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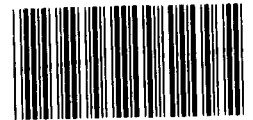
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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON GENERAL OVERSIGHT  
COMMITTEE ON SMALL BUSINESS  
HOUSE OF REPRESENTATIVES



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ON

"THE CONTINUING NEED FOR PRODUCTIVITY IMPROVEMENT"

Mr. Chairmen and Members of the Subcommittee:

I am pleased to be here today to discuss the continuing need for productivity improvement. As you know, we at the General Accounting Office share your deep concern and interest about this subject. We have issued numerous reports directed at improving productivity in Federal agencies and have often examined and addressed the Federal role in improving national productivity.

We have been pleased to note throughout the country the increasing recognition of productivity's importance. A recent Harris survey conducted for Sentry Insurance found that 79 percent of the American people now believe that declining productivity in this country is a serious problem requiring urgent action. Although the magnitude of the productivity crisis is now widely recognized, the problem still remains.

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Productivity improvement in the private and public sectors is more important now than ever. It is needed in the private sector to enable businesses to deal with the financial problems brought on by inflation and increasing international competition. It is needed in Government as budget reductions and inflation force agency managers to deal with ongoing problems and responsibilities with fewer resources.

I am pleased to be able to report that in both sectors, widespread recognition of the productivity problem is now being translated into action. While much of this activity is in an early stage of development, it is a hopeful sign. The question now is whether this action is substantive and will produce significant results.

In my testimony today I would like to share with you some of our findings about private sector initiatives to improve productivity, what we consider to be the key elements in an effort to improve productivity, and what some Federal agencies are now doing along these lines. Finally, we will offer some thoughts on how the Congress and the executive branch can help bring about greater productivity improvement in Federal agencies.

In our work related to productivity in the private sector, we have examined approaches to productivity improvement in many companies. During 1980, we visited 54 companies around the country to examine their experience and attitudes regarding productivity sharing as a technique for improving productivity. Productivity sharing is basically an arrangement in which company management

and employees agree that the value of all increases in productivity over a given level will be split between the company and the employees. It is a concept that has been around a long time, but only recently has it become popular, especially among smaller firms.

We found that firms with productivity sharing plans experienced a 17 percent average annual reduction in work-force costs. In addition, these firms reported such important non-monetary benefits as improved labor-management relations, reduced grievances, less absenteeism, and reduced turnover. The combined effect of these indicators was a substantial increase in productivity. We were encouraged by the level of commitment these firms demonstrated to improving productivity. Interest in productivity sharing is now at a peak. Over 11,000 copies of our report have been requested, making it one of GAO's most widely distributed reports.

Another approach to productivity that has become increasingly popular in the private sector is the establishment of formal productivity improvement programs. This is evidenced by a new management title that has been springing up on the corporate organization charts of many firms in the past three or four years. That title is productivity manager. These managers have different roles and responsibilities, but they are all company focal points for productivity improvement.

We recently examined seven of the more notable company productivity efforts to get a better understanding of what they are doing. We did this as part of an on-going review requested by Senator Charles Percy. He asked us to examine Federal agency

efforts to improve productivity. Our private sector visits enabled us to develop some criteria for assessing Federal activities.

We found fairly consistent reasons for the establishment of formal productivity programs. Most of the firms told us they had long been able to rely on increases in prices or volume to meet their profit objectives. Productivity simply was not a major concern so long as profit goals were met. Beginning in the late 1970's, however, many of the firms found that their markets were not willing to accept higher prices and volume. At the same time, they were faced with increasing labor and supply costs as well as heightened international competitiveness. This dilemma forced the firms to look inward and find ways to reduce costs and improve productivity. Productivity managers were designated to develop corporate strategies for top management that would result in productivity improvement. Let me provide you with a few examples of what we found.

At Anheuser-Busch the program is directed mostly at improving productivity by first developing employee awareness of the need to reduce costs and increase production, and second by developing productivity-related measures and goals for company managers and holding managers accountable for performance against these measures. Control Data Corporation has in recent years established a small headquarters unit for productivity. The productivity staff serve as consultants to managers throughout the corporation on ways to

improve human resource productivity. General Mills has also established a small internal consulting group for productivity. This group works with company managers on various human resource productivity issues ranging from long-range planning to the development and implementation of specific productivity projects.

We found it interesting that many of the firms' productivity efforts were devoted almost exclusively to human resource productivity. The feeling at most of the firms seemed to be that the technological aspects of productivity were being addressed adequately, while the increasingly important human resource aspects of the productivity problem required special attention.

One company that has combined the human resource and technological aspects of productivity is Westinghouse Corporation. Westinghouse has consolidated all its productivity work in a Center for Productivity and Quality. The Center, with a staff of 240, has four corporate-wide objectives: (1) improve productivity in all corporate functions; (2) improve capital investment; (3) improve product quality; and (4) improve quality of working life. The technology side of the Center is heavily involved in developing robotics and other equipment the company needs that cannot be purchased. The human resource side of the Center is mainly involved with training and employee involvement programs.

While all the productivity managers we met view their programs as important and effective, documented results at this time are limited. This is understandable since the programs are generally new and, in some cases, are geared more toward heightening concern about productivity rather than introducing specific cost

reduction techniques.

One firm, however, was able to quickly identify dollar savings in the tens of millions as a direct result of the productivity improvement effort. Another firm noted significant increases in production, reduced scrap, as well as reduced employee turnover and absenteeism. All of the productivity managers believe their efforts will have significant long-term benefits for their companies. One productivity manager said he even guarantees his superiors that each employee assigned to the productivity staff will save the company over \$800,000 each year.

Although each firm has its own approach to organizing a formal productivity program, we found they all have certain common elements. We believe the seven common elements we have identified are needed in any organization-wide productivity effort in either the public or private sector. The seven elements are as follows.

First, top level support and commitment to productivity improvement. By this we do not mean a mere pronouncement by the top executive, but a continuing involvement by this person in ensuring that productivity is improved.

Second, establish a high level manager to serve as a focal point for productivity. Each firm we visited considered the designation of a formal productivity focal point to be essential for program success. One productivity manager explained that this is needed to: (1) institutionalize the effort; (2) accumulate and disseminate information on productivity improvement for managers and employees; (3) provide top management with data

on productivity performance; (4) increase awareness throughout the organization of the importance of productivity; and (5) provide for continuing emphasis on productivity to ensure that it does not "get lost in the shuffle" as such efforts have in the past.

Third, generate awareness of productivity's importance to the company and involve all employees in the effort. This can include speeches by top management, posters, and video presentations. The awareness campaigns try to eliminate misunderstandings about productivity and make employees realize their importance to the productivity effort. The awareness effort often includes employee involvement and participation in developing ideas on how productivity can be improved.

Fourth, identify productivity objectives and goals and develop an organization-wide productivity plan. The type of plan most appropriate for an organization varies considerably. A plan is essential since it makes clear to everyone in the organization what needs to be done to meet the goals.

Fifth, develop productivity measures that are meaningful to the organization. Productivity measurement is essential, but it is not essential that the productivity measures satisfy all the concerns economists and statisticians often express about technical accuracy. Rather than attempt to develop precise, total factor productivity measures, firms are quite properly using measures that are easy to understand and calculate and are meaningful to top management as well as to those being measured. Some firms use broad measures of gross output over input, sales per

employee, or sales over compensation. Other firms use very narrow measures addressing particular problems such as rejects per thousand of a particular unit or energy use per unit of output.

Sixth, use the productivity plan and measurement system to hold employees accountable for productivity improvement. The existence of a productivity plan and a measurement system can be of little benefit unless they are used for this purpose. The firms we visited all emphasized manager accountability for productivity in their programs. At several firms this was done by specifying expected productivity rates for various measured activities, comparing actual to expected, and using this data in assessing managerial performance, compensation, and bonuses. As with the measurement systems, each firm has developed its own productivity accountability system that seems most appropriate to them.

Seventh, provide a mechanism for examining productivity problems and developing recommendations for their resolution. All but one of the firms we visited had a procedure for identifying methods or changes that can improve productivity. This mechanism is generally called a productivity audit. The audits are conducted by task forces that consist of various individuals with some expertise related to the program or problem under review. The productivity audits are not deficiency oriented. They are designed to resolve problems already recognized by plant managers.

We believe these seven elements are necessary for an effective productivity effort in either the private or public sector. In the most recently measured period, Federal productivity improved



at an annual rate of 1.4 percent. While this compares favorably to the negative productivity trend in the private sector, we believe much more can be done. In our current examination of Federal efforts to improve productivity, we are finding that most agencies have only small, narrowly conceived productivity efforts that encompass very few if any of the seven elements we listed. Consequently, these agencies are missing opportunities to reduce costs and/or increase output through productivity improvement. There are, however, several encouraging efforts. I will now briefly highlight two of these efforts aimed at improving productivity that appear well conceived and are being implemented.

Concern about productivity improvement is evident within the top-management echelons of the Department of Defense (DOD). The activities of the recently created Council on Integrity and Management Improvement exemplify this concern. The Council was established by the Deputy Secretary of Defense and consists of such high-level members as the undersecretaries of the military departments. The Council is now focusing its attention on comprehensive management improvement plans that were requested from each service. The plans, once approved, are intended to be used to provide incentives for managers at all levels to develop new and better ways of managing defense activities. The Deputy Secretary has described the Council as a "conduit through which cost-cutting recommendations can be disseminated to every echelon of the Department." This real interest being shown in productivity improvement on the part of the uppermost levels of DOD management appears to be a source of motivation

to employees and managers involved in productivity-related work.

Furthermore the Air Force, Navy, and Army are engaged in their own productivity improvement activities. Although each service appears to be making substantive progress, our most in-depth look at these efforts so far has been with the Air Force Productivity Enhancement Program. A most vital and effective part of this program is the policy that allows savings achieved from productivity improvement to be applied to other approved but deferred activities within the organization responsible for the savings. This is seen by the productivity staff as the best way to motivate Air Force middle managers to work for savings. This approach also overcomes the notorious disincentive to productivity encountered by most managers, namely budget reductions that match any previous savings.

An example of Air Force savings achieved by increased productivity is seen in the results of the Fast Payback Capital Investment Program. In 1980-81, 275 projects were initiated under this program with estimated life cycle savings of more than \$60 million. The Air Force claims a return on investment of seven-to-one for these projects.

Another important Air Force initiative is the Integrity and Management Program which was recently established by the Secretary of the Air Force as a counterpart to the DOD-wide Council. One of the main objectives of this program is to closely coordinate the activities of the Productivity Enhancement Program with such other initiatives as the value engineering and acquisition improvement programs.

Another Federal organization that has made considerable progress in productivity improvement is the Internal Revenue Service where a newly created Planning and Analysis Division is the focal point for the already existing productivity program. Two important projects run by the productivity staff are the Productivity Enhancement Fund and the Management Generated Savings Program. The former provides funds for various productivity improvement projects within the Service. The latter has a payback incentive which allows managers to keep 50 percent of the savings generated by improvement projects. The Service's fiscal year 1982 productivity plan listed 215 productivity-related projects of all kinds. The plan reported a savings of almost \$27 million for fiscal year 1981.

I should note that officials with these productivity programs and several others we have examined spoke highly of the Office of Personnel Management's Workforce Effectiveness Division's efforts in helping them initiate, implement, or improve their programs. OPM's program, which began in 1979, was designed to assist Federal managers in improving productivity through management analysis, improved measurement, and information sharing among managers in the Federal Government and the private sector as well. These officials are concerned that this support from OPM has been virtually eliminated and they now lack any central support and assistance. Many productivity officials believe the elimination of OPM's support may hinder their agencies' efforts to develop and improve effective productivity improvement programs.

Although we are able to point to several positive actions for productivity improvement in the Government, we are concerned that

not enough is being done. We have found in many of our studies that Federal managers in general are not particularly cost-conscious. This is not entirely their fault since there are at least two obstacles to productivity improvement. First, we have found that a common ingredient in achieving improved productivity in the Government is the willingness of managers to take risks. We have heard of instances where risk-taking managers have been penalized or punished for taking such risks. We plan to follow-up on this point in our ongoing review. Second, the Congress, the administration, and the public are overly concerned with control. Some control is obviously necessary, but we have gone so far in trying to prevent every conceivable abuse in Government, to avoid every mistake, and to look and be correct on every occasion that we have effectively suppressed efforts to improve productivity.

This means, for example, that as long as benefit checks are paid on time and accurately, a Federal manager is considered to be doing a good job. Seldom is anyone in the Congress, or the executive branch concerned with whether the same level of service could be provided at less cost. Understandably, most Federal managers respond by putting little emphasis on this area. We would like to see productivity and efficiency concerns made a high priority in Federal agencies. This is especially appropriate in a time of inflation and budget reductions that force managers to do more with less. Productivity improvement will allow agencies that have had budget reductions to do more than their

reduced budget levels would suggest they can do. Thus, productivity is a most important management tool, particularly in times of tight budgets. However, we lack approaches that will hold Federal managers accountable for productivity improvement and assist managers who want to improve productivity.

As we noted in a 1978 report (FGMSD-78-33), the Congress can help foster increased concern about productivity by encouraging agencies to use productivity data in their budget requests and by then using this data in the appropriations process. The Office of Management and Budget could also do much more along these lines.

Further, there should be some form of central management assistance to Federal managers who want to improve the productivity of their organization. We are concerned that each effort along these lines in recent years has been drastically changed or dismantled before having a chance to demonstrate results. Assistance for management improvement and productivity has shifted from OMB to the General Services Administration to the Office of Personnel Management. OPM's program has been virtually eliminated just as it was getting up to speed. While there are certainly other ways to reach the objectives OPM had set for itself when it created this productivity assistance effort, we have not seen any significant alternative Government-wide strategy put forth by the administration. Frankly, we are puzzled by this apparent deemphasis on productivity during a period of budget reductions. Federal managers need some help in reaching the productivity goals we believe they should be striving for, and that will enable them to produce despite reduced funding.

We consider productivity in the public sector to be every bit as important as it is in the private sector. We have seen that when given the necessary incentives and resources public managers can be extremely efficient in carrying out the public's business. Unfortunately, as I have already noted, the Congress and OMB are often more concerned about effectiveness and overall budget levels than about agency efficiency. The current budget reductions are placing severe demands on many Federal managers; this environment of austerity should be used to nurture increased concern about productivity. This has been the intelligent response of many private firms that have confronted financial constraints, and it has been the response of some Federal managers. It must be made clear to Federal managers at all levels that productivity is a matter that deserves to be of high priority and that they will be held accountable for the productive utilization of resources. We simply cannot afford not to pay more attention to productivity improvement.