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Business leaders often think of “efficiency” and “productivity” as synonyms, two sides of the same coin.

When it comes to strategy, however, efficiency and productivity are very different. At a time when so many companies are starved for growth, senior leaders must bring a productivity mindset to their business and remove organizational obstacles to workforce productivity. This view differs substantially from the relentless focus on efficiency that has characterized management thinking for most of the last three decades, but it is absolutely essential if companies are going to spur innovation and reignite profitable growth.

Let me explain.

The common definition of labor efficiency is: “the number of labor hours required to accomplish a given task, when compared with the standard in that industry or setting.” The typical way of assessing labor efficiency is to compare the number of hours actually required to produce a given product or service with those usually required.

Efficiency is about *doing the same with less*. Companies most often improve labor efficiency by finding ways to reduce the number of labor hours required to produce the same level of output. This translates into savings because the company spends less on wages and other labor-related costs. Efficiency, then, is about shrinking the *denominator* — inputs (headcount, labor hours) — in an effort to improve profitability.

At first glance, the definition of productivity appears remarkably similar. A common definition of labor productivity is: “the ratio of the output of goods and services to the labor hours devoted to the production of that output.” Productivity is typically measured by comparing the amount of goods and services produced with the inputs used in production.

Productivity is about *doing more with the same*. Growth in labor productivity is measured by the change in output per labor hour over a defined period of time. For a country, productivity is closely linked with living standards. For a company, it is directly tied to performance. With higher labor productivity, a company can produce more goods and services with the same amount of relative work. In contrast to efficiency then, productivity is about expanding the *numerator,* the output, in order to deliver greater top-line growth from the same workforce.

For most of the last three decades, senior executives have been encouraged to take an efficiency mindset to their business. Six Sigma, process reengineering, spans and layers analysis, and many other tools have helped executives uncover waste in their operations — in effect, identifying labor hours (or materials) that are unnecessary in order to produce the same level of output. In the absence of growth, efficiency gains are most often monetized through workforce reductions. General Electric, Honeywell, HP, and many other companies have showcased their efficiency programs as well as the bottom-line results these efforts have produced.

Today’s business environment requires a different worldview. The benefits from improving efficiency appear to have petered out. In the 1990s and 2000s, leadership’s focus on efficiency produced solid results. Earnings growth for the S&P 500 ran at nearly three times the rate of inflation over this period, despite tepid top-line growth in many years. Starting with the quarter ending March 31, 2015, however, S&P 500 earnings began falling, and earnings growth has remained negative ever since. Without top-line growth, continuing to wring out greater profits through efficiency has become the managerial equivalent of attempting to squeeze blood from a stone.

If efficiency is no longer the secret to superior performance, what about productivity? Bain & Company recently completed a comprehensive study of workforce productivity and performance. We collaborated with the Economist Intelligence Unit to survey more than 300 senior executives from large companies worldwide. We complemented these survey findings with the results of two dozen in-depth organizational audits to identify the steps companies can take to unleash the productive power of their teams and accelerate profitable growth.

This research, combined with our experience as consultants working with senior leaders over the last three decades, highlights three fundamental tenets of a productivity mindset. Leadership must recognize:

Most employees want to be productive, but the organization too often gets in their way. Our research indicates that the average company loses more than 20% of its productive capacity — more than a day each week — to what we call "organizational drag," the structures and processes that consume valuable time and prevent people from getting things done.

Leaders that take a productivity mindset seek to eliminate organizational drag at every turn. They simplify their organization's structure and align their operating model with the true sources of value in their business. They fight bureaucracy and create ways of working that allow employees to focus their time on delivering for customers and shareholders.

The company has a few talented people who can have a disproportionate impact on strategy execution and performance, but these "difference makers" are too often put in roles that limit their effectiveness. Despite the countless millions that have been spent fighting "the war for talent," our research suggests that relatively little has been devoted to safeguarding the spoils. Fifteen percent of most companies' workforce are star players, employees with exceptional performance and the potential to have an outsize effect on strategy execution. Both "the best" companies and "the rest" have roughly the same amount of star talent.

But leaders with a productivity mindset make sure their scarce star talent is assigned to business-critical roles. In retail, for example, if superior merchandising is essential to competitive advantage, then leaders ensure that most (even all) critical merchandising roles are filled with star talent. This allows for more and better output from this function and better (and faster) execution of the company's strategy.

People have huge amounts of discretionary energy that they could devote to their work, but many are not sufficiently inspired to do so. Virtually every employee can bring more to their job, but many don't invest the additional ingenuity and creativity that they could. Inspired employees bring more discretionary energy to their work every day. As a result, they are 125% more productive than an employee who is merely satisfied. Stated differently, one inspired employee can produce as much as 2.25 satisfied employees.

Executives with a productivity mindset do everything they can to tap into every employee's reservoir of discretionary energy. They strive to align the firm's purpose with each individual's purpose. They invest in improving the inspirational leadership capabilities of their managers at every level. And they build a culture of autonomy and accountability that provides every employee with the opportunity to do their very best work. While these steps may not inspire every employee, they can increase the level of inspiration across the organization and, with it, workforce productivity.

Each of these tenets has important implications for the approach leaders should take in managing the scarce time, talent, and energy of their workforce. Adopting a productivity mindset can be challenging, but the payoff is enormous. Our research suggests that the best companies are more than 40% more productive than the rest. And this difference in productivity results in significantly higher profits — operating margins 30%–50% higher than industry peers — and faster growth.

In the coming decade, it will be critical for business leaders to adopt a productivity mindset. Instead of focusing on continuously managing the denominator, by cutting headcount, executives should identify ways to boost the numerator, and increase output. By systematically removing obstacles to productivity, deploying talent strategically, and inspiring a larger percentage of their workforce, leaders can dramatically improve productivity and reignite top-line growth.

Michael Mankins is a partner in Bain & Company's San Francisco office and a leader in the firm's Organization practice. He is a coauthor of Time, Talent, Energy: Overcome Organizational Drag and Unleash Your Team's Productive Power (Harvard Business Review Press, 2017).
