



Productivity: getting the context right

With rising unemployment and the country in recession, productivity figures will not be a cause for celebration in the foreseeable future. Productivity growth will reflect increased demands on a dwindling number of employees, rather than a more efficient use of capital and human resources. The global economic crisis will put survival before productivity concerns. One key to emerging from the economic recession successfully, however, will be how well management can create a context for energizing labor behind a productivity agenda that prioritizes general welfare, a viable healthcare system, and transparent decision-making processes. Productivity campaigns lacking these goals will fail to rally a skeptical workforce. Business and labor initiatives that fail to include the broader social context of productivity will likely fall short of expectations.

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The US automobile industry provides an excellent example of improved productivity that in the end failed both the companies and the employees because productivity improvements operated in a social void. The CEOs of the big three US automakers flew to Washington, DC, in their private jets to plead for a taxpayer bailout of their industry. This display of conspicuous consumption in a recessionary economy undercut their pleas for help. The CEOs' behavior smacked of executive hubris and violated an emerging set of populist values which has found a voice in the recent election of former Senator Barack Obama to the US presidency.

When the CEO of Ford Motor Co. was asked by the congressional committee considering the bailout of the auto industry whether he considered his compensation of more than US\$21 million excessive and if he might voluntarily reduce it under



the bailout plan, he replied, “No, I think I’m OK where I am.” (Banks receiving bailout funds paid their nearly 600 executives approximately US\$1.6 billion in compensation.) Under the circumstances, that certainly was the wrong answer. The private jet episode and this insensitivity toward executive compensation created a wave of popular and congressional protest. A change of heart was evident when the congressional hearings reconvened a week later. The CEOs drove themselves from Detroit to Washington, DC, in fuel-efficient vehicles and upon receiving bailout monies agreed to salaries of US\$1 per year: message received.

The CEOs seemingly held a trump card in those hearings. That trump card was the claim that the US auto industry had attained a productivity level equal to Japanese automakers and this would result in the future profitability of their companies. The belief that the US auto industry had only to be as productive as its foreign competitors to prosper and regain a dominant share of the market was widespread. The CEOs were taken aback when this achievement was brushed aside as almost inconsequential. What turned out to be more important was the automakers' disregard for developing cars with low emissions (environmentally friendly) and greater fuel efficiency (contributing to US energy independence). The auto companies were stuck in a time warp where productivity in itself was the only measurement of success. A broader agenda, encompassing more than productivity levels, is now becoming the yardstick for success.

Perhaps the biggest hurdle to profitability and increased worker productivity lies in the inadequacies of the US healthcare system. Over 40 million

Americans lack health insurance coverage. Many of those who have health insurance find the costs exorbitant and voluntarily opt out of their medical plans. Catastrophic illness in a family is often at the root of personal bankruptcies and home foreclosures. Worries over long-term illness and inadequate healthcare services cut deeply into time and energy that could otherwise be directed to more productive days in the office or on the factory floor. The cost of employee healthcare has proved debilitating to the auto manufacturers and may still bankrupt the industry (General Motors carries a US\$47 billion healthcare obligation), not to mention the tremendous burden placed on small and medium-sized companies. Healthcare costs have eroded the competitive edge of US companies over the past decade. The economic vibrancy of the country cannot be restored, nor can improved productivity rates have the desired beneficial effects, if the healthcare crisis is not addressed aggressively.


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Many attribute the current national financial calamity to a failure of government regulatory agencies to enforce rules of transparency among financial and banking institutions. The use of arcane financial instruments in the hands of unscrupulous financial managers has destroyed the dreams of millions of Americans. Workers' pensions and savings have plummeted in value. The regulatory system failed, and it will take years to unravel the mess while the country and the world contend with economic recession. Global cooperation to prevent further collapse may turn out to be the silver lining of this near-catastrophic event. The turbulence has temporarily driven the importance of productivity into the background. At the same time, it provides the productivity movement with a hiatus to realign its message and methods with broader social and economic goals that in the long run will strengthen and further legitimize national productivity efforts.

The public is demanding greater transparency in decisions that affect the quality of their lives. More specifically, firms must embrace the concept that more public scrutiny and transparency are good for business. The willingness to participate in a public dialogue will keep firms from embarking on misguided initiatives that harm the public good and thereby threaten a company's profitability and longevity.

Opportunities to participate in the public dialogue are fast increasing for businesses. Personalizing the message in both directions, from customers to company and company to customers, through YouTube, Facebook, Google searches, and blogs will keep companies focused on their market, not as CEOs perceive the market, but as the market really exists. The process will also serve to align business strategies and goals with the broader public interest. This harmonization of private-sector and public interest will carry with it the promise of higher productivity as business success and profits accrue to all strata of society. Companies that fail to encourage transparency, refuse to participate in a

public dialogue over priorities, and ignore or support unethical practices invite further government regulation that will stifle innovation and productivity.

The current recession provides an opportunity for businesses to readjust to the new realities. This opportunity, sometimes referred to by economists as "creative destruction," will shape a national and global economy significantly different from the one that existed at the start of the new century. How might this new reality impact the USA? We may find the USA launching a new national elixir labeled "socialism lite." 

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