

Jersey Means Business: A forward-thinking approach to measuring productivity

Is your business ready to be more productive?

A focus on productivity is vital for any forward-thinking business wanting to make the most of its resources, maintain and raise profits, and ensure its future health through initiatives such as high-quality recruitment and retention practices that support employee wellbeing.

The global pandemic has brought about unprecedented changes to the way firms operate. Aside from the devastating human health impact of COVID-19, the global economy has been significantly disrupted, forcing the business world to adopt new models and fundamentally changing the way we live and work.

The question of how to drive productivity is especially important for international finance centres such as Jersey that compete for business on a global level.

As well as supporting efforts made by the finance sector in Jersey to remain competitive, higher productivity growth is essential for the world economy as a whole.

Our work with the Centre for Economics and Business Research (Cebr) to analyse finance sector productivity in Jersey revealed that working with clear productivity measures can lead to positive business growth.

This thought leadership paper explores a number of ways to measure productivity evidenced in case studies and insights from Jersey's finance industry.



A focus on the finance sector

Typically, the finance sector achieves productivity growth in two ways:

1. By improving output per employee or hours worked through increased efficiency and technology improvements (what is traditionally understood as productivity).
2. As a by-product of the services it provides to the rest of economy (productivity driven by external forces).

Many financial services firms in Jersey collect data on the number of hours worked and the productive output of each employee, team and company division. This enables them to focus on areas of inefficiency, making it easier to address identified concerns.

For firms without individual employee data, it's still possible to track the productivity level of the business as a whole by dividing revenue by the number of full-time equivalent employees to provide a cost benchmark. This allows firms to track the average output per employee to see if productivity improvement strategies are working.

Positive measures to increase productivity

There's no one-size-fits-all approach to understanding and measuring productivity in the workplace. All firms aim to be more productive, but it's multifaceted and requires a holistic approach targeting all areas of the business, from better management and strong leadership to refining organisational and job structures, paying careful attention to employee engagement and wellbeing. While this isn't an easy task, a firm has much to gain from getting it right.

$$\frac{\text{Revenue}}{\text{Total number of full-time equivalent employees}} = \text{Cost per full-time equivalent employee benchmark}$$



Exploring ways to measure productivity



Time management

Do you know how much time is spent per employee with each client, on billable work or on administrative tasks and processes?

In many firms, timesheets and billable hours are common ways of measuring time spent and output per employee, but you need to establish an acceptable norm and use the data variations from above and below the norm to monitor productivity and drive change.

The concept of an eight-hour workday dates back to wellbeing measures introduced in the industrial revolution. In an attempt to maximise manufacturing output, workers were given three blocks of eight hours for work, rest and sleep, which are all critical to increasing an individual's productivity.

In service-driven economies, not all work needs to be undertaken at the same time to achieve the required outcome. As the business world moves to more flexible working and using geographically dispersed teams, many firms are shifting non-client facing work from time-based activity to goals-based activity. Employees are empowered to self-organise and work flexibly, while at the same time being trusted to ensure that agreed goals, such as the completion of a project or a new product launch, are achieved on time.



Insight from industry: Better productivity levels

Andy Delaney, Chief Executive Officer, TSG

“Using a Kaizen improvement methodology and a constant desire to improve ourselves and the services we offer, we looked at ways to manage and measure our internal activity to get employees to work smarter. We introduced an initiative to realign our billing system to be focussed more on tasks and goals rather than a time-based logging system. We've supported this by providing weekly feedback and mentoring from the senior leadership team to help our employees be the best that they can be on multiple levels, as well as working in a healthy environment. This has led to us being able to significantly raise output by more than 20% by focussing on what employees do best, and outsourcing where we're short on skills when needed - since traditional billing methods have proven time and again that activity does not equal productivity.

“As with most organisations, our staff represent our largest overall cost, and operating with higher productivity levels means we can remain competitive and maximise staff utilisation. We're creating a culture at TSG where people are engaged to do what they do best, at their highest level, every single day.”



Operating efficiencies

Measuring costs for greater certainty

One way of improving operating efficiencies is to identify cost inefficiencies. This isn't a new concept. Net profit margins, return on equity, cost/income ratios and cost per client are all traditional indicators of cost or performance in a business.

Understanding costs that impact business performance is key to making informed decisions that can increase profitability and the output per full-time equivalent (FTE) employee.

It may be that only internal resources are required to undertake tasks, but a cost-based analysis of the people involved will help identify whether the right people at the right level are undertaking tasks in a cost-efficient way.

However, cost reduction exercises need to be carefully considered. For example, if a firm doesn't invest in keeping its technology up to date or its people sufficiently trained, there's a risk that while costs may reduce, the business could become less productive.

Question to consider:

- Have you considered the unit cost per process to allow you to act on any abnormal findings?

Reducing duplication brings vital benefits

Another operating efficiency worth exploring is the reduction of duplication in processes and tasks. This can lead to cost savings and an increase in productivity.

Process and task standardisation can be considered the first step in an efficiency and automation journey. Clients are often impacted the most by inefficient or duplicated processes. Improving the way a firm works may lead not only to enhanced productivity but also to a better client experience, engendering client loyalty.

A variety of process improvement or product innovation methodologies such as Six Sigma, Lean, Agile and Total Quality Management can support positive business change.

Fundamentally, these and similar methodologies help to refine processes. The outcome of implemented improvements - or impact on productivity levels - can then be measured as a time or cost saving.

Questions to consider:

- Has your business mapped out key processes or administrative tasks to identify duplication and opportunities to simplify them?
- Is the correct training in place to help people get things right first time?





Insight from industry: Using R.U.L.E.S. to measure productivity

Jensen Nixon, CEO, WARM Solutions

“Putting the correct KPIs in place when running a business is critical. This is especially true for a service business such as a software development agency that is generating a return on productivity as opposed to creating an asset for sale.

“The R.U.L.E.S. KPI model – first developed by the legal industry in the US - attempts to create something more effective than just billable hours, which is a ‘lag’ measure and doesn’t necessarily generate the right behaviours.

“R.U.L.E.S. stands for realisation, utilisation, leverage, expense control and speed.

“Realisation measures how much you actually collect per hour of effort, which shows your true hourly rate, not your notional one. It incentivises reducing non-billable activity and not offering discounts.

“Utilisation measures your billable hours against a pre-determined target. It incentivises working on activity that adds value to the customer, i.e. activity that can be billed for.

“Leverage ensures you add and use more productive junior team members who can deliver quality output at higher billable rates at lower cost.

“Expense control and Speed are self-evident. Managing expenses is core to good business. Ensuring billing processes are efficient, and that contract terms support rapid billing, protects both cash-flow and risk on the balance sheet.

“At WARM Solutions, we’ve implemented Realisation and Utilisation to ensure we fully understand the commercial impact of our most valuable software resources. Measures are also in place to understand Expense control and Speed and we’ve developed a robust succession plan to maximise Leverage opportunities.”



Your employees

Businesses have vast amounts of valuable data on their workforce. This presents opportunities to draw out information that can be used to improve productivity, as well as to motivate and engage employees.

Monitoring average employee tenure or turnover may help firms identify factors influencing high or low employee turnover rates. A high employee turnover doesn’t necessarily equate to lower productivity as people will always seek new job opportunities, but the root causes of high turnover should be understood and the findings acted upon. The need to invest in replacing employees may require a time and cost investment, resulting in a short-term dip in productivity while new employees gain the required experience.

Consider identifying spikes in employee turnover and seek to understand why this may be happening. Measuring turnover can improve employee retention and result in better productivity levels.

Questions to consider:

- What’s the average tenure of your employees and how much corporate memory is retained within your organisation?
- Do you know the cost of recruiting and training new employees to required levels?

Case study: Measuring employee turnover

Following research into new ways to retain employees, the [Work Institute's 2020 Retention Report](#) concludes that voluntary (when an employee leaves voluntarily) employee turnover costs exceeded US\$630 billion in 2019.

The Institute recommends calculating the cost of employee turnover as a measure from which to improve. In doing so, firms can look at how employee turnover affects their business, including productivity levels, training time, employee selection time, and efficiency. According to the research, employee turnover costs are also affected by interrupted schedules, additional overtime, more frequent mistakes, and the negative impact on remaining employees such as increased frustration with not having skilled, knowledgeable and experienced colleagues in place. All of these causal factors can be a productivity drain on businesses, highlighting the importance of measuring employee turnover.

The Work Institute bases turnover cost on four factors:

1. Cost of termination
2. Cost of replacement
3. Vacancy cost: the number of days a job is vacant multiplied by the average value of the job per day
4. Learning curve (productivity) loss: the revenue per employee per day multiplied by the number of days it takes to get the new employee up to standard performance

Discover more about this calculation by visiting the [Work Institute's 2020 Retention Report](#).

Create a more supportive working environment

According to EY, organisations must evolve outdated ideas of human productivity. EY suggests that productivity needs to be linked to purpose and employee experience to drive long-term value. In their view, to empower human value creation, organisations need to give employees choice over where, when and how work is done.

The environment in which people work has a significant impact on how productive they are on a day-to-day basis, and this is increasingly factored into building design and layouts. Often, making simple changes to lighting, ventilation, sound insulation, comfort, colours and communal areas, along with the introduction of plants or greenery, can transform a working environment. Not all changes will be practical but consider providing employees with a way to give feedback on their surrounding environment to understand the positive changes that can be made to improve their wellbeing at work.



As many firms transition to a mixed model of office-based work and working from home, they should also consider the needs of employees when they're working from home. While many remote working policies cover information security, firms also need to consider whether employees have the right equipment to do their jobs for a prolonged period in a home environment. Often this starts with an assessment of basic health and wellbeing elements such as desk space, correct chair and lighting.

Questions to consider:

- What simple changes can be made to improve the office environment?
- Is your business able or willing to pay for the basics that employees expect from a working environment in their homes?

Boost wellbeing and morale

On employee morale, HR professionals often point to the use of surveys and regular meetings to gauge levels of employee satisfaction and to identify workplace issues that can act as a productivity drain.

Linked to wellbeing, one of the **five strategies** we recommend to support positive business growth is to establish a supportive work-life balance. **Empirical evidence** indicates that well-rested employees are more productive, and that average productivity is negatively correlated with the average number of hours worked by individuals in different countries.

The latest **Deloitte Global Millennial Survey** of more than 18,000 millennials and Gen Zs across a number of countries also points to the rise in importance of mental health support as a "critical issue" that should be explored by employers.

Compared to previous generations who may not have raised issues until it became too late, millennials and Gen Zs are more inclined to consider stress problematic and mental health important. Of the millennials and Gen Zs surveyed by Deloitte, half felt that stress is a legitimate reason to take time off work, and almost one in three actually did so in the past year – impacting on productivity for employers.

Put simply, employees who feel rested and supported perform better and are more productive.

Questions to consider:

- How satisfied are your employees with the wellbeing support at your organisation?
- Is the leadership team proactively engaging with employees and their concerns?



Clear signs of change

The COVID-19 pandemic has certainly seen a significant acceleration of alternative working practices, locations and technologies to continue to meet organisational priorities.

Early indicators are that employers and employees are finding a middle ground on work that can be undertaken outside the traditional office environment or 9-5 day with many firms considering a hybrid office-based and non-office-based future.

New working practices necessitate the need for additional ways of not only managing work, but also measuring work undertaken. Firms should consider whether these practices are actually improving productivity or presenting new challenges that may have a negative impact.

Take measured steps towards a bright future

It's clear there's no one-size-fits-all approach to the way firms address productivity. The more they understand about their business and its productivity drivers and barriers, the more they can do to make lasting improvements.

The post-COVID environment will almost certainly bring new challenges and opportunities. Non-revenue generating external factors such as political, economic or regulatory changes will continue to arise and, as firms respond to these, they may act as a productivity drag, requiring additional resources or other costs that affect revenue generation.

To counter these external factors, firms need to consider internal factors that they can control to bring about changes in both personal and professional lives. Each employer will need to assess the working from home experience from their perspective, looking at what has worked well and what changes they may wish to adopt to improve the future performance of their employees and their business.

There may be a range of factors to consider, such as employee wellbeing, business continuity plans, technology infrastructure, security standards, HR policies, cultural nuances and geographies, as well as client needs and practicalities. Identifying, measuring, making effective changes, and measuring the improvements in productivity will result in a more productive business in the future.



Insight from industry: Measuring productivity during Covid-19 lockdown

James de Veulle,
Head of Banking, PwC Channel Islands

"Our historic investment in both technology tools and training enabled a seamless transition to working from home, and the continued close collaboration between our teams and our clients.

"Of course, the more traditional measures for productivity in our business of utilisation and chargeable hours have continued to be monitored closely, but we've had to balance this with ensuring the health and wellbeing of our staff, gathering additional data about living arrangements, changing family commitments, home working set-up, etc. Quantifying the impact of these intangible elements is almost impossible, but we took a couple of very specific actions to help support our staff.

"We established a working practice to enable more timely communication and tracking between those with capacity and those looking for assistance. This was a lot less formal than our structured resource planning but allowed for those occasional instances when plans deviated from schedule and helped share the burden across the team. We also actively discouraged working overtime, in order to help share the workloads better.

"The firm set up a new timesheet category (or charge code) for staff to use where they were dealing with personal challenges in relation to COVID-19 and remote working. The intention was that if staff encountered related problems, they could freely use this code to alleviate some of that timesheet pressure and, while it was monitored to identify those who might be having difficulties and to help address their workloads, the code's use was confidential and there were absolutely no other implications.

"The outcome was that our productivity was actually higher throughout the lockdown period as staff recognised that we were prioritising their wellbeing, and in return they contributed as much as they could to help meet team and firm objectives."

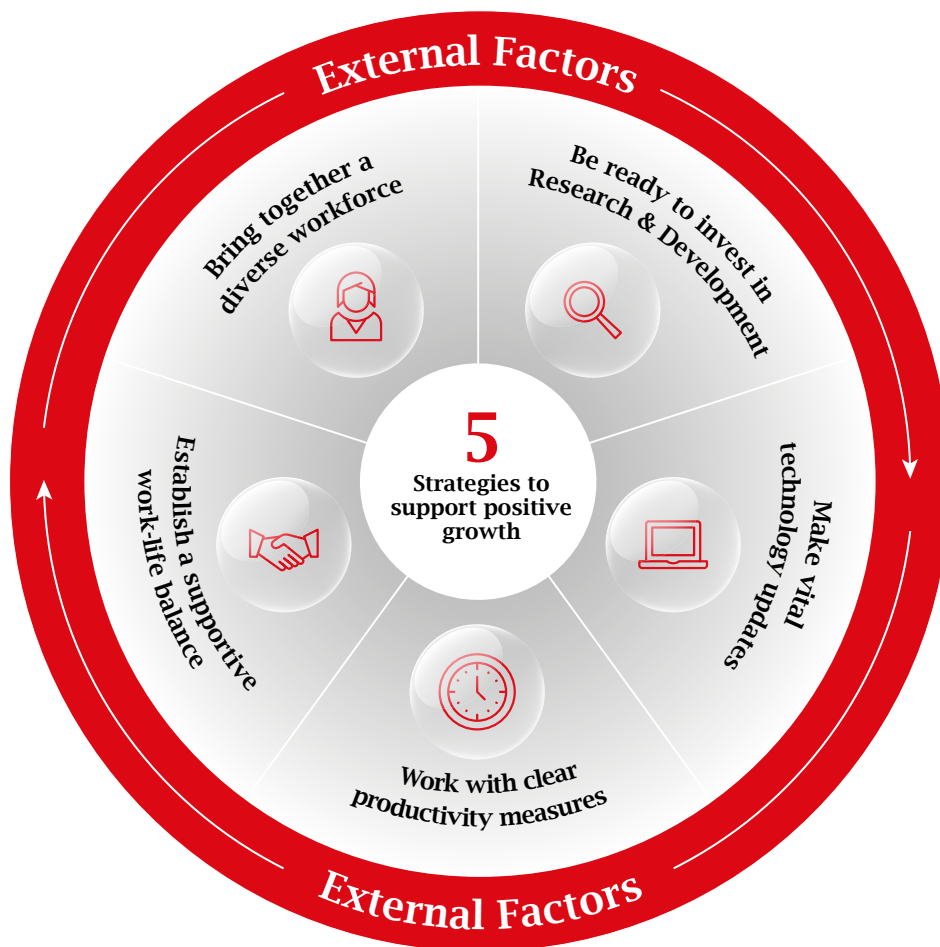


Five strategies to support positive growth

Drawing on the views of industry decision makers, our research with Cebr identified five common productivity strategies that work, pictured on this wheel diagram.

Click on a segment of the wheel to explore the progress made by Jersey Finance and its Member firms.

Find more information about these five strategies in the factsheet **'Jersey Means Business: Ready to Support Better Productivity'**



Disclaimer: This factsheet is only intended to provide a general overview of the subject matter. It does not constitute, and should not be treated as, legal advice.

For more information, please contact a member of the Jersey Finance team on: +44 (0) 1534 836000 | jersey@jerseyfinance.je