



Is Your Business High in Productivity or Simply Buzzing with Activity?

Have you ever been sipping coffee in a reception area trying to distance yourself from the buzz of activity all around you? To the casual observer, this whirlwind of activity may indicate a highly productive business. Upon further investigation, however, you might be surprised to learn that the owners and management team do not share this sentiment at all. In fact, many businesses today are concerned about their level of productivity despite the appearance of an active staff.

The first thing to understand is that activity alone does not necessarily equate to productivity. Often, this activity, which could easily be the result of confusion or busy-work, is misinterpreted. Productivity, on the other hand, has been defined in many different ways. By formal definition, it is the measure of a unit of output per unit of input. The government defines it in terms of revenue per hour worked. Some businesses define it based on revenues, while others base it on profits. Almost all non-governmental definitions incorporate the dollars invested in capital assets such as plants and equipment. This is known in most business circles as total factor productivity (TFP). By paraphrasing the many definitions, one might conclude that TFP is best defined as the output units of goods and services per input unit of capital and labor. Remember, no matter how you choose to measure productivity, you must have a consistent definition and process to accurately assess changes from year to year.

So, what factors impact TFP? Productivity increases or decreases may result from such factors as pricing, volume, quality control, technological advances, time management, employee training, employee moral, etc. A small improvement in one or more of these factors may result in a substantial gain in the business's overall profitability. In much the same manner as borrowed capital may be judiciously used to leverage and improve profitability, increasing TFP will result in similar but more powerful leveraging. This is because there is no downside from additional debt. In other words, productivity growth doesn't cost – it pays.

What should your business do to improve productivity? There are two basic courses of action; (1) increase output with no increase in input, or (2) hold output constant while decreasing input. In either case, people are the key ingredient for success. Management and employees, working together as a team, must jointly tap into the internal resources of human creativity, passion, and energy to bring about meaningful productivity growth. Therefore, it is incumbent on management to set goals and to provide an atmosphere whereby each employee feels challenged and motivated to contribute to the team effort, all the while knowing that rewards are within his or her reach.

One technique that has proven to be particularly useful in growing productivity is the old-fashioned "brainstorming session." This usually involves a selected group of employees who meet periodically to discuss problems regarding quality, production, and other timely issues. Many seemingly impossible problems have been resolved when uninhibited minds begin to explore the "what-ifs." Following are some specific ideas for improving productivity:

- Identify the organization's purpose and mission (a business plan);
- Communicate business goals to employees;
- Integrate business goals with the goals of individual employees;
- Plan daily activities with these goals in mind;
- Implement new technologies where feasible;
- Increase employee participation in decision making and problem solving; and
- Provide incentives to recognize individuals for a job well done.

Many larger businesses today employ the Six Sigma technique. This highly-defined process helps you focus on developing and delivering near-perfect products and services. By studying the defects in your processes, you can systematically figure out how to eliminate them, thereby improving productivity. General Electric is one business that utilizes the Six Sigma technique. Jack Welch, the recently retired CEO of GE, may have exposed some of his managerial genius when he said, "growing productivity must be the foundation of everything we do."

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Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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The productivity growth driven by new technologies over the past 20 years has allowed businesses to greatly increase the production capacities of their capital assets. However, the benefits provided by this new technology can never match the ongoing reliability and potential of an organization's motivated human resources. The bottom line is that without people, there would be no technology, no productivity, and no profits. Your human resources are your most important asset. So, the next time you walk through the reception area in your own place of business, pay attention. Are you witnessing productivity or activity?

Pay for performance programs can help generate more productivity. If you are interested in earning more about productivity improvements that will increase your bottom line, contact us today; we can put the power of productivity to work for you.