Improving productivity

Improving productivity

Productivity is the efficiency with which a firm converts inputs into outputs. Since staff represent the largest cost for many firms, labour productivity has special importance and vitally affects competitiveness.

Example:

	Wage rate Â£	Productivity (output/employee)	Unit labour cost Â£
Firm A	250	100	2.50
Firm B	300	150	2.00

Firm B pays higher wages than Firm A yet has 205 lower unit labour costs through superior productivity.

A firm with higher productivity can charge lower prices or increase its profit margin or choose a combination of the two. It must. though, ensure that production quality is maintained.

How can productivity be raised?

* Training can improve the knowledge and skills of staff. Improved recruitment and selection may have the same effect
* Iinvestment in equipment and new technology may enable output per worker to increase
* Better employee motivation can be the most powerful factor of all. Gaining engagement and loyalty of staff can bring major gains in output and quality.

Productivity can also be measured for plant and machinery. For example, a machine might be available and functioning normally for 85% of an average week. In the remaining time it is being cleaned or repaired. The production manager may consider that this figure could be improved through better and more regular servicing.

Notice, too, that in effect firms measure the productivity of capital when calculating the return on capital employed.

Quality circles

There are a range of techniques that can be employed to
improve productivity through quality
. By getting employees to work smarter rather than necessarily harder it is possible to raise output.
Organising employees into Quality Circles, which are designed to identify improvements in work processes and activities, it is possible to
improve productivity
.
An obvious way of increasing productivity is to reduce waste.