



**The Secret to Solving The  
Productivity Puzzle**

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# Let's Start By Asking A Few Simple Questions

The UK seems trapped in a vicious cycle of poor productivity which can't even be blamed on Brexit - it's been happening since 2008!

This topical white paper looks at the impact that stagnating productivity in the UK is having on the profitability of businesses and their employees' wage packets and examines what causes poor productivity and how we can combat it.

To get to the root of the problem, businesses need to be able to recognise the signs that they have a productivity problem. Try asking yourself a few questions about your business:



**CASH FLOW:** Do you have sufficient cash within your business to keep the cycle of sales, cash, purchases and stock flowing smoothly or do you feel like you're caught in a whirlpool, paddling hard to stay out of danger but desperate for a lifeline?



**QUALITY:** As you grow, do you find you are refunding or replacing more goods or services and employing more people to deal with this? This doesn't just cost you more, these people aren't being used to fulfil new orders.



**CULTURE:** Do your staff challenge the status quo and suggest improvements to the business or the way they work? If not, you could have productivity issues and be overstaffed.



**EXCEL HELL:** Is Excel ruling your finances, filling the gaps between the CRM and Stock Control, between the Order Processing system and the warehouse processes? How often do you discover errors in it and spend hours of work tracking and tracing that error? Is that productive use of people's time?

So, what are the root causes of poor productivity? Economists put forward various reasons like levels of investment, skills and qualification gaps and technological progress. However, as the author of this paper, Amanda Sokell, believes these are really symptoms of the productivity puzzle and behaviour is what influences productivity the most, in particularly **lethargy**.

LETHARGY permeating the culture of organisations means that even the most obviously unproductive processes are tolerated because the alternative requires too much effort.

## A Brief History...

Since the economic crash of 2008, productivity (measured by output per hour or output per worker) in the UK has stagnated, with little change in over a decade. ONS figures published in July 2022<sup>[1]</sup> show that growth in output per hour in the quarter to March 2022 was a mere 0.4%.

Although the recent trend, since Covid, for the wider economy is slightly up, the manufacturing sector appears to be going in the opposite direction. Such prolonged stagnation represents a stark contrast to previous economic downturns, where productivity initially dropped and then recovered to the prior rate of growth. The chart at Figure 1<sup>[2]</sup> shows the discrepancy between productivity increases since 2008 and the trend before this.

Much has been written about this so-called 'productivity puzzle' over the last ten years. Whichever way you look at it, the UK is struggling compared to its European counterparts and the rest of the world. While the uncertainty of Brexit may have something to do with our poor productivity since 2016, and Covid more recently, we were already stagnating for many years before that.

Does it matter? After all, we have full employment, until recently low inflation and our economic output has increased every year since 2012.

The answer is yes; labour productivity is a factor in determining the long run economic growth, tax revenues, inflation and real wages.

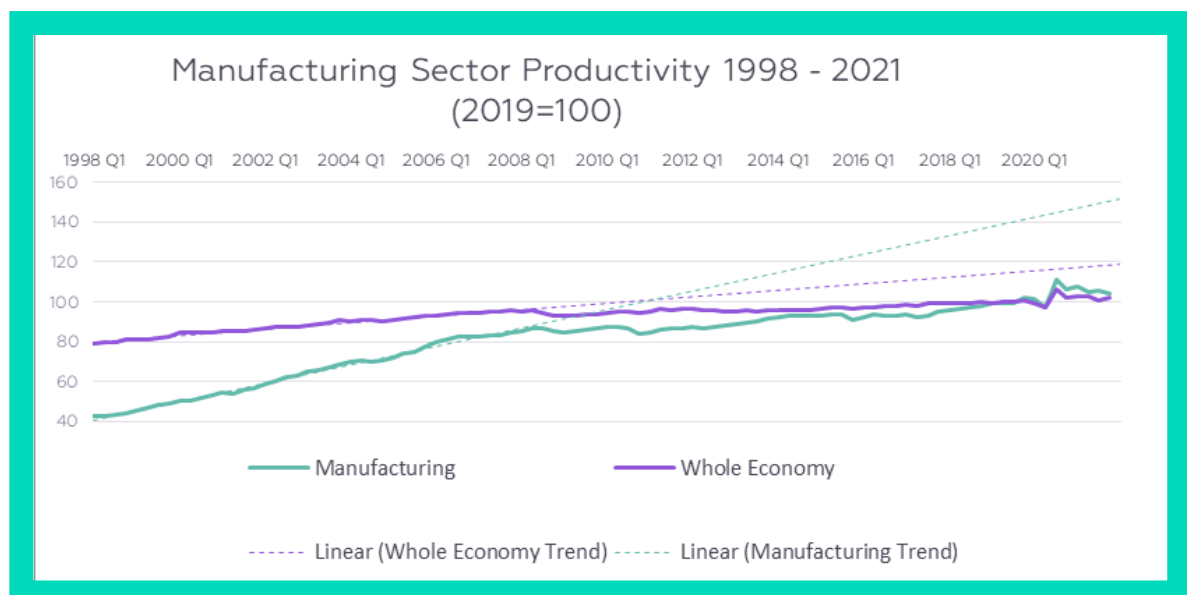


Figure 1 Output per hour



Figure 2 Cumulative real pay loss since 2008

The one that is closest to home, for business owners and employees alike is real wages. The chart in Figure 2 shows that over the decade to 2018, the UK suffered significant reductions in real wages. In the manufacturing sector these have been even more pronounced. And now, with inflation jumping significantly, the picture is even more stark.

It is easier to understand this once we understand how productivity is measured. The following formula can best represent productivity:

$$productivity = \frac{(price * promise) + people}{process}$$

Where:

- price \* promise = net profit before tax + depreciation;
- people = total wages
- process = number of employees (FTE)

It, therefore, stands to reason that if productivity is growing slowly, then wages will rise slowly and growth of profits (and consequently shareholder dividends) will also be affected.

# Exploring the Common Challenges

So, apart from wage packets, how does this lack of productivity growth impact UK businesses?

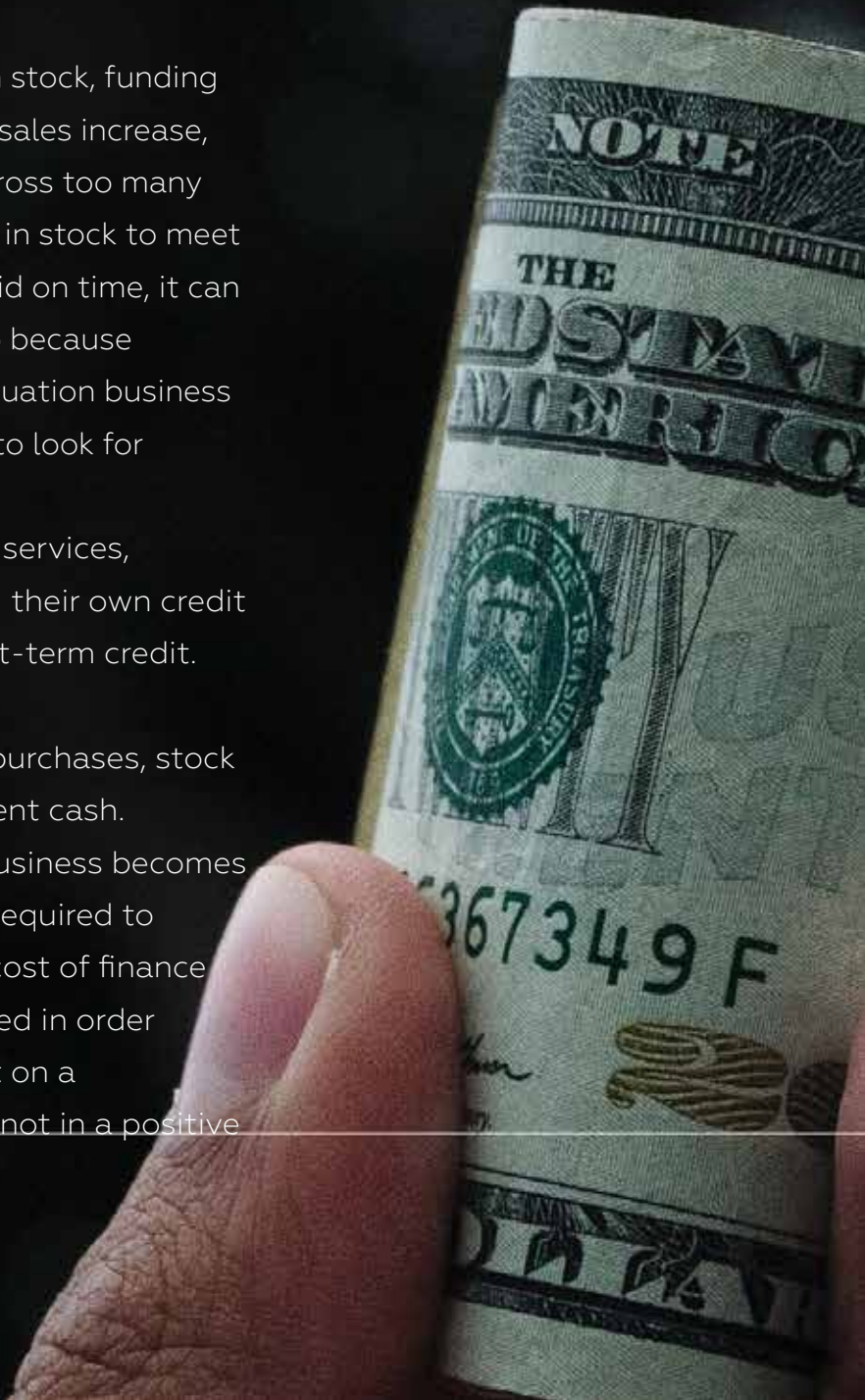


**CASH FLOW:** Productivity growth will be low when either net profits are low, or the number of staff is high. Either of these scenarios can harm cash flow, and when combined result in significant management challenges.

When working capital is tied up in stock, funding growth becomes a challenge. As sales increase, inevitable variation in demand across too many products creates a need to invest in stock to meet demand. If suppliers don't get paid on time, it can cause a vicious cycle; sales dry up because inventory isn't available. In this situation business owners and managers are forced to look for alternative sources of funding.

Companies use invoice financing services, factoring, even in one case, using their own credit card to generate 50 days of short-term credit.

To keep the cycle of sales, cash, purchases, stock flowing, the system needs sufficient cash. Without it, every aspect of the business becomes twice as challenging. The effort required to carefully manage cash flow, the cost of finance solutions and the juggling involved in order management has a direct impact on a manufacturer's productivity, and not in a positive way

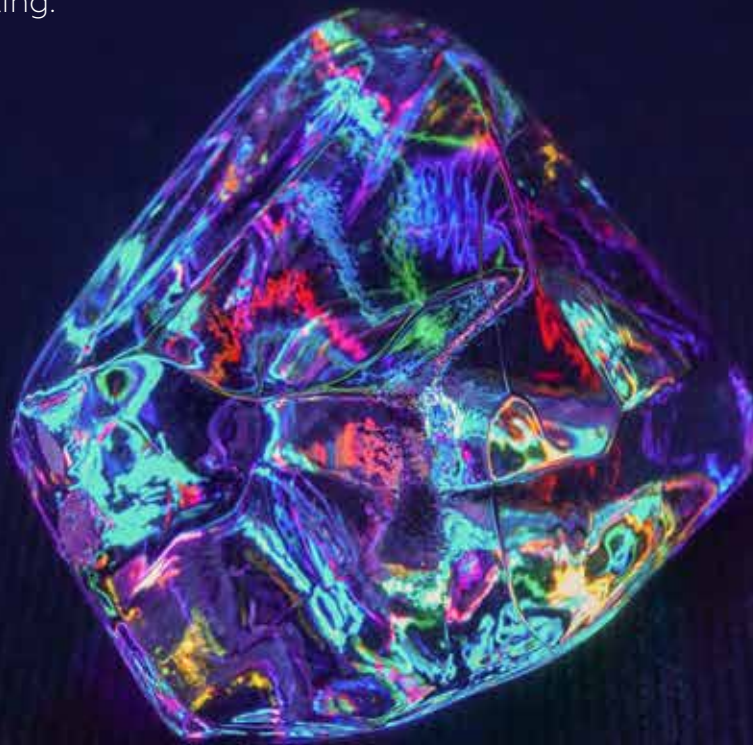




**QUALITY:** We can think of quality, as the promise between an organisation and its clients or customers; also known as brand promise, or value proposition. In companies with poor perception, and little customer loyalty, it hurts profitability and consequently productivity. When quality issues creep in, brand promise is damaged. As manufacturing businesses grow, they frequently encounter growing pains, which often result in production or service quality issues. Goods are shipped late, incomplete or faulty, and companies have to recruit personnel to the business to manage quality assurance, customer service, and complaint handling.

On top of the raw material cost of quality issues, there is a substantial human cost in managing the result.

A business that has quality issues will find itself having to refund, rework or replace goods. Just think of the wasted resources that are involved in these activities – and this is a double whammy – because while they are being used to refund, rework or replace, they aren't being used to fulfil new orders.

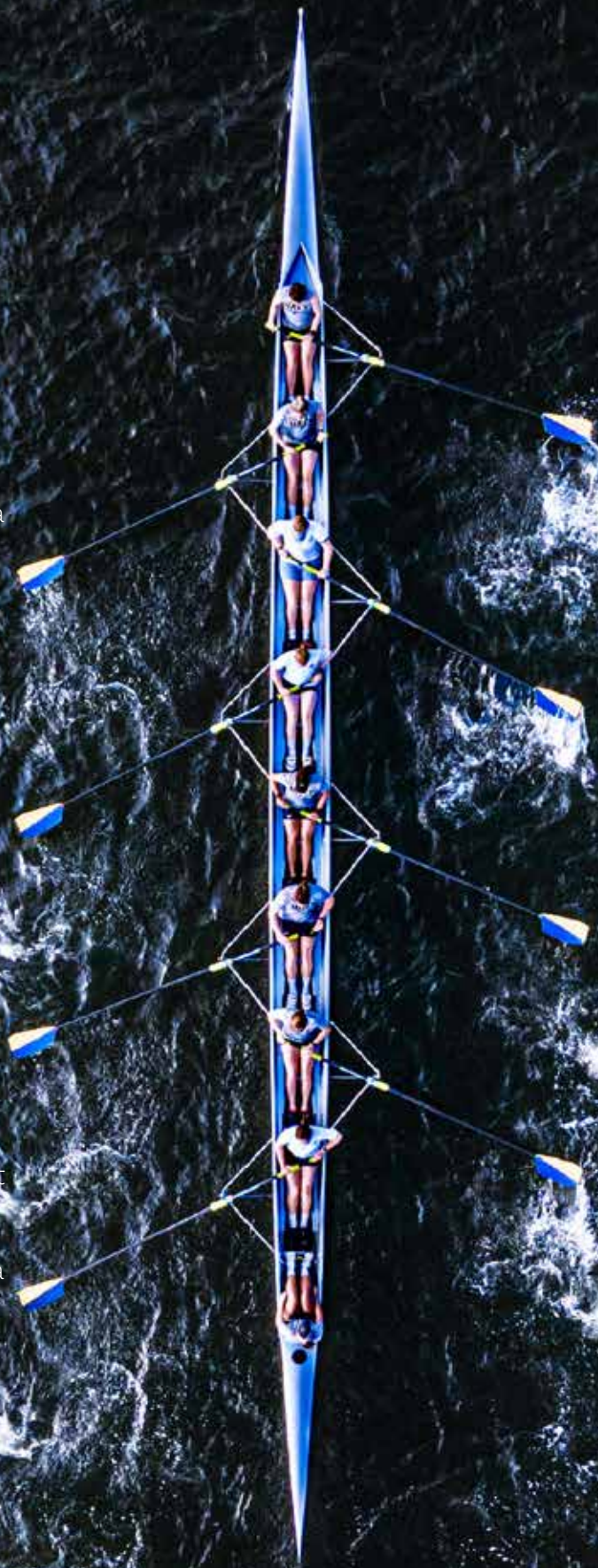




**CULTURE:** As businesses grow, many owners become frustrated that the team around them expects them to have all the answers, spot issues and opportunities, and generally maintain the drive for progress. When a business is small, this is possible, however as the company grows, it becomes harder and harder for one, or even a few people to shoulder this responsibility. Think of the effort involved to row a small boat, compared to the energy required to move a much larger one.

The irony of this, of course, is that if everybody in the business is helping to move the boat through the water, it gathers momentum, and will move on its own without constantly needing the team to row.

In manufacturing companies with reduced productivity, staff will frequently keep following inefficient workflows. Either they don't believe they can challenge the status quo, or, they haven't thought enough about how they are working. This culture stifles innovation, creativity and progress, and is a considerable factor in long term low productivity levels. Organisations like this tend to overstaff – rather than fixing workflow issues, they throw people at the problem, and consequently lower productivity.







**EXCEL HELL:** While Excel can significantly increase productivity, in most organisations, the opposite is true. Excel is the Polyfilla® in the cracks between software. It fills the gaps between the CRM and Stock Control or Order Processing systems. It fills the voids between the Order Processing and the warehouse, and it forms a large part of the monthly finance routine. An audit of most businesses will highlight a frightening number of business-critical Excel spreadsheets.

Excel, with its inherent vulnerabilities, is the mainstay of many growing businesses. It serves to eke out the life of the software tools no longer fit for purpose and helps to distract business owners from the unwelcome subject of replacing software.



# What Causes Our Poor Productivity?

Many articles exist on the UK's productivity puzzle, and many alternative suggestions made as to its cause. Although nobody can agree, experts have written widely about a long list of possible causes:

- levels of investment
- employment levels
- skills and qualifications
- technological progress

For me, these are all symptoms. If we really want to understand the productivity puzzle, we need to look deeper than all of these. If our behaviours aren't driving productivity, what are those behaviours?

Thinking about the opposite of productivity I came across lethargy. For me, this sums up the productivity puzzle.

Lethargy has its origins in Latin and Greek (lethargia) meaning 'forgetfulness'. Originally the word meant 'inactive through forgetfulness', whereas its modern-day meaning is "an abnormal lack of energy, especially as the result of a disease."

I see lethargy as a disease, and often linked to forgetfulness. It gradually permeates the culture of organisations until even obviously unproductive processes are tolerated because the alternative requires too much effort. Every time I work with a manufacturer to improve its productivity, I uncover all manner of work practices being endured, even though those undertaking them know they are inherently inefficient.

So how do we combat this lethargy?

*The problem with lethargy  
is that doing nothing  
validates the fear that nothing can be done.*

**BILL CRAWFORD**

# Identifying the 4 Stages Of Progress

I've been working with manufacturers of all shapes and sizes over two decades. During the course of this work I have observed many varied environments. This has enabled me to identify four specific stages or company cultures that

determine the productivity of the entire organisation. By examining in detail and being hands-on to impact change I have designed a 4 stage development process to work companies through from 'Problematic' to the 'Automatic'.

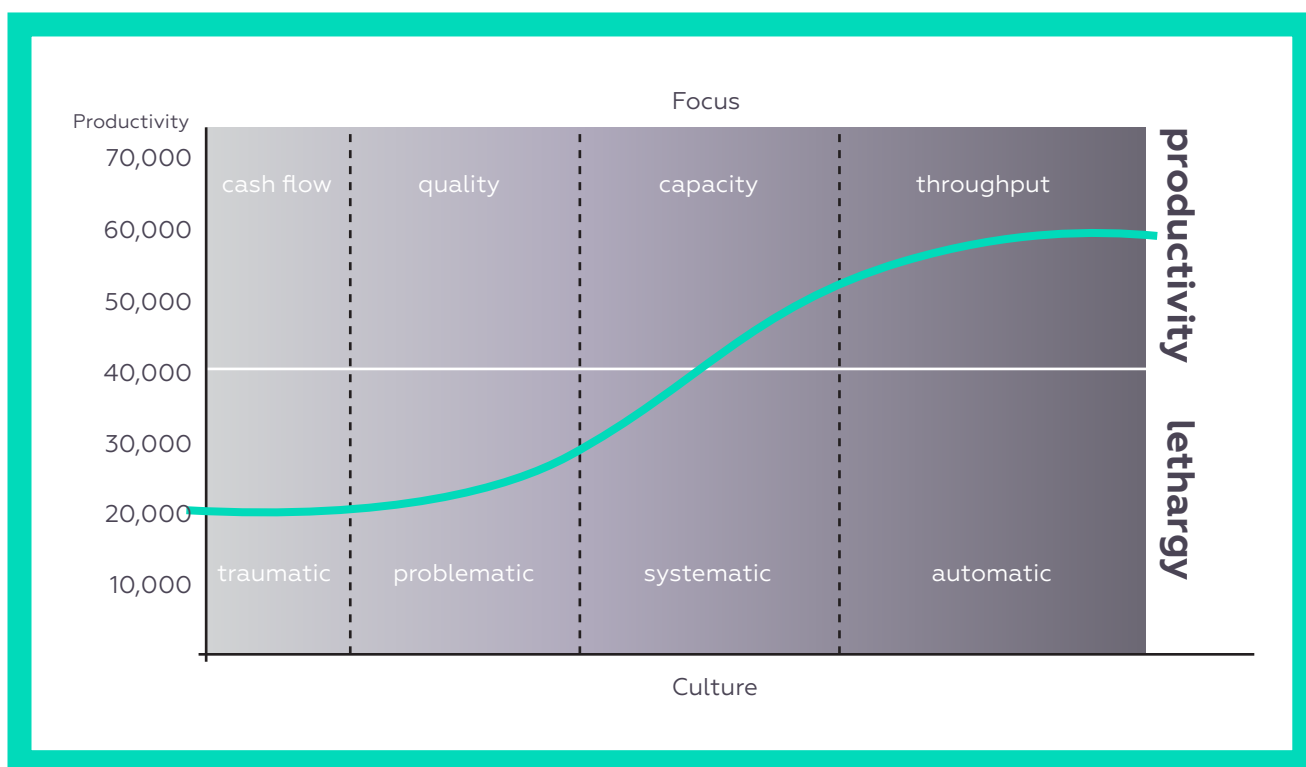


Figure 3 Lethargy vs Productivity Cultures

**TRAUMATIC:** Trauma manifests in two main ways – physical and psychological trauma. In health terms, physical trauma may be a massive impact or a penetrating wound. The body goes into shock, and in the case of the latter can be seen to be physically 'bleeding-out'. Psychological trauma – the result of an upsetting event, can be even more challenging to overcome, it manifests with upsetting emotions and anxiety. Trauma can leave people feeling numb, disconnected and unable to trust other people. When we see a manufacturing business with a traumatic culture, we see silos with poor communication between teams. We see a lack of trust between colleagues. Manufacturers that experience a significant event and previously had a problematic culture often find themselves dropping into a traumatic culture. Traumatic cultures exhibit high levels of stress among staff, frequent errors and quality issues and an inability to manage day to day operations effectively. Blame becomes rife, and to deal with the high levels of stress, team members themselves become numb and disconnected with their work.

Companies most often notice they are in a traumatic culture when they start running out of cash, or start losing staff in high numbers.

Like the body bleeds out with physical trauma, a company physically bleeds cash and people. For the business owner, this leads to sleepless nights, a pre-occupation with work and has a severe impact on relationships and life outside of work. Companies with a traumatic culture need to invest in self-care. The stress needs to be reduced, trust regained, and anxieties diminished.

Manufacturers with a traumatic culture regularly have productivity of below £30,000. That's less than £30,000 of value per worker. If the average salary in the UK in 2021 was £31,285, almost all of this value is going to employees, with little left over for the shareholders. In many cases, the value created is less than the average salaries, and the company is making a loss. In the same way, as trauma can kill a human, it can also kill a business.

*In most organizations change comes in only two flavours:  
trivial and traumatic  
Review the history of the average organization and you'll  
discover long periods of incremental fiddling  
punctuated by occasional  
bouts of frantic, crisis-driven change.*

GARY HAMEL

**PROBLEMATIC:** Problems are common in business. Occasionally any organisation will experience problems. We understand a problem to be a negative deviation from our 'normal'.

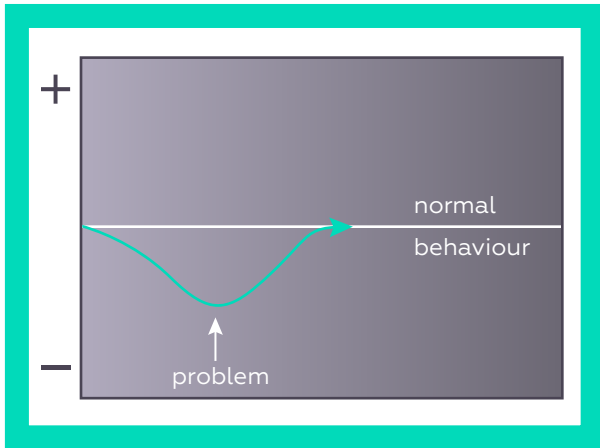


Figure 4 Solving a problem

When a problem occurs, typically we see staff engaged in 'fixing the problem'. Investigations arise and steps are taken to prevent the problem from reoccurring.

As a manufacturing business grows, the owner/founder may become increasingly distant from the operational activities; things they might once have spotted, go undetected. A company with a 'problematic' culture experiences regular problems. The same problem may occur regularly or the problem represents normal behaviour. In effect, the normal behaviour line has dropped; staff members know what they are doing isn't sensible; however, because it is 'normal' they don't think to mention it.

A problematic culture is like problematic skin. When a teenager suffers from acne, we consider it the norm for all teenagers, and pay it little attention.

Lethargy pervades problematic cultures. When a traumatic event occurs, they quickly degenerate into traumatic cultures.

We are all guilty of lethargy in problematic environments. Frequently the problem is not significant enough to warrant the short-term pain required for the long-term gain.

My mobile phone is an excellent example. Recently the fingerprint recognition ceased to work. To unlock my phone, I had to enter the pin code. Despite the inconvenience, the effort to pause and re-train my phone to recognise my fingerprint was too much to overcome the inertia of the problem. The adverse effect was not big enough to overcome my lethargy and fix it.

Problematic cultures typically deliver £30,000 - £40,000 of productivity per worker. In a fifty-person business, that's a healthy £500,000 of additional value for shareholders each year compared with a traumatic culture.

*Problematic: A corporate academic weasel word used mainly by people who sense that something may be oppressive but don't want to do any actual thinking about what the problem is or why it exists.*

URBAN DICTIONARY

**SYSTEMATIC:** Systematic cultures represent a step-change in productivity. A systematic culture is the first step to eliminating lethargy and embracing productivity. It is the result of a conscious and thoughtful analysis of what is happening within a process, or within the entire business.

Systematic cultures will have a plan for understanding the business operations, a way of arranging all aspects of the company, and information that was previously in silos flows freely. Everything is easily accessible and understood.

When problems occur, there is a systematic way of solving them, one that doesn't only return to the previous norm; it seeks to identify a new, higher standard and improves things for the future.

Tacit knowledge within the heads of the team becomes explicit, written down and put together in a system of workflows that make what was previously confusing, clear, what was once uncertain, certain.

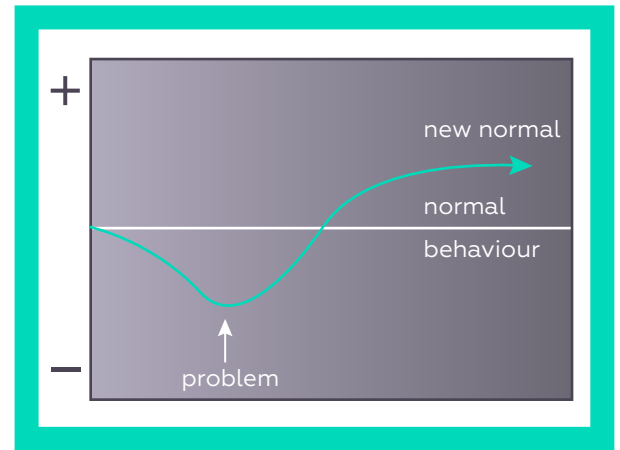


Figure 5 Problem Solving in Systematic Cultures

One way to think of a systematic business is to think about a chef, who has been cooking for years and who decides finally to publish a book of recipes. Even though they can prepare the dishes from memory, they have to find a way to write the method down so others can also do it. Systematic cultures can start leveraging people in a way that problematic cultures are unable to achieve.

Systematic cultures can generate between £40,000 and £50,000 of productivity per worker. Such increases mean shareholders start to see a real return on their investments, a contribution of another £500,000 of value in a fifty-person business.

*I love sharing my knowledge of hitting with others. Now coaches and players at all levels can learn my systematic approach to hitting a baseball with more consistency, mental strength and accuracy.*

DUSTY BAKER

**AUTOMATIC:** Automatic is NOT the same as 'on automatic'. The latter implies being operated or controlled without thought. We talk about being on 'automatic pilot' when we drive home from work – barely seeing the journey.

Automatic cultures are different from this. They are not cultures which exist in a stupor, quite the contrary, they have systemised everything in the business so that it operates automatically, habitually. To achieve this requires a tremendous amount of effort to be invested in understanding all the moving parts so that they can be automated. These cultures are highly pro-active and highly productive.

Just think about the automatic pilot in a plane. It has to understand wind speeds, cross-winds, weather conditions, direction, altitude and a plethora of other factors, to fly the aircraft on behalf of the pilot. There is nothing 'passive' about creating something that can run automatically.

In automatic cultures, the business and its people have developed productive habits. Habits are the human response to repeating something so often it becomes part of who they are.

Automatic cultures have habits around troubleshooting, strategic planning, development and all the forward-looking processes that are crucial to a highly effective business. In automatic cultures, there is no lethargy anywhere. A healthy challenge of the status quo becomes habitual and automatic.

Productivity in automatic cultures is anything from £60,000 per worker or above. With 50% of this going to the employees in the form of wages, and the other 50% being retained by shareholders, in a fifty-person business that equates to approximately £1,500,000 of value for the shareholders each year. Automatic cultures position themselves well for expansion and growth, and therefore frequently have much larger numbers of staff, and the productivity to match.

*Repetition of the same thought or physical action develops into a habit which, repeated frequently enough, becomes an automatic reflex.*

NORMAN VINCENT PEALE

# 4 Steps To Develop A Productivity Culture

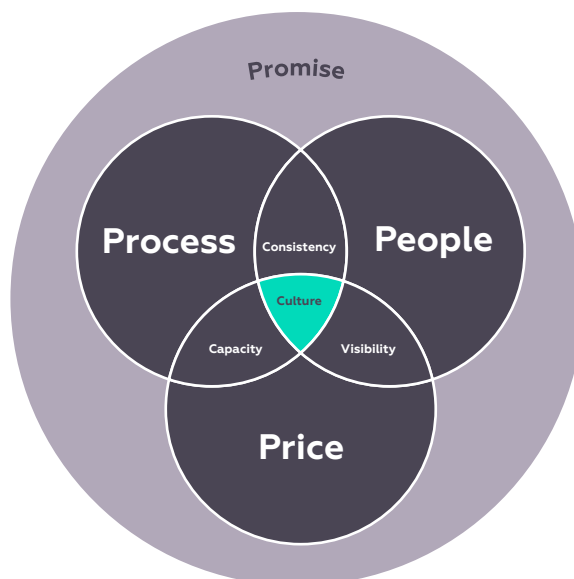
The most productive manufacturers understand their economic engine and have it turning faster and faster. Those running them can make decisions quickly and are energised by their businesses rather than shackled by it.

So, how does an organisation cast off the lethargy and move its culture up the curve from problematic, through systematic, to automatic? The culture of an organisation is concerned with the behaviours that operate within it. As Jim Whitehurst writes in his article<sup>[3]</sup>:

*For me, organisational culture is defined by how people inside the organisation interact with each other. Culture is learned behaviour. it's not a by product of operations. It's not an overlay. We create our organisational culture by the actions we take: not the other way around.*

JIM WHITEHURST

I have designed a solid 4 stage business development process that directly tackles manufacturing lethargy:





## PROCESS:

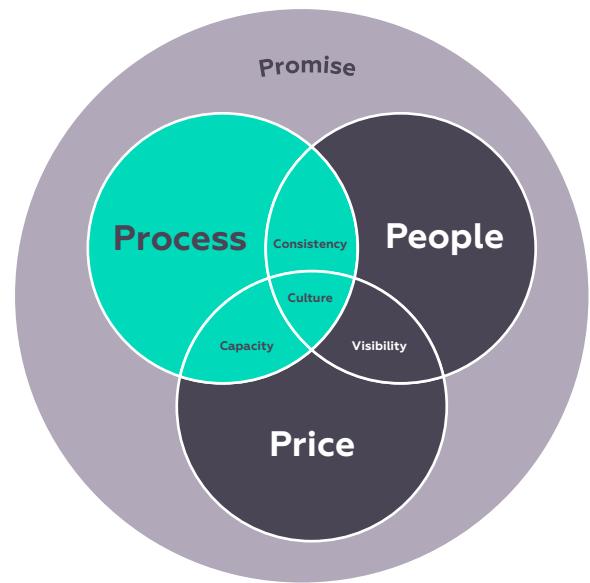
Let's look at your processes. Recognising that we are concerned with behaviours and the behaviours define organisational culture, it naturally follows that to increase productivity requires differences in the way people act before it leads to a shift in culture.

Within all manufacturers, various operations need to happen to deliver the goods or services to the end user. In very few enterprises are these formally documented.

If there is no documentation of the process, there is no process. What exists instead is as many different ways of doing something as there are people who undertake the steps. When trying to improve a process, you first have to work out what is going on, before you can start to improve things.

To improve productivity it is necessary to dig into the different business processes, and workflows and find out what is actually happening, and how to do it better.

When thinking about the evolution of a process, the clothing industry is a good example. The designer first comes up with an idea in their head. The design phase involves sketching, looking at fabrics and finishes and may include a couple of prototypes before the design is concrete.



At this point the designer has the garment in their head – it is implicit, however, to communicate this to others, such as the manufacturer, a formal pattern needs to be drawn up – it needs to be made explicit. The pattern is used to create a sample, and after this, it can go into production – a step that often involves CNC machines to automate the cutting and improve the productivity of the fabric layouts. The final feedback loop is to understand the actual fabric usage, so it can feed back into the process and develop it in the future.

Very few manufacturers have their equivalent of this process when it comes to their business processes. Manufacturers will formalise the design, recipe or pattern; however, rarely are the workflows that surround the operation treated with the same consideration.

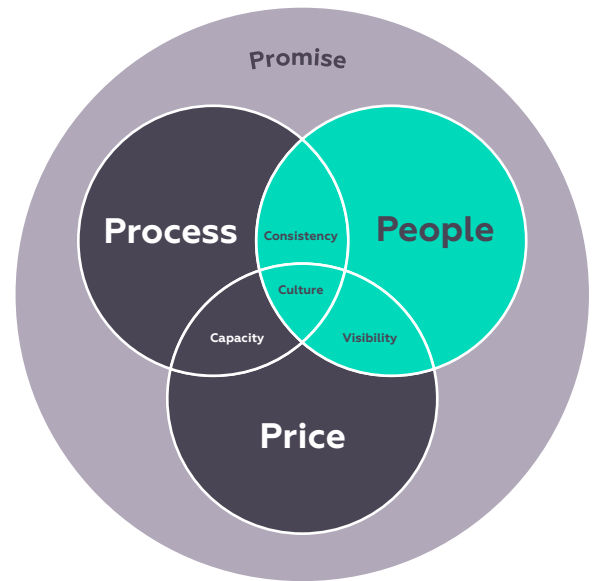
The impact of formalising a process can be significant. An audio-visual company that did this saw a 100% improvement in productivity over a 2-year timeframe.

**PEOPLE:**

One of the challenges of growing a business is ensuring that the staff you employ are as productive as you used to be when you were delivering the products or services. I know when I used to run a software company, we were never as productive once I stopped writing code. There are so many reasons why this might be the case, and one of these lies in the engagement of the people in the business.

Gallup has been monitoring employee engagement for over two decades. In its 2022 global survey<sup>[4]</sup>, it found that in Western Europe only 14% of employees are engaged at work. In the UK this figure is only 9%, a 2% drop on the previous 3 year average.

There is a considerable correlation between employee engagement and productivity. Engaged workforces are 17% more productive than are workgroups in the bottom quartile of engagement.



The 2017 Gallup report<sup>[5]</sup> found that engaged employees produce better business outcomes than do other employees across industry, across company size and nationality and in good economic times and bad.

Jim Collins conducted a study of 1,435 good companies over 40 years. During that time, 11 companies became great. In his book *Good to Great* he shares the things that got them there. One of the most important being ‘who’ is in the business. He talks about ‘getting the right people on the bus – and the wrong people off the bus.’

Running a business with low levels of engagement and productivity is like trying to climb Mount Everest without a team of Sherpas.

*“...engaged employees produce better business outcomes than do other employees across industry, across company size and nationality and in good economic times and bad.”*

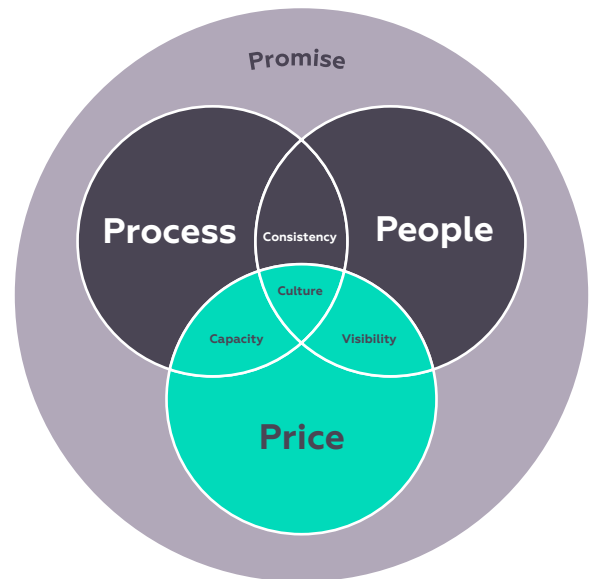
## PRICE:

An often-overlooked lever in productivity is price. The measure of productivity is value (£), so price plays an important part. Productivity is not the same as efficiency which is defined as: "Accomplishment of, or ability to accomplish a job with a minimum expenditure of time and effort."

Productivity takes into account that unless you sell what you have accomplished, it has no value. Productivity is concerned with output of the whole process while efficiency is "doing things right."

Pricing strategies are frequently defined when a business first opens, and are often determined on a cost plus basis. Except for rises due to changes in the supply chain or cost of living, the underlying approach is rarely reviewed.

Price can have a significant influence on how successfully a company may sell its goods and services. In Keynesian economics, the law of supply and demand describes how at a given price, supply and demand vary, when prices are high, demand is lower and vice versa.



This thinking, does not consider brand promise. We can all think of premium priced brands which still generate significant demand. You only have to look at the queues outside an Apple store whenever it launches a new iPhone to see this.

Apple has a 'valued' pricing strategy. It knows it can charge whatever it wants because the market values its products. The fact that it is 'known' for innovative and easy to use products, and delivers this consistently, is of course, interlinked.

The key to understanding how to improve productivity through price is to appreciate that price isn't at all about money. Price is everything to do with value.

*Price is what you pay. Value is what you get.*

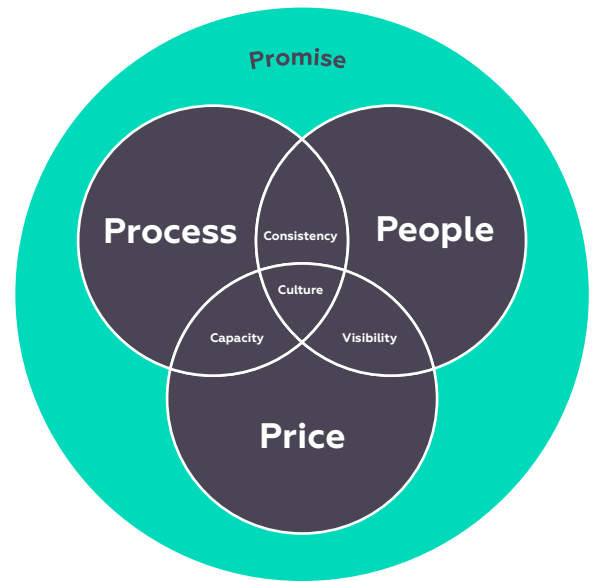
WARREN BUFFET

**PROMISE:**

Any business that has ever traded, will be known for something. Often, they are not known for the right thing. Your promise is at the heart of everything you do as a business. It is why people pay you; a form of contract, explicit or implied, that describes what you are going to deliver. If you live up to that promise, consistently, you will be loved, if you fail, it will result in unhappy customers, staff and suppliers.

Promise is the context in which the other three elements sit. Without a clear understanding of your brand promise, nothing else makes sense.

When we look at the masters; companies such as Amazon, we can see how they are 'known' for their brand promise to be "Earth's most customer-centric company."



They may also be known for other things – such as not paying enough taxes, and many people boycott them as a matter of principal. Transport for London, bans the use of Amazon within its supply chain. Such a policy is an excellent example of being known for something, which is different from how you want to be recognised.

The promise has to be consistently maintained in all areas of a business.

“...consistency is particularly important to forge a relationship of trust with customers: for example, customers trusted banks that were in the quartile of delivering consistent customer journeys per cent more than banks in the bottom quartile.”

MCKINSEY



# About the Author

Amanda has spent over three decades improving productivity within businesses.

With a background as a software developer, where everything you do is about helping use technology to improve productivity, she has worked with lots of product-based companies improving the way physical products move through the supply chain to the customer.

Amanda has witnessed first-hand the difference a productive culture can make within an organisation.

She has worked with numerous companies including:

- a healthcare distributor where she worked to improve the supply chain, resulting in better availability of products, reduced air freight costs and improved cash flow;
- and understanding the processes, the price dynamics and the brand promise, within a clothing wholesale client, Amanda was able to help reduce a 6-week process that was crucial to the supply chain to a matter of days, significantly improving productivity.

Right now, Amanda is working with a range of manufacturing companies. They all aspire to improved cash flow, quality, and overall business value, and see improving productivity as an effective way to achieve this. Amanda helps owners and teams to understand their economic engine and get it turning at twice the speed. Clients can make decisions faster and report they feel re-energised.

# Rise to the Challenge

We talk about productivity all the time, and very few people know what their number really is.

Peter Drucker wrote in his famous 1954 book *The Practice of Management*, “what gets measured gets managed”, and yet few businesses if any, measure their productivity in any meaningful way.

What is your productivity number?

Not knowing is dangerous in today’s volatile economy. It doesn’t take long for circumstances globally, politically and economically to shift dramatically and when you do not know your current number you have zero margin for error. That can spell disaster if things beyond your control shift.

If the issues outlined in this whitepaper resonate with you and your leadership team, maybe it’s time to open a conversation with me about what it might look like to invest in improved productivity. Doubling your productivity is a long-term project, over 2 – 3 years and it starts with a single step – A Chaos Audit™

## CHAOS AUDIT™

This is a facilitated programme through which we will calculate your current productivity and then I will help you to identify the actions you can take to improve your organisational productivity. Together, we will identify the quick wins and big wins, so you know where to focus your efforts, giving you the confidence to plan projects that make an impact.

If your business hasn’t had a total body health check for a while, the *Chaos Audit* will highlight all the areas where a little action now, will keep it healthy and well for many years to come.

A quick call will help me identify your current levels of productivity and how much more you might be able to unearth. Simply click on this link and let’s schedule some time together...

[SCHEDULE A QUICK CONVERSATION](#)

# References

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<sup>1</sup> *Office for National Statistics*

<sup>2</sup> *Office for National Statistics*

<sup>3</sup> <https://hbr.org/2016/10/leaders-can-shape-company-culture-through-their-behaviors>

<sup>4</sup> *State of the Global Workplace Gallup 2022 Report*

<sup>5</sup> *State of the Global Workplace Gallup 2017 Report*

