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Can S'pore be an icon for service productivity?

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The traditional analysis tools or flexible work design deployed in manufacturing may be insufficient in giving a boost to services. **By Arnoud De Meyer**

SHARING ASSETS
Customers collecting bicycles from terminals at a station in Taiwan's capital under the city's Taipei City Bike Sharing System. PHOTO: BLOOMBERG

OVER the last months, I have been puzzled by some of the macro-economic statistics for Singapore for 2015. First, we learned that gross domestic product (GDP) grew by about 2 per cent. Manufacturing output declined by 4.8 per cent, but services GDP grew by 3.6 per cent. These levels of growth have been with us for several quarters and anchor us firmly in the group of the traditional industrialised countries with relatively low growth. Compare, for example, GDP growth for 2015 of 1.7 per cent in Germany and 2.2 per cent in the United Kingdom.

Second, I saw the recent statistics on the growth of the median gross income from work. I was, of course, very happy that we are better off and that our median income grew in 2015 by 7 per cent in real terms. But that is where I am puzzled: how can we be paid more if we really don't produce that much more? It must be that we all work much harder and thus create more value per worker? But that is not the case either.

The annual growth in value added per worker is almost zero. We don't produce more but we get better paid for it. I am not naïve and I know that the relations between these different statistics are quite complex. But I do know that rising salary costs combined with little growth in value added per worker is not sustainable over the medium to long term. We need to create more value per worker and stimulate growth. Assuming we do not add more people to the workforce, there are, for all practical purposes, only two ways to do this: innovate or become more productive.

Long-term solution

Innovation is clearly a long-term solution. We can be proud in Singapore that the government has invested large amounts in research and development, and I am hopeful that some of that will lead to new business and employment in Singapore. But capturing the value of these investments is not straightforward and will require time. First of all, we need to have the capacity to absorb the results of that research. That assumes we have the companies that can take the results of our research and turn them into products and services. That is not straightforward in a small economy like ours. We may have a lively information technology sector that can absorb many ideas, but we have far fewer companies in pharmaceuticals, genetic engineering or food that have the capacity to compete at a global level.

Secondly, it requires time. I remember from a number of case studies I looked at when I worked at Cambridge University (UK) that capturing the value of research takes between 14 and 20 years – from the first paper being published to the moment some profits are made. It took 14 years when the new products or services could be sold as standalone products; more than 20 years when a number of externalities had to be overcome.

Therefore, if we want to preserve our increases in salaries over the short term, we need to focus on productivity improvement. Productivity – whether in business, government or the non-profit sector – needs to be our mantra. That is not a straightforward challenge. All over the world we see a slowdown in productivity improvement and researchers have been puzzled why that is. But let me venture in making a few propositions.

In the implementation of productivity improvement, we need to be more granular. Simplifying, we know that about 20 per cent of our GDP is generated in manufacturing, 5 per cent in construction and 75 per cent in services. We pretty well know how to raise productivity in manufacturing. We have been doing this for more than 120 years and the best practices from American, Japanese or European multinational companies (MNCs) are easy to transplant into Singapore. Actually, some of our plants, in particular those that produce for export, beat almost every other factory in the world in terms of productivity. In discussions with leaders of manufacturing plants here in Singapore, I often hear that our local plants are excellent in learning from their colleagues overseas and often do better.

SMEs may need to do better and we should perhaps explore how we can help them enhance productivity by learning from the large MNCs. The Singapore International Chamber of Commerce is focusing on this and has taken a few initiatives to help the productivity partnerships between large and small manufacturers.

But 5 per cent of our GDP comes from construction and 75 per cent from services. That is where the fat is. We need to invest in working smarter, in particular in services. But the traditional analysis tools or flexible work design that we deploy in manufacturing may be insufficient in services. Therefore I want to make five suggestions:

➤➤ First of all, we need to understand better what the real needs are in services. As suppliers of services, we may get stuck in old ways and forget to ask whether the "perfect" service we offer is still responding to the real needs of the customer.

Sometimes, even customers don't realise that there are better ways to offer a service. Think of what has now become a poster-boy example: Uber. Since I travel quite a lot internationally, I use taxis all over the world. In many cases, I was reasonably satisfied with the service. But only when I subscribed to Uber did I realise I had unmet needs: I very much like that I get an upfront estimate of the cost of the trip, I appreciate the standardised service across the world, and I love the automatic payment with my credit card. These are small improvements, but they changed my perception of individualised travel.

We need to keep investing in offering existing services in a better way, but we need to invest even more in offering newly defined services. Today we have exciting new tools that can help us to find out what these better and customised services are: big data and analytics can help tremendously.

➤➤ My second suggestion is to get rid of the inefficiencies in delivery of services. One of the examples is what I call the horror of the last-mile delivery. With the shift from sales in retail malls or neighbourhood shops to online retail, we have created a very inefficient delivery process. Think about the difference in efficiency between a customer picking up clothes or food from a shop, where all goods are centralised, and a system where someone has to visit your home to deliver the goods. In many cases, they may have to visit two or three times to catch you at home. What a waste of time, money and energy. There must be better ways to organise this last-mile delivery. This is one example of how we can get rid of inefficiencies.

Elderly workers

➤➤ My third suggestion is to make serious work of keeping our elderly workers as productive as younger ones. I notice that in many of the simpler service jobs in the food and beverage (F&B) industry, for example, we either have untrained young part-timers and apprentices or elderly workers. Both groups are probably performing at lower productivity standards. The first group needs to have more training. And for the second group we need to redesign the work environment to adapt it to their limitations, but render them as productive as the mid-career people.

There is the well-researched example of the car company BMW, where a group of over-60s redesigned an assembly line to take into account the fact that they could not stand up as long as their younger colleagues or lift heavy items anymore. With very limited investments in simple tools they were able to run the line as productively as the one manned by their younger colleagues. Just walking around in Singapore I have seen many instances in F&B, cleaning and retail, for example, where a similar approach could make some of our elderly workers a lot more productive.

➤➤ My fourth suggestion comes from the fact that I see so much underused capacity. Think about it: how much of the time over the full year is a classroom used? How much time of the day do you use your car, and how much time is it sitting idle in a car park? How much time of the day is the delivery person using his or her scooter? What about the capacity utilisation of some of our sports fields? You can go on and on and on: everywhere you look you see unused or underutilised capacity. Some of it is a personal choice but in many instances you can optimise the utilisation. Think of the bike-sharing system in Taipei: rather than using a bike for 45 minutes a day to go back and forth to the university, for example, and then let it occupy precious space in the bicycle rack the rest of the day, the same bicycle is used by many people throughout the day. It is one of many examples of the shared economy where services share the same physical assets.

➤➤ Finally, I do believe that automation can help. Tools that provide information support to sales, systems that enable us to simulate different scenarios of the service delivery, for instance, can indeed augment the productivity of our service operations. We have done that in Singapore with the port operations. Can we do it for F&B, insurance, banking, home services, cleaning and so forth?

I have one last thought. When we succeed in making a massive productivity improvement in services, some workers will be retrenched. For those, we need to prepare major retraining and reskilling programmes. I am happy to see that with SkillsFutures we have taken some important steps in that direction. But more will be needed when we can tackle the productivity challenge.

When we apply some of these and many other ideas, perhaps Singapore can become the icon of service productivity for the world.

The writer is president of Singapore Management University