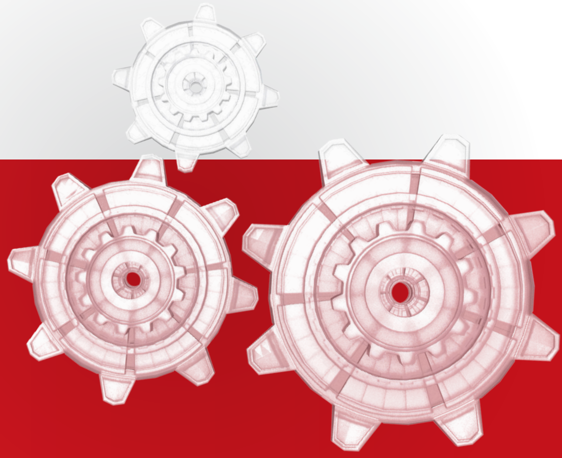
Jersey Means Business

Ready to Support Greater Productivity

Jersey Finance

Delivering Insight ▪ Driving Innovation



A focus on productivity is vital for any business wanting to make the most of its resources, maintaining and increasing profits, and ensuring the future health of the company.

The question of how to improve productivity is especially important for international finance centres such as Jersey that compete for business on a global level. As well as supporting firms' efforts to remain competitive, higher productivity growth is also a desirable goal for the economy as a whole.

In early 2019, Jersey Finance commissioned the Centre for Economics and Business Research (Cebr) to analyse finance sector productivity in Jersey using official data and evidence from a survey of finance companies on the Island. Based on discussions with business leaders, Cebr's report paints a clear picture of the positive steps being taken to improve businesses productivity – and what still needs to happen for underperforming firms to close the gap with productivity leaders.

A clear trend in the finance sector

Following the financial crisis of 2008-2009, many finance companies have seen slowing, or even negative, productivity growth for several years as the industry was required to adopt more stringent regulation and capital requirements.

In line with this trend, the economic output of each worker in the finance sector in Jersey has been falling over recent years. Data from Statistics Jersey shows that, in 2017, the GVA per full-time equivalent worker 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 due to external forces such as interest rates and the level of regulation, there are certain factors affecting productivity that can be controlled by businesses – as long as they're forward-thinking and ready to adopt supportive strategies[1].

The finance sector experiences productivity growth in two ways:

- firstly, by improving output per worker or hour worked through increased efficiency and technology improvements (what's traditionally understood as productivity); and
- secondly, as a by-product of the financial intermediation services it provides to the rest of economy (productivity driven by external forces). For example, when there's greater demand in the economy for borrowing money, banking clients may decide to take out bigger loans, so a finance sector worker may only have to exert the same amount of effort to make more profit.

External factors affecting productivity

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 the economy is in within its cycle. For example, in a recession, profits will be significantly affected by an unwillingness of potential borrowers to do business.

Therefore, it must be acknowledged that efforts by companies to make their operations as efficient as possible will not necessarily show in statistics if external forces are offsetting these efforts.

Focussed on Jersey firms

While the external factors will influence the productivity in Jersey, there are also other drivers specific to the Island and similar jurisdictions.

Innovation and education: Jersey's Fiscal Policy Panel has highlighted a lack of innovation as a possible cause of weak productivity growth. The education levels of the Island's workforce may suffer as a result of limited access to educational institutions. The lack of local universities and research institutions as well as Jersey's industrial structure mean that the jurisdiction's domestic knowledge assets are limited.

Regulation: As with many other regions where the finance sector is prevalent, regulation is likely to have had a significant effect on productivity in Jersey since the financial crisis. In reaction to regulation introduced and enforced after the financial crisis, financial institutions increased non-revenue generating compliance roles that, while essential, lowered the average output per worker at the business.

Technology: Having up-to-date technology is vital for increasing the productivity of businesses in Jersey's finance sector and ensuring firms remain competitive.

[1] *Positive signs: Data released in October 2019 showed that productivity growth in Jersey's finance sector picked up in 2018, rising to 1% in real terms as measured by total GVA per full-time equivalent employee.*

What it takes to be a forward-thinking leader

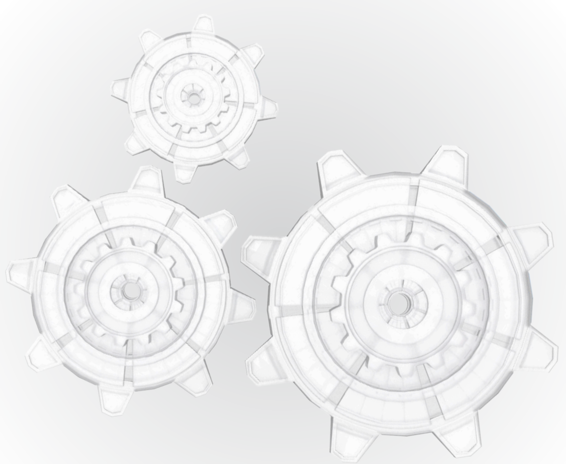
It's clear that investment in developing new products and internal processes has a positive impact on productivity. A survey of Jersey Finance members reveals that, on average, productivity leaders invested 9.4% of revenue in research and development (R&D) over the past three financial years, while productivity laggards (businesses with lower productivity) only invested 1.8%.

Greater capital expenditure is also a positive way to support productivity growth. On average, productivity 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 £405,000 per year on average (£6,000 per employee), of which £270,000 is on technology.

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.

Working patterns are another factor that may affect the productivity of businesses. The survey of Jersey Finance members revealed that productivity laggards are much more likely to say that their employees often have to work late into the evening or over the weekend. It also found that productivity leaders are more likely than laggards to offer significant performance-related rewards and contribute a higher percentage of pre-tax income to workplace pension schemes.

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 aren't correlated with productivity could be the limited population of the Island. This is likely to result in a fairly small spread of skills among the pool of labour in Jersey's finance sector, compared to a finance 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 doesn't have a huge influence on the skill set of the person hired.



Revenue invested in research & development

9.4% Productivity Leaders

1.8% Productivity Laggards

Investment (capital expenditure) in technology per full-time employee

£15,000 Productivity Leaders

£6,000 Productivity Laggards

% of staff who work overtime

Productivity Leaders 24%

Productivity Laggards 58%

% offering significant performance related rewards

35% Productivity Leaders

25% Productivity Laggards

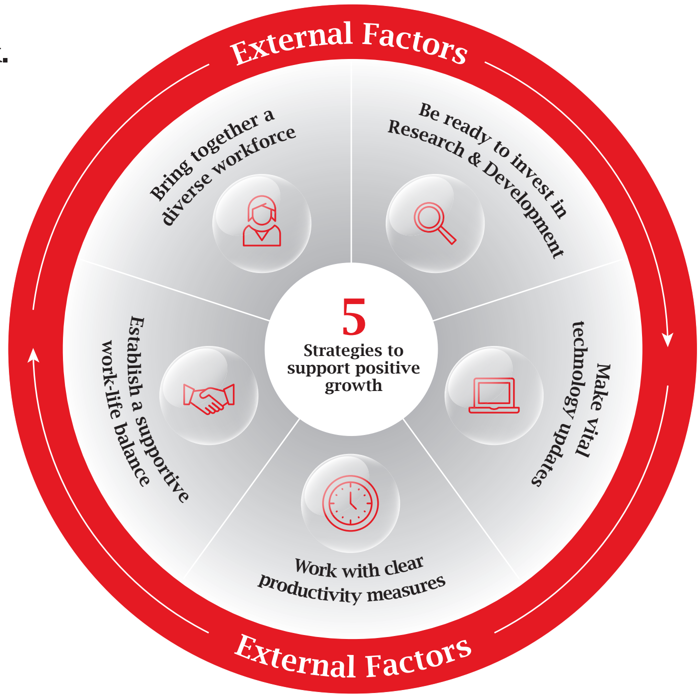
Average pre-tax contribution to a pension scheme

Productivity Leaders 5%

Productivity Laggards 4%

Five strategies to support positive growth

Drawing on the views of industry decision makers, our research identified five common productivity strategies that work.



1. Be ready to invest in R&D

When better technologies, products and processes are created through R&D, clients may be attracted to a company's improved offering, therefore raising revenue. It's also clear that if the processes and technology used by employees are improved, tasks can be completed more quickly and at a lower cost.

2. Make vital technology updates

While technology improvements can come through investing in R&D, it's also possible to buy technology that hasn't been developed internally but is still capable of delivering considerable productivity improvements. Many forward-thinking decision makers at finance companies in Jersey quote this as being vital to their success. Updating technology is also a best-practice strategy in other similar locations.

3. Work with clear productivity measures

Many finance companies in Jersey collect data on the number of hours worked and the productive output of each worker, team and company division. This enables them to focus on areas of weakness, making it easier to address concerns. For businesses without individual employee data, it's still possible to track the productivity level of the company as a whole, based on revenue and employment. This will allow businesses to track the average output per worker to see if productivity improvement strategies are working.

4. Establish a supportive work-life balance

Research suggests that employees who aren't 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. There's also evidence 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.[2]

5. Bring together a diverse workforce

Senior decision makers at finance companies in Jersey highlight the need to recruit employees from a range of backgrounds, despite having a fairly limited pool of qualified employees on the Island. For the industry to remain competitive, it must 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 that can foster creativity and innovation.

Although every company is different, the majority of businesses can benefit from the above strategies. Overall, productivity should be a key concern for any business wanting to make the most of its resources, increase profits, and ensure 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.

[2] *https://ourworldindata.org/working-hours*

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www.jerseyfinance.je/productivity

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