from work than a wage; Deming combined statistical measurement with the importance of employee involvement.

Today we have the spreading notion of shareholder value. … It has the advantage of being measurable; however, its inadequacy is already apparent. It does not always take account of the needs of other stakeholders: not just employees and suppliers, but the wider community.

What would a management theory for our age look like?

It would have to explain how to retain the commitment of staff who no longer have the expectation of long-term employment. It would have to advise how to cut costs while providing defensible working conditions in countries chosen for their low costs. In the developed world, it would have to marry companies’ need to cut costs and respond to customers’ every whim with employees’ demand for more time with their families. And it would need to explain how to use technology to enhance service while still providing customers with human contact.’

Tony Hubert, 21.12.2001