

## Extension Material 12.1

### Productivity and performance

How does productivity fit into the conceptual definition of performance and why is it important to be clear about how it differs from performance? 'Productivity' describes the relationship between inputs and outputs, and the efficient use of productive resources. As far as labour productivity is concerned, several measures are in current usage, with an emphasis on either the cost of labour inputs, related to the value of outputs produced, or the quantity or volume of inputs, related to the numbers of units produced.

Examples from the manufacturing sector would be the number of person hours needed to produce a car, calculated by taking all input labour hours and dividing this figure by the total number of cars produced over a given period. In an educational context, the productivity of lecturers might be calculated by dividing the total number of lecturing staff by the total number of students taught. More useful are input and output measures that focus on financial values and changes in these. In this way, the cost of labour, rather than the numbers or total hours employed, would be related to the value, rather than the volume, of output. Returning to the manufacturing example, labour productivity might be expressed as the cost of labour inputs divided by the value of products or services produced. Productivity is more useful and relevant if accurate measures of the two variables can be made. It is therefore less appropriate to the management of performance in the service or professional sectors.

The productivity of a labour force generally, or of an individual employee, is not the same as its, or his/her, performance. Productivity can be increased by improved performance—that is, by workers becoming more skilled, through enhanced motivation or giving greater effort—but increases in labour productivity can also result from reduced costs, increased prices, and automation. While most organizations are committed to productivity improvements that are based on increased individual performance, other parallel strategies linked to cost reductions, price changes, and new technology make it very difficult to isolate the impact of different contributions, particularly that of improved performance to changes in productivity.

But why are these distinctions important? One reason is to do with the need for conceptual clarity. Meanings that become blurred and confused often undermine management's ability to analyse situations, and to understand fully the significance of desired organizational outcomes and the contribution employees might make to these. Arguably, even more important than the need for clear thinking on these matters are the practical implications and challenges of managing what employees do in, and achieve through, their jobs and their wider organizational contributions. Perhaps the best way to demonstrate what these challenges might involve is to consider the relationship between employee performance, effectiveness, and productivity to employee pay. Although the use of performance-related pay is dealt with in more detail later in this chapter and in Chapter 13, it is important to be clear about what managers are trying to influence and achieve when they use pay to affect employee behaviour. Many schemes that reward employees and managers for 'something additional' to their normal level of performance fail, and fall into disrepute, simply because the link between the extra pay and what employees or managers achieve is unclear, and difficult to measure with any degree of consistency and reliability.

Yet the use of additional payments to influence employee behaviour and performance has long been a part of mainstream management thinking and practice (Taylor, 1998). Essentially, this involves rewarding employees for achieving a level of performance that exceeds the 'norm' or an established standard. Take, for example, a bricklayer. He or she might be given, or agree to, a daily rate of laying, for example, 1,500 bricks, which would be linked to basic pay. If the bricklayer were to fail to lay the 1,500 bricks in a day, basic pay might still be paid unless the employment contract were to be based on variable pay, under which each brick laid would carry with it a financial value, meaning that the more laid from a zero base, the more the bricklayer would be paid. In most examples of performance-related pay, however, increased, or variable, pay is paid above an agreed base line of performance: in this case, a base line of 1,500 bricks. Performance in excess of that standard results in additional payments, determined by collective agreements or individual arrangements.

In such situations, performance can easily be made operational and hence measured, and high performers, either because of their extra effort or skills, will be paid more than low performers. Higher levels of performance can then be seen as directly linked to the use of additional payments—but consider the appropriateness of linking additional pay to effectiveness. If performance is difficult to operationalize and measure, which is often the case for many managerial, administrative, and professional workers, achieving annual objectives is often used as a basis for 'performance-related pay'. The obvious problem here is that, unless the objectives used to establish effectiveness deliver increased performance, which means performance that is significantly in excess of the 'norm', not only will the additional payment be unjustified, but productivity will fall because the cost of the labour inputs will have increased without any change in

the value of the product or service delivered by the employee. This is the basis of the claim that the use of financial incentives to manage what people do at work, unless they are tightly managed and linked to real improvements in the value of what employees achieve, result in a long-term decline in productivity, even though measures of effectiveness or performance might rise. The case study presented at the end of this chapter illustrates well the pitfalls that HR faces in trying to manage performance and productivity.



## REFERENCE

Taylor, F. W. (1998) *The Principles of Scientific Management*, Courier Corporation.