





# Driving Up Productivity

GUIDE FOR EMPLOYER AND BUSINESS  
MEMBERSHIP ORGANIZATIONS



International  
Labour  
Organization

ACT/EMP

VERSION 01

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# Preface

Paul Krugman said, “Productivity is not everything, but in the long run, it’s almost everything”<sup>1</sup>. Enhancing productivity is essential to achieving sustainable enterprises and creating decent jobs – both core elements of any development strategy that places the improvement of peoples’ lives as its main objective.

The ILO has long recognised the role productivity plays in enterprise development and job creation. The conclusions on Sustainable Enterprises adopted at the 2007 International Labour Conference<sup>2</sup> incorporates the notion that enhancing productivity is a key factor for business competitiveness and essential for sustainability. The ILO Centenary Declaration for the Future of Work, adopted by the ILC in 2019<sup>3</sup> also highlights productivity as a cornerstone of achieving a human centred approach to the future of work. Increasing productivity is also one of the strategic priorities of the 2030 Agenda, as part of Sustainable Development Goal 8, which focuses on economic growth and promoting productive employment.<sup>4</sup>

It is clear that productivity and competitiveness are key issues for private sector development in any country. Employer and Business Membership organisations (EBMOs) have a major role to play in addressing these issues both through their policy advocacy work and also through the services they provide to their members. To respond to this challenge, the Bureaux for Employers’ Activities (ACT/EMP) has produced the attached Guide for EBMOs. It provides practical guidance in two main areas. First, it is a tool to help EBMOs design and implement specific services to support their members to increase productivity and sustainability. Second, the guide provides practical advice to EBMOs on how they can reinforce their representative role in order to promote public policies that seek to enhance productivity, which will in turn enhance competitiveness and result in the creation of more and better jobs.

<sup>1</sup> Correlation calculated taking as a sample the average annual growth levels of both variables worldwide from 2000 to 2018, using data from the Conference Board Total Economy Database.

<sup>2</sup> Conclusions concerning the promotion of sustainable enterprises. International Labour Conference, June 2007. [https://www.ilo.org/empent/Publications/WCMS\\_093970/lang-en/index.htm](https://www.ilo.org/empent/Publications/WCMS_093970/lang-en/index.htm)

<sup>3</sup> “ILO Centenary Declaration for the Future of Work”. Adopted by the International Labour Conference at its 108th Session. Geneva, 21 June 2019. <https://www.ilo.org/global/about-the-ilo/mission-and-objectives/centenary-declaration/lang-en/index.htm>

<sup>4</sup> “Time to Act for SDG 8: Integrating Decent Work, Sustained Growth and Environmental Integrity. ILO, Report 10 July 2019. [https://www.ilo.org/empent/Publications/WCMS\\_093970/lang-en/index.htm](https://www.ilo.org/empent/Publications/WCMS_093970/lang-en/index.htm)

This first edition of the guide has been prepared during the Covid 19 pandemic. It is clear that this has put the survival of millions of companies at risk, has led to massive job losses, and has jeopardized the source of income of hundreds of millions of workers and entrepreneurs around the world. Measures to stimulate productivity growth and improvement need to be key elements of COVID 19 recovery strategies. We are working in a challenging and fast moving environment and EBMOs need to show real leadership and effective advocacy in the process of building back resilience and supporting change. We will therefore update the Guide periodically in order to reflect changes in the global economic landscape and emerging challenges that may affect the ability of companies to achieve greater resilience by increasing their productivity.

I am grateful to those who worked with us to produce the Guide including those EBMO leaders who took the time to peer review the final document. I would like to thank Jorge Ramírez Mata, for his research work, and Consultora Lebran (Chile) for their support in the editing and graphic design of the publication.

The final product is a result of teamwork across the whole global ACT/EMP team. A particular word of thanks to the core team of Rafael Gijón, Roberto Villamil, Andrés Yurén, Luís González, Paolo Salvai and José Luís Viveros Añorve.

**Deborah France-Massin**

Director

Bureau for Employers' Activities (ACT/EMP)

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# Introduction



# The importance of increasing productivity

“Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

**Paul Krugman**

Nobel Prize in Economics, 2008

Productivity is the efficiency with which people, firms and economies use resources to produce goods and services, to maximize economic benefits, during a given period of time. Today, there are abundant academic studies around the world showing the importance of productivity in generating economic growth, increasing firms’ profits and growth, lowering consumers’ prices, raising workers’ wages and improving the standard of living for the overall population.

**TABLE 1**

## The relevance of productivity

Higher productivity, higher profits and growth for companies

- A 17 per cent productivity increase in a group of medium-sized textile enterprises in India increased profits by \$300,000 per enterprise in one year and the number of production plants in three years (Bloom et al., 2013)

Higher productivity, higher wages

- The most recent study by Stanford researcher, Edward P. Lazear, provides strong empirical evidence of the link between productivity and wages in the OECD countries (Lazear, 2019)
- A 10 per cent increase in productivity is associated with a 7.4 per cent increase in workers’ real compensation in the United States (Stansbury and Summers, 2017).

Higher productivity, higher economic growth

- The absence of productivity growth has led to a global slowdown in economic growth (Eichengreen et al., 2011)
- There is a 91 per cent correlation between economic growth and growth of Total Factor Productivity (TFP)<sup>1</sup>

Higher productivity, lower costs for consumers

- The productivity increase in the United States telecommunications sector, between 1970 and 2000, reduced the cost of long-distance calls to one-sixth (Alm and Cox 2002)

Higher productivity, lower levels of poverty

- The countries with higher growth of agricultural labour productivity experience the highest rates of poverty reduction (Byerlee et al. 2009)

<sup>1</sup> Correlation calculated taking as a sample the average annual growth levels of both variables worldwide from 2000 to 2018, using data from the Conference Board Total Economy Database.

## (a) Higher productivity, higher economic growth

At the country level, upsurges in Total Factor Productivity (TFP) are closely linked to increases in economic growth. The correlation between the two variables is 91 per cent,<sup>2</sup> which shows the close relationship between the growth of an economy and the increase in its productivity levels. TFP measures the efficiency with which labour, capital (machinery and equipment) and intermediate goods are used in the production of goods and services; therefore, TFP gains reflect a more efficient utilization of the potential of an economy, increasing its long-term economic growth.

FIGURE 1

### Co-movement of productivity and economic growth (global growth rates)



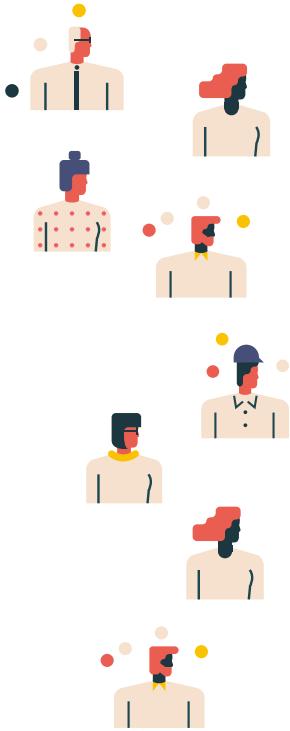
Source: Original formulation, using data from the Conference Board Total Economy Database.

A cross-sectoral study examined 27 episodes of economic slowdown in different countries. It found that 85 per cent of the slowdown in economic growth in those countries was due to lower rates of productivity growth (Eichengreen et al. 2011). According to the authors, the intuition of this result is clear: the slowdowns occur at the point at which it is no longer possible to increase productivity by reallocating resources from the agricultural to the industrial sector, or when the returns from importing foreign technologies diminish. Consequently, TFP growth rates fall drastically and economic growth contracts.

According to the authors, this has been a common factor for many economic slowdowns in recent decades. The study includes the case of Argentina, an economy that experienced a decline in its economic growth rate before the financial crisis of the late 1990s. The review also includes the case of different European economies in the period of slowdown that followed the economic recovery from the Second World War, as well as cases of economic growth slowdowns in oil-exporting economies such as Iran and Saudi Arabia, in the 1970s.

<sup>2</sup> Same.

## (b) Higher productivity, higher employment



Productivity growth enables savings generation through greater operational and allocative efficiency that allows achieving a greater level of production using the same amount of inputs (Grover et al., 2019). Enterprises may then use their savings to invest in workers' skills development and acquire machinery and equipment, thus fostering capital accumulation, which may increase output further and contribute to enhancing the process of productivity growth. As the scale of production increases, productivity gains may also come from decreasing costs per unit of output over time. The attained economic benefits can be channelled to consumers through purchasing power gains from lower prices or higher wages. The increased purchasing power leads to increased consumer spending, which translates into greater aggregate demand that in turn leads to employment growth. The empirical evidence shows that greater rates of productivity growth are associated with lower unemployment (Atkinson and Brown, 2018; Atkinson, 2016).

Moreover, the narrative about technological innovation (namely automation) causing job destruction is misleading. This is the so-called **Lump of Labour fallacy**, the idea that there is a limited amount of work to be done (Miller and Atkinson, 2013). It suggests that technology can create unemployment by displacing workers, because the more efficient we work, the less work there is for workers. This is a misleading view of the impact of technological innovation because it overlooks the positive impact that technology has on productivity growth and income, which in turn leads to greater aggregate demand and job creation.

<sup>3</sup> Workers need tools to perform their tasks. The more equipment per worker, the more the workers can produce until the firm's capacity is fully utilized. For a more detailed discussion about the link between productivity growth and capital formation, see Peach, R., and Steindel, C. (2017). Low Productivity Growth: The Capital Formation Link. Liberty Street Economics (blog), Federal Reserve Bank of New York..



## (c) Higher productivity, higher profits and growth of enterprises

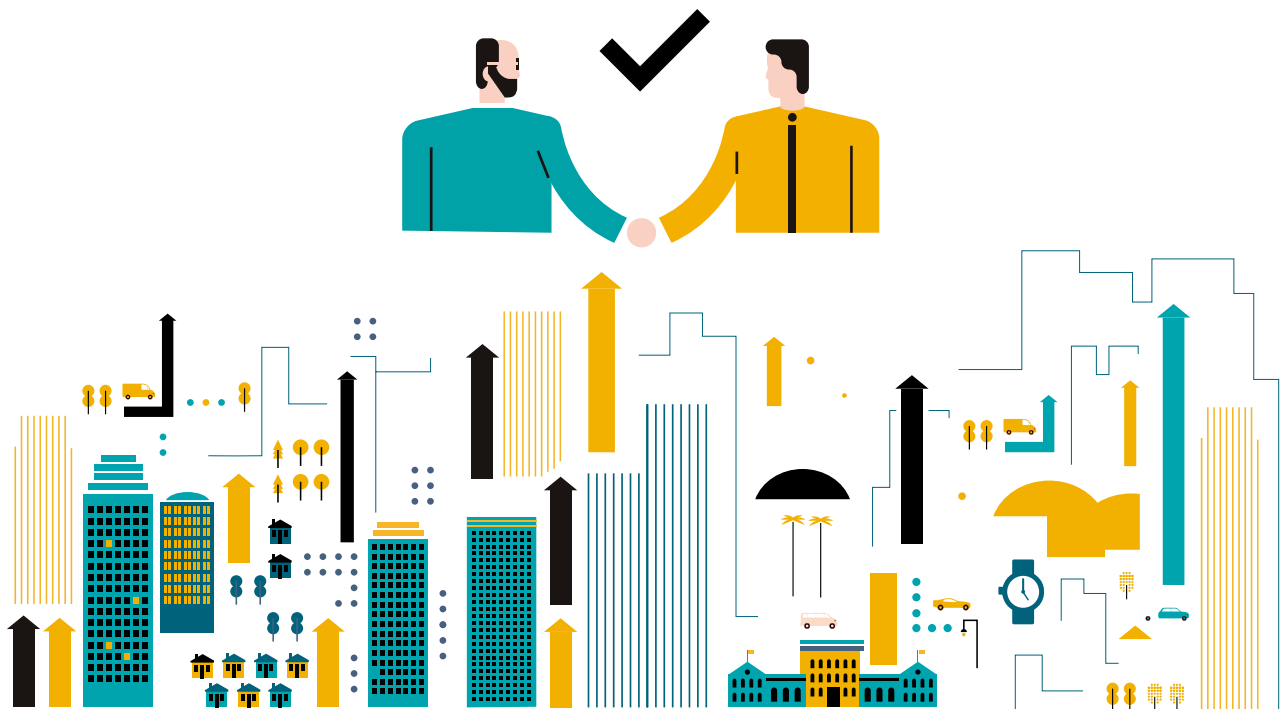
Sustained productivity growth is relevant to the growth and development of enterprises since it enables companies to be profitable (by expanding output and/or minimizing production costs). Firms can then reinvest such higher profits, to continue increasing their efficiency and profitability in the medium term. In other words, enterprises that raise their productivity have higher incomes, which can be invested in areas such as machinery or development of workforce skills to further increase production and reinforce the process of productivity growth. Such productivity improvements do not necessarily require costly investments for enterprises, but rather the efficient use of their human and physical resources.

A case study of Indian enterprises corroborates this point. During an economic experiment involving a large number of textile enterprises in that country, the companies received free consulting related to the management practices, with a focus on increasing productivity. The managers from such firms were not familiar with the best international standards related to productivity-oriented management, limiting their firms' economic potential and long-term profitability. These textile enterprises were given 4 months of intense guidance on the best international standards. Subsequently, the companies managed to increase their productivity by an average of 17 per cent, after one year, increasing profits by an average of \$300,000 per enterprise (Bloom et al. 2013). In the medium run, the enterprises grew significantly, expanding the number of production plants over the following three years.

As the scale of production increases, further productivity gains are enabled by the lower production costs per unit; in other words, there are dynamic economies of scale. Also, it is important to bear in mind that the positive effects of increasing productivity extend beyond enterprises to consumers. Through competitive markets, the lower production costs per unit are reflected in lower prices, which raises consumer purchasing power and leads to higher economic growth.

## (d) Higher productivity, lower costs for consumers

In a cross-sectoral study which includes several industries in the United States, Alm and Cox (2002) show the positive effects of increasing productivity, as reflected in lower costs and prices. A revealing example is that of the telephone industry. Technology advances, between 1970 and 2000, transformed the telecommunications sector. While operators on average handled only 64 long-distance calls per day in 1970, by 2000 they were already able to connect 1,861 calls. The positive impact on consumers was clear. It is estimated that, without such productivity gains, a long-distance call would have cost about 6 times more in 2000. As a result, consumers in the United States were able to save money on long-distance calls and spend it on other goods and services. Consequently, the productivity gains from the telecommunications sector boosted economic growth in multiple economic sectors. The telephone industry is one of many similar stories in terms of productivity growth.



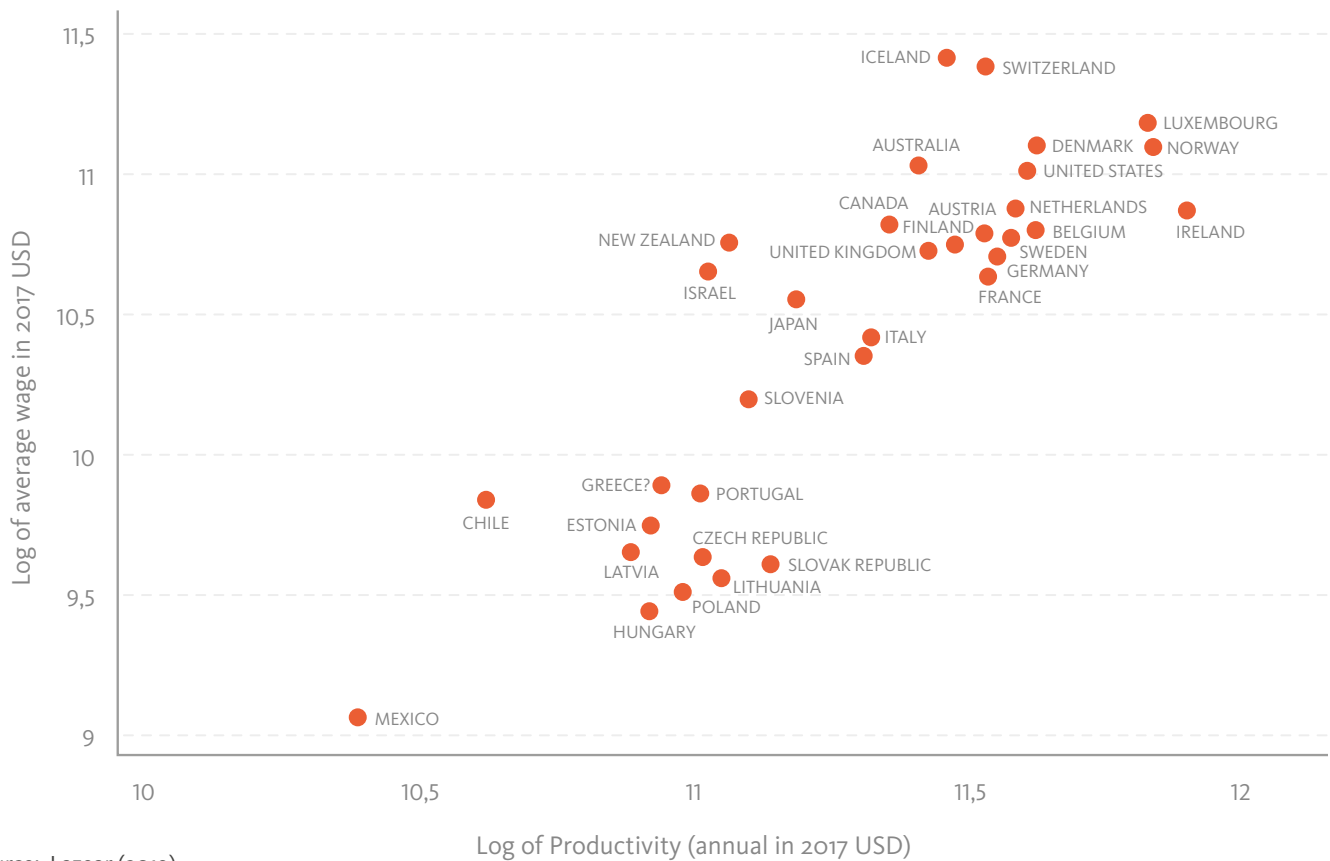


## (e) Higher productivity, higher wages for workers

Wage setting should take into account economic factors, particularly productivity levels, in line with ILO’s Convention 131. The empirical evidence shows that labour productivity is the most important economic factor to set wages at a level that allows enterprises to retain workers and create jobs. The higher the productivity, the higher the level of wages and the greater the firms’ ability to create jobs. Productivity growth is also a necessary condition that allows enterprises to improve overall working conditions. A recent study by Stanford University professor and researcher, Edward P. Lazear, concludes that there is strong empirical evidence of the link between productivity and wages at the global level – in terms of both country-to-country comparisons and the trajectory of productivity and wages for virtually every country member of the Organization for Economic Cooperation and Development (OECD). Furthermore, Lazear concludes that productivity gains benefit all types of workers, increasing the average wages of both low-income and high-income workers (Lazear 2019).

**FIGURE 2**

**Comparison between productivity and wages (OECD member countries)**



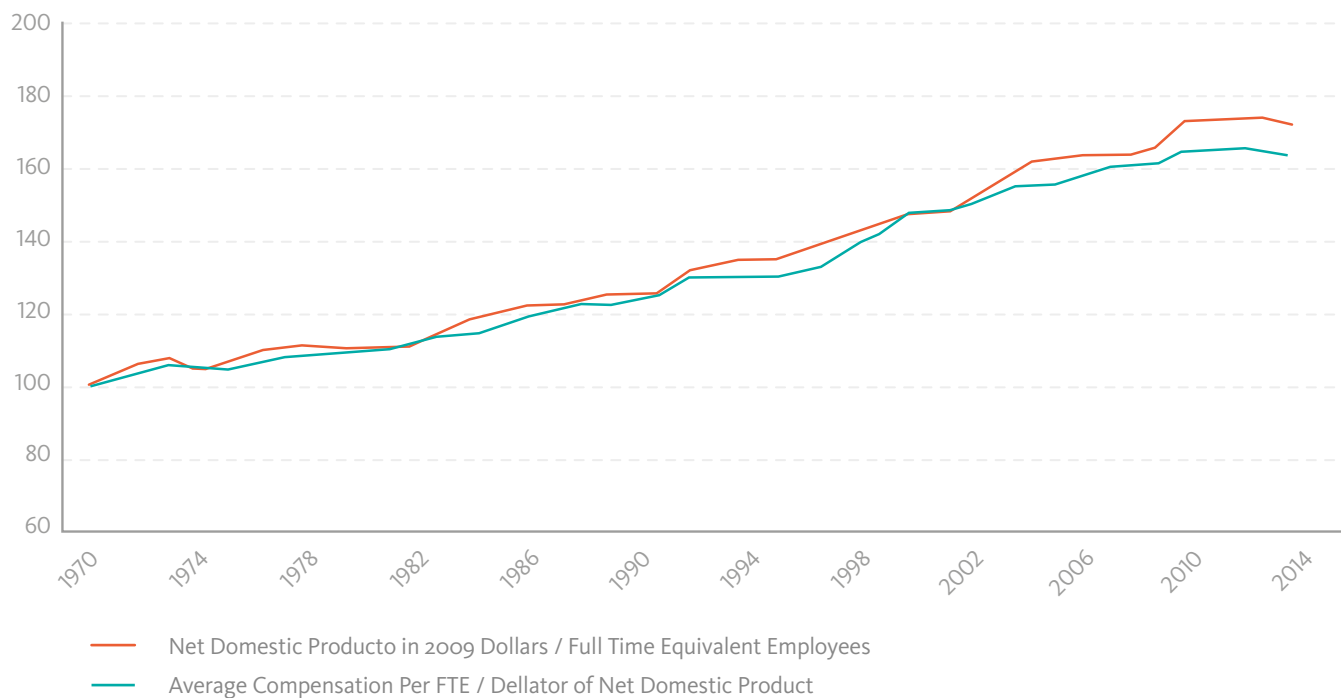
Source: Lazear (2019).



The economist Robert Lawrence, professor and researcher at Harvard University, presents relevant evidence about the statistical relationship between productivity levels and wages in the United States (Lawrence 2016). In his research, Lawrence makes a careful measurement of the long-term relationship between the two indicators in the United States, presenting evidence of how productivity growth and growth in workers' compensation matched each other between 1970 and 2001, diverging only slightly after 2001 but maintaining a similar long-term trend. Evidence shows that the long-term paths of productivity and wages have been linked during the last decades, in the United States.

**FIGURE 3**

**Productivity and wages in the USA, 1970-2014.**

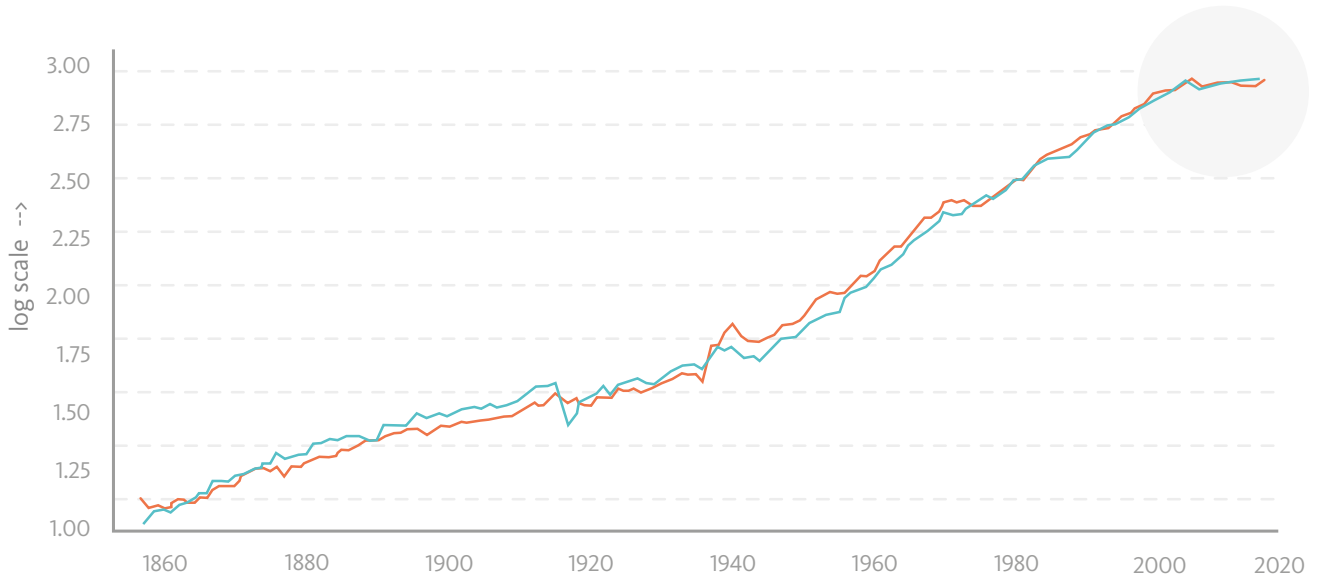


Source: Lawrence (2016).

In the United Kingdom, the trajectory of real wages and labour productivity have also shown a close statistical relationship, since 1860. Figure 4 shows how the association between both variables have been stable across time, showing the relevance of increasing productivity to enhance real wages in the long run. Unfortunately for workers and firms in the UK, since 2007, the labour productivity in this economy have experienced minor rates of growth, and such low productivity growth (only 0.8 per cent during a decade, 2007-2018) have also contributed to reducing the growth in real wages since that year (Castle and Hendry 2014).

FIGURE 4

UK real log wages and log output per worker since 1860 (matched by means)



Source: WIPO.

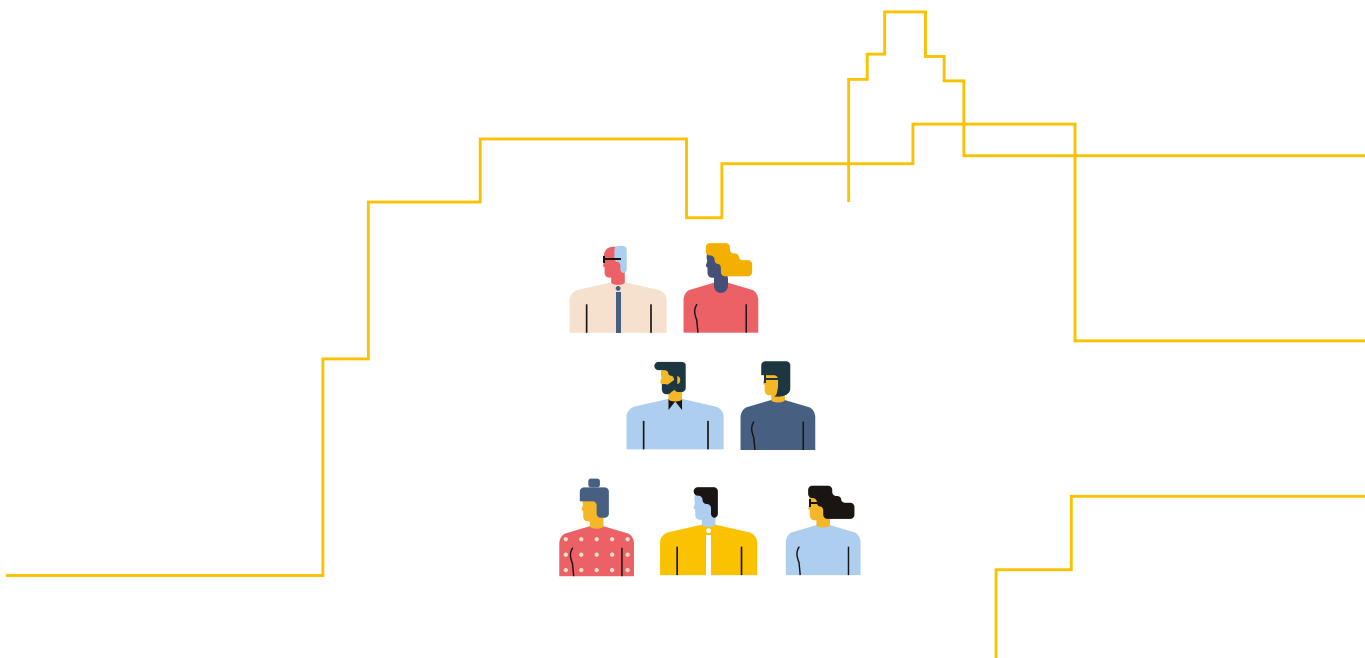
In addition to the statistical relationship between productivity and wages, recent studies have also demonstrated an important causal relationship between those two indicators. For example, Stansbury and Summers (2017), who conducted an econometric analysis on data from 1975 to 2015 in the United States, found out that a one percentage point increase in the rate of productivity growth is associated with a 0.74 percentage point increase in the growth rate of the workers' average compensation. The authors of the research find this relationship between productivity and wages to be statistically significant, concluding that raising productivity is a crucial factor for increasing workers' incomes.

Unfortunately, in many OECD countries, the slowdown in productivity growth has been accompanied by even lower growth in real wages, particularly for low-skilled workers. In that regard, the importance of institutional frameworks and public policies should be emphasized, for increasing labour productivity and thus reinvigorating wage growth. A clear example of the type of public policy that can contribute to this end is investment in the workforce's skills development to strengthen workers' ability to perform, improve efficiency in the use of resources, and utilize the most recent technology developments (OECD 2018).

## (f) Higher productivity, lower levels of poverty

Productivity growth is also a key factor in reducing poverty levels in a country. A notable case is the connection between agricultural productivity and poverty reduction rates. There are several ways in which improving agricultural productivity leads to lower levels of poverty. For example, increasing agricultural yields (agricultural production per square meter) raises producers' revenue and can translate into consumers' greater purchasing power through lower prices. A study that analyses 12 different economies concludes that the countries with the highest rates of agricultural labour productivity growth have also experienced the highest rates of poverty reduction (Byerlee et al. 2009).

The above argument is not only valid for the agricultural sector. Productivity improvements that allow a certain industry to reduce its costs and prices open up opportunities for consumers, through purchasing power gains from lower prices, to buy other goods and services or save, thus increasing wellbeing. This effect is a key driver of poverty reduction and is especially important in the case of the productivity gains from industries that produce goods included in the basic basket of consumption, which includes the indispensable products for the lower-income population. In addition, investment in the education and training of the least-skilled workforce is one of the keys to improving the productivity of developing economies, which in turn has a direct effect on reducing their poverty levels.



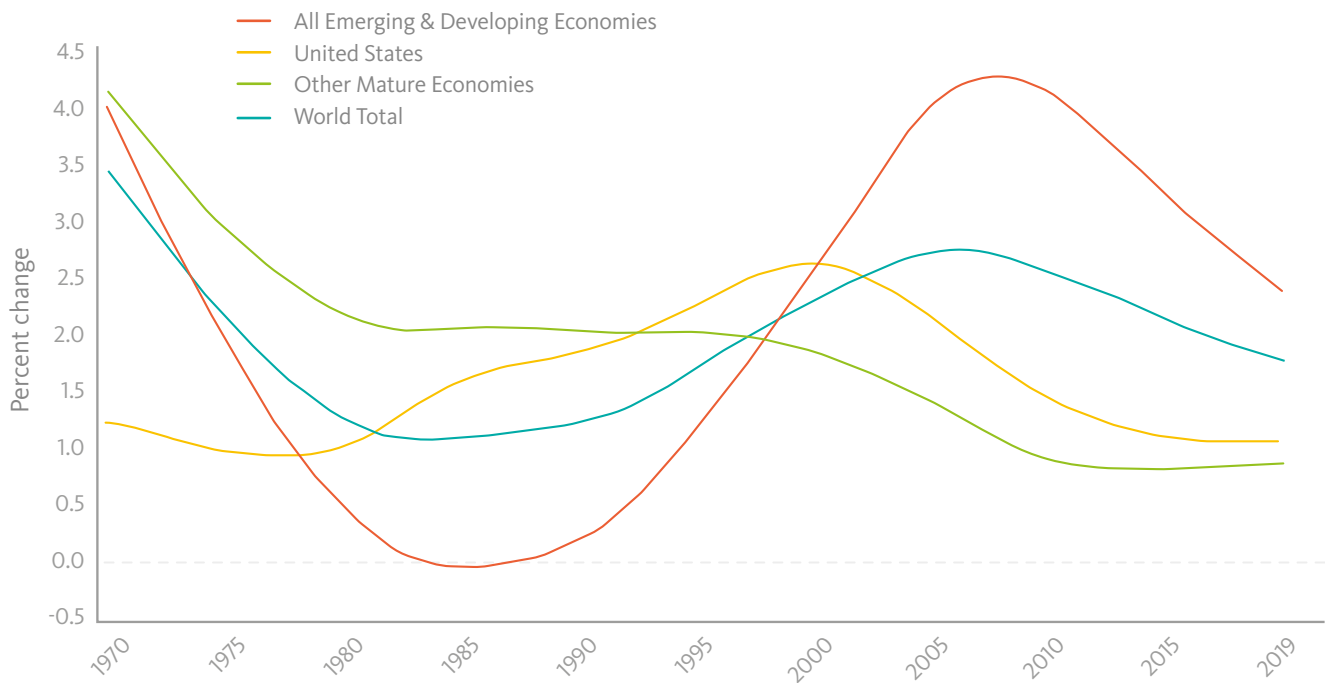
# The productivity slowdown



Unfortunately, the years following the recovery from the global financial crisis have been characterized by a marked slowdown in the growth of **labour productivity**. The slowdown has led to a contraction of firms' growth, stifled wage increases and held back global economic growth. According to the World Bank, the current slowdown in labour productivity growth has been the steepest, longest and broadest yet, based on data going back for decades (World Bank 2020). Figure 5 shows the trends of **GDP growth per employed person**, which indicate persistent improvements in the growth rates of labour productivity between the late 1980s and the start of the financial crisis, in 2008. Since then, labour productivity growth rates, both globally and in developing economies, have steadily declined.

**FIGURE 5**

**Growth trends, GDP per employed person, using Hodrick–Prescott filter, key regions, 1970–2019**

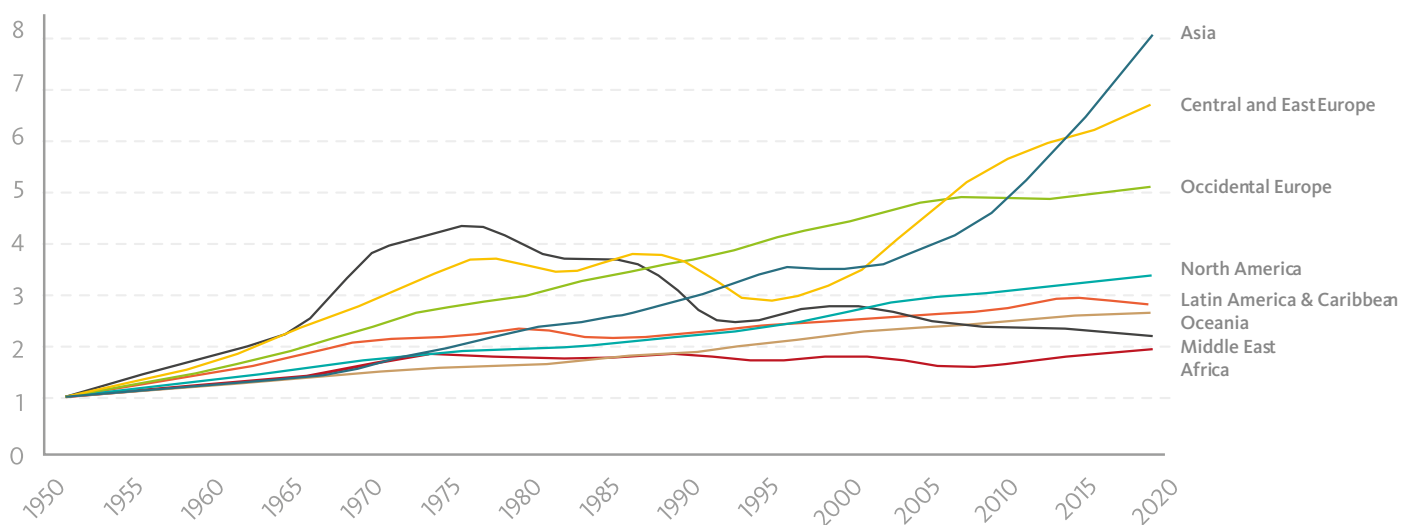


Source: The Conference Board (2019), based on The Conference Board Total Economy Database (adjusted version) data, April 2019.

Figure 6 shows the cumulative growth of labour productivity at the regional level between 1950 and 2019. It is important to highlight the lethargic (relatively stagnant) growth of labour productivity in **Africa**, which contrasts with the relatively accelerated labour productivity growth in Asia and Central and Eastern **Europe**. On the other hand, it is important to notice the significant slowdown of labour productivity in the **Middle East** since the late 1970s and the slow growth in the remaining regions, including **Latin America**. The most remarkable success story of recent decades is the growth of labour productivity in Asia, which doubled its average level of labour productivity between 2005 and 2019. Meanwhile, over the same period, the average level of labour productivity in the Middle East has contracted.

FIGURE 6

Cumulative growth of labour productivity, using Hodrick–Prescott filter, 1950–2019,  
(Reference Year = 1950)



Source: ILO Bureau for Employers' Activities, using The Conference Board Total Economy Database.

It is also important to analyse the trends in Total Factor Productivity (TFP), presented in figure 7. The TFP provides an estimate of the overall efficiency with which physical and human capital, and intermediate inputs, are used in the production process. In the years following the recovery from the financial crisis, TFP growth declined dramatically, with virtually no variation. The global growth of TFP averaged **0.1 per cent per year, from 2010 to 2017**. That rate is **10 times lower** than that experienced in the period immediately before the recovery from the financial crisis (2000-2007).

The virtually zero growth of TFP between 2010 and 2017 indicates that the increase in labour productivity (measured as GDP per employed person) over the same period was mainly due to the accumulation of physical capital, rather improvements in efficiency or innovation (The Conference Board 2019). Also, the statistics for **emerging and developing economies** are of particular concern. Since 2012, TFP in emerging and developing economies has grown at a lower rate than that of advanced economies (see figure 7).

FIGURE 7

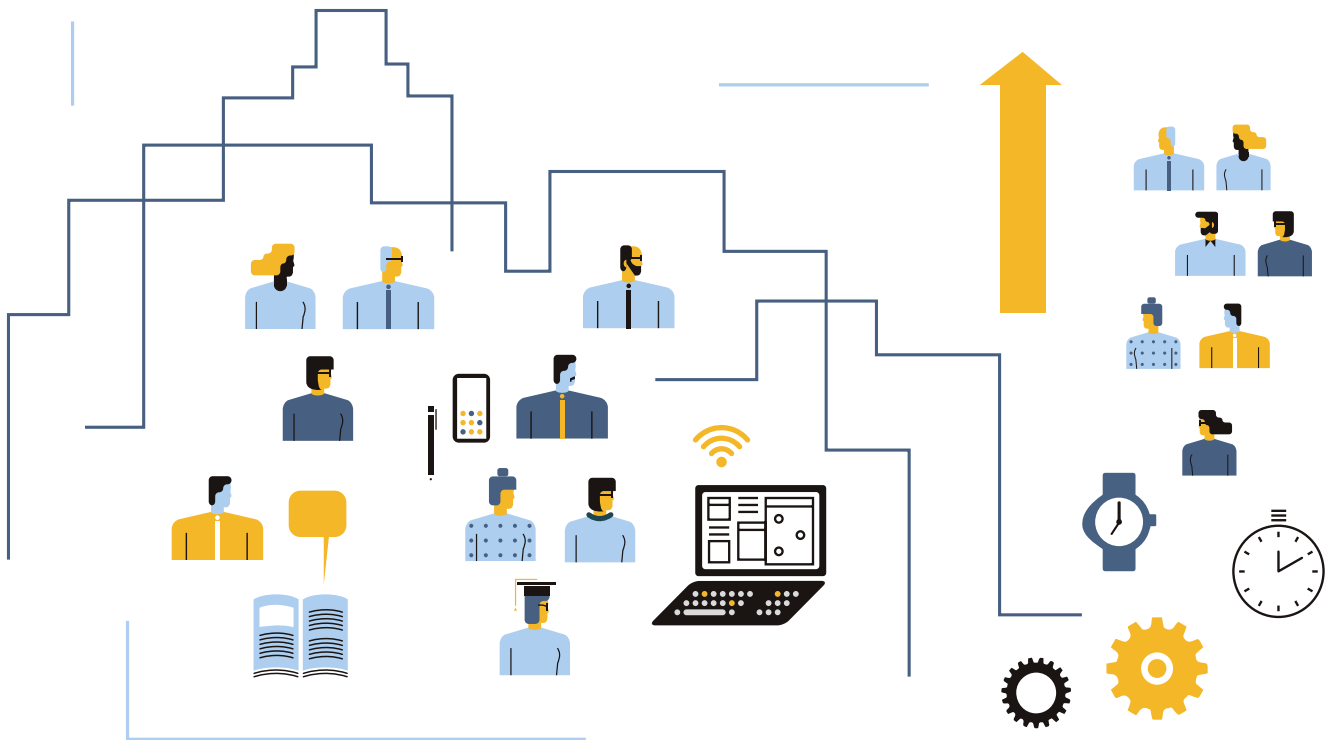
TFP, annual average percentage growth, 1990–2018



Source: The Conference Board Total Economy Database.

**According to the  
World Bank,  
the current  
slowdown in labour  
productivity growth  
has been the  
steepest, longest  
and broadest yet,  
based on data going  
back for decades  
(World Bank 2020).**

# Productivity in the time of COVID-19



The restrictions on the movement of people and the abrupt stoppage of economic activity to contain the propagation of the **COVID-19** have led to the collapse of production systems and sudden loss of revenues putting at risk the survival of millions of enterprises, particularly micro and SMEs, and jobs in most countries. Among the devastating economic, social, and labour consequences of the ongoing crisis, **the deepening of the deterioration in productivity**, which before the COVID-19 pandemic had not yet returned to levels observed before the 2007-9 global financial crisis, could significantly hinder the recovery of economic and employment growth.

In the post COVID-19 economic environment, **productivity recovery** will be key for enterprises to build financial buffers, that is, cash reserves and strong balance sheets, invest in improving the knowledge and skills of workers, and invest in resilience-boosting technology, thus enabling them to be **economically and structurally resilient** to cope with future supply and demand shocks, and to adapt to new and emerging market conditions. In this context, the role of EBMOs will be essential to guide and support their members in the pursuit of productivity recovery.



## A holistic approach to enhance productivity

Given the wide range of interrelated factors that interplay to reinvigorate productivity growth, an **integral approach** is needed, to facilitate investment in human, physical and intangible capital; encourage the reallocation of resources to more productive sectors; support the capacity of enterprises to adopt technology and innovation; and promote a growth-friendly macroeconomic and institutional environment (BM, 2020).

**This Guide aims to contribute towards the achievement of the Sustainable Development Goal number 8 (SDG 8) on the promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.** To this end, this Guide discusses key factors of productivity growth, divided into 3 main categories. First, some of the key factors in the business environment are presented in Module B. Those conditions can be promoted through public policies and regulations established by the public sector, such as skills training, access to financing and smarter investment policies in infrastructure. Second, The Guide also presents various management practices in Module C. These practices have the potential to increase the productivity of an enterprise, such as an organizational climate that fosters constant communication, economic incentives for labour productivity or practices related to providing equality of opportunities for employees. Third, the external factors (those that can affect productivity growth but are not caused by firms or governments) are listed in the last part of this section, but they are not part of the scope of analysis from this Guide.

### BUSINESS ENVIRONMENT IMPROVEMENT

The Guide analyses 12 **key factors** of the business environment. This list is not exhaustive, but it includes essential aspects that should be considered by policy makers when defining regulation and policies.

#### Relevant factors to improve the business environment

- |  |  |
|--|--|
| 1. Macroeconomic stability   | 8. Property rights and the rule of law   |
| 2. Skills development and education quality  | 9. Governance and anti-corruption policy |
| 3. Inclusive and flexible labour markets   | 10. Competition                          |
| 4. Transition out of informality   | 11. Industrial policy                    |
| 5. Entrepreneurship and innovation   | 12. National productivity committees     |
| 6. Access to credit and financial services   |  |
| 7. Physical and digital infrastructure and connectivity with international markets |  |



Module B of this Guide analyses those key factors in separate sections. However, it is important to notice that none of the factors mentioned in such module should be addressed with an isolated policy: an integral strategy is required to improve the business environment. The creation of a business-friendly environment will require adequate training of human capital in the education system, with a focus on the development of the skills required in the labour market and with a view to the future transformation of work. In parallel, improving the business environment will require reducing employment discrimination in order to increase the participation of young people, the elderly workers and women in the labour market. A business environment that is favourable to productivity should also provide affordable sources of financing, a necessary condition to boost the productive growth of small and medium-sized enterprises (SMEs) in developing countries. The policies mentioned above are complementary, ideally implemented through national productivity committees; including the participation of the government, social partners, private sector and academia.

## MANAGEMENT PRACTICES IMPROVEMENT

This Guide presents **6 key factors** related to productivity-oriented management practices. This list is not exhaustive but includes fundamental features that enterprises should consider when designing a strategy to improve their productivity.

### Relevant factors to improve management practices

1. Communication-oriented organizational climate
2. Flexibility in the workspace
3. Economic incentives for productivity/employee performance
4. Energy efficiency and waste management
5. Safety and health
6. Equal opportunities

According to Stanford professor and researcher Nicholas Bloom, the differences in productivity among enterprises and countries largely reflect differences in management practices. Bloom and Van Reenen (2010) have conducted multiple surveys to systematically measure management practices in enterprises, industries and countries. Their research shows how the lack of information related to the best management practices can be a constraint to improve a firm's productivity. Module C of this Guide presents general guidelines to improve management practices in a firm, based on various international case studies and the latest academic research.

## EXTERNAL FACTORS

External factors refer to the series of events that can occur and affect productivity growth but are not determined by the enterprise's management practices or public sector policies or regulations. Such factors are not deeply analysed in this Guide because they cannot be influenced by public or private efforts. However, it is important to consider their relevance and possible impact on productivity.

### External factors

1. Climate events
2. International supply and demand for goods and services
3. Reserves (stock) of natural resources
4. International commodity prices
5. International financial volatility and capital outflows
6. Black swan events (terror attacks, **global health crisis such as the Covid-19 pandemic**)

External factors include unusual climate events, which can significantly increase or contract productivity. For example, “El Niño” weather phenomenon can reduce the amount of rain in a given harvest season and thereby reduce the productivity of the agricultural sector for that year. Similarly, changes in international supply and demand for goods and services can significantly affect productivity levels. For example, periods of international economic volatility, such as the global financial crisis that began in the United States, can contract international economic activity and thus the productivity of many developing economies.

EBMOs must take into account how external shocks are transmitted and have an impact on productivity growth and therefore on the growth of enterprises. First, variations in the **exchange rate** can expand or contract firms' revenues. Although a currency depreciation can make exports more competitive (through lower prices of domestically-produced goods), it could also lead to higher production costs if enterprises import raw materials and intermediate goods. In some cases, enterprises might be able to switch to domestic inputs, but this is not always possible. On the other hand, international prices transmit the effect of variations in the international supply and demand for goods and services. For instance, the international oil price increases significantly when an expectation about an oil supply contraction rises.

The evidence presented in this Guide shows the importance of adopting an integral approach for improving the conditions of the business environment as well as the management practices from firms. In line with international best practices, such an approach requires a **national strategy and a long-term vision** that bring together the efforts of the public and private sectors, with the support of academia and social partners, to foster productivity growth.



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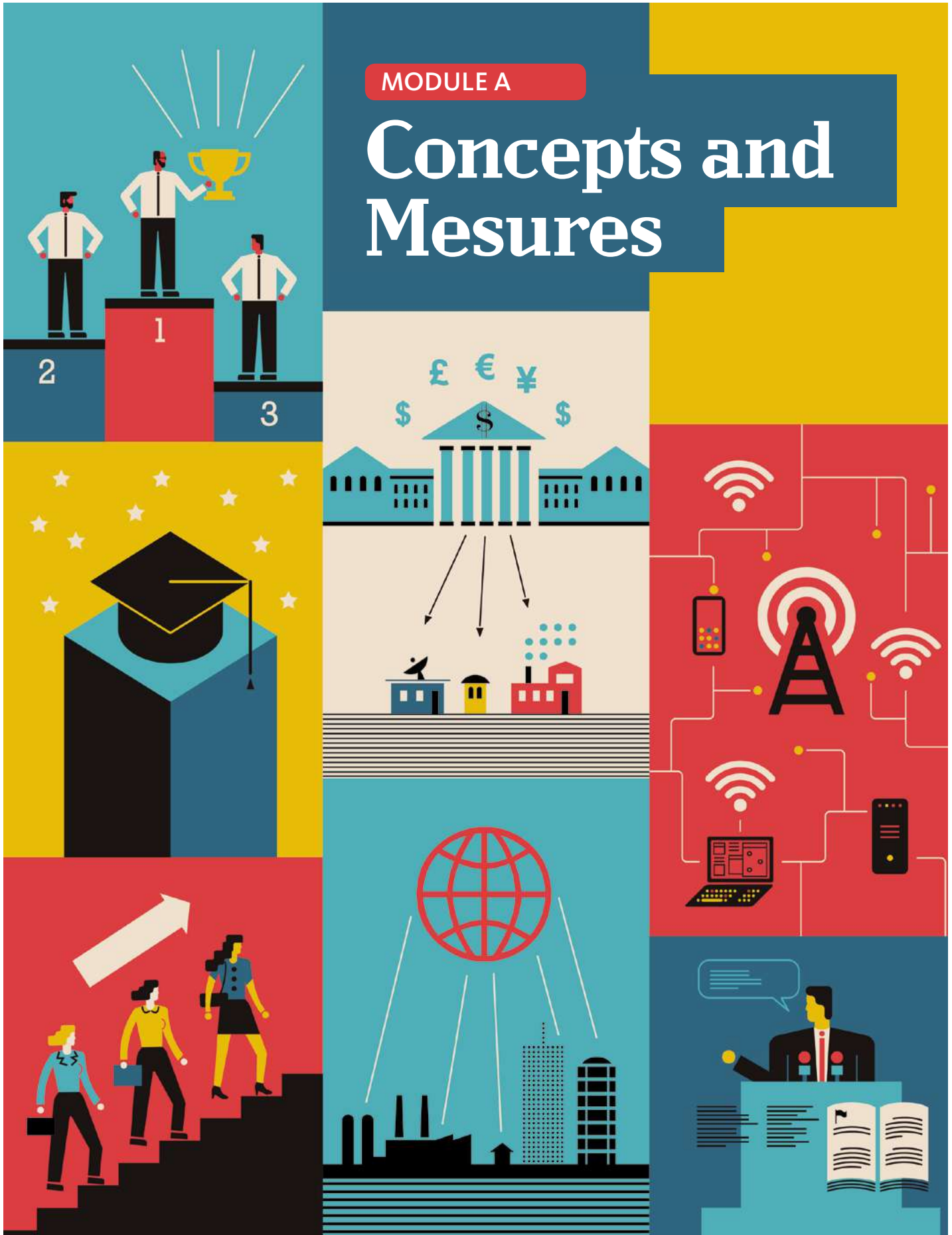
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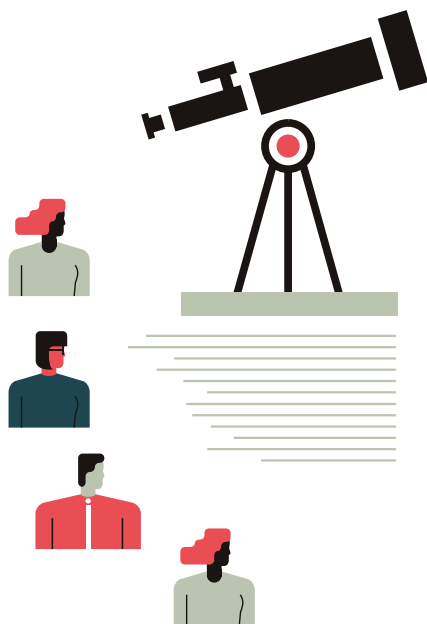
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MODULE A

# Concepts and Measures



# Productivity concepts and measures

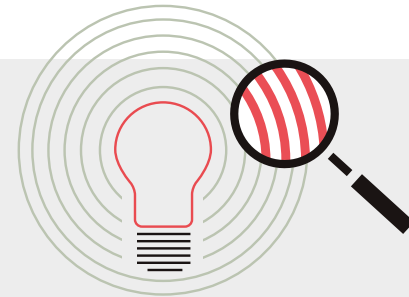


**P**roductivity is commonly defined as a **ratio** of a volume measure of **output** to a volume measure of **input** use, OECD (2001). In casual conversations, we say an individual is productive when she or he produces a high output with limited inputs. Productivity measures the efficiency with which firms and economies use the available resources to produce goods and services; it can be measured for all factors of production combined (**Multifactor Productivity**) or in terms of one of them, for instance, **Labour Productivity** or **Capital Productivity**. Such measurements are the most common ways of displaying productivity trends and benchmarks, but there is an array of productivity measures (for a complete technical manual on measuring productivity, see OECD, 2011). The choice between different measures depends on the purpose of productivity measurement and the data availability. These productivity indicators can be quantified for an economy overall, or segmented by economic sector (such as manufacture, agriculture, services, etc.), level of skills (low, intermediate, high), age or gender. Conversely, the level of disaggregation can increase depending on the data availability. Productivity can also be calculated at the firm level, to track the firm's productivity across time, as well as benchmarking its productivity against other companies.

It is important to recall that **productivity is not** the same as **the competitiveness**. Although raising productivity increases the competitiveness of a company (by enhancing the quantity of goods and services supplied and/or by minimizing the production costs), there are other elements that a firm needs to be competitive. To be considered competitive, a company must use its resources and its capacity to produce **the right products and services**, with **quality**, an **appropriate price** and in the **correct number**, so it can commercialize, effectively, its products to the consumer market (Dresch et al., 2018). A competitive company is the one that can generate **profit** and have significant **market share** (Krugman et al., 1994). Boosting productivity raises the competitiveness of a company, but there are several elements aside that a firm should consider as well to remain competitive in the long run.

TABLE 1

# Relevant Productivity Measures



## 1 LABOUR PRODUCTIVITY

Measure	Calculation	Data Sources
GDP per worker	This indicator is calculated dividing the GDP, by the number of employed people, during a given time reference period	<ul style="list-style-type: none"> <li>• <a href="#">International Labour Organization</a></li> <li>• <a href="#">World Bank</a></li> <li>• <a href="#">Conference Board</a></li> </ul>
GDP per hour worked	This indicator is calculated dividing the GDP, by the number of hours worked from the population, during a given time reference period	<ul style="list-style-type: none"> <li>• <a href="#">Conference Board</a></li> <li>• <a href="#">OECD</a></li> </ul>
Labour revenue productivity per worker	This indicator is calculated dividing the firm's operating revenue (sales), by the number of workers in the firm, during a given time reference period	<a href="#">Osiris</a>
Labour revenue productivity per hour worked	This indicator is calculated dividing the firm's operating revenue (sales), by the number of hours worked from employees in the firm, during a given time reference period	<a href="#">Osiris</a>
Real profits per hour worked	This indicator is calculated dividing the firm's real profits, by the number of hours worked from employees in the firm, during a given time reference period	<a href="#">Osiris</a>

## 2 CAPITAL PRODUCTIVITY

GDP over Capital	Capital productivity is measured as the ratio between the volume of output, GDP, and the volume of capital input, defined as the flow of productive services that capital delivers in production, i.e. capital services	<a href="#">OECD</a>
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## 3 MULTIFACTOR PRODUCTIVITY

Total Factor Productivity (TFP)	Total Factor Productivity, commonly known as Multifactor Productivity, relates a change in output to several types of inputs. It measures the direct growth contributions of labour, capital and intermediate inputs. I would then add that it is assessed as a residual, "i.e. that part of GDP growth that cannot be explained by changes in labour and capital inputs	<a href="#">Conference Board</a>
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# 1 ...

## Labour Productivity

Labour productivity is commonly represented as the total volume of **output** produced (measured in terms of Gross Domestic Product, GDP) **per person employed**, or **per hour worked, during a given period**. When the GDP of an economy increases, without raising the quantity of hours worked or the number of workers, labour productivity also increases. The GDP per worker or hour worked, can increase because of multiple causes. For instance, it could be due to labour working smarter, harder and faster or because of workers acquiring new and better skills. However, it could also be due to reasons outside of the workers' control, such as the firm investing in better machinery or due to the introduction of technological innovations.

### BOX A. THE LABOUR PRODUCTIVITY OF A FOOTBALL PLAYER

Measuring labour productivity is useful to visualize benchmarks. Let's suppose we want to select the best forward from the Spanish League for the 2017-2018 season (Table 1). There are two candidates: Messi and Cristiano Ronaldo. The productivity statistics of Cristiano were: 26 goals during the season and 0.96 goals per game played. Therefore, Messi's productivity, measured by goals per season, is higher as he scored 34 goals during that season. However, Cristiano has more goals per game played. This shows that Cristiano tends to score more goals when he is on the field, but he tends to take more breaks and plays fewer games than Messi. Both productivity statistics are useful to comprehend the performance of these players.

TABLE 1

**Absolute Measures of Labour Productivity of two football players Lionel Messi and Cristiano Ronaldo. 2017-2018 Spanish League**

#### LABOUR PRODUCTIVITY

Spanish League 2017–2018

Lionel Messi  
goals per season

34 goals

Cristiano Ronaldo  
goals per season

26 goals

Lionel Messi  
goals per game

0.94 goals

Cristiano Ronaldo  
goals per game

0.96 goals

Source: Spanish Football League (2019).



TABLE 2

Economic Measures of Labour Productivity of two football players Lionel Messi and Cristiano Ronaldo. 2017-2018 Spanish League

LABOUR PRODUCTIVITY (INCOME PER SEASON)	
Spanish League 2017–2018	
Lionel Messi	Cristiano Ronaldo
126 million euros	94 million euros

Source: France Football (2018).

Labour productivity can be boosted by the **firm’s managerial practices** or the **business environment**. Let us come back to the example of Lionel Messi, the Argentinian soccer star of Barcelona. While Messi has significant credit for his career’s accomplishments, it is important to consider that Barcelona invested in Messi’s skills to boost his productivity, since he was 13 years old and playing for Barcelona B. The team brought him from Argentina and invested in his career development from 2000 to 2004, when he debuted in the Spanish League. Additionally, an outstanding and competitive environment in the Spanish League has allowed Messi to continue growing his performance. Among different factors, the amount of capable human capital in the team of Barcelona facilitates Messi’s performance. He tends to score 80 per cent more goals per game with Barcelona than with Argentina—his national team.

The previous example illustrated the concept of labour productivity. In economics, much like in football, labour productivity is commonly presented as the **output per worker** or the **output per hour** (or day or year) worked. Both are useful measures of workers’ productivity, and they can be used to make comparisons across countries, industries or companies. However, one important challenge arises, the previous indicators were only absolute measures of productivity, without considering their economic value, and excluding other possible sources of value added derived from the performance of these players. In the case of Ronaldo and Messi, their economic output is also derived from TV commercials or due to the thousands of jerseys sold with their name, all over the world. The case of workers productivity is analogous, an employee may produce multiple different outcomes, and therefore the labour productivity is commonly measured considering the **GDP per worker or hour worked**.

While absolute measures of productivity (such as goals scored, passes completed, etc.) can be used to track or benchmark performance of a football player, it is necessary to consider productivity measures that take economic outputs into account (such as GDP, income generated, etc.). The data availability could be a limitation. There are no comprehensive studies about the overall GDP generated by soccer players. However, it is possible to estimate the total income generated by a player, during a given season, by adding up all their different income sources. According to this estimation, the total income generated by Messi was 34 per cent higher than the one from Ronaldo, during the 2017-2018 Season.

## 1.1 Labour Productivity (GDP per worker)

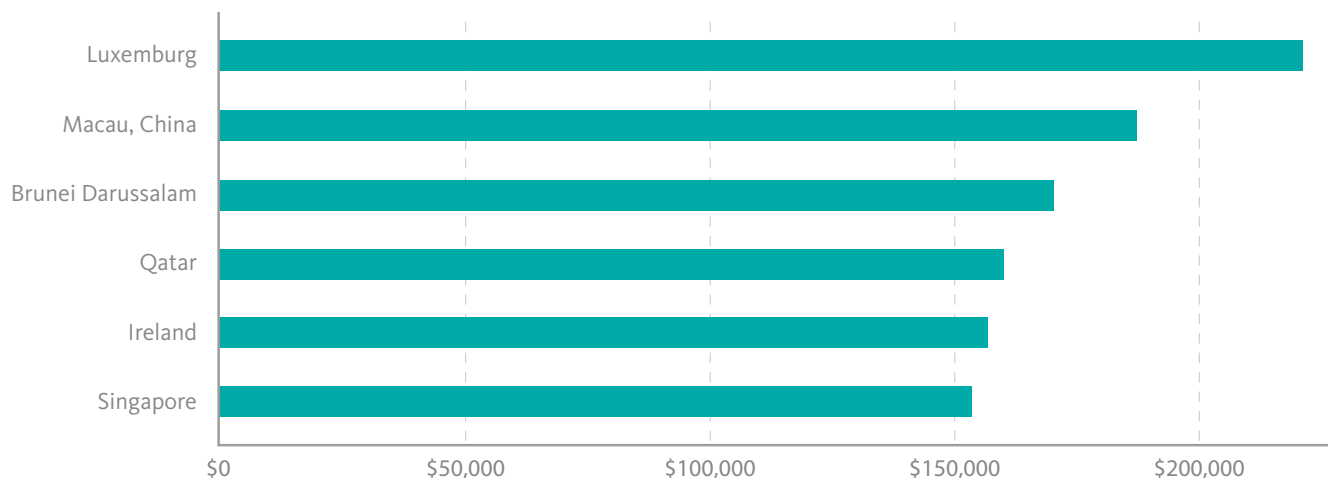
Comparisons of **labour productivity** between countries are often made using **output per worker**<sup>4</sup>. This measure is calculated dividing the GDP by the number of employed people, during a given period. Estimations for virtually all countries are available at ILOSTAT ([ilostat.ilo.org/data](http://ilostat.ilo.org/data)), the leading source of labour statistics, a webpage created by the ILO Department of Statistics. According to the most recent ILO estimates, from 2019, the **countries with higher labour productivity** in the world were Luxemburg, Macau (China), Brunei, Qatar, Ireland and Singapore. For each of these economies, on average, the **GDP per worker** is higher than 150,000 USD per year, ILOSTAT (2019).

These countries are characterized by having **high added value industries**, meaning industries characterized for having a high ratio of GDP per worker. Luxemburg and Singapore have a strong **banking and financial sector**, producing a high economic output per person employed. Brunei and Qatar in turn have a high added value energy industry which, as Macau with an impressive casino **gaming and tourism industry**, produce a large economic output for a small population. Finally, Ireland has been able to attract significant Foreign Direct Investment flows from some of the most reknown and highly productive multinationals, including **technology** companies such as Facebook, Google and Apple.

<sup>4</sup> Labour Productivity measured as: (GDP) / (Number of Employed People).

### GRAPH 1

Countries with the highest labour productivity in the World, 2019.  
(Output per worker. GDP constant 2011 international \$ in PPP)



Source: ILOSTAT (2019)

The variations in the labour productivity from an economy can reflect the influence of multiple factors such as changes in the average ratio of capital per worker (workers with access to more or better machinery can increase their production), variations in the quality of the intermediate inputs used during production (changing materials used during production can increase workers’ performance), technology improvements, and firms’ organizational and efficiency enhancements. Therefore, labour productivity only partially reflects the changes in the workers’ skills, as multiple factors are influencing workers’ performance and level of efficiency.

**BOX B. USING LABOUR PRODUCTIVITY AS A BENCHMARK BETWEEN FIRMS. THE CASE OF EQUINOR (NORWAY) AND PEMEX (MEXICO).**

Equinor (Norway’s state-owned oil company, previously named Statoil) and PEMEX (Mexico’s state-owned oil company) are two of the top 10 petroleum companies in the world. If we compare the output between both companies, it is straightforward that PEMEX produces more. During 2016, PEMEX produced around 1,116 million barrels, while Statoil produced only 722 million barrels. However, that is not a measure of productivity, it is only a measure of total production and comparing production statistics does not allow for efficiency benchmarking between firms. In order to compute statistics about these companies’ labour productivity, we will get the **ratio** between the **number of barrels** produced over the **number of workers employed**. During 2016, Statoil produced around 35 thousand barrels per worker, while PEMEX only produced 9 thousand barrels per worker, SE (2017). This means that Statoil’s labour productivity (measured as physical output per worker) is almost 4 times higher than PEMEX’ labour productivity. Equinor’s workers turned out to be more productive than PEMEX’s workers because of multiple factors. For instance, one reason might be that Equinor’s workers have a higher ratio of capital per worker; or that they were drilling oil from richer fields in Norway than those exploited by Mexican workers.

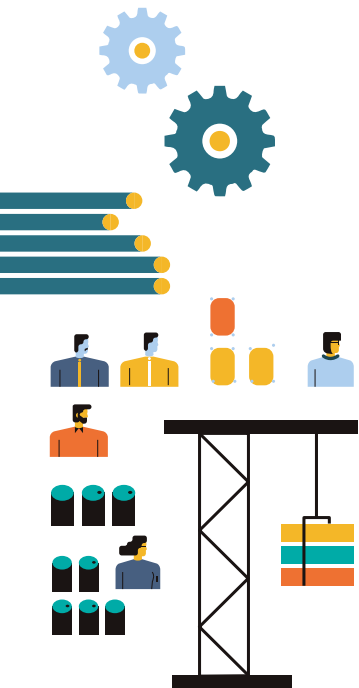
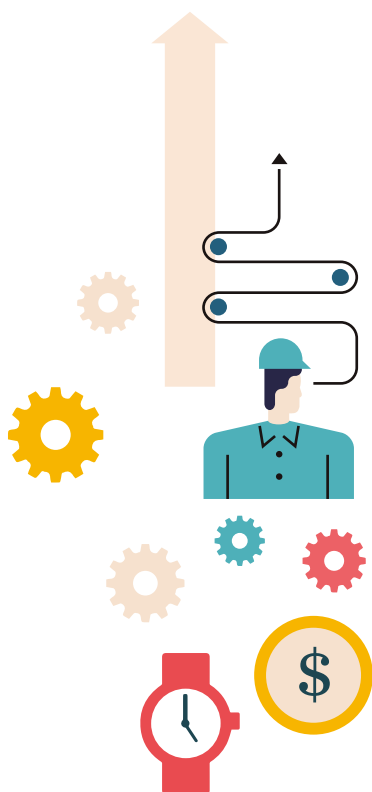


TABLE 3

Labour Productivity of 2 National Petroleum Companies: PEMEX (Mexico) and Statoil (Norway), 2016

PRODUCTION, 2016 Millions of barrels produced per company		LABOUR PRODUCTIVITY, 2016 Thousands of barrels produced per worker	
Equinor	Pemex	Equinor	Pemex
722	1,116	35.2	8.9

Source: SE (2017)



## 1.2 Labour Productivity (GDP per hour worked)

The most accurate comparisons of **labour productivity** between countries are made using **output per hour worked**<sup>5</sup>. This is calculated by dividing the GDP, by the number of hours worked by the employed personnel, during a given time reference period. According to the OECD Manual on Measuring Productivity, from a perspective of production analysis, labour input is most appropriately measured by the total number of hours worked. Simple headcounts of employed people will hide changes in average hours worked, caused by the evolution of part-time work or the effect of variations in overtime, absence from work or shifts in normal hours. The use of the headcounts of employed people distorts labour productivity indicators for developing countries in particular as it disguises the large extent of labour underemployment.

It is recommended that hours worked be the statistical variable used to measure labour input, as opposed to simple head counts of employed people, OECD (2001). Moreover, simple headcounts also hide differences in skills. The latest approaches to measure labour productivity use quality-adjusted labour input and a specific consideration of the composition of the workforce. For instance, the number of hours worked is divided into groups such as high, medium and low skilled labour, age groups, gender, etc. A good reference of these approaches is the methodology used by the European Commission and EUROSTAT (2015).

There are different public data sources with country statistics about GDP per hour worked. As of 2020, one of the most comprehensive public databases is the *Conference Board Total Economy Data Base* (visit the site following this [link](#)). Additionally, for the case of the OECD countries, there is abundant data related to the GDP per hour worked, contained in the OECD webpage (visit the site following this [link](#)). According to the last benchmarking exercise among OECD countries, the countries with the lowest ratio of GDP per hour worked are Mexico and Costa Rica; whereas the ones with the highest ratio of GDP per hour worked are Ireland and Luxemburg, OECD (2019). Workers in Ireland, on average, produce around 100 USD per hour, while workers in Costa Rica or Mexico produce around 20 USD per hour, on average. This means that (on average) workers in Costa Rica and Mexico take 5 times more time to produce the same GDP than a worker in Ireland.

<sup>5</sup> Labour Productivity measured as  
(GDP) / (Hours worked)

**GRAPH 2**

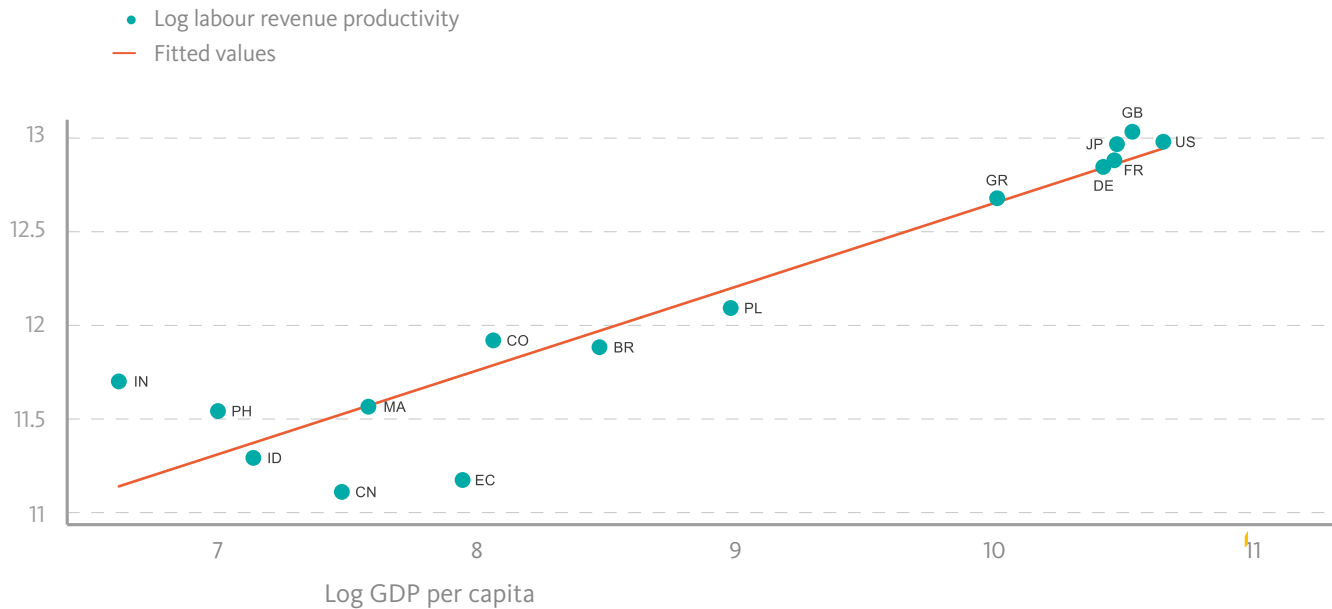
**Labour productivity in OECD countries, 2017**  
(GDP per hour worked, US dollars, current prices and current PPPs)



Source: OECD, (2019b)

**GRAPH 3**

**Labour revenue productivity across countries, 2005 (Average firm-level sales per employee in manufacturing)**



Source: Bloom et al (2010)

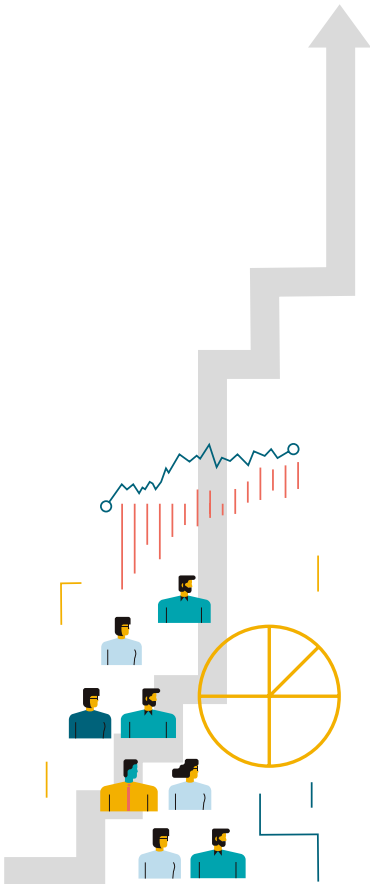
### 1.3 Labour revenue productivity

Labour productivity can also be measured by the average firm's operating revenue (sales) per hour worked or per person employed. This indicator is known as the *labour revenue productivity*. It can be used to analyse productivity differentials among enterprises in the same industry within or across different countries. Bloom et al. (2010) make this type of assessment in the manufacturing sector across 15 countries. This research finds that enterprises in developing countries tend to have on average lower labour productivity than advanced economies, and it also shows that the greater the labour revenue productivity, the higher the income per capita.



# 2...

## Capital Productivity (GDP over capital)



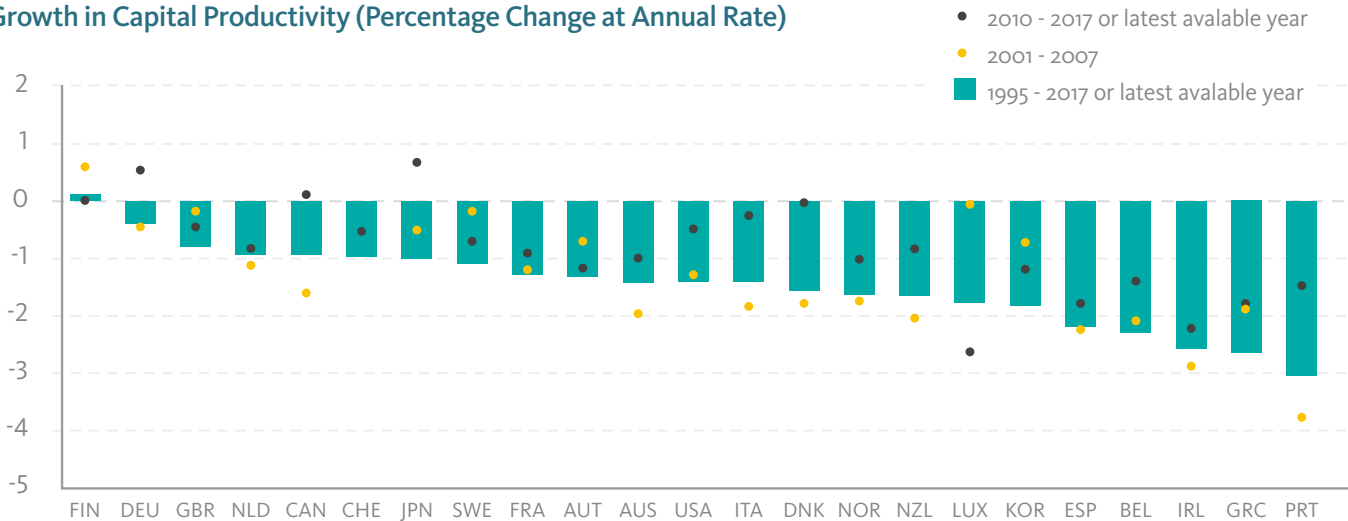
**Capital productivity** is the ratio between the volume of output (GDP) and the volume of *capital input*, the latter defined as the flow of **capital services** that provide capital goods to the production process (OECD, 2019). It shows how efficiently capital is used to generate output. When the increments in output are more than proportional than the increments in capital, the capital productivity increases. As labour, capital is characterized by **diminishing returns**. This means that an additional unit of capital (machinery and equipment) has a diminishing productivity. In other words, beyond a certain point, the output per unit of capital increases less than proportional to the added investment in capital services to produce goods and services. There are a number of reasons for this to happen such as not enough (skilled) workers to operate the additional machines; insufficient raw materials and intermediate goods preventing enterprises from fully utilizing their installed productive capacity; and *wear and tear*.

Capital productivity **is different from the rate of return on capital**. It is important to distinguish between both concepts. The return on capital is an income measure that relates the value of a capital stock to the income generated.

The most recent data from OECD countries show that capital productivity has fallen in high-income countries over the last two decades. This is attributed to the declining use of labour per unit of capital and the falling costs of utilizing capital relative to labour. Between 2010 and 2017; only Japan and Germany had a non-negligible positive rate of growth of capital productivity. The capital productivity grew at an annual rate of 0.7 per cent in **Japan** and at 0.5 per cent in **Germany**, during this period. On an opposite note, the countries with the highest contraction in Capital Productivity, during this period, were Ireland and Luxemburg. The capital productivity in **Luxemburg** declined by 2.63 per cent annually whilst 2.22 per cent annually in Ireland, for the period between 2010 and 2017 (OECD, 2019c).

GRAPH 3

Growth in Capital Productivity (Percentage Change at Annual Rate)



Source: OECD, (2019c)



# 3

## Multifactor Productivity

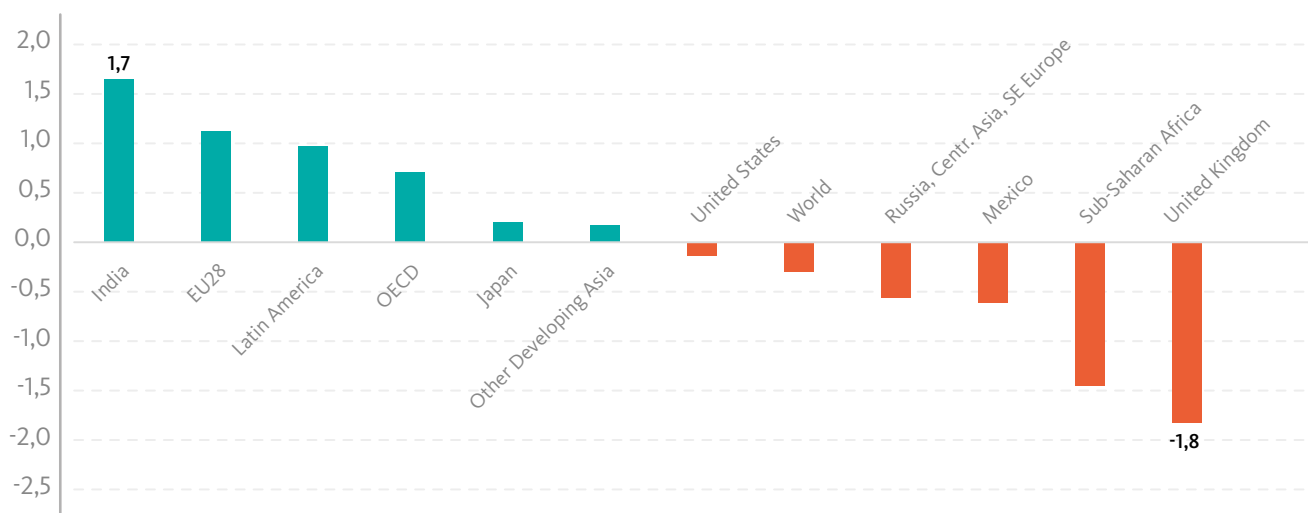
The Total Factor Productivity (TFP)<sup>6</sup> is a key **indicator of efficiency** in the use of **capital, labour and intermediate inputs**. The TFP is one of the most common measurements for productivity. The variations in the Total Factor Productivity reflect the effects of changes in management practices, brand names, organizational change, general knowledge, network effects, spill-overs from production factors, adjustment costs, economies of scale, the effects of imperfect competition and measurement errors. Growth in TFP is measured as a residual, i.e. that part of GDP growth that cannot be explained by changes in labour, capital, and intermediate inputs (energy, other intermediate goods, services), OECD (2019).

There are different public data sources from which to draw statistics from. As of 2020, one of the most comprehensive public databases with Total Factor Productivity (TFP) statistics is the **Conference Board Total Economy Data Base**, (CB, 2019). It contains the most recent TFP statistics for virtually every country and it includes projected productivity values for each economy during the subsequent years (visit the site following this [link](#)). Additionally, for the case of the OECD countries, there is abundant data related to the Total Factor Productivity rates of growth, contained at the OECD webpage (visit the site following this [link](#)). In terms of recent trends, the latest data from 2018 shows **India** as one of the countries with highest growth in Total Factor Productivity (TFP), the TFP in this Country increased by 1.7 per cent during that year, showing a greater efficiency in the use of labour, capital, and intermediate inputs. The situation in the **United Kingdom** displays the opposite picture, with a contraction of 1.8 per cent on the TFP during that year, CB (2019)

<sup>6</sup> Total Factor Productivity is a synonym for Multi-factor productivity (MFP)

GRAPH 4

Total Factor Productivity, Percentage Growth, 2018 (Change in the Natural Log)



Source: CB (2019)

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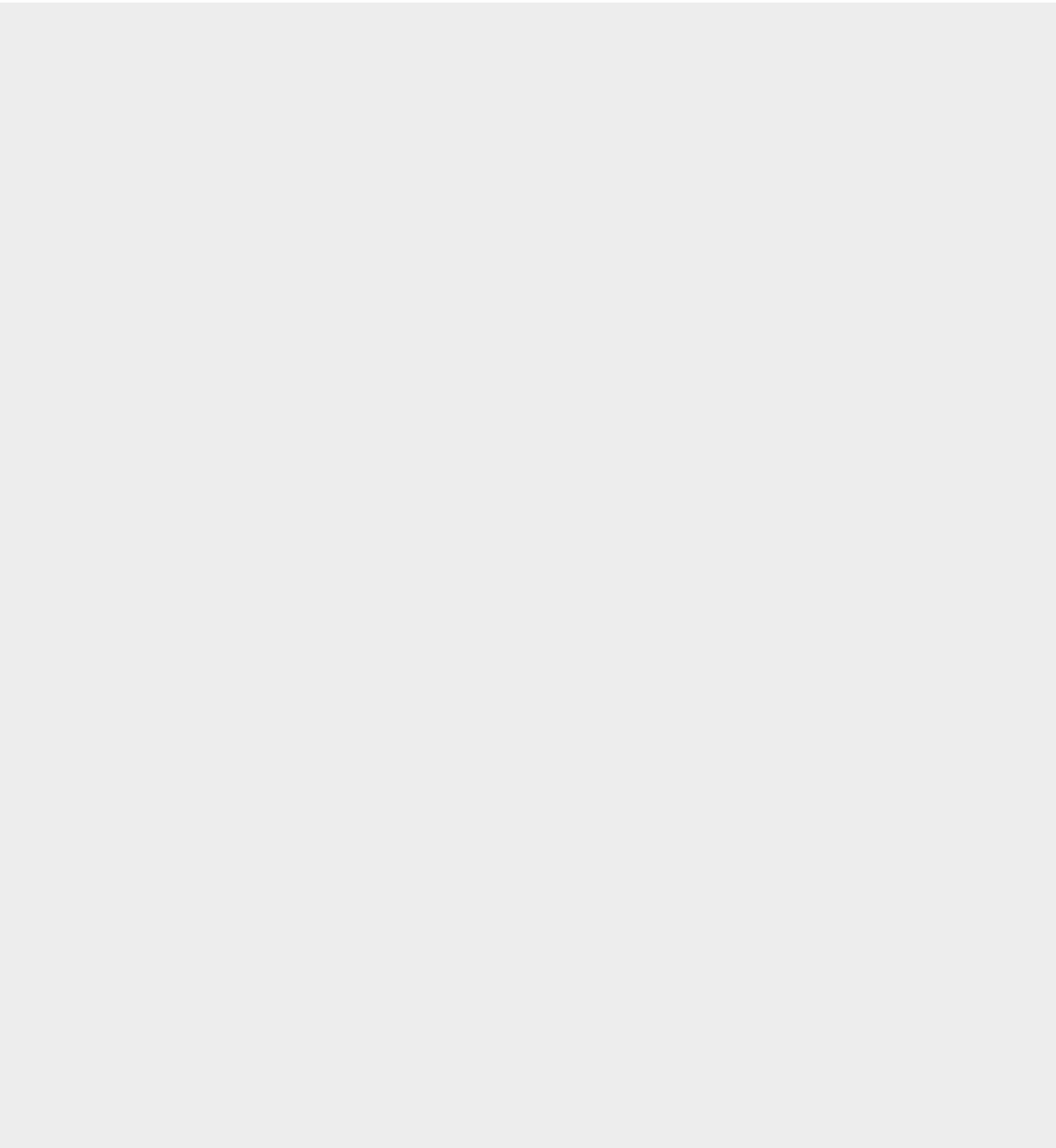
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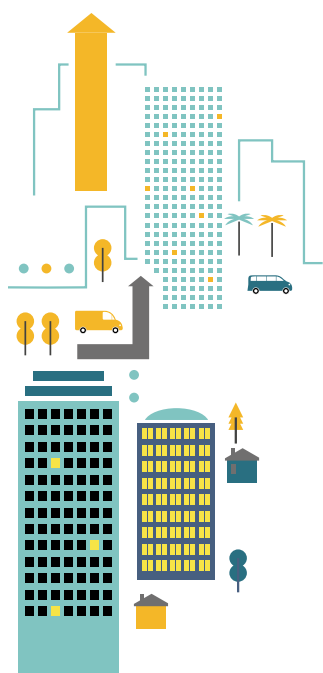


An enabling business climate is a key factor to boost productivity growth and firm performance. This chapter examines the latest relevant academic evidence and case studies, related to 12 key dimensions of the business environment, exploring different policies implemented around the world. This Module is not centred to one single country or region, instead it provides a global view with insights derived from multiple economies, providing useful content for Employers and Business-membership Organizations (EBMOs) in countries with different income and development levels.

**T**here is compelling worldwide evidence that shows how an enabling business climate can foster firm performance. For instance, Farole et al (2017) analyzed firm-level data from 4 **European economies** (Italy, Poland, Romania and Spain), finding that better business environments significantly contribute to increasing firms' sales growth and profitability. These results are in line with the ones from Dollar et al (2005), who collected firm-level data through surveys implemented in different **Asian economies**, such as Bangladesh, China, India and Pakistan; measuring how the institutional and policy weaknesses affect firms. Their findings are clear, the link between investment climate and firm performance in those countries is strong: with a significant effect on productivity, wages, profits, output growth rates and employment. The nuances of such research are also illustrating. For instance, the study finds that, for this subset of Asian economies, power outages and customs delays are significant bottlenecks to increase firms' productivity and profitability.

Improving the business environment has also proven to be relevant for the case of firms in **African economies**. Clark (2011) finds that firm managers in Africa are mainly worried about basic business environment's conditions, with concerns varying per country. For instance, access to finance, informality and tax rates are the biggest concerns in Zambia. Moreover, firms in Tanzania are significantly more concerned about reliable and affordable access to electricity. The study finds that such business climate limitations currently constrain firm performance in this Region.

**Globally**, there is also robust evidence that shows how addressing key components of the business environment can foster productivity growth. Young et al (2017) explored data from 65 countries finding that Total Factor Productivity can be significantly enhanced through innovation, education, market efficiency, as well as physical and institutional infrastructure. After a global literature review and multiple focus groups' discussions with experts, 12 key business environment components were selected to be presented in this Module. This is not an exhaustive list, but it includes essential components of the business climate, to be considered by policy makers when defining regulation and policies.







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## 1

## Macroeconomic stability

**A sound management of the economy** is a key pillar of an enabling business environment. A systemic approach is required to devise *macroeconomic frameworks* to achieve full employment, price stability, sound fiscal policies, sustainable debt ratios, sound public and private sectors' balance sheets, and healthy functioning of the real economy (Ocampo, 2005). The pursuit of **macroeconomic stability** should seek to maximize long-term growth while stabilizing variables in the short term. This means identifying and addressing the structural obstacles on the supply side, while stabilizing and fostering aggregate demand thus enabling output to be as close as possible to its potential level without generating imbalances.

The COVID-19 pandemic has led to restrictions on the movement of people and the abrupt and widespread shutdown of economic activity in severely affected countries. The supply and demand shocks are expected to cause a severe contraction of GDP in the first three quarters of 2020 at the very least, productivity, which had not recovered to levels observed before the global financial crisis in 2007-09, will be greatly affected, leading to a global economic recession. Although some advanced economies are expected to recover gradually upon containment due to robust fiscal and monetary stimulus and solid economic fundamentals, a prolonged economic recession and a slow recovery cannot be ruled out.

As the spread of the virus continues, developing countries will face extraordinary challenges to contain the pandemic and implement large-scale stimulus packages to support enterprises, particularly micro and SMEs, which create the bulk of employment, and avoid to the extent possible massive layoffs and labour market disruptions. It will be particularly challenging for countries with limited fiscal space and large fiscal deficits to keep sustainable debt levels. The next decade is likely to be a period of economic and fiscal austerity to deleverage highly indebted countries.

As Summers (2016) advocated a few years ago, *secular stagnation*, a long term and sustained slowdown in economic growth caused by a persistently low demand, might become the main macroeconomic challenge once coronavirus-related restrictions on economic activity are lifted. To avoid this scenario, **restoring macroeconomic stability, restructuring debt, and fostering consumer and business confidence** will be of the essence. As a response to the increasing volatility, uncertainty, complexity, and ambiguity brought about by the COVID-19 crisis, the ILO has developed a four-pillar policy framework (Figure 1) to address the new and emerging challenges related to the global health crisis and the supply and demand shocks that have paralyzed economic activities and disrupted labour markets around the world.





FIGURE 1

## ILO four-pillar policy framework to the COVID-19 crisis

### Pillar

#### 1 STIMULATING THE ECONOMY AND EMPLOYMENT

- Active fiscal policy
- Accommodative monetary policy
- Lending and financial support to specific sectors, including the health sector

### Pillar

#### 2 SUPPORTING ENTERPRISE, JOBS AND INCOMES

- Extend social protection for all
- Implement employment retention measures
- Provide financial/tax and other relief for enterprises

### Pillar

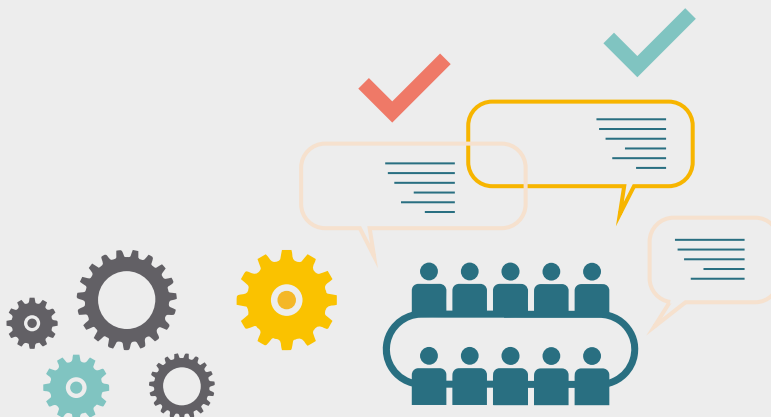
#### 3 PROTECTING WORKERS IN THE WORKSPACE

- Strengthen OSH measures
- Adapt work arrangements (e.g. teleworking)
- Prevent discrimination and exclusion
- Provide health access for all
- Expand access to paid leave

### Pillar

#### 4 RELYING ON SOCIAL DIALOGUE FOR SOLUTIONS

- Strengthen the capacity and resilience of employers' and workers' organizations
- Strengthen the capacity of governments
- Strengthen social dialogue, collective bargaining and labour relations institutions and processes



# 2...

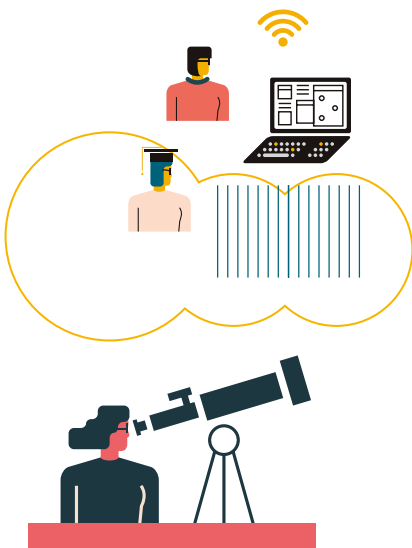
## Skills Development and education quality

Investing in human capital skills development improves not only on the workers' capacity but also on the workers' motivation to contribute to the economy, boosting the overall country's productivity. For example, an employee who can speak multiple languages can increase the firm's capability to export to different countries and increase the company's output. Conversely, an employee with good written communication skills can help the firm to deliver better messaging to its customers and clients, improving the firm's market share and productivity. However, multiple evidence-based studies have shown the current notorious skills-gap and skills-mismatch in the labour market, observed in developed and developing countries. For example, according to the latest global survey conducted by McKinsey, 40 per cent of employers worldwide had difficulties finding workers with the minimum required skills for top-level positions, and 30 per cent of them reported that their companies had direct negative consequences because the available human capital did not have the skills their companies demanded (McKinsey, 2015).

Building professional skills is a commonly addressed topic by productivity committees of different countries. For example, in the case of the **United Kingdom (UK)**, the productivity commission found that about 69 per cent of companies in this country did not expect to be able to fill positions requiring highly skilled workers in the next three years. This commission also found that the skills gap was one of the biggest concerns for employers in different regions of the United Kingdom, where between a quarter and a third of the time, employers were not able to find the ideal candidate to fill the vacancy, specifically due to their lack of skills, (CBI, 2017).

**Aligning education and vocational training policies and governance systems to the needs of enterprises** aimed at building the right set of skills is an important opportunity area for multiple developing and emerging economies. For example, the latest survey of professional competencies in **Mexico**, conducted by the Centre of Research for Development (CIDAC), reported that the human capital entering the labour force did not have basic competencies such as written communication, text comprehension, or the ability to speak in public. This was a characteristic observed even for university graduates, who were on the top of the skills distribution. According to this report, the root of this problem is found in the structure of the Mexican education system, which does not focus enough on these skills (CIDAC, 2014).

The education system in the **USA** offers an interesting policy example in terms of developing human capital with the skills needed at the local and regional level. The community colleges in the USA provide technical training to students, who are prepared with the skills demanded by the local industry. For instance, Alabama Southern Community College has a paper technology program because of the relevant pulp industry in that Region; Napa Valley College has a viticulture



An example of best practices can be seen in South Korea, where a skills development strategy was integrated within the industrial development planning, thus creating a sustainable model of development in the long term. According to Green et al. (1999), the economic miracle of South Korea was hand in hand with an educational miracle, in which an apparatus of schools, polytechnics, universities and training centres was built; which was able to feed human capital to the industrial transformation of the country. South Korea's productivity rate of growth has been remarkable in recent years.

program; and colleges along the Gulf Coast have petrochemical technician programs, Boggs (2010). This requires continuous communication between private and public sector. While the public sector provides part of the funds for such technical careers, the private companies do their share by offering apprenticeships as a bridge to a future employment.

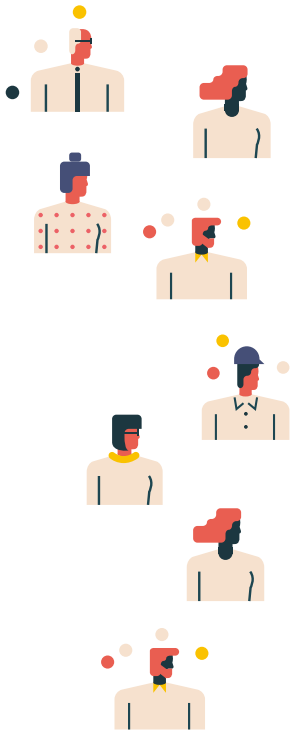
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One important factor to consider, in terms of the skills to be demanded by future labour markets, is the current abundant information availability. With the global content available in the internet, the capacity of making use of this knowledge gains more relevance, than the capability of merely memorizing subsets of such information. According to Winthrop (2016), the new digital economy requires individuals with **critical-thinking** skills; allowing them to filter, analyse and create meaning from the abundant online information. Following this line, the authors suggest developing skills like complex reasoning and creative thinking, to empower individuals to productively use the information from the digital world. As technology evolves and the demand for certain tasks is redefined, workers will have to embrace life-long-learning to develop a varying set of technical competencies and soft skills.

A crucial topic for skills development is the possibility to teach **entrepreneurial abilities**, in the education system. For instance, the Berkeley Method of Entrepreneurship (BMoE) is a teaching and learning approach that enables engineers to increase their entrepreneurial capabilities. The BMoE is an inductive game-based teaching approach, which is used as a method to communicate a set of 10 behavioural patterns, which capture the mind-set of successful entrepreneurs. Through this game, students can compare their own mind-sets, to the ones that characterize successful entrepreneurs. The BMoE is one approach to how schools and universities can include entrepreneurship skills as part of their curricula, Sidhu et al (2014).

Investing in human capital skills' development and fostering an **enabling environment for apprenticeships** should be acknowledged as a continuous and necessary process. Governments will need to account for the importance of up-skilling and re-skilling, to facilitate technology adoption for workers and firms. This would require direct public support and policy interventions, such as modernizing the workforce training system, according to the most recent technological

innovations and the requirements from the work environment, which will continue evolving with time. Since predicting the precise path of the future of work is out of the reach, and governments will need to address skills development as one permanent task, which may require continuous policy redesign. As of 2020, workers require a holistic set of skills beyond their primary area of work (accountant, graphic designer, lawyer, etc.), with a high component of digital skills, Atkinson et al (2019).



The ILO's supports skills development primarily in three complementary areas. First, by linking training to current labour market needs as well as anticipating and building competencies for the jobs of the future. Second, by building quality apprenticeship systems and incorporating core skills into training for young people. Third, by expanding access to employment-related training in rural communities. The Skills and Employability Branch from the **ILO** conducts comparative research, offers policy guidelines and provides technical assistance to help its constituents integrate skills development into national and sector development strategies, (for more information visit the webpage through this [link](#)).

On the other hand, the capacity of an employee to produce high-added value to the economy is significantly determined by the worker's years of schooling and the **quality of the education** received during those years. Therefore, a region would need to have enough workers with adequate levels of quality education, to attract high-added value industries or firms. Recent cross-regional research has proven this phenomenon. A prestigious EBMOs from the United Kingdom, the Confederation for British Industry (CBI), analysed the main causes of productivity gaps between different regions of this country. CBI found that the main factor in explaining these productivity gaps are differences in educational quality. Those regions that have the best educational quality are also those that have the highest productivity. According to this finding, the educational quality is the most important factor in determining the long-term path of regional productivity in the UK.

In the **UK**, human capital has little mobility between regions, i.e. people who attend the best schools tend to later work in the surrounding areas. Therefore, those areas with good secondary education tend to benefit in the long term, as they have a better educated population and greater productivity potential. The CBI found that the regional results of high school students on a standardized test called GCSE, during 2004, have a causal relationship with the productivity levels of the regional workforce 10 years later, (CBI, 2017). In other words, today's educational quality determines much of the productivity of the next generation in the labour market.

**Education systems** will have to evolve, to respond to the needs of enterprises and learning requirements of the new generation, as well as be able to compete with other non-conventional education tools. Technology has now expanded the possibilities of sharing knowledge and skills. For instance, e-learning has now become a commonly used tool for millions of students around the World. Consequently, universities will have to redesign their approach to teaching to be able to compete and offer a higher-added value than the online teaching tools. First, universities will be required to provide solid technical competences to students, such as statistical analysis, budgeting, coding, etc. Second, universities will need to provide soft skills (such as communication, collaboration and

emotional intelligence) to foster a holistic set of skills in the future labour force.

Some regions of the UK are now improving the education systems through innovative and ambitious policies, facilitated by the Office for Standards in Education, Children's Services and Skills (Ofsted). This Office implemented the "London Challenge", between 2003 and 2011, to improve the quality and usefulness of secondary education in low-income schools. The London Challenge had an extensive evaluation that corroborated the positive return on the public investment made. The evaluation provided valuable feedback from the implementation of this educational policy. Among the most important lessons learned were: a) improvement in educational quality is observed when the effort is implemented for a sustained period, at least in the medium term, b) communication between teachers of different schools around best practices has significant positive effects, c) it is necessary to establish clear objectives at the beginning of the education strategy, d) the search for regional improvement in educational quality has considerable benefits, despite the fact that each school had specific needs (Hutchings et al. 2012).

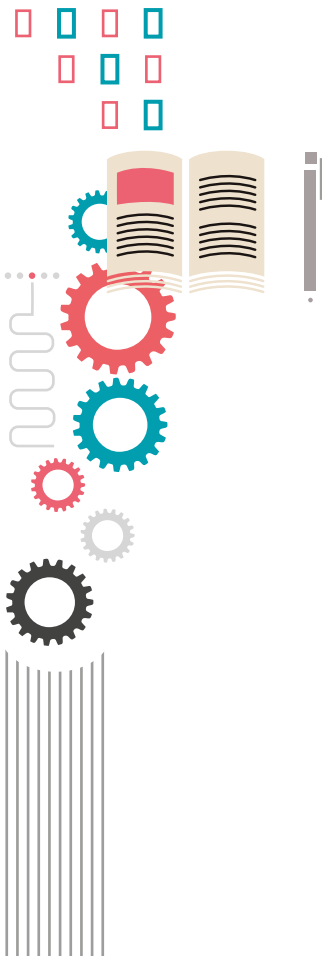
# 3

## Inclusive and flexible labour markets

An inclusive labour market is one that allows and encourages all people of working age to participate in paid work and provides a framework for their development. Countries that have underutilized their labour force can improve their productivity by finding ways to employ the underutilised workforce. In simple terms, inclusive labour markets enhance an economy’s overall productivity by allowing all workers to use their skills and capacities in the economy. For instance, a woman with a university degree may not be hired to a certain position because of her gender. This constrains her career potential, but it also curtails the economy’s productivity, since this implies an inefficient use of a workers’ talent. According to a comprehensive study, which collects data from 20 countries around the world, employment could grow twice faster if these economies were to employ the full potential of women, young people and elderly workers (McKinsey, 2015). This study found that the biggest potential lies in boosting further the participation of the female population in the labour markets. While the gender gap in labour force participation rates has narrowed over the last three decades, women in middle, senior, and executive management positions remain under-represented (ILO, 2019a). However, ILO (2019a) finds that when boardrooms are gender-balanced (40-60 per cent of either sex), enterprises are nearly 20 per cent more likely to have improved business performance.

A current key challenge for labour market inclusion is to incorporate the young population to the labour market. For millions of young people around the world, finding a decent job does not seem within their reach. A recent comprehensive review from multiple international experiences provides important policy lessons, to increase the inclusion of young workers into the labour market, Kluve et al (2017). First, investing to support young people in the labour market pays off, especially in terms of skills training and employment services. Second, the rate of return is maximized only in the medium term, highlighting the need for a long-term approach. Finally, the context and intervention design are crucial. For instance, skills development yields particularly high-returns for low- and middle-income countries.

Companies frequently underutilize female talent. As of 2018, only 43 per cent of women were in the labour market, while around 71 per cent of men were in the labour market (ILO, 2018b). Cuberes et al (2016) found that this gender-based discrimination for work represents a cost of 15 per cent of the global GDP. This phenomenon occurs in countries with all sorts of economic development. For example, on a research paper about New Zealand, Sin et al (2017) found that women in this country have considerably lower wages than men, and that the wage differential across gender increases with age and trajectory in the company.



The root of the challenge for women's labour inclusion is in turn also often in the legal and regulatory framework. The World Bank estimates that about 2.7 billion women are legally restricted from selecting the same jobs as men in their respective countries. Likewise, there are still 104 countries that do not have laws to prevent sexual harassment in the workplace, while, in 18 countries, it is still legal for a man to prohibit his wife from working (WB, 2018).

The limited participation of women in managerial responsibilities has also been studied by different organizations. For example, according to a global survey of nearly 13 thousand enterprises in 70 countries conducted by ILO (2019a), almost half of the surveyed companies reported that women have fewer than 30 per cent of entry-level management roles. In 60 per cent of enterprises less than one third of senior managers and top executives are women. Women are more often managers in support functions, such as human resources, finance and administration, which means that they are not involved in the design of business strategies, a factor that contributes on sustaining companies' discrimination towards female employees in the future.

Moreover, ILO (2019a) also identifies two main contributors to women being under-represented in management positions. One is the "leaky pipeline", cases in which women's share falls as the level of management increases. On the other hand, the "glass walls", cases in which managers are segregated by gender, acting as a barrier for women to move from support management to strategic management. However, this study also finds that women are 10 per cent more likely to be in management roles when the enterprise's workforce is gender balanced, while enterprises with a gender inclusive culture are about 9 per cent more likely to have improved business performance.

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On the other hand, labour **market flexibility** refers to a competitive market where workers are free to allocate their skills to the company or organization that they desire to; meaning that workers can change employers in the search for better wages, working conditions, or career paths. In parallel, labour market flexibility refers to a competitive market where firms are free to adjust the workforce in response to market dynamics. For instance, by hiring temporary workers during a season, due to their higher need for labour during that period, relative to the rest of the year. Labour market flexibility increases productivity by allocating human capital to the most productive economic activities and firms; this raises the overall economy's productivity by increasing the share of the high-added value industries and firms.

According to Nunn (2016), the institutions that increase labour market flexibility have a valuable amount of benefits for the companies and workers. Increasing

labour market flexibility accelerates the recovery from a recession, as workers can migrate away from hard-hit areas or economic sectors. Additionally, it provides better employment prospects for those with weak labour force attachment, such as the young employees entering to the workforce and those desiring part-time work. Finally, it fuels more productive matches between workers and firms, raising the average labour productivity. It also encourages enterprises to make long-term investments in productive assets and provide employment opportunities even during periods of uncertainty.

The case of **Italy** is relevant, since it reveals important evidence about the link between labour market flexibility and labour productivity. Lucidi (2008) analysed data for five thousand Italian companies, over a period of nine years (1997-2005). He categorized workers according to their contractual arrangements (for instance free-lance workers, temporary workers, or fixed-term workers), and the evolution of their labour productivity levels during these nine years. He finds a notorious negative impact of fixed-term contracts on labour productivity, for the companies with a high-share of fixed-term workers. According to the author, this evidence shows that low shares of fixed-term employees (hired, for instance, to perform specific skilled occupations) are not harmful to firm's productivity, while their overuse may lead to detrimental consequences on productivity growth, in the long-run.

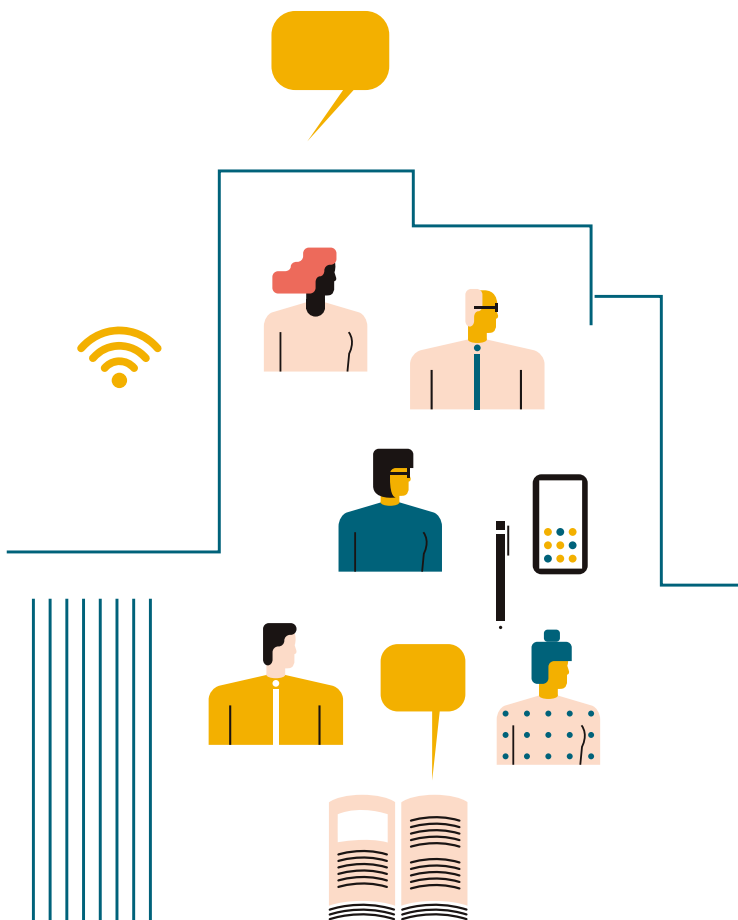
The case of **New Zealand** provides a policy example about how a country can increase labour market flexibility and mobility, without diminishing workers' rights and access to decent jobs. The Government of New Zealand introduced a new regulation that allows companies to hire a new employee for a certain "trial period", where firms can employ such workers initially for 90 calendar days. Such trial periods can be used for every type of job, by firms with less than 20 workers. However, companies would need to respect all the workers' rights (such as holidays, sick days, health and safety standards, etc.). After the trial period ends, the employer and worker can decide to proceed with a longer-term agreement or not. According to a recent evaluation from this policy, the trial periods in New Zealand increased hiring in industries with an intense use of trial periods by 10.3 per cent, (Chappell, 2016).

There is an array of policy instruments that can be used to limit labour market flexibility, which is currently employed even in developed economies. For instance, the **USA** has multiple labour market arrangements limiting worker mobility between companies or states. Nunn (2016) highlights the negative impact of the "non-compete" contracts on workers' mobility across companies in the USA. Such contracts restrict the ability of employees to find a new job after separating from their original firm. According to this author, about a fifth of the US workers are bound by "non-compete" contracts, and such workers may not even have



a full understanding about their legal implications. The author also highlights occupational licensing as a policy instrument that mitigates workers' mobility across state lines. Occupational licensing requires workers to obtain a new license whenever they move across a state line, an obvious impediment to migration in the search for better economic opportunities.

Efficient allocation requires the free movement of human capital and economic resources between sectors. This implies that lower-productivity sectors would reduce their participation in the economy over time, and those more productive branches would absorb the freed-up labour and capital. This allows workers from unprofitable companies to switch jobs to companies with better growing prospects. By allowing productive enterprises and sectors to expand and gain market and employment share, the average productivity of an economy increases. Employees without the chance to move across companies, industries or regions, will not fully employ their productivity potential.



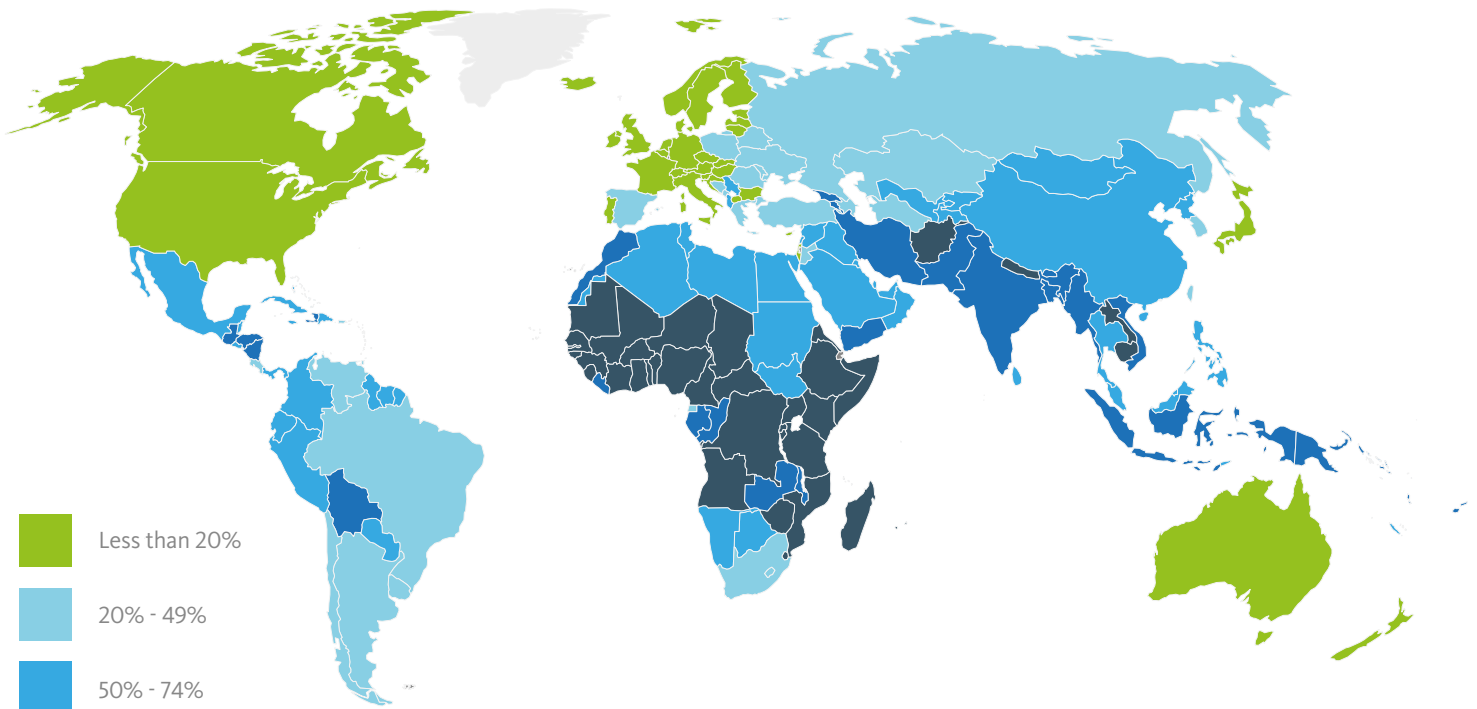
# 4...

## Transition out of informality

Workers frequently enter the informal economy due to a lack of opportunities in the formal economy and due to the absence of other means of livelihood. Currently, more than 60 per cent of the world's employed population work in the informal economy, predominantly in developing countries (Figure 2). This is equivalent to around 2 billion people, who are currently performing mainly low-productive jobs without decent working conditions. The proportion of informal employment varies by region. The most acute problem is in Africa, where most of the employment is informal (**89 per cent**). In this same line, Asia and the Pacific (**71 per cent**<sup>7</sup>) and the Middle East and North Africa (**68 per cent**) have high rates of informality as well. In Latin America and the Caribbean (**54 per cent**<sup>8</sup>) and Eastern Europe and Central Asia (**37 per cent**), the problem is also relevant (Bonnet, Vanek & Chen, 2019).

FIGURE 2

Share of informal employment in total employment (Including agriculture, 2016)



Source: ILO (2018a)



In most African economies, the informal employment is the most common one and it exhibits low levels of productivity compared to the formal economy. The informal firms tend to be small, typically not characterized by efficient production processes, and commonly run by entrepreneurs with low levels of education. A recent World Bank Report analysed firm-level data from informal and formal firms in **Mozambique**. The informal firms, in comparison to their formal competitors, tend to sell about **14** times less, they make **17** times lower profits and are **2 to 3** times less productive. This research concludes that two-thirds of these performance gaps between informal and formal firms can be explained by differences in firms' characteristics. For instance, the informal firms in Mozambique tend to be smaller (this deters them from achieving economies of scale and reducing unitary costs). Additionally, informal firms in this economy have less productivity-oriented managerial practices and they tend to have a lower capital per worker ratio, diminishing the labour productivity of their employees (WB, 2019b).

There are several common problems experienced by informal enterprises and their workers, bounding their productivity growth. First, given the informal firms' lack of official recognition, they cannot access to the conventional sources of financing, limiting their possibility to expand. Additionally, informal enterprises tend to operate in crowded markets where barriers to entry are low, marginalizing their revenues and net profits. This normally results in poor working conditions. Furthermore, informal enterprises commonly offer lower salaries and do not provide a contractual agreement on the employment conditions. Additionally, informal enterprises rarely offer social protection or health coverage, increasing the employees' vulnerability against any unexpected event. Finally, informal enterprises tend to be excluded from the formal economy value chains, but commonly require to give informal and non-monitored payments to government officials to continue their operations (ILO, 2013a). While there may be specific needs for every region and country, there are certain policies and regulation that are desirable to accelerate the transition out of informality for informal firms.

<sup>7</sup> Disaggregating this region reveals a severe problem of informal employment in South Asia, where it accounts for 88 per cent of total employment.

<sup>8</sup> In Latin America and the Caribbean, the highest average informal employment rate is found in Central America (58 per cent), followed by the Caribbean (57.6 percent) and South America (50.8 percent). In contrast, it should be noted that in North America informal employment accounts for 18.1 per cent (ILO, 2018a).

TABLE 1

## Relevant policies and regulation to promote the transition out of informality, for informal firms (Not an exhaustive list)



<b>1</b>	<b>Expedite business registration</b>	Make registration a simple administrative process that is separate from licensing. Licensing should be limited to those activities where it is justified on health, safety, environmental or other grounds.
<b>2</b>	<b>Simple taxation policies</b>	Simple tax procedures for small enterprises seem to be the preferred ones. For instance, by requiring single taxes for such firms to reduce the number of payments.
<b>3</b>	<b>Land ownership and titling</b>	Land ownership and the capacity to raise capital through land-based collateral is a key concern for many informal enterprises, to expand their financing opportunities and possibilities to grow.
<b>4</b>	<b>Judicial reform toward efficiency</b>	This involves key areas such as: (1) reducing transaction costs of dispute resolution; (2) strengthening quality of traditional governance methods; (3) improving linkages between formal and informal systems of justice; and (4) improving access to justice in bureaucratic administration.
<b>5</b>	<b>Broader financial services</b>	The process of encouraging the transition to formality involves reforms that increase the access of poor women and men to financial services.
<b>6</b>	<b>Informed transition to formality</b>	Part of this process involves improving service provision to firms. This may include helping firms to understand how to comply with their obligations, which are not common knowledge for firms transitioning to formality.
<b>7</b>	<b>Incentives to transition out of informality</b>	Firms will transition to formality as the costs and burden from the government regulations, and requirements to operate in the formal economy decrease.

Source: ILO (2013a)

# 5 ...

## Entrepreneurship and innovation

There is an array of types of entrepreneurs contributing to boost productivity around the world, operating in traditional sectors such as the agribusiness industry, to the recent wave of digital entrepreneurs. Currently, these **“opportunity” entrepreneurs** (people who chose to start a business because they identified a business opportunity) are contributing to solve some of the most challenging problems in society, creating new industries and innovating with disrupting technologies in climate technology, renewable energy, digital banking, etc. Innovation among entrepreneurs is most prevalent in India (47 per cent), Luxembourg and Chile (both 48 per cent), where entrepreneurs are introducing products or services that are new to customers and not generally offered by competitors (GEM, 2019). Such innovations benefit productivity across sectors, by increasing the level of efficiency and reducing production costs.

It is relevant to consider that business creation does not only involve the “opportunity” entrepreneurs, discussed above. There is also a second category, called **“necessity” entrepreneurship**. This refers to the portion of entrepreneurs who are forced to start a business given the lack of decent jobs in their economies. These are the entrepreneurs out of “necessity” rather than choice, meaning firm owners or self-employed workers (mainly in developing countries) who are forced to participate in the informal economy due to a lack of other options (ILO, 2013b). This has commonly been the case for emerging economies. However, necessity entrepreneurs are also a phenomenon observed in developed countries. Whenever unemployment rises in the USA, the number of necessity entrepreneurs also increases due to the shorter supply of jobs in the economy (Fairlie, 2017).

In developing countries, “necessity” entrepreneurs tend to be informal and small firms, with low productivity, limited profits, and low salaries. In this context, it is then key to allocate resources to those individuals with entrepreneurial potential who have the best business cases, with the higher productivity potential, associated with the development of innovative products, services, or production technologies. Governments should consider the international best practices related to how to better support entrepreneurship. There are useful studies that examine multiple types of public support to entrepreneurs. For instance, Cho et al. (2013) provide a comprehensive review about the effectiveness of 37 different programs that supports entrepreneurship. Globally, frequently used interventions include technical (vocational), business (managerial), and financial skills training; with financing support provided through microcredit loans and grants; as well counselling ranging from mentoring and advisory services to post-program consulting.

After conducting such comprehensive review on different international experiences, Cho et al. (2013) found that training alone can be quite useful to improve business knowledge and practice, and financing alone does well in enhancing business performance by releasing credit constraints. However, a

package promoting a combination of both skills and financing support seems to have larger impacts. Additionally, in terms of support for women entrepreneurs, the largest effects come from providing access to credit, suggesting that access to credit may have been the largest constraint to women in their earning opportunities. Additionally, the review showed that, among widely heterogeneous effects, it is noteworthy that the impacts on both labour market and business outcomes were shown to be significantly higher for youth. This highlights an opportunity area for developing economies with an important share of young people in the labour force.

Countries with an abundance of “necessity” entrepreneurs can support these individuals in their intent to find a formal job. The public sector can provide these individuals with training programs to develop the skills set demanded in the formal economy, governments can also deliver support through public employment agencies or encourage traineeships programs. Additionally, countries with abundant “necessity” entrepreneurs can provide direct financial aid to the firms with the highest productivity potential. For instance, in Mexico, the High Impact Entrepreneurship Program, implemented by the National Entrepreneur Institute (INADEM) and the Ministry of Economy, employed a competitive selection process to assign public funds to the entrepreneurial projects with the highest productivity potential. Entrepreneurs requesting funds from this Program are filtered by a panel, composed of INADEM valuers, identifying high growth potential firms. The selected entrepreneurs receive about three quarters of the requested funds, while the entrepreneur commits to the rest.

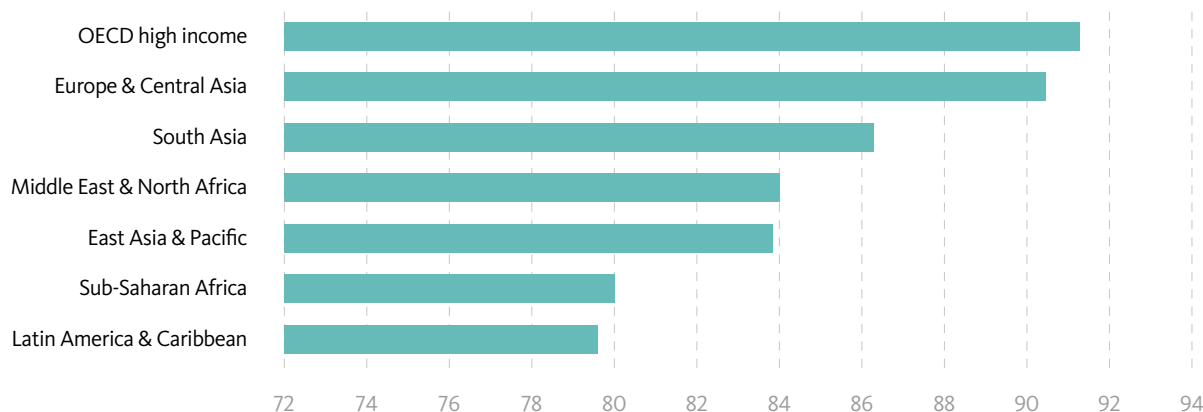
Encouraging productive entrepreneurship involves the government, as much as it does the private sector. Mazzucato (2013) argues that the private sector companies commonly invest in high-risk industries, after the public sector has taken the first investment steps. Through such scheme, private firms build upon the previously generated economies of scale. For instance, some of the most relevant technological components of an iPhone were funded by the public sector, such as the GPS, Siri, the touch-screen display, and even the internet. While there is relevant credit to the company that designed, branded and made this phone a success-history, it is undeniable that this product would not have been possible without the previous public investments on such technological advancements. Therefore, the public sector has the capability to encourage new industries, which can be developed by private investors in a second stage.



Finally, to support productive entrepreneurship, an economy needs to reduce the barriers of entry for new firms. This is easier said than done. The number of procedures, time, cost and minimum capital requirements for new firms is still higher in developing countries, relative to developed economies. According to the World Bank Doing Business, it takes on average 56 days to start a business in an OECD high-income country, while it takes an average of 120 days in countries from the Sub-Saharan Africa (the region with the higher average amount of days). Moreover, an entrepreneur must complete an average of five independent procedures to create a new firm, on average, in an OECD high-income country. Meanwhile, in Latin America and the Caribbean (the region with the highest average number of procedural requirements for new firms), starting a business requires on average eight individual procedures (WB, 2019a). According to the aggregated “Starting a Business” score, by the World Bank, the region with the highest procedures, time, cost and capital requirements to start new businesses is Latin American and the Caribbean.

FIGURE 3

### Starting a Business Score



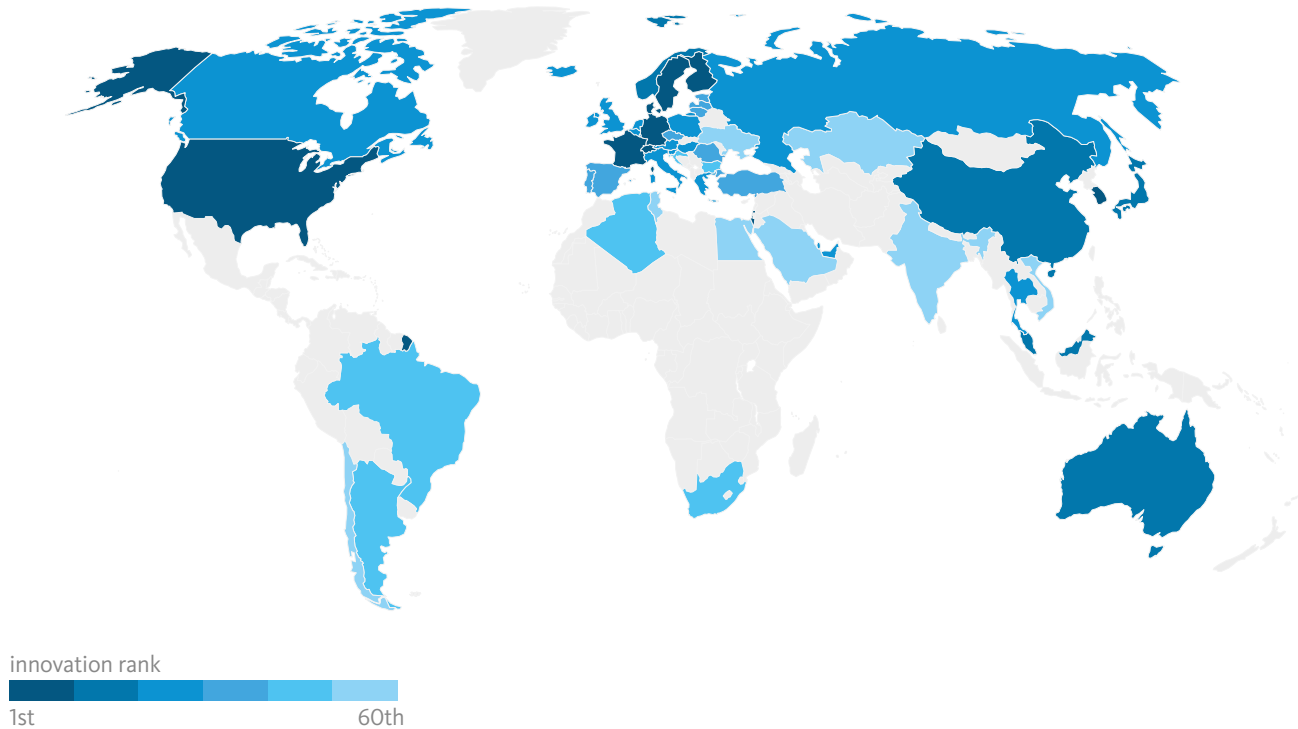
Source: WB (2019a)

On the other hand, **innovation** can lead to greater productivity through the development and implementation of ideas and technologies aimed at making the production of goods and services more efficient or improving their quality (ECB, 2017). Innovation is a continuous and widespread process that benefits firms from any economic sector. However, only a percentage of companies revise and modify their processes, collect new knowledge or develop new ways of working. Among the OECD countries, the innovation surveys show that the share of firms developing a product or process innovation ranges from around 50 per cent of the companies in rich countries such as Austria, Germany, Luxembourg and Switzerland (OECD, 2010a). In 2007, the governments from the OECD countries (mainly high-income economies) agreed on the need for a cross-government policy strategy to centre innovation as a major driver of productivity, (OECD, 2020a). After 3 years of extensive research, the innovation strategy was delivered in 2020 (OECD, 2010a). One of the key messages from this report was the need to expand the metrics of innovation beyond the quantification of Research and Development; recognizing that innovation is related to an array of factors and economic sectors.

**Innovation** boosts productivity by finding and implementing more efficient ways of using the existing physical and human capital. For instance, while multiple business' meetings still take place outside of the digital platforms, the creation and improvements in the videoconference systems have reduced the need to commute to meetings, for multiple workers across the world. This has increased the effective working hours and labour productivity. Bloomberg's ranking of the world's 60 most innovative countries takes a holistic approach to the measurement of innovation, focusing on seven tangible activities that contribute to innovation. The annual index covering 60 countries consists of the following categories: Research and Development (R&D) intensity, high value-added manufacturing capacity (given the tendency of this industry to innovate in terms of products, processes and technology), high-tech density (given the high share of investment that these companies tend to have in terms of product development and research), higher education efficiency (due to the relevance of the tertiary education for technology

FIGURE 4

## The World's Most Innovative Economies



Source: Bloomberg (2020) with data from the ILO, IMF, WB, OECD, WPO and UNESCO

improvements), concentration of researchers, and the number of patents generated from a given country. Other categories, such as the quality of the regulatory environment to foster innovation, are excluded given the lack of a possible quantitative comparability across countries.

In 2020, **Germany** was awarded 1st place in the Bloomberg Innovation Index. This is an important twist to the common result, since South Korea had been awarded 1st place for 6 years in a row before. Germany leads this year's ranking due to its significant high value-added manufacturing industry, the size of its high-tech companies relative to the German economy and due to the number of patents generated in this country. However, innovation is a constant challenge for every economy, even for the country leading the Bloomberg Innovation Index. Germany has gained relevance as a high value-added manufacturing economy, for example in terms of the automotive industry, however, there are important challenges for this industry due to concerns on climate change and trade conflicts.

It is important to notice that **South Korea** came as the runner-up during 2020, due to a decrease on its labour productivity levels, across the high-added value manufacturing industry. However, the innovation capacity from this country is still outstanding, especially considering its evolution during the last decades. South Korea had an income per capita like Ghana, in 1957. In this country, the research-intensive companies, led by Samsung, have modernized the whole economy. Samsung annual R&D spending was around 15,3 billion USD, in 2018. Singapore

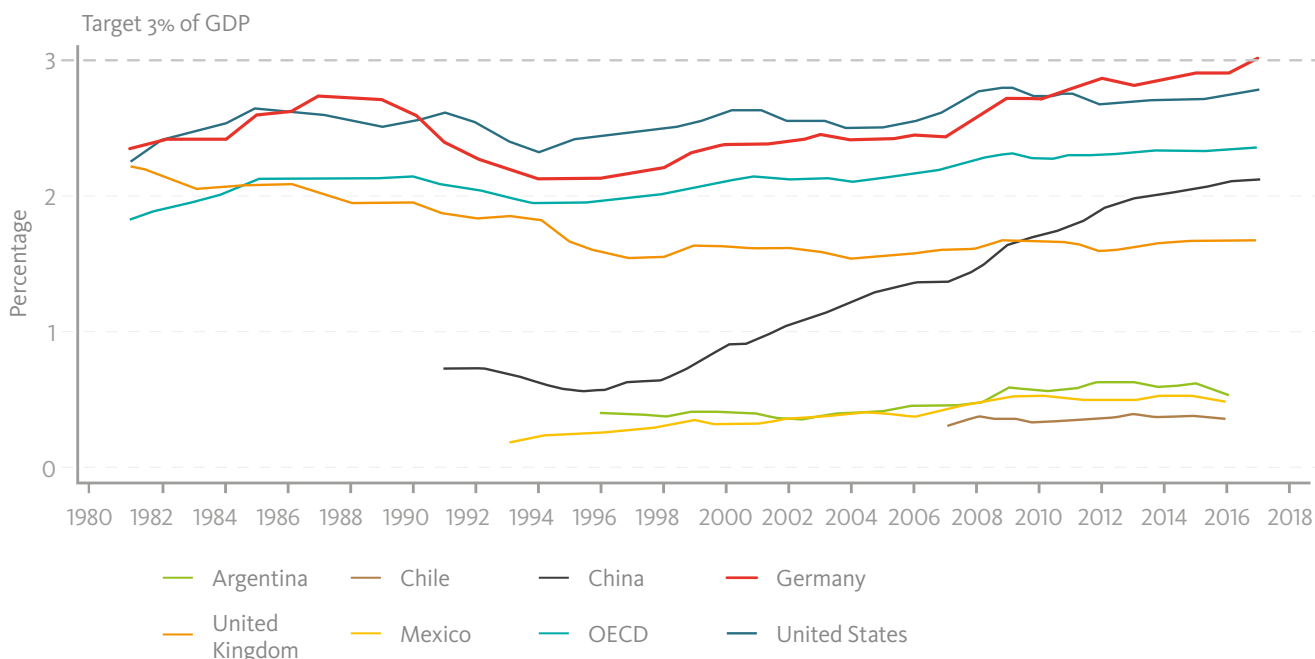


came in third followed by Switzerland and Sweden. Another example in terms of innovation is the economy of Singapore, which raised to the world's 3rd place, in 2020. This result was supported by its high value-added manufacturing industry, and by its tertiary-education efficiency, Bloomberg, (2020).

One of the first steps that a government can take, to foster innovation, is to increase the public support to R&D, which is a common characteristic observed across countries with high rates of innovation. In Graph 1, one can observe how China has significantly increased investment in R&D during the last few years. The Conference of British Industry (CBI) established a 3 per cent target, in terms of R&D investment as a share of GDP, for this economy. The UK is still far behind this goal; however, Germany already achieved this 3 per cent level of R&D investment as a share of GDP, in 2017. EBMOs can advocate for a higher public support to R&D, to accelerate the creation of a suitable ecosystem for innovation.

GRAPH 1

### Research and Development Investment as a share of GDP (1981-2017)



Source: World Bank Data

The OECD innovation strategy was revised in 2015, recognizing relevant policy lessons across countries. First, the revision derived on a call for countries to **invest with a long-term horizon**. The logic behind this is that the key technologies driving growth today (such as the Internet and genomics) would not have been possible without public funding of long-term research. Second, the revision of the innovation strategy from the OECD urged countries to **increase grants for R&D, instead of providing tax incentives**. According to this Report,

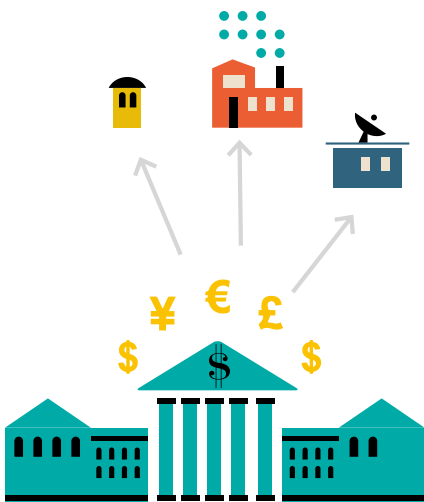
the R&D tax incentives were almost USD 50 billion in the OECD countries plus Brazil, China, South Africa, and Russia, yet they did not meet the needs of the young and innovative firms but facilitated cross-border tax planning from multinational firms (an unintended effect). Third, the revision of the innovation strategy highlighted the need to monitor and evaluate innovation policies, learn from experience, and adjust policies over time (OECD, 2015a).

# 6...

## Access to credit and financial services

Without affordable access to credit, a company may not be able to afford capital or technology improvements, shrinking the firm's productivity growth. Access to credit remains a major challenge for developing countries, with nearly half of the worldwide adult population not having a bank account or access to formal sources of credit. This problem is commonly observed in small and medium-sized enterprises in developing countries. According to data from a World Bank survey of 135,000 manufacturing companies around the world, only 33 per cent of companies have an active line of credit or have a bank loan. Companies are usually required to present proof of a collateral worth twice the amount required in a loan, which is almost impossible for small entrepreneurs (WB, 2018). This creates a gap between the financial costs of small businesses and large companies. It is estimated that small companies must pay up to 20 times more than their big competitors for external financing (McKinsey, 2015).

A recent study conducted by Stanford researchers, in collaboration with the World Bank, found that the lack of access to credit is one of the major constraints to productivity growth, an issue which compounds in smaller firms, Bloom et al (2010). According to the data presented by this study, small companies in developing countries report that their limited access to financial resources is a constraint on their growth. Among other concerns, this research mentions that the lack of access to credit makes impossible for small companies to invest in human capital training, leading to the perpetuation of their operation's inefficiencies.



The same study indicates that, in developing countries, small firms can qualify for a bank loan to purchase new machinery, with the physical capital acquired as collateral. However, this is not the case when they apply for credit on an intangible asset, such as management training. In this case, small and medium-sized enterprises cannot obtain this type of credit because they do not have a capital guarantee, as in the case of the new machinery. On the other hand, large and productive companies do have the economic resources to pay for courses and training to their managers, thereby increasing their efficiency and improving the strategic management of the company. This phenomenon tends to widen productivity gaps between small and large firms, Bloom et al (2010). EBMOs can look for the support of development banks (national, regional or international) to increase the available financing for such intangible assets' investments.

Financing gaps for Small and Medium Enterprises (SMEs) could be narrowed down with certain innovative non-bank financing instruments, commonly referred as "mezzanine finance". The OECD has promoted such type of lending as a financing technique that combines elements from both debt and equity, in one single investment vehicle. Mezzanine finance has a higher risk than conventional loans, but lower risk than pure equity. This type of financing vehicle can complement conventional lending, but it does not aim to be a substitute for it, since it may or may not fit to the overall needs of lenders and borrowers. This financing

mechanism has mainly served the upper-tier SMEs, with high credit ratings, OECD (2013a). Such International Organization has mapped and analysed several external financing techniques, alternative to conventional loans, categorized into four groups, according to their degree of risk and return. The multiple choices of external financing are contained in Table 2. For a more detailed analysis of each financing technique, see OECD (2015b).

TABLE 2

### Alternative external financing techniques for SMEs and entrepreneurs

Low Risk / Return	Low Risk / Return	Medium Risk / Return	High Risk / Return
Asset-based Finance	Alternative Debt	“Hybrid” Instruments	Equity Instruments
<ul style="list-style-type: none"> <li>• Asset-based lending</li> <li>• Factoring</li> <li>• Purchase Order Finance</li> <li>• Warehouse Receipts</li> <li>• Leasing</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Bonds</li> <li>• Securitised Debt</li> <li>• Covered Bonds</li> <li>• Private Placements</li> <li>• Crowdfunding (debt)</li> </ul>	<ul style="list-style-type: none"> <li>• Subordinated Loans/Bonds</li> <li>• Silent Participations</li> <li>• Profit Participations Rights</li> <li>• Convertible Bonds</li> <li>• Bonds with Warrants</li> <li>• Mezzanine Finance</li> </ul>	<ul style="list-style-type: none"> <li>• Private Equity</li> <li>• Venture Capital</li> <li>• Business Angels</li> <li>• Specialised Platforms for Public Listing of SMEs</li> <li>• Crowdfunding (equity)</li> </ul>

Source: OECD, (2013a).

As of 2020, the challenge of expanding financial services to billions of people remains. The World Bank estimates that 2.5 billion people only use cash, due to the lack of access to formal financial services. Due to technological advancements, digital financial services can rapidly transform this scenario, for high- and low-income economies<sup>9</sup>. Digital financial services already operate in more than 80 countries. Consumers with access to internet can aspire to open an e-money account, perform payments, transfers and savings. Their financial record and history of payments can eventually lead them towards more affordable access to credits, insurances and securities. However, governments will have to acknowledge new risks from such technologies, such as regulating the use of new sources of consumers' data, protecting consumers against possible technological failures, helping the inexperienced and vulnerable new users, as well as analysing the new types of contractual relationships between digital services' providers and consumers, (WB, 2015a).

<sup>9</sup> Affordable credit can also be enhanced by increasing competition within credit markets. This can reinforce the positive effect of expanding the digital financial services.

# 7 ...

## Physical and digital infrastructure and connectivity with international markets



Investing in new **physical infrastructure** projects, as well as providing the right Operating and Maintenance (O&M) to the existing infrastructure, are key determinants of productivity for any country. In simple terms, the general operation of an economy depends on the services provided through material infrastructure, such as **transportation, energy supply, and efficient storage facilities at ports and airports**. For instance, a company would not be able to trade across borders and have access to international markets without the necessary transport infrastructure; meaning that the quality and access to airports, roads and ports are key facilitators of trade. Conversely, no firm would be able to increase production without a reliable and affordable access to energy, especially electricity, since the industrial sector uses more energy than any other end-use sector, consuming about 54 per cent of the world's total delivered energy, IEA (2016).

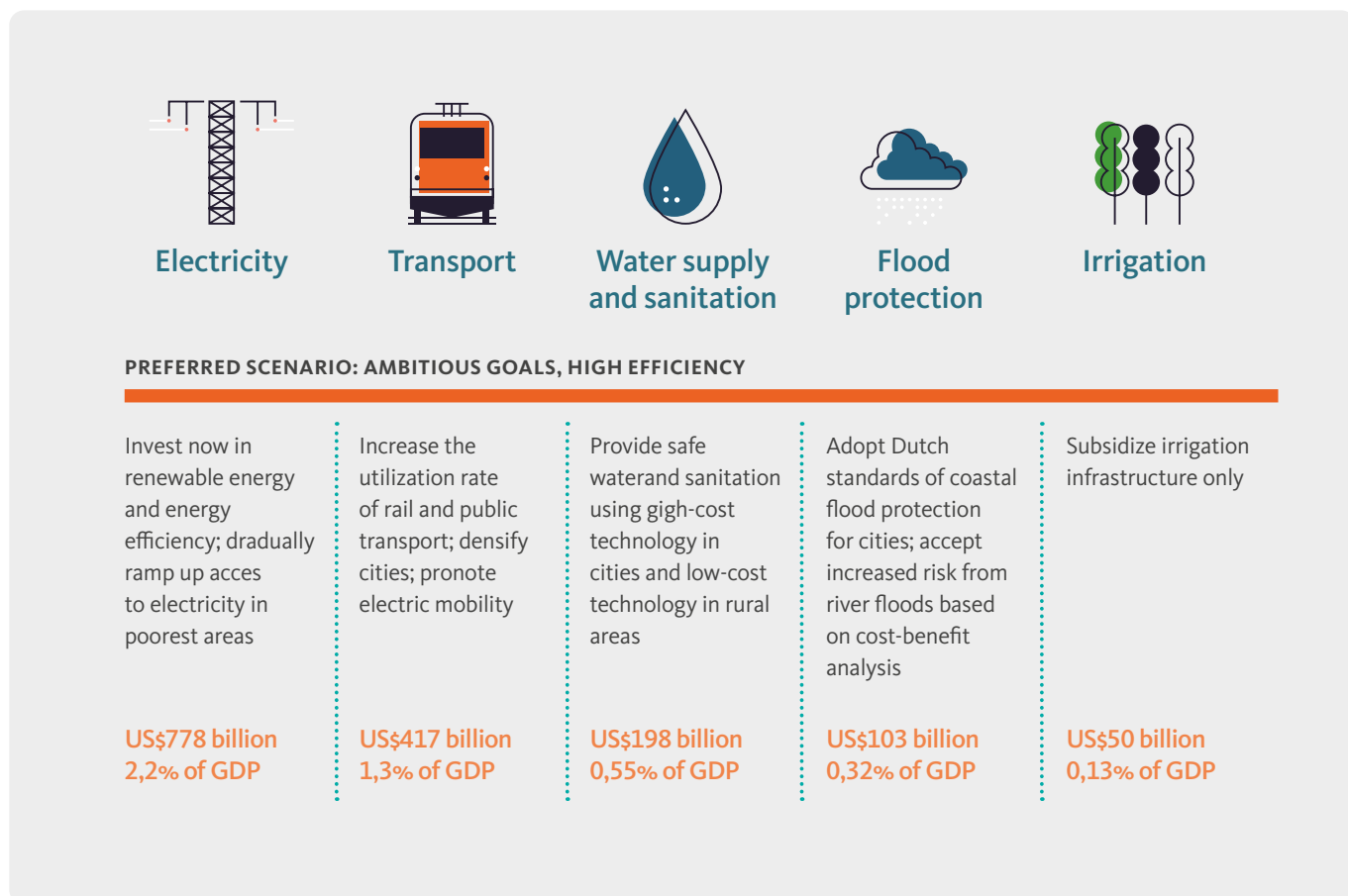
Unfortunately, according to the most recent World Bank estimates, (WB, 2019a), there is an important gap between what the firms and citizens require in terms of infrastructure and what is currently available. According to the most recent estimates from this International Organization, globally there are around 1 billion people who live more than two kilometres from an all-season road<sup>10</sup>, limiting their ability to find a productive job. Moreover, there are **940 million** people who live without electricity. The most recent World Bank Report found that, with the right set of policies implemented, low- and middle-income countries would need to invest around 4.5 per cent of their GDP to reach their Sustainable Development Goals (SDGs).

According to this Report, countries will have to invest in renewable energy instead of fossil fuels, combine transport planning with land-use planning to reduce commuting times and increase productivity, develop railway systems that facilitate freight transportation and reduce cost in the long term, and deploy decentralized technologies in rural areas—such as mini-grids for electricity, to provide access to electricity through clean energy, (WB, 2019a).

<sup>10</sup> See Centre for Private Enterprise, <http://www.cipe.org>, Reform Toolkit for Combating Corruption

FIGURE 5

The preferred scenario for infrastructure investments and related costs, Annual Costs estimated for Low- and Middle-Income Countries, 2015-2030



Source: WB (2019a)

One of the key challenges for material infrastructure in urban areas lies in improving the public transportation systems. The recent experience of the UK shows how improvements in public transportation's quality can significantly increase productivity. The CBI conducted a study to understand the major productivity challenges in the UK. One of the greatest areas of opportunity to improve productivity was in the reduction of citizens' commuting times, specifically among their journeys between home and work. According to CBI, traffic congestion has at least three significant harmful effects on the productivity of the British economy. First, by increasing the time required to commute, the number of people who are willing to work in certain areas is reduced. Second, traffic jams considerably decrease the number of effective working hours, due to time losses. Finally, countless opportunities to conduct business meetings in person are lost (CBI, 2017).

According to the data presented by CBI, if commuting times were to decrease from an average of 45 minutes to an average of 30 minutes, productivity in major cities

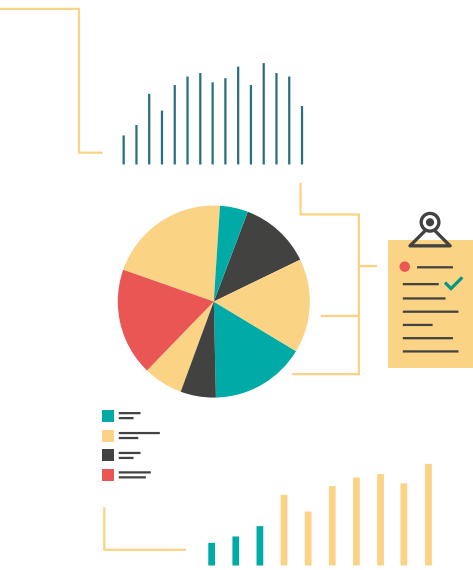
could increase by up to 14 per cent, as studied in the Liverpool’s metropolitan area. This British EBMOs proposes to focus efforts on the efficient design and logistics for public transportation routes, as well as the better integration between the different transport modes. Mass transportation of passengers reduces vehicle congestion and thus transfer times; however, it is necessary to improve the quality of the service to attract users to opt for public transportation.

The Liverpool City Region Bus Alliance is one of the most recent efforts to deal with the problem of traffic congestion and its detrimental effects on productivity. The city is encouraging the use of mass transportation by aiming for an increase in punctuality and passenger satisfaction. The program received a 25 million pounds’ investment, which has partially been used to improve the passenger experience on buses, including addition of wireless internet service and USB ports for charging electronic devices. According to the latest data, 92 per cent of users surveyed were satisfied with the service of these buses (UK Government, 2018).

**Digital infrastructure**, in turn, is currently a necessary condition for the functioning of some of the highest added-value industries in the world, which include the data-mining industry. Additionally, it provides platforms that can be used to promote businesses or perform digital monetary transactions. Therefore, digital infrastructure has become one of the most important components of productivity growth. Improving digital infrastructure is a cross-cutting challenge for high-income and low-income countries. In developing countries, increasing Internet coverage is one of the main factors necessary for the adoption of new technologies, with ample potential for economic growth.

A study of 30 emerging economies found that internet coverage contributed 336 billion USD to the GDP of those countries in 2010 (McKinsey, 2012). The small- and medium-sized enterprises that use electronic communication, or electronic marketing, tend to increase their revenues, lower their costs and raise their productivity, McKinsey found that, in developing countries, companies that devote a significant part of their budget to Web technologies tend to observe significantly higher revenues, relative to firms with low investment in this component (McKinsey, 2015).

In high-income countries, such as the UK, the adoption of technologies has a different challenge. With virtually universal levels of Internet coverage, the challenge for the future lies in improving the quality of service. The CBI of the United Kingdom reports that about a third of the companies in this country mention that broadband services do not meet their needs satisfactorily. This prevents UK companies from adopting multiple productive management practices. For instance, companies with a slow internet connection can find more challenging to implement teleworking practices with employees, especially when aiming for virtual videoconferences. Additionally, low-quality broadband services limit the company’s capacity to store, protect and exchange the company’s information through the online cloud storage services. Therefore, in middle- and high-income countries, it is not enough to improve the rates of Internet coverage; additionally, it is necessary to increase the average speeds of data downloads.



Likewise, companies with an international reputation can benefit from the financial resources available abroad, increasing their access to low-cost credit. Similarly, reaching consumers from external markets allows companies to generate economies of scale, which reduces their unitary costs.

Improvements in digital infrastructure can bring benefits to all types of businesses, high-speed internet access can increase the efficiency of small companies and the most sophisticated manufacturing enterprises. Digital infrastructure can facilitate flexible working hours and work from home by reducing barriers to remote collaboration (CBI, 2017). This is one of the complementary ways to reduce vehicle congestion, increase effective working time and thus productivity per worker. In this same line, digital infrastructure has the potential to reduce gender inequality in the workplace. Flexible working hours and working from home are necessary for households with both parents working. Likewise, greater coverage and quality in digital infrastructure allows for the creation and expansion of new economic sectors, such as e-commerce and digital financial services.

On the other hand, when a firm increases its **connectivity with international markets**, it expands the set of potential customers who can buy its goods and services. This raises its potential profits and boosts productivity. The benefits that trade brings to productivity are remarkable. Once companies are integrated into the international market, their level of productivity tends to rise through different mechanisms. For instance, exporting companies face greater competitive pressure in global markets, which encourages them to invest in innovation and improve their production and management processes. Moreover, trade also leads to wider choices of inputs at lower costs; better access to technology and better opportunity to learn from better products and best productive and marketing practices; and integration into supply chains. The dynamic efficiency gains from trade are a sum total of all these factors.

Likewise, companies with an international reputation can benefit from the financial resources available abroad, increasing their access to low-cost credit. Similarly, reaching consumers from external markets allows companies to generate economies of scale, which reduces their unitary costs. Additionally, firms with an export component are also more exposed to technology improvements, by having direct contact with the most efficient international competitors and suppliers of low-cost inputs.

Over 10 years, between 2004 and 2014, it is estimated that trade agreements and trade facilitating reforms increased productivity by about 2.8 per cent per year in participating countries (McKinsey, 2015). In this same study, it was found that there is a very high cost for not implementing these types of trade policies. For example, in Brazil, companies' lack of connectivity with the international markets represents a cost equivalent to 1.25 per cent of annual economic growth for this country. This isolation is due to the regulatory barriers that this country imposes on free trade from goods and services. At the global level, this will be one of the most important topics for discussion and negotiation around the productivity agenda.

# 8

## Property Rights and the Rule of Law

The existence of reliable property rights and the rule of law give certainty to investors, which increases the overall level of productive investments in the economy, raising the workers' capacity to produce a higher output level. According to the World Justice Project (WJP), the Rule of Law can be defined as a framework of laws and institutions that embodies four universal principles. First, the need for **accountability**. This requires the public sector, as well as private actors, to be liable under the law. Second, an economy requires **just laws**. Therefore, laws should be clear, publicized, stable, and just. They should be applied evenly; and protect fundamental rights, including the security of persons, contract and property rights, and certain core human rights. Third, the Rule of Law includes the need for an **open government**, with accessible, fair and efficient processes to enact, administer, and enforce laws. Finally, the concept includes the need for **accessible and impartial dispute resolution**, meaning that justice should be delivered timely by competent, ethical, and independent representatives, (WJP, 2019).

There is robust academic evidence about the link between economic performance and the efficiency of dispute resolution. It has been proved that small firms with access to a higher quality judiciary system tend to have **higher** rates of **growth** (Islam, 2003). Additionally, the evidence shows that enhancing the efficiency of the judicial system can improve the business environment overall; by fostering **innovation**, attracting a higher amount of **foreign direct investment** and increasing the **tax revenues**, opening space for more robust public investments (Esposito, 2014). The improvements in the business environment motivate managers to increase investments. For instance, firms in Brazil, Peru and the Philippines reported that they would be willing to **invest more** if they had greater confidence in the courts (Castelar Pinheiro et al, 2001; Sereno et al, 2001; and Herrero et al, 2001). Around the world, there is significant room for improvement to reduce the time and costs it takes to resolve commercial disputes. It takes an average of 37 months to resolve a commercial dispute in countries from South Asia, more than twice the time it takes to do it in the countries from Europe and Central Asia (WB, 2019b).

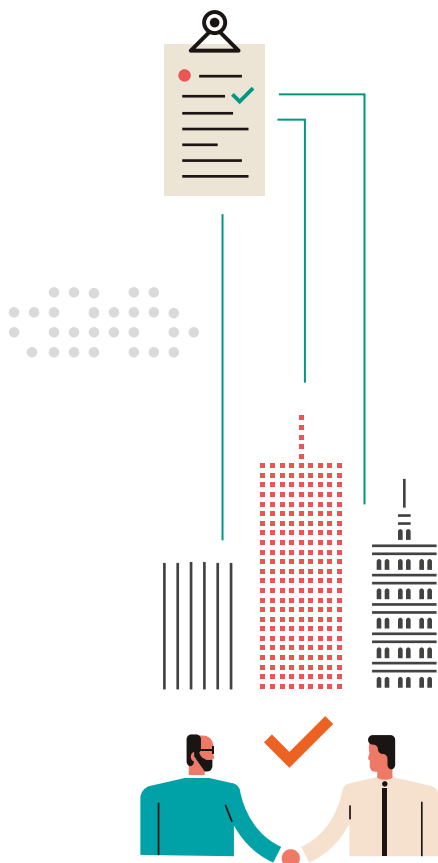
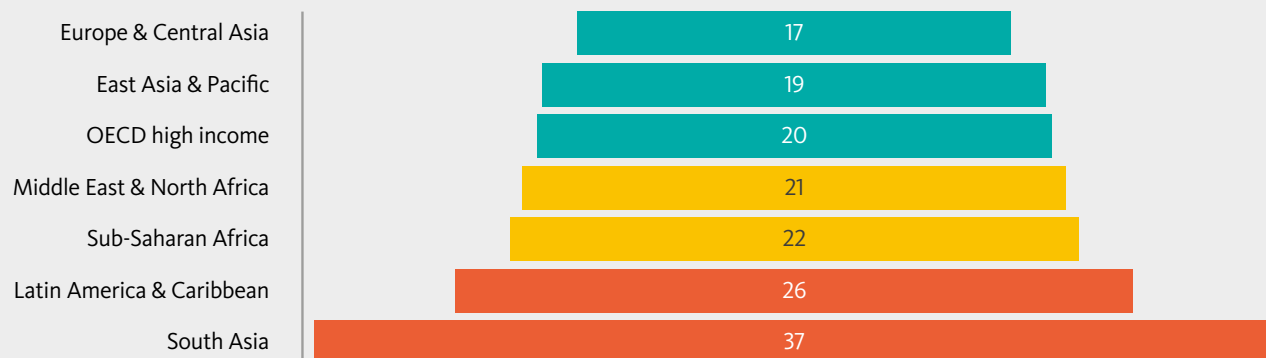




FIGURE 6

Average time (months) to resolve a commercial dispute, 2019



Property rights allow companies or individuals to collect private revenues from an investment in a project or firm. When investors have low confidence on this basic condition, the incentives for private investments shrink. Consequently, the countries with the lowest strength of protection for property rights – such as Venezuela,

Zimbabwe, Mauritania or Haiti - represent a higher risk for capital allocation. This discourages the participation of the private sector in such countries and reduces their productivity levels, which also shrinks their level of competitiveness and economic growth, given the lower levels of private investment.

TABLE 3

The 10 countries with the lowest strength in property rights

Position in the Rank (out of 137 economies)	Country
128	Ukraine
129	Bosnia and Herzegovina
130	Madagascar
131	Burundi
132	Yemen
133	Chad
134	Haiti
135	Mauritania
136	Zimbabwe
137 (last place)	Venezuela

Source: WEF (2018)



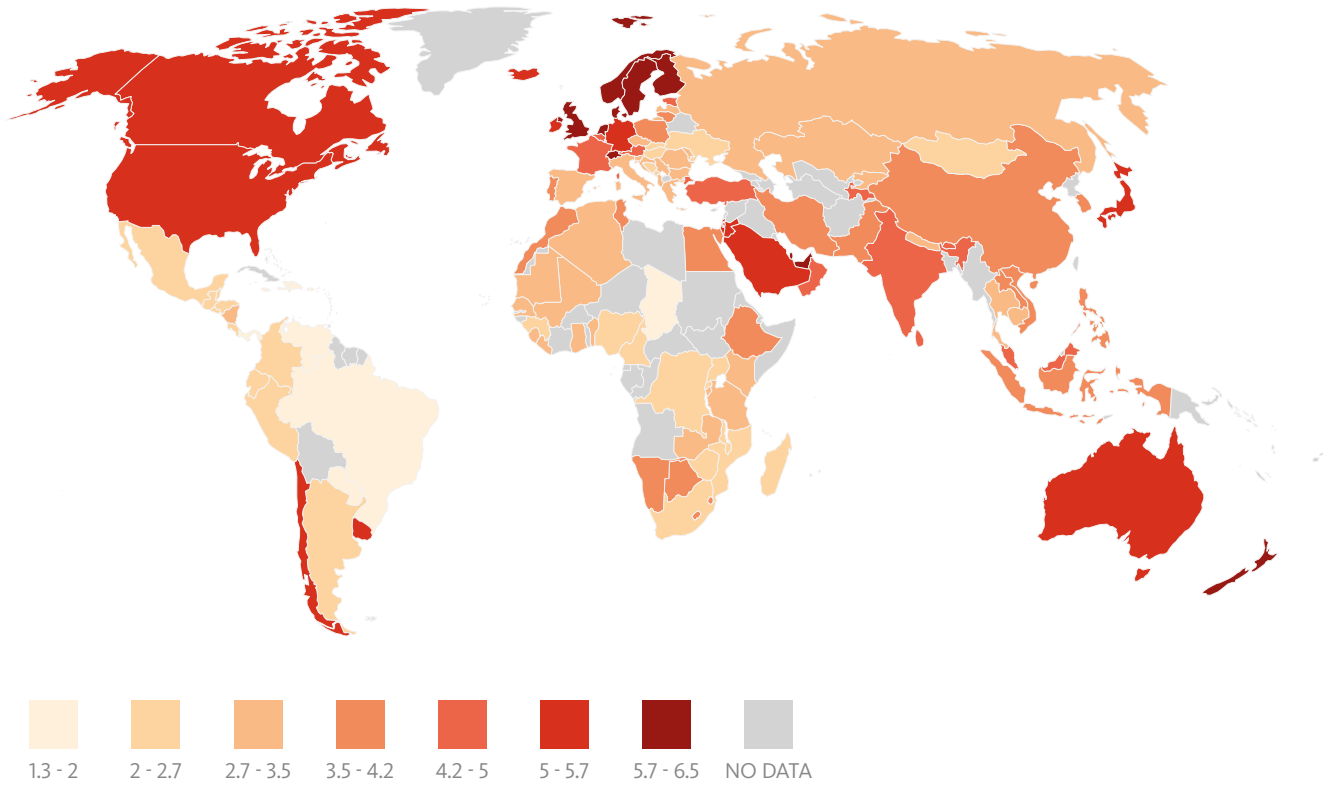
# 9...

## Governance and anti-corruption policy

As the ILO highlighted in its report to the 2007 International Labour Conference (Report VI – The Promotion of Sustainable Enterprises), poor governance is extremely harmful for enterprises, regardless of their size. Poor governance can be reflected in high levels of corruption within an economy or a specific region. For example, recent World Bank statistics (see [WB GovData360](#)) indicate that regions such as Latin America and the Caribbean, Eastern Europe and Africa have high levels of diversion of public funds due to widespread corruption practices (Figure 7). In these regions, as well as in many countries around the world, corruption directly reduces the profits of enterprises, which have to deliver part of their earnings to public officials.

**FIGURE 7**

**Global ranking. Diversion of public funds. In your country, how common is a diversion of public funds to companies, individuals, or groups due to corruption?**  
 [1 = very commonly occurs; 7 = never occurs]



Source: WB GovData360



The OECD highlights four key reasons why anti-corruption policies should be a priority for all economies (OECD, 2014). First, corruption raises the costs of doing business in the private sector by around 10 per cent. Additionally, corruption usually originates from public projects that are inefficient for society and that give priority to projects conducive to bribes and irregular payments, such as infrastructure works, without considering their rate of return. Moreover, acts of corruption impede lower-income people and enterprises from accessing public funds; in other words, the diversion of public resources reduces the funds available for social programs to support entrepreneurs and small enterprises, etc. Finally, corruption delegitimizes the rule of law in an economy, threatens the stability of an economic and democratic system, and creates high levels of uncertainty for investment.

In public policy terms, ending corruption should consider the transversal nature of the phenomenon between the public and private sectors. The public sector is presented as the creator of demand for illicit payments or bribes, and often takes advantage of the improbability of legal repercussions for this type of behaviour. For its part, the public sector is responsible for a high portion of the corruption in an economy. However, corruption practices are also commonly found in the private sector. While this may be encouraged by the inefficiency of the regulatory environment, some firms tend to employ illegal practices such as providing bribes to government officials, conducting fraudulent activities, engage in money laundering, or collude with other firms to set higher market prices.

Corruption and rent-seeking behaviour stimulate inefficient, unproductive and uncompetitive economic systems. Opinion polls of enterprises indicate that corruption is always a serious impediment to doing business because it discourages investment and creates additional costs, obstacles and unfair competition. However, countries such as Finland and New Zealand report negligible levels of irregular payments and bribes (WB GovData360), which facilitates an environment conducive to business and market activity with investment opportunities, and without government favouritism. As part of efforts to end corruption, several complementary measures can be adopted, such as implementing strong business governance, improving accountability measures, establishing codes of conduct, streamlining legal and regulatory frameworks, and decreasing bureaucratic obstacles for creating and operating an enterprise, among others<sup>11</sup>.

<sup>11</sup> See Centre for Private Enterprise, <http://www.cipe.org>, Reform Toolkit for Combating Corruption

# 10\_...

## Competition

Competitive markets allow the free entrance of new companies to offer their products and services to consumers. The entrance of new firms to a certain industry gives incentives to the incumbents to increase their productivity and preserve their market share. In simple terms, a competitive market is the opposite spectrum to a monopolistic scenario. Artificial monopolies, created by regulatory barriers that benefit one firm, lack of the right incentives to increase their efficiency since there are not other companies to rival their market share and profits. Currently, developed economies with high productivity levels are characterized by having a high level of competition.

As of 2018, the economies with a higher perceived level of competition (estimated by the perceived spread of corporate activity across many firms) were Switzerland, Japan, United States and Germany. However, the spread in competition levels by regions and countries is still significant, showing wide room for improvements for multiple economies. The last measurements show higher levels of competition for developed regions such as most countries in West Europe, as well as emerging economies such as China or India. However, there is still a significant lag for regions such as the Middle East, Africa and Latin America and the Caribbean; as well as for emerging economies such as Russia (WEF, 2018).

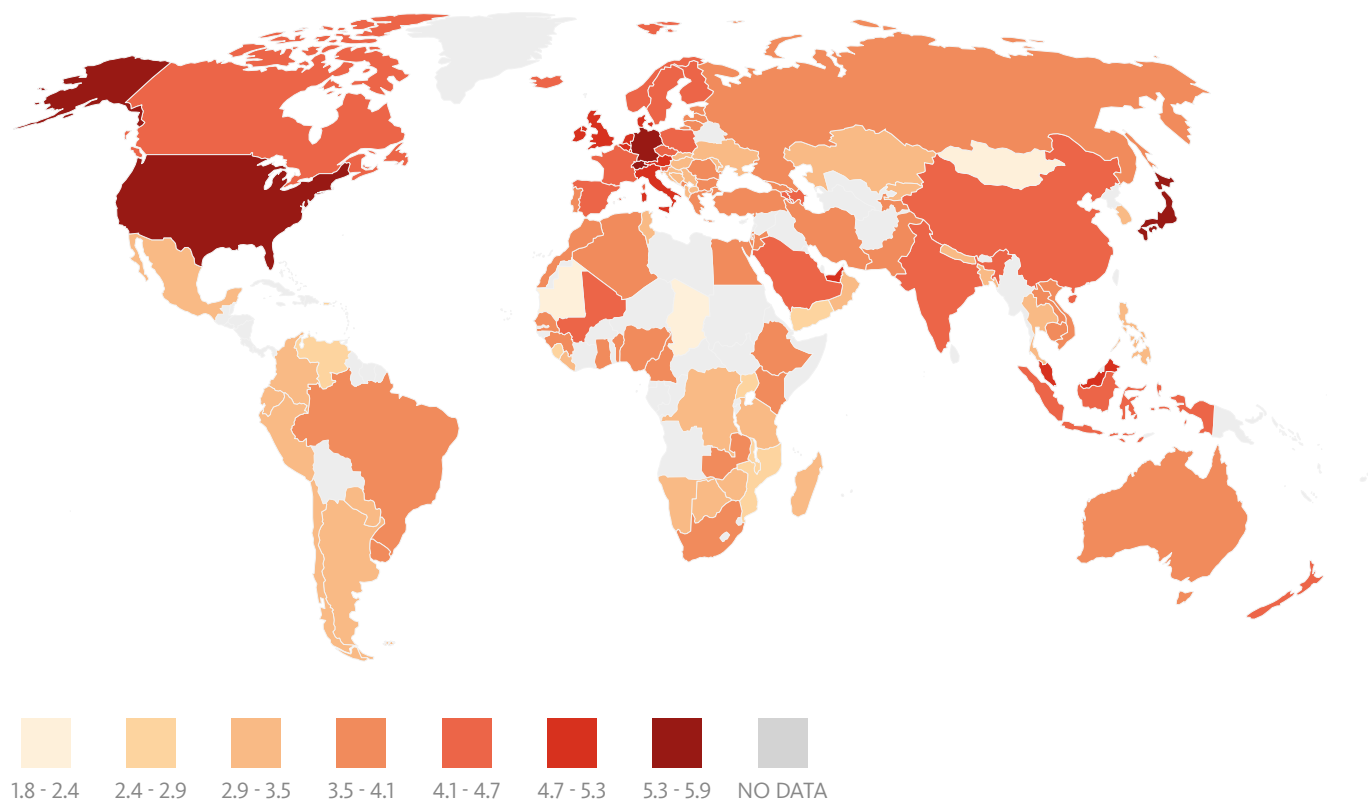
There are multiple cases around the world that have shown how a more competitive environment can increase productivity. Through a comprehensive review about multiple international case studies, Holmes et al (2010) study the mechanisms through which competition have increased productivity around the world, finding that firms tend to make substantial investments to raise productivity, whenever they are faced with new competitors. Additionally, the same study concluded that competition could encourage firms to revise and improve their management practices.

In the early 1980s, **Brazilian** iron ore producers showed up to compete with U.S. iron ore manufacturers for the market around the lower Great Lakes, disrupting a tendency for monopoly in this market. Whenever the US iron ore industry was faced with new competitors from Brazil, they raised productivity by innovating with new management practices, such as allowing employees to become multitaskers in their firms, encouraging them to perform new tasks and use their full range of skills for the company. There was little labour productivity growth in this industry before the 1980s, but productivity surged with the entrance of Brazilian competition. Labour productivity doubled in a few years in the mid-1980s (Schmitz, 2005).



FIGURE 8

Market dominance around the World. In your country, how would you characterize corporate activity?  
[1 = dominated by a few business groups; 7 = spread among many firms]



Source: WB GovData360

The evidence from **India** also shows the positive relationship between boosting competition and increasing productivity, however, it also provides evidence that suggests that this effect may be observed only in the medium run, a certain period after the plants adjust their production processes and make the necessary capital investments. In India, the high rates of tariffs to imported products were an incentive to inefficiency for the incumbent firms, since they were not facing pressure from international competitors. However, this economy started a tariff liberalization process for certain industries in 1991, reducing the entry barriers for new products and increasing competition in the local markets. Through the analysis of a detailed plant level dataset, Sivadasan (2008) finds that the reduction in tariff rates, initiated in 1991, did not have meaningful effects in the short run labour productivity (1992-93). However, in the medium term (1993-94), the author finds a significant positive effect on productivity levels due to the higher level of competition in the liberalized industries, relative to the non-liberalized sectors.

## 11

## Industrial Policy



There are different types of policies that a government can implement through an industrial policy. According to a comprehensive report by the **World Bank**, WB (2012a), such government interventions can be segmented in two different categories. First, the non-desirable interventions, referring to those with the aim to protect certain firms or industries, either in new economic sectors with no relationship to the comparative advantages of the country, or in previously established ones, which do not present a comparative advantage anymore. The second type of government interventions, the ones that can boost productivity, are those to facilitate a structural change in the economy, through multiple channels such as providing information, compensating the private sector for creating positive externalities to the society, or coordinating soft and hard infrastructure projects; following the dynamic of an economy's comparative advantage.

Only the latter type of interventions can benefit productivity. According to ILO (2014a), productive development policy can be designed to correct market and government failures, and create new markets and industries based on the country's competitive advantage. The logic behind this is that, by encouraging the development of strategic industries with positive externalities and high labour productivity, the rest of the economy will benefit from such investment's spillovers. For instance, improving the productivity in the energy or telecommunications industry can benefit other multiple economic sectors in a country, by dropping their production costs, fostering their productivity and competitiveness. However, the investments should be based on a country's comparative advantage, in order to be sustainable across time. Aiginger (2014) highlights the successful experience of a group of **Scandinavian countries** (Sweden, Finland and Denmark) that significantly increased public investment in R&D for the Telecommunications industry, an economic sector with high value-added per worker, with positive externalities for the rest of the economy, increasing the overall region's productivity. This is in line with the results from Aiginger and Sieber (2006), who conducted an empirical analysis that revealed how countries relying on state aid and regulation as their main policy instruments, registered an inferior macroeconomic performance, whereas countries focusing on promoting positive externalities as their main instrument of industrial policy had superior macroeconomic results.

The **OECD** has criticized the traditional approach of Industrial Policy, referring to the one that allowed product market interventions and protectionist measures, such as setting high tariffs for imports. Contrastingly, the OECD now advocates for an Industrial Policy mind-set that includes: R&D incentives, training subsidies, investment allowances and help with access to finance (OECD, 2013). The ILO has converged with the views presented above, by pointing that no country has made the journey from rural poverty to post-industrial wealth without the use of selective government policies, to modify the economic structure and boost economic dynamism. However, the discussion among economists and policy-

makers has shifted away from whether or not to have industrial policy, towards a focus on its scope and “how to do it” (ILO, 2014a)

Dani Rodrik, a professor from Harvard Kennedy School, argues that it is not desirable to specify ex-ante the list of policies needed to support the private sector development. Instead, he argues, the industrial policy should function through a dialogue between the public and private sector, to discover the needs of companies in the local context.

Countries in **Latin America & the Caribbean (LAC)** have lagged from the productivity growth that has characterised most economies from **Southeast Asia**. According to a recent ILO report, ILO (2016a), both regions have experienced government interventions in the economy since the 1980s, however the nuances of such interventions have significantly differed, generating poor results in LAC and productivity enhancements in Southeast Asia. For instance, when comparing the case of South Korea, with the standard government interventions in the LAC economies, there are three main distinctions. First, government interventions in South Korea have developed technology adoption and diffusion in this economy, aligning the education system with the industrial transformation requirements. This has rarely been the case in LAC, with a few exceptions such as the Aerospace Industry in Brazil. Second, the public subsidies in South Korea were delivered conditionally to firms’ performance. For instance, in the case of exporters, the firms’ performance was evaluated according to the firms’ international markets’ penetration. Conversely, in LAC, the subsidies were typically given without conditionality. Third, the public subsidies for the private sector in South Korea were given temporarily, while the subsidies in LAC did not have a clear deadline and prevailed without a productive outcome.

There are a few successful experiences in the LAC region, such as the exceptional case of the Aerospace Industry in **Brazil**, currently the third manufacturer around the world and the largest in the Southern Hemisphere, producing sophisticated manufactured goods ranging from helicopters to planes and satellite structures. In 1997, the Brazilian Space Agency (the civilian authority in Brazil responsible for the country’s space programme) signed an agreement with NASA to collaborate on manufacturing processes for the International Space Station.

Dani Rodrik, a professor from Harvard Kennedy School, argues that it is not desirable to specify ex-ante the list of policies needed to support the private sector development. Instead, he argues, the industrial policy should function through a dialogue between the public and private sector, to discover the needs of companies in the local context (see section 12 of this Module for a detailed discussion related to National Productivity Commissions).

He segments his view of Industrial Policy in two complementary categories. First, the government provision of goods required for enhancing technological capabilities, public labs, and public Research and Development, infrastructure, public skills training’ programmes, etc. Second, he points out that the capacity from governments to provide such goods will depend on the quality of institutions, with the need for mechanisms of transparency and accountability; as well as coordination councils to facilitate dialogue between public and private actors. Based on this framework, the first part of the industrial policy should be to discover where action is needed the most and how to respond to this need, Rodrik (2014).

Furthermore, financial constraints may also be an important limitation for governments to fund these policy interventions. When governments do not have the necessary budget to fund such public investments, it may be desirable to collaborate with international, regional or national development banks, to close the financing gap (see Module D for a more comprehensive analysis on the topic).

# 12...

## National Productivity Committees

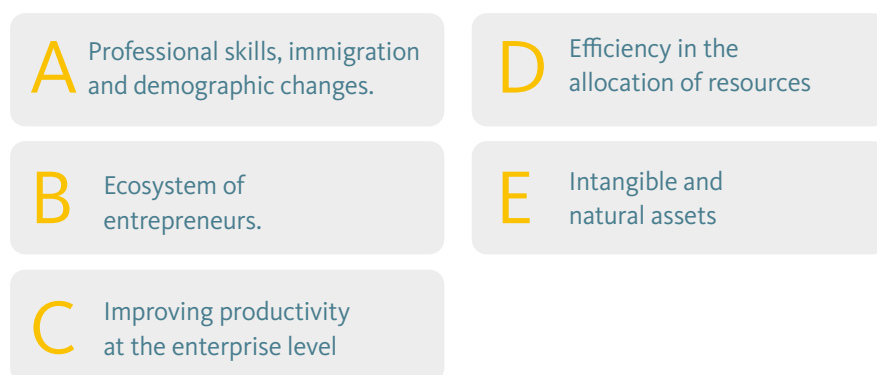
The evidence presented in this Guide has shown the relevance of embracing productivity growth as a lever for development (see this Guide’s Introductory Module for a detailed analysis). Furthermore, productivity growth is multifactorial; it depends on multiple dimensions such as the physical and digital infrastructure, human capital skills, labour market regulation, etc. This entails the need for an integral approach that addresses the multiple dimensions presented in this Section. National Productivity Commissions facilitate the integration of multiple key public and private stakeholders towards a common integral strategy. Several countries such as **New Zealand (Productivity Commission)**, **Mexico (CNP)**, **Australia (Productivity Commission)**, **Japan (JPC)**, **South Africa (Productivity SA)**, among others, have developed such commissions, encouraging the generation of public policies oriented to productivity enhancement. Such commissions can facilitate the collaboration between EBMOs, government agencies, trade unions, academia, among other key actors, to implement the best policies for productivity growth. The material presented in this Guide can help EBMOs to define the key stakeholders and topics, to be considered in such National Productivity Commissions.

Moreover, multiple countries have come together to create *Regional Productivity Organizations* such as the **Pan-African Productivity Association (PAPA)** and the **Asian Productivity Organization (APO)** to foster collaboration, exchange knowledge and know-how, bring to the forefront of the policy agenda the importance of productivity as a pillar of economic development, and promote policies to enhance productivity growth for sustainable enterprise development and job creation.





It is important to recall that the identification of the particular nuances and challenges to productivity growth in a country, EBMOs will require broad evidence-based research, based on national and industry data. The **New Zealand Productivity Commission**<sup>12</sup> is an example of how joint research work programs can offer valuable new insights into how to improve productivity at the enterprise level. The Commission is an independent body, which carries out productivity-related research and promotes understanding of productivity issues. The New Zealand Productivity Hub was created from this Commission, a research organization focused on productivity at the enterprise level, with three objectives: (1) connect academia, the public sector and private companies with an interest in productivity research; (2) define a research agenda in this regard; (3) disseminate the data, analysis and evidence found. This research partnership considers five primary areas that target New Zealand's unique productivity needs:



Productivity Hub published a compendium of their recent research in June 2018, using enterprise level data. Enterprise-level data enables analysis of the impact of company and industry characteristics on productivity. For example, such data can be used to assess the impact of competition levels or regulatory conditions of the industry on the firms' productivity. This commission has a direct impact on the design of the government's strategy, which allows carrying out regulatory improvements and implementing high-impact policies. The case of New Zealand is an example of public-private collaboration for productivity improvement, stimulated through and facilitated by the creation of a National Productivity Committee. However, such agencies do not exist in many countries. A recent ILO study surveyed employers from 47 different countries and found that 43 per cent of them do not have national bodies to promote productivity (ILO, 2019b). This makes it difficult to define and analyse priorities through an insightful dialogue between the public and private sectors to devise a policy agenda to foster productivity growth.

<sup>12</sup> The APO membership includes Bangladesh, Cambodia, Republic of China, Fiji, Hong Kong, India, Indonesia, Islamic Republic of Iran, Japan, Republic of Korea, Lao PDR, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Turkey and Vietnam.

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Graph 1 presents the average management score per country in the X-Axis, and the Total Factor Productivity gap, between each country and the USA, in the Y-Axis. The statistical evidence shows the clear relationship between inefficient managerial practices and wider productivity gaps, Adhvaryu (2018).

Improving management practices is crucial to increase productivity since it encourages operational efficiency gains. It can enable firms to close the gap between its real and potential level of production; given their available human, physical and capital resources, thus fostering firms' growth. Bloom et al. (2017) collected data from 11 thousand firms, in 34 different countries, finding that the differences in management practices account for around 30 per cent of the Total Factor Productivity differences between countries, and within countries across firms. Their research found that (on average) the US and Japanese firms have the higher management scores, while the firms operating in low-income countries from Africa tend to have the lower management scores; concluding that poor management practices in these firms contribute to maintaining their productivity gap with the most efficient companies.

Moreover, efficient management practices may contribute to improving quality control of goods and services, waste disposal, and cost reduction. Improvements in the quality of goods and services can translate into productivity gains and economic benefits through higher prices or savings associated with reducing waste, identifying defects, and not interrupting the production process. The gradual improvement in processes, products, and services makes possible the generation of savings, which in turn allows enterprises to increase the investment rate.

GRAPH 1

Total Factor Productivity Gap, relative to firms in the USA



Source: Adhvaryu (2018)

# 1

## Flexibility in the workplace

This Guide considers flexible workspaces as the ones that fully maximize the productivity potential of human capital, enhances firms' competitiveness and increases employees' opportunities to develop in the firm, considering the specific needs from different types of workers. The government of **Australia** provides useful guidance on the multiple forms of workplace flexibility (See Table 1). With such information, managers can evaluate which conditions would represent an intersection between the employees' needs and the firm's goals, WGEA (2020). This section discusses relevant evidence from case studies and economic experiments, which have displayed the positive impact that such conditions have towards enhancing productivity in a company. It is important to notice that, while the search for a more flexible working environment can boost productivity, each company would have to perform an analysis to define the best internal policies, according to the characteristics and requirements of its human capital.

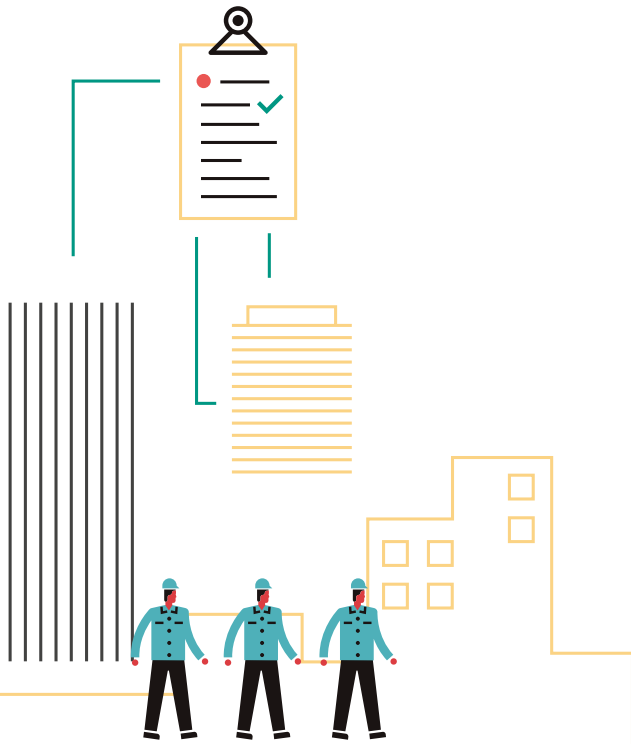
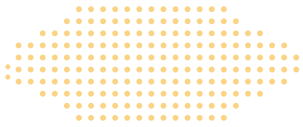
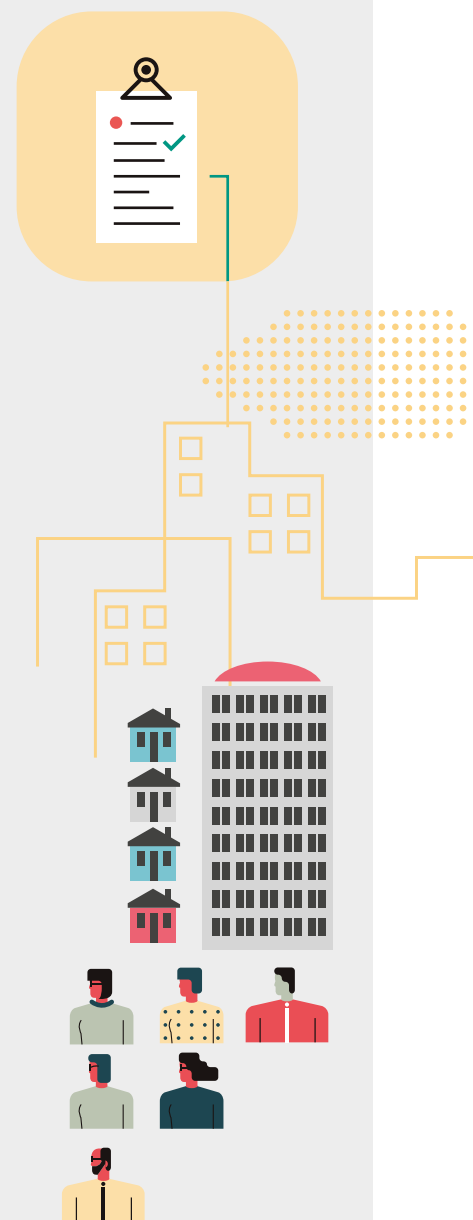




TABLE 1

## Types of workplace flexibility

1	<b>Flexible hours of work</b>	Start and finish times can be adjusted according to employees' preferences and the job requirements.
2	<b>Compressed working weeks</b>	Work the same number of hours, compressed into a shorter period. For example, a forty-hour week may be worked at the rate of ten hours per day for four days instead of eight hours a day for five days.
3	<b>Time-in-lieu</b>	Arrangements where an employee can work extra time over several days or weeks and then reclaim those hours as time off.
4	<b>Telecommuting</b>	Work at a location other than the official place of work.
5	<b>Part-time work</b>	A regular work pattern where employees work less than full-time and are paid on a pro-rata basis for that work.
6	<b>Job sharing</b>	A full-time job role is divided into multiple job roles to be undertaken by two or more employees who are paid on a pro-rata basis.
7	<b>Purchased leave</b>	A period of leave without pay, usually available after annual leave allocation is finished.
8	<b>Unplanned leave</b>	Informal access to leave for unanticipated or unplanned events.
9	<b>Flexible careers</b>	Exit and re-enter employment with the same firm or adequate the workload to suit changes in life stages. This may be particularly relevant for employees transitioning to retirement.



Source: WGEA (2020)

The needs of employees may be significantly different, depending on characteristics such as age or family status. For instance, employees with young children may need some degree of flexibility to perform their job. A recent study has shed some light on the **UK** experience with flexible work schedules and telework (Chung et al. 2007). As well as in other countries, in the UK women tend to reduce the number of working hours after childbirth. This could be an important detriment to productivity, especially for an employee who is playing a substantive role for the company. Regarding this issue, Chung et al. (2007) found that flexible hours and telework has helped women to stay in their jobs after they have the first child. This UK evidence suggests that women would be more likely to remain employed and to maintain their number of hours worked after childbirth if they were able to control both: when and where to work. Such working conditions may not be feasible for all companies, however certain employees do not have to be based on a certain location and can increase their productivity when allowed to work remotely.

It is crucial to establish working conditions with the aim of maximizing productivity, instead of following earlier social conventions and rules. This is a necessary condition to manage labour and capital resources in an efficient way. An illustrative example for this is the working from home policies that have been adopted widely across multiple companies. In **China**, there was a major economic experiment with employees from a call centre, Bloom et al. (2013a). Part of the workers from this company were randomly assigned to work from their houses. Their output per hour increased. They were making more calls per hour, due to the quieter working environment in their private homes. Additionally, they voluntarily opted to work more hours per day, since they did not spend time commuting to work. Finally, the employee turnover in the company decreased, and the employees reported higher job satisfaction. After seeing these benefits, the company finally adopted the work from home policy, to increase their output and profits, at no additional cost.

Flexibility policies may be well accepted by the overall working force, meaning that they can benefit the overall firms' performance, beyond a certain group of employees. A recent survey, made with companies from the **USA**, showed that there is currently a wide gap between the employees' demand for flexible working conditions and the actual flexibility that they have at their jobs. The survey was conducted with white-collar professionals in the USA, of which 96 per cent expressed that they want flexibility at their jobs, however, only 47 per cent have the flexible conditions that they are looking for, Dean et al. (2018). What is very interesting among this survey is that, both men and women said, with almost the same rate (97 per cent for women and 95 per cent for men), that flexibility was necessary in their workplace. The survey's results also suggest that the lack of flexibility can hurt the firm's productivity and hurt the company through multiple channels. For instance, in the retention level, workers without access to flexibility are twice more likely to report being dissatisfied at work.

# 2...

## Economic incentives for productivity improvements



Defining the right economic incentives for workers and managers is one of the most important issues in a firm's productivity strategy. Attaching part of the employees' salary to the firm's performance, or to its teams' productivity, may result in higher performance for the company. The reasoning behind this is simple, economic incentives can increase the workers' motivation and efficiency. For instance, an economic experiment made in multiple branches from a Bank, in Colombia, shows the productivity boost derived from minor financial incentives to employees, delivered in the right timing. During this experiment, the Colombian bank introduced weekly rewards for employees, giving small prizes to the loan officers if they met their short-term goals. As a result, the sourcing of new loans in those branches increased by 18 per cent, and the loan officers increased their monthly earnings (Cadena et al., 2011).

Another economic experiment conducted in the **UK** displayed the relevance of introducing performance-related payment systems for firms' managers. The experiment consisted of shifting their simple fixed wage payments, to a compensation scheme based on the lower tier workers' performance (meaning greater managerial earnings when their employees' output was higher). The experiment increased productivity of the lower tier workers, between 20 and 50 per cent. Furthermore, labour productivity became more homogeneous, meaning that there were fewer unproductive workers in the firm. Consequently, profits also considerably increased, highlighting the relevance of such compensation schemes for firms' overall performance (Bandiera et al., 2007).

The economic incentives towards a firm's productivity enhancement can be structured in two broad schemes, providing either group or individual variable payments based on performance. Individual variable payments provide workers or managers a direct award whenever they reach certain goals, such as in the case of the UK and Colombia, presented above. Nonetheless, group performance incentives can also encourage productivity, by providing a group of workers with a higher economic reward, whenever certain unit targets are achieved.

Currently, there are innovative group performance schemes such as the so-called "shared capitalism", which consists of distributing profits among workers in a group manner. A recent study published by the Harvard Business Review (Bryson et al., 2016), indicates that shared capitalism has displayed positive results for both companies and workers. For example, the company observes fewer employees acting as "free riders" from the work of others, since employees begin to monitor each other more closely, looking to increase the teams' performance. In addition, the employee adopts the identity of the company when it is part of a group payment scheme and job satisfaction levels tend to increase.

One of the most common detrimental management practices is providing incentives for employees to work more hours, instead of encouraging workers to work efficiently. In certain countries, there is a conception that an employee must work as many hours as possible, for a firm to take advantage of their full potential.

However, this does not necessarily translate into productivity increases. For instance, **Mexico** is the OECD country with the highest number of working hours, but one of the countries with the lowest productivity levels per hour ([OECD Data Library](#)). According to a study published by Stanford University, when workers perform a long workday, their levels of fatigue and stress increase. This decreases their performance and increases the probability of errors, accidents, and illnesses, which generates significant costs to firms. Considering these indirect effects, allowing long workdays can be counterproductive for a company, (Pencavel, 2014).

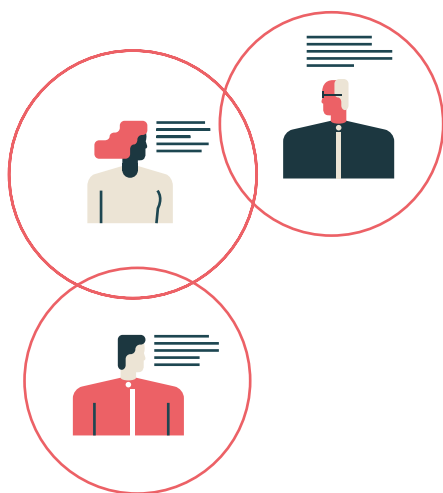
According to a comprehensive review from different case studies related to employee motivation and productivity (including evidence from Nigeria, Tanzania, Rwanda, and Brazil), Ude et al. (2012) recommend four specific management practices. First, management should identify the type of incentive scheme that is most motivating to employees. Second, the system of economic incentives must be financially feasible for the firm, therefore managers can consider non-financial incentives as well, such as public recognition. Third, managers should look for feedback related to how the workers value the economic incentives implemented, to strengthen the impact on the workforce motivation. Finally, the workforce's objectives should be clearly defined and disseminated across the firm, implying that they should be easily measurable and attached to a period.

Finally, employers can also consider linking pay and pay increases to improved performance when engaging in collective bargaining with trade unions. Performance related pay could be an alternative, when trade unions request wage increases which the company cannot afford to meet.

# 3 ...

## Communication-oriented organizational climate

A communication oriented organizational climate is the one that encourages the free flow of ideas among the employees, allowing efficient collaboration between peers and expanding the managers' knowledge about the firm's operation. Firms with working environments oriented towards communication encourage the continuous exchange of information and constructive criticism. For instance, firms can allow employees to become *intrapreneurs*<sup>13</sup> by designing and developing productive projects inside the company. Regardless of the position of the employee, all the human resources can contribute with innovative ideas, which can boost the company's performance and efficiency. However, employees working for firms with defensive organizational climates tend to abstain from communicating their ideas and tend to have lower levels of motivation (Nordin et al., 2013). Furthermore, the research discussed in this section shows how a communication-oriented organizational climate can raise productivity in a firm, by boosting employees' satisfaction with their work, increasing their commitment with the organization, enhancing the innovations and progressively increasing the communication skills in the firm.



**Workplace labour-management cooperation** can be instrumental to cope with typical problems that may arise related to outdated or rigid work norms and organizations, idle workforce and overtime, absenteeism and high labour turnover rate, discontent and low morale, and lack of accountability, among others. Employers and business membership organizations can support their members to address these issues with workers through the promotion of **employee involvement programmes** such as **productivity circle** and suggestion scheme. A study made with workers from the **USA** found that the workers' perceptions of the communication climate are strongly linked with the level of **workers' commitment** with the organization. Specifically, the research found that factors such as superior-subordinate communication accounted for 41 per cent of the variation in the commitment with the organization (Guzley, 1992). On the other hand, an employee's survey aimed at measuring the link between organizational communication and the **employees' satisfaction** with their jobs found that organizations, where supervisors delivered accurate information to employees were the ones where the employees had higher satisfaction with their job (Muchinsky, 1977). Additionally, the survey results showed that the workers with lower satisfaction with their jobs did not tend to communicate this with their supervisors, instead, they tended to communicate such issues with co-workers.

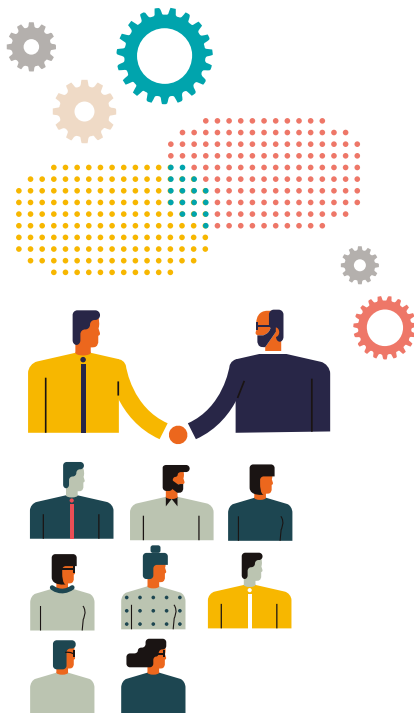
Facilitating communication in a company can also boost productivity by raising the frequency of innovative work inside the firm. A recent study explored the relationship between the communication climate in an organization and the occurrence of **innovative** work behaviour among employees, using a sample from workers in advertisement agencies (Manzoor et al. 2012). The research studied the case of 150 workers, from multiple departments and professions. The findings were

<sup>13</sup> *Intrapreneurship* refers to the organizational climate that promotes and supports employees' innovation, allowing and encouraging them to become *intrapreneurs*.

clear, showing that a communication-oriented working environment was strongly associated with innovative work behaviour. This effect was greater for the women employees in the study, implying that female employees who were given more freedom to communicate with their peers and managers were significantly most likely to be more innovative when performing their jobs.

Another key component of productivity, skills development, is also associated with higher communication within a firm. A case study conducted in **Iran**, studied the organizational climate in a Physical Education Organization, particularly aiming to find the effect of the organizational climate on developing communication skills within the organization. The research was conducted with 135 managers from the organization, concluding that there was a clear statistical association between the organizational climate and the development of communication skills from managers (Alipour, 2011). The boost in management skills can also drift into additional spill-overs for the firm, since managers can employ such skills outside of the organization, to attract new potential clients or renew previous relevant contracts for the firm, as well as attracting solid partnerships with other complementary businesses in the industry.

There is compelling evidence that highlights the relevant role of a communication-oriented organizational climate, consequently internal communication should be considered as a key factor for a firms' productivity improvement. A communication-oriented organizational climate should encourage multiple complementary types of performances in the company, such as a horizontal flow of proposals and critics from employees to the managers, interdepartmental networking activities to encourage new types of collaborations, anonymous suggestions channels to deal with sensitive information, company surveys to measure the workers' most important demands, allocating time to creative activities, discussions relative to skills development for the future of the company, best practices sessions for employees to share their projects, etc.



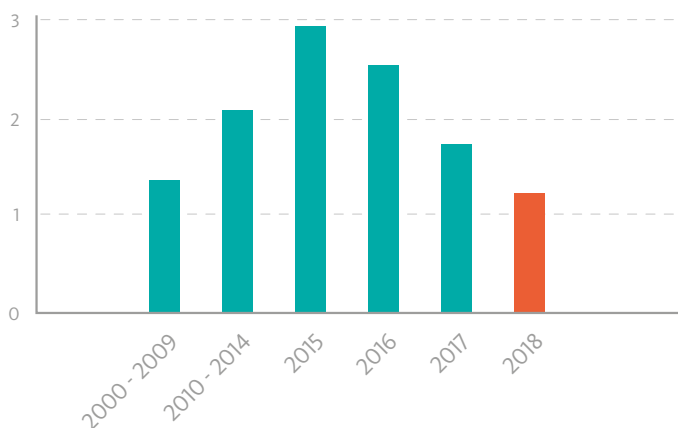
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## Energy efficiency

Energy costs represent a burden towards increasing a firm's income and raising energy efficiency implies a more efficient use of resources. From 2015 to 2018, the rates of growth of energy efficiency worldwide have dropped, constraining the worldwide productivity growth. Globally, energy efficiency was growing at the rate of 2.9 per cent in 2015, and this rate of growth dropped to only 1.2 per cent, in 2018. This is relevant to the worldwide output since the 1.2 per cent growth in energy efficiency, during 2018, was equivalent to an extra output of \$1.6 trillion additional GDP globally. Moreover, if the rate of growth of energy efficiency would have been 3 per cent in 2018, this would have generated USD 4 trillion of additional GDP to the global economy, IEA, (2019a).

GRAPH 1

Annual growth (per cent), primary energy efficiency, 2000-2018



Source: IEA, (2019a).

Firms can invest in a diverse range of clean technologies to increase energy efficiency and therefore minimize their energy consumption, while looking for the higher output generation. The thought process required to select the most profitable investment is not a simple one, since there is an array of choices. For instance, a firm can invest in transport equipment for the company, to reduce the gasoline consumption per year. Moreover, a company may decide to generate their own electricity using its organic waste. This could now represent a profitable solution for firms in the food industry, with a high amount of organic waste, which can be used to produce methane and thus electricity.

Deciding between such investments is not an obvious choice, since the rate of return from those investments would depend on the type of company, technology

availability in the country or energy prices (which may differ drastically from one country to another, making investments that are profitable in one country to be non-profitable for another economy). The context is significantly important for certain Middle Eastern countries facing highly subsidized prices of gasoline, it may not be profitable to invest in more efficient transportation equipment, while in some OECD countries with heavy taxation to fossil fuels, there is a higher incentive to invest.

Energy efficiency investments should be made based on quantitative evidence, related to the rate of return on capital expenditure. Although the analysis will be dependent on each firm, there are global, national and sectoral benchmarking exercises between different investment choices, which compare the rate of return of different capital investments. For instance, the Marginal Abatement Cost Curves<sup>14</sup> (MACC) provides comparisons from an array of choices, for firms to select. These studies also include the impact on emissions from such technological improvements. On an optimal scenario, which will depend on the policies implemented in each country, firms can use this positive environmental impact to request concessional financing from public authorities or development banks, under the basis of investing in reducing CO<sub>2</sub> emissions.

For instance, a study made for the **Russian Economy** (including the industrial and residential sector) highlighted the energy efficiency investments with the higher expected rates of return in this country. The study emphasized 18 different energy efficiency investments with an internal rate of return which was higher than 30 per cent, meaning that they were significantly profitable investments. The choices varied from improving the energy efficiency of the office electronics, switching from incandescent to LED lighting and improving the buildings' insulation (McKinsey & Company, 2009a). Similar studies are available for other economies and can be used towards narrowing down the list of energy efficiency investment choices for a company.

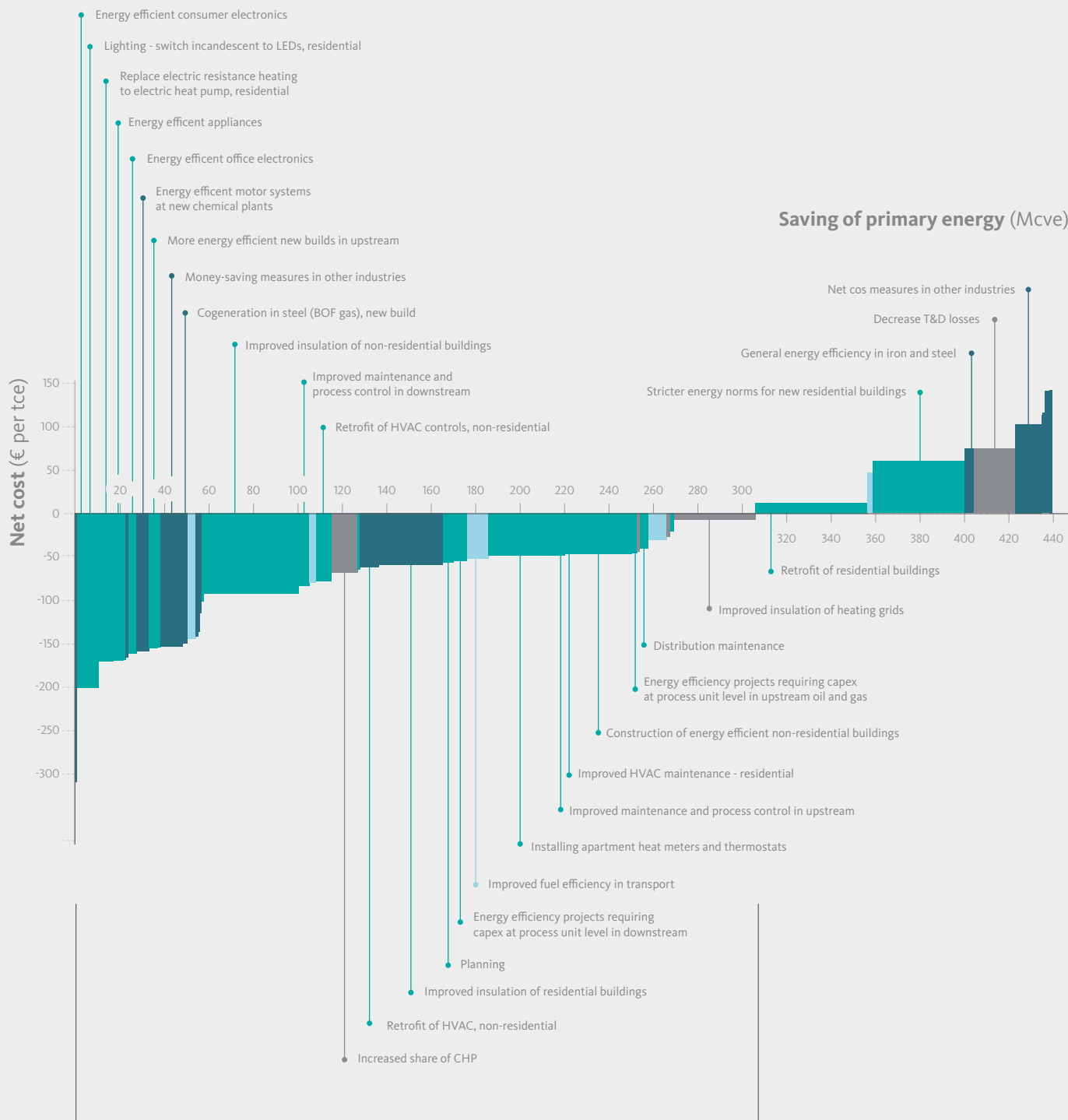
<sup>14</sup> A Marginal Abatement Cost Curve (MACC) is a visualization that presents different types of investments, ranked by two criteria. First, their carbon emissions abatement potential, measured by tons of CO<sub>2</sub> equivalent mitigated. Second, their financial cost, per ton of CO<sub>2</sub> equivalent mitigated.





GRAPH 2

# Energy Efficiency Investments in the Russian Economy Context

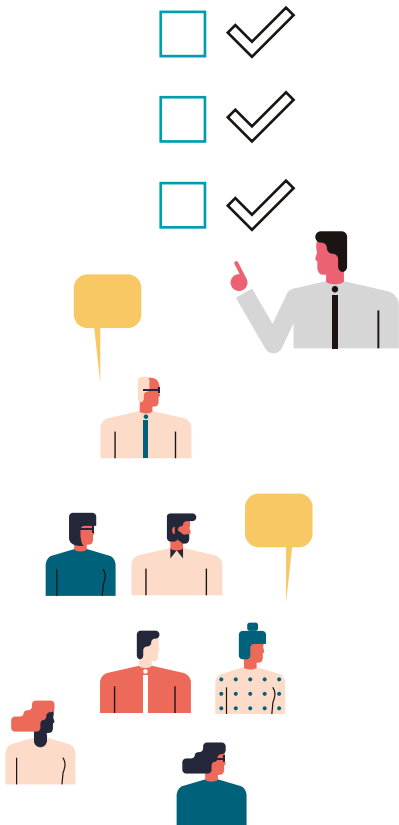


Economically attractive energy efficiency measures with an average IRR of more than 30%

Source: McKinsey & Company, (2009a)

# 5...

## Safety and health



Employers are required to ensure that, so far as reasonably practicable, workplaces are safe and without risk to health. This is more relevant than ever in the context of the COVID-19 pandemic to ensure that workplaces offer the right conditions to prevent the resurgence of infections throughout the recovery phase. Until the development of a vaccine or medicine, the COVID-19 virus is likely to circulate in our communities. Physical distancing measures, **increased hygiene** and other precautions will thus have to be maintained to contain infections, including in the workplace. Preventive actions are needed to allow companies and workers for a **safe return to work** and a gradual restart of business activities. Companies should also pay attention to **promoting mental well-being** of the employees, as the COVID-19 pandemic has led to increased stress and anxiety. Such measures are important to protect workers' health but also to support business continuity.

Moreover, investing in safe and healthy work can bring substantial benefits for businesses. According to Dorman et al. (2010), accidents in a firm can result in high economic costs such as the loss of workers' productivity during the period of recovery, the medical expenses' costs generated by the treatment of affected employees, as well as the time and resources spent by the affected workers' household in the recovery phase. Other possible costs to consider include e.g. legal costs, costs of repair or replacement of equipment damaged in the accident, higher insurance premiums, costs related to overtime or hiring and training of new temporary workers replacing those injured, as well as possible reputational damage to the company. A survey done by International Social Security Association (Braunig and Kohstall, 2013) among 300 companies from 15 countries indicates that the 81 per cent of interviewees assess that the adoption of preventive occupational safety and health (OSH) measures has been a profitable investment for them.

To manage OSH issues in a systematic, proactive and participative way, the ILO (2001) encourages companies to adopt an OSH management system. Such a system is based on (a) development of a company OSH policy, (b) identification of safety and health hazards in the workplace and actions to eliminate or reduce risks, (c) assignment of responsibilities and resources, (d) communication and information, as well as (e) monitoring of the results of the measures taken and their continuous adaptation.

Workers have an important role to play in securing safety and health. They should, for instance, take reasonable care of their own safety, comply with the instructions regarding safety and health, use personal protective equipment correctly and report any hazardous conditions or events and accidents. Thus, acknowledging what the employees' attitudes and perceptions are towards this topic is an important part of a health and safety strategy. In a case study from a car-manufacturing plant in the **UK** (Clarke, 2006), a comprehensive questionnaire was used to evaluate the employees' attitudes towards the company's safety standards. The research found that the workers' attitudes towards safety were one of the main

factors related to the occurrence of accidents and unsafe behaviour in the firm, and that this factor was even a higher predictor of unsafe behaviour than the managers' attitudes towards the company safety standards.

Micro and SMEs face particular challenges when it comes to creating safe and healthy working environments. They may lack awareness, resources or knowledge. A case study of construction workers in **Malaysia** found illustrative insights about the topic. This survey collected answers from employees on different projects and firms. The results showed that the safety conditions were significantly higher in the big construction projects, developed by large international firms, while the local small projects were lagging on such safety standards (Hassan et al. 2007). The workers' responses showed a repetitive pattern, workers in the international companies tended to report high and similar safety conditions, whereas workers in local small projects reported lower and highly variable levels of safety on their working environments. The research highlights the need to improve the safety culture and conditions in smaller companies.

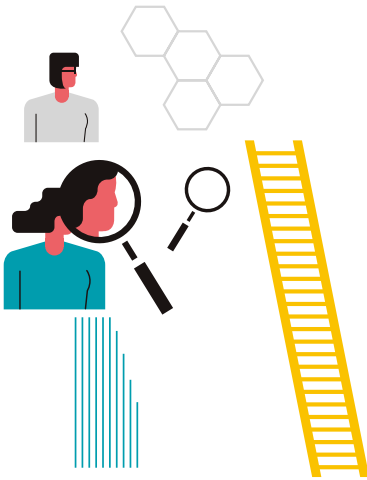
The need to set minimal health and safety conditions in companies is an international one, which is also horizontal across different industries and professions. In 2018, the International Organization for Standardization (ISO) published the ISO 45001, which contains a set of minimum standards for managing occupational health and safety in the work environment, aiming to reduce work-related injuries and diseases, building upon previous standards defined by the ILO. Moreover, companies should consider their central priorities in terms of health and safety. A case study with companies in **Denmark** found that such a set of international standards can influence managers to deviate their attention and resources from the most urgent priorities for the company, in terms of protecting workers' health and safety (Hohnen, 2011).

The ILO has useful material and guidelines to help managers and employees to develop a comprehensive approach to healthy and safe working environment. For instance, **Guidelines on occupational safety and health management systems**, ILO-OSH 2001 (ILO, 2009) provide a framework for developing an OSH management system at companies and national level. Health-WISE is an action manual created by the ILO and the World Health Organization (WHO) to improve health facilities in the workplace (see ILO, 2014a). Additionally, the ILO has released some guidelines for small enterprises to improve their safety standards. For instance, WISH is a useful manual related to the topic, targeting workers who manufacture goods at their residences, providing easy-to-implement safety practices (ILO, 2006a). Furthermore, WISCON is another ILO product that aims to improve safety in the work environment, specifically targeted for small construction companies (ILO, 2014). Such materials can help managers and workers in their search for a healthier and safer work environment.

# 6...

## Equal opportunities

Providing equal opportunities to all employees implies considering them based on their performance and not on other characteristics not related to work, such as race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation. Companies providing equal opportunities to workers allow the most skilled employees to be hired, for their talents to be recognized and harnessed, and for employers to benefit from their productive contributions.



Reducing discrimination in the work environment remains as an important area of opportunity for firms' productivity improvement. The case of **India** illustrates the potentially detrimental effects of discrimination on firms' performance. A World Bank report displays robust evidence about the economic impact related to certain negative attitudes and discrimination towards the LGBT<sup>15</sup> population in India (WB, 2014a), stressing that 41 per cent of Indians would not want a homosexual as a neighbour, a significantly higher proportion to the one found in other countries, such as Thailand (34 per cent), Vietnam (29 per cent) and the USA (25 per cent). According to this research, such discriminatory belief constrains the effective labour supply in India (by reducing the number of workers that managers would hire for a position). The study finds that this has a direct effect towards reducing economic output and labour productivity across Indian firms.

Another study conducted in the **USA** found that establishing and enforcing non-discriminatory practices towards the LGBT community can increase innovation on firms, which is one of the most important factors for productivity growth (see Module B for a more detailed explanation on the link between productivity and innovation). Huasheng et al. (2016) found that companies operating in states that passed employment non-discrimination acts (meaning laws prohibiting discrimination based on sexual orientation and gender identity) significantly increased their patent production and citations, relative to the firms operating in states that did not pass such laws.

One of the biggest challenges towards building equal opportunities for workers is to reduce discrimination against women in the working environment. For instance, female productivity should be rewarded on a non-discriminatory scheme, meaning that companies need to address their gender wage gap. In this respect, the ILO (2018) finds that the (weighted) median global gender pay gap stands at 22 per cent<sup>16</sup>. For OECD countries, the most recent estimates reveal that the average pay gap is around 14 per cent. This is a common problem even for developed economies such as **Japan**, where women tend to earn considerably lower salaries, with a national gender wage gap of 25 per cent. Companies need to disregard any possible discrimination against woman employees. Firms must ensure that payments are being made according to the performance of each worker, and not taking gender as a variable to define compensation. Assigning salaries on the pure basis of performance provides the right incentives for employees to increase productivity.

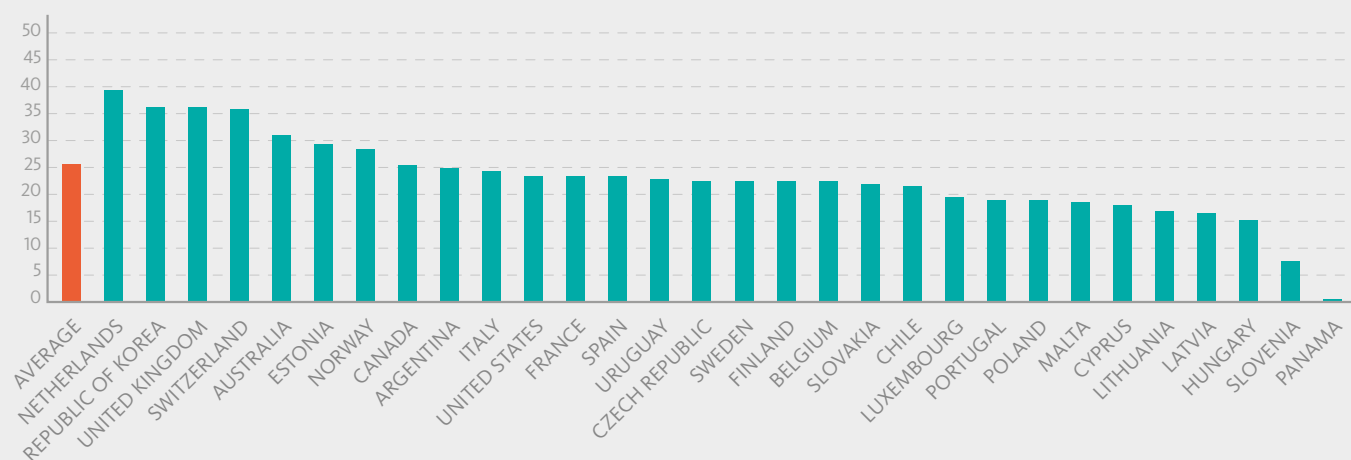
<sup>15</sup> LGBT stands for lesbian, gay, bisexual, and transgender individuals.

<sup>16</sup> The same study finds that when using average hourly wages, the (weighted) global gender pay gap stands at around 16 percent.

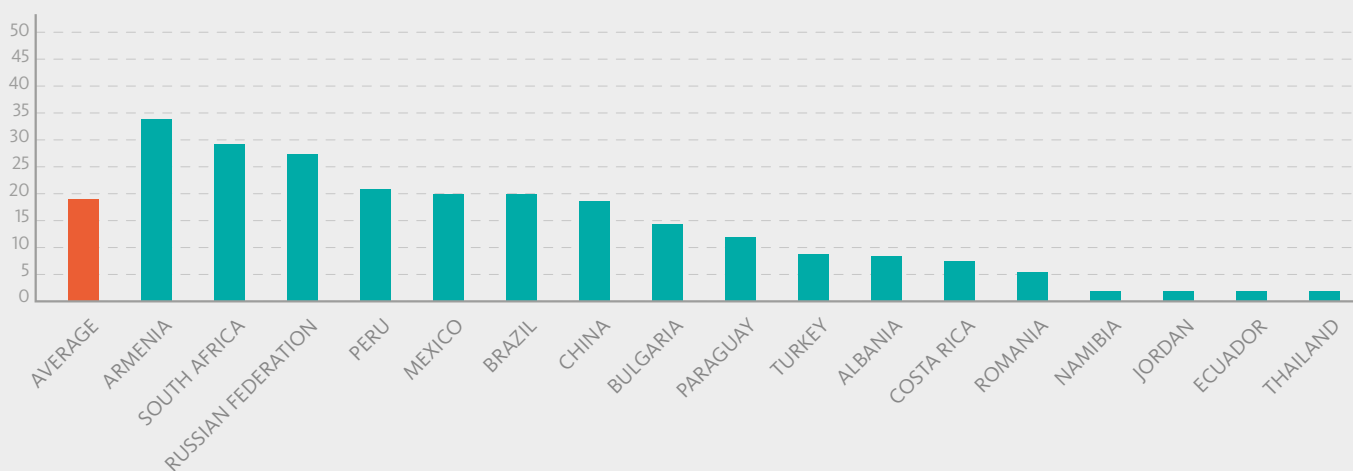
GRAPH 3

# Global Gender Pay Gap, Percentage, 2018

(a) High-income



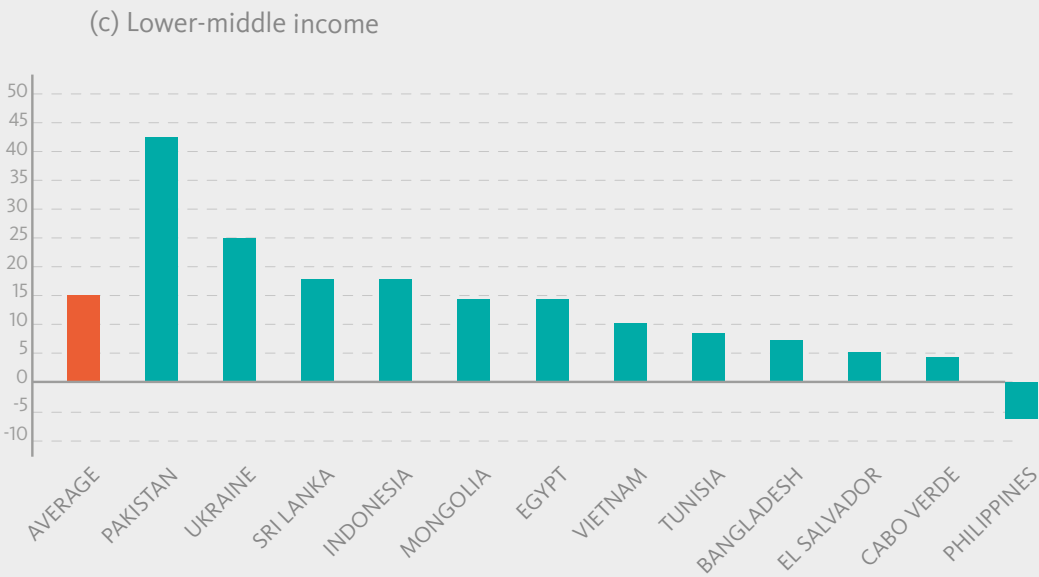
(b) Upper-middle income



Source: ILO: Global wage report 2018/19: What lies behind the gender pay gaps, p. 25.

GRAPH 3

# Global Gender Pay Gap, Percentage, 2018

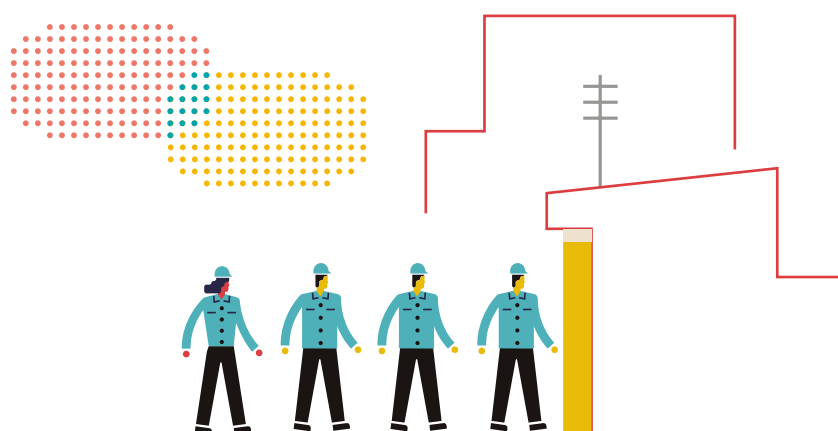


Source: ILO: Global wage report 2018/19: What lies behind the gender pay gaps, p. 25.

Women are significantly underrepresented on the top managerial positions of companies. This phenomenon contributes to persistent gender discrimination in the workforce, as firms' decisions are mostly taken by male employees, contributing to the current biases. A recent survey made by the OECD analyses data from 142 top companies in the **MENA Region**. According to the data collected, women only have 4.8 per cent of the total voting seats of these top companies, (OECD, 2019a). The evidence is extreme for some countries, such as **Saudi Arabia**, only 0.7 per cent of the board members are women. This data reveals the predominance of glass ceilings, meaning an invisible barrier that limits the female's employees to certain positions in their firms. According to a recent research, improving female participation in work across the **OECD** could boost OECD GDP by US\$6 trillion, (PWC, 2019a).

An ILO study of 13 thousand enterprises, in 70 countries, found that enterprises with equal employment opportunity policies and gender-inclusive cultures are over 60 per cent more likely to have improved profits and productivity, and they are also 60 per cent more likely to experience enhanced reputation, greater ease in attracting and retaining talent, and greater creativity and innovation. The study finds that increasing the firms' gender-balance can boost their performance. For instance, the research highlights that companies with more gender-balanced boards are almost 20 per cent more likely to have enhanced business outcomes, ILO (2019).

From a business point of view, discrimination is a significant barrier against the company's productivity growth. According to the UN (2000), a firm that allows discriminatory practices limits its access to the broader pool of workers, and thus skills and competencies. Moreover, discriminatory practices generate resentment by those employees who are not offered the same opportunities to grow. Furthermore, a company that denies equal opportunities to its workers would be subject to reputational risk and a potential significant drop in its profits. Firms can start with disclosing public commitment with equal opportunities and enforcing the related guidelines in their daily operations, while communicating the importance of such practices to their employees and community overall.



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MODULE D

# Key Partnerships



This Module traces some paths that Employers and Business-membership Organizations (EBMOs) can follow as they seek to design, refine and implement a productivity agenda, both at the enterprise and national levels, directly or collaboratively.

**T**his module will guide EBMOs to determine which institutions can become allies in promoting a productivity agenda, briefly suggesting some successful models and examples that can be followed and, when relevant, underscoring limitations and drawbacks. EBMOs are not alone and have multiple possibilities to implement change with the support of other key stakeholders. Some partnerships may apply to different contexts, scopes and scales, whereas others may not. EBMOs must identify the resources at their disposal to improve the accuracy and impact of their initiatives.

FIGURE 1

Key Partners to design, refine, and implement a productivity strategy.  
Scale from 1 to 5 [1 = less important, 5 = more important]



Source: ILO (2019a)

There are multiple key partnerships that EBMOs can enter with stakeholders interested in productivity at the national level. There are at least five broad groups to be analysed separately: **Government Agencies, Development Banks, Academia, Non-Governmental Organizations (NGOs), and International Organizations**. Each of these stakeholders has its own internal structure, closeness to relevant policymakers, or even time horizon. Partnerships should be analysed on a case-by-case basis, as different contexts and available resources can highlight the need for different policies or initiatives. The examples provided in each subsection will help EBMOs identify possible alliances for specific programs to be coordinated and implemented among their members. An ILO survey with multiple EBMOs from 47 different countries (virtually all from the developing world) asked EBMOs to weigh multiple institutions in terms of their relevance as business allies towards the promotion of an agenda towards productivity enhancement. The respondents assigned a weight from 1 to 5 to such key partners ranging from national ministers to NGOs and international organizations. The results were very illustrative. The EBMOs around the world tend to assign similar weights to the key partners towards the promotion of a productivity strategy. **This entails the need for a holistic and broad range of partners to build relevant synergies.**

# 1

## Government Agencies

### 1.1 Local government agencies

The role of local governments is crucial for productivity enhancement. While their role may differ across countries, local governments are commonly responsible for building and maintaining part of the basic infrastructure. For instance, local governments can provide a significant portion of the investment needed to boost the quality of public transportation, which is needed to reduce commuting times for workers in a metropolitan area. Additionally, local governments are key players towards guaranteeing the provision of basic services for an economy, such as providing good-quality water supply, and efficiently collecting local taxes to reduce the local costs in doing-business.

Building from international experience, it is important for EBMOs to collaborate with local governments to define the priorities of the local productivity agenda. For instance, the government of the UK introduced “Local Industrial Strategies”, created to strategically guide the use of local public resources. These documents are meant to be a principle to guide resources towards their more efficient use, relative to local product development. Such strategies can serve multiple purposes towards increasing productivity. For instance, they draw out the relative strengths and weaknesses of the local economies. Additionally, they make clear how the local governments (Mayoral Combined Authorities, in the case of England) can partner with the Local Enterprise Partnerships, towards their long-term strategic goals, as well as clear plans to evaluate progress, UK Gov. (2018).

### 1.2 Government ministries and inter-ministerial agencies

**A) LONG-TERM PRODUCTIVITY COMMISSIONS** are important to identify and advance productivity-enhancing policies devised based on policy reviews. They are normally required to engage in public consultation and are provided with vast resources to conduct a comprehensive research. While their governance, influence and operative guidelines vary greatly from country to country, productivity commissions can be divided in permanent or dedicated and ad-hoc or temporary task forces.

The oldest permanent institution is the Productivity Commission in Australia, APC (1999 & 2003) which has existed since 1973. It was preceded by the Industries Assistance Commission and Industry Commission. Banks (2015) notes that “a key lesson [from the APC history] has been the critical importance of statutory backing for a body with an ongoing role in this area, given the need for independent assessments and preparedness to give advice to a government that may not always be wanted or welcome”, underscoring the importance of the administrative arrangements to oversee the commission and take forward its reports and



recommendations.

Closely following the Australian model and collaborating with the own APC extensively, New Zealand established its own Productivity Commission, NZPC, in 2010, NZPC (2010). Despite its relatively recent creation, the NZPC has already made a significant contribution and acquired a strong reputation for the quality of its research and consultative processes in New Zealand, Banks (2015). The Commission is an independent Crown Entity and completes in-depth inquiry reports on topics selected by the government, carries out productivity-related research, and promotes understanding of productivity issues. It offers a key example of how joint research work programs can offer valuable insights at the enterprise level.

The NZPC united the Ministry of Business, Innovation and Employment (MBIE), Statistics New Zealand, the Treasury and other agencies and non-government groups to create the Productivity Hub, a research partnership contributing to productivity at the enterprise level by setting three intermediate outcomes: (1) connecting people by establishing a vibrant community (across academia, public and private and sectors) with an interest in productivity research to enable maximum leverage of knowledge; (2) shaping research agendas by maximizing opportunities to collaborate on research work programmes to improve their quality and efficiency, and (3) disseminating evidence by providing a dynamic platform that allows data and analysis to be exchanged, NZ Productivity Hub (2013).

The Productivity Hub published in June 2018 a compendium of recent research using firm-level data. The Hub's analysis of a Longitudinal Business Database (LBD) allows researchers to use microdata, or survey data for individual firms, to focus on a uniquely detailed view of their behaviour and performance across a broad range of topics. LBD is a world-leading, integrated microdata set covering most New Zealand firms. Having access to firm-level data provides researchers with a degree of resolution that isn't possible with aggregate data. This greatly enhances insight into the economic forces influencing firm productivity. EBMOs can push for such data-sharing and joint research schemes in their countries following the successful NZPC model.

**B) TEMPORAL PRODUCTIVITY COMMISSIONS**, the productivity commissions of Denmark and Norway were set up as temporary or ad hoc task forces, with a limited research capacity and strong representation of private and public actors. Both institutions met regularly for a limited period of two years without producing new research and ended up producing a report with several recommendations to tackle existing challenges: the productivity slowdown in Denmark and oil price fluctuations in Norway. Denmark's Productivity Commission comprised a group of representatives of

business and academic leaders, with its own secretariat. It was established in 2012 by the government with a broad mandate to analyse the causes of lacklustre productivity performance; to make recommendations to both public and private actors, and to consult widely and issue interim papers for public discussion. Its first report was broad in scope, with subsequent ones concentrating on specific topics. Its final major report was published in late 2013 on the tertiary education sector. The Commission's reports have been influential, and its findings and recommendations continue to shape national productivity discussions, Banks (2015).

The Norwegian Productivity Commission was set up by the Norwegian Government in 2014 in response to slow labour productivity growth. It is funded by the Finance Department, has a secretariat drawn from various ministries, and was required to consult publicly and has been given a year to complete each phase of its work. It was inspired by its Danish equivalent and was instructed to work in two phases. The first involved detailed research on Norway's productivity performance and contributors to its relative decline, whereas the second phase focused on innovation and public-sector productivity enhancement (Official Norwegian Reports, 2015).

**C) ADVISORY COUNCILS**, standing bodies enable governments to tap expert or practical advice and information. Such bodies also act as a means of building consensus around key policy directions. They can either have a general scope or a focus on particular activities or economic sectors. The councils' public engagement and educational function also varies greatly, from a confidence role to a public reporting function as well. Their major contribution tends to be consensus building in key policy areas, Banks (2015). For instance, the President's Council of Economic Advisers (CEA) in the United States, an agency within the Executive Office of the President, is responsible for offering the President economic advice on the formulation of both domestic and international economic policies. It includes policy experts and people involved in business or NGOs, and have direct access to political leaders. The CEA bases its recommendations and analysis on economic research and empirical evidence, using the best data available. However, the CEA does not conduct systematic evaluation of policies (see CEA [Website](#)).

**D) STRATEGIC GOVERNMENT BODIES**, countries can create institutions within their public administrations with the explicit role of providing longer-term strategic policy advice with a strong research capacity and close links to government policy agencies, including productivity. These can provide a means of addressing the 'fragmentation' problem within a national government, Banks (2015). In contrast to agencies with executive or regulatory powers, these agencies play an advisory role with some characteristics of a public think tank and typically exert an active planning role. The degree of public engagement and transparency tends to be limited, however.

An example of a strategic government body is France Stratégie, a policy institute dedicated to informing and enlightening the public debate. It anticipates economic and social shifts by engaging with civil society and the public and private sectors at home and abroad. Furthermore, its policy recommendations sketch out a strategic vision for both France and Europe. Combining breadth with depth, its research



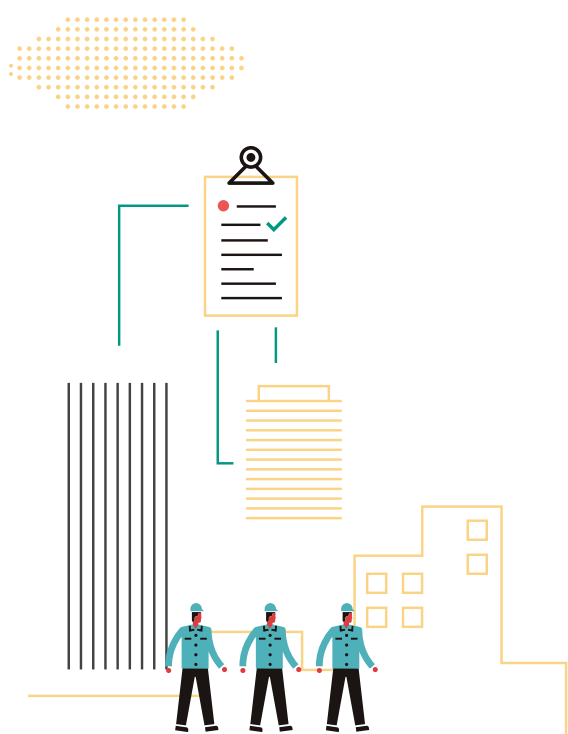
covers employment, sustainable development, economics and social issues. It is in charge of evaluating public policy and performs ad hoc policy evaluation (see France Stratégie [Website](#)). Other examples include the Development Centre of the NCDC in China and the National Institute for Transforming India.

**E) DEPARTMENTAL RESEARCH UNITS,** ‘In-house’ research is one of the prime roles that ministries play on a country’s research agenda. Most government agencies or departments have a specialized unit responsible for policy analysis and advice, including productivity. EBMOs can take advantage of research on general topics on productivity or on specific areas of interest. Examples of ‘in-house’ research units include the Economic Planning Unit (Prime Minister’s Department) in Malaysia, the Bureau of Agricultural and Resource Economics (Agriculture Department) in Australia, or the Development Strategy Unit (Planning Ministry) in Vietnam. EBMOs can greatly benefit from increased transparency and dissemination of research findings through partnerships.

An example of this is Agenda Digital 2020 in Chile, an alliance between private and public actors (the latter led by the ministries) that has enabled a faster adoption of digital technology for companies and public entities. Some of the accomplishments include the Fiber Optic Austral project, which is linking the national territory with a high-speed network, benefiting 435 thousand inhabitants and businesses of the zone; the WiFi ChileGob initiative, which established 1,223 free zones in 301 communes of Chile, and the creation of a public policy innovation lab, LabGob. The progress of each initiative, its guidelines and the corresponding coordinating ministry can be tracked in much detail on the alliance’s website, a key feature that allows private actors to provide inputs and benefit from outputs (see Agenda Digital [Website](#)).

### SOME TAKEAWAYS FOR EMPLOYER AND BUSINESS MEMBERSHIP ORGANIZATIONS (EBMOS)

Designing and implementing a National Productivity Strategy requires support from multiple ministries and government agencies. The international experience has shown that national productivity commissions can facilitate coordination between the multiple government bodies. Moreover, such commissions should have a long-term horizon, since productive investments will need time to mature. Additionally, these commissions are normally benefited from collaborative work from the private and public sector, including the academia, to provide evidence-based research for an informed decision making. Commonly, the most important universities and technical education centres are included in such commissions. Finally, it is important that such commissions can operate as an independent body from the rest of the government ministries, reducing the Commission’s dependency on the political cycle. This is the case of the National Productivity Commission in Australia, which operates an independent authority, providing evidence-based policy recommendations.



# 2

## Development Banks

Development banks are financial institutions typically offering subsidized, long-term financing for industrial development. However, they are complex institutions with a wide range of tools at hand, such as direct medium- to long-term direct lending, subsidized interest rates, credit guarantees, equity, and even technical assistance. They vary significantly in their scope and tools. Development banks can be structured as **international** or **regional** organizations (financing projects in multiple countries), as well as institutions from a certain **national** government (limiting their operations to only one country).

For instance, the World Bank operates in a total of 189 countries, WB (2019a), focusing its financial support to the poorest countries and the investments with the highest return for society. Through the World Bank, high-income countries can allocate financial resources to boost development in the poorest areas of the world. Moreover, there are important development banks with regional operations, such as the African Development Bank. This financial institution provides economic resources to projects that can boost the economy on any given country within the African Continent. Lastly, there are also national development banks. Historically, one of the most important ones has been the Brazilian Development Bank (BNDES), founded in 1952. This financial institution prioritizes investments given their relation to 3 key elements in the Brazilian Economy: innovation, local development, and socio-environmental development, (BNDES [Website](#)).

Development banks should not be overlooked as key actors in national and global productivity agendas. They alleviate capital constraints in underdeveloped credit markets and nudge productivity-enhancing investments, which wouldn't be financed by private investors. In opposite to conventional banks, the aim of development banks is not to maximize profits for private investors. They have a wider scope since they are created to look for overall welfare improvements in society. Therefore, certain relevant projects for society and productivity, that would not receive funding from commercial banks or private investors, receive financing from development banks. Additionally, development banks tend to use concessional financing, which means loans extended with a lower interest rate, and better conditions, relative to the market loans.

For instance, investing in rural electrification projects for populations with high rates of poverty may offer low financing rates of returns for private investors. This can undermine conventional banks from funding such projects. However, from a social and long-term productivity view, rural electrification projects are needed to enhance the economic activity in a community. Without such projects, manufacturing companies cannot install production plants in these areas, children cannot study at night due to the lack of electricity, the agricultural sector cannot





Employer and Business Membership organizations (EBMOs) should seek to form alliances with development banks primarily in underbanked sectors, such as high-tech SMEs. Partnerships are also convenient whenever positive spill-overs are offered to multiple actors and commercial banks are hesitant to lend. Ventures with positive environmental impact are the most likely to benefit from development bank lending.

employ the latest technology improvements and people cannot use the internet to perform any economic or social activity. Development banks can fund these projects, entailing high rates of positive externalities to such types of populations and their future productivity growth.

Development banks are particularly effective when productivity initiatives have positive externalities or spill-overs that are hard for private actors to fully internalize (i.e., reap all the benefits). There are a number of national and regional development banks with explicit productivity-enhancing initiatives. Musacchio et al (2014) identified 286 development banks throughout the world, chiefly concentrated in South and East Asia (29.7 per cent) and Africa (24.5 per cent), followed by Latin America and the Caribbean (17.8 per cent). The role of development banks in shaping productivity agendas has become increasingly evident. They seek to resolve market imperfections that would leave risky and long-term projects without financing. Moreover, development banks can help alleviate capital scarcity and unleash productive investments and promote productive entrepreneurship.

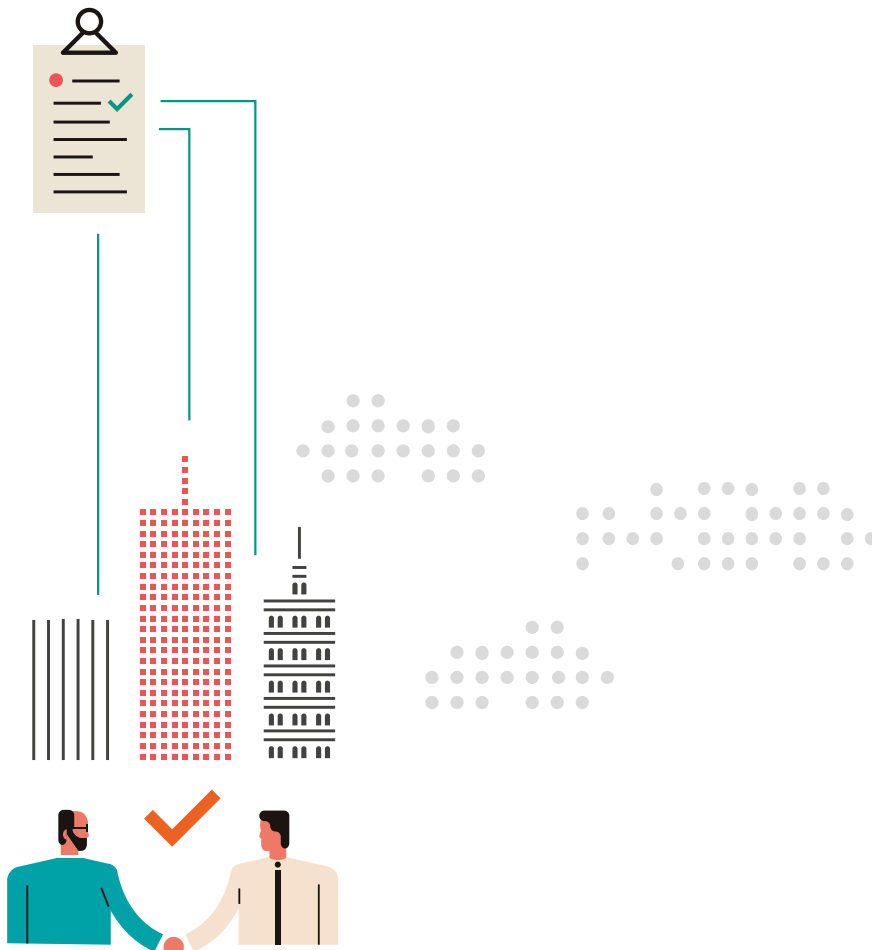
Development banks are among the widely used instruments of funding and assistance for projects that require long-term maturity, Mazzucato, (2011). They offer funding and advice to projects that may not have access to commercial banking, as they might not provide adequate return rates in the short-term or might be affected by local capital market imperfections. For instance, the World Bank is one of the main sources of financing for the poorest countries in the world, its financial support is particularly important to expand health care, extend telecommunications networks, build schools or train teachers in such low-income countries, WB, (2012a).

EBMOs should seek to form alliances with development banks primarily in underbanked sectors, such as high-tech SMEs. Partnerships are also convenient whenever positive spill-overs are offered to multiple actors and commercial banks are hesitant to lend. Ventures with positive environmental impact are the most likely to benefit from development bank lending. At their disposal, development banks have some tools to support enterprises: loans to SMEs and large companies, credit guarantees, leasing and securitization, equity for SMEs and large companies, venture capital, grants, and technical assistance/consulting, to name a few.

Information asymmetries and credit rationing can present challenges for financing the research and development (R&D) critical to nudge innovation and productivity gains, as private banks can fail to identify clients with long-term credit needs and high-risk profiles. R&D produce positive externalities that benefit society overall, not only the project investors. This entails that certain private investments in R&D may not be financially attractive from the private investor's perspective, but they may be desirable when considering the overall society's welfare improvement. Corfo, Chile's

development bank, is an example of how development banks can tackle these challenges. Corfo invests indirectly through externally managed venture capital and private equity funds. The funds focus on supporting SMEs, with one fund providing a credit line for early-stage technology-focused SMEs and other (Start-Up Chile) providing general funding for SMEs from early-stage funding to growth, and still others support further development and venture capital investment. The firms receiving these funds range in size from US\$20,000 to US\$15.5 million, Musacchio (2017).

The Business Development Bank of Canada (BDC) is an example of how development banks can provide technical assistance to the private sector. It is one of the few development banks that systematically perform impact evaluation studies. The BDC conducts annual surveys of its portfolio clients to understand what value is being generated from the lending and consulting services, also partnering with Statistics Canada, Statistics Canada (2013) for an impact assessment study of the programs offered from 2001 to 2010. The main finding of this partnership was that customers from BDC, relative to non-customers, had higher growth in sales, employment, productivity, and operating profits after they received financial aid and consulting from the bank.



# 3 \_...

## Academia

The design of a national productivity strategy requires evidence-based research. Robust academic studies and data analysis are necessary elements for an efficient productivity strategy design. Therefore, it is essential to promote academic work related to the most important policy topics for productivity enhancement. It is important to notice that this has nothing to do with influencing academic results towards a certain belief, meaning that the research grants should not be attached to specific ideologies. However, public and private support towards the academia should consider the key topics for the productivity agenda of a country, to make the most meaningful impact in the economy and fill the most relevant information gaps, for policy design. There is an array of academic actors who can help towards this goal. The group efforts in this arena can be grouped in three broad categories: a) private non-profit research with a permanent standing, b) decentralized grant-funded research, and c) ad-hoc enterprise-academia partnerships. Each model provides successful case studies.

### 3.1 Private non-profit research

The NBER is a private, non-profit, non-partisan organization dedicated to conducting economic research and to disseminating research findings among academics, public policy makers, and business professionals.

Private non-profit organizations can be very effective in shaping the academic productivity debate with avant-garde research. The National Bureau of Economic Research (NBER) is an American private non-profit research organization founded in 1920 and committed since to undertaking and disseminating economic research among public policymakers, business professionals, and the academic community. The NBER is a private, non-profit, non-partisan organization dedicated to conducting economic research and to disseminating research findings among academics, public policy makers, and business professionals. NBER-affiliated researchers study a wide range of topics and focus on key areas, including developing new statistical measurements, estimating quantitative models of economic behaviour, and analysing the effects of public policies.

NBER has a dedicated productivity research agenda. The Productivity, Innovation and Entrepreneurship Program was founded in 1978 as the Productivity Program. It has more recently expanded to incorporate new research in the affiliated fields of innovation and entrepreneurship. The program has generated a remarkable volume of research activity. It currently has 90 active members, and the program's cumulative output includes more than 1350 affiliated working papers on a wide range of topics. The activities of the Program are organized into four large project areas: economic research on the measurement and drivers of productivity growth; entrepreneurship, which focuses on the measurement, causes and effects of new business creation; innovation, which examines R&D, patenting and creative activities; and digitization, a recently-launched project area, which focuses on the creation, use and impact of digital information (NBER [Website](#)). Due to its success, EBMOs should study this uniquely successful model in depth to ponder

the advantages and complications of supporting an extensive network of private non-profit research aimed at enhancing productivity. Decentralized structures can be leaner to operate.

### 3.2 Decentralized grant-funded research

An example of a decentralized grant-funded research scheme is Canada Productivity Partnership, aimed at engaging researchers interested in studying Canada's productivity challenge. The project is funded by the Social Sciences and Humanities Research Council (SSHRC) Partnership Development Grant and awarded to a team of Canadian researchers. Its goal is to nudge the flow of existing knowledge and existing research capacity by bringing together public and private sectors and academia through funded scholarly research. The Partnership has funding available to support researchers working with firm-level data or attending productivity-themed conferences in Canada or abroad. Also, graduate students have the chance to network members and researchers of Innovation, Science and Economic Development Canada and Statistics Canada (Canada Productivity Partnership [Website](#)).

A break-ground project is currently taking place in Canada and can offer fresh insight into productivity forces acting at the enterprise level. Statistics Canada is currently piloting the use of business microdata at its Research Data Centres (RDCs) located in 30 universities across Canada. Researchers will work directly with synthetic business microdata before submitting their programs to Statistics Canada staff to be run on the actual microdata. The pilot will consider only research proposals using the T2-Longitudinal Employment Analysis Program (T2-LEAP), which is an enterprise-level database that contains key information on firm entry and exit, demographics, finances, and performance. The T2-LEAP has been used to study: employment and business dynamics, industry turnover, productivity growth, high-growth firms, and firm financing, survival and performance. The development of such decentralized grant-funded research is valuable since it can provide inputs (such as data) for policy-design and enterprise-level research, which are key elements for EBMOs on the search of the most adequate policies related to productivity enhancement.

### 3.3 Ad-hoc enterprise-academia partnerships

University-enterprise partnerships are an increasingly important source of research for productivity agendas. Perkmann and Salter (2012) propose four basic models of successful research partnerships between the private sector and academia, in research published by the MIT Sloan Management Review. The authors describe the most important characteristics of each model, give examples of enterprises that have used such a model and suggest situations where each would work best, as well as best practices that can improve the odds of a successful partnership, (see Table 1 for characteristics and examples of each model)



1. **The idea lab:** managers work with academics on short term projects to explore new opportunities and alliances.
2. **The grand challenge:** managers and academics work together on long-term projects to create a new knowledge base that will be shared with the public.
3. **The extended workbench:** managers work rapidly with academia on proprietary problems and solutions.
4. **Deep exploration:** enterprises rich and long-lasting relationships with university partners

TABLE 1

### Four Models of University-Industry Collaboration

	Idea Lab	Grand Challenge	Extended Workbench	Deep Exploration
<b>1 Partnership Objective</b>	<ul style="list-style-type: none"> <li>• Attract new partners</li> <li>• Build relationships</li> <li>• Generate options</li> </ul>	<ul style="list-style-type: none"> <li>• Shape innovation ecosystem</li> <li>• Develop research agenda</li> <li>• Meet societal challenges</li> <li>• Hire talented graduates</li> </ul>	<ul style="list-style-type: none"> <li>• Solve near-term problems</li> <li>• Gain advice &amp; support</li> </ul>	<ul style="list-style-type: none"> <li>• Tackle prime challenges</li> <li>• New areas of expertise</li> <li>• Pipeline of discoveries</li> <li>• Hire talented graduates</li> </ul>
<b>2 Partnership Structure</b>	<ul style="list-style-type: none"> <li>• Simple contracts</li> <li>• Open calls</li> <li>• Outline priority areas</li> <li>• Internal selection</li> </ul>	<ul style="list-style-type: none"> <li>• Special purpose vehicles</li> <li>• High-leverage consortia</li> <li>• University endowments or university centres</li> </ul>	<ul style="list-style-type: none"> <li>• Consulting agreements</li> <li>• Contract research agreements w/ university</li> <li>• Student projects</li> </ul>	<ul style="list-style-type: none"> <li>• University centre sponsorship</li> <li>• Agreement decision rights to downstream IP</li> </ul>
<b>3 Partnership Examples</b>	<ul style="list-style-type: none"> <li>• HP Labs Collaborative Research Program</li> <li>• IBM Faculty Awards</li> </ul>	<ul style="list-style-type: none"> <li>• Structural Genomics Consortium</li> <li>• Shell Grand Challenge</li> </ul>	<ul style="list-style-type: none"> <li>• Nokia applied research contracts</li> <li>• Often larger collaborations</li> </ul>	<ul style="list-style-type: none"> <li>• Pfizer-Scripps partnership</li> <li>• Rolls-Royce University</li> </ul>

Source: Perkmann et al (2012).

It is noteworthy that no model fits all enterprises; each has its own merits. EBMOs should take into account that academia is broad, and that some universities have experience working with enterprises, whereas others do not. EBMOs can help their members identify each university's particular set of skills and comparative advantage and link suitable actors. Perkmann and Salter suggest that top engineering universities are well-prepared for "deep exploration", as they routinely engage in applied research with direct commercial applications, however this belief cannot be generalized across academic institutions.

# 4

## NGOs

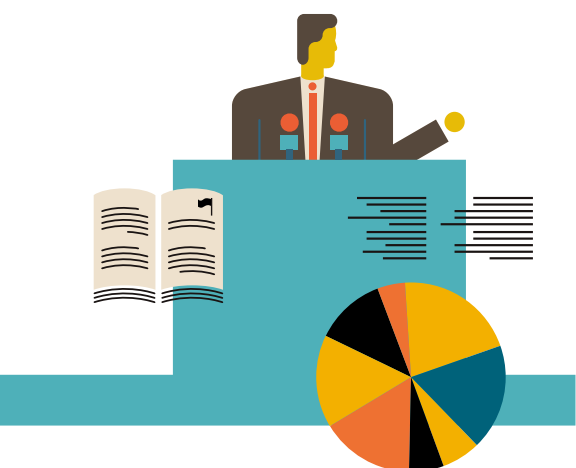
Non-governmental organizations can become key allies for EBMOs in any productivity agenda. There are three main models to consider while assessing possible partnerships: privately funded think tanks, publicly funded think tanks, and international business organizations.

### 4.1 Privately funded think tanks and research centres

Non-government think tanks can also lead policy research and promote productivity-enhancing policies. Many are privately funded but remain independent. They may be separate entities or form part of a larger institution, such as a university. Examples of such organizations include the Brookings Institute and Peterson Institute for International Economics in the United States; the Fraser Institute and the Institute for Research on Public Policy in Canada; the Centre for Economic Policy Research and Institute of Economic Affairs in the UK; the Centre for European Policy Studies in Brussels; the Centre for Independent Studies in Australia, and the Institute for Competitiveness (IMCO) in Mexico.

EBMOs should consider that one of the greatest qualities from the privately funded think tanks and research centres is their analytical capabilities, meaning that they can produce quality statistics and research, for multiple countries and industries. Some privately funded research centres have taken the lead on disseminating the latest statistics and analysis related to Labour Productivity or Total Factor Productivity. For instance, The Conference Board (**TCB**) is an independent business membership and research association with robust analysis of regional and national productivity trends. TCB produces and shares a global database on productivity statistics; with maps, charts and executive analysis about productivity growth for every region and virtually every major economy in the world (see [The Global Economy Database](#)). Additionally, TCB discloses the yearly highlights related to productivity growth around the world, on its executive Productivity Brief (see the [2019 Productivity Brief](#)). EBMOs can access such statistics and executive analysis by creating a free online account.

There are Employers and Business Membership organizations (EBMOs), such as the Confederation of British Industry (**CBI**), that produce abundant research on the topic of productivity enhancement. EBMOs around the world can consider the research made by such institutions, to be aware of the latest trends in productivity enhancement. For instance, CBI has released relevant reports about which public policies are needed to enhance productivity in the UK, covering topics such as education quality and digital infrastructure, CBI (2017). The CBI has also produced relevant research and recommendations related to management practices, to boost the firms' productivity, CBI (2019). Moreover, EBMOs could build productivity-



centred partnerships with such EBMOs, to generate peer-to-peer learning forums and familiarize with the most recent public and private solutions implemented to increase productivity growth around the world.

## 4.2 Publicly funded think tanks and research centres

Governments also establish and provide core funding for non-profit think tanks that operate closely with ministries. Examples include the Kiel Institute in Germany, the Grattan Institute in Australia, the Chinese Academy of Social Sciences, the Korean Development Institute, the Malaysian Productivity Corporation, and the Philippines Institute for Development Studies. These organizations operate similarly to private think tanks but interact more directly with governments and their agendas, which raises their influence. EBMOs can consider such research centres depending on the nature and extent of their financial arrangements and other links to government, Banks (2015).

## 4.3 International business organizations

Under the umbrella of the **International Organization of Employers** (IOE), EBMOs can work together to bring **productivity enhancement**, and the relevance of an enabling business environment to the forefront of the global policy agenda and advocate for these strategic issues in the G20, ILO and the other Agencies of the United Nations System, and other international and regional fora.

EBMOs should also take advantage of existing and open partnerships, such as the World Economic Forum (WEF). Established in 1971, the Forum is an international independent non-profit organization headquartered in Geneva, Switzerland; with a worldwide famous annual meeting in Davos, Switzerland. It engages political, business and other leaders of society to shape global, regional and industry agendas. On the productivity front, the WEF publishes an annual Global Competitiveness Index that integrates the macroeconomic and the business aspects of competitiveness into a single index, made up of over 110 variables: two-thirds coming from its Executive Opinion Survey and one third from publicly available data. The report measures twelve pillars of competitiveness: institutions, infrastructure, macroeconomic frameworks, health and primary education, higher education and training, goods markets, labour markets, financial markets, technology, domestic and international market size, production processes, and innovation. EBMOs should urge their members and affiliates to participate in the survey and play an active publishing role. The survey provides a valuable tool to gauge employers' sentiment on the evolution and effectiveness of national productivity agendas.

# 5

## International Organizations

International actors offer EBMOs multiple indirect partnership opportunities. Most of the alliances they commit to are at the national level. Still, they offer some programs and databases that can be useful at the enterprise level. They can also support EBMOs with technical expertise. This section analyses three distinct categories of international actors currently implementing productivity-enhancing initiatives: United Nations Agencies, the World Bank and the OECD. The section narrows these actors' missions and objectives to focus only on some key examples of their commitment to the global productivity agenda, excluding the work that is not directly relevant for this purpose.

### 5.1 United Nations Agencies

Besides the International Labour Organization (ILO) and its wide array of tools to help EBMOs in their quest for higher enterprise and national productivity growth rates, other UN agencies address productivity issues, including United Nations Conference on Trade and Development (UNCTAD), International Trade Centre (ITC), United Nations Industrial Development Organization (UNIDO), and from the agricultural perspective, the Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD). One crucial aspect that private and public actors can work together upon is closing the gender inequality gap that drags productivity in most economies. The one UN agency focused on gender-equality initiatives in the private sector is UN Women.

### 5.2 OECD

The Organization for Economic Cooperation and Development (OECD) has at least 2 high-impact productivity initiatives that EBMOs can benefit from, especially in research and benchmark comparison among firms, sectors or countries. EBMOs should work closely with their members to divulge the main findings and statistics from these reports. They should also raise awareness of the importance of discussing the use and application of productivity measures. The OECD supports the **Global Forum on Productivity (GFP)**, which is a platform where participants can exchange information and discuss best practices. The group has a research program to investigate relevant issues, such as monetary policy, credit allocation and productivity; productivity and global value chains; zombie firms, exit policies and productivity; productivity dispersion and wage inequality, and productivity in the non-market sector (for more information visit the GFP Website). EBMOs with interest in the most recent trends related to productivity can also use the OECD as a source of knowledge and revise the **Compendium of Productivity Indicators**. Last published in June of 2019, the report presents a comprehensive overview of recent and longer-term trends in productivity levels and growth in OECD countries





and other key nations. It includes measures of labour, capital and multifactor productivity (for more information visit the [Website](#)).

### 5.3 The World Bank

The role of the World Bank as a development bank was discussed in previous chapters from this module. In addition to its value-added as a source of concessional financing, there are certain departments in this international organization, which can act as key allies for EBMOs towards designing and implementing a productivity strategy. For instance, the Doing Business Department provides useful and updated statistics about the state of business regulations and their enforcement across 189 countries. The EBMOs can benchmark the business regulations in their countries or cities, with the analysis provided by the Doing Business (for more information visit the [Website](#)). Additionally, the Innovation Policy Platform (IPP) is a useful jointly product by the World Bank and the OECD, to support policy analysis in the fields of science, technology and innovation. IPP also offers a statistical platform that gathers a great variety of innovation-related indicators across multiple countries (for more information visit the [Website](#)).

#### **SOME TAKEAWAYS FOR EMPLOYER AND BUSINESS MEMBERSHIP ORGANIZATIONS (EBMOS)**

EBMOs are not alone in their quest to nudge productivity at the enterprise and national levels. Strategic alliances can be formed with the relevant stakeholders presented in this chapter to strengthen EBMOs' ability to support their members in the pursuit of productivity growth. Consequently, EBMOs must identify the resources at their disposal to improve the accuracy and impact of their initiatives. There are multiple key partnerships that EBMOs can enter with stakeholders interested in productivity: Government Agencies, Development Banks (national, regional and international), Academia, Non-Governmental Organizations (NGOs) and International Organizations. Partnerships should be analysed on a case-by-case basis, as different contexts and available resources can prioritize policies and initiatives.

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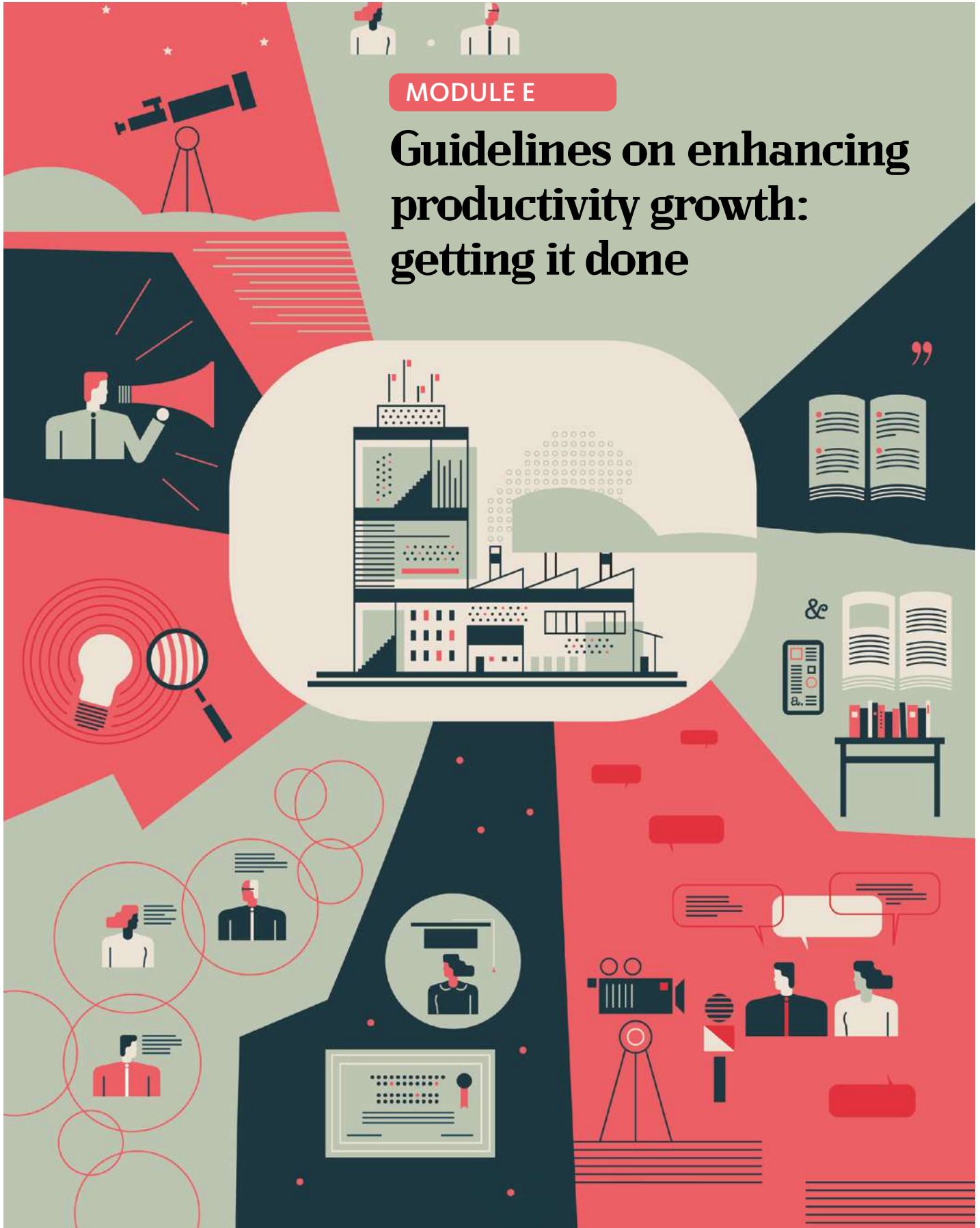
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MODULE E

# Guidelines on enhancing productivity growth: getting it done



# Putting in place a process that should lead your organization to prepare its own views and proposals to improve productivity

This Module introduces a roadmap of 10 steps to prepare your EBMO, not only to build a solid and coherent proposal to improve productivity but also to enhance the chances of it being taken into account by policymakers.

Addressing the issue of productivity of a country or an economic or business sector requires your organization to access reliable data, develop technical knowledge on the issue, have a grasp of the current situation in your country or sector, and expertise to influence policymakers.



STEP 1

## Assessing your institutional capacity

Assessing the EBMO's overall strength and organizational capacity is the necessary first step in ascertaining the basic competences, strengths and weaknesses of the organization to carry out an assessment or advocacy work, such as promoting a "Productivity Agenda".

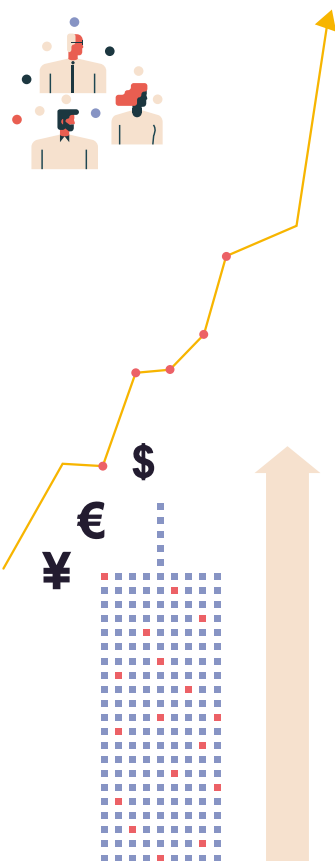
Conducting this type of assessment exercise might help avoid frustration and waste of resources by finding out which of the following situations you find your organization in, and what can be done to improve and get ready:

**1** Your EBMO does not have the basic skills/capacities necessary to embark on a process to improve productivity and influence public policy. Therefore, a work plan is needed that develops those skills and prioritizes the issue within the organization, among its members and in the business environment in which it operates. Basic capacity building of the organization needs to take place before embarking on this venture.

**2** Your EBMO has some minimum capacities to initiate a work process on productivity, but its capacity to influence public policies is limited. Therefore, it is necessary to develop a work plan to strengthen the capabilities of the organization that will allow it to pursue a productivity agenda.

**3** Your EBMO has a high level of installed capacities and there is a certain level of knowledge, skill and interest concerning productivity-related issues, but it needs support and work tools to fulfil its objectives. Identifying key allies and allocating resources in the right places will allow your EBMO to be effective with its "Productivity Agenda".

**4** Your EBMO has the organizational capacities necessary to implement its own productivity and public policy advocacy agenda and has professionals with adequate knowledge of the issue who are willing to collaborate and/or contribute to achieving those objectives.



In order to assess your EBMO's capacities, you may use ACT/EMP's self-assessment tools, available at the [EESE Business Tool Kit](#). These assessment tools will provide some insights as to the readiness of your organization's capacity to promote a productivity agenda, as well as offer some suggestions as to how to improve the institutional capacities of your EBMO.

STEP 2

## Embracing productivity as a priority



To be successful in promoting a “Productivity Agenda”, the EBMO should first embrace productivity as a priority. The Board should be made aware of the importance of productivity growth, to not only make member companies more profitable, but also as a key driver of sustainable growth of a country and a key factor for increasing living standards over the long term.

Productivity growth leads to better financial performance. This, in turn, enables enterprises to retain and hire more workers; improve working conditions; invest in machinery and equipment and in research and development of innovation, or in the development or updating of staff skills to expand production of goods and services and foster the growth and development of enterprises. Productivity growth also enables enterprises to become competitive and to have access to financing and international trade.

However, putting together a proposal to improve productivity at national level will certainly take up staff time and is likely to increase costs. This is particularly the case if you wish to engage consultants. Therefore, your Board must embrace productivity as a priority.

### You can build the case for a “Productivity Agenda” using the arguments provided in this Guide, for example:

- Evidence from 47 developing countries shows that 3.7 to 5.4 per cent of incumbent firms exit the market annually; these are conservative estimates considered as baseline indicators. This same study finds that 4 out of every 5 firms exiting the market are SMEs. Moreover, productivity is strongly correlated with firm exit, being less productive firms more likely to exit (Aga & Francis, 2015).

Net firm turnover (entry minus exit rates) is between 3-8 per cent in most industrial countries and more than 10 per cent in some of the transition economies. However, including micro businesses (1 to 19 workers) increases total turnover to between one-fifth and one-fourth of all firms (Haltiwanger et al., 2004).

- Enterprises with productivity gains, derived from improved management practices, have experienced exponential growth.
- An economy that uses its resources efficiently and increases its productivity can stimulate economic growth without necessarily raising taxes or public spending.
- When the business environment creates conditions for productivity growth, the economy becomes more resilient to external shocks.

- Increased productivity can raise an enterprise's performance without the need to make large investments, which is accomplished, for instance, through efficiency gains from improved management practices.
- Labour productivity gains are reflected in higher per capita income in OECD countries.
- A National “Productivity Pact” can increase cohesion in society.

Considering productivity as a priority will enhance the chances of successfully promoting a “Productivity Agenda” as it will allow the organization to allocate resources for that purpose. An official resolution/decision taken by the Board, acknowledging the relevance of the matter, provides a mandate to the EBMO's staff to start work on policy and technical proposals to improve productivity and assign responsibilities within the EBMO's staff to get the job done.

### STEP 3

## Identifying what needs to change to improve productivity

Once it has been agreed by the EBMO's leadership that productivity is a strategic issue on which the organization has to work on, it is important to know what needs to be changed in order to improve productivity. This may require a two-pronged approach:

### I. Learn what is said about productivity in your country.

This implies learning from available/reliable research, which are the most significant bottlenecks in the economy. The main rule of thumb for an EBMO is “Do not reinvent the wheel” – existing evidence-based research can be used to make arguments effectively. There are many reports that EBMOs can access. This will provide a better understating of what might be hampering productivity growth.

Moreover, the EBMO might also want to consider organizing presentations by leading experts on the subject matter. Exploring collaboration and partnerships with the leading academic institutions and research centres, as the ones described in the previous chapter, may result instrumental to this end.



For example, the World Bank's Global Entrepreneurship Monitor (GEM) Annual Report. This Report has been a key source of comparable data across a large variety of countries on attitudes towards entrepreneurship. National reports are available for a number of countries. GEM data also report on entrepreneurial activity rates of men and women and draws a comparison of gender gaps across countries.



## II. What are member companies identifying as productivity hurdles?



Canvassing your members to identify what they consider should be the EBMO's advocacy priorities to improve productivity. EBMOs should be able to identify the key constraints to productivity growth that members face by conducting surveys and organizing round-table discussions. It may be tempting to skip this somewhat tedious stage of research and argument preparation, as an EBMO may feel it simply “knows” what needs to be done and is anxious to start advocating that particular solution.

A danger of the ‘we know the problems’ approach is that it prematurely pushes the EBMO to the next phase of the advocacy process: direct contact with the decision-makers, media, and the larger public. Attempting this external persuasion without paying enough attention to preliminary research can backfire if the EBMO representatives are caught ill-prepared to talk about the specifics of their policy recommendations or fail to support them with credible evidence. It is important to think through the issue, define the problem clearly and then test it vigorously.

The initial issue may not be the major problem. It could turn out that the policy requirement is not the problem itself, but rather the way that the legislation has been framed in order to address that matter. The issues identified by the EBMO have to be concrete.

### STEP 4

## Setting priorities

There is a possibility that many issues regarding productivity may emerge from the analysis made by the EBMO. Therefore, there will be a need to prioritize. The approach should be to focus on a limited bundle of real constraints that hampers productivity (i.e., not everything) and that can realistically be addressed within a specific period.

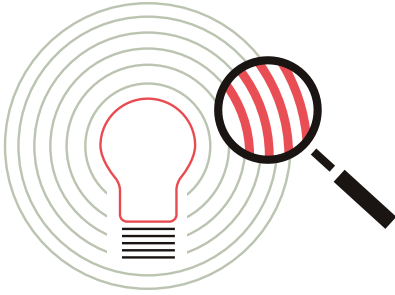
The “binding constraint framework”<sup>17</sup> approach relies on identifying the most significant bottlenecks in the economy at a given point in time and focusing efforts on alleviating those few constraints within the EBMO's capacity and sphere of influence.

This framework<sup>18</sup> is based on the notion that the basic set of principles such as respect for property rights, sound macroeconomic framework, investor protection and so on, combined with country-specific growth strategies are more likely to be successful in creating the environment conducive to productivity enhancement and inclusive growth.

The “do-it-all” approach is too ambitious. Moreover, it does not signal to policy-makers “where to start”, often resulting in policy effort being spread too thinly over too many different areas and has led to sloppy and unsustainable changes that do not have a positive impact on productivity improvement.

<sup>17</sup> This Framework is adapted from work by Dani Rodrik, Ricardo Hausmann and Andres Velasco John F. Kennedy School of Government, Harvard University: <https://growthlab.cid.harvard.edu/files/growthlab/files/growth-diagnostics.pdf>

<sup>18</sup> (2) Outlined in the ILO/ACTEMP Publication: Role of the EBMO in Growth and sustainable enterprise promotion, 2010.



The EBMO needs to focus on the most pressing policies and regulations, and only target proposals expected to have the largest impact on productivity improvement.

The EBMO should focus on assessing the nature and the size of the problem that is intended to be solved. This involves identifying:

- Which sector(s) will be most affected?
- Will it impact more on smaller or larger enterprises?
- What is the nature of the impact on each sector?
- Will it impact more on women-owned enterprises?
- How large are these effects?
- How long will these effects persist?

#### STEP 5

### Identifying reliable sources of data

Building a “Productivity Agenda” not only requires technical expertise and capacities of the EBMO, but also reliable information and data upon which to build the EBMO’s policy proposals. Below some ideas as to where this information/data can be found:

#### GOVERNMENT

Policy-making requires information about prior governmental action. If legislation or regulation already exists, then it is likely that the government itself can be a good source of basic information. Areas to draw from include:

- Statistical data from the Central Statistics Offices;
- Government agency reports;
- Transcripts of parliamentary proceedings;
- Minister of Finance budgets’ speeches;
- Commissioned scientific research;
- Public testimony;
- The advice of expert consultants and lobbyists.

The current growth national strategies (e.g. an existing national development plan) will provide a range of broader information and, more importantly, the policy direction the government is taking. It can provide useful information on the external factors explaining the country’s growth and poverty reduction pattern, the overall productivity dynamics in the country, the major challenges and opportunities, and the possibilities for economic transformation and diversification.

Previous growth strategies (previous national plans, major government policy announcements) similarly need to be analysed to see where the EBMO’s issues fit in – what was promised, what was delivered and/or what was not.

The current national development plan (or equivalent statement of government policy priorities) should be the starting point and should give the EBMO an overall view on the direction the government wants to take regarding the national economy.

### OTHER STAKEHOLDERS

The first and most likely resource for the EBMO will be other businesses, trade associations, privately funded Think Tanks, independent Business Membership and Research Associations (such as The Conference Board) and research institutions that work on private sector issues. However, there are many other sources of data and research and these do not necessarily need to be potential supporters. NGOs, trade unions, consumer groups, and the media may be interested in EBMO's issues, even if they have different ideas. Is it possible to source information from them? This could also provide information on what likely arguments against the EBMO's position may look like. In particular, source information from the interest group that advocated for the original policy/regulation.

This will be useful in analysing whether the arguments they used to advance the proposal stood the test of time and whether they actually came to fruition.

### DEVELOPMENT AGENCIES AND DONORS

Utilizing international indicators that often measure performance in a comparative manner will also be helpful in the **diagnostic analysis on productivity**. These indicators while incomplete and not without fault, are important mechanisms in triggering a 'policy conversation', while also contributing evidence to diagnostic efforts. There is also a comprehensive array of data across policy issues which would be beyond the reach of an EBMO (see Module D of this Guide on Strategic Partnerships).

## STEP 6

### Developing a research agenda on productivity enhancement

To effectively make the case for policy or regulatory change to enhance productivity, arguments need to be fact-based and supported by up to date and relevant evidence. This requires a holistic and comprehensive understanding of the constraints on enterprises, including constraints that may be specific to women-owned and managed businesses.

Even if an EBMO has identified a clear constraint on productivity and has unequivocal information for pursuing an agenda of policy or regulatory change, it still needs a wider perspective.



- What other issues impact on the constraint?
- Is the constraint time bound?
- Is it politically feasible to expect change?
- Who else is interested in alleviating this constraint?
- Who is interested in maintaining the status quo?

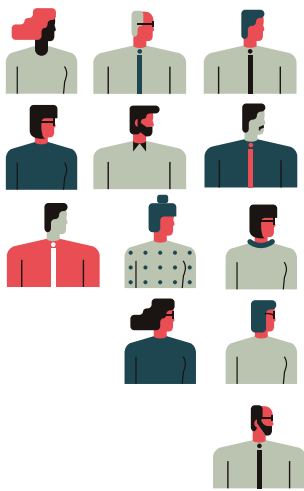
Effective and permanent research abilities will provide the EBMO with the answers to many of these questions. A permanent role of an EBMO is in many ways akin to that of a watchtower, continually monitoring the policy environment to identify potentially difficult issues for its member enterprises. Calls for regulatory change require well-researched arguments that can articulate the regulatory costs to enterprise and compliance costs.

This is vital for the EBMO's arguments. But equally important for the EBMO's strategic approach is to know how much money the government makes as a result of the regulation, and how much it would stand to lose by the changes the EBMO proposes.

Who else could lose or gain from the proposal? Gathering “political intelligence” or analysis and research will allow the EBMO to stay on top of the issues or anticipate opportunities for a positive policy change that could enhance productivity. The continuing analysis also permits the EBMO to define and track progress towards its policy goals for productivity improvement.

## STEP 7

### Working with others



As indicated in Module D (Key Actors), collaboration with others means that research and preparatory work can be shared. Different organizations can focus on different, but mutually-agreed areas.

EBMOs are not alone and have multiple possibilities to implement change with the support of other key stakeholders. Some partnerships may apply to different contexts, scopes and scales, whereas others may not. It is important that EBMOs identify the resources at their disposal to improve the accuracy and impact of their initiatives. Some important points that should be considered:

- Identify areas where an EBMO can add value. Do your research based on your mandate and your specific added value – your angle and what you want to know.
- Avoid duplicating what others are doing.
- Never lose track of the employers' priorities. What point do you want to prove?
- Know the limitations of research. For example, trying to ascertain the ‘total costs on firms’ is practically impossible. Do not burden your membership by asking them for detailed information that can be almost impossible to collect.

- Look for other sources of information. See whether data produced by others can be used by the EBMO for its own purposes.
- In determining whether collective efforts at research should be used, consider how valuable or not such an association may be for employers; for example if the research brings out things that employers may not agree with or does not want to be associated with – notwithstanding other useful elements of said research.
- Are there current opportunities or ones that might emerge in the near future that could facilitate the timing of the proposal?
- Can the EBMO's proposal be linked to other ongoing similar proposals to enhance productivity?

#### STEP 8

### Evaluating the likelihood of receptiveness of Government and other key actors to EBMO's proposals to enhance productivity

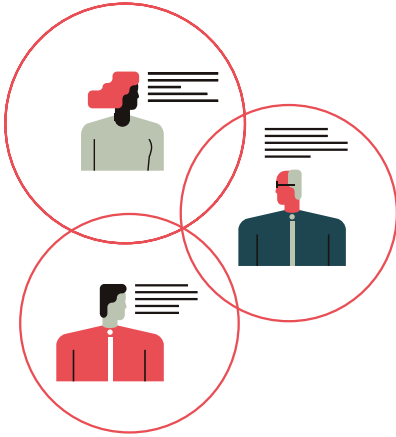


When preparing their policy proposals for productivity enhancement, the EBMO needs to assess broadly how its proposals are likely to be received by other key actors, particularly within the government. The following points may provide the EBMO an indication of how positively or negatively its proposal is likely to be received:

- Can the organization's proposal be effectively procured?
- Can it include lessons learned from previous reform efforts?
- Can it point to workable models from other jurisdictions?
- Who are the likely losers and address genuine concerns in its proposal design?
- How strong are the groups that will financially or otherwise suffer from a change in the status quo?
- Can their efforts to block reform be portrayed as self-serving?
- Can reference to indicators in the employer's proposal help in making its case stronger?
- Are there current opportunities or ones that might emerge in the near future that could facilitate the timing of the proposal?
- Are there other champions for the change or proposal that it can tap on to help make its case?
- Can the employers' proposal be linked to broader political economy changes that would be favourable to its chances of acceptance?
- Can the proposal be directly linked to job creation?
- Have preliminary discussions taken place with any Donors or development agencies that could assist the EBMO in its efforts?

**STEP 9**

## Identifying who is who in Government to advance a productivity agenda



It is important for EBMOs to know where their issues lie with-in governments. Which Ministries and agencies have influence on the process and changes that need to occur for the EBMO's proposal to advance, and which ones can be positively influenced by them.

EBMOs need to advocate on behalf of the business community for policy and regulatory change that will ensure conditions for productivity enhancement to occur. Effectively influencing government at all levels is therefore very important to the EBMO's mission.

### Different levels of government to influence

The government can operate at many different levels - national, provincial or local. Central or national governments set the national framework (e.g. the Constitution) and direction (e.g. National Development Plan) for the country, but other levels of government undertake activities that also affect enterprise development. These may be provincial, state, regional, local, town or village governments, authorities or councils.

Local public officials are often the ones who implement decisions taken at regional or national levels. As such, they can make or break the success of an EBMO's efforts in practice. Thus, strengthening dialogue between central and local officials often is very important.

The level of government will greatly influence the EBMO's approach to advocacy. Strong local government would suggest a focus on developing the advocacy ability of regional branches of the EBMO. When mapping-out government institutions that could be tapped by EBMO for promoting policy change on productivity enhancement, the following questions could be useful:

- Who provides the most practical administrative functions for business (e.g. licensing)?
- At what level are the elected representatives that EBMOs could lobby?
- At what level is the provision of information on enterprise development policies done?
- Who has the direct regulatory role?
- What is the extent of decentralization of decision-making?
- To what extent do local-layers of government have responsibility for implementing decisions taken at a national level?
- How effectively do layers of government work together?

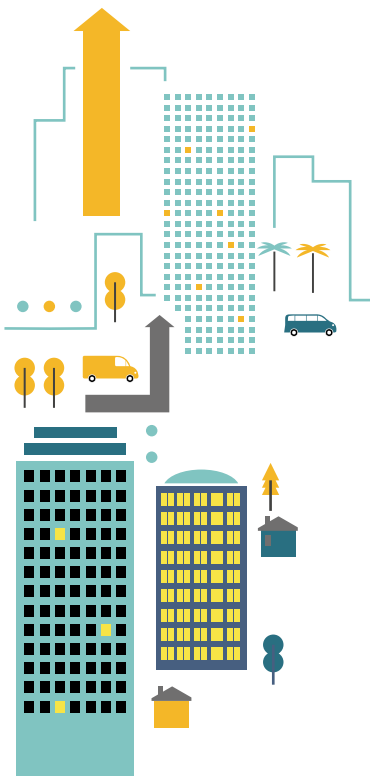
## Which arms of Government to influence

When analysing the approach to resolving productivity constraint to enterprises at macro level (not enterprise level), EBMOs need to take into account that the source of the constraint - law, regulation or administrative function –may fall within the remit of several government agencies, at perhaps different levels of governance.

Therefore, the EBMO in the first instance needs to identify which Ministry is responsible for the area that needs to be changed. This is usually straightforward. The Education and Training Ministry is responsible for skills' policies and initiatives; the Labour Ministry is accountable for labour institutions and laws, just to mention a few examples.

All government Ministries are relevant to the EBMO, as from time to time issues may emerge that are within the purview of Ministries that are not usually the first point of reference in government for an EBMO. However, an EBMO's proposal may well fall within the remit or affect several Ministries, so all, to different degrees of intensity, need to be targeted for engagement.

The EBMO needs to take a holistic view of government and develop a wide network of contacts with officials across ministries. Policies increasingly cut across different areas and officials from one department may take a different view to officials from another. The EBMO can influence both. The EBMO needs to maintain and foster close and deep relations with officials at all levels in the key Government Ministries that the EBMO interfaces with, such as Production, Finance, Planning, Trade, Education, and Environment.



## Identify allies in Government

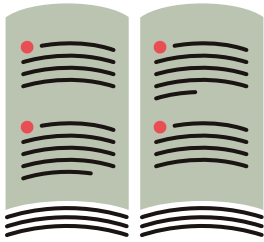
Public sectors are rarely homogenous in their willingness or capacity to engage in dialogue. There will often be wide differences between different levels of authority, agencies, departments, and regions.

Tensions (turf fights) between various government departments are likely to occur as well. The EBMO can use these dynamics to its advantage but needs to bear in mind that relationships with all ministries need to be maintained over time.

The fact that a government has multiple interests and different Ministries, with different and occasionally competing views, also creates difficulties for the EBMO in its relationships. The most common cause of governance failure is the lack of coordination across multiple legal and bureaucratic jurisdictions, which leads to excessive and overlapping demands on businesses. Outdated regulations and inefficient regulatory techniques continue because there is no accountability for their performance and no review and updating process in place.

The most important officials are the key decision-makers within the main Ministries. These individuals need to be cultivated and contacts continually maintained. However, the EBMO also needs to identify the lower level officials who actually draft the policy recommendations. Both these types of officials need to see in the EBMO an important resource for their work and its potential impact on the productive side of the economy.

## Selling EBMO's value to the government



The EBMO's advocacy main goal should be to become part of the policy-making process so that they can contribute to shaping policies, laws, and regulations that affect productivity. This implies having good working relationships with target policy-makers (the targets may change from issue to issue) and their staff. The EBMO staff should establish good relationships with public officials and should be able to influence their perception of issues through technical argumentation and by providing fact-based information.

Business views can play a vital role in helping governments improve the investment climate and in the better design of policy reforms that could affect productivity. As key actors in the economy, enterprises, through the EBMO, can feed the vital 'raw data' to assist policy formulation.

Where a good relationship between the EBMO and government exists, it sends a positive signal to investors that the government listens to productivity constraints and to challenges facing the private sector. Consequently, it can be assumed that it is more likely that the government will devise sensible and workable policy choices. When governments and businesses are mutually distrustful and uncommunicative, investors lack confidence and make decisions based on that lack of confidence.

The best way an EBMO can develop robust consultative mechanisms with the government is by showing that its contributions add value to the policy development process. Therefore, it is important for the EBMO to be capable of bringing research, analyses, survey data, tested views, ideas, and proposals that government can see as helpful to it in its policy-making role.



STEP 10

## Tracking progress of employers' agenda on productivity

EBMOs need to measure the impact of their policy work. They need to know how effective they have been in meeting their goals towards increasing productivity. In some cases, this can be straightforward and easily measurable. However, this is not always the case as the relationship between cause and effect can be technically difficult to measure. A policy objective may have multiple goals and be layered over a period of time. The relationship between actions and the measurable impact can be impossible to gauge – particularly where other policies influence.

A whole set of interrelated activities that are broad in scope may impact on a given policy or regulation that affects productivity. As the EBMO widens its scope to deal with the issue, the harder it becomes to measure its impact because it is tougher to isolate cause and effect. It is no longer a simple linear relationship but a complex set of them.

In this respect, it is more important for EBMOs to have learning systems in place, for adapting to complex contexts, than it is for them to seek conclusive proof of impact which may well be impossible to definitively prove.

### Approaches to monitoring and evaluation

Monitoring and evaluation are key activities for keeping EBMO's advocacy initiatives on track, and for assessing the changes achieved based on its stated goals. Effective monitoring and evaluation require careful planning.

Advocacy activities often need to be adjusted, revised and re-directed. Such changes, however, should only be made based on good monitoring data. For example: What new information has come to light to warrant a change in approach? Have political conditions changed? Have target audiences changed their opinions?

Monitoring should focus on tracking outputs, activities, and inputs; monitoring tracks mainly the use of inputs (activities) and outputs, but to some degree also tracks (intermediate) outcomes. Evaluation, on the other hand, takes place at specific moments and allows an assessment of a policy's progress over a longer period of time; evaluation tracks changes and focuses more on the outcome and impact level.

Output measurement shows the realization of activities. Outcome measurement shows to what degree direct objectives and anticipated results are realized. Impact assessment shows the degree to which the overall objective or goal is met.

For advocacy, outputs are usually changes in knowledge, awareness, and/



or opinion of target audiences. Evaluation of advocacy focuses on impact and effects. Evaluations assess the extent to which the EBMO’s policy goals have been achieved. The unique characteristics of advocacy make it necessary to think in new ways about how evaluations should be carried out.

While policy-makers may approve new and favourable policies, or revise and change old ones, these changes may take a long time to yield results that can be measured, that is, to yield impact changes, and this may have consequences for the timing of evaluations. Impact may need to be measured in a post-evaluation, after a certain period of time has passed, rather than in a final evaluation of an advocacy initiative<sup>19</sup>.

### Track progress

Whenever an actionable issue (not a specific longer-term policy goal) stays on the agenda for too long (say, for more than six months), this should be a warning sign that something has gone wrong.

Typically, it is the result of mistakes made earlier during the advocacy process, whether due to insufficient information, time, or staffing. The EBMO should reevaluate its strategic tactics and positioning of the issue.

A complicating factor is the dynamic nature of advocacy and policy work, as contexts and key players are always changing. No matter how clearly an EBMO articulates a pathway to a desired long-term policy change, it would be virtually impossible to name, predict or explain all the variables that might be important within that change process<sup>20</sup>.

What an EBMO thought was a realistic expectation for change last month might now have become very unrealistic given new circumstances. One of the key challenges in evaluation of advocacy and policy work is identification and definition of short and intermediate-term outcomes; that is, what changes might occur on the way to longer-term change.

When deciding a course of advocacy action the EBMO needs to know at the very beginning its direct and indirect goals and objectives. What does it want to change and how is it going to achieve these changes?<sup>21</sup>

<sup>19</sup> Jane Reisman; Anne Gienapp; Sarah Stachowiak: A Guide to Measuring Advocacy and Policy Organizational Research Services; Annie E. Casey Foundation.

<sup>20</sup> K. Guthrie, J. Louie, T. David, and C. Crystal-Foster: The Challenge of Assessing Advocacy: Strategies for a Prospective Approach to Evaluating Policy Change and Advocacy. Prepared for The California Endowment. Woodland Hills, California: The California Endowment, 2005.

<sup>21</sup> IFC: Building the Capacity of Business Membership Organizations Guiding principles for Project Managers, 2005.

<sup>22</sup> Geeta Batra; Mark Bardini; Benjamin Reno Weber: Measuring Performance in Business Enabling Environment Projects, SME Department, World Bank/IFC, 2005.

### THE FOLLOWING MATRIX (COMPOSED OF FOUR ELEMENTS) CAN HELP TRACK THESE GOALS AND GAUGE SUCCESS.<sup>22</sup>

- The first element is “Inputs/ Activities”, these refer to financial, human, and other resources needed by the EBMO to progress the issue as well as particular actions or activities needed to advance it.
- The second element is the “Output”: these are the direct result from the EBMO’s activities and/or inputs. These are results that emerge in the short term – rather than more intangible longer-term results.
- The third element is the “Outcome”: this is the expected effect directly caused by the EBMO’s actions. This measures the achievement of the EBMO’s goals and objectives.
- Last is “Impact”: the desired final change; this measures whether the EBMO has achieved its goal.

EXAMPLE

## Tracking outcomes and impact



The agro-industry (particularly apples) is extremely important to the economy of the fictional country of Summerland, both in terms of employment and as a generator of foreign exchange. However, the competitiveness of the industry in both domestic and international markets may be hampered due to the combination of factors. The EBMO has identified two issues for its advocacy efforts. One is the

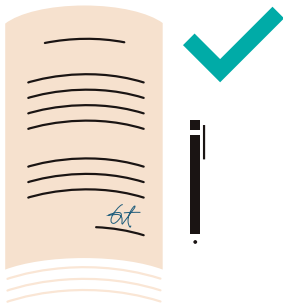
removal of an obstacle: this relates to the business environment as the authorities are arbitrarily fining companies transporting fruits and vegetables by misinterpreting the existing sanitary legislation. The second is an opportunity for the industry to grow in foreign markets. In its research, the EBMO has identified the importance of eco-labels to foreign investors and sees an opportunity for the industry.

The following is a matrix example of how - having set out its objectives – the EBMO can map progress.

ACTIVITIES/INPUTS	OUTPUT	OUTCOME	IMPACT
<ul style="list-style-type: none"> <li>Organize with government a team of experts to assess current sanitary legislation</li> <li>Assess the possibility of certifying apples with eco-labels to expand the export markets</li> </ul>	<ul style="list-style-type: none"> <li>Clear definitions of rights and responsibilities under the law for companies engaged in apple production and transportation</li> <li>Proposal to include in the legislation references to certified eco-apples</li> </ul>	<ul style="list-style-type: none"> <li>Instruction given to all enforcement agencies outlining exactly when, where, why and how they can hold up the operations of fruit transport companies</li> <li>Establishment of means of recourse for transport companies wrongly fined.</li> <li>Modifications to the law passed in Parliament and implemented allowing for certification with eco-labels of apples</li> </ul>	<ul style="list-style-type: none"> <li>Growth of apple exports and increased investment in the agro-industry sector</li> <li>Business Environment in the agro-industry Sector has Improved</li> </ul>

## Application of policy

Application is the key to success. Governments need to deliver on the commitments they have undertaken. Ultimately, success in maximizing the private sector's contribution to economic growth and job creation will depend on the willingness and capacity of local and national governments to create and implement the appropriate policy frameworks that foster productivity.



It is pointless for the EBMO to have developed and researched constraints on productivity growth and private sector development, mobilized its members behind an issue, and developed counter-proposals for government to accept the premise of that argument and then do nothing.

Accountability tactics aim to hold government accountable for their previously stated policies or principles. Once a government has publicly committed itself to a principle, the EBMO can use those positions, and their command of information, to expose any distance between words and action.

One of the dangers of the policy process is that, once the key decisions and instruments are adopted, there is an assumption of “job done”. Fatigue can reduce participation in the implementation phase. Attention can shift away to new challenges.<sup>23</sup>

If the EBMOs are seeking a regulatory change, it is important to verify which arm of government would be in charge of proposing/making that change. It could be that the sought change depends on the willingness of the arm of government that should lead and implement the change. In many cases, this will be the exact case. Insiders who want to preserve the status quo are the ones with the most to lose from a change.

## Evaluate Efforts

At the closing of the proposal for productivity boost, the EBMO should systematically evaluate so as to build on ‘wins’ and incorporate ‘lessons learned’ into future advocacy efforts. EBMOs should ask the following questions:

- Has the issue hampered productivity changing it in any way?
- Is further research required?
- Did the organization set a time-frame for resolution or progress on the issue and was this respected?
- Did the goals or timetable need to be revised?
- Did the organization identify the correct advocacy targets?
- Did the organization succeed in reaching these advocacy targets?
- Did the organization have the right messengers?
- Were the target recipients responsive to the EBMO’s message?
- Did the message need to be modified or fine-tuned?
- Did the organization’s advocacy tactics prove to be effective?
- Were the financial and human resources adequate?
- Were coalition opportunities taken advantage of?
- Did coalitions operate effectively?

<sup>23</sup> World Bank: World Development Report, 2005.

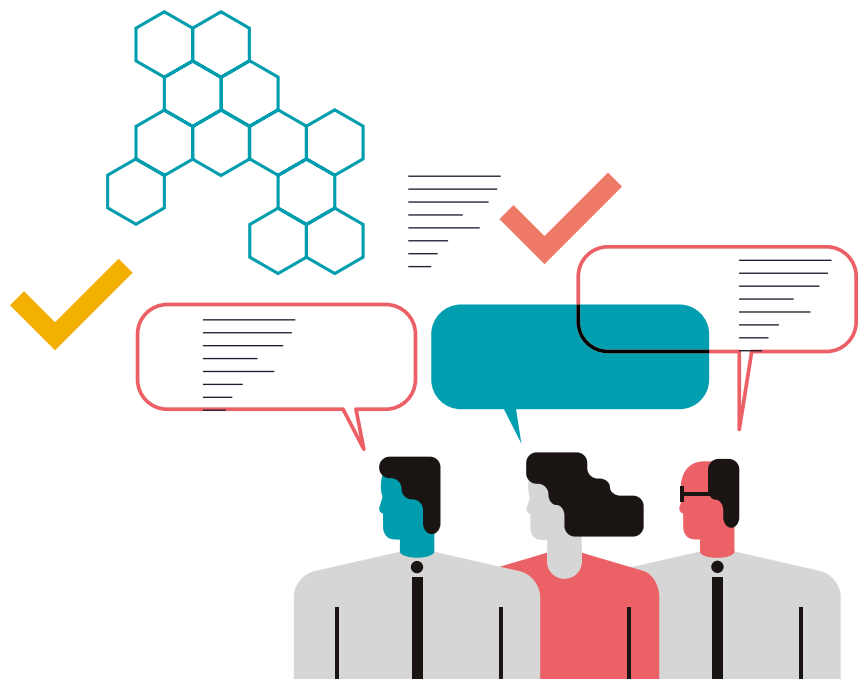
## Measure impact through an Issue Tracker

This is a simple tool that an EBMO can deploy which tracks the progress of an issue. Its utility is both for the organization itself, as it can demonstrably and chronologically see its steps on an issue, as well as a useful way to keep members informed of the organization's actions. Often progress on an issue can take much time, sometimes there are regressive steps backs as an issue falters, while much effort can be quietly taking place behind the scenes.

The Tracker has five columns: the first describes an issue; the second summarizes the EBMO's recommendations on the issue, the third is for tracking progress. The fourth outlines the current status of proposals (e.g., firm commitments, sub-decrees signed, laws submitted to Parliament). A fifth column can be added to mark achievements and closure of that particular action.

The tracker can be used in a precise or loose way. If it tracks extremely specific recommendations, it provides a sure means to measure the progress of each proposal, which is essential to the process. This can additionally help with member communication.

However, it must be taken into consideration that a policy advocacy process is often a politically sensitive mechanism. Being too prescriptive within the Tracker or focusing too early on desired outcomes (for example policy or regulation changes) may undermine the overall organization's goal.



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