



International
Labour
Organization



▶ Driving Up Productivity

A quick overview of the Guide for Employers
and Business-membership Organizations

Edited by
ACT/EMP



Driving Up Productivity

A QUICK OVERVIEW OF THE GUIDE FOR EMPLOYERS
AND BUSINESS-MEMBERSHIP ORGANIZATIONS



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ACT/EMP

VERSION 01

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Preface

Paul Krugman said, “Productivity is not everything, but in the long run, it’s almost everything”. Enhancing productivity is essential to achieving sustainable enterprises and creating decent jobs – both core elements of any development strategy that places the improvement of peoples’ lives as its main objective.

The ILO has long recognised the role productivity plays in enterprise development and job creation. The conclusions on Sustainable Enterprises adopted at the 2007 International Labour Conference incorporates the notion that enhancing productivity is a key factor for business competitiveness and essential for sustainability. The ILO Centenary Declaration for the Future of Work, adopted by the ILC in 2019 also highlights productivity as a cornerstone of achieving a human centred approach to the future of work. Increasing productivity is also one of the strategic priorities of the 2030 Agenda, as part of Sustainable Development Goal 8, which focuses on economic growth and promoting productive employment.

It is clear that productivity and competitiveness are key issues for private sector development in any country. Employer and Business Membership organisations (EBMOs) have a major role to play in addressing these issues, both through their policy advocacy work and through the services they provide to their members. To respond to this challenge, the Bureau for Employers’ Activities (ACT/EMP) has produced the attached Guide for EBMOs. It provides practical guidance in two main areas. First, it is a tool to help EBMOs design and implement specific services to support their members to increase productivity and sustainability. Second, the guide provides practical advice to EBMOs on how they can reinforce their representative role in order to promote public policies that seek to enhance productivity, which will in turn enhance competitiveness and result in the creation of more and better jobs.

This first edition of the guide has been prepared during the COVID-19 pandemic. It is clear that this has put the survival of millions of companies at risk, has led to massive job losses, and has jeopardized the source of income of hundreds of millions of workers and entrepreneurs around the world. Measures to stimulate productivity growth and improvement need to be key elements of COVID 19 recovery strategies. We are working in a challenging and fast moving environment and EBMOs need to show real leadership and effective advocacy in the process of building back resilience and supporting change. We will therefore update the Guide periodically in order to reflect changes in the global economic landscape and emerging challenges that may affect the ability of companies to achieve greater resilience by increasing their productivity.

I am grateful to those who worked with us to produce the Guide including those EBMO leaders who took the time to peer review the final document. I would like to thank Jorge Ramírez Mata, for his research work, and Consultora Lebran (Chile) for their support in the editing and graphic design of the publication.

The final product is a result of teamwork across the whole global ACT/EMP team. A particular word of thanks to the core team of Rafael Gijón, Roberto Villamil, Andrés Yurén, Luis González, Paolo Salvai and José Luis Viveros Añorve.

Deborah France-Massin

Director

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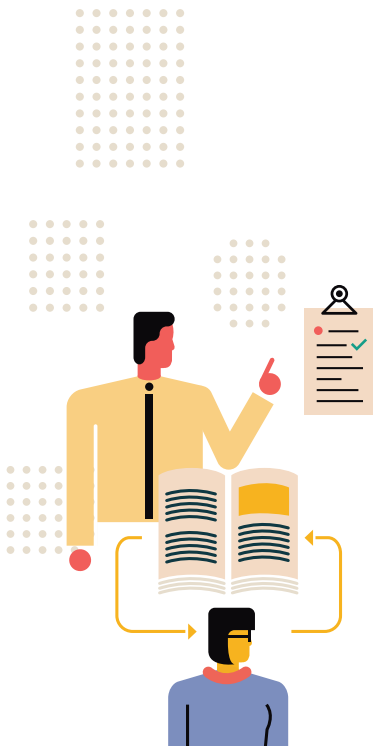
What is productivity?

Productivity is a measure of the efficiency of people, firms, governments and economies in the use resources to produce goods and services, to maximize economic benefits, during a given period.

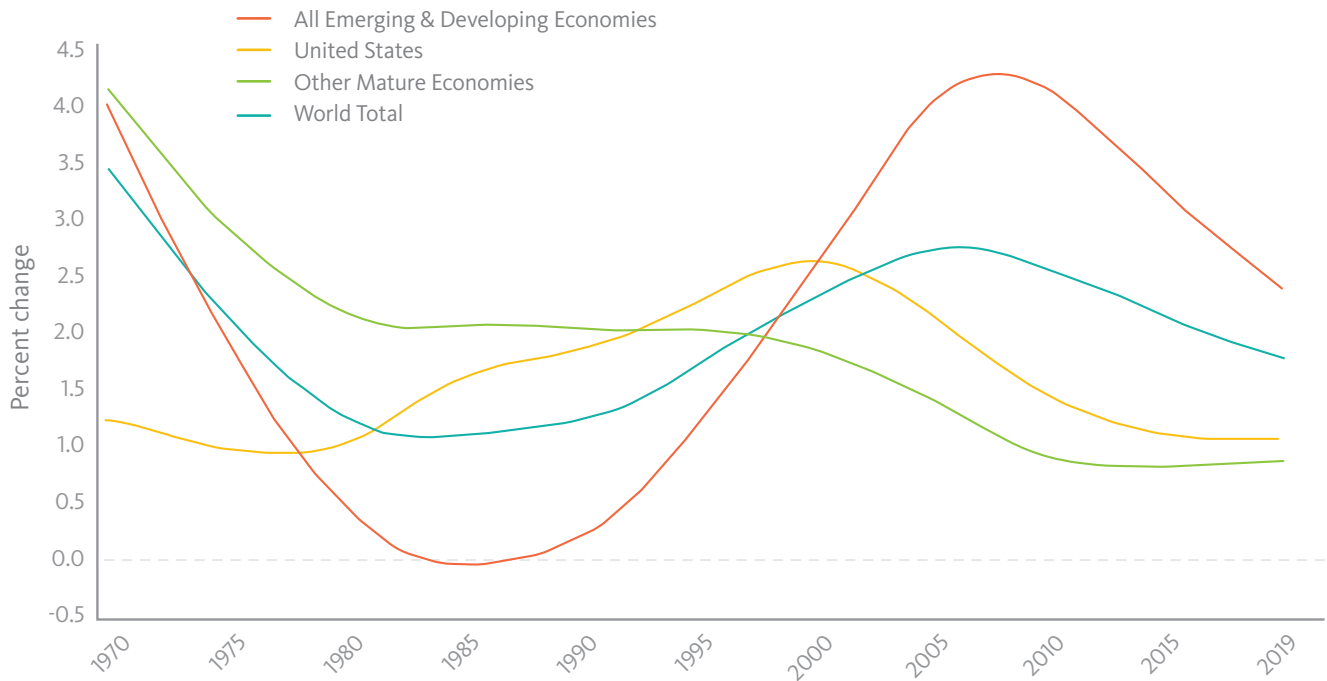
Productivity growth enables savings generation through greater operational and allocative efficiency that allows achieving a greater level of production using the same amount of inputs. Enterprises may then use the generated savings to invest in, for instance, workers' skills development and machinery and equipment, thus fostering workers' productivity and enabling capital accumulation, which may increase output further and contribute to reinvigorating the process of business productivity growth.

The growth of productivity is also the main driver of the catch-up process through which developing countries with lower-income per capita can reach per capita income levels observed in advanced economies. Empirical research shows that 60 to 90 per cent of the cross-country variations in per capita income can be attributed to differences in productivity growth.

Unfortunately, the years following the recovery from the 2007-09 Global Financial Crisis have been characterized by a marked slowdown in the growth of labour productivity. The slowdown has led to a contraction of firms' growth, stifled wage increases and held back global economic growth. Trends of GDP growth per employed person indicate persistent improvements in the growth rates of labour productivity between the late 1980s and the start of the financial crisis, in 2007. Since then, labour productivity growth rates, both globally and in developing economies, have steadily declined.



Growth trends, GDP per employed person, using Hodrick–Prescott filter, key regions, 1970–2019



Source: The Conference Board (2019), based on The Conference Board Total Economy Database (adjusted version) data, April 2019.

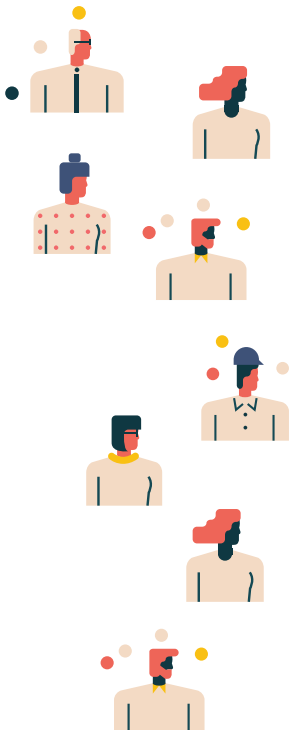
Find out more about what productivity means and global trends in the Introduction of the Guide.

Among the devastating economic, social, and labour consequences of the COVID-19 pandemic, the deepening of the deterioration in productivity, which before the ongoing crisis had not yet returned to levels observed before the 2007-09 Global Financial Crisis, could significantly hinder the recovery of economic and employment growth. In this context, the role of Employers and Business-membership Organizations (EBMOs) will be essential to guide and support their members in the pursuit of productivity recovery.

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Why does productivity matter?

Nowadays, there are multiple academic studies around the world showing the importance of productivity in generating economic growth, increasing firms' profits and growth, lowering consumers' prices, raising workers' wages and improving the standard of living for the overall population.



(a) Higher productivity, higher economic growth

Total Factor Productivity (TFP) measures the efficiency with which labour, capital (for example, machinery and equipment) and intermediate goods are used in the production of goods and services. At country level, upsurges in TFP are closely linked to increases in economic growth. The correlation between the two variables is 91 per cent, which shows the close relationship between the growth of an economy and the increase in its productivity levels. Overall, TFP gains reflect a more efficient utilization of the potential of an economy, increasing its long-term economic growth.

(b) Higher productivity, higher employment

Increases in productivity enable savings generation through greater operational and allocative efficiency that in turn allow producing more using the same amount of disposable inputs. As the scale of production increases, productivity gains may also come from decreasing costs per unit of output over time. The attained economic benefits can be channelled to consumers through purchasing power gains from lower prices or higher wages. The increased purchasing power leads to increased consumer spending, which translates into greater aggregate demand that in turn leads to employment growth. The empirical evidence shows that greater rates of productivity growth are associated with lower unemployment rates.



(c) Higher productivity, higher profits and growth of enterprises

Sustained productivity growth is relevant to the growth and development of enterprises since it enables companies to be profitable (by expanding output and/or minimizing production costs). Firms can then reinvest such higher profits, to continue increasing their efficiency and profitability in the medium term.

As the scale of production increases, further productivity gains are enabled by the lower production costs per unit; in other words, there are dynamic economies of scale. Also, it is important to bear in mind that the positive effects of increasing productivity extend beyond enterprises to consumers. Through competitive markets, the lower production costs per unit are reflected in lower prices, which raises consumer purchasing power and leads to higher economic growth.

(d) Higher productivity, lower costs for consumers

Empirical research uncovers that productivity enhancement is associated with lower production costs and consumer prices.

(e) Higher productivity, higher wages for workers

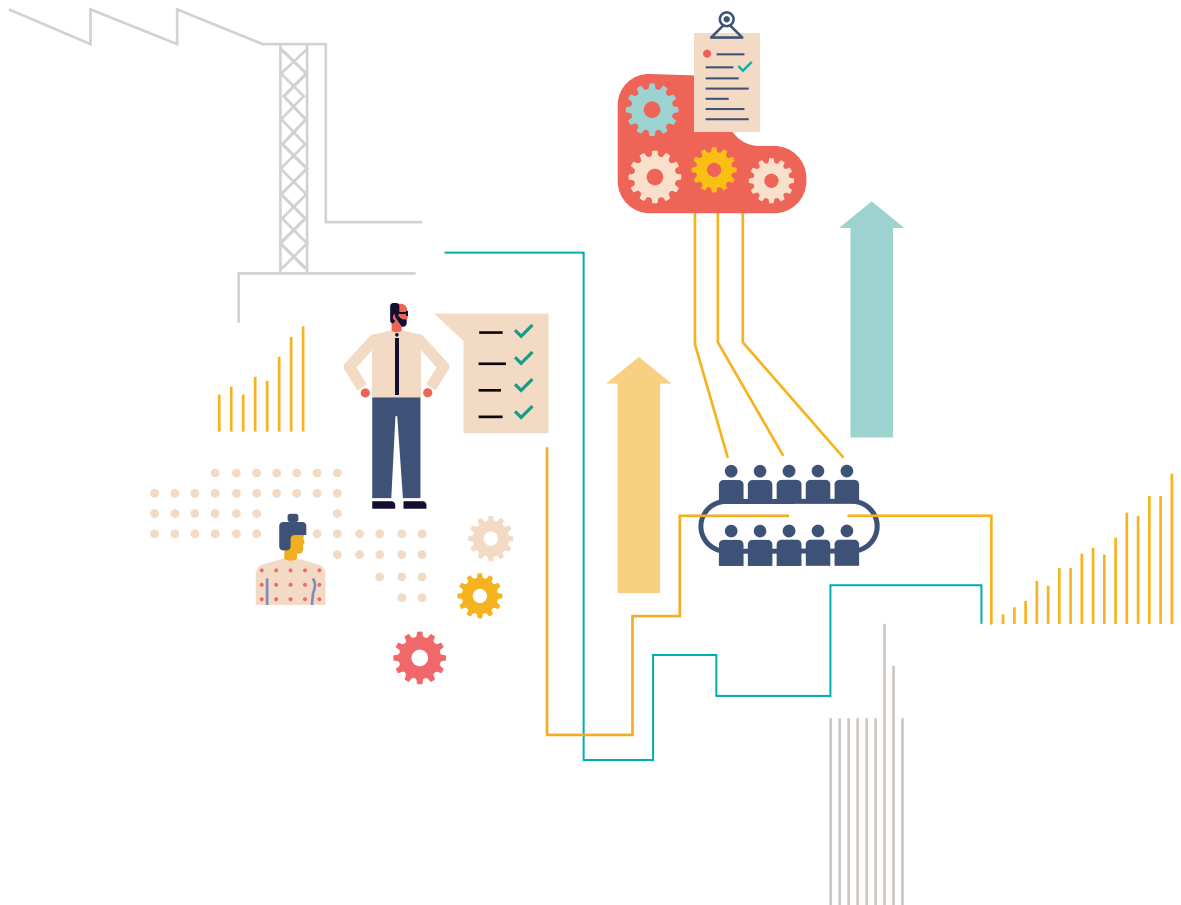
The empirical evidence shows that labour productivity is the most important economic factor to set wages at a level that allows enterprises to retain workers and create jobs. The higher the productivity, the higher the level of wages and the greater the firms' ability to create jobs. Productivity growth is also a necessary condition that allows enterprises to improve overall working conditions.

(f) Higher productivity, lower levels of poverty

Productivity growth is also a key factor in reducing poverty levels in a country. A notable case is the connection between agricultural productivity and poverty reduction rates. For example, increasing agricultural yields (agricultural production per square meter) raises producers' revenue and can translate into consumers' greater purchasing power through lower prices.

Productivity improvements that allow a certain industry to reduce its costs and prices open up opportunities for consumers, through purchasing power gains from lower prices, to buy other goods and services or save, thus increasing wellbeing. This effect is a key driver of poverty reduction and is especially important in the case of the productivity gains from industries that produce goods included in the basic basket of consumption, which includes the indispensable products for the lower-income population.

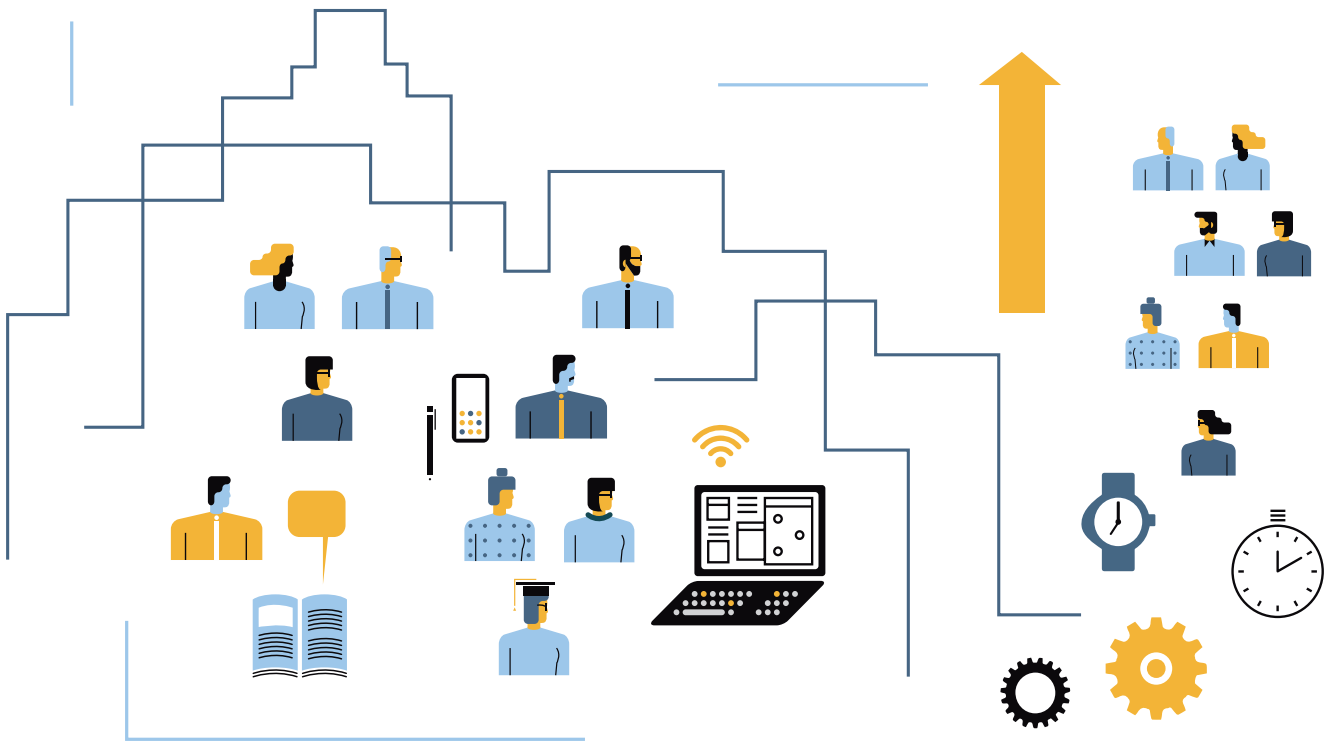
In the Introduction of the Guide, you can find more information about why productivity matters for development.

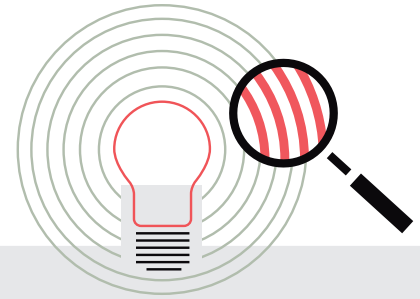


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How can productivity be measured?

Productivity is commonly defined as a ratio of a volume measure of output to a volume measure of input use. In casual conversations, we say an individual is productive when she or he produces a high output with limited inputs. Productivity measures the efficiency with which economic agents (i.e. workers, firms, governments, etc.) use the available resources to produce goods and services; it can be measured for all factors of production combined (Multifactor Productivity) or in terms of one of them. For instance, measuring Labour Productivity or Capital Productivity. Such measurements are the most common ways of displaying productivity trends and benchmarks, but there is an array of productivity measures.





1 LABOUR PRODUCTIVITY

Indicator

Calculation

GDP per worker

This indicator is calculated dividing the GDP by the number of employed people during a given time reference period.

GDP per hour worked

This indicator is calculated dividing the GDP by the number of hours worked from the population during a given time reference period.

Labour revenue productivity per worker

This indicator is calculated dividing the firms' operating revenue (sales) by the number of workers in the firm during a given time reference period.

Labour revenue productivity per hour worked

This indicator is calculated dividing the firm's operating revenue (sales) by the number of hours worked from employees in the firm during a given time reference period.

Real profits per hour worked

This indicator is calculated dividing the firm's real profits by the number of hours worked from employees in the firm during a given time reference period.

2 CAPITAL PRODUCTIVITY

GDP over Capital

Capital productivity is measured as the ratio between the volume of output (GDP) and the volume of capital input, defined as the flow of productive services that capital delivers in production, i.e. capital services.

3 MULTIFACTOR PRODUCTIVITY

Total Factor Productivity (TFP)

Total Factor Productivity, commonly known as Multifactor Productivity, relates a change in output to several types of inputs. It measures the direct growth contributions of labour, capital and intermediate inputs.

Do not miss the additional information on these topics, which you can find in Module A of the Guide.



You can find more information about these relevant factors to improve the business climate in Module B of the Guide.

What are the drivers of productivity growth?

The process to achieve higher productivity is driven by a wide range of factors, some of which are within enterprise control, while others relate to the business environment and the structure of the industry in which companies operate and compete. Business productivity is also susceptible to external shocks, such as pandemics and climate change, among others. The main drivers of productivity growth are divided in the Guide in three categories:

- 1 Business environment improvement
- 2 Management quality improvement
- 3 External factors

BUSINESS ENVIRONMENT IMPROVEMENT

An enabling business climate is a key factor to foster productivity growth and firm performance. Based on empirical evidence and multiple focus groups' discussions with experts, 12 components of the business environment have been identified as key drivers of productivity. This is not an exhaustive list, but it includes essential elements of the business climate to be considered by policy makers when devising regulation and policies. However, it is important to notice that none of the factors mentioned in such module should be addressed with an isolated policy: an integral strategy is required to improve the business environment.

Relevant factors to improve the business environment

- | | |
|--|--|
| 1. Macroeconomic stability | 8. Property rights and the rule of law |
| 2. Skills development and education quality | 9. Governance and anti-corruption policy |
| 3. Inclusive and flexible labour markets | 10. Competition |
| 4. Transition out of informality | 11. Industrial policy |
| 5. Entrepreneurship and innovation | 12. National productivity committees |
| 6. Access to credit and financial services | |
| 7. Physical and digital infrastructure and connectivity with international markets | |

MANAGEMENT QUALITY IMPROVEMENT

Improving management practices is crucial to increase productivity, since it encourages operational efficiency gains. It can enable firms to close the gap between its real and potential level of production, given their available human, physical and capital resources, thus fostering firms' growth.

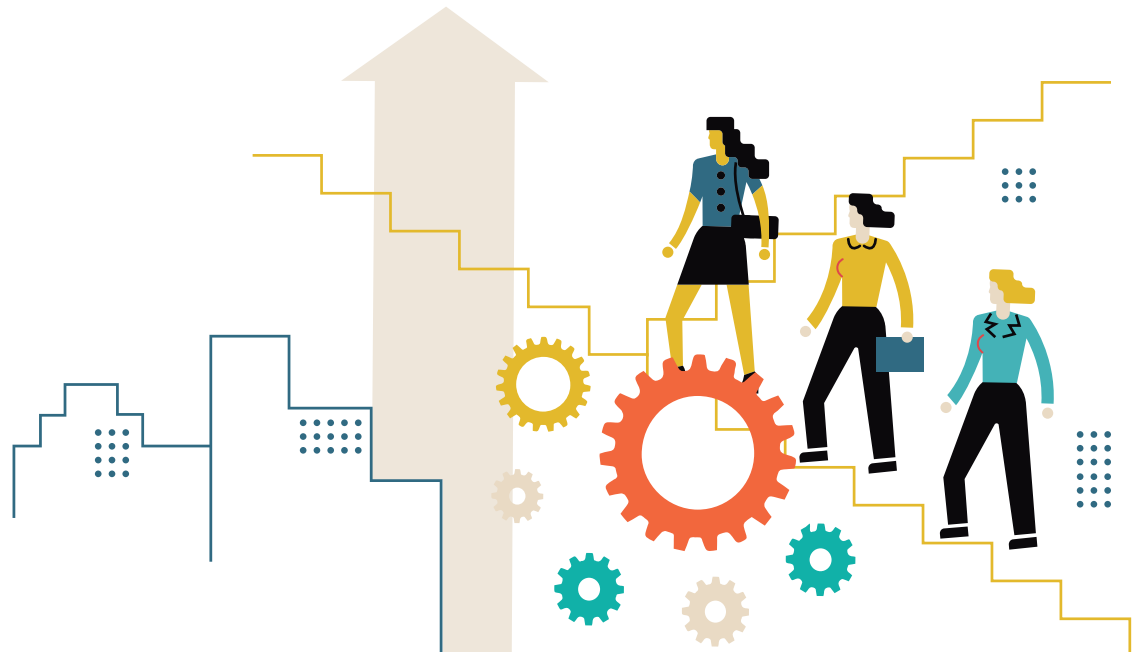
Moreover, efficient management practices may contribute to improving quality control of goods and services, waste disposal, and cost reduction. Improvements in the quality of goods and services can translate into productivity gains and economic benefits through higher prices or savings associated with reducing waste, identifying defects, and not interrupting the production process. The gradual improvement in processes, products, and services makes possible the generation of savings, which in turn allows enterprises to increase the investment rate. The empirical evidence shows the clear relationship between inefficient managerial practices and wider productivity gaps.

Based on an extensive literature review, there are at least 6 key factors related to productivity-oriented management practices. This list is not exhaustive but includes fundamental features that enterprises should consider when designing a strategy to improve their productivity.

Relevant factors to improve management practices

1. Communication-oriented organizational climate
2. Flexibility in the workspace
3. Economic incentives for productivity/employee performance
4. Energy efficiency and waste management
5. Safety and health
6. Equal opportunities

Do not miss further details and relevant information about these key drivers of management practices in Module C of the Guide.



EXTERNAL FACTORS

External factors refer to the series of events that can occur and affect productivity growth but are not determined by the enterprise's management practices or public policies or regulations.

External factors

1. Climate events
2. International supply and demand for goods and services
3. Reserves (stock) of natural resources
4. International commodity prices
5. International financial volatility and capital outflows
6. Black swan events (terror attacks, global health crisis such as the Covid-19 pandemic)

External factors include unusual climate events, which can significantly increase or contract productivity. For example, “El Niño” weather phenomenon can reduce the amount of rain in a given harvest season and thereby reduce the productivity of the agricultural sector for that year. Similarly, changes in international supply and demand for goods and services can significantly affect productivity levels. For example, periods of international economic volatility, such as the global financial crisis that began in the United States, can contract international economic activity and thus the productivity of many developing economies.

In sum, given the wide range of interrelated factors that interplay to enhance productivity growth, an **integral approach** is required, to facilitate investment in human, physical and intangible capital; encourage the reallocation of resources to more productive sectors; support the capacity of enterprises to adopt technology and innovation; and promote a growth-friendly macroeconomic and institutional environment. Moreover, the diversity of productivity drivers also reveals the need to design and implement a **long-term systemic strategy** seeking coordination and complementarity between policies, regulations and institutions, in a joint public-private effort, to make productivity the pillar of economic and social development.



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What partnerships can EBMOs consider to promote productivity enhancement?



EBMOs can examine multiple strategic partnerships with stakeholders interested in productivity at the national level. There are at least five broad groups to be analysed separately: **Government Agencies, Development Banks, Academia, Non-Governmental Organizations (NGOs), and International Organizations**, including international business organizations such as the **International Organization of Employers (IOE)**. Each of these stakeholders has their own internal structure, closeness to relevant policymakers, or even time horizon. Partnerships should be analysed on a case-by-case basis, as different contexts and available resources can highlight the need for different policies or initiatives.

An ILO survey with a number of EBMOs from 47 different countries shows that EBMOs around the world tend to assign similar weights to key partners towards the promotion of a productivity strategy. **This reveals the need for a holistic and broad range of partners to build relevant synergies.**

Designing and implementing a National Productivity Strategy requires support from multiple ministries and government agencies. The international experience has shown that national productivity commissions can facilitate coordination between the multiple government bodies. Moreover, such commissions should have a long-term horizon, since productive investments will need time to mature. Additionally, these commissions are normally benefited from collaborative work from the private and public sectors, including academia, to provide evidence-based research for informed decision-making. Commonly, the most important universities and technical education centers are included in such commissions. Finally, it is recommended that they operate as an independent body from the rest of the government ministries or agencies, reducing the Commission's dependency on the political cycle.

Find out more information on strategic partnerships in Module D of the Guide.

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Guidelines on enhancing productivity growth: how can EBMOs get it done?

The steps mentioned below, as well as suggestions for their implementation, are extensively developed in Module E of the Guide.

A roadmap of 10 steps to prepare your EBMO, not only to build a solid and coherent proposal to improve productivity, but also to enhance the chances of it being taken into account by policymakers, is hereby presented.

Addressing the issue of productivity of a country or an economic or business sector requires your organization to access reliable data, develop technical knowledge on the issue, have a grasp of the current situation in your country or sector, and expertise to influence policymakers.

- STEP 1** >> Assessing your institutional capacity
- STEP 2** >> Embracing productivity as a priority
- STEP 3** >> Identifying what needs to change to improve productivity
- STEP 4** >> Setting priorities
- STEP 5** >> Identifying reliable sources of data
- STEP 6** >> Developing a research agenda on productivity enhancement
- STEP 7** >> Working with others through strategic partnerships
- STEP 8** >> Evaluating the likelihood of receptiveness of Government and other key actors to EBMO's proposals to enhance productivity
- STEP 9** >> Identifying who is who in Government to advance a productivity agenda
- STEP 10** >> Tracking progress of employers' agenda on productivity

We invite you to discover detailed information
in our global Guide:

“Driving Up Productivity, Guide for Employers and Business- membership Organizations”

Available at:

<https://www.ilo.org/actemp/lang--en/index.htm>





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