The Productivity Project

A Cebr report for Jersey Finance Limited

November 2019

Cebr

Disclaimer

Authorship and acknowledgements
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The report does not necessarily reflect the views of Jersey Finance Limited London, November 2019

Contents

1 Executive summary

Cebr has been commissioned by Jersey Finance to produce a piece of research analysing productivity in the finance sector in Jersey. The report examines what differentiates financial services firms in Jersey that are productivity leaders, from firms in the same industry that have more scope for improvement in terms of productivity.

The report analyses productivity using a number of measures including the globally recognised measure of the Gross Value Added (GVA) of economic output produced per Full Time Employee (FTE).

Key findings from the research include:

- The latest data from Statistics Jersey shows that in 2017, the GVA per full time equivalent employee in financial services as measured in real terms stood at £136,000 per year, down from £141,000 in 2016 and £206,000 a decade earlier (in 2017 values). This means that productivity growth has been negative on average over the past 10 years.
- Data released in October 2019 showed that productivity growth in Jersey's finance sector picked up in 2018, to 1% in real terms as measured by total GVA per full-time equivalent employee. For consistency and benchmarking purposes, the latest productivity statistics in the rest of the report are for 2017, unless otherwise stated. Also, any comparative figures are shown in the original currency of the source data.
- Productivity growth in the financial services sector is influenced by internal and external forces. External forces are those which businesses cannot control, such as the level of regulation. This report focusses on factors which businesses can control and provides evidence for the policies and recommendations which are proven to have a relationship with productivity.
- A survey of Jersey Finance members reveals that productivity leaders invested 9.4% of revenue in Research and Development (R&D) over the past three financial years on average, while productivity laggards (businesses with lower productivity) invested only 1.8%.
- Productivity laggards are much more likely to say that people at the company often have to work late into the evening or over the weekend, at 58% compared to 24% of productivity leaders.
- Productivity leaders are more likely than laggards to report that they offer significant performance-related rewards, at 35% of leaders compared to 25% of laggards.
- Senior decision makers at finance companies in Jersey advise other companies to invest in technology, with many quoting this as the key to their own success. Many additionally highlighted the need to recruit employees from a range of backgrounds.
- Some productive finance companies in Jersey collect data on the number of hours worked, and the productive output of each employee, team and company division. This means they are able to pinpoint areas of weakness, enabling them to address issues effectively.

- When compared to larger countries, smaller jurisdictions such as Jersey are often constrained by reduced talent diversity within their economies and therefore labour market competition which may directly impact on productivity growth.

Based on the findings of this research, Cebr has produced five key recommendations for companies looking to boost productivity:

1) invest in research and development;
2) update technology;
3) measure productivity at your business;
4) focus on employee wellbeing;
5) hire a diverse workforce.

2 Introduction

Following the financial crisis of 2008-2009, productivity has become one of the predominant topics for businesses in developed economies. The financial services sector in particular has struggled with lacklustre productivity growth in recent years as the industry was required to adopt more stringent regulation and capital requirements. The question of how to improve productivity is especially important for international financial centres such as Jersey, which compete for business on a global level. Besides increasing firms' competitiveness, higher productivity growth is also a desirable goal for the economy as a whole.

Productivity has been highlighted as a significant issue facing the local economy by the Fiscal Policy Panel in the States of Jersey in light of the ageing population which the island faces. In the 2015 Pre-Medium Term Financial Plan report, the Panel recommended that improving productivity should be an immediate priority, and ongoing improvements "will help to manage the fiscal consequences of an ageing society and make it more likely that Jersey's economy will grow in the future."[1]

More recently, the Government of Jersey's Proposed Government Plan 2020-23[2] reiterates the importance of productivity to Jersey by proposing to "work with industry to tackle the productivity challenge head on. In 2020, we will deliver a robust, evidence based economic policy framework to guide long-term economic planning and investment. Throughout the coming four years we will coordinate Government support for Jersey's different economic sectors, through a single Future Economy Programme. The programme will be focused on improving productivity across our established sectors of finance, agriculture, retail, hospitality and tourism, as well as emerging sectors such as digital."

Another reason productivity is of high importance is that without productivity growth, wages cannot rise for prolonged periods of time. If the amount produced by each employee does not rise over time, revenue growth per capita will not rise either, meaning that wage growth will stagnate. Therefore, living standards cease to improve, meaning future generations are less likely to be better off than current generations.

Despite its importance, general awareness of the productivity issue and efforts to improve productivity growth are frequently overlooked. This report analyses finance sector productivity in Jersey using official data and evidence from a survey of finance companies. Based on discussions with business leaders the report paints a comprehensive picture of what is being done to improve employee productivity, and what still needs to happen for firms to close the gap with productivity leaders.

1 States of Jersey, 2015 Pre-Medium Term Financial Plan report

2 Government of Jersey, Proposed government plan 2020-23, Page 56

3 Productivity trends among financial services firms in Jersey

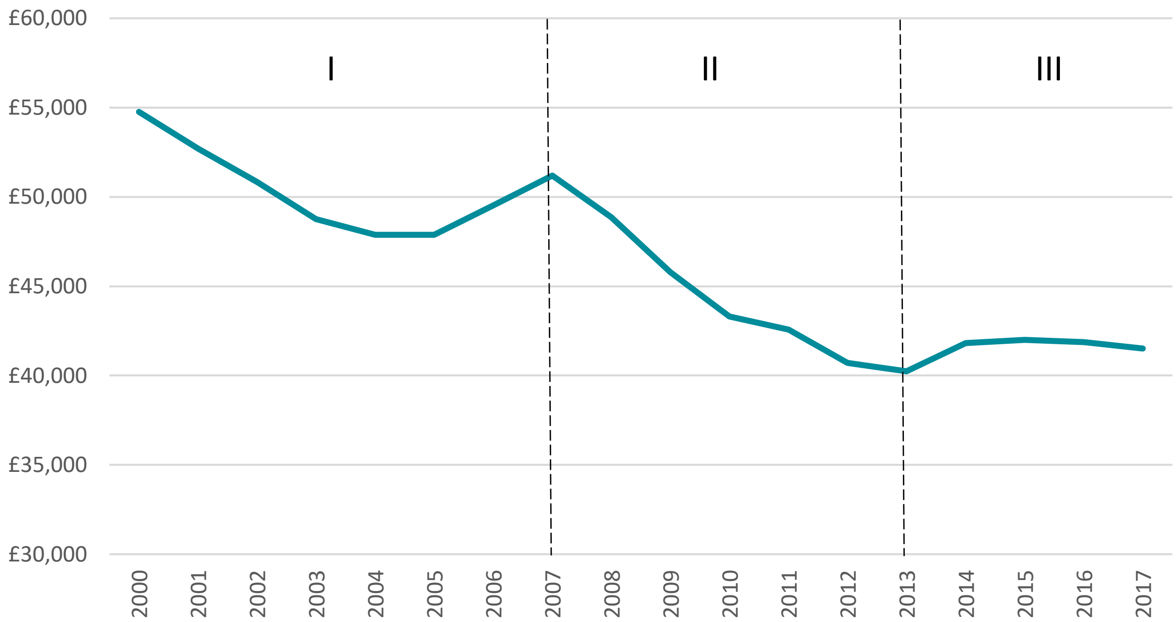
In this section, Cebr will comment on productivity developments in Jersey's financial sector over recent years. The chapter will further offer a view on factors that may be impacting the measure of productivity at industry and company size level.

3.1 Productivity trends and developments

The latest data show that in 2017, productivity measured by GVA output per capita across the whole Jersey economy was £41,520 per year. This is up slightly from a low of £40,240 per year in 2013. Productivity in Jersey has fallen since 2007, when GVA per person stood at £51,200.

Overall, the chart shows that productivity trends in Jersey can be divided into three periods: 2000-2007, 2007-2013 and 2013-2017. The first period forms a U-shape, with negative growth until 2005, before productivity improved in the lead up to the financial crisis. Between 2007 and 2013, productivity fell in every year. However, in the third period, output per person has picked up slightly and has plateaued around a value of close to £42,000 per year.

Figure 1: GVA per head of population, constant 2017 values



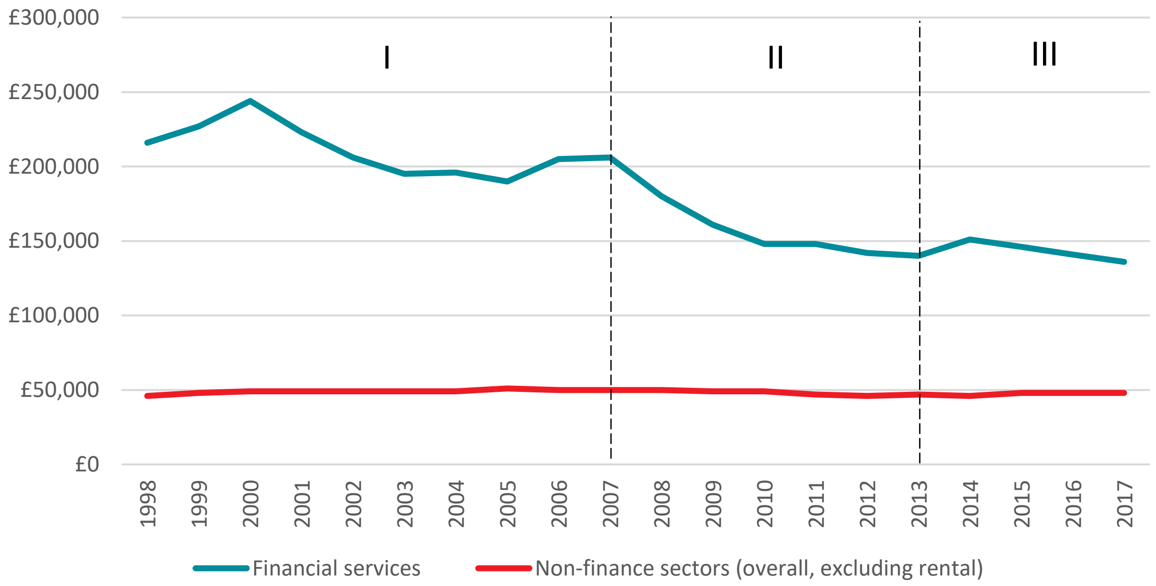
Source: Statistics Jersey, Cebr analysis

Changes in the overall productivity measured for all employees in Jersey are mainly driven by the financial services sector, where productivity far outperforms other industries. Furthermore, the finance sector makes up around two fifths of the Jersey economy, making it the island's biggest sector.

In 2017, the GVA per full time equivalent employee[3] in financial services stood at £136,000 per year, down from £141,000 in 2016 and £206,000 a decade earlier (in 2017 values). Meanwhile, this measure of productivity stood at £48,000 in non-finance sectors.

Productivity in non-financial sectors has hovered around the £50,000 mark for the last 20 years. In contrast, financial services productivity has fallen, from a peak of £244,000 in 1999 (constant 2017 values). Between 2016 and 2017 alone, financial services productivity fell by 4%.

Figure 2: GVA per full time equivalent employee in finance vs non-finance, constant 2017 values



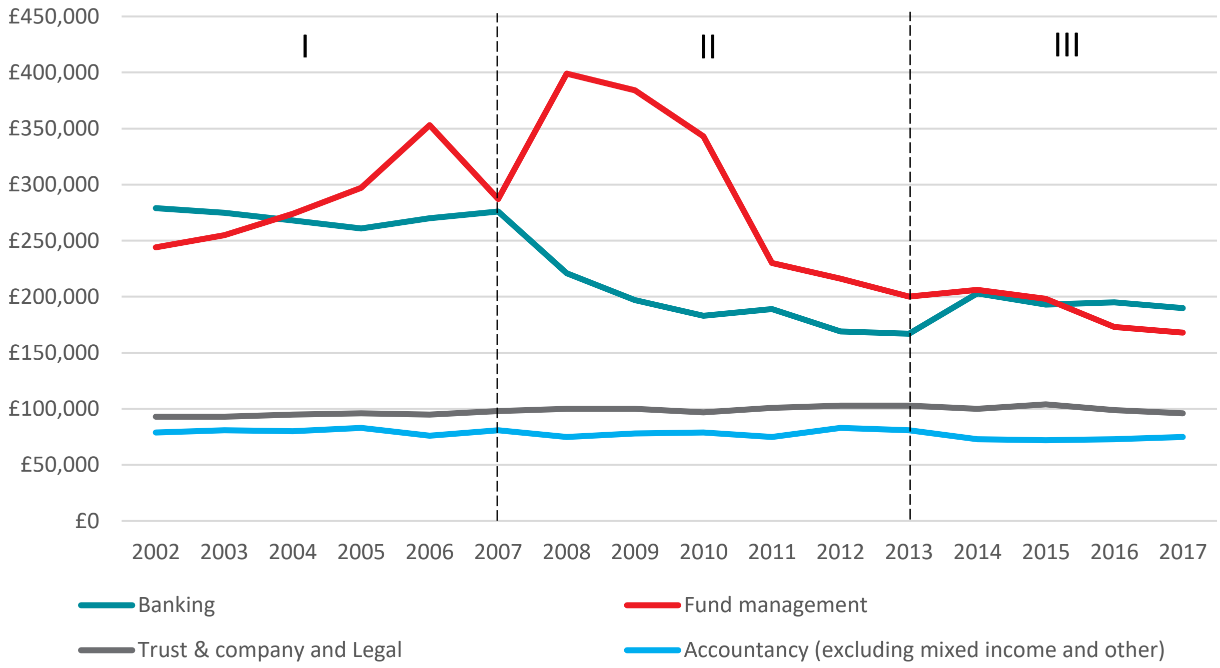
Source: Statistics Jersey, Cebr analysis

Studying the financial services subsectors in Jersey, it is the banking sector which demonstrates the highest productivity levels according to the latest data (2017), at £190,000 per year GVA for each full-time equivalent employee. Banking has, therefore, overtaken fund management, which was the most productive sector between 2004 and 2015, peaking at £399,000 in 2008.

3 Full time equivalent (FTE) is the number of hours contracted or worked, divided by the total standard full time hours for the relevant pay group.

The trust and legal as well as the accountancy sectors have relatively weaker recorded levels of productivity, with output per employee standing at £96,000 for employees in trust and legal and £75,000 for employees in accountancy. However, these are still significantly higher levels of output than the average across all sectors in Jersey. The relatively weak productivity compared to banking and fund management is most likely due to the different structural nature of the industries. However, more limited uptake of technologies could be an additional driver.

Figure 3: GVA per full time equivalent employee of finance subsectors, constant 2013 values



Source: Statistics Jersey, Cebr analysis

The large discrepancy between financial subsectors is partially down to structural differences. The financial services sector experiences productivity growth in two ways: firstly, by improving output per employee through increased efficiency and technology improvements (i.e. what is traditionally understood as productivity) and secondly, as a by-product of the financial intermediation services it provides to the rest of economy (i.e. productivity driven by external forces). For example, when there is greater demand in the economy for borrowing money, banking clients may decide to take out bigger loans, and so a finance sector employee may only have to exert the same amount of effort to make more profit. The headline productivity rate in the banking and fund management sectors is heavily driven by external forces such as the level of regulation, the interest rate set by the central bank, and the stage of the business cycle. Therefore, it must be acknowledged that efforts by companies to make employees as efficient as possible at their jobs will not necessarily show in statistics if external forces are offsetting these efforts.

3.2 Comparison of Jersey productivity to other jurisdictions

This section of the report analyses productivity trends, best practices and recommendations among global jurisdictions which are competitors to Jersey.

i) Guernsey

In 2017, Guernsey's finance sector had the highest factor income per employee, at £192,345, out of all the sectors in Guernsey.[4] While this measure is not directly comparable to Jersey productivity data due to methodological differences,[5] it highlights that the Guernsey economy sees productivity within a similar range to Jersey finance companies. Across the islands, GDP per person living in Jersey in 2017 was £40,790 compared to £49,040 in Guernsey.[6]

Productivity is a key area of policy focus in Guernsey, as highlighted by the 2018 Skills Guernsey Action Plan[7]. Among the policies and goals in the plan are the creation of an industry shift to recruit people with higher level qualifications, supporting work-streams through the Guernsey Digital Strategy to develop digital skills across all sectors, and supporting the promotion of the Guernsey Apprenticeship.

ii) Isle of Man

In the Isle of Man, the latest data from the World Bank show that GDP per capita (which here serves as a proxy for productivity) fell by 3% in 2016 to stand at $79,000 for all sectors of the Manx economy.

The Isle of Man enjoys a very low share of people being out of work, as unemployment stood at just 0.7% in June 2019.[8] However, this could be translating into the observed negative productivity growth, as employees do not have to compete for jobs as much as in comparable jurisdictions, due to the fact that there is a small pool of unemployed people to recruit from. This is likely to be a problem which is also prevalent in Jersey, as the number of people registered as actively seeking work across all sectors was just 820 in June 2019, out of a population of 106,800 (in 2018).[9]

4 Guernsey facts and figures 2018, States of Guernsey

5 The factor income definition differs slightly from the calculation for GVA. GVA is a measure of how much each sector contributes to the economy and if the household sector is excluded from that calculation the measure is referred to as factor income.

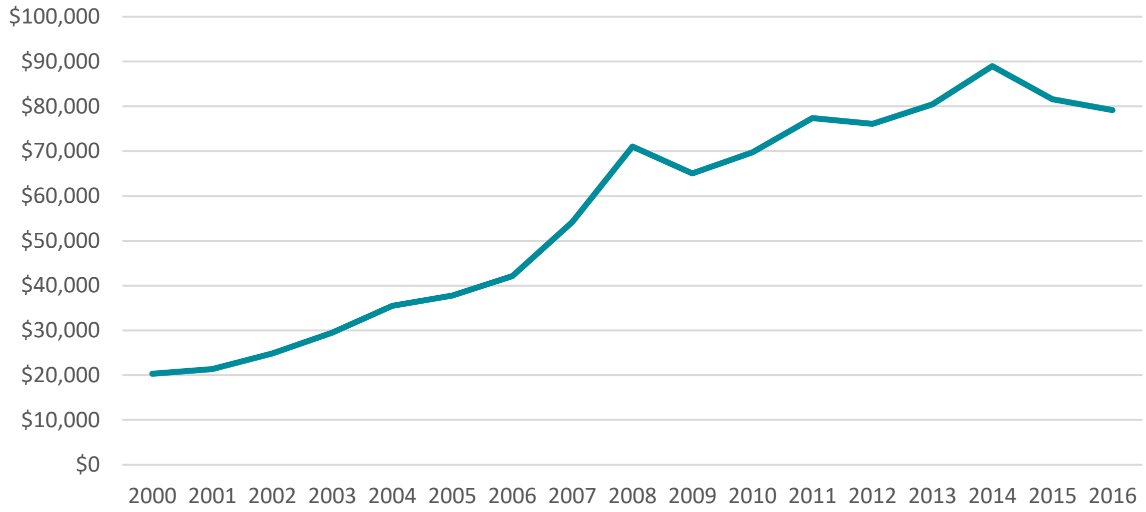
6 Measuring Jersey's Economy GVA and GDP- 2017

7 https://www.gov.gg/skillsguernsey

8 https://www.gov.im/categories/working-in-the-isle-of-man/unemployment/

9 Registered Actively Seeking Work - Second Quarter 2019, Statistics Jersey

Figure 4: Isle of Man productivity measured by GDP per capita, current US$



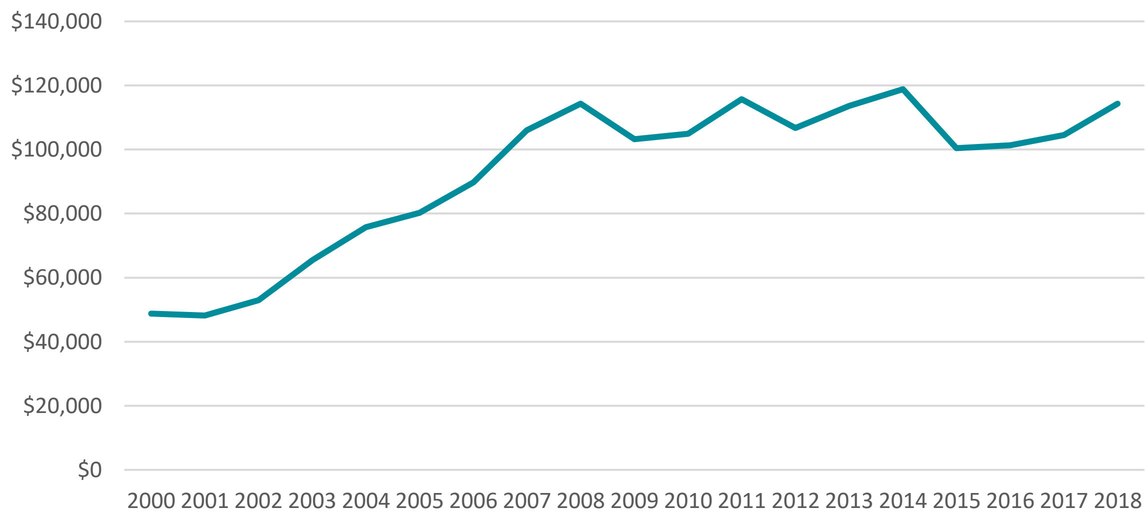
Source: World Bank, Cebr analysis

When it comes to policies for promoting productivity, the employment and skills group of the government services a wide cross section of the labour market, including training grants, apprenticeships and work placements. These improve productivity through increasing the capabilities of employees.

iii) Luxembourg

Productivity across all sectors in Luxembourg measured by gross domestic product (GDP) per capita increased to $114,000 in 2017. It has stood above $100,000 since before the financial crisis, last measuring below this benchmark in 2006, at $90,000.

Figure 5: Luxembourg productivity measured by GDP per capita, current US$



Source: World Bank, Cebr analysis

One factor which should be noted when considering Luxembourg's productivity levels, is the share of people who commute across the border into the country for work, as non-resident employees can significantly skew GDP per capita statistics. More than 45% of the people working in Luxembourg were cross-border employees in Q1 2019 which impacts the ability to make direct comparisons with jurisdictions such as Jersey which have a permanently resident workforce.

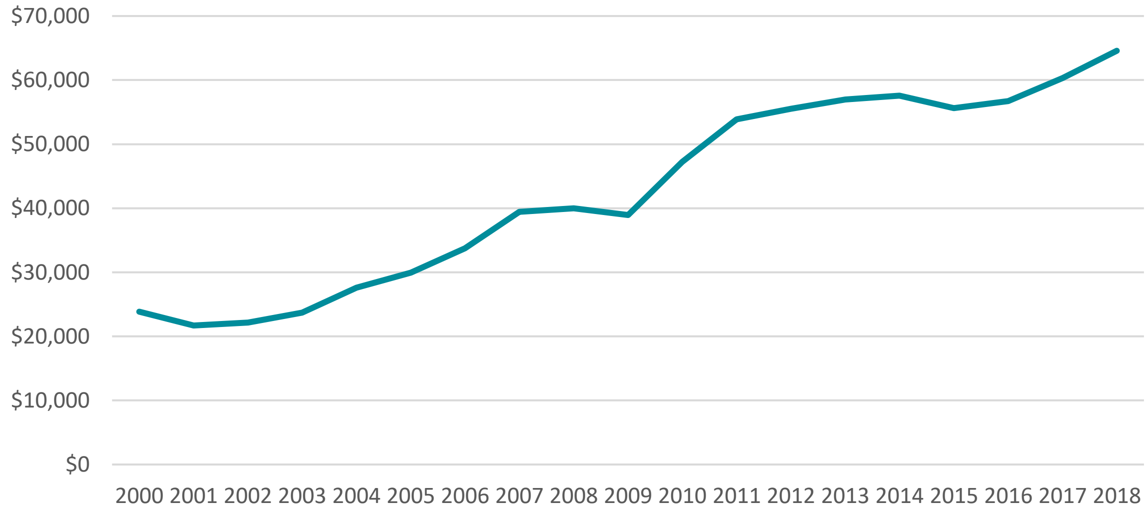
A more meaningful measure of productivity in Luxembourg is one which looks at labour working time. A recent study found Luxembourg to be the second most productive country in the world in 2018.[10] With a GDP per hour worked of $93.6, it came second only to Norway This measure of productivity is not skewed by cross-border commuters, since it looks at time worked, not the country's population. Part of the reason for Luxembourg's success is the high importance placed on promoting a work-life balance. Last year, the country decided to introduce two new types of paid leave and the introduction of time savings accounts in the private sector is meant to boost productivity.[11]

A further driver of Luxembourg's high productivity looking forward is likely to come from Luxembourg's National Productivity Board, the Conseil national de la productivité (CNP), which was created by grand ducal decree in September 2018. The organisation has the role of helping the government define the orientations and content of policies which support long-term competitiveness and productivity. It does this through analysis of data, conducting studies and interacting with other bodies and organisations.

iv) Singapore

In Singapore, productivity measured by GDP per capita across all sectors has increased in all but one year since 2010, falling by 3% in 2015, but seeing an average annual increase of 6% between 2010 and 2018.

Figure 6: Singapore productivity measured by GDP per capita, current US$



Source: World Bank, Cebr analysis

10 The Conference Board Productivity Brief 2019

11 https://www.eurofound.europa.eu/country/luxembourg

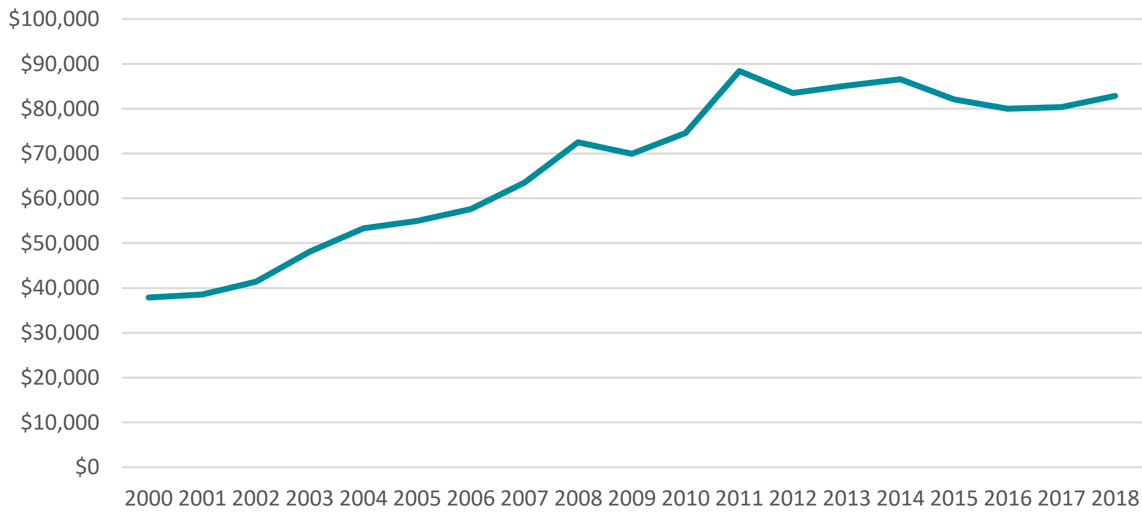
The Singapore Committee on the Future Economy report[12] highlights key policies for Singapore to promote innovation, a skilled workforce and productivity. Key aims of the report include deepening and diversifying international connections, strengthening enterprise capabilities to innovate and scaling up and building strong digital capabilities.

An article published by the Singapore Ministry of Trade and Industry considers productivity growth in recent years to have been held back by a shift in employment towards less productive sectors, such as construction and food and beverage services.[13] Therefore, a policy recommendation has been to continue with efforts to restructure the economy towards more productive sectors.

v) Switzerland

Productivity in Switzerland has stood above $80,000 since 2011, as shown in the following chart. The latest data from the World Bank shows that productivity stood at $83,000 in 2018, which is higher than in Singapore in that year, but lower than Luxembourg.

Figure 7: Switzerland productivity measured by GDP per capita, current US$



Source: World Bank, Cebr analysis

Despite standing at a comparatively high level, productivity growth has been sluggish in Switzerland. A recent OECD report identified that a priority should be to revive labour productivity in order to maintain high living standards.[14] The report highlights that there is room to improve skills and labour market outcomes of employees from poorer socio-economic backgrounds (especially migrants) and encourage their participation in continuing education and training. Furthermore, helping women to work full-time can reduce skills shortages.

12 https://www.mti.gov.sg/Resources/publications/Report-of-the-Committee-on-the-Future-Economy

13 Drivers of labour productivity growth trends in Singapore, 2014

14 Economic Policy Reforms 2019: Going For Growth

Overall, studying these competitors to Jersey highlights different policies and plans which could be considered as potential ways to improve productivity. Luxembourg's policy to promote a healthy work-life balance, Singapore's considerations of the importance of innovation and Switzerland's focus on employees from poorer socio-economic backgrounds are all useful ideas to improve productivity, which could be explored in Jersey. When considering changes such as these however, it should be noted that there are differences between the jurisdictions analysed in this section and Jersey. For example, Jersey has a relatively small population compared to Luxembourg, Singapore and Switzerland, which is likely to result in a relatively homogeneous talent pool, given that there are fewer people in total to offer diversity in the workforce. This could be holding back productivity growth in Jersey and would not be an issue in larger jurisdictions.

3.3 Factors affecting productivity

Productivity - output per employee or hour worked - is influenced by many factors. In this section some of the most interesting and important factors for the finance sector in Jersey will be summarised, according to previous reports and economic theories, ahead of the findings from Cebr's analysis in the next section.

Jersey's Fiscal Policy Panel has highlighted a lack of innovation as a possible cause of the weak productivity growth that has been observed over recent years. The Jersey Innovation Review[15] suggests that the lack of local universities and research institutions and Jersey's industrial structure mean that its domestic knowledge assets are limited. Therefore, curating innovation is more of a challenge in Jersey than for regions with closer ties with research institutions and universities.

Similarly, the education levels of the workforce suffer as a result of Jersey having limited access to educational institutions, which can have an impact on productivity. In order to become more efficient, the financial sector demands ever improving skills of its workforce, which means that without the education and training institutions to address those needs, productivity suffers. While training is provided by most workplaces, if the workforce starts out with a lower educational base compared to other jurisdictions, as a result of the limited access to educational institutions, this can impact the pace of any improvements.

Another factor which affects productivity in Jersey, as with many other financial-sector dominated regions, is regulation. Regulation is likely to have had a significant effect on productivity since the financial crisis. Many compliance roles were introduced to financial institutions in reaction to regulation which was set up and enforced after the financial crisis. Since these roles are non-revenue generating, they lower the average output per employee at the business. In addition, capital requirements from regulation limit profitability, although this is not necessarily the case for all financial services businesses. Capital requirements make sure that regulated institutions hold enough capital to ensure continuation of a safe and efficient market and are able to withstand any foreseeable problems. They limit the extent to which banks can invest and make money, resulting in raised costs.

15 Jersey Innovation Review, September 2015, Tera Allas

Having up-to-date technology is key to raising the productivity of businesses in the financial sector and ensuring firms remain competitive.[16] However, spending on new technology only leads to productivity increases if it is used well. Firms which don't invest in their employees having the skills to make the most of the technology available to them could be wasting money on technology which is not used, or is only used in one out of several ways which could improve the output of employees. Therefore, investment in technology needs to be carried out in a considered way and accompanied by adequate training of the workforce, a point which was highlighted by business decision makers in the case study section of this report.

In general, for smaller companies, Cebr considers it likely that a limited access to finance in order to invest in new technology is a significant factor which limits productivity growth. Larger companies, on the other hand, generally have better access to finance. They can, however, experience drags on productivity which come about as a result of bureaucratic processes typical of large organisations. For example, a Harvard Business Review survey of over 7,000 participants found that people spend on average of 28% of their time on bureaucratic chores such as preparing reports, attending meetings, complying with internal requests, securing sign-offs and interacting with staff functions.[17] Given that it is much more likely for employees to receive internal requests and require sign-offs at larger organisations, the time taken for these tasks will increase in line with organisation size.

Some of the biggest forces driving revenues in the finance sector differ by financial subsector, and can be external to the business. Banking is particularly affected by the level of interest rates set by the central bank, and also by the stage the economy is in within the business cycle. For example, in a recession, profits will be significantly affected by an unwillingness of potential borrowers to do business.

16 Stiroh, Kevin J. "Information technology and the US productivity revival: what do the industry data say?." American Economic Review 92.5 (2002): 1559-1576.

17 Harvard Business Review, What We Learned About Bureaucracy from 7,000 HBR Readers

4 What it takes to be a productivity leader

In order to establish what distinguishes a 'productivity leader' from a 'productivity laggard', in this section of the report, data from a survey designed by Cebr and sent to Jersey Finance members is analysed.

30 responses to the survey were received.

4.1 Methodology

The first part of the survey posed questions regarding the average number of full-time employees as well as revenue each year over the past three. Analysing data over the past three years rather than just the most recent year ensures a more accurate picture of a firm's productivity, in case some of the surveyed firms have had a particularly strong or weak year. These statistics allow us to calculate the productivity of each business.

The average productivity level of each business which responded to the survey was compared to the average for all finance businesses in Jersey, using Statistics Jersey data, in order to divide the respondents into leaders, which have above average productivity, and laggards which have below average productivity.

In the second section of the survey, questions focussed on establishing other characteristics of the business, which enabled Cebr to find characteristics that are most dissimilar between high productivity firms and low productivity firms. These characteristics are outlined in the following commentary.

4.2 Survey results: leaders v laggards

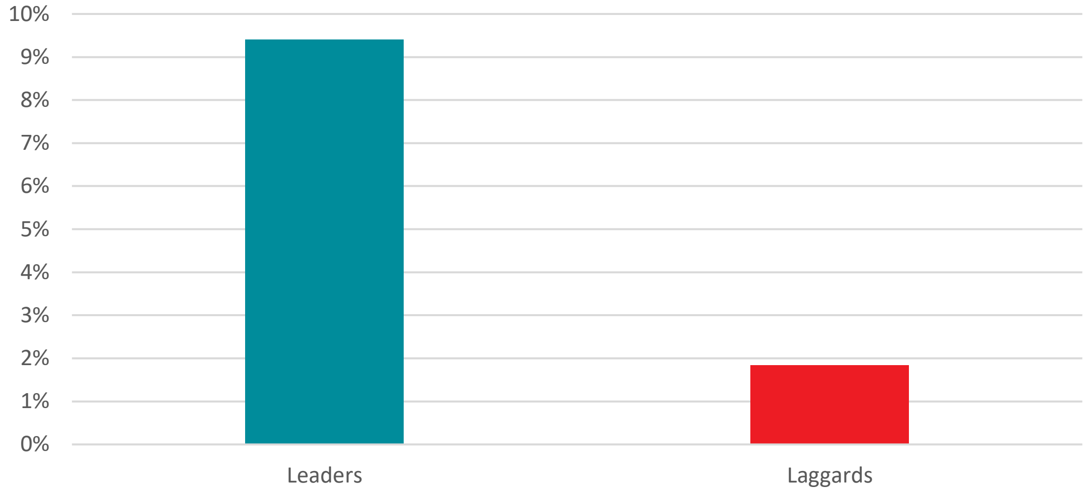
The first key difference between finance businesses in Jersey with high productivity and low productivity is investment in research and development (R&D).

The survey results show that productivity leaders which invest in R&D on average invested 9.4% of revenue in R&D over the past three financial years, while productivity laggards invested only 1.8%.

Therefore, higher productivity is associated with a higher share of revenues going towards R&D.

We should consider the fact that causation could flow two ways, as it could be that the higher investment in R&D is what results in the better productivity performance. On the other hand, businesses which are already more productive could be investing more in R&D because they have more money spare to do so. However, the trend for higher investment is not as strong when dividing businesses by highest and lowest revenues, rather than productivity levels. This suggests that businesses with more income are not always the ones putting the most towards R&D. Rather, investment in R&D is indeed having a positive impact on productivity.

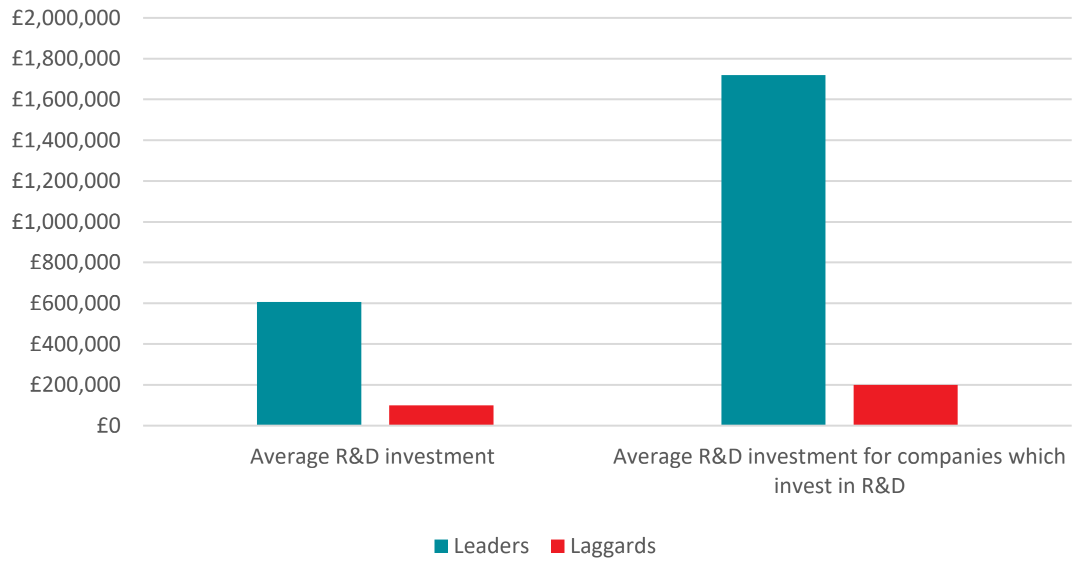
Figure 8: R&D investment as a share of revenue for companies which invest in R&D



Source: Cebr survey of Jersey Finance members

Cebr also studied the absolute value of R&D investment for productivity leaders versus laggards. It was found that the average investment for all leaders was £607,000 annually (3.3% of revenues on average), while the average investment for laggards was far lower, at £100,000 (0.9% of revenues). Once businesses which said they do not invest in R&D are removed from the sample, leaders invest £1,720,000 per year (9.4% of revenues), and laggards invest £199,000 (1.8% of revenues).

Figure 9: Value of R&D investment, average amount per annum

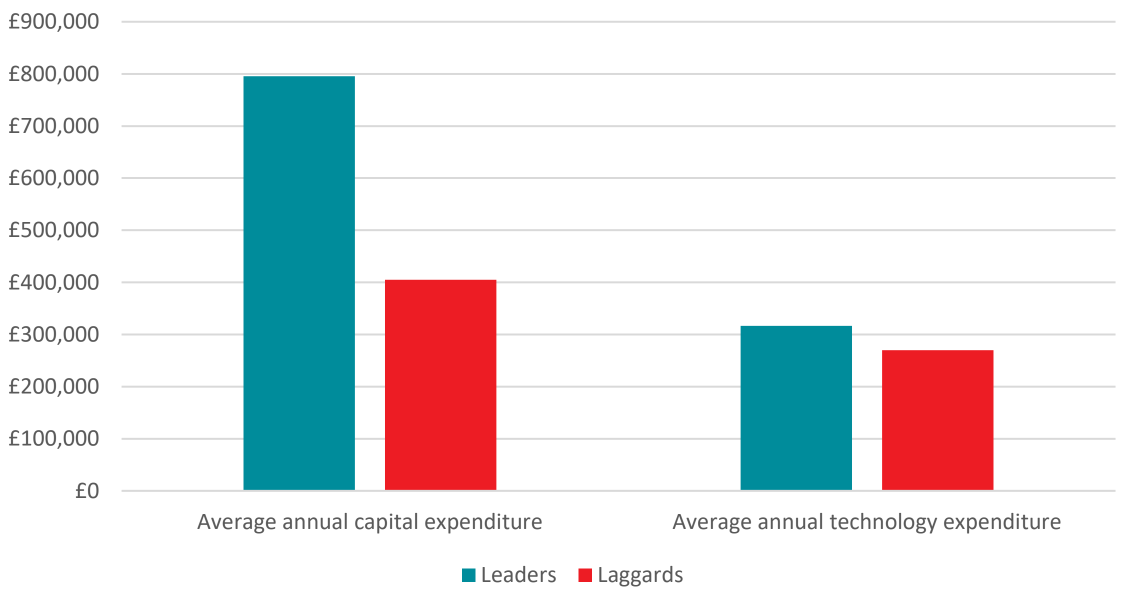


Source: Cebr survey of Jersey Finance members

The reason R&D investment (e.g. spending on developing new products or internal processes) could be improving productivity is that it often results in higher value outputs and frequently improves efficiency of processes. For example, finance companies which invest in house in developing new technologies that allow clients to fill in virtual forms rather than hard copies, improve efficiency because employees don't have to take the time to transfer the client's information from paper to an electronic version.

Moving on, we also identify capital expenditure as an important influence on productivity. Capital expenditure can be thought of as spending on the acquisition, upgrading and maintaining of physical assets such as property, buildings, and technological equipment including hardware and software. This differs from R&D investment because capital expenditure can be purchased 'off the shelf' while R&D expenditure is on the development of specific new products or processes. On average, leaders invest £796,000 per year in capital (equating to £15,000 per full time employee), of which £317,000 is on technology. Meanwhile, laggards invest less, at £405,000 per year on average (£6,000 per employee), of which £270,000 is on technology.

Figure 10: Average annual capital expenditure and technology expenditure



Source: Cebr survey of Jersey Finance members

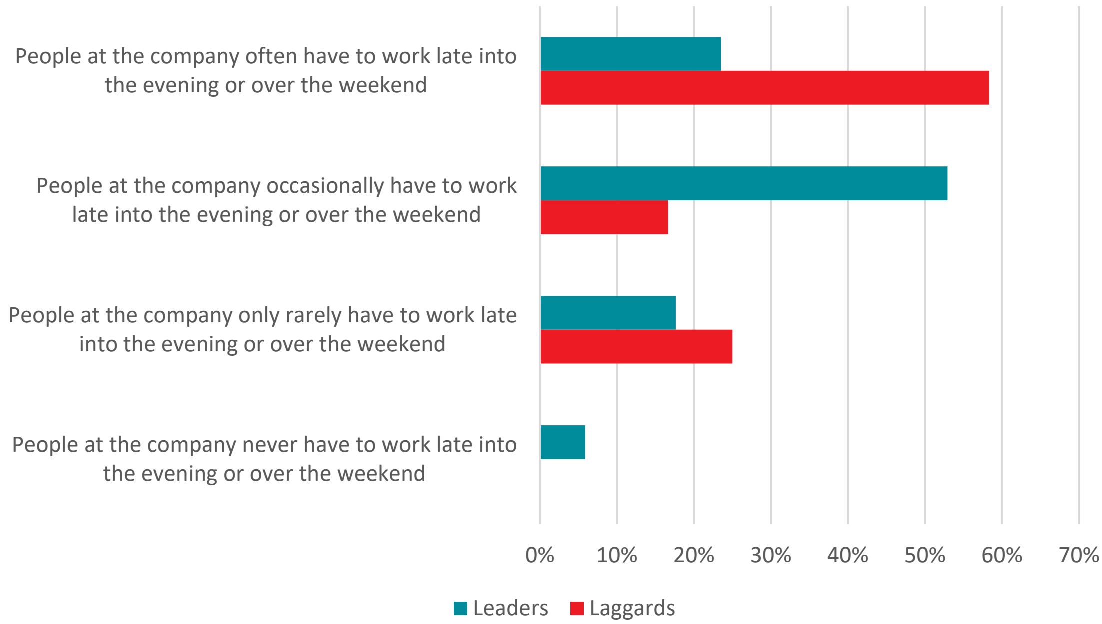
Similarly, to R&D, technology expenditure can have a significant positive impact on productivity when used effectively. General improvements in communication technology as well as advancements in more specialised hardware and software, including artificial intelligence and automation, has made it possible for office employees in the finance sector to complete more in a working day than ever before. However, a pitfall of spending on technology is that if employees do not take the time to understand how it works, then the large investment required to purchase many forms of IT equipment can easily go to waste.

Businesses investing in technology should also dedicate time and money to training and adoption of new technologies amongst employees to ensure they are making the most of their spending.

Turning to another factor which may affect the productivity of businesses, the survey results show that for a typical full-time employee, productivity leaders contribute an average of 5% of pre-tax income to a pension scheme, while laggards contribute less, at 4%. Although the difference is only minor, academic literature also supports the link between pensions and productivity. All pension types are valued more by employees who are concerned about their future incomes. Economic research papers have suggested that such forward-looking employees are more productive long-term employees.[18] Therefore, offering higher pensions can attract higher productivity employees. Furthermore, happier and more financially secure employees will be less burdened by the concerns of future financial planning and more able to focus on the task at hand, resulting in higher productivity levels.

The survey of Jersey Finance members also revealed that productivity laggards are much more likely to say that people at the company often have to work late into the evening or over the weekend, at 58% compared to 24% of productivity leaders. Although, a higher share of productivity leaders did say that people at the company occasionally have to work late into the evening or over the weekend.

Figure 11: Working patterns of employees



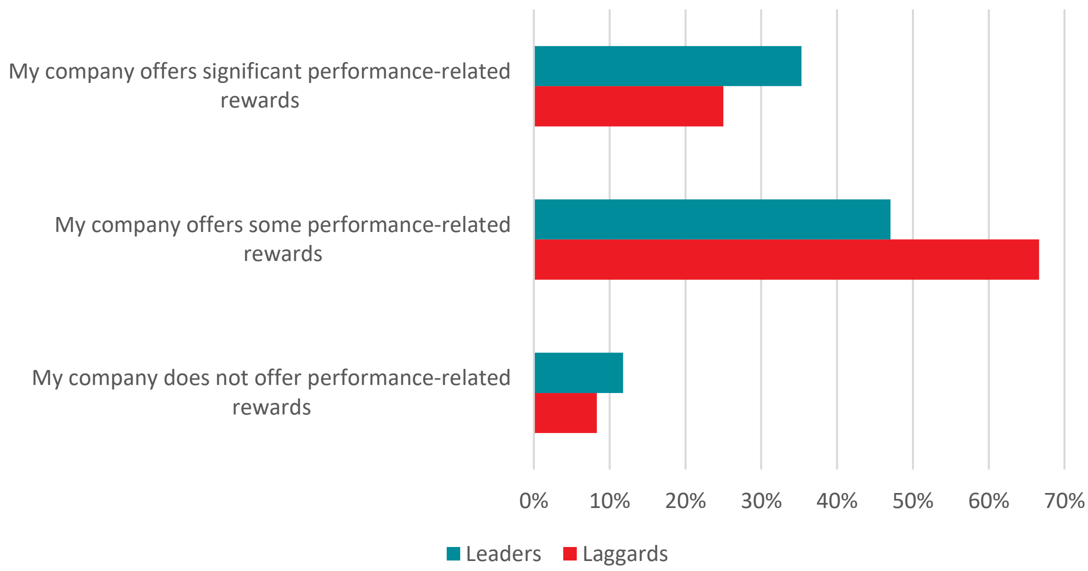
Source: Cebr survey of Jersey Finance members

18 Dorsey, Stuart, Christopher Cornwell, and David Macpherson. *Pensions and Productivity*. WE Upjohn Institute for Employment Research, 1998.

There are two opposing forces that affect productivity when employees work longer hours. First, longer hours could result in higher productivity if an employee faces fixed costs including the time to set-up for work and also if longer hours lead to more effective usage of capital goods, such as machinery. On the other hand, employee fatigue could set in after a certain time period during the day, meaning that the marginal effect on productivity of an extra hour worked starts decreasing.[19] In the finance sector, fixed set up costs that could affect productivity are fairly limited compared to other sectors, as for example, there is less prevalence of complex machinery which takes time to turn on and complete safety checks on than in manufacturing and production sectors. While work in the finance sector in Jersey is unlikely to be associated with any significant physical fatigue, as would be the case in non-office based work, it is likely that many employees will experience mental fatigue which causes their productivity to diminish over the course of the day. Therefore, it would be expected that regularly working late into the evening and over the weekend would cause average productivity to fall.

Productivity leaders are more likely than laggards to report that they offer significant performance-related rewards, at 35% of leaders compared to 25% of laggards. Although laggards are more likely to say that they offer some performance-related rewards.

Figure 12: Usage of performance related rewards



Source: Cebr survey of Jersey Finance members

19 Collewet, Marion, and Jan Sauermann. "Working hours and productivity." Labour economics 47 (2017): 96-106.

Offering at least some form of financial performance incentives is fairly common practice in the finance sector. However, the impact on productivity is uncertain. On one hand, when people are offered more money for a better performance, it incentivises them to work harder in order to meet the requirements for a bonus, therefore increasing the productivity of that employee. In a widely cited paper, Lazear (2000) finds that offering performance (piece rate) pay significantly improves productivity, since employees with higher abilities (who can produce more per hour) are attracted to businesses where they are rewarded for their higher capabilities in the form of higher pay.[20] Yet, other evidence often finds that the results of providing financial incentives can vary, especially for when work outcomes are not clearly defined (i.e. when performance is subjective), which can be the case for employees in financial sector businesses. Furthermore, many employees struggle to be motivated over long periods of time by money,[21] and factors such as job enjoyment can be far more important for productivity.

Turning to some of the less expected survey findings, neither the amount of annual leave, nor the recruitment efforts of a firm displayed a meaningful relationship with productivity. One possible explanation for why recruitment efforts are not correlated with productivity could be the limited population of the island. This is likely to result in a fairly small spread of skills in the financial sector amongst the pool of labour, compared to a financial centre with a larger population such as London. Therefore, when financial services companies are recruiting in Jersey, the relatively homogeneous talent pool means that a different level of recruitment effort does not have a huge influence on the skill set of the person hired.

When it comes to flexibility of work, a similar proportion of leaders and laggards said that their company is somewhat flexible in terms of where and when people work, although a much higher share of laggards said that they are very flexible in terms of where and when people work. While for some, allowing employees to work from home is a management decision, for others, the structure of the business will not allow it. For example, some productive businesses are not able to be flexible when it comes to where people work, due to confidentiality reasons or if work can only be completed on-site. Therefore, it is possible that there is a relationship between flexibility of work and productivity, but we were not able to measure it in this survey.

A higher share of productivity laggards said that they are very committed to providing frequent and in-depth training for new and existing staff. It could be the case that there is a point at which there is too much training, and it becomes a bureaucratic process, rather than a tool through which to raise productivity. Another reason could be that laggards have a higher employee turnover, meaning that more regular training for new employees is required.

20 Lazear, Edward P. "Performance pay and productivity." *American Economic Review* 90.5 (2000): 1346-1361.

21 https://hbr.org/1993/09/why-incentive-plans-cannot-work

5 Views from business

Cebr and Jersey Finance selected six finance sector businesses in Jersey to have a discussion about issues such as specific strategies for boosting productivity, their approach to staff training and what limits productivity at their business. In this section of the report we outline the key take-aways from these conversations. Interview participants were selected because they are especially proactive in enhancing productivity at their firms.

5.1 Case study: Hawksford

Hawksford is an international provider of corporate, private client and funds services. It delivers services to large and multinational corporates, FTSE listed companies, and SMEs as well as entrepreneurs, high net worth individuals and intermediaries.

Cebr spoke to Michel van Leeuwen, Group Chief Executive at Hawksford about the firm's experiences with regards to productivity. What is detailed below is a summary of his thoughts.

Actions taken to date

The essence of the strategy for boosting productivity at Hawksford is through 1) measurement and 2) management.

The business manages to have a clear grasp of productivity per person and also per division and department. This is also the case for the organization globally. This is achieved to such a detailed extent because of the billing structure of the company. Records are made on delivery of services to clients and time spent on each client, meaning that it is possible to have records of productivity, and identify causes of weak productivity in the business.

When an individual's or division's productivity is lagging compared to the levels of gross profit or productivity utilization in the rest of the business, Hawksford reacts in different ways, depending on the cause. If they find that the service being provided is not well understood by the staff they can enhance the knowledge level of those employees through learning development and training.

In terms of other policies, the company ensures that everybody has targets which they are aware of, and considers technology usage and implementation to be important. Hawksford also offers soft incentives (e.g. gym membership) to ensure that employees are well rested and healthy.

Factors which limit productivity

The size of the island's talent pool is considered to be a significant limiting factor when it comes to productivity. The demand for labour qualified to work in the financial sector in Jersey is high, meaning that if people are unhappy or struggling at one company, they will find it relatively easy to move to another. This results in unproductive staff being able to find employment fairly easily, which in some cases reduces the incentive to improve.

Another factor highlighted by van Leeuwen is the fact that many employees in the finance sector in Jersey come from a law or accounting background, meaning that the training they have received has not necessarily developed technology as an area of strength. Therefore, employees may require significant retraining to build up the skills required for them to be productive in their roles at the company. In addition, van Leeuwen's background in technology means that he feels it is much more of a focus for him than for his competitors.

Advice to businesses and the government

- **Access to talent**. Continued access to talent would ensure that a range of skills, abilities and backgrounds are available to businesses for employment, ensuring a diverse mix of abilities and skills.
- **Focus on hiring new graduates and having an internship programme.** Individual businesses can ensure that they are hiring the best talent by providing training from the start of new graduates' careers.
- **Have an in-house learning and development programme.** This ensures that when individuals are identified within the company as having weak levels of productivity, training can be tailored towards their needs.

5.2 Case study: LGT Vestra

LGT Vestra is a provider of wealth management services to private clients, companies, charities, trusts and financial intermediaries.

Cebr spoke to Dan McAlister, CEO (Jersey) about the firm's experiences with regards to productivity. What is detailed below is a summary of his thoughts.

Actions taken to date

LGT Vestra considers technology to be an area of particular importance for the business when it comes to productivity policies. While it requires significant time and financial investment to create the technological systems that work best for the business, the productivity payoff can be considerable.

LGT Vestra offers various incentives in order to improve the physical and mental wellbeing of staff, and therefore raise their productivity, such as mindfulness courses, massages and yoga. When it comes to financial incentives to raise efficiency, the company has a teamwork-style approach, as employees receive bonuses from a centrally accrued bonus pot which is divided between both non-revenue generating staff and revenue generating staff. LGT Vestra sees this system as promoting collaboration and the ability of staff to work together to produce the best outcomes for the business.

Factors which limit productivity

Some employees don't have the skills required to meet the productivity levels of counterparts who are more familiar with the latest technologies and work practices. However, education and training can help with this.

Some staff may also be limited by being in a role that they do not find interesting or stimulating, and if they are not reallocated to a task that fits their skills better – be it more analytical or interpersonal – then it will significantly affect their output. Therefore, in some cases it is better to move people to a different role than retrain them.

Advice to businesses and the government

- **Encourage teamwork**. Over-competitiveness can create an unhealthy work environment in some circumstances, which can lead to low productivity.
- **Judge what skills employees possess and give them roles accordingly.** If a person is put in a position which does not match their skills and abilities, it will limit their productivity. In smaller companies, it is especially important to focus on recruiting the right people for the right roles.
- **Limit bureaucracy where possible.** Many larger companies find themselves limited (in terms of efficiency) by bureaucratic processes.

5.3 Case study: PricewaterhouseCoopers

PricewaterhouseCoopers (PwC) provides clients with a broad range of Assurance, Advisory and Tax services, advising global and local organisations in all sectors of the financial services industry.

Cebr spoke to James De Veulle, FS Director and CI Banking Leader, Jersey, PwC Channel Islands, about the firm's experiences with regards to productivity. What is detailed below is a summary of his thoughts.

Actions taken to date

PwC has made significant investments in areas such as property, people policies and technology to address staff wellbeing, employee productivity and audit quality. These areas are inextricably linked and finding a balance between them can be hard, and may differ from situation to situation. PwC uses technology and software sourced both in-house and also through leveraging global players for certain cloud-based solutions. Human resource efforts at PwC are very focused on flexibility, inclusivity and the wellbeing of employees.

For an accountancy firm, staff training is very important. PwC recruits substantial numbers of graduates and school leavers who undertake a training contract over a three year period. Qualified staff undergo at least ten days of training per year in order to stay on top of industry and methodology developments, the objective of which is to ensure that PwC's work is of high quality and that they deliver the right end product to clients. Whilst the focus of PwC's training is on quality, as an added benefit it can also have a really positive impact on staff productivity.

Culture, wellbeing and flexibility are cornerstones of PwC's human resources efforts. "Tone from the top", significant support and beneficial schemes (such as specialist sessions on managing stress, eating well and mindfulness, the provision of dedicated stress support lines, gym membership schemes, etc.) and a focus on good work-life balance are strongly encouraged and indeed monitored. PwC focuses on ensuring that <u>all</u> of their policies are designed with flexibility and inclusivity in mind, and creating this culture can be the most direct route to getting the best out of every employee: if people feel they belong, enjoy their roles, are recognised and rewarded, and can see progression and development opportunities they tend to perform well and stay loyal.

The use of technology, through ensuring digital fitness and also a "mobile first" approach, facilitates this flexibility and ensures that staff have the ability to utilise the technology tools at their disposal fully, and it's pretty clear that embracing technology is a key aspect to forward-looking productivity.

Factors which limit productivity

A key factor which limits productivity is distraction. While PwC has invested significantly in the physical work environment to promote collaboration and wellbeing, employees can be distracted by other people and conversations going on around them. To address this, as well as dedicated meeting rooms around the working area, PwC also has a number of collaborative 'booths' (including some soundproofed ones) where group/team discussions can be held, or phone calls made, without disturbing others.

Similarly, the technological improvements which boost productivity can sometimes also limit it. For example, PwC's "mobile first" policy whereby staff no longer have landlines which facilitates employees in working remotely from almost any location, also means that people have mobile devices at work which can lead to distractions. Whilst there are procedures and monitoring controls in relation to these, this can lead to occasions where a staff member is not as focussed on their work tasks as they should be. This is sometimes described as "presenteeism" and refers to people being physically present, but having other matters on their mind which can reduce productivity.

Advice to businesses and the government

- **Recognise the issues**. The first step to solving productivity problems is to identify the sources of weak output per employee and find a way to measure them. After this, a framework can be built to help solve the issues
- **Be flexible; what is your unique combination of initiatives?** You need to find your productivity combination – organisations can tackle productivity by selecting a number of initiatives that influence each other, and those that complement each other will deliver the greatest results
- **Understand that there is no 'one size fits all' approach to understanding and assessing productivity**. Productivity growth has been a challenge for a number of years, and finding ways to address this issue will take considerable time and effort

5.4 Case study: RBS International

RBS International, formed in 1996, is headquartered in Jersey. It provides banking services to private, commercial and financial institution customers in Jersey, Guernsey, the Isle of Man and Gibraltar. It also supports financial institution customers through new branches in Luxembourg and London.

RBS International is very committed to providing frequent and in-depth training for new and existing staff, is very flexible in terms of where and when people work and contributes 10% of pre-tax income to pension arrangements for its employees.

Cebr spoke to Andrew McLaughlin, CEO of RBS International, about the firm's experiences with regards to productivity. What is detailed below is a summary of his thoughts.

Actions taken to date

RBS International has three key strategies that result in improved productivity.

First, it deploys a "zoom-in/zoom out" lens on the business. The zoom out is a 10-year vision for the business, centred on leadership, culture and automation. Alongside this it has an annual plan of business goals. Only actions that carry the business towards its 10-year vision can be put into the annual plans. Automation and digitalisation are seen as a single switch for three lights. Firstly, an improved customer experience, making banking as hassle-free as possible. Next, an improved colleague experience because when data is part of a single platform or system, colleagues can be much more responsive and innovative. And the third switch is improved risk management and operational resilience – essential in higher risk jurisdictions.

Second, RBS International has a workplace plan which involves assessing colleagues against the critical capabilities that are likely to be required as the business moves to a more digital and automated business model. Furthermore, the business is also working on redirecting development plans, recruitment and investment towards ensuring that it is able to evolve as the economic climate changes.

RBS International's third strategy that results in improved productivity is the leadership and culture programme that runs across the business. Each manager has to work their way through a four stage programme which is focussed on leadership and management techniques that stimulate higher productivity. They recognise that the deployment of digital technology improves transactional efficiency and customer advocacy but doesn't deepen the customer relationship enough. That depth will come from leadership and culture.

Factors which limit productivity

The impact of legacy systems and processes on the way people work can limit productivity. For example, due to legacy issues the business may be relying on multiple systems in the technology architecture to form a view of a customer in terms of a transaction or regulatory requirement, which takes up considerable amounts of time.

Many finance businesses in Jersey are also limited by the fact that they are branches, and so managers may not have the decision making power to invest in technologies or methods to improve productivity. These factors may have contributed to a culture of acceptance which militates against productivity gains. In McLaughlin's experience, they have been a little too content when things seem okay. It is now the reality of global competition that okay is not okay if you aspire to market leadership.

Advice to businesses and the government

- **Invest in new technologies**. Jersey is a remote location; many customers will not build up personal relationships with finance companies located there. Therefore, improving the customer experience through investing in responsive technology is paramount to raising revenue and productivity.
- **Create capable leaders.** Leaders need to recognise the importance of updating the business model including its leadership and management techniques to fit a changing economy.

5.5 Case study: UBS

UBS is a global supplier of general and private banking. It is a multinational investment bank and financial services company founded and based in Switzerland.

Cebr spoke to Tom Hill, Managing Director, Group Country Head, UBS Jersey about the firm's experiences with regards to productivity. What is detailed below is a summary of his thoughts.

Actions taken to date

A key way that productivity is promoted at UBS Jersey is through clearly defined processes. This is particularly applicable to roles where tasks are highly repetitive, meaning that it is possible to waste a lot of time by not explaining to somebody the process that they need to follow and making certain that the process itself is efficient.

UBS Jersey trains employees to ensure they are able to complete their tasks to the best of their ability, also ensuring that the right people are employed in the right roles in the first place, so people are not overqualified, or underqualified for their role.

Gradually replacing repetitive tasks with automated processes is also central to productivity, and can result in more accurate and organised work.

Overall, UBS Jersey considers good management the most important way to influence productivity, as employees know what they should be working on, how to do it and are allocated the right roles.
Therefore, investment in line manager training is a significant driver of productivity.

Factors which limit productivity

One factor which can limit productivity is financial services businesses not utilising the available technology in client-facing operations, thereby limiting revenue streams.

Another factor which can limit productivity is the size of the workforce in Jersey, as employees do not have to compete for roles as much as in other locations with a sizeable financial sector.

ADVICE TO BUSINESSES AND THE GOVERNMENT

- **Recruit carefully** and in particular recruit people who are capable of constant learning improvement and self-development, since work in the finance sector continuously evolves.
- **Make certain that middle management are effective leaders**. Line managers need to make sure that employees understand what they are supposed to be doing, so that they don't waste time.

5.6 Case study: Family office with a presence in Jersey

Cebr spoke to the Chairman of a family office with presence in Jersey about the firm's experiences with regards to productivity. What is detailed below is a summary of their thoughts.

ACTIONS TAKEN TO DATE

As with other financial services businesses, staff work using timesheets, meaning that assessing productivity of individual employees as well as comparisons between jurisdictions is possible, and allows the business to measure productivity without collecting data specifically to do so.

The company also operates a supervision system to understand what is happening in each team. Therefore, if a person fails to be productive, after allowing for a certain period of time for them to understand the processes in the company, they can carry out a formal performance assessment. This involves allocation of mentors who can advise and oversee the employee, and help them to understand work product flows.

More than 1 in 10 employees at this business are in IT, with a large number of programmers in order to automate as much of the work as possible. This enables productivity increases over time as mundane, routine tasks are gradually completed by technological processes. There is a dedicated team at the company which is constantly looking at business processes to see if it would be possible to unpick and digitalise them, or at least make them quasi-digital, to make the most of the available technological capabilities.

FACTORS WHICH LIMIT PRODUCTIVITY

The family office operates in the very high-net-worth sector, meaning that clients demand confidentiality. Therefore, agile working or working from home is very difficult given their clients' sensitivity. This results in most employees, in particular junior staff, not being able to work away from the office, which could be limiting productivity.

Productivity in the finance sector is also hugely impacted by bureaucracy. This is due to the fact that there is significant regulatory overlay. Although this is necessary and cannot be changed, it is also a significant drag on the efficiency of businesses in the sector.

Advice to businesses and the government

- **Invest in education of the general population.** Jersey employees have relatively weak productivity compared to employees for the business in other jurisdictions. This can be attributed to multiple factors, however differences in the education systems can mean that employees are less well prepared for the business environment than in other countries. For example, in Switzerland, the education system focusses more on giving people experience in offices before starting full-time employment.
- **Hire a diverse workforce**. Difficulties when it comes to hiring foreign employees mean that there is a shortage of skilled employees in Jersey. Hiring from abroad not only reduces this problem but also creates a diverse cultural environment which can foster creativity and inventive ideas.

6 Productivity recommendations

This section outlines five recommendations on how businesses in Jersey's financial sector can boost their productivity performance. These were developed based on desk research, an examination of other jurisdictions and conversations with industry leaders.

6.1 Invest in research and development

Results from the survey suggest that investing in research and development can have a strong positive impact on productivity. This is due to the fact that when better technologies, products and processes are created through research and development endeavours, clients may be attracted to the businesses' improved offering, therefore raising revenue. Furthermore, if processes and technology used by employees are improved, tasks can be completed more quickly and at a lower cost.

Other comparable jurisdictions also focus on investing in research and development. The Switzerland Sustainable Development Strategy 2016–2019[22] identifies education, research and innovation (ERI) as being of vital importance to common welfare, social cohesion and the country's competitiveness. Singapore's Research Innovation Enterprise 2020 Plan (RIE2020)[23] includes economic promotion measures which are intended to support businesses in the areas of internationalisation as well as research and development in order to accrue a knowledge base on which to build the future of Singapore.

6.2 Update technology

While technology improvements can come through the process of investing in research and development, it is also possible to buy technology which has not been developed internally, but is still capable of delivering considerable productivity improvements. This has been highlighted by many senior decision makers in Jersey and covered in the case study section of this report. Updating technology is a best-practice in other similar locations. At the end of 2014, the government of Luxembourg launched the Digital Lëtzebuerg strategy,[24] promoting the country as a smart nation that is modern, open, highly-connected and prepared for a digital society, thereby encouraging businesses to use the technology available to them. However, Jersey does also have a digital strategy, which recognises that Jersey needs to grow the digital

22 Sustainable development strategy 2016–2019, Swiss Federal Council

23 Research Innovation and Enterprise 2020, National Research Foundation, Prime Minister's Office, Singapore

24 Digital Luxembourg, 2014

sector to diversify its economy and to ensure that all local industries are able to compete in a digital world.[25]

6.3 Measure productivity at your business

The interviews carried out for this report reveal that many finance companies in Jersey collect data on the number of hours worked, and the productive output of each employee, team and company division. This enables the business to produce an accurate and up-to-date measure of productivity. This can be used to pinpoint areas of weakness, making it easier to address concerns. Given that it is best practice across global finance businesses, it is likely to be carried out in other comparable jurisdictions.

For businesses without individual employee data, it is still possible to track the productivity level of the business as a whole, based on revenue and employment. This will allow businesses to track average output per employee to see if productivity improvement strategies are working.

6.4 Focus on employee wellbeing

The survey of Jersey Finance members revealed that productivity laggards are much more likely to say that people at the company often have to work late into the evening or over the weekend, at 58% compared to 24% of productivity leaders. This suggests that employees who are not given enough of a chance to spend time away from the office and improve their wellbeing and work-life balance see weaker levels of productivity.

Other research also lends evidence to the hypothesis that well-rested employees are more productive, with empirical evidence showing that average productivity is negatively correlated with the average number of hours worked per country.[26] For example, in Switzerland, productivity growth since 1950 has been strong despite the average number of hours worked per week falling.[27]

6.5 Hire a diverse workforce

Several decision makers at finance sector businesses in Jersey highlighted that the pool of qualified employees on the island is fairly limited. For the industry to remain competitive, it needs to ensure it has a workforce with the right skills to service the ever-changing needs of the sector's clients. Having continued access to a varied talent pool, would not only reduce the skills shortage, but also create a diverse cultural environment which can foster creativity and innovation.

25 https://www.digital.je/digital-jersey-academy/digital-skills/digital-skills-strategy/

26 https://ourworldindata.org/working-hours

27 https://www.lives-nccr.ch/en/actualite/switzerland-hours-work-person-have-dropped-1950-productivity-did-not-slow-down-n2324

7 Conclusions

This research has examined what differentiates financial services firms in Jersey that are productivity leaders, from firms in the same industry that are underperforming in that regard. Views of the industry's decision makers have been compiled in order to identify common productivity strategies that work.

These insights, combined with previously published work, are the basis for a set of recommendations.

The economic output of each employee in the finance sector in Jersey has been falling over recent years. In 2017, the GVA per full time equivalent employee in financial services stood at £136,000 per year, down from £141,000 in 2016 and £206,000 a decade earlier (in 2017 values). While this fall is partly down to external forces, such as interest rates and the level of regulation required by at governmental levels, as well as international organisations, evidence in this report has also proven that there are factors which can be controlled by businesses that affect productivity.

Cebr has condensed the results of survey analysis and discussions with finance business leaders into five manageable recommendations for raising productivity. These are:

1) invest in research and development;
2) update technology;
3) measure productivity at your business;
4) focus on employee wellbeing;
5) hire a diverse workforce.

Although the majority of businesses can benefit from this advice, every company is different, and some may find additional useful information within the report that is especially relevant to their line of work.

Overall, productivity should be a key concern for any business that is interested in making the most of its resources, raising profits, and ensuring the long-term health of the company. Many finance companies are in a position where they have seen slowing, or even experiencing negative productivity growth for several years. In order to reverse this trend, a conscious effort is required, for which this report has provided advice and evidence.