

**"The most important challenge of the next century will be to improve the productivity of the knowledge worker." (Peter Drucker)**

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# Join the Productivity Revolution

A December 07, 2005 presentation by

**Tor Dahl**

**Synopsis by Rod Cox**



*"Productivity improvement is the only way to create new wealth. When productivity increases, so does new wealth creation.*

*By studying improvements in tools and materials, anthropologists estimate that productivity increased by about 1% per year over more than a thousand years. In the Middle Ages, it accelerated a bit. A person's income doubled every 72 years. The Industrial Revolution increased that growth rate to 2% per year; now income doubled every 36 years; and after WWII, U.S. productivity increased even further to about 3% per year. But in 1982, it suddenly and inexplicably fell and currently remains at about 1% per year.*

*This recent period of negligible growth has created a terrible opportunity cost. Indeed, had we been able to raise our yearly productivity improvement rate to 5% over the period 1967-1994, U.S. GDP would have been 332% larger in 1994 than it actually was. (Gross Domestic Product or GDP is the total value of final goods and services produced within a country's borders in a year. It is one of the measures of national income and output, and is one of the indicators of standard of living.) If the 5% productivity rate were consistent from 1982 through 2002, cumulative GDP would be 210% higher, or about twice today's actual figure. Thus, we may have forfeited more than \$10 trillion in GDP by not focusing on productivity during the past few decades. A productivity focus would very likely have done away with government deficits; solved the funding problems of Social Security, Medicare, and Medicaid; and brought unparalleled prosperity to the U.S. and to the world.*

*At 5% annual productivity improvement, wealth doubles every 14 years. But can 5% be achieved and maintained? It can. A number of countries including China have achieved it, and so have thousands of U.S. corporations. So the strong message is, 5% is doable.*

*To understand why this is so, we must look into what happened over the past 30 years, compare them with recent productivity numbers, and decide that a Productivity Revolution – a five percent yearly productivity improvement – is indeed feasible and reasonable. More to the point, it is essential if the U.S. is to compete in the global economy." Tor Dahl*



Fulbright Scholar **Tor Dahl** (Economics) is Associate Professor of Public Health at the University of Minnesota. Born and raised in Norway, he is Founder, President and CEO of Tor Dahl & Associates, a firm that examines what works and what doesn't work with regards to productivity improvement. Dahl has published works on health care, economics, management, productivity and behavioral change. A skilled and persuasive speaker, his clients include U.S. and foreign governments, corporations and universities. He has served on many productivity councils and task forces, and is Chairman Emeritus of the World Confederation of Productivity Science.

Dahl's well-attended *Management Forum Series* presentation was down-to-earth, witty, and filled with statistically defensible productivity observations and initiatives as well as examples of initiatives gone wrong. The concepts and quotes in this synopsis are from his presentation.

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## **The New Knowledge Worker**

Today's workforce distribution is unlike anything previously seen:

- 10% are transformational. They transfer raw materials into finished goods.
- 10% are transactional. They perform rate-based, machine-like work.
- 80% are tacit. Their work is knowledge-based and ambiguity-filled where judgment and experience are required. These tacit workers are our future.

Among the tacit workers, 12-15% of the work is distributive; i.e., done flexibly, away from the office or factory. At IBM, 40% is distributed; at Sun, 50%, and at Agilent, 70%. This results in:

- huge savings in real estate and commute times
- large increases in worker productivity and convenience – the pajama-clad employee working from home – albeit it at the expense of face-to-face interactions.
- closer worker oversight by tracking of computer time and cell phone activity.

It is with this tacit, distributed workforce – if we do what is necessary to increase their productivity – that we will realize the benefits of the knowledge economy:

- by identifying the things we need to stop doing
- by doing the things that add far more value
- by doing the things that enhance customer experiences
- by doing the things that surprise and delight co-workers
- by leading positive change, becoming more constructive leaders

The productivity improvement potential is enormous, especially for the knowledge worker. *"This instrument will be to the field of management what the telescope was to the field of astronomy."* (This is a quote from Peter F. Drucker, when he was briefed on the use of the Extensor Unit for knowledge workers. For further explanation, click on [tordahl.com](http://tordahl.com), then Newsletters, then *Mysteries of the Universe*). Further, production-based jobs create full employment. U.S. jobs are being lost because we aren't productive enough rather than because U.S. quality is lacking.

As noted in the introduction, 5%/year production improvement is credible. In fact, we have achieved it several times:

- In 2000, U.S. non-farm productivity improvement was 5.6%
- In second quarter 2003, it was 6.8%; in third quarter, 9.6%; and for the full year, it was 4.7%.
- Wages increased 3.7% over the same 2003 period. Subtracting unit labor expenses from productivity increases resulted in a net 1% increase in average profitability for U.S. businesses.

Why, then, is U.S. productivity so stagnate?

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## **The Case Against Quality Initiatives**

Quality is not the tool for increased profits or employment. Here's why.

Quality initiatives tend to freeze productivity rather than improve it. This is because in today's marketplace, quality is no longer an option; it is a requirement. Look at it this way:

- quality initiatives take out innovative variations in production and processes
- quality initiatives often have as their goal doing something perfectly without regard to whether it should have been done in the first place.

This is not to say that quality improvements are not important. However, they cannot precede productivity improvements, and they have historically reduced productivity and profits rather than built them.

*"To understand productivity, we must understand quality.*

- *Quality happens when we remove all variation in a product or service; productivity happens when we introduce variation in a product or service.*
- *Quality freezes a process; productivity unfreezes a process.*
- *If we freeze first, productivity improvement will drop to zero if no change occurs; if we unfreeze first, productivity will increase, and quality will help lock in the gains.*
- *To improve productivity and quality, we must unfreeze first, and then freeze to lock in the gains – and then unfreeze again to avoid stagnation."*

<b>Quality</b>	<b>Productivity</b>
<ul style="list-style-type: none"><li>• Reduces variations</li><li>• Conserves energy</li><li>• Gives a sense of flourishing</li><li>• Provides Yin: passive</li><li>• Freezes change</li></ul>	<ul style="list-style-type: none"><li>• Introduces variation</li><li>• Expend energy</li><li>• Gives a sense of discovery</li><li>• Provides Yang: active</li><li>• Enables change</li></ul>

There is no better place to look for proof than in the performance of U.S. companies that have mastered Six Sigma. A ten-year survey of exemplary Six Sigma companies (GE, Coke, 3M, Caterpillar, American Express, Dow Chemical, Honeywell, Xerox, Ford Motor Company, Motorola, Dana Corporation, Bank of America) shows that their stocks have suffered rather than improved, dropping to well below Dow Jones Averages for the period.

On the other hand, exceptional performers who are not Six Sigma certified (Anworth Marketing, Eli Lilly, US Bancorp, Wells-Fargo, Microsoft, Washington Mutual) performed well above the Dow Jones Average for the same period. So quality initiatives are not the answer.

1.07% is the average U.S. yearly productivity increase for the period of the study. For the Six Sigma companies above, productivity fell 6.7% and spawned a lean-operations move that resulted in a jobless recovery with reduced employment and reduced stock prices. Their 1998-2003 net average profits increased only 7.92%. The high-performing non-Sigma Six companies,

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on the other hand, expanded employment an average of 45% and significantly increased their net worth by 24.82%. Hence, the street wisdom that says, "The more jobs a company can eliminate, the more productive it is likely to be" is a myth. On the other hand, high productivity doesn't eliminate jobs; it increases them.

*"Thus, a focus on quality in Six Sigma companies seems to be associated with*

- *a reduction in the multifactor productivity improvement rate*
- *a reduction in overall employment*
- *a reduction in net income"*

Does this mean that quality initiatives such as Six Sigma have no place? Not exactly. But quality improvements can positively affect profitability only until the waste is gone. Then performance improvement ceases. Focusing closely on Six Sigma decreases performance over time, while focusing on productivity improvements increases performance over time.

Productivity improvement has three distinct effects on businesses:

1. it increases wages, employment and market share
2. it reduces prices so sales go up
3. it improves profits so investments are made again

No other strategy accomplishes all of these. And it's good for the workers, too. People hate to be unproductive. Increased productivity raises their esteem, their relations with their customers, and their pay. It reduces negative stress, as well.

*"There is no downside to productivity improvement when the entire organization is engaged."*

## **Introducing Production Improvements**

Surveys of U.S. companies show that about 92% of all performance can be improved and that we can transform our companies by paying attention to productivity improvement:

<b>Total Production Improvement Potential</b>	
Occupancy, consistently staying on the right path	52.8%
Effectiveness in planning, delegation and execution	23.4%
Efficiency including effective measurements	15.9%
Total	92.1%

Production is the result of output less input. When the difference is negative or when output is stagnate, financial performance suffers.

Extreme innovation – introducing a production improvement plan – forces us to find new ideas to conquer the world. It depends on freeing-up resources (see above) as well as expanding current activities and introducing new activities:

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- effectiveness directs us toward the right output; doing the right thing
- efficiency tells us how well we turn input into output
- occupancy ensures that we do this all the time

The first step in productivity improvement is a long, hard diagnosis of what is currently wrong with your company. Your successful past doesn't guarantee that your future will be good. As Mark Twain quipped, *"It used to be a good hotel; but then, I used to be a good boy."*

Performance improvements of 5% per year are achievable, but they are often tied up in logjams.

- Organizational logjams tie up three-fourths of potential in manufacturing organizations and one-half in service organizations.
- Individual logjams tie up about one-fourth of the potential in manufacturing organizations and one-half in service organizations.

The root cause of any logjam is always a Bad Idea that has become institutionalized so that it keeps the rest of the logs from floating freely. Be willing to do an intervention to identify the key log and then break the jam by removing it. This solution may appear to be simplistic and unrealistic, but it works. Once the key log is gone, you can tackle the rest of the logs in logical sequence.

This is admittedly a quick fix, but it's also an effective fix, and it has helped many companies turn the corner to increased productivity and profitability.

(Note that in two or three years you will have to break the logjam again because other Bad Ideas will have crept in. Productivity improvement is an ongoing process requiring ongoing attention.)

## **The Role of Feelings in Productivity Improvements**

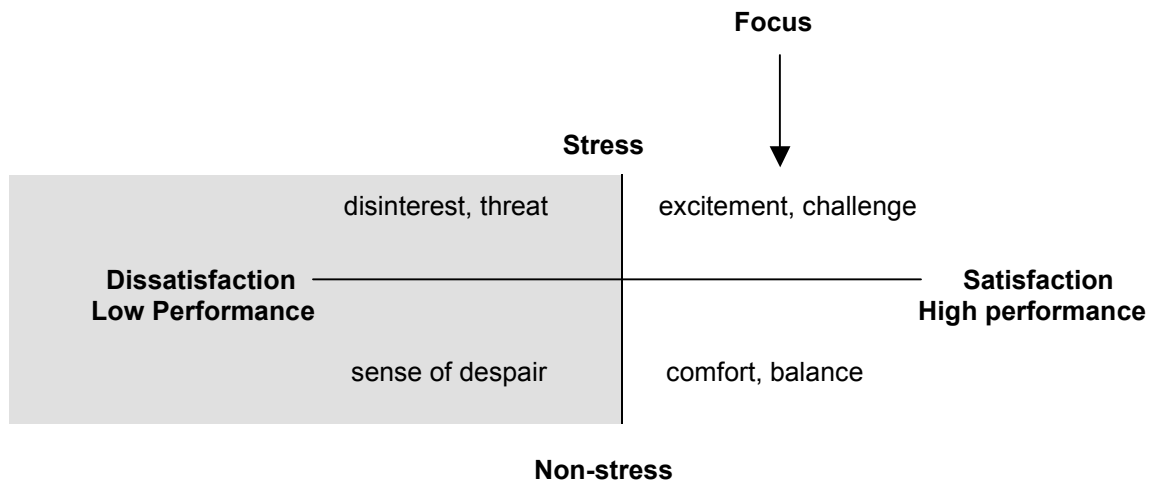
Ideas – that is, thinking, judging, and willing – come from the cognitive mind. But cognition is not where "doing" is located. And still, "doing" is at the heart of productivity increases so we'd better figure out how to engage it. We need to re-examine how we attempt to increase productivity.

Descartes said, *"I think, therefore I am,"* but he was wrong. More valid is, *"I feel, therefore I am."* (Brent Filson, President, Action Leadership)

*"Feelings are critical. When feelings change from negative to positive, productivity goes up."* This is an unwavering relationship. Humans define their existence primarily through their feelings so to increase productivity, introduce positive feelings. And once the logjam has been broken, focus on creating "hair raising on the back of your neck" moments that take advantage of feelings by creating satisfiers that translate directly into increased productivity.

Said another way, if you seek to increase productivity, you can't afford to ignore feelings, as seen below.

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It is essential to pay attention to satisfiers (feelings) because removing them creates a very non-productive environment. In their absence arrogance, anxiety, disdain, aloofness and other production limiters are bound to creep in. The leader's job is to get people to make people decide to go where they would not have chosen to go by themselves, and one of the best ways to accomplish this is to make them feel that they have choices as well as involvement in the processes and goals.

Note that stress is particularly bad when accompanied by dissatisfaction. But when stress and satisfaction are combined, they can be very energetic:

	<b>Stressed</b>	<b>Unstressed</b>
<b>Satisfaction</b>	Excitement (Challenge) Charismatic leader and engaged followers. Change and growth, achievement and recognition. Outwardly oriented and caring.	Conformity (Balance) Monastic leader and comfortable followers. Intimacy, sensory stimulation, acceptance.
<b>Dissatisfaction</b>	Discomfort (Threat) Bully leader, frustrated followers. Rejection, alienation, failure.	Boredom (Stimulus Deprivation) Bureaucratic leader, powerless followers. Stagnation and retrogression. Self-absorption.

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## **But What Can I Do to Make Increased Productivity Happen? Application Exercises for You and Your Team**

You have little to risk and much to gain by improving productivity at your organization. Thousands of other people in thousands of organizations have done it. Perhaps the following suggestions will help.

1. Identify a particular logjam in your organization, team, unit, or desk. How did it get there? Who is its champion? What would it take to break the logjam?
  
2. What can you stop doing? In order of frequency, focus groups have targeted:
  - poorly planned and unnecessary meetings
  - unnecessary reports and papers
  - bad attitudes
  - rework
  - redundancy and duplication
  - the number of required control procedures
  - manual/clerical/administrative tasks
  - poor planning and scheduling
  - unfair personnel policies
  - treating customers badly
  - interruptions
  - disregarding satisfiers
  
3. What can you do that will increase productivity and create more value? Management Forum attendees suggest:
  - prioritize
  - keep the focus on the customers
  - acknowledge and reward innovation
  - use better planning to reduce reactivity
  - listen and engage people
  - collaborate rather than doing it alone
  - add supportive structures
  - inspire staff through communication, education, training, giving and getting feedback, and personal interactions
  - build trust and authenticity
  - review past efforts to determine successes and failures
  - carve out time each day to focus on a single most-important function
  - identify logjams; find and remove the key log
  - share information with other staff only if it relates to their work
  - empower employees to make decisions

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4. What can you do to enhance your customers' experience; i.e., lift the customers' esteem? The Management Forum attendees noted:
- listen actively
  - be flexible
  - develop relationships beyond work; personalize the interaction
  - prevent problems and fix them when they do occur
  - be honest
  - include the customer in any solution; ask for opinions, give choices and solicit feedback
  - help the customer be successful; follow up
  - properly identify who your customers are
  - improve the physical environment so that it appeals to the senses
  - know when to make exceptions
  - say thank you
  - believe in customer importance
  - communicate and keep the lines open
5. What can you do that will surprise and delight your people? Management Forum participants suggested:
- know their names
  - learn something personal about them and honor it
  - be tangible with your surprises
  - give personalized performance recognition using a method that your people want
  - reward good suggestions
  - identify a person to mentor
  - thank someone outside your regular workgroup
  - increase random, personal responses; be more visible
  - include people in planning
  - treat employees as customers
  - be available and listen
  - follow up immediately, not eventually

## **Final Thoughts**

*"Productivity comes from engaging every single mind in the organization."* Jack Welch, former CEO, GE

*"Never doubt that a small group of thoughtful, committed individuals can change the world; indeed, it's the only thing that ever has."* Margaret Meade, noted anthropologist