MAXIMISING PROFITABILITY BY MANAGING AND ALIGNING LABOUR RESOURCES EFFICIENTLY

Imagine that, on average, Irish businesses are spending approximately €870,327 (based on an average staff cost of €47,362 p.a.) per minute on their workforce, that's almost €2 billion a week. Capturing what those minutes are spent on can improve productivity and create opportunities for most businesses. **Oliver Mitchell** explains the steps to maximising efficiency and productivity.

The costs of the workforce will probably always remain the largest single overhead for almost all businesses, no matter what the industry. Being able to understand and analyse where time is being spent is a valuable tool for accountants at a time when every single euro counts towards the bottom line. Being just 2% cheaper than the competition could be the defining decision maker for your customer. Obviously, it is easy to reduce the price of a product or service by 2%, but that will nearly always directly impact on the profit margin. What if it didn't have to?

REALISING EFFICIENCY AND PRODUCTIVITY

Managing the direct cost of overheads from business insurance to light and heat is all about negotiating with suppliers and finding the best deal available. When a business has already squeezed every last percentage of a discount from suppliers and cut every overhead, what's left to stop that 2% reduction in the price from hitting the profit margin? The answer lies with what is probably the business's biggest cost and most valuable asset – the workforce. Knowing what your workforce is spending time on enables you to focus on improving specific processes of production or the efficiency of a service. Reducing the time spent on that process increases productivity.

ROOM FOR IMPROVEMENT

There is nothing new about recording the time every staff member works to ensure they work the required hours per week, nor is there anything new about recording the time they spend on specific duties during their work day. But the analysis of that data should never stop; it should be reviewed day on day, week on week and because almost everything can be improved and done faster or better.

Managing & Aligning Labour Resources Efficiently

Adopting the three-phased approach illustrated in Figure 1 (opposite) can help you to identify the relationship between productivity and cost drivers in your business so as to achieve greater efficiency and identify new opportunities.

- Phase 1 concentrates on profiling the workforce;
- Phase 2 looks at maximising workforce efficiency, creating optimal staffing

Figure 1
Three Phased Approach to Managing and Aligning Resources

models by putting the right person in the right place at the right time and at the right cost;

- Phase 3 focuses on management control, proactively giving managers improved information to maintain control over their processes.

PHASE ONE – WORKFORCE PROFILING

Establishing the true cost of labour relative to each activity remains elusive for many businesses. The larger the organisation, the more difficult it can be to ensure labour is deployed effectively in support of your corporate strategy and objectives. In our rapidly changing global environment, the critical factor for business success, and even survival, is competitiveness. There is a need for greater flexibility in respect of the deployment and utilisation of a workforce, so that businesses can respond effectively to changing circumstances. So, Phase 1 focuses on identifying your labour cost drivers by mapping your people to positions based on:

- What they do;
- Why they do it;
- Where they do it;
- Who they do it for;
- For how much;
- For what % of their day.

On completion of Phase 1, your aim is to have a comprehensive process model that identifies your company's drivers of cost and productivity.

PHASE TWO – MAXIMISING EFFICIENCY

Phase 2 is about building optimal staffing models. The objectives for this phase are to deliver a standard planning template that is aligned with business objectives and owned at a business unit level. It should specify performance measures and give managers at every level the information and tools to effect change.

Planning Tools for phase 2

- Publish and cascade global KPIs and control – get management buy in;
- Map the 'as-is' staffing plan for each unit;
- Create supporting generic budget and forecast staffing tools;
- Define tolerance levels and controls for variance for each business unit;
- Create workflow and alerts for tolerance breaches.

Key Performance Indicators (KPIs) should be defined, documented and agreed with line managers. Managers then need to be empowered to deliver these KPIs. Empowering your line managers involves:

- Defining your workforce management processes to support business objectives;
- Giving your managers tools and training for planning, staffing, budgeting, etc;
- Implementing formal standard workforce management processes for timesheets, payroll, projects, legal compliance, health & safety, activity, absence management, etc.

At the end of Phase two you will have a baseline for costs and productivity and will have identified opportunities to change your processes. The next step focuses on management control.

PHASE THREE – MANAGEMENT CONTROL

The objective of Phase 3 is to build on the success of the earlier phases. This phase is about embedding management controls, targets and tolerances within the business for planning and operational decision making processes. This is also where a comprehensive workforce management platform plays its part. Local management get the tools and operating parameters they need at every level to deploy resources effectively while delivering top down management controls over payroll, overtime, contract staff, absence management and other major cost drivers.

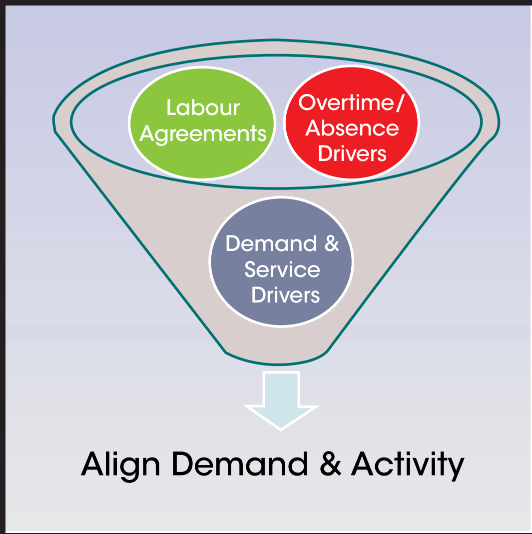
Managers should be equipped with the information necessary to decide how many staff are required for a project or a shift based on the demand drivers for that shift. Decisions are made based on information that has been entered into the system or the system can prompt managers to provide the necessary information. Managers can see where people are spending time and take corrective action if necessary.

The second part of this phase is to create a supporting management information framework with a series of KPIs and supporting reports and calls to action, leading to improved planning and decision-making with a faster feedback loop. By proactively providing information to managers on a day to day basis, they can instantly see how their area is performing relative to KPIs and business objectives that have been set at a corporate level. The costs of removing or adding people to a task or shift are immediately obvious and will trigger tolerance checks and make it clear what will happen and why following an adjustment.

Checks and balances

From a management perspective, embedding these checks and balances is the interesting part of the equation. Technology allows you to identify issues quickly and use electronic alerts to notify the appropriate person that action is required. Automating checks and balances for e-approval allows businesses to create an audit trail for every corner of their workforce management in 'real-time' rather than uncovering problems or unforeseen costs after the event.

Figure 2
Demand Driven Workforce Management



CONCLUSION

For businesses to succeed in this challenging and competitive environment, it is essential that they understand the true cost of labour and align all costs with associated revenue and business profitability. Businesses need to implement a series of metrics to support their corporate key performance indicators. Operating one level below corporate reporting, these metrics should focus on the labour cost base and how these costs are aligned with revenue generation and value creation. The who, why, when, where and doing what, needs to be measured effectively for businesses to maximise profitability and reduce costs without hitting the bottom line. Once savings are achieved, they can be banked and will accumulate on year, maximising the profitability and efficiency of the business.

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