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EFFICIENCY OR PRODUCTIVITY?

A lot of our clients tell us they want to run their operations more efficiently. We get that. Efficiency amounts to less waste, less time loss, improved communications, better use of money, and a smoother, more synchronized day to day operation. But is it really efficiency that a company wants, or could it be an increase in productivity?

Mike Clayton, Powerhouse of productivity & author of Brilliant Time Management, and Powerhouse, says this about this week's topic:

- **Productivity** - is the ability to get stuff done and make things.
- **Efficiency** - is the ability to be productive using minimal time and resources.
- **Effectiveness** - is the ability to create the right result and deliver what matters.

PRODUCTIVITY

Businesses often measure productivity by output during comparable time periods. For example, if you produce 1,000 units one week and 1,100 units the next, you are more productive the second week. In other cases, businesses measure productivity by comparing employees, locations or distribution methods. If Bob sells $10,000 worth of business during the month while Joe sells $9,000, Bob is more productive. If Bob sold $12,000 the month before, he’s still more productive than Joe this month, but less productive this month than he was last month.

EFFICIENCY

Efficiency relates to the quality of your work, which might include creating output with less waste, using fewer resources or spending less money. If Bob sold $10,000 in May but spent $3,000 on travel expenses, while Joe sold $9,000 in May but did so over the phone, Joe is more efficient and creates a larger profit. This is a case in which increased efficiency justifies decreased productivity.

Efficient Productivity

Some businesses measure productivity by including only quality output. For example, if a production plant produces 10,000 units in March and only 9,000 units in April, productivity in March is not necessarily higher. If the 10,000 units produced in March included 1,000 that were defective and couldn’t be sold and another 1,000 that came back for service, the productivity for the production plant in March is 8,000 units. If only 500 of April’s units were defective or returned, productivity in April is 8,500.

BALANCING PRODUCTIVITY WITH EFFICIENCY

When you emphasize the quantity aspect of productivity, such as by paying bonuses on amounts produced or sold, you might encourage employees to be less careful. This might not be a bad thing if your increased quality output outweighs the number of problems you have. For example, a production plant's rush to increase output may increase defects and returns by 10 percent. However, working at that speed might allow the plant to increase quality units by 30 percent. When you put a premium on efficiency, trying to eliminate all problems, workers may slow down enough to negate the incremental increase in quality you get with an exponential decrease in the quantity of work produced.

None of this will apply if a manufacturing plant does not have adequate management with both tactical and strategic production plans in place. In addition, such plans need to be acted upon by all personnel involved. That is to say, buy in and execution needs to be agreed upon by both management and the staff on the production floor.

Efficiency

A summary of efficiency is that this is a vital part of the small business model, but it can only be used to deal with the way in which resources are handled, and the product distributed. This analysis can evaluate the level of attainment in production of supplies. Small businesses rely upon efficiency models to calculate areas in which they can trim costs and improve their intake and production of items. Efficiency is only a guide; however, and it needs to be considered alongside another system of calculating processes. Production plant managers are usually experienced in such processes, which is where their value comes into play.

Productivity

Productivity also calculates how resources are handled and converted into useful goods, but in this model, the small business person can concentrate upon the details of their work. It will provide an analysis of the relationships between input and output in a business's supply. Productivity will calculate how resources are used in direct relation to the purpose of the company, allowing the business man or woman to see the entire picture of where their resources are used. To know this data, production analysis is necessary by someone who has experience with such examinations and then compared to best practices in similar companies.

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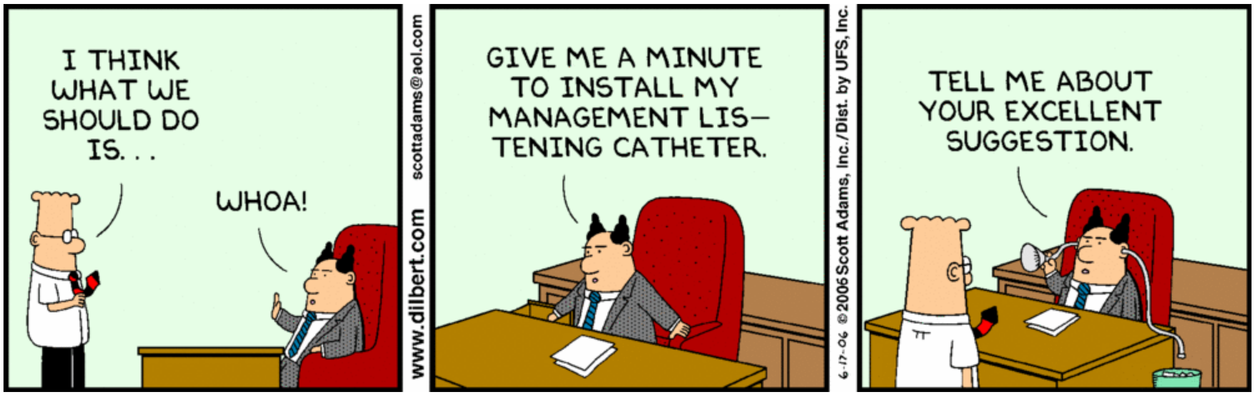
So let's sum up what the experts are saying about efficiency and productivity. Most business leaders will say that productivity is the more important consideration. The common definition of labor efficiency is: "the number of labor hours required to accomplish a given task, when compared with the standard in that industry or setting." The typical way of assessing labor efficiency is to compare the number of hours actually required to produce a given product or service with those usually required.

Efficiency is about DOING THE SAME WITH LESS. Companies most often improve labor efficiency by finding ways to reduce the number of labor hours required to produce the same level of output. This translates into savings because the company spends less on wages and other labor-related costs. Efficiency, then, is about shrinking the DENOMINATOR — inputs (headcount, labor hours) — in an effort to improve profitability.

At first glance, the definition of productivity appears remarkably similar. A common definition of labor productivity is: “the ratio of the output of goods and services to the labor hours devoted to the production of that output.” Productivity is typically measured by comparing the amount of goods and services produced with the inputs used in production.



In summary, growth in labor productivity is measured by the change in output per labor hour over a defined period. For a company, it is directly tied to performance. With higher labor productivity, a company can produce more goods and services with the same amount of relative work. In contrast to efficiency then, productivity is about expanding the NUMERATOR, the output, to deliver greater top-line growth from the same workforce. Performance Strategies specializes in addressing these types of issues, including sales and customer service improvements. We are ready to work together to improve both operations and sales at the same time.

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