Productivity in the public services

Introduction
As austerity measures continue to bite across Europe, there is increasing pressure on public services to do more with less. This raises the question of public sector productivity – what it is, what it measures and what it implies for public sector trade unions and their members.

In order to address these questions EPSU organised a project, with the financial support of the European Commission that involved three regional meetings of EPSU affiliates and a final review and evaluation meeting. Just under 70 representatives from unions in 20 countries took part in the discussions.

This final report attempts to reflect the main points of those meetings. It was written by Christoph Hermann of the Austrian research organisation FORBA and David Tarren of Adapt International in the UK who were commissioned to work on the project and contributed a number of presentations to the project meetings.

However, further discussion with EPSU affiliates on this report and the translated versions produced a number of substantial comments that it has not been possible to integrate in the report before the project deadline of 31 October 2011. As a result we would see this report as a contribution to the continuing debate on productivity in the public services and by no means the last word on the subject either from EPSU or its affiliated organisations. The EPSU secretariat will continue to work on this issue during 2012 with the intention of producing a briefing document or article that will complement this report and take into account the further comments from affiliates.

Why is the public sector different?
A common criticism of the public sector across Europe is that it is inefficient and that there is an urgent need to boost productivity. However, far from being a cost or a burden for societies, the public sector creates social wealth and makes a major contribution to the development and well-being of citizens across Europe.

Much of the critique of public sector performance is rooted in the misconception that the public sector pursues the same goals as the private sector. Yet the public sector, or more concretely public services such as the provision of utilities, health care, education and other government services, is fundamentally different. The public sector is not about creating and maximizing profits but about fulfilling basic social needs in an equitable and democratic manner.

There is nothing wrong with aiming for producing the best outcome with the available resources. However, rather than simply adopting private sector measurements, the public sector approach must take account of questions of quality as well as accessibility, accountability and affordability.

What is productivity?
The problem with the term productivity is that it can have different meanings depending on the proponents who use it and the context in which it is used. In very general terms productivity refers to the relationship between inputs and outputs in a production process. Productivity is expected to increase when output expands while input remains the same, or when input declines while output remains unchanged.
Inputs typically include capital, labour and intermediary inputs. The problem how to account for outputs will be discussed further below. In the world of business productivity is often used in a much narrower sense referring to specific productivity or performance indicators that need to be improved. A manager, for example, may demand that cleaning staff increase the number of square meters cleaned in an hour or working shift.
Productivity, furthermore, is often used synonymously with efficiency. Both terms refer to the relationship between inputs and outputs. Yet while economists and politicians often talk about the efficiency of an organization or institution, efficiency as such is rarely measured. Official statistics only provide data for productivity and usually only for the sector or national level (most commonly as labour productivity – see further below).

There is also confusion over efficiency with profitability. Although profits typically increase as a result of growing productivity, an organization can be perfectly efficient without generating profits. Sometimes efficiency is used simultaneously with effectiveness. Yet there is an important difference between efficiency and effectiveness: While efficiency refers to the relationship between inputs and outputs, effectiveness links inputs with outcomes.

Outcomes not only capture the immediate result of a production process but also the extent to which output contributes to the achievement of a specific social goal. As the goal of the provision of public services is about the fulfilment of social needs, it is more appropriate to focus on outcomes rather than outputs to assess the public service performance. Talking about outcomes rather than outputs also shifts the focus from merely quantitative to more qualitative aspects of service provision. Quality is crucial because it reflects the degree to which outputs contribute to outcomes.

**Measuring productivity**

Measuring productivity is more complicated than it might first appear, even when discussing private sector productivity. The main problem is how to measure output. The process is relatively straightforward when the output of the production process is tangible goods that can be counted. An example would be the number of cars or computers produced in a working day or week. When productivity refers to individual performance indicators such as the number of square meters cleaned per working hour or working shift, then the measurable indicators are used as proxy for outcome – it might be possible to confirm that the required amount of cleaning has been carried out, but assessing the quality of cleaning is another issue. When an organisation produces a variety of outputs and when the outputs are not tangible – as it is typically the case in service provision – measuring output becomes even more of a challenge.

Statisticians usually measure output as the money value of the products and services created in a production process, i.e. by the potential prices of the output. By doing so they assume that markets are competitive and all goods and services sell for their real value. Accordingly higher prices stem from the superior quality of a product or a service rather than the market power of the producer or of particular sales strategies (e.g. deriving prices from the purchasing power of potential consumers). Since in the real world this is not always the case even private sector productivity measurements can be open to question.

The problem is still more complicated in public services. Here the main difficulty is that public sector output has no market value. As mentioned before, public organizations produce services to fulfil social needs. Rather than being distributed through markets, where supply and demand result in a specific market price, public services are distributed freely and equally so that every citizen has access to services regardless of their purchasing power. Even if users have to pay for services, sales revenues only cover parts of the real costs. In the absence of market prices there can be no market value. For this reason, official statistics years assume that the value of public sector output equals the value of public sector input (capital, labour and intermediary services). Yet this approach meant that public sector productivity could not change. Since the relationship between input and output remained the same, productivity could neither increase nor decrease.

It is only relatively recently and only in a few countries that statistics agencies have developed new methods of measuring public sector output. In a first step a public service is
Productivity in the public services

broken up into a number of individual activities. For example, police services are broken down into offences that are dealt with such as violence against a person, sexual offences, drug offences, robberies, various kinds of thefts and burglaries etc. Because some of the activities are more resource intensive than others, they are given different weights. In a next step the activities are associated with costs, resulting in a money value for the overall output. This money value is meant to equate to the value of private sector services.

The problems of measuring public sector productivity

Despite the use of increasingly sophisticated calculation methods, attempts to measure public sector output have hardly solved the fundamental problem of determining output of public services. At least six major criticisms can be made of existing methods:

- **Omissions** Output indices will always leave some activities out and activities may change over time. Hence output indices at best give a partial or approximate picture of output.
- **Estimates** Due to accounting problems the costs assigned to individual activities are often estimations rather than precise calculations.
- **Distortions** The transformation of activities into costs and costs into output volumes invites all kinds of distortions.
- **Prevention** The purpose of a public service may be to make activities unnecessary. The best health care is health care which is not needed. But a decline in healthcare activities following from an improvement in the overall health of a particular society, would produce a decline in productivity, if using the standard definitions.
- **Capacity** Output may only exist as potential activities – e.g. as a health care services able to handle major epidemics. The experience in Canada, for example, has shown that closing hospitals and eliminating hospital beds may increase productivity but undermine the health service’s potential to respond to a major health crisis, in this case the spread of an epidemic like the SARS respiratory disease. On the other hand a major emergency can increase productivity even though it is very harmful to society. Perhaps the best example for a dormant potential to intervene is the military service. While statisticians measure police productivity according to the amount and sorts of crimes handled by the police force, only few would measure military productivity according the number of wars or war activities that have been waged within a particular observation period.
- **Quality** These measurements do not or only insufficiently account for service quality.

A general weakness of existing measurements is the focus on quantity rather than quality, or output rather than outcome. As mentioned before, the outcome of a public service greatly depends on the quality of service provision. Hence an increase in staff numbers in the UK health service after almost twenty years of cutbacks (1979-1997) may have increased inputs but also service quality, which is still not adequately accounted for by the official statistics, despite the attempts of the ONS statistical agency in the UK to create a new measure of productivity. In the private sector quality is supposed to be reflected by different prices for similar services.

Some models have attempted to account for quality by including quality indicators when costs are calculated and weighted. In the case of the health service, for example, the ONS uses quality indicators such as survival, health gain and waiting times. Yet such indicators are hardly enough to judge for the overall quality of the service and the few indicators that exist are debatable (is a 30-day mortality rate enough to judge the outcome of an operation?). As mentioned before, the ultimate purpose of a health care system is to prevent illness rather than to cure it.
The impact of privatisation, marketisation and outsourcing

Privatisation, marketisation and outsourcing are often presented as measures that improve public sector productivity. However, associated productivity gains rarely follow from the introduction of new technology or a superior work organisation, or in the case of outsourcing the exploitation of economies of scale. Alleged productivity gains mostly stem from job cuts and the payment of lower wages. It is true that lower wages reduce the value of labour inputs, but it has no immediate effect on the production process (the long-term effect is most certainly a decline in productivity as poorly paid workers will be less motivated to do their jobs).

Yet most people associate greater productivity with a more efficient work organisation. No one considers cleaning a more efficient service than medical consulting because cleaners are paid less than doctors. This is the reason why labour inputs are usually measured as the number of working hours rather than labour costs. Labour productivity, accordingly, refers to output per working hours. As the same output is achieved by fewer workers, cuts in staff numbers can temporarily increase productivity. However, in the long run cuts in staff numbers may lead to deterioration in service quality. In labour intensive services such as consulting or nursing the quality of services critically depends on the time spend with the service user. This is a familiar situation: if decreasing staff numbers are not compensated by the introduction of new technology or organisational innovations, an increase in productivity must come at the cost of an inferior service quality.

Key issues for trade unions

Given the limitations with the existing models for measuring productivity in the public sector, trade unions should be in a strong position to challenge any claims about low or declining productivity in the public services. Where the debate moves beyond the statistics then there are several important issues for trade unions to focus on including, in particular, the quality of service as well as the quality of employment and working conditions.

If trade unions can take up these questions then this can help to ensure that a genuine rationale underpins an employer’s objectives for improving productivity, and that the employer is not just seeking to reduce costs. In fact, a genuine commitment to improve productivity should allow for the possibility that employment might have to increase rather than assume that a cut in jobs is necessary.

What follows is are the key issues for trade unions to consider in their discussions or negotiations with employers over productivity

Definition of productivity

As with any negotiation the starting point is reaching consensus over the subject matter and productivity has a specific meaning which must be agreed upon prior to negotiations. In addition, it is important for unions to avoid making the assumption that employer representatives fully understand and appreciate the differences between efficiency, productivity or performance. Instead union representatives may wish to introduce these differences at the outset so there is no confusion further down the line.

Employer rationale

Employers may seek to produce evidence, through productivity measurements, to demonstrate the need for a reduction in the size of the workforce delivering a service. They may even be preparing to outsource or privatise the service and are merely using this process to benchmark the service. Trade union negotiators should argue that productivity has to be about long-term objectives that include quality of service and well-being at work. As the Finnish case study (below) shows, simply cutting employee numbers may appear to improve productivity at first but it is a flawed approach which
Productivity in the public services

does not secure long-term and sustainable productivity increases - in fact quite the opposite.

**Widening the agenda**

Trade union negotiators should make sure that issues such as employee well-being are included in discussions with employers. Greater exploitation of workers may drive up productivity initially, but these early gains could well be removed through employee sickness, burn out and higher labour turnover. Increases in productivity should be based around better and smarter exploitation of technology and the introduction of smarter working techniques, not on the exploitation of workers.

**Widening the interest group**

Widen the discussions to include a range of stakeholders, for example service users or a range of employee occupational groups. Increasing the range of interests during negotiations will help to create a diverse and comprehensive approach that will, by its very nature, widen the focus of employers from simply labour costs. Widening the group of stakeholders ought to include employees themselves as they will understand the work organisation and the service so their views and analysis will be important to the overall process. The example from Norway (below) shows what can be achieved through a tripartite process involving trade unions, management and, in this case, local politicians.

**Include work organisation in discussions**

Work organisation is a key determinant of productivity and as such should be subject to negotiations between employers and unions, or at the very least subject to a process of information and consultation.

**Transparency**

Employee acceptance of changes to the organisation of work, or to the traditional career path within an organisation, the working week or operational changes to enhance productivity will only be achieved if the process is transparent and it is perceived as fair by employees affected. Trade union involvement can counter concerns by workers that the process is not open.

**Targets**

If targets need to be set then this should be through discussions between employers and trade unions and must be realistic and set within a genuine timescale. Unions will need to consult with their members to gain a good understanding of what is achievable and negotiated with employers over the timetable.

**Reviewing and evaluating the process**

Whatever process for measuring productivity is agreed upon regular reviews ought to be built into the work. This will ensure the process is meeting its objectives and offer union negotiators a further opportunity to introduce concepts previously excluded or overlooked.

**The link with decent work**

A vital element in the productivity debate is the quality of employment and working conditions. To take one example, the public sector around Europe often comes under attack because it has higher sickness absence rates than the private sector. Tackling this issue can demonstrate the important link between decent work and improving productivity. The Association for Public Service Excellence (APSE) in the UK has highlighted¹ that annual staff absence costs employers £598 per employee. This suggests that reducing absence, through

¹ “Workforce and Staff Absence: Maximising efficiency”, APSE Briefing 10/58 (October 2010)
improving working conditions and better work organisation, can improve productivity. In addition it is worth noting that the same publication suggested that staff in the public sector in the UK tended to work over one hour a week of unpaid overtime, artificially boosting productivity.

If staff morale were to drop, due to issues such as stress, overwork or reduced loyalty, the productivity in the UK public sector would follow a similar trend, thus highlighting the importance of recruiting and retaining loyal workers by providing an attractive career based within a good working environment. It is also important to include the costs of temporary agency workers required to fill the gaps due to workers off work due to sickness. These additional costs will reduce productivity and ought to be used by trade unions to convince employers to include within the productivity indicators the quality of the working environment and, both, the qualitative and quantitative aspects of employment.

Training and education are also important aspects of working life that should be included within a set of indicators. Poor quality of service, deadlines that are not met and low satisfaction by service users will reduce productivity figures and can be remedied by investing in training for staff delivering a public service. If employers focus on the short-term gains by reducing training budgets, higher costs down the line will negate these gains and eventually actually lower productivity figures. APSE further suggests that employers ought to consider ways in which they can monitor and control staff absence by examining job satisfaction and staff workloads.

**Trade union and employee involvement**

Changes to working practices, and possibly conditions of employment, require trust and transparency and in the long-term interests of productivity initiatives ought to genuinely involve employees themselves. Employees know and understand their work better than anyone so they are valuable to the process of measuring and improving productivity, and employers ignore this fundamental point at their peril. Employees should be empowered by their employer to improve work organisation through a process jointly agreed between their representatives and the employer.

**Conclusions**

There is no single model of measuring productivity, and in the public services it is a complex process with no reliable data on productivity yet available. Trade unions can have an important role to play in this area if they want to challenge an employer’s narrow view of productivity as a cost-cutting mechanism or if they have the chance to go beyond this as part of an agreed negotiation process.

Some of the main points in summary:

- Be clear about what is being measured (efficiency, productivity or performance)
- Improving productivity has to be about long-term and sustainable objectives – employers may want short-term gains through job cuts but the early gains could well be removed through employee sickness, burn out and a higher labour turnover
- Issues such as employee well-being have to be included in discussions with employers.
- Employee acceptance of changes to work organisation, the working week and operational changes to enhance productivity can only be successfully achieved if negotiated, transparent and involves employees and their representatives.
- If targets are discussed then they need to be set through discussions with employees and their representatives and need to be realistic and open to review
- Widen the discussions to include a range of stakeholders, for example service users, a range of employee occupational groups, policy makers etc.
Example: Norway – tripartite collaboration – an engine for democracy and quality public services

This example demonstrates the value trade unions can add to the process of improving the delivery of public services and involves the Norwegian municipal workers’ union (Fagforbundet), local authorities, workers and local politicians.

The partners involved in discussions over productivity considered that there was an untapped potential in changing work organisation and using public sector workers more effectively and efficiently, and that innovation can only be achieved through collaboration. Fagforbundet has played a key role in developing this model of tripartite collaboration and now has more than ten years’ experience of renewing and developing quality public services through promoting and organising active participation from employees and the union, the administration and politicians.

The trade unions were open to dialogue and to developing a mutual understanding of the challenges and to agree on the action required. The collaboration included the sharing of information, transparency and a process that was led from the bottom-up, and ultimately included compromises on both sides. The partnership then developed a national government programme from 2007 to 2010, involving 138 municipalities to develop the methodology further.

Through the development of the partnership the municipalities involved have experienced increased economies of scale, a better use of the competences and knowledge of the workforce, more attractive workplaces, increased worker well-being and a healthier working environment. A new national programme has just been launched which will replicate this model of collaboration within the municipal sector.

Fagforbundet is training its representatives throughout the country to increase awareness and explain the importance of this model of cooperation and is receiving feedback on this model from its local representatives and members. It is clear from this example that employees play a critical role, particularly in their capacity as front line service providers. They listen to the concerns of local citizens and attempt to resolve them, but service users also appreciate that there are limits to what is possible.

Through an understanding of being “in this together”, the union also gets added value from the involvement of service users which creates a feeling of ownership and pride towards the community. Greater transparency and sharing of information creates trust towards their politicians as well as to their local administration. Collaboration and involvement has created an environment in which all stakeholders benefit and is the central tenet of building and maintaining social capital.

The following link offers an insight into the process and results of tripartite collaboration and the crucial role of trade unions in tackling the challenges in the public sector. www.fagforbundet.no/forsida/Snarveier/infopakkeresprak/?article_id=62917
Example: Finland – challenging the narrow view of productivity and negotiating a new approach

The public sector trade unions, Pardia, and JHL began discussions with the Finnish government, after it introduced its own productivity programme in 2003. It was soon clear that the government was using the scheme simply to cut the numbers employed to artificially increase productivity rather than attempting to examine working practices and the possibility of introducing new technology and training for the workforce.

A 2010 review of the government’s productivity programme, by the Finnish National Audit Office, reported that the government’s attempts to increase productivity by 2 per cent were being achieved only by a similar reduction in employee numbers, and that genuine attempts, such as introducing new technology, improving access to training and reorganising work were not being considered.

Furthermore, a survey carried out by the JHL public sector union among its activists, found that the measures taken by the government to increase productivity were considered damaging to employee morale and well-being and two thirds of respondents agreed that their departments were negatively affected by the job cuts.

A joint round table on productivity, which represented a range of interests from across the labour market, distributed a survey among its membership to gauge their experiences in developing initiatives to improve productivity and the quality of working life. The outcome of the survey highlighted the link between productivity and quality of work, providing evidence for the unions in their negotiations.

One of the key outcomes of the discussions between the government and trade unions was the development of tools for measuring productivity. The unions had refused to accept that productivity should be measured purely in terms of percentages. As a result of the development of these tools, which extended the scope of measurements to include quality of work, and the government’s own work on Sustainable Productivity, the difference of opinion between the parties over the indicators for measuring productivity has narrowed – wellbeing at work, quality and management are all included as indicators.

What is clear from this case study is that the active role of trade unions broadened the set of indicators for measuring productivity and the focus on sustainable productivity improvements strengthened the process.

Produced with the financial support of the European Commission