#2 Importance and Factors Affecting Productivity

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Review : What is Productivity ?

Productivity is the quality or state of being productive.

Productivity is the measure of how specified resources are managed to accomplish timely objectives stated in terms of quality and quantity.

indicate

How well labor, capital, materials, and energy are used!

Why Labor Productivity?

- ✓ Easy to measure
- ✓ Easy to get the actual data
- ✓ One of the main cost in production system

PRODUCTIVITY vs INFLATION

(Summanth, 1985)

Increase inflation

Lack of productivity growth

To achieve company's sales revenue targets → increasing the selling price, **but not** consistently increasing total productivity

The condition is the money supply grew **faster** in recent years (**inflation**) **than** did the national output of goods per unit of labor resources (**labor productivity**)

PRODUCTIVITY vs THE STANDARD OF LIVING

(Summanth, 1985)

High standard of living

High growth rate and level of labor productivity

PRODUCTIVITY vs EMPLOYEMENT

(Summanth, 1985)

Reduce the unemployment rate

High growth rate and level of labor productivity

PRODUCTIVITY vs POLITICAL POWER

(Summanth, 1985)

Increase political power

Strong productivity

When a country is not productive enough to sustain its essential products and services, **it has to depend on foreign countries.**

The greater the dependence, the lesser the political leverage, particularly in times of war and crises.

PRODUCTIVITY vs ECONOMIC POWER

(Summanth, 1985)

Great nation's economic power

Strong productivity

Are these still same with 21st century's condition?

Riggs (1987) has a different perspective for productivity nowadays.

- *It is not a measure of production quantity.*

  It is a relationship of output to input; increasing production output may or may not improve productivity, depending on the inputs used to achieve that production increase.

- *It is not a measure of profitability.*

  It indicates the efficiency of operations and thereby suggests their profitability, but inefficient operations can occasionally be profitable if the product enjoys a favored market status.

- *It is not a guaranteed way to reduce inflation.*

  It may be a moderating factor, but it is only one among many economic factors that determine the general price trend.

- *It is not a technique to make workers work harder.*

  It is an approach that encourages workers to work together and to be more effective.

FACTORS AFFECTING PRODUCTIVITY

- Investment
- Capital / Labor Ratio
- Research & Development
- Capacity Utilization
- Government Regulations
- Age of Plant and Equipment
- Energy Costs
- Workforce Mix
- Work Ethics
- Workers' Fear About Loss of Jobs
- Unions' Influence
- Management

PRODUCTIVITY BENEFIT MODEL (1/3)

- PRICE/UNIT = COST/UNIT + PROFIT MARGIN/UNIT
- Improving total productivity results in two favorable management strategies :

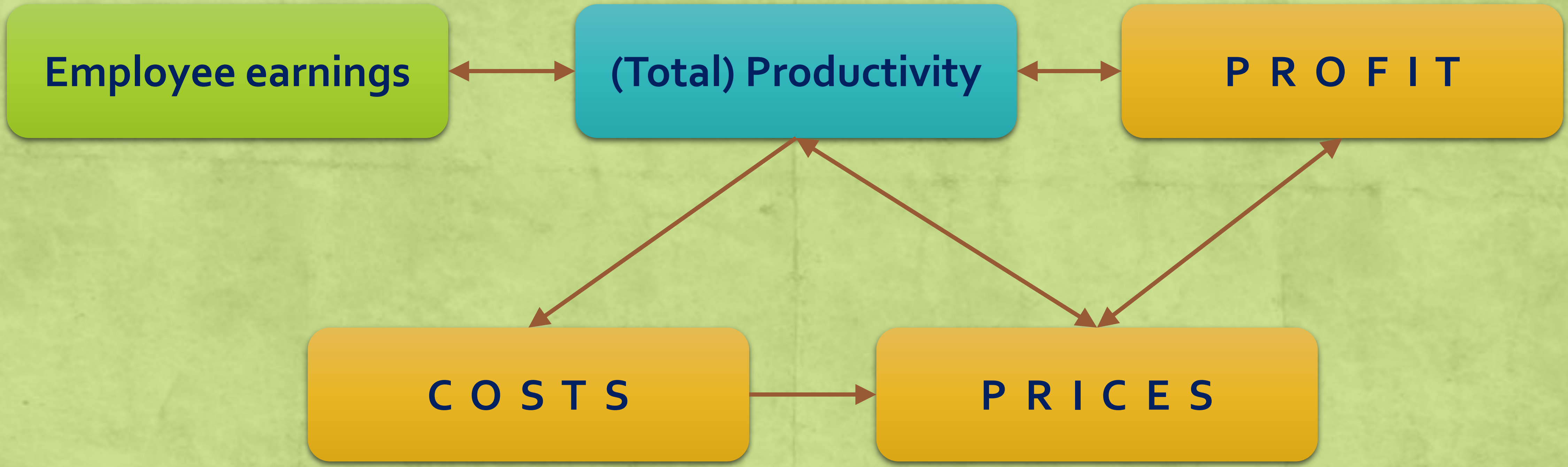
1. Reduce the selling price of a product or service without sacrificing the present profit margin.

2. Increase the profit margin without reducing the selling price.

PRODUCTIVITY BENEFIT MODEL (2/3)

- If strategy 1 is adopted :
  1. *The consumers* will benefit through savings by purchasing the product or service at lower prices for the same quality or even better quality in some cases.
  2. *The organization* will most likely benefit through a gain in market share, and this might, in turn, create greater revenue-generating opportunities and take advantage of the economic of scale.
  3. *The employees* of the organization will benefit through increases in real wages or salaries (when the organization sincerely shares the productivity gains with its employees).
- If strategy 2 is adopted :
  1. *The shareholders or owners* of the organization will benefit through larger dividends on their shares. Also, *the organization* will have a better chance of reinvesting the profits in new products, services, processes, and ventures.

PRODUCTIVITY BENEFIT MODEL (3/3)



(Summanth, 1985)

How is the implementation of Productivity Benefit Model ?

Let's try !

Case Study :

- A company manufacturing toys sold one of its models (model Z) for $7 per unit last year, during which time, the company sold 10,000 of the model Z toy. The sales price of $7 included $2 for profit after all the costs were accounted for.
- This year, as a result of the improvement in the total productivity level for the model Z toy, the company was able to reduce the total cost per unit by $1. What benefits does this company realize this year?

Results :

- Last year :
  - Selling price/unit = $7
  - Profit margin/unit =$2
  - Total cost/unit = 7 – 2 = $5
  - Total profit for model Z = 2 x 10,000 = $20,000
  - Sales revenue = 7 x 10,000 = $70,000

What is your opinion??

- This year (after improvement) :
  - Total cost/unit = last year cost/unit – $1 = 5 – 1 = $4
  - (Suppose the same profit margin) Selling price = 4 + 2 = $6
  - (Suppose the same sold product) Sales revenue = 6 x 10,000 = $60,000

Have an enjoy study
and see you next week…

Thank you…