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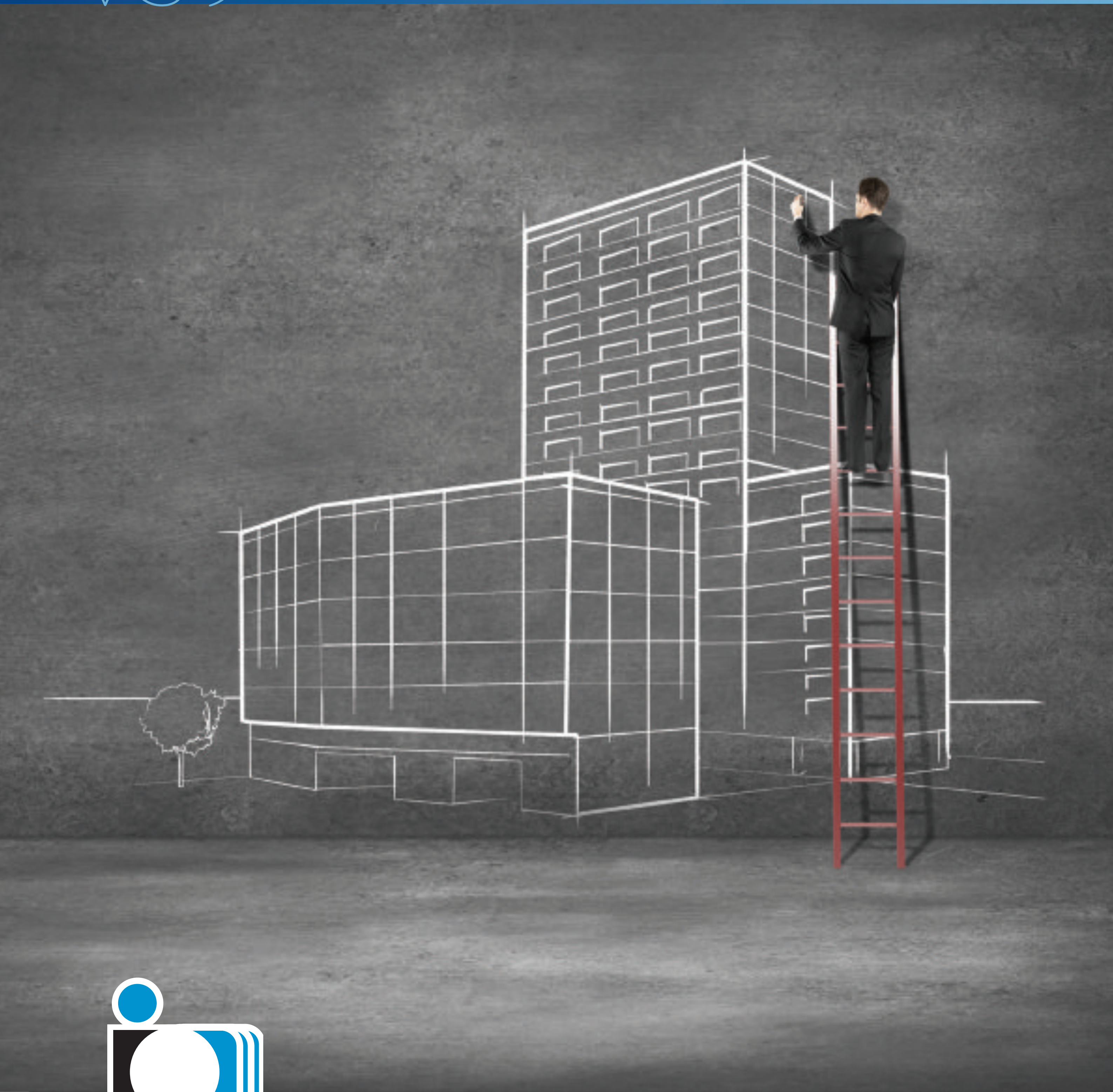

THE INSTITUTE OF OPERATIONS MANAGEMENT

Successful leaders inspire a successful future

Can effective leadership improve productivity?

We all know that the recession has caused many businesses to fail. However, statistics show that another, less discussed ailment is afflicting the British economy: the issue of falling productivity. At a time when most industries need to operate more efficiently and to maximise their output to survive, it seems that many companies are failing to do so. This raises the thorny question: with more advanced technology at our fingertips, faster communications and more effective automation than ever before, why is the UK's productivity falling?

As business coaches, real, on-the-ground evidence suggests that productivity (in particular, resilience to the current economic cycle and preparedness for any upturn) is very much reliant upon the management and leadership of the individual businesses concerned.

Figures published by the UK Office for National Statistics earlier this year revealed that the output of workers in the private sector had fallen by almost 4% in the year to October 2012, the lowest level since 2005. Overall, the decline in productivity across the whole economy was 2.4%. These figures have significant implications for the prospect of economic recovery, with the Bank of England attributing the weakness of Britain's economy in part to this fall in productivity.

The situation has been aggravated by the amount of spare capacity in the services sector, as well as continually decreasing demand for products and services across most sectors. The retention of labour suggests that most UK companies are operating with a margin of spare capacity. In other words, the Bank of England suggests that their potential output, given current levels of capital and labour, is somewhat greater than their actual level of output. The fall in UK labour productivity during the downturn was spread across all sectors, but clearly dominated by deterioration in the service sector.

During the recovery phase, productivity has picked up in all sectors except energy and utilities, where productivity has continued to fall. As noted in Dale1, productivity growth has slowed in the energy and extraction sector since around 2005 – that is, before the onset of the financial crisis. This is largely due to the fact that North Sea oil fields have aged and extracting oil has become more costly and difficult. However, the news is not all bad – for example, the recovery in manufacturing and construction since the trough in output has been enough to regain the level of productivity that was reached in those industries before the recession. Having said that, in practice the reality varies from sector to sector and company to company.

With a possible triple-dip recession on the horizon, it would be logical to assume that business owners and leaders are focusing on ways of making their organisations more efficient, with a corresponding rise in productivity. Not true, it seems – or if they are trying, the figures strongly suggest that they are failing.

We work with companies in the service and manufacturing sectors and, on an individual basis, can point to amazingly good performance and resilience in a particular business whilst in the same sector a different company is performing poorly or potentially facing meltdown due to its circumstances. So, what is the magic ingredient that makes the difference between a disappointing output and companies that are performing productively?

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Why are businesses failing?

Working as an executive coach with business leaders from a range of industries gives me a unique insight into many diverse sectors of the economy. From financial services, through property and the legal sectors to manufacturing, engineering and transport, each is facing its own version of the challenges these recessionary times throw at them. My professional experience suggests three clear reasons why productivity is falling in many individual businesses, as well as across whole sectors of the economy, particularly the service sector:

- There are large pockets of poor leadership
- There is a lack of long-term business aspiration and vision
- There is a failure to enrol and engage the workforce in that long-term view

It seems that managers continue to think small, with short-term and risk-averse goals. Therefore, it is inevitable that productivity and enterprise in many work places is stalling – and will continue to do so until that mindset changes. However, there are solutions that businesses can introduce that will reinvigorate staff and their productivity and, more importantly, retain them when the upturn eventually arrives.

Cut and run, or take a risk?

These three areas need to be put in the context of human behaviour in a crisis. When panic, fear or apprehension set in, executives and business owners often go into fire-fighting and survival mode. Time and again I see short-term expediency supplanting medium and long-term business goals. A sort of tunnel vision emerges where only limited panic solutions can be readily seen or used. Often it takes someone to come along and point out the blindingly obvious before senior and middle ranking managers in business step back and review the real options they have in front of them. These options may be difficult and involve risk, but the rewards, as we have seen time and time again, can be enormous. Equally, solutions may be so obvious and so close that they fail to spot them.

Of course, company leaders need to ensure the survival of their business. They have responsibilities to themselves and their employees, and that often requires a pragmatic approach to the circumstances that they find themselves in. However, having a planned leadership approach that is open to new and different possibilities will pay tremendous dividends for any business in any sector.

Taking a long-term view

The clients that I work with who are prospering have embraced action and have a clear direction centred on leadership, vision and aspirations. They are also enrolling their teams in this journey. Similarly, I also meet with many companies who have taken knee jerk, arbitrary actions that leave them trapped, like the proverbial rabbit in the headlights.

How many companies do you know of (maybe even your own) that get the blankets out when the pressure builds (blanket cost cuts, last man in job losses – ultimately blanket short-termism?) It is obvious when you see it here in print, but cutting followed by more cutting with no counter balancing strategies eventually leaves you with nothing left to cut – and no business. You would be surprised at the number of managers (who think they are leaders) who fail to see the inevitability of this.

Alternatively, many companies have retained staff whilst imposing demotivating pay freezes, with some even cutting wages in real terms. However, in a significant blow to the economy, as productivity has declined, the labour cost per unit of output for the year to October 2012 has risen by more than 3%. Could it be that the tolerance for pay restraint has reached its limit? If so, what is the alternative?

Manager or leader?

Leaders are not appointed; they are leaders because others follow. In fact, many, so-called, leaders are really people with bigger badges than those around them. But when the recession finally ends, these badges will be worthless as the people who should have been enrolled as followers will, when presented with a choice, vote with their feet.

In our world, the people with the badges are the managers, vital parts of the anatomy of business and of the economy. They make things happen, work the process, monitor performance, set goals – and all the other great and necessary things a manager does.

But a manager is not necessarily a leader, and vice versa. Neither is leadership predicated on position or status. Managers manage because they have bigger and bigger badges: I manage her because my badge is bigger than hers and she manages him because her badge is bigger. Leadership is not like that; just because you are appointed managing director does not make you a leader, but it does afford you an opportunity to enrol and engage others in your own leadership. Whether they choose to follow is another matter.

Senior executives need to ask themselves: 'Am I spending my time doing the managing, or being the leader? Who have I enrolled in my leadership?'

Of course, management needs to be done, but consider what the people in your organisation would, if asked, say they are following? Where is the company going? What plans are in place to make this an even greater place to work? Most tellingly, who do you think are the leaders around here?

Taking the easy way out

Having vision and leadership are not the soft or easy options. In fact, I would argue that those businesses using the blanket approach are, in many ways, taking the easy route. This route will sort out short-term cost issues, but will not, as the figures suggest, root out inefficiencies in what the company does or what its people are employed to do – and will certainly not produce significant medium to long-term benefits.

Management usually involves the world of knowing: understanding the data, adhering to or applying the processes, monitoring the inputs and the outputs – all based on known quantities from past experiences and results. Leadership, on the other hand, often needs to be based on being cognisant of the past and past experiences and outcomes, and then creating a future that has not existed before in the current environment. Leaders do not know all the answers. Often, in a calculated way, they make them up.

Of equal importance is the notion that if people know where they are going, they are far more likely to be enrolled in a future for themselves and the business. This means that, when the good times return, they will stick to what they know and love (are enrolled and engaged in) and not be looking to move on.

So, what can you do either to become a leader or to be a more effective one?

Making time

Effective leadership requires both reflection and time to think, time that enables you to challenge yourself as a leader and to be challenged internally or by someone external to your business.

The old, well-worn cliché of thinking out of the box is totally apt here. Good leaders both get and give great feedback. Look at yourself from a self-critical viewpoint; if you have had little practice at this, you may benefit from getting someone else to help you.

Making thinking time and then being open to challenges on that thinking needs to be a deliberate act. Often difficult to achieve given the pressures of modern business life, this can pay dividends far beyond any financial investment.

Many business leaders argue that funding for capital products to aid productivity through technological improvements, to cut costs or to provide desperately needed growth is strictly limited or even non-existent. Whilst this maybe true, business leaders would be well advised to look at themselves first and then their human capital to see what can be gained from other routes, rather than just cutting costs and bringing in or forcing cheaper labour. Time after time, clients prove that this route allows for substantial changes and improvements to business outputs, without substantial financial investment.

Offering the 'We cannot grow, we have no money' answer is likely to be a recipe for disaster. Take a good look at yourself, your people and, above all, your possibilities. Start by thinking about the first 50 (yes, 50), then stretch yourself to 100. You will be amazed at what comes out, particularly if you involve everyone inside and outside your organisation.

Asking the right questions and getting into the right conversations

Senior executives who see themselves as leaders in business should take this opportunity to look around them and ask: 'Who are my key players now and what are they enrolled in?' As a leader, if you do not know the answer, trouble is inevitable – and imminent. It is also timely to ask: 'Who will be my key players in two to five years' time, and again, are they enrolled in me as a leader, in this business and its vision?'

Time and time again we come across businesses that are looking for short-term fixes: a tweak here and a tweak there. However, taking the time now to look at your own management style, your leadership standing, your vision and that of your business (plus how you can enrol key people now and in the future in all these elements) will pay handsomely in the medium to long term.

The most successful leaders take advantage of the situation they find themselves in and use it, even if it is the worst recession since the 1930s, to the benefit of themselves, their business and most importantly, their people.

Every single one of the coaching clients I have ever worked with has, at some point in the conversation, raised his or her career ambitions, current situation, direction of travel and where he or she expects to be in two to five years' time. Many managers ask themselves similar questions. Where they potentially go awry is that they rely heavily on performance management meetings to fill this need. The six-monthly or annual review where managers and employees are asked x or y about their own development, their aspirations and then, usually, set targets for the coming period. This will not do. It is neither enrolling nor engaging.

How do we know it will not do? Because as professional executive coaches we are having the developmental conversations with people that line managers should be having. When confronted with this feedback, senior managers often say things like: 'I can't talk to them about career opportunities because there aren't any' or 'I don't want to over promise'. Our answer to this is to turn it around and ask the employee some great questions that may well develop the business way beyond its current performance. What would they do if they were running the show? How would they go about this? The great managers and leaders are doing this. Most importantly, they are doing so in a context of safety, team building, business building, personal growth and, above all, enrolling for the future. So, how does all this fit with your business environment and performance management processes?

The right conversations are those that are continuous and that build relationships, not the one-hour reviews where employees are told that their performance is outstanding apart from that one small thing they need to work on. The right conversations are those that:

- Strive constantly build relationships, and
- Constantly look for new possibilities

Great managers and leaders communicate frequently and openly; they trust their teams, they know about empowerment and they walk the talk. Those that do not will find themselves surrounded by the poor performers come the upturn.

Setting a vision

Once you have really understood that leadership is not predicated on hierarchy and/or the size and colour of your badge, once you have given yourself time to think and started to ask the right questions, at the very least it is vital to come up with a direction of travel that people will buy into.

Many leadership books will tell you that it is important to know precisely where you are going and where you are taking your organisation before you set off. I disagree. Many years ago, I worked for a highly successful business that traded in a certain way. It had a model and the model was successful; in fact, so successful that it was like printing money. The senior leaders in the business appreciated that this might not continue ad infinitum, so they looked around for other opportunities and saw two immediate ones:

- An acquisition
- A new start-up

As this business was very successful, they naturally applied their success formula to these two opportunities. In simple terms, the formula could be encapsulated by the following words and phrases:

- Data lead
- Minute analysis of line-by-line performance
- The status quo is king, change = risk
- When the analysis is done, spend some time analysing it again

There was nothing wrong with this formula; it worked brilliantly and had done for the previous 20 years. The problem came when you applied it to an acquisition and a new start-up. Here, in a nutshell is what happened:

- **The acquisition** They set up two project teams, each working in isolation; they wanted certainty and safety. They set a six-month timescale and when the groups reported there was, unsurprisingly, a discrepancy in the findings between the two. So the two groups of analysts (not a visionary amongst them) were sent off again on the quest to find the perfect answer.
- **The new start-up** An excellent idea was presented by a new, young and dynamic recruit to the business. It was thought to be brilliant, but they wanted to check it out. So they sent this new executive off to another country with similar markets to study the opportunity and come back with a plan. He was given a whole year for this. When he came back he had become part of the culture of this business (the way we do things around here). His recommendation was that they set up a secret project team to work in the UK and then emerge into the light, in a year's time, to launch the new business.

The result? Both enterprises failed.

The acquisition opportunity had disappeared by the time they had analysed it to the *nth* degree and someone else easily beat them to it. The new start-up went ahead, but the economic situation in the two-and-a-half years that had elapsed had completely changed whilst they had, almost literally, been sitting in either a different country or a darkened room.

Of course, it is important to analyse data and spend time thinking about all the positives and negatives, but great business leaders would not approach opportunity in this way.

Embracing stretch

Much research has been done about stretch goals. However, I would argue that it is the context of the goal-setting, rather than the content of the goals themselves that is vital to success. Those organisations that have moved away from incremental goal-setting and a command and control structure will survive and thrive in the coming years.

Does this sound like your organisation?

- **Company A** This year we did 10, so next year's budget target is 11. At the end of the year, 11.1 = hero, 10.9 = dunderhead. You are fired. Many of these, as I call them, incremental businesses still exist.

Or how about:

- **Company B** This year we did 10. What do you think we could do with a real wind behind us, no fear and if we put all possibilities to the test? The respondent thinks for a moment and then replies: '20', and the leader goes: 'Wow, let us have a go.' (Note the use of 'us'.) At the year end, the results are in and 14 has been achieved, the manager is thoroughly congratulated, a celebration ensues and a further stretch is set for the following year.

Did either of these approaches cost more than the other? Company A will take nine or 10 years to reach 20. Company B may do it in three.

Which one more closely matches your own circumstances? What context are you setting in your business and, if needed, what are you doing to change this? Ultimately, are you capable of asking yourself the questions that need to be asked and to take the risks that need to be taken?

We cannot blame the recession for everything. The bottom line is that we have the labour, the capacity, the technology and the resources to significantly improve productivity year on year, even when times are tough. There are companies in a whole range of industries that are doing just that. These companies are driven by leaders who are engaging, reflecting, aspiring and actively leading. So, take a long, hard look at your own organisation, your leaders, your personnel, your productivity and your plans for the future. If you are not one of these productive companies, you need to change and take positive action to turn things around – before your productivity becomes completely non-existent.

About the author

Alan Denton is Managing Director, The Results Centre, and regularly coaches senior executives from a range of industries. He has created leadership and transformational programmes, and coaches and mentors at the highest levels in a variety of business scenarios, including international corporations, for senior executives, directors, chairmen and presidents in manufacturing, financial services, property, retail, facilities management, marketing and the legal sectors in the UK and internationally.

Further information, tel: 020 7182 4510. Email: alan@theresultscentre.com Website: www.theresultscentre.com

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