



Productivity goal setting for a new year: a tool for SMEs—Kelvin Chan Keng Chuen

What productivity measures should you use for goal setting? Productivity is about the creation of value for your customers versus the efficiency in utilization of your resources. Many in both industry and government agencies use the labor productivity ratio as a primary indicator to assess enterprise performance. This ratio is obtained by dividing the value added generated by the number of employees in the enterprise (Figure). Value added can be computed using 1) the subtraction method in which brought-in materials and services are subtracted from sales or 2) the addition method in which manpower costs, interest, tax, depreciation, profit, and in some countries rental are added to obtain the value added of the enterprise.

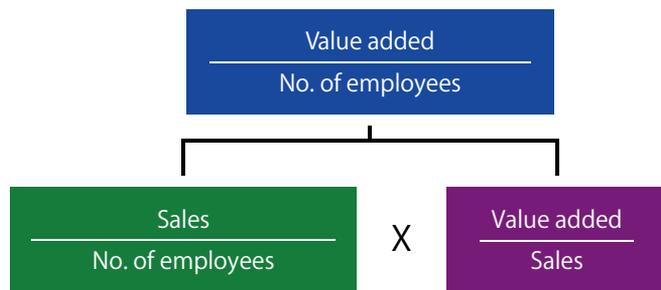


Figure. Components of the labor productivity ratio.

The value-added approach encourages employees to work alongside management to create value for the enterprise. Coupled with productivity gain sharing, employees will be motivated to generate more value for the enterprise, as they will benefit from it. The labor productivity ratio is computed at the end of each financial year. Performance in productivity can then be evaluated by comparing that year with historical performance or industry benchmarks.

A relatively young SME in the service sector in Singapore started its productivity drive three years ago and established a system to assess performance in productivity. As illustrated in the Table, the historical trend of labor productivity increased by an average of 6.8% per annum. This showed that the enterprise had performed well, growth strategies adopted were sound, and, more importantly, efforts to manage the enterprise had paid off. When comparing the performance against the industrial average of S\$22,287 per employee for this sector, the SME realized that it had outperformed the industry benchmark. This was good news. To avoid complacency, the enterprise decided to set an ambitious improvement goal of 10% annually for the next few years.

Table. Labor productivity performance of a service-sector SME. Monetary values are in Singapore dollars (S\$1 = US\$0.77).

Year	Annual sales (a)	Brought-in materials & services (b)	Value added (c) = (a)-(b)	No. of employees (d)	Labor productivity ratio (e) = (c)/(d)	Growth of labor productivity
Year 1	\$472,300	\$234,079	\$238,221	11	\$21,656	–
Year 2	\$698,971	\$374,182	\$324,789	14	\$23,199	+7.12%
Year 3	\$874,257	\$503,642	\$370,615	15	\$24,708	+6.50%

In the quest for improvement, the enterprise found that increasing the sales per employee or the value added-to-sales ratio increased labor productivity. Management reviewed the list of services to identify strategies to increase the volume of high value-added services. Lean management activities were introduced simultaneously to reduce waste. An innovation project was initiated, resulting in the launch of two new high value-added services that further boosted sales. Once again, the improvement efforts paid off as the SME increased its productivity by 35% over the following three years. That is a great achievement by any account.

In another example, a South African SME printing company was in crisis when one of its biggest customers that contributed 30% of its annual sales turnover decided to use another vendor. The productivity measures implemented earlier allowed the enterprise to remain competitive by reorganizing its manpower requirements while implementing strategies to rebuild the business.

What is the productivity of your enterprise? Set your productivity goals to kick-start the new year. Make use of the above template and approach. Assess your historical performance and compare it with the industry benchmark. When the facts are established, productivity goal setting and selection of strategies for improvement will then be obvious to you. 



Contributed by Director and Principal Consultant Kelvin Chan, Teian Consulting International Pte Ltd, Singapore, and resource speaker for the APO training course on the Development of Productivity Practitioners: Basic Program.



For easy reference to productivity-related terms including methodologies, tools, and techniques, the APO developed the p-Glossary, available on its website (www.apo-tokyo.org).