Articles & Commentaries

p-Watch — Australia

by Richard Barton, former Managing Director of Business Improvement Advisory Services. Previously he was the Business Process and Quality Management Executive for IBM in Australia & New Zealand. He was also General Manager with the Australian Quality Council. He has had a long and close association with the APO. Mr. Barton writes this column regularly for the *APO News*.

The past 13 years have seen a sustained period of productivity improvement and economic growth in the Australian economy. The economy is “feeding on itself ” and seems to be full of confidence. Consumers are being rewarded by an abundance of employment, goods, and services. Unemployment is now the lowest for 30 years and is better than in most people’s living memory. There do not seem to be any major issues on the economic horizon.

Since the early 1990s, the workforce has increased by almost 30%. Consumers are secure in their income which has fed into the economy. Incomes have been rising steadily, but not threatening an inflation breakout. At the same time, union membership as a share of the workforce has declined from just over 50% to just above 20%. Concurrently, direct share ownership of Australian public companies has risen from 15% to more than 40% of the population (not including investments in retirement funds). This is close to the highest per capita share ownership rate in the world.

Some recent key economic measurements over the past four years are interesting: economic growth averaging between 2% and 4%; and inflation ranging between 2% and 3.5%. The OECD in a recent report noted that the Australian economy has been a model for other OECD countries in the “tenacity and thoroughness with deep structural reforms” that have been implemented and in increasing a “deep-seated competitive culture.” It also said, however, that the pace of reform has not been as strong as it could have been. OECD tables show that since 1990 Australia’s GDP per capita has improved from 15th to 10th position compared with the rest of the developed economies, but that labor productivity only improved from 16th to 15th place per hour worked.

The report also states that the economy has moved Australia up the OECD ladder of per capita incomes, but only to the relative terms of the 1970s, and it still remains well below the leading countries in terms of labor participation and labor productivity. It goes on to say that the short-term outlook is rosy, with continuing low inflation and sustained GDP growth of around 3.6%.

> **“All the international evidence is that sources of productivity and improved competitiveness are in growth in skills, ideas, and infrastructure.”**

But there are some major challenges ahead for policy makers in improving productivity. Because of the buoyant economic conditions, the improved employment situation is starting to have an impact on the skill base of firms and professions. Additionally, as in many developed countries, the composition of the Australian labor force is changing as it ages. Soon fewer will be entering the workforce than leaving it. For example, over the next five years it is expected that 170,000 people will retire from the manufacturing workforce and be replaced by only 40,000. This pattern is likely to be replicated in other industries.

Some sectors and firms are reportedly struggling to recruit skilled workers. While this skill shortage can cause wage increases, it can also severely limit business growth. A recent survey by Mercer Human Resources Consulting forecast Australian salaries to rise by 4.3%, higher than the predicted inflation figure. This is not good news.

Comments have been made by many business observers that work-life balance programs are in jeopardy because many people must work longer hours than is considered reasonable, making it increasingly difficult to balance work and life commitments. In full employment times, this can lead to decreased job satisfaction, increased staff turnover, low morale, and declines in productivity, output, and customer satisfaction. These can all result in a downturn in business results. Adding to wages will not compensate when the “quality of working life” is the issue.

An Australian study on matching workplace skills to business needs by Australian Business Limited (ABL) found that red tape (bureaucracy and a lack of customization in training packages) is creating a major bottleneck for Australian businesses wanting to train staff. As ABL reported: “This survey study shows there is a clear and urgent need for government at all levels to make training more attractive to businesses and their employees.” There appears to be too much focus on full qualifications rather than addressing the skills needed for the workforce.

It is not all down to government. Industry and trade organizations need to do more to make their sectors and jobs more appealing to potential employees. Often jobs suffer low levels of recruitment due to poor marketplace image or lack of promotion and poor publicity. Skill shortages in new and emerging industries can stifle growth, particularly in the SME sector, which has been the most progressive in innovation, competitiveness, and profitability in the recent economic success story.

Part of the solution, it seems, is for a greater focus by all parties on the present and future national skill shortage. Companies and human resources managers should focus on how employees can better use their skills and tap into what older workers can contribute to f irms through knowledge management before they depart with their skills and corporate savvy. That is a short-term result. In the longer term, more focus should be placed on vocational education and training, and the key occupations identified as needed for the future professional and skill base should be promoted.

According to the 17 March 2005 edition of the Australian business journal BRW: “All the international evidence is that sources of productivity and improved competitiveness are in growth in skills, ideas, and infrastructure.” Dr. Ram

Ramsay (RIPER Foundation) believes that there is a case for productivity to be quantified in economic terms rather than in physical resource productivity measures, such as output per person hour or per machine hour. Economic productivity, Dr Ramsay wrote in his contribution entitled "Economic Productivity" in the 2004 edition of *APO Asia-Pacific Productivity Data & Analysis*, is the true bottom line. Previously, when wages were linked to the consumer price index, which was in turn linked to inflation, economic productivity was described as the monetary value (say dollars) of output and value added per dollar of resource inputs, i.e., expenditure from all resources. However, to make the breakthrough in measuring true productivity growth and not get caught up in the same anachronistic set of measurements which inevitably leads to higher inflation (short term), we need to look at a fresh productivity measurement approach such as that proposed by Dr. Ramsay, so that the focus can change over time to take the pressure off the already overworked workforce. We should look at improvements in business processes and operating systems to lift the productive output, reward real productivity success, and improve our international competitiveness over the longer term.

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