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# Productivity growth hard to achieve at company level

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PRODUCTIVITY growth is an important objective for economies, but one that is abstract and harder to manage at the level of a company.

To achieve productivity, firms must be able to cut through the "fog of organisational improvement" and identify the core of their businesses. Profitability, rather than productivity, is thus a more effective goal for a company to pursue, said Professor Joseph Porac, Visiting Professor, Strategy & Organisation Group at the Singapore Management University's Lee Kong Chian School of Business.

Prof Porac, who is also the George Daly Professor in Business Leadership at New York University's Stern School of Business, was speaking at a recent forum organised by the Institute of Service Excellence at Singapore Management University (ISES).

Singapore's services productivity still lags behind that of economies such as the US, Japan, Hong Kong and the UK, he noted. This has given the national push to raise productivity – particularly in the services sector – clear imperative.

But how that translates into what firms should do is murkier. "Productivity is a good macro goal, but at the firm level, it is questionable as a superordinate goal that can rally employees to improve an organisation," he said.

After all, Singaporeans already work many more hours than peers elsewhere. While GDP per capita here is higher than that for the US, Singapore's GDP per hour worked is far lower than the US and many other countries in purchasing power parity terms.

Productivity, in the sense of doing more with less, is thus a "hard sell" to many employees and may not be an effective goal for a company to pursue. In fact, "trendy" organisational improvement goals such as growth, innovation and agility could end up diluting a firm's central goal of profitability.

Profitability is also a more effective rallying point, as employees' incentives can be easily aligned with helping the company to beat the competition. Productivity improvements, on the other hand, are far more difficult to reward, Prof Porac noted.

Therefore, productivity goals and metrics are best set within the context of each firm's wider strategic goals.

The different ways in which firms go about pursuing profitability stem from the idea that the value it creates is simply the difference between a buyer's willingness to pay and the supplier's opportunity cost, he said.

Walmart for instance, has a small percentage point advantage over its rivals in many different metrics of productivity, from rental costs, to sales per employee, to sales per square feet, to distribution costs.

"There is no one silver bullet in going head-to-head with Walmart. They have exemplified the adage that a small portion of a large number is still a large number. And that's how they have driven home efficiency and beaten competition," Prof Porac said.

"What does productivity mean to Walmart? They are obsessed with it, but when you start looking at input-output, it's really a question of strategy," he added. As an output measure, efficiency is ambiguous, as Walmart's strategy is to lower prices for its customers.

On the other hand, for a piano maker such as Steinway & Sons, it was an efficiency drive in the 1980s that proved to be the company's greatest threat, Prof Porac said. Steinway's competitive advantage was precisely that its pianos were manually constructed, each with a unique sound that customers were willing to pay a large premium for.

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