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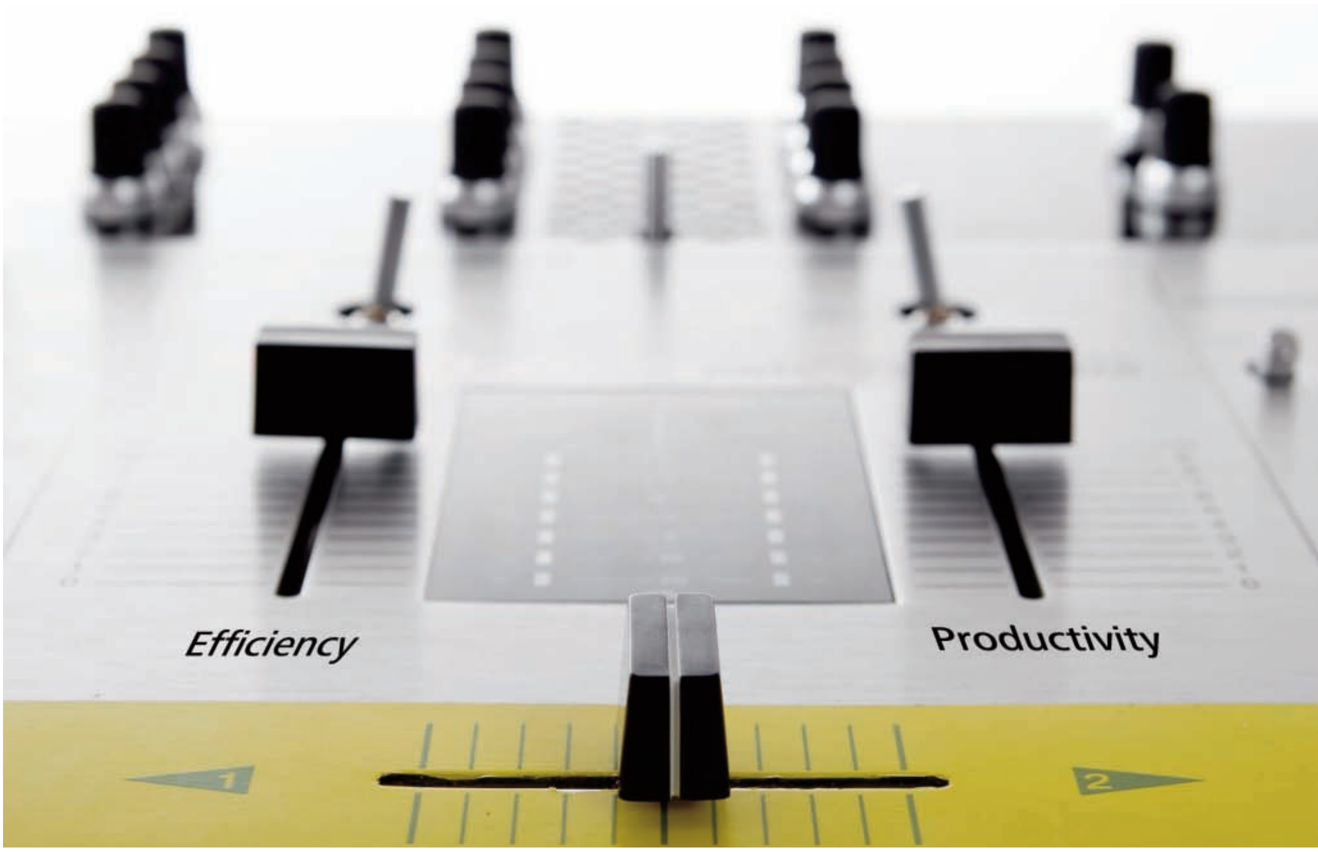
Capital Efficiencies
Assessing the optimal solution to your Capex Programme



In the Middle East since 1926

Capital Efficiencies in the workplace

Context

The global economic outlook over the last five plus years has created a change in the spending patterns of clients and their prioritisation of capital expenditure. Cash remains tight and the business case for any capital investment has to be particularly robust for it to even 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 opportunity

Organisations can at any time be subject to changes driven by economics, demographics, technology and the environment, let alone external scrutiny. The recent global economic crisis has seen the weak fade ever further and the more progressive organisations reflect on how they can compete in an ever-changing and dynamic marketplace. These companies recognise that the need to become more agile, flexible, resilient and responsive to change is greater than ever and recognise 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

Every organisation has its own unique DNA and the scale of strategic changes necessary to deliver a transformation successfully can seem overwhelming. The answer to this challenge lies in something we call 'complexity' – an ability to express complex things in a simple way. (Think of the way in which the complex workings of a gearbox and transmission are manifest in the simple, elegant form of a gear stick). At the heart of this approach is a desire to make the intuitive explicit, understandable and measurable starting with the common building blocks that drive organisational performance – namely people, processes and property.

Whilst 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. But with staff costs equating to approximately 80% of corporate expenditure, process costs 12% and property 8%, it is clear that the greatest investment impact is to be gained in creating environments that benefit the organisation's critical asset and cost item, i.e. its people.

Furthermore, it stands to reason that the development of a strategy for business processes and property can only emerge from an intimate understanding of the needs of that organisation's people. Yet time and again staff are obliged to work within the limiting constraints of a new IT system or moved into new office space without any reference as to how these meet the specific needs, tasks and activities of staff. So the path to improved organisational performance needs to begin with an understanding of what people do (tasks and activities) and how they do it (work style and culture). Only once this is understood can business processes and systems be optimised and an appropriate range of spaces be designed to support the way people work.

Whilst 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. As highlighted earlier in this paper, delivering more for less is the new modus operandi in this post-downturn economy.

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 2 days per year through improved productivity? Similarly, would you like to reduce your rent bill by 25-50% per annum? Of course you would but the real 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 organisational change and transformation. But evidence clearly demonstrates that positive changes involving people and place can deliver tangible and sustainable business and shareholder value and so it is worth finding time in your busy schedule to consider how these issues might impact on your own business."

The assessment of productivity and its link to the workplace is not a straightforward task and as yet there are no reliable industry standards for measurement of this key metric. Some researchers have opted for the measurement of occupier satisfaction within the working environment – the theory being that a satisfied employee as a result of being more motivated and engaged will be more productive and committed. Recent research supports this assertion and suggests that there are clear links between motivation and productivity, absenteeism due to illness, involvement in the organisation and employee satisfaction. In this context, the use of pre and post-occupancy surveys can play an important role in measuring and articulating staff satisfaction (and hence productivity).

Evidence clearly demonstrates that positive changes involving people and place can deliver tangible and sustainable business and shareholder value

One of the more reliable indicators of people performance in the workplace relates to productive working hours. One approach that has been developed by Deloitte quantified the average number of productive working days for an employee working on project related assignments (excluding holidays, sick leave, training/administration) alongside the real cost to the organisation for each productive day (including salary, insurance, car allowance, housing allowance, gratuity payments and other on-costs such as training and 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 AED 3,620 or about USD 985. Whilst the amount of working time may appear to be low, it is based on the following factors:

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

So in essence, taking into account the above reduction in days provides us with a figure of 160 genuinely productive working days. Hence a 1% increase in productivity would represent 1.6 additional days per annum with a 'value' attributed to that 1% increase being AED 5,790 or around USD 1,576. When extrapolated across an organisation of say 500 people, the metrics become quite compelling – an additional 800 days of work with a value of AED 2.9M or USD 780,000 for a given year. Clearly this will vary from organisation to organisation but the potential price is significant.

Operational Efficiency plays its part

The measurement of the cost of property is arguably more straightforward than that for gains through productivity but the two are inextricably linked and cannot be considered in isolation. 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).

Savings inevitably also come from a more consolidated workforce located in modern, efficient buildings which allow for a reduction in Facilities Management (FM) costs. The reduction in the overall quantum of office space for a large organisation through these measures can easily extend to 25% and, on occasions, as high as 50%.

> The design of a new building or spatial arrangement that promotes operational efficiency often manifests in savings

Moreover, the design of a new building or spatial arrangement that promotes operational efficiency often manifests in savings. This could be in the form of readily accessible light fittings, standardisation across the building, use of energy efficient equipment and consumables, or more rudimentary measures such as passive ventilation which reduces maintenance annually. Indeed, simple measures such as the physical location of photocopying stations or stationery stores can often result in improved efficiency from an operational viewpoint. It is the simple things that often make the greatest difference.

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.

If we assume simplistically that that organisation occupies around 6,250 sqm of leased office space, at a cost of AED 1,500 or circa USD 400 per sqm per annum, then the annual rental bill would equate to AED 9.37M or USD 2.5M. Let's then assume that as a result of Capital Efficiencies being applied to this workspace, there is an area reduction of 25% through improved spatial planning and business process mapping, it could theoretically translate to a reduced annual rental bill of AED 4.34M or USD 1.9M.

So there are clearly tangible savings that can be derived through the application of Capital Efficiencies in the workplace, but these are likely to be less than the impact identified earlier of a 1% increase in staff productivity and efficiency across the organisation we discussed earlier in this article. Ironically, a 3% increase in productivity would virtually wipe out the entire rental cost of the built asset.

So whilst there is no magic wand or simple yet brilliant formula such as $E = MC^2$, it could be suggested that the quantum of change through Capital Efficiencies being applied to the workplace is as follows:

Tangible savings can be derived through the application of Capital Efficiencies in the workplace

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 using the above as an example:

Company ABC Holdings was formed in 1946 and has grown to 2,000 staff. As a result of the downturn in 2008, margins became ever tighter so the board decided to explore means by which the company could become more efficient. They currently lease a large office in Dubai at AED 1.3M per annum.

Using the above formula, the company determined that if they could increase the efficiency of their 2,000 staff by 1%, assuming the notion of 160 productive work days currently, this would equate to an additional 1.6 productive days per annum, per employee. If each productive day is valued at AED 3,620 or USD 985 and the 1% increase per employee equates to AED 5,790 or USD 1,576, then across the entire staff base of Company ABC Holdings, this would translate to an extra AED 11.6M or USD 3.18M of additional productive working time.

When compared with the property costs, this provides a compelling argument for a Capital Efficiencies review, not just of an organisations expenditure programme but also its operational composition and efficiency.

We are here to help

We would welcome the opportunity to discuss your needs further and provide you with a better understanding of the issues discussed in this white paper. Please do not hesitate to contact our experts.

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