

INCREMENTAL PRODUCTIVITY GAINS CAN DELIVER LASTING VALUE

A guide to improving productivity
for professional services firms



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**BUSINESS SERVICES
INSIGHTS REPORT**

FOREWORD

“Winning at productivity could improve your firm’s resilience to change in challenging times - boosting its profitability and enabling you to achieve a better work-life balance for your team.”

Most people already know that UK productivity is not as strong as it should be, but do you understand why it matters and what you can do about it?

According to the Office for National Statistics, UK productivity growth has fallen further behind that of countries like France and Germany since the financial crisis. Based on the latest OBR forecasts, only meagre productivity growth is expected in the next few years, rising by just 1.3 per cent by 2023, which is disappointingly low.

The revelation that a French worker achieves as much in four days as a British worker does in a full working week has captured the imagination of unions, politicians, employers and workers alike. At a time when many businesses are considering cutting jobs or reducing working hours to improve operational efficiency, productivity gains could create an opportunity to improve output and deliver more profits.

In the professional services sector, where salary costs often represent the largest overhead, even just a small improvement in productivity could enhance business value significantly. Whilst this could be viewed as an opportunity to reduce head count, forward-looking firms could view it as an opportunity to improve efficiency and become more competitive, at the same time as making it easier to attract and retain top talent, as well as having increased capacity for new clients.

Improving productivity may sound like a big ask for professional services firms, particularly at a time of intense market competition and the considerable uncertainty about future trading conditions with Europe and the rest of the world. However, this guide is intended to demonstrate that even small incremental improvements in productivity can generate that sought-after all round positive effect of improved results and a better work experience for all.

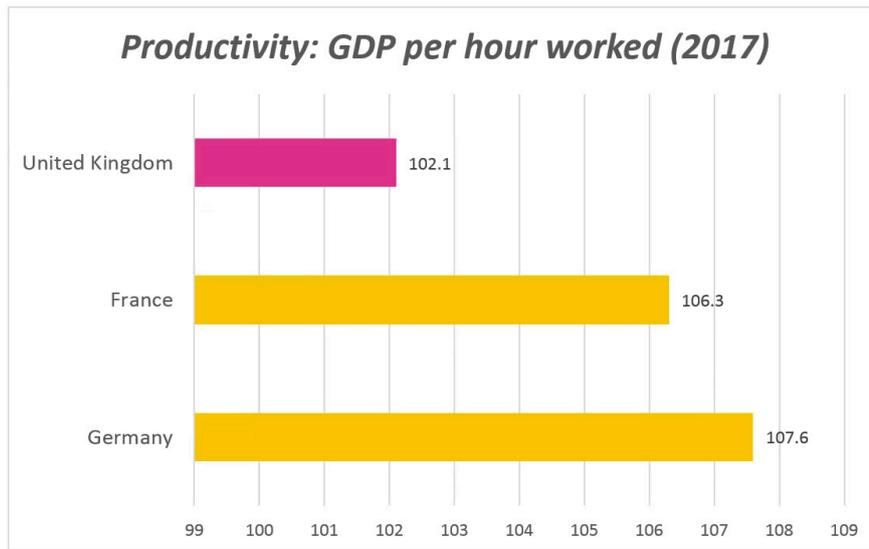
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UK PRODUCTIVITY – a global perspective

At a national level, productivity is most commonly calculated as Gross Domestic Product (GDP) generated per hour worked.

Based on this measure, it is evident that productivity in the UK is trailing that of France and Germany. However, the number of hours worked on average per UK worker is higher than that of their French and German counterparts. Whilst an impressive time commitment, this is ultimately concerning and undermines UK competitiveness.



Source: [OECD](#): GDP per hour worked

On average, British workers worked 325 hours more than their counterparts in Germany in 2017 – that's equivalent to about 40 extra days, based on an 8-hour day.



Source: [OECD](#): Average total hours worked per worker 2017

Whilst driving productivity is important for the UK economy as a whole, there are steps that professional services firms can take to close the productivity gap within their own organisations.

UK PRODUCTIVITY – moving up the political agenda

Recognising the importance of productivity to the UK economy, the Government launched its Industrial Strategy, entitled [Building a Britain Fit for the Future](#), at the end of 2017. Specifically, the strategy aims to boost productivity by focusing support on five 'foundations' – ideas, people, infrastructure, business environment and places. The Industrial Strategy Challenge Fund has also been established to help stimulate innovation activity.

In view of Brexit, there is considerable uncertainty about what the future might hold and how it might impact the financial and professional services sectors. To counter potential after-effects, as well as making productivity improvements in order to boost their profitability, businesses should be looking for ways to grow demand by driving sales or pursuing new market opportunities.

When considering demand, it is essential to consider clients buying preferences and ensure that the services the firm is offering match those that forward-thinking clients need. Professional Service firms should also align their offering to the market and consider technology changes.

Winning at productivity could improve your firm's resilience to change in challenging times - boosting its profitability and enabling you to achieve a better work-life balance for your team. This approach could also buy you the time and resources needed to explore new demand-side possibilities whilst enabling you to design a workplace to meet the needs of your skilled and talented employees.

HOW TO MEASURE LABOUR PRODUCTIVITY

For professional services firms, the ability to measure labour productivity is important as it gives employers an insight into the performance of their employees and enables them to make key decisions about allocating resources, hiring people and pricing.

Productivity in the sector is usually measured in two ways – ‘resource utilisation’ and ‘chargeable time’.

■ RESOURCE UTILISATION

This is essentially the time an individual has available to them to work on useful tasks as a proportion of the total working time available to them. Useful tasks are usually defined as chargeable work as well as other important, non-chargeable work such as business development, mentoring initiatives and undertaking compliance requirements.

This percentage can provide a useful indication of resource utilisation across the firm, enabling business managers to understand whether individuals or teams have the capacity to take on extra work or not.

■ CHARGEABLE TIME

In professional services firms, it can be a good idea to encourage fee-earning staff to set their own chargeability targets, which can help to secure their buy-in.

Another measure of productivity often used by professional services firms is ‘chargeable time’. Similar to resource utilisation, except that this measure is intended to indicate the percentage of time spent solely on chargeable activity, as a proportion of the total working time available to an individual or team.

When using either of these measures, the company will need to calculate the total working time available to each employee, whether full or part-time. This can be calculated in a number of ways but most commonly it is assumed there are a minimum of 37.5 hours of working time available each week, for 44 weeks of the year, allowing for five weeks of holiday, eight bank holidays and other absence such as sick leave and training.

When using the chargeable time measure, employers should set targets that are realistic; ensuring that individual workers and teams are not over-stretched. In professional services firms, it can be a good idea to encourage fee-earning staff to set their own chargeability targets, which can help to secure their buy-in. It is important to bear in mind that if individuals are working at 100% capacity in terms of their chargeable time for several weeks at a time, they will be susceptible to burn out.

UNDERSTANDING YOUR PRODUCTIVITY PRESSURE POINTS

“Rather than focusing on the ‘negative’ of ‘are we over staffed?’, business leaders should consider ‘have we got the right number of staff, in the right teams, providing the right capacity to facilitate the delivery of excellent client services’.”

Extract from Peter Noyce’s book:
‘Brighter thinking for law firms’

The key to improving productivity at your professional services firm is to identify and address each of the main productivity pressure points. These are:

IMPACT

ACTION

TECHNOLOGY

Technological advances are impacting professional services firms in a variety of ways – from the growing use of smartphones which has created an ‘always-on’ culture, to cloud-based software that is facilitating new and efficient ways of storing and sharing information securely.

Artificial intelligence (AI) systems and robotics can also be harnessed to speed up processes and boost productivity by driving efficiencies. For example, the data shared at your weekly 9am finance meeting can now be compressed into a user-friendly alert on your smartphone, highlighting five key points that tell you how the business is performing compared to last month and this time last year, and how much closer you are to achieving your goals.

- Review accounting and financial management processes
- Identify meaningful data required by decision makers
- Consider new ways of reporting data (including KPIs) to senior-level decision makers
- Seek advice about selecting and implementing technologies and processes to meet your firm’s needs
- Consider operational efficiencies such as automatic time recording and electric signatures on documents.

ACCESS TO SKILLS

The current shortage of workers capable of fulfilling jobs requiring science, technology, engineering and maths (STEM) skills is damaging UK productivity. Brexit could limit access to STEM skills further. Some employers in the professional services sector are finding it difficult to hire skilled workers to STEM-related posts.

- Carry out a detailed review of your firm’s skills base – present and future
- Consider to what extent skills gaps could impact your business in the future
- Seek support to establish skills development and training solutions
- Review existing staff rewards and remuneration. Refining these will help you to attract and retain a talented team.

HEALTH & WELLBEING

During times of economic uncertainty, job insecurity can increase, and this can put pressure on employees to work longer hours. As stress levels increase due to longer working hours, so can rates of absenteeism, and a lack of work/life balance can begin to impact wellbeing. These effects inevitably impact labour productivity.

Employers can do more to support healthy lifestyles such as providing fruit and walking meetings.

- Consider strategies such as improved maternity/paternity leave, gym memberships, health checks, private medical insurance and duvet days to promote wellbeing, whilst building and sustaining a well-motivated and effective workforce.
- Conduct an employee survey to find out about employees' health and wellbeing goals.

MORALE & MOTIVATION

A study conducted by the University of Warwick has found that happy workers are 12% more productive than those who are unhappy. However, keeping employees happy and well-motivated is a constant challenge, particularly at a time when wage growth is low, and inflation is eroding employees' disposable income.

Make sure you understand your workforce demographics. For example, it is widely known that Generation Y and 'Millennials' have different expectations, requirements and desires to those of previous working generations.

- Review existing staff rewards and remuneration
- Be imaginative and involve employees in the review process. For example, consider offering employees a chance to buy or sell holidays, introducing a railway season ticket loan or other rewards
- Ensure reward strategies are designed to meet the needs of the business; driving productivity and performance
- Benchmark your rewards and remuneration strategies against those of competitors.

PEOPLE COSTS

Salaries and other people-related costs directly impact the value generated by the business. Failing to invest in employee training and development and the technology needed to work more efficiently could have a limiting effect on labour productivity. Hiring more low-cost staff rather than investing in technology could have a negative effect on productivity.

- Audit people costs and carry out a detailed review of your firm's skills base – present and future. Ensure the right people are doing the right jobs.
- Develop a capital expenditure plan to invest in skills development and technology (including AI systems)
- Ensure your plan is tax efficient and make use of the firm's Annual Investment Allowance. This will have a positive overall impact on profitability.

Increasing regulation and the necessary focus on compliance, can drain resources and impact labour productivity. It can also be de-motivating for your team. Remember that software can be instrumental in streamlining processes and improving operational efficiency.

- Consider outsourcing non-core functions such as payroll/HR and financial management and reporting
- Where there is compliance risk, introduce continuous monitoring and automated filing
- Develop a capital expenditure plan to invest in software and AI systems capable of streamlining processes and boosting efficiency.

Poor transport infrastructure can undermine business performance in a variety of ways. It can increase commuting times and put pressure on workers, which in turn can affect their health and wellbeing. Firms with poor transport links can also struggle to recruit talented workers. Higher house prices in areas with good transport links can also create issues for workers – forcing them to choose between paying extra for property close to work or living further away and paying extra to make a longer commute.

- Introduce flexible working to meet the needs of individual workers and the business
- Consider other strategies to improve work-life balance by taking the pressure off individuals with transport/commuting issues – eg. adapting start/finish times, car share programmes, subsidising rail season tickets
- Make sure employee benefits and rewards take account of the needs of individuals with transport/commuting issues, for example, remote working or video conferencing.

By benchmarking the business against these productivity pressure points, firms can prepare a bespoke plan to drive improvements that will deliver lasting value. As well as taking account of resources available, this plan should be based on an assessment of which pressure points are having the greatest impact on productivity now, and which could become a bigger issue in the future.

Instead of looking for major improvements in one or two isolated areas, professional services firms are likely to be more successful if they aim for an incremental improvement in each of the seven areas, over one or two years. This approach could deliver a 7% overall improvement, enhancing the firm's profitability significantly. Conversely, aiming for a 7% improvement in just one area is likely to be more challenging and require more investment in terms of resources.

“Understanding the productive capacity of your firm is absolutely key to ensuring staffing levels are correct and helping you to achieve your growth potential.”

Extract from Peter Noyce's book:
‘Brighter thinking for law firms’

SUMMARY

It is clear that the UK still has some way to go to close the productivity gap with France and Germany, who likewise are continuing to increase their own productivity levels through the use of technology and AI. Understanding how productivity pressure points are impacting your business today, and how they might do so in the future, is the first step towards making improvements which could boost your profitability and strengthen your business model.

Whilst some of these pressure points will be easier to tackle than others, it is possible to make relatively small changes that deliver big rewards over time and having a contented and resilient team as part of a business encourages collaboration, and is key to staff morale.

For these reasons and more, making productivity improvements has to be an essential part of your strategic growth plan.

"Aiming for an incremental improvement across all seven productivity pressure points could produce an overall 7% improvement. Imagine the effect this could have on your cash position and your operating profits!"

Martin Atkins

CONTACT

For further advice on improving productivity and driving profitability, please contact the [business services team](#) at Menzies LLP.



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