International
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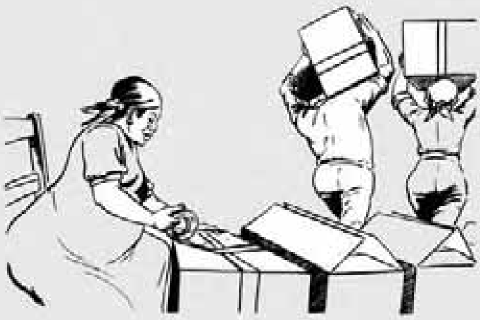
Geneva

WISE+

Work Improvement in Small Enterprises

Action Manual



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Developed and piloted within the ILO/DANIDA project:

Improving Job Quality in Africa through concerted efforts by Government, Employers and Workers

Conditions of Work and Employment Programme

First published 2009

ILO

Work improvement in small enterprises (WISE) Action Manual

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Foreword

Work Improvement in Small Enterprises (*WISE*) is an innovative approach to improving working conditions and productivity in small and medium-sized enterprises around the world. It is not simply a training package, but a process in which entrepreneurs and managers are empowered and supported to address working conditions issues through the identification, sharing and implementation of local and affordable good practices. In the long term, the improvements in working conditions achieved are sustained through the development of supportive networks of local entrepreneurs and trainers who continue to share ideas and practices, motivated by the measurable improvements in productivity that participants experience.

A series of training modules and guides, first published in 1988, form the heart of WISE. Until now, these have provided guidance on nine technical areas of working conditions, all of which address the physical organization of the workplace and work processes and simple ways to alter these, so as to improve safety and health and increase productivity. These manuals have been used, adapted and translated into more than ten countries in Africa, Asia and Latin America, evidencing the flexibility and effectiveness of the WISE approach.

WISE-R (*More* Work Improvement in Small Enterprises) builds upon this success and is designed to meet the needs identified by *WISE* trainers and entrepreneurs around the world to expand the *WISE* package to include other key dimensions of working conditions. *WISE-R* consists of six new modules and training guides that address not only the physical work environment, but also the more complex day-to-day challenges that entrepreneurs face when handling employee recruitment, management and motivation.

WISE–R is a natural extension of the original *WISE* manuals. It reflects the global recognition that the employees of a business are not only often a significant investment, but that their performance holds the key to the success of the business. *WISE-R* reflects this reality and takes on the issues that are central both to workers' recruitment, retention and motivation, and to maximizing individual productivity in a safe and healthy way: wages, working time, maternity protection, work-family balance, management and motivation, and workplace relations.

As with *WISE*, the suggestions made in *WISE-R* are both practical and low-cost. The focus of these ideas is, in fact, to introduce simple working practices and measures that can make a huge difference to the motivation and the ability of employees to perform their job and, consequently, to the productivity of the business.

The concept of combining *WISE* and *WISE-R* into a *WISE+* package arose in the course of a six-month period of pilot testing carried out in Mozambique and the United Republic of Tanzania in 2009. Following the development of the *WISE-R* modules, a decision was taken to pilot the *WISE* and *WISE-R* training modules in tandem. The implementation phase was carried out with the cooperation and participation of a range of local and national actors, including local entrepreneurs, employers' and workers' organizations, labour inspectorates, ministries of labour, training institutions and others. The feedback received following this exercise has suggested that combining *WISE* and *WISE-R* is an efficient and effective approach.

This *WISE+* binder brings together the *WISE Action Manual (1997)* with the new *WISE-R Training Manual* to create a complete *WISE+ Action Manual*. We have also created a second binder, which contains the *WISE* and new *WISE-R Trainers' Guides*. In the longer term, further work will need to be undertaken to fully integrate the *WISE* and *WISE-R* modules, and their respective guides. This WISE+ package is thus presented as a prototype, which is ready to provide a solid starting point for future work. The ILO would welcome the feedback of entrepreneurs and practitioners who will use and adapt the methodology to the multiple realities of workplaces around the world.

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WISE-R

More
Work Improvement in Small Enterprises

Module 1

Understanding Productivity

Developed and piloted within the ILO/DANIDA project:
Improving Job Quality in Africa through concerted efforts by Government, Employers and Workers

Conditions of Work and Employment Programme

Introduction

To support the growth of your business, it is important to be able to analyze how your business is performing. You also need to understand what makes it grow, including the impact of management actions, workplace organization, and enterprise policies, on business performance.

The idea of productivity, and how to improve it, is a central theme throughout WISE-R and later modules will introduce you to many specific business practices, all chosen because they have a positive impact on enterprise productivity. But what is productivity, how is it measured, and why is it so important?

This introductory module on productivity will address these questions so that you can get the most out of WISE-R.

The objectives of this Module:

a) To explain what productivity means
b) To enable you to calculate the productivity of your enterprise
c) To highlight the impact that different workplace practices and policies can have on your productivity

Measure your Productivity

The advantages for your business

If you really want to improve your productivity, you first need to understand what productivity is and what factors can influence it. The next step is to find out what your present productivity is – how well your business is doing. Once you have done these things, you will be in a good position to work out how much you want to (and can) improve your productivity, and how to achieve that improvement.

What you can do

1. Understand and measure business productivity

1.1. Understanding Productivity

The term ‘productivity’ is used at many levels. It is possible to measure the productivity of a country, an organization, a business, a team or an individual person. In WISE-R, when we talk about productivity, we mean the productivity of your business.

> Productivity is a measure of output from a production process, per unit of input.

Once you know how to calculate the productivity ratio of your business, you can, for example, compare your productivity to that of other businesses. You can also track the change in your productivity over time (you can calculate it monthly or annually: is it going up or down?). If you find that your productivity has gone down, you will know that there is a problem that needs your attention.

Whenever you bring in new measures, such as a new working-time schedule, you can also use this measure to monitor the impact of the change on your productivity. However, you always need to remember that there are many (some hidden) factors that influence productivity.

> **Checkpoint** 1: Assess how efficient your business is by working out the productivity ratio.

1.2. Measure your productivity

When we talk about productivity as a figure, we usually call it the ‘productivity ratio’. To find out your enterprise’s productivity you need to calculate your “productivity ratio” by comparing all of the costs involved in producing and selling your product (input) with the amount of money you sell the products for (output).

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

Steps for measuring productivity:
1. Determine the relevant period;
2. Calculate your total costs (input);
3. Calculate your total revenue (output);
4. Calculate the productivity ratio.

First of all, you will need to identify the period for which you want to perform the calculation. If you want to calculate your productivity for one year, you will need to look at the costs and sales over that year. If you are doing a monthly analysis, you will need the figures for one month. It is most important that you compare input and output figures for the same period.

Start by identifying your costs (input). Some common costs are:

- recruiting and training workers
- buying stalls, machinery or computers
- renting land or buildings
- buying raw materials
- advertising
- your wages and those of your employees (SMEs often forget to include the wage of the manager/business owner)

Calculate **your output**, which is the total value received for your sales.

Let's take Shoemaker A as a simple example:

Shoemaker A spends 1000 coins on her business in a year (including his earnings). She produces 500 pairs of shoes in that time, and sells each for 3 coins. She sells them all, so she receives 1500 coins.

So, she has increased her earnings by 1/2.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}} \longrightarrow \text{Shoemaker A's productivity} = \frac{\text{1500 coins (output)}}{\text{1000 coins (input)}} = 1.5$$

If she does the same sum next year and the number is higher, she will know that her productivity (and her profit!) has gone up.

Now look at Shoemaker B:

Shoemaker B produces the same shoes as Shoemaker A, but spends 1500 coins on her business in a year to produce the same number of shoes – 500 pairs. She sells each pair for 3 coins. She sells them all, so she receives 1500 coins as well.

$$\text{Shoemaker B's productivity} = \frac{\text{1500 coins (output)}}{\text{1500 coins (input)}} = 1$$

You can see that the productivity of Shoemaker B is lower than Shoemaker A, as her costs are higher. Why is this? It might be because Shoemaker B pays more for raw material, or maybe she has a high turnover of workers (they don't stay long) and she needs to spend more on advertising and training new employees?

Now let's look at what happens when Shoemaker A decides she wants to increase her business productivity:

Shoemaker A decides to invest in a new machine so she produces more shoes in a shorter time. Unfortunately, she forgets to provide training for workers on how to operate the new machine and some accidents and errors occur!

Shoemaker A manages to produce more shoes, say 2500 pairs, and sells them at the same price as before. So, she receives 7500 coins for her production (output). She is pleased because there is more money coming in to her business. But, when she again calculates her costs, she finds out that they have gone up too. Her investment in the machine, higher electricity bills, higher waste, and the payments she has had to make for injured/absent workers mean her costs are now 7500 coins.

Let's look at Shoemaker A's new productivity:

Though the shoemaker's income increased from 1500 to 7500, her productivity fell from 2 to 5. This means that that for every coin she has spent, she now only receives 1 in return.

You can immediately see from this how important it is for you to recalculate your productivity rate at intervals, so you can see what is happening in your business and take appropriate measures.

$$\text{Shoemaker A's productivity} = \frac{\text{7500 coins (output)}}{\text{7500 coins (input)}} = 1$$

2. Look for ways to increase your productivity

If the amount you earn from the goods you produce (output) goes up in comparison to the costs of producing them (input), your productivity increases and so do your profits. This is a target for most businesses.

Checkpoint 2: When you are looking for ways to improve productivity, think long term and don't automatically try to make savings on wages.

To increase productivity, you have two basic choices:

- Reduce the production cost per product (input): OR
- Increase the amount you get for your product (output)

Workers are able to maximise productivity when they have the training, equipment and the raw materials they need to do their job.

2.1. No 'quick fixes'

As a business can not just put up its prices (because buyers would go to competitors to purchase the goods), it is common for business owners to try to increase productivity by looking for quick ways to reduce their costs (inputs).

Some examples include:

✗ Buying lower quality raw materials
✗ Not servicing machinery
✗ Speeding up production by removing machine guards
✗ Using untrained workers (or children) as cheap labour
✗ Paying lower wages and demanding long hours of work

This is definitely not the answer.

If you use poor quality raw materials, broken machines, and untrained, underpaid workers:

- the amount you produce and the quality of your product will go down;
- the amount you can charge for your product will go down;
- workplace accidents and production stoppages will go up.

QUICK FIXES	LONG TERM
– cheaper raw material – untrained staff – not servicing machines – demanding long hours ↓	– fair & clear wage & incentives – training for staff – improved maintenance – better working time arrangements ↓
lower quality more accidents & errors ↓	improved quality less accidents & errors ↓
⇨ More costs at long term ⇨ Less revenue (due to lower quality)	⇨ initial small investment ⇨ major increase revenue (due to higher quality) ⇨ Improved rate of production
LOWER PRODUCTIVITY	MORE PRODUCTIVITY

Adults need to work, and are more productive and motivated than children, who need the chance to learn and play. If your children work instead of going to school, research shows that there chance of getting a well-paid job in the future is very low and their health can suffer, because the work they do is bad for growing bodies or because they don't understand the dangers in the workplace.

SAY NO TO CHILD LABOUR

This business has a clear policy of not using child labour

2.2 Think long term!

When thinking about new measures to improve your productivity you need to think about its impacts, in the LONG term as well as the short term. Remember that long term improvements will bring the most benefit to your business.

Human resources are often the most important **asset** of a small or medium-sized businesses, which typically have low property assets and capital. Managing these human resources can, therefore, have a major impact *(positive or negative!)* on productivity.

Unfortunately, staff costs (wages, training, leave, etc.) are also a significant cost for most businesses. So, to reduce their overall business costs, and forgetting that staff are also a business asset, employers often make changes to their wage structure (to reduce the total wages they pay).

This type of action can have a positive effect on costs (and so, on productivity) in the short term. But, it generally increases costs in the long term, as it results in:

- the loss of experienced workers
- higher turnover and recruitment costs
- low motivation
- lower quality products
- inefficient and inconsistent production
- unhappy customers

By putting a low value on your workers, you will reduce the value of your business.

Does low pay mean higher profits?

Consider the following scenario:

Well-suited, well trained, and motivated worker earns 100 →	**Worker produces 100**
Less-suited, poorly trained and less-motivated worker earns 50 →	**Worker produces 40**

2.3 Invest for long term growth

Business productivity, like all good things, takes time and care to grow.

In the text box you will see some recognized factors that contribute to increased productivity. By introducing good workplace policies and employee management practices, you can achieve a major improvement in most of these areas.

Introducing a well-designed pay structure or a better shift pattern might, in some cases, result in an increase in your wage bill, at least in the short term. But this does not mean that your business costs will necessarily go up. You might, for example, find that the change results in lower recruitment and training costs and reduces sickness absences. This could mean that overall costs remain the same, whilst business output increases – higher productivity!

Factors that improve productivity
- Quality of output
- Efficient work processes
- Workers' motivation
- Innovation
- Good working conditions
- High worker attendance
- Training
- Quality of management
- Lower worker turnover

Adopt good human resource management for long term productivity increases

Experience and research has shown that investing wisely in human resources increases worker performance and productivity. Unfortunately few managers of SMEs have experience with human resource (HR) management.

Checkpoint 3: Remember that your workers are not just a cost, but a business asset that can greatly affect your productivity.

In the following chapters you will be introduced to the key practices that can help you to make the most of your staff, and to increase your productivity and profitability:

Module 2: Managing and motivating workers

Module 3: Effective management of working time

Module 4: Managing wages and benefits

Module 5: Family-friendly measures

Module 6: Creating a respectful workplace

Checkpoints for WISE-R Module 1 Understanding Productivity

Checkpoint 1: Assess how efficient your business is by working out the productivity ratio

Checkpoint 2: When you are looking for ways to improve productivity, think long term and don't automatically try to make savings on wages.

Checkpoint 3: Remember that your workers are not just a cost, but a business asset that can greatly affect your productivity

WISE-R Checklist

WISE-R Module 1: Understanding productivity

Checkpoint 1: Assess how efficient your business is by working out the productivity ratio.		
Do you propose action?		
❏ No	❏ Yes	❏ Priority
If yes, what action?		
Checkpoint 2: When you are looking for ways to improve productivity, think long term and don't automatically try to make savings on wages.		
Do you propose action?		
❏ No	❏ Yes	❏ Priority
If yes, what action?		
Checkpoint 3: Remember that your workers are not just a cost, but a business asset that can greatly affect your productivity.		
Do you propose action?		
❏ No	❏ Yes	❏ Priority
If yes, what action?		