



Articles & Commentaries



p-Guru



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Productivity Improvement in the Service Sector

Developing countries in their early stages of development depend largely on the agricultural sector for economic development and employment generation. As a country advances economically, the manufacturing and service sectors become the new growth areas. In developed countries, the service sector is the major (more than 60%) contributor to GDP. It also accounts for the major share of employment.

Based on the *APO Asia-Pacific Productivity Data and Analysis 2001* publication, the share of the service sector in GDP in APO member countries ranges from 38% in Vietnam to 69% in Japan. In terms of productivity growth in the service sector, seven countries recorded negative growth rates, while six had positive growth. In Malaysia, the service sector is also the largest sector in the economy, contributing 56.7% to GDP and 48.6% to total employment in 2002. In terms of productivity, it recorded a growth of 2.4%.

Since the service sector is essential to a nation's economic growth, it must continuously enhance its productivity and sustain its competitiveness, especially in view of the global challenges of a more open market. For this reason, productivity- and knowledge-driven strategies, a customer-focused management philosophy, and effective applications of information and communications technology (ICT) are critical to building a productive service sector.

Developing human resources competency

The ability to provide a high level of service quality and an effective productivity and knowledge management process require the involvement and commitment of employees at all levels in an organization. The success of an organization depends heavily on the quality and competency of its human resources. Excellent companies recognize that human resources are their number one asset. This is all the more true in the service industry. Therefore, employees must be adequately trained and retrained to ensure that their knowledge, skills, and competencies remain relevant and useful.

With the Internet increasingly relied on as a source of knowledge and with rapid changes in science and technology, the amount of knowledge is doubling every seven to 10 years. This also hastens the obsolescence of skills and knowledge. The shelf life of academic degrees has been estimated to be only one year for computer science, two years for electrical engineering, and four years for business studies. Training and skills development must therefore be a continuous process. On average, the training budget of an organization is about 1% of payroll. Excellent companies, on the other hand, spend about 4–5% and devote an average of 40–50 training hours per employee per year.

Innovative and creative circles

To involve employees in productivity improvement activities, a team-based environment must be developed in which they can participate actively in improving service performance. One such employee participation program is quality control circles (QCCs). A 2002 survey on QCC activities by the National Productivity Corporation (NPC) of Malaysia revealed that the majority of the respondents were from the manufacturing (42.0%) and service (31.0%) sectors. Most of the projects undertaken were related to members' own workplaces, work processes, service delivery, and product development. The vast majority (95.1%) of the respondents said that QCC activities had helped reduce operational costs, with savings reported ranging from US\$125.00 to US\$2 million, with the median of US\$50,000.

In 2004, the NPC launched the Innovative and Creative Circle (ICC) Program, which expanded the QCC approach to focus on innovation. It aims at promoting knowledge sharing, creative thinking, innovation for value creation, and cost optimization. The first National ICC Convention was held in September 2004.

Customer focus and understanding customer requirements

Service quality is about understanding and meeting customer needs, requirements, and expectations. The strategy to achieve this is to develop and nurture a close relationship with them through periodic contacts and surveys. Any feedback received should be followed through and acted on. Service quality not only involves meeting service delivery targets. It also necessitates seeking opportunities to "delight" customers with value-added services that make them feel more satisfied.

Customer relationship management (CRM) is an approach that can assist organizations to serve their customers better. CRM helps to identify valuable customers, assess their needs, and provide more personalized service. It also streamlines the handling of enquiries and requests, resulting in higher operational efficiency and more rapid responses to customers.

ICT and productivity improvement

Most macroeconomic research studies conclude that ICT is a significant contributor to productivity growth and most relevant in knowledge- and information-intensive service enterprises. However, a word of caution is necessary: heavy investments in ICT and automation alone may not increase productivity unless a total, integrated approach is taken. This requires complementary investments in organizational restructuring, workplace and work process redesign, and a mindset change among employees, who need to be computer literate.

Effective applications of ICT in the service industry will result in higher productivity, leaner service processes, better-quality products and services, lower costs, and shorter delivery times. In short, they lead to better customer service. The areas of ICT application are in software development, system integration, CRM, video– and teleconferencing, Web site development, and Internet-based data interchange.

Productivity measurement

If we cannot measure performance, we cannot manage and improve it. But measuring performance, especially in the service industry, is far from easy. Despite this, we should measure what is measurable; if something is not measurable, we should try to make it so. Efficiency measures based on the output/input ratio can be supplemented with effectiveness measures in index form.

Basically, there are two main approaches to productivity measurement: partial factor productivity measurement and multifactor productivity measurement. The former is a ratio of the output to one of the factor inputs, such as labor productivity or capital productivity. However, partial productivity measures are not comprehensive and, if used alone, can be misleading. Multifactor productivity measurement, on the other hand, considers output in relation to multifactor inputs. A good example is total factor productivity, which measures the synergy and efficiency of utilizing both labor and capital inputs.

To supplement the above efficiency measures, the balanced scorecard approach provides additional measurement perspectives by focusing on the reliability and effectiveness aspects. It evaluates business performance in four areas: financial, customers, internal business processes, and learning and growing.

Conclusion

The service sector, as one of the prime sectors in a nation's economic development, must continuously increase its productivity and resiliency to sustain its global competitiveness. Investment in human resources development, achieving deep customer focus, and effective applications of technology, in particular in ICT, are essentials for growth and sustainability. An appropriate productivity measurement system should be in place to assess performance and highlight opportunities for improvement.



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