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# **Further and higher** in productivity

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- European Association of National Productivity Centres, EANPC
- Conference attracts over 400 delegates



Sari Baldauf, former President of Nokia Networks, and Gert-Jan Koopman, Director at the Enterprise and Industry Directorate General of the European Commission, concur that Europe must tackle the issue of productivity in earnest to avoid being overtaken by the rest of the world.

# Further and higher in productivity

**New approaches to productivity were aired at the European Productivity Conference. It became abundantly clear that Europe faces many challenges in improving productivity before it is on a par with the United States.**



Sari Baldauf, whose current vantage points on the globalising and shrinking world include the Board of Directors of Hewlett-Packard, feels that new mobile forms of working also require organisational reforms.

**T**he first European Productivity Conference was held in Espoo, Finland, in August-September 2006. The meeting showed that Europe clearly has a lot of work to do regarding productivity. This issue was highlighted in stark terms by Mr Erkki Liikanen, Governor of the Bank of Finland, and Ms Sari Baldauf, former President of Nokia Networks and currently on the Board of Directors of the IT giant Hewlett-Packard, when addressing the opening session of the Conference.

The two-day Conference discussed productivity from the viewpoints of macroeconomics, services and industry and introduced the delegates to recent Finnish research on productivity.

Labour market organisations were also strongly represented at the Conference.

According to Erkki Liikanen, better produc-

Erkki Liikanen, Governor of the Bank of Finland, on the left, and Prime Minister Matti Vanhanen both spoke at the opening session of the first European Productivity Conference. While Erkki Liikanen emphasised productivity improvement through restructuring of work processes and work organisations, Mr Vanhanen gave a lot of emphasis to innovation and building human capital.



tivity is first and foremost a matter of changing the design of work processes and work organisations and enhancing workers' skills. And it should be noted that the whole prosperity of the nation is increasingly determined by productivity.

Erkki Liikanen considers a strong IT sector and its ramifications to have played a decisive role in productivity improvement in Finland.

"The main point is that modern information technology allows more effective utilisation of information. The new competitive environment also calls for ever greater ICT investments by businesses."

Measuring productivity can be problematic, particularly when dealing with public service production. "How should the security afforded by public services be measured, for instance?" Liikanen wondered.

### Innovation and power of the individual

The significance of innovation and human capital for productivity enhancement was especially emphasised by the Finnish Prime Minister, Matti Vanhanen. "This also touches upon investments into and the quality of human resources administration in business enterprises," Mr Vanhanen said.

As an example he pointed out that it is meaningless to discuss service sector productivity without considering inputs into human resources management.

Sari Baldauf, the former head of Nokia Networks, told the Conference about the current situation in her life, a mixture of busi-

ness (board work at Hewlett-Packard), culture (chairing the Board of Savonlinna Opera Festival Patrons' Association) and youth work (International Youth Foundation).

"This may seem like an odd combination but I can assure you that these things go together very well," she explained at the opening session of the Productivity Conference.

She spoke about productivity issues in a shrinking world. "Productivity interfaces with the power of the individual, which is manifested in the ease with which people from anywhere around the world are able to work together."

The modern approach to working also forces organisations to think vertically rather than horizontally, which also contributes to productivity in a positive way.

### Unnecessary fear of failure

In her address, Sari Baldauf recounted some of the phenomena related to today's global economy: the rise of a middle class in emerging economies, the increase in private consumption in the USA, the transfer of industrial production to Asia and the problem of population age structure which also affects productivity in Finland but can, according to Baldauf, be offset by a well-thought-out immigration policy.

In terms of productivity, Baldauf recommends that Europe should concentrate on its strengths, such as knowledge-intensive and service-based production carried out as close to the customer as possible.

"Europe should also learn to commercialise

**The European Association of National Productivity Centres (EANPC)**, <http://www.eanpc.org>, was established in 1966 to assist and strengthen the exchange of information and experience among the member organisations and to organise joint activities.

Peter Rehnström, Managing Director of the Finnish Work Environment Fund, and Dr Sim Moors of Belgium are acting as EANPC President and Secretary General, respectively, during the period 2000–2007.

The materials of the European Productivity Conference can be accessed on the Internet at [http://www.eanpc.org/EPC\\_agenda.php](http://www.eanpc.org/EPC_agenda.php)

In 2005, the EANPC published a memorandum entitled *Productivity – The High Road to Wealth*, with the aim of co-ordinating the work of the individual member organisations and enhance their co-operation.

The memorandum broadens the concept of productivity by linking it with innovation, quality of working life and employment. In addition, the memorandum discusses the meanings of the word 'productivity'; deals with productivity as an element of value creation and investigates factors contributing to productivity. Examples of projects for productivity enhancement are presented. The memorandum ends by outlining what the EANPC can do to promote productivity.

The memorandum is available in pdf format at <http://www.eanpc.org/memorandum.php>

its innovations faster and be more prepared to take risks. We are just too afraid of failure."

New business models also need to be introduced to speed up European economies.

Baldauf was in full agreement with Gert-Jan Koopman, Director at the Enterprise and Industry Directorate General of the European Commission: Europe needs to really dig in and do something about productivity – and preferably without undue delay. Otherwise there is no hope of ever catching up with the United States in productivity.

In short, Baldauf's message was that Europe is well placed to push much further and higher in productivity from today's levels.

### Work smarter, not harder

Also speaking at the opening session, Mr Peter Rehnström, who is President of the European Association of National Productivity Centres and Managing Director of the Finnish Work Environment Fund, underlined that "although productivity is not everything, in the longer term it is in fact almost everything".

All economic activity is actually associated with productivity. What is essential regarding productivity, however, is that employees, too, must be able to feel committed to productivity objectives. It also comes down to the employer's ability to communicate with staff about productivity issues.

"It should be borne in mind that productivity is related to matters such as security and well-being. Only individuals who are content and healthy can be productive. On top



Peter Rehnström (left), Managing Director of the Finnish Work Environment Fund, and Lynton Perry, Principal of the Grimsby Institute in the United Kingdom, taking a break during the Conference. In his paper, Lynton Perry described how in the final analysis a minor investment in middle management training can yield substantial productivity growth.

on that, high productivity is the best way to keep your job."

Rehnström stressed that productivity can no longer be construed as meaning working harder. Instead, it is today equated with working smarter.

#### **Competitive advantage from well-trained staff**

Stora Enso Corporation was one of the companies which presented their productivity approach to the Conference audience. Stora Enso relies on several factors for productivity: capacity-building new investments, application of new technology in processes and new working practices.

"Well-trained staff can give us a competitive advantage," said Mr Hannu Alalauri, Head of Human Resources at Stora Enso Finland.

Conversely, eating away at forest industry profitability and competitiveness are high raw material prices, low overall levels of investment in the sector, long transport distances and an elaborate system of collective labour agreements.

"We are really frustrated with the last of these," Hannu Alalauri remarked.

#### **Bewildering contradictions**

It also became apparent at the Conference that productivity contains many contradictions. For instance, research and product de-

velopment and training of staff are generally believed to boost productivity and competitiveness. A study shows, however, that the relationship between intangible assets and productivity is not crystal clear but that corporate R&D inputs may at first even cause a drop in productivity.

This finding was made in the IC Toolbox Project carried out by the Performance Measurement Team of the Tampere University of Technology. In the project, the interrelationship of capital and productivity was investigated in an extensive sample consisting of 20 000 companies.

"People tend to think in a rather linear fashion that any investment in intangible assets will enhance productivity. Yet the relationship is a very complex one, and productivity increase may not be observed until many years after the original input," said Antti Lönnqvist, who is Senior Researcher and Head of the Performance Measurement Team at the Institute of Business Information Management at the Tampere University of Technology.

Factors such as corporate culture or differences between industrial sectors can have a huge impact on how well a company is able to exploit its investments in intangible assets with regard to productivity growth.

Ms Vilma Vuori, also a Researcher at the Tampere University of Technology, talked about companies' capabilities to utilise their staff as a source of business intelligence.

"Not many businesses appear to have succeeded in this."

## **Conference attracts over 400 delegates**

The European Productivity Conference was an ancillary event during the Finnish EU Presidency.

The Conference organisers included the European Association of National Productivity Centres (EANPC), the Ministry of Trade and Industry, the Finnish Work Environment Fund, the Finnish Workplace Development Programme run by the Ministry of Labour, the Centre for Occupational Safety, the Ministry of Finance, the central organisations representing the Finnish economy and public services and the technology universities of Finland.

Some 400 people from all parts of Europe participated in the Conference: people from businesses and public service organisations, researchers, consultants and policymakers.



The relationship between productivity and intangible assets is by no means a simple one. This problem was looked at in a sample of 20 000 firms by Antti Lönnqvist, Senior Researcher at the Institute of Business Information Management at the Tampere University of Technology, and Paula Kujansivu, Researcher at the Institute of Industrial Management of the same university.

Over 400 delegates from different parts of the world attended the European Productivity Conference. Marwa Almaskati (left) and Ammar Awachi came from the island state of Bahrain to observe the contents of the Conference. Their interest stemmed from the fact that Bahrain is planning to organise a similar type of event.



Although it is commonly known that in-house staff often possess extremely valuable information about, say, markets or competitors, only a fraction of business enterprises have the know-how to exploit such information systematically or analytically.

There is also an ongoing discussion in enterprises as to whether staff should be remunerated for significant business intelligence or whether such sharing of knowledge with one's employer is actually an integral part of the job.

### Alternative forms of service production

One of the focal themes of the second day of the Conference was alternative ways of producing public services and the associated management systems and technologies. The session was chaired by Mr Pekka Sauri, Mayor for Public Works and Environmental Affairs of the City of Helsinki. He told the Conference that service production in Helsinki is no exception in that the city continuously wrestles with the problem of keeping to budgets, with money seldom lasting beyond September.

Many local governments in Finland are looking for new ways of providing municipal services. Examples presented at the Conference included the models of Oulu, Raisio, Lapinlahti and Utajärvi.

According to Mr Kari Nenonen, Mayor of Oulu, Oulu can be considered a pioneering innovator and implementer of new forms of provi-

sion of municipal services in Finland. The strategic process was launched back in the 1990s. In 2000, Oulu piloted its new purchaser-provider model in the Day Care and Family Work Profit Centre through productisation, competitive tendering for support services and internal contract steering.

### Customer is key

In the purchaser-provider model applied by the City of Oulu, the roles of provider and purchaser are separated. The new model will be operative in the entire service organisation by 2008 by which time the social and health administration will be fully integrated into the system.

The new way of service production and the associated net budgeting have enabled Oulu to save up to 20–30 per cent in services. So the model is quite cost-effective, and it is also considered customer-friendly.

"Customers play an absolutely key role in the new purchaser-provider model," said Nenonen.

An essential feature of the new model is that personnel were not made redundant, but there have been changes in work tasks.

"We wanted to provide services less expensively, more efficiently and more competitively," said Nenonen in summarising the background of the strategic process.

Most of the services provided by Oulu are still provided by the local authority itself. The nuclear municipality (as opposed to a joint

municipal authority) acts as the purchaser of the services.

### Fresh practices in Raisio, too

A purchaser-provider model was also presented by the Mayor of Raisio, Mr Kari Karjalainen. The Town of Raisio has, since 2004, implemented a model whereby the Council purchases services provided by the various municipal committees.

At first, the development project focused, for instance, on reviewing the service production process with a view to improving the effectiveness of the service-providing organisations. As a result, Raisio was able to eliminate inadequate work and management practices, redundant functions and bottlenecks.

Information technology and production control have been harnessed in support of the new service model. "We make an effort to monitor the demand and supply of services in real time. The service providers utilise a computerised resource database as a tool to manage and optimise functions."

*Text by Tiina Ruulio  
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