Episode two Vivian Hunt

Speaker Key:

FC   Fiona Cannon

MP   Maggie Pagano

VH   Vivian Hunt

FC   Hello and welcome to episode two of the Agility Mindset Podcast. I'm Fiona Cannon, Director of the Agile Future Forum and Group Director of Responsible Business, Sustainability and Inclusion at Lloyds Banking Group and I'm joined today by Maggie Pagano, business journalist and in this episode Maggie has been speaking with Dame Vivian Hunt, who's the managing partner, UK and Ireland, at McKinsey and Company. McKinsey and Company were one of the founder members of the Agile Future Forum and this episode focuses on looking at the research that McKinsey did for the Agile Future Forum on the business value of agile working which is of course our central focus in this podcast and something that traditionally has been seen as an employee benefit.

MP   Yes, the reason I was so keen to talk to Vivian was that McKinsey have done the research for you at the Agile Future Forum and their own productivity research to show what a great impact agile working has on the workforce.

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     A huge welcome to Dame Vivian Hunt. Thank you so much for joining us. Vivian is managing partner of McKinsey for the UK and Ireland and has done masses of work on all the big issues of the day, including agile working, productivity... and today we're going to talk about why agile working rather than flexible working is so important to the economy and to look at how some industries have adapted this and how we can do more to improve.

     So, Vivian, can you explain first of all why we went from, through the 70s and 80s, the notion of flexible working and why that suddenly today is agile and are they different?

VH   They certainly are different. Flexible working emerged from a norm of an eight-hour shift or work day, exceptions to the normative rule - I'm going to work part-time; I'm going to leave early; I'm going to maybe start early - and all of it was around the expectation that you were supposed to be in work, at your desk, at your shift station at a certain amount of time, and anything that you did to work

flexibly - quote, unquote - was compensating for the time that you weren't on your normal shift.

Sometimes when you have a normative assumption you don't even know it's there; it's a bias in our working practices because of the eight-hour work day, which literally comes from the industrial era of shift working; we've applied it to all different kinds of work. So flexible working was an initial step forward in the sense that it just allowed the operating model and employees and employers to begin to move a little bit but it is still quite rigid, it's still effectively measured in time or a price or wage per hour.

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And what we found is that the modern world, as the nature of work was changing - the economy was becoming more services-led, there are many more two-career families, much more mobility, not only across countries but also within a country; the greatest amount of migration into a city like London or Manchester is from the student population and/or people from other cities.

So in this world of changing work the nature of the work we do, the technology platforms on which they sit and people who also have more complex and busy lives - think about a two-career couple, or children and families who have needs; think about caring for parents who maybe are no longer local to you - in this interconnected, broader world, simply being able to come in an hour later or work an extra 30 minutes, you know, is no longer real flexibility.

And so we wanted to explore, what ways could you change the nature of work that could produce better results and outcomes because most people are working quite hard, they're working to the maximum of their capacity and yet we still need more productivity and more output from the work that people are putting in.

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MP   I want to go back to the flexible but just something you just said then; isn't there a huge irony that actually with social media and all the other sophisticated technologies we have we are working longer hours and yet productivity is the lowest that it's ever been, certainly in the UK and we're lower? Why is that? Why are we working longer but we're producing less? Something very odd is going on here.

VH   I don't know that it's necessarily technology's fault. Technology's enabling us to work in different locations with different patterns, share information, but in a sense when information was limited to maybe what was only in my head or on my laptop or immediately available in a manual or a company-specific data set, it put bounds on the nature of the analysis we can do.

If we look at some of the work that we've done around productivity we're able to do over 30 countries, over 95 countries quite efficiently because we can access the data in different ways. So at one level you have new data sets and new analytics tools that give you great power to come up with better and more important patterns, but on the other hand too much data, too much analysis, too much churn can lead to too much work, inefficient work and saturation and inefficiencies from employees.

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I'm concerned when the office is too quiet in the evenings because I know my colleagues are working hard for our clients but I don't want them working inefficiently at home and in isolated circumstances. So technology is a powerful, effective tool if you still use business intelligence and real problem-solving through the technology and the new data sets. It really isn't just about working more or being able to work anywhere.

MP   Can we just go back to the flexible? It's not just a change in name at all, is it? It's a change totally in the conceptual approach to work. As you said, the industrial revolution really; that's - we've been working in the same manner since over 100 years ago so we've had this eight-hour day. Flexible was seen perhaps for women to be helpful to bring women back into work and it was always seen traditionally as a cost to the employer as well, which I think's a very important change psychologically that we've got now. Employers now such as yourselves see agile working as something innovative and actually more progressive, more productive. So how do you equate those two, how do you get the people to be thinking in a more agile way?

VH   Flexible working by its definition is seen as a cost to the employer so it's a benefit to the employee in terms of being able to maybe schedule their work and their working pattern differently but it still was viewed as a net investment or a cost to the employer.

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The evidence for it being addition to productivity and a benefit to employers was actually poor and so some of the research that we did with a number of British companies to look across how you could understand and try and measure the benefits of a more agile working practice...

So i think you're right; previously it was seen as an employee benefit that was an investment by the employer and therefore a cost. What we wanted to really test in the Agile Future Forum and the agile working research was, is, are there more benefits to working differently and can we quantify them in such a way that employers would be confident enough to be proactive in offering a wider range of flexible working norms.

MP   So we've looked at flexible working and we've seen how that is so you explain to me, Vivian, what you really mean. Imagine you're talking to the man on the street. What do you mean by agile working and why should he do it - or she?

VH   Well, agile working has four components. First, what is the job, what are the tasks that need to be done to complete the job? And it is looking at it not just in terms of a job title but really what is it that you do in the course of a day so understanding the nature of the work and the tasks in a little more detail.

        The second major element is who, what person is doing the job in terms of their skill set and how do you better match that.

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        The third is when the work is done, the scheduled hours and rhythm of the work that needs to be completed and the fourth is the location of work and we found in a more modern definition of agility you looked at all four components.

        A previous definition of flexibility really just looked at when you worked but you were basically doing the same job in the same location in the same way but maybe with different hours and that was viewed as flexibility. With this broader definition you're looking at all of the things that could change about a job; the nature of the tasks, who does that job, when you do it and where you do - the location.

        And we challenged 15 different employers in the agile future forum research to try and have a different mix of all four of those variables and see if we could come up with better results. It was a hypothesis and we wanted to test it across different vectors [or sectors].

MP   And what results did you find?

VH   Well, we found that the economic benefit was significant and the - across all of the examples we saw between a three and 13% increase in the productivity of the total workforce. There was not a single example where there wasn't a benefit - number one - and, two, between three and 13% is really significant. If I could say that you could save 3% of your workforce labour costs or complete a task in 13% more time [sic] that's a really material benefit in terms of added productivity and cost savings.

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        The other thing we learned is that the benefits extended well beyond cost; the value of the cost savings was about half, about three or to 7% of the total examples that we looked at, and the remaining economic benefit came from improvements and innovations in working practices. When you challenge teams of employees - and it really was normally the people doing the jobs, not the

managers - but when you sit down and problem-solve and say, how could we actually do your job or this job differently, they come up with some terrific ideas for how you could actually innovate in different ways, have better scheduling and planning.

If I think about the example of McKinsey, we implemented a programme called Take Time, where we allowed employees to tell us when they wanted to take time off during the year for any purpose. You typically think about a leave as a maternity leave or a sick leave, which is - has to have a reason and secondly it has a defined, set period that's normally scheduled, frankly, by an insurance company or an employer; it's got nothing to do with what the employee might need.

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And we simply said you can take whatever time you need to do whatever task or requirement you have. That could be writing a book, could be looking after an older parent, could be a maternity leave, could be shared parental leave, it could be mental wellness and health. But just let us know when and what you want to do.

MP   That's quite revolutionary.

VH   It felt scary at the time, I have to tell you, as a leader.

MP   I can imagine.

VH   But it was viewed as very progressive and we got some terrific responses. First there was overwhelming take-up. Today in our office over 60% of all of our employees are using some form of Take Time. They're using it for a wide range of reasons; writing books, visiting parents, maternity leave, shared paternal leave, rest, mental renewal.

And what they tell us is when they'd like to take the time and why. I think in all cases we approve the time off; we're not judging or evaluating whether it's a valuable use of time. And oftentimes - subject to statutory requirements - we then spread the pay and salary and smooth it over the year.

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MP   Okay, divide it out.

VH   Exactly, so...

MP   So they're not at a loss.

VH   Exactly. Well, you can plan; you can plan your year and you can plan your week if... It's one thing to say you can take time off whenever you'd like but if I take

time off and then I have a dip in my salary or I can't meet my requirements very few people are going to take advantage of it.

And we found that by smoothing the salary, by planning a more predictable schedule our colleagues were able to tell us more often and more reliably when and why they wanted to take time off. We had a higher rate of approval in flexibility so our colleagues were more satisfied but we also were better able to match our planning for our staffing so that we could better match the capacity of our consulting and office staff with what the requirements of the office and our clients were.

Normally we're not that precise about our staffing and scheduling, so the fact that 60 or 70% of the office can give me an annual schedule ahead of time; it helps me better schedule so that tighter matching then drives an efficiency benefit.

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MP   Fascinating. What is the longest time that somebody has asked you and have you set a time, could you take six months because you want to learn Latin American dancing and go to Cuba or something? I mean, would that be seen as frivolous or does it matter what you choose to do?

VH   No judgement; we don't judge what people are choosing to use the time for. We just would like to know because, number one, you often learn something about your colleagues and employees and we want to celebrate the different choices and diverse profiles and interests our colleagues have. It's often motivating to other people just to hear the stories of climbing the mountain or walking the marathon or how you helped your mother through her illness or how you managed your maternity leave.

We have some colleagues who want to take less time; you know, they'd like to come back from maternity leave more quickly; it's their third or fourth child; they have a stable system at home and they would rather give that time to their partner so that he or she can spend more time with their family.

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So you often learn or are inspired by the interests that people have that complement to and motivate them for work. But equally important in terms of the economic benefits, it allows us to better match supply and demand and do the tactical planning and when you apply that to even more automated or routinised types of work - the case example that we did with Ford or MTM or call centres - you can get a really significant efficiency benefit.

MP   How quickly do you think this sort of thinking and approach to the future of work is going to take off? Are we at the cusp of a revolution?

VH   We are certainly mid-flight. The first thing I'll say is simple examples go a long way. Most businesses, if they hear a good idea, will take it up if they have the time to implement it. We speak often about the relatively lower level of technology adoption, particularly for SMEs in the UK, or if you have ten good ideas for a manager why don't they do it; well, they're managing, they're trying to lead their business, they can probably do one or two things well a year.

A mid-sized business of 50 or 500 employees doesn't sound like a big business compared to a FTSE 100 business but it's still a significant operation and so you can do one thing or two things a year, so with the agility work the AFF team has put together a very simple website, a very simple set of practices and policies so that you can download an agility checklist.

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MP   Or a tool list or something.

VH   Yes, it's just an example and case study so that you can, one, be confident that other businesses like you have used the tools and been successful, find simple ways to begin to apply it and, to put it simply, try one or two things in collaboration with your employees and see if it worked. We wanted to make it very accessible because we know most businesses can take on one or two new things at a time and not overwhelm businesses, large or small, with the notion of a complex framework.

Agility involves more variabilities than just time so it's different from flexible working; that's why we wanted a different name, we wanted a different positioning for it and secondly it's something that you can pragmatically get started on and see benefits.

And in every single one of the case studies we saw that and all of those case studies are available online with the Agile Future Forum.

MP   I guess it takes a hugely confident CEO or leader to trust not only experimenting with these ideas but his work - his or her workforce. Have you found that most of the people who've been perhaps most interested in taking up these ideas have been quite forward-thinking or is it really just finding out about it, people have got to learn and once they learn and understand it they're quite keen to adapt?

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VH   It's a combination of the two. I think it is - for larger businesses the quantum of the productivity challenge facing British business is so large that we have to find new working practices in order to be able to address it. For smaller companies it is much more what their management bandwidth is, how many ideas or new ideas can I take on this year; and the hope is that they could take on one or two and that agility in collaboration with their workforce is one of them.

But larger businesses face a much more significant productivity challenge and you actually can't fix the problem unless you work at it at a system level within your business. What we know from the recent report that we've done about the UK's productivity puzzle is technology and the expectations of both efficiency and cost benefits from digitisation and automation but, more importantly, the application of AI, better problem-solving with my business, means that there's a very high expectation that these new technologies will bring business benefits and if you have a large employee base, a complex business and a complex geopolitical situation you have to take a systematic approach to improve it.

That issue is very urgent in the UK; we know from the recent report that productivity growth is effectively flat in the UK. Before the financial crisis it was about 2%, which is low but was probably second from the top in the G7. Today we're right at the bottom both of the G7 and the OECD at 0.2 so it fell from 2% to 0.2%, far below our historical long-term average of 2.4% and also far below other countries.

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So we have a productivity puzzle in the UK and if you're running a large business you have to take a more systematic approach to fix it because the quantum is just so big.

MP   And the UK is absolutely an outlier in this and it's astonishing; we're lower than Norway, Sweden, Ireland, Canada; we're right at the bottom, aren't we? Why is that so over the last ten years, is it because we've not had the confidence to invest? Is it that our tax system doesn't help small companies with R&D? You know, there are very specific, because I know - and you've just - we'll talk about it in a minute - you've just joined the Industrial Strategy Council, headed up by the Bank of England's economist, Andy Haldane, to look at this puzzle.

We know that we have some fantastically productive companies, particularly those high-tech, life-science up in Cambridge; 40% productivity; but we also have some of the lowest. Why have we got this mismatch? Because it's not across the board, is it?

VH   It's not across the board but there are some common factors. The first is a flexible labour force - and I mean flexible in terms of literally being able to move around and have multiple skills - means that oftentimes you can substitute labour for capital so if I need a technology investment to be able to meet new demand, I'm a growing mid-size business, hiring a couple of extra people around the holidays, around demand peaks is easier and more reliable than investing in new technologies to reach even more customers.

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And when you compare UK businesses, particularly small and mid-sized businesses, to businesses in Germany and US what you see is that they tend to have less technology investments than others. The second is we have an older workforce, and that means that - and relatively full employment so that means that we have to reskill the people that we have and if you combine that with the later pension age it means that nine out of ten people who are in the British workforce today will probably still be at work in the next ten years and that applies if you're 25 the same as if you're 55.

There's also value and a lot of positive power in work so that's not a bad thing but you do have to update and renew your skills to be able to do that, so a focus on education, training and skills, bringing in, of course, the young population but, equally important, reskilling and updating and modernising the employees we have is one of the biggest factors.

Accelerating the adoption of new digital technology and skills; we have one of the highest levels of digital access in the UK, but one of the lowest levels of applying digital productivity tools in our businesses so we have to get to the next application of digital in business, not just being digitally accessible or online.

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MP   Do you think that requires government intervention or incentives? Because, I mean, you're right; Germany and particularly France for example; they have a very rigid labour market and it's very expensive to get rid of. We have a very cheap labour market and we don't have to pay such huge costs, which is why people have not been capital-intensive but labour-intensive. So how do you change that mindset? I mean, just - we have got all the technology but why...? You know, the small SME up in Leicester or whatever; he'll just continue to get cheap labour, won't he, unless there's some sort of incentive.

VH   My first thought is, adding labour instead of capital is a diminishing return; it works in the short term; it doesn't work in the long term and it also requires you to have a higher growth ambition. So if I want to support more investment or, for example, export a little bit more then I can add labour to help that but at some point I'm going to need a customer tracking system, a CRM model; I'm going to need a more sophisticated cloud-based tracking system to be able to do that.

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So up to a certain point more labour can help you with more demand but beyond a certain point you actually can't grow further so one is businesses that have ambition and really want to grow are going to need technology step-ups to be able to achieve that and I think most business owners know that; they just want technologies that are easy enough and digestible enough that they can actually

apply them in their business and not feel that the technology is a distraction or hurts their ability to grow.

All three are important; education and skills and training of the workforce that we have, particularly for larger businesses that can make those technology investments - you know, industry trains industry. The government can help by positive incentives but industry has a huge responsibility to train and upskill workers and if every one of those workers doesn't happen to stay in your company that's okay, it's still a trained worker, normally in your local environment, local area and that still is a net benefit to the economy.

Second is this application of digital tools and skills at the level of business productivity, not just at the level of digital access and finally exporting more. The UK is an incredibly attractive and interesting place in terms of the products, services, innovations that it has and there's no question that particularly our SMEs could export more and a small increase in exports would make a huge difference for the British economy.

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MP   Just to sort of draw together your thoughts, Vivian, how would you persuade the CEOs of some of these smaller companies we're talking about - and large too - that agile really is not just, if you like, another fad, is not another, you know, fibre-optics of the 70s, we all work from home, remote but this is really something terribly serious and can really be transformative of their businesses?

VH   It's very clear that most businesses want to grow and so I think most businesses are motivated by positive opportunities to grow. If you imagine that a business like yours could get, let's say, a 5% improvement in its productivity from changing some of its practices what would need to be true to capture that benefit?

Sit down with your management team and groups of employees to say, what would need to be true for us to either grow another 5% or save this amount and reinvest it in the business? You could put that into capital investment; you could put it into wages but what would we have to do to first create the economic surplus, first create the opportunity?

And agile working with all of its components, better understanding the nature of work, better understanding the skills that are needed to apply to that, better managing where colleagues are working and when colleagues are working; those four variables can really unlock a significant opportunity. Hopefully the case studies show you one example and we have some very large companies and some very small ones in the example, but just imagine what that 5% could do for the business and then that might give you the motivation to use some of these tools and agile working practices to capture it.

MP   That's wonderful. Thank you so much. Thank you.

FC   So really interesting interview, Maggie that you did there with Vivian and I think it's so interesting. The thing that we found really interesting at the Agile Future Forum was this issue about productivity; again it's one of these things that we keep talking about at UK macro level; how do we close the productivity gap?

And it's just fascinating that agile working, if everybody just did a little bit of agile working, how much that could close the gap. And the other thing that struck me from the conversation you were having with Vivian; how - you know, that re-enforcement that agility's not a choice really for anybody any more, that it's a requirement if you're going to be able to survive in a fast-moving economy.

MP   Yes, no. Agility has just got to become - well, the new mindset; that's what it is. Yes, and the research that they've done was very, very concrete in its conclusions that adopting even the smallest practices can have a very big impact, particularly for smaller companies and I think that the research that she did for you showed one-and-a-half times more profitable...

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FC   Yes, so the research showed us - I mean, it was, you know, it was interesting because it was the first time as a group of companies that we had actually put a number on the benefit of agile working practices and what we found was that there was a value of between three and 13% of workforce costs which, at a time when there's real pressure on the bottom line, seemed to us to be something that employers couldn't ignore.

And the other interesting thing for us from the research that was done - because of course the research was done with Agile Future Forum companies - was that that that's where we develop the tools that we now all use to go on to be even more agile because the other piece that of course came out of the research was that if you went a bit further and introduced more innovative agile working practices there was a further value of between three and 7% of value to - workforce cost value.

And the other thing that again I thought was really interesting that - for us when we looked at what the results were was that traditionally the reason why people have been encouraging organisations to adopt agile working has been around recruiting and retaining quality staff and actually what we found was although that is a driver of value it's not the biggest driver and actually the biggest driver is the ability to align your workforce to your customer base and increase your productivity, which comes back again to this point.

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And from an SME perspective in particular the ability to increase your productivity by 10%...

MP   Is just massive, isn't it?

FC   It's huge, isn't it?

MP   Yes.

FC   So the case studies and tool kits that Vivian mentioned are available on our website for people to use. Next time we'll be speaking to Karen Mattison, who's the Co-founder of Timewise, on the need for more agile roles and Rob Carmichael who, after a three-year career break to spend time with his children, returned to work through the Lloyds Banking Group Returnship Programme.

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