
Mr. Efficient

# Capital Efficiencies in the workplace

## A compelling case

The global economic outlook over the last five years has created a change in the spending patterns of clients and their prioritization of capital expenditure. Cash remains tight and the business case for any capital investment has to be particularly robust for it to be considered. For projects already approved or even under construction, scrutiny on expenditure is ever greater and there is a new mindset of extracting as much as possible from the minimum level of investment: the Capital Efficiency process.

### The opportunity

Organizations are often subject to changes driven by economics, demographics, technology and the environment, let alone external scrutiny. Companies recognize the need to become more agile, flexible, resilient and responsive to change and identify the competitive advantages that can arise from working smarter:

- Strengthened vision, values and brand strategy.
- Reduced value leakage.
- Enhanced performance metrics compared to competitors.
- Improved staff satisfaction, retention and recruitment.
- Increased agility, creativity and flexibility.
- Diversification.
- Reduced environmental impact.

### The challenge

While most companies place great emphasis on driving efficiency out of their business processes and their built assets, they tend to avoid the more complex, challenging and seemingly intangible aspects of people and culture. With staff costs equating to approximately 80 percent of corporate expenditure, process costs 12 percent and property costs 8 percent, it is clear that the greatest investment impact is to be gained in creating environments that benefit the organization's critical asset and cost, i.e. its people.

While the focus on reducing costs has been the prevailing mantra during the global downturn, there is now a growing case for providing an effective work environment to improve employee performance. Delivering more for less is the new modus operandi.

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### The case for the people

What exactly are workplace efficiencies? Are they staff headcount reductions as a means to improve profit margins, or is it a complex description for saving on consumables? The reality is neither of these.

If you were a CEO, would you like each member of your staff to effectively work for free for two days per year? Similarly, would you like to reduce your rent bill by 25-50 percent per annum? Of course you would but the question is 'how'?

"The answer is quite straightforward but the means to achieving these sorts of results requires commitment and leadership and, more often than not, a degree of organizational change and transformation. But evidence clearly demonstrates that positive changes involving people and place can deliver tangible and sustainable business and shareholder value," says Simon Dunstan of Plus 3 Architecture–a workplace change architectural practice in the United Kingdom.

One of the more reliable indicators of people performance in the workplace relates to productive working hours. One approach that has been developed quantified the average number of productive working days for an employee (excluding holidays, sick leave, training/administration) alongside the real cost to the organization for each productive day (including salary, insurance, car allowance, housing allowance, gratuity payments and other on-costs such as training/office overheads.) In this instance, the number of productive days was determined to be 160 per annum and the real cost of each day was AED3,620 or about US$985. While the amount of working time may appear to be low, it is based on the following factors:

- 25-day annual leave allowance;
- 8-day sick leave (this could vary);
- 10-day per annum training;
- Allowance for general office admin;
- A factored reduction of 20 percent for downtime between projects.

So in essence, taking into account the above working days reduction, this provides us with a figure of 160 genuinely productive working days. Hence a 1 percent increase in productivity would represent 1.6 additional days per year with a 'value' attributed to that 1 percent increase of AED5,790 or around US$1,576. When extrapolated across an organization of say 500 people, the metrics become quite interesting–an additional 800 days of work with a value of AED2.9 million (or US$780,000) for a given year. Clearly this will vary from organization to organization but the statistics are compelling.

### Operational efficiency plays its part

The measurement of the cost of property is arguably more straightforward. Reductions in property costs normally accrue through the reduction in the quantum of space (through more efficient space planning) which is facilitated by higher occupational densities (through agile working and desk-sharing) and further enhanced through the reduction in backlog maintenance and running costs of outdated stock (by consolidating a property portfolio.)

### So what is the economic case for Capital Efficiencies in the workplace?

Considering the two key metrics we have discussed–people and the built assets they occupy, we can quantify the value created through applying Capital Efficiencies in the workplace.

Illustration: let's assume we have an organization of 1,000 staff and, using the value of a productive day at AED3,620 (or US$985) per member of staff and applying the 1.6 additional days that a 1 percent increase in productivity would derive, we can easily reach an extrapolated "added-value" of AED5.79 million (or circa US$1.57 million) of additional value extraction per year.

If we assume simplistically that that organization occupies around 6,250 sq.m. of leased office space, at a cost of AED1,500 (or circa US$400 per sq.m.) per annum, then the annual rental bill would equate to AED9.37 million (or US$2.5 million.) Let us then assume that as a result of capital efficiencies being applied to this workspace, there is an area reduction of 25 percent through improved spatial planning and business process mapping, it could theoretically translate to a reduced annual rental bill of AED4.34 million or US$1.9 million.

To summarize, it could be suggested that the quantum of change through Capital Efficiencies applied to the workplace is as follows:

**A x B = C – D = Efficiency Quotient**

Staff Cost **(A)** x 1% increase in productivity **(B)** = Efficiency Factor **(C)**, less Spatial and/or Business Process Savings **(D)** which equates to **(E)**

So, if you are looking to save money, maximize the output of your workforce and generally operate in an efficient manner, then the Capital Efficiencies process may well be the answer.

by **Ben Hughes**, director, Infrastructure & Capital Projects, Deloitte Corporate Finance Limited (regulated by the Dubai International Financial Center)

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