HOW TO SOLVE THE LABOUR PRODUCTIVITY PUZZLE AND REDUCE COSTS IN THE RESOURCES INDUSTRY

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Legal Briefings – By **Rohan Doyle** and **Kristen Gamble**

Since the global financial crisis in 2007, and the decline in commodity prices that followed, the resources industry has sharpened its focus on productivity. Labour productivity has had particular attention, given labour often accounts for a significant proportion of total production cost.

So what is productivity and what function does labour cost play in assessing productivity?

The Fair Work Commission (**FWC**) pondered this question in 2012 when dealing with an arbitration case between Schweppes Australia and United Voice. The FWC found that productivity refers to the "quantity of output relative to the quantity of inputs" and, importantly, observed:

"financial gains achieved by having the same labour input - the number of hours worked - produce the same output at less cost because of a reduced wage per hour is not productivity".

Improving labour productivity requires less focus on the cost of labour and more focus on how labour is utilised. Nevertheless, savvy employers will look to improve both metrics in order to drive overall profit.

The question is, how do employers in the resources industry drive labour productivity while maintaining or reducing labour cost? Here are the six paths likely to deliver the biggest returns.

PATH 1 – CREATE INCENTIVES

Develop a reward and recognition framework (or review your existing one) with incentivisation at its core. This might be done in tandem with implementing a performance-based remuneration system.

The objective of these frameworks is simple – to harness discretionary effort. It is essential the framework:

- delivers rewards employees value (both financial and non-financial),
- clearly identifies the benchmarks employees must meet to receive the reward, and
- focuses on measures within the control of the individual.

PATH 2 – IMPROVE OPERATIONS

Look at reducing idle labour by making operational improvements that remove bottlenecks. Machinery could also be upgraded to reduce maintenance costs and downtime, particularly where improved technology is available. Any opportunities to increase automation should also be considered.

PATH 3 - GET THE RIGHT LABOUR FIT

Do you have the right number of people in the right location at the right time? Review your rosters and hours of work to identify whether there are opportunities to:

- better align labour with demand,
- reduce cost (for example, by reducing exposure to shift, weekend, or out-of-hours penalties, reducing overtime, or reducing headcount),
- improve fatigue management, or
- use downtime as an opportunity to reduce annual leave accruals.

If this is unachievable because labour demand is too sporadic, perhaps it is time to review the labour model more generally. For example, would idle labour be reduced by increasing your proportion of casual employees or third party contractors to handle workload peaks?

PATH 4 – ADDRESS EXCESSIVE UNPLANNED ABSENTEEISM

Undertake a review of long and short term ill or injured worker cases. Are these cases being managed in the best way possible to ensure a successful and sustained return to work in the quickest time?

Where ill or injured employees are unlikely to return, consider whether retraining, redeployment, or termination of employment is appropriate. Where necessary, implement processes to ensure these cases are managed appropriately in the future.

PATH 5 – CREATE A GOOD CULTURE

A bedrock of solid workplace culture, in which performance and conduct are appropriately managed, is essential for labour productivity. All employers in the resources industry should be asking themselves these key questions:

- are you hiring the right people in the first place? What processes are in place to ensure employees/contractors are the best fit?
- is the workforce being appropriately managed (including when performance and conduct deficiencies are identified)?
- are your employees change resistant? Why? Is it due to poor implementation or have selection processes failed?
- when was the last time you undertook a workplace engagement survey? Were the results communicated to your people and actioned?
- do you have a succession plan to ensure you retain the skillset for the future and deliver career opportunities for top performers?

PATH 6 – UNWIND UNSUSTAINABLE CONDITIONS

The economic environment has changed, and employers are increasingly looking at ways to ‘unwind’ unsustainable conditions. Some examples worth considering include:

- dismantling inefficient site practices - such as last-on-first-off redundancy policies and one-in-all-in overtime,
- implementing staggered breaks for continuous production,
- implementing salary freezes, or negotiating reduced hours and wages (perhaps in exchange for assurances of job security), and
- removing other conditions that inhibit innovation, flexibility, and efficiency, such as role demarcations, minimum-manning obligations, and restrictions on outsourcing, redundancies, and roster changes.

FROM CONCEPT TO IMPLEMENTATION

Not every path will be appropriate for your organisation. This depends on a number of factors, such as the amount of funding available for operational improvements and redundancies.

Each path will also come with its own unique challenges, including the need to consult with workers, the possibility of renegotiating contracts or enterprise agreements, and managing the risks of exposure to industrial action and ‘general protections’, unfair dismissal and discrimination claims. Accordingly, the planning phase for labour productivity projects is crucial and the benefits and pitfalls of all options need to be carefully considered. Industrial relations and human resources practitioners are invaluable here.

Whilst achieving productivity through change is difficult, it is certainly not impossible. Those who prepare early and have a detailed knowledge of the legislative framework will have a significant advantage and will achieve better outcomes.

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KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

ROHAN DOYLE
PARTNER,
MELBOURNE
+61 3 9288 1099
Rohan.Doyle@hsf.com

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