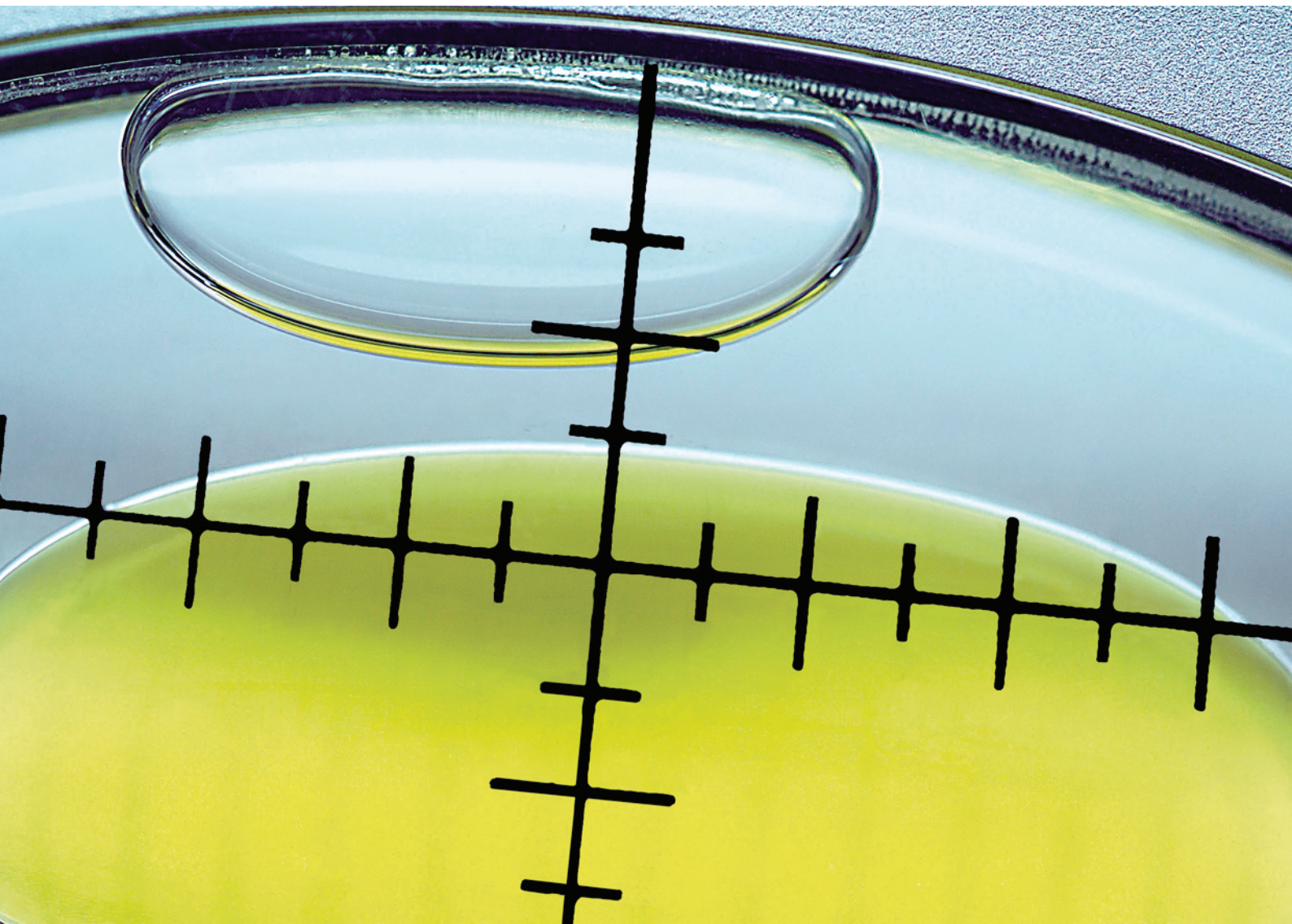


# Making your Organisation "Effective" United Arab Emirates 2009



# Organization Effectiveness

## What is it all about?

Organizational effectiveness is about driving a set of systems and processes that ensure a strong alignment of your workforce strategies to your business strategy and direction. It is also a measure of how well your organization is equipped to handle changes in market conditions and how resilient and adaptable your workforce strategies are to the external environment. In a rapidly evolving environment like today's, the need for organizations to build this resilience and agility is more than ever before. It has become imperative for firms to explore different ways of making their organization more effective and act upon them at the earliest.

This report examines the various steps organizations in the UAE have taken over the last few months in light of the economic situation to boost their organizational effectiveness. The findings have been collated from the Hewitt UAE TCM Survey 2009 survey conducted from April through till August 2009. We have also presented our analysis and highlighted some measures organizations can take towards this objective based on our research and experience in this area

Please contact Ketika Kapoor ([ketika.kapoor@hewitt.com](mailto:ketika.kapoor@hewitt.com)) or Ramya Iyer ([ramya.iyer@hewitt.com](mailto:ramya.iyer@hewitt.com)) for any queries on this report.

## Table of Contents

### Making your Organization Agile

- Human Capital
- Technology
- Outsourcing
- Shared Services

### Fostering your Workforce Productivity

- Effective organization design
- Aligning your workforce to your strategic direction
- Effective people processes and systems

## Exhibits

**Exhibit 1:** Measures taken to increase workforce productivity?

**Exhibit 2:** Manpower optimization

**Exhibit 3:** Hiring plans for FY 2009-10

**Exhibit 4:** Compensation cost control

**Exhibit 5:** Shared services

**Exhibit 6:** Workforce composition -Support vs. Core

**Exhibit 7:** Workforce composition by management levels

**Exhibit 8:** Manpower Planning

**Exhibit 9:** Impact of Workforce Reductions on Business Results

**Exhibit 10:** Performance Normalization Curve

**Exhibit 11:** Performance Linked Pay Plans

# Making your Organization Agile

## To adapt and swiftly respond to changing market conditions

Over the last few months, there has been much ado on the impact of the crisis on organizations in the Middle East and the reasons that caused slowdown. Perhaps, less attention has been given to what can be done well amid this situation.

### Worldwide

Our recent survey on the “Impact of Economic Conditions on 2009 Compensation Spending” in organizations across the world observed that more than half the number of organizations surveyed had either downsized or restructured their organization with an aim of reducing costs and improving efficiency. Over 60% of the companies across the world reported a downward revision in their salary planning budgets and merit increases for 2009<sup>1</sup>.

Many companies across the world have reduced their operating costs since the end of last year and a significant portion of cost reductions effected by organizations has been on account of workforce rationalization.

### United Arab Emirates

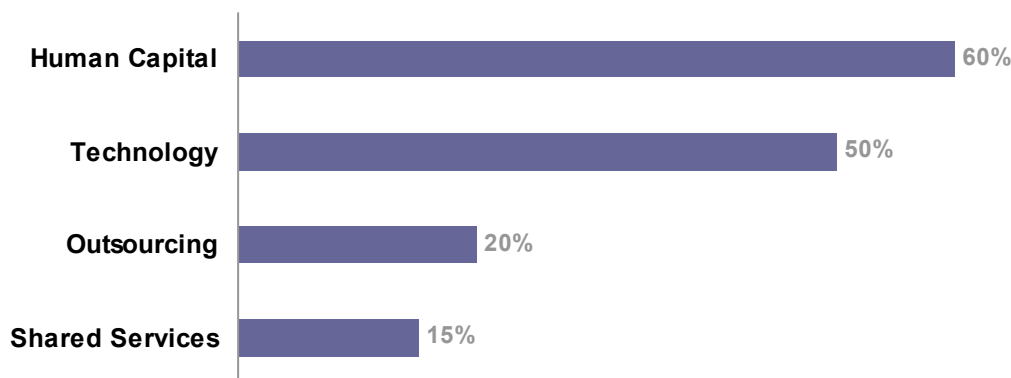
We decided to take a closer look at the UAE market through the TCM UAE 2009 survey which captured data across 101 organizations to explore the different measures taken by organizations to improve their productivity and analyze the effectiveness of these measures.

Similar to the findings worldwide, a strong majority of the organizations surveyed were focusing on Human Capital to bring about organizational effectiveness. Closely followed by this approach was more efficient and effective use of technology to improve operational efficiency. Less than a fourth of the total organizations were considering outsourcing for cost effectiveness and fewer said they would look at a shared service model to eliminate duplication of resources and effort.

Exhibit 1

% of respondents, n = 101

#### What measures are you taking to increase your workforce productivity?



<sup>1</sup> Hewitt Survey—Impact of Economic Conditions on 2008/2009 Compensation Spending

**Human Capital**

**Workforce Linked Measures**

It is worth noting that over 60% of the organizations in the UAE have already undertaken manpower optimization exercise with an aim to identify and eliminate redundancies while increasing efficiency of the workforce. The research shows that organizations in the UAE have used re-training or redeployment through job or function change as a means to manage staff that has been identified as redundant. Retaining employees using this approach, the organization benefits by saving costs (e.g. severance, recruiting, training) and by revitalizing different areas of the organization (e.g. transferred employees bring new ideas and a new attitude, yet have a proven track record and know the company).

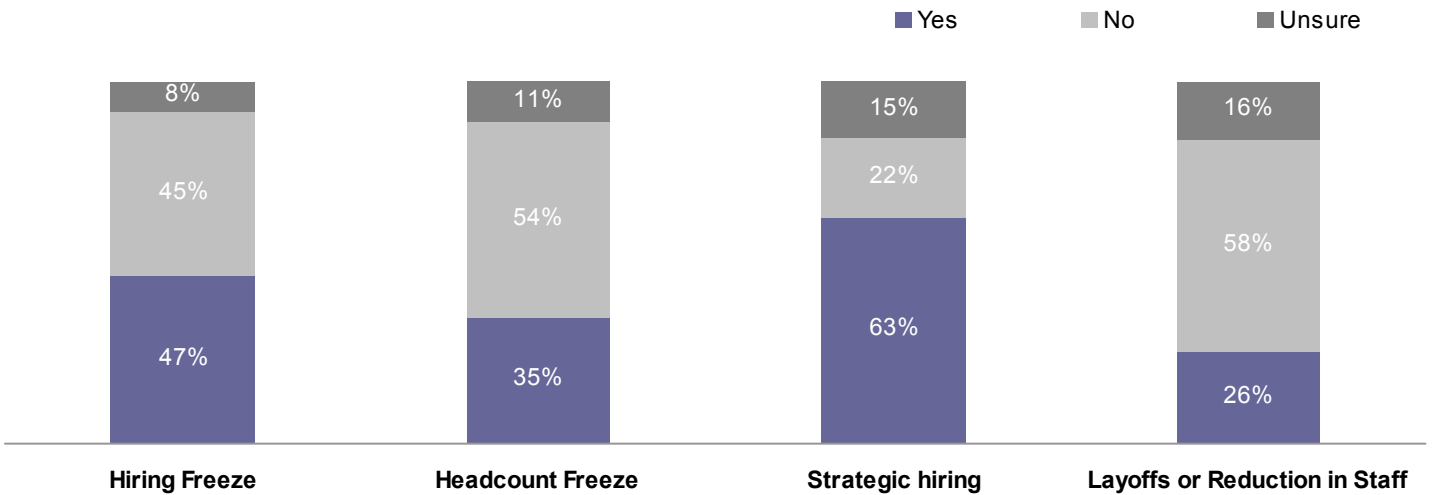
Exhibit 2 % of respondents, n = 66

**Have you undertaken a manpower optimization exercise recently?**

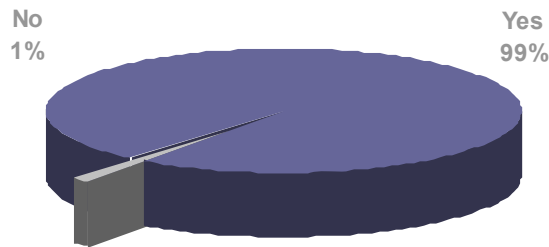


Workforce reduction can be hard on an organization, potentially impacting the employee/employer relationship, stretching resources, and generally testing the company’s capability to manage change. Organizations today realize that finding and keeping the right people is more important than ever. It’s not surprising, then, that employers reported using a variety of different programs and plans to avoid, delay, or minimize workforce reductions. Over one-third (35%) of employers have used headcount freeze as an alternative way to meet business needs.

Exhibit 3 % of respondents, n = 101  
**What are your hiring plans for FY 2009-10?**



A significant proportion of the organizations have been doing strategic hiring for critical business positions realizing that it is possibly a good time to attract top talent at a lower premium. Some of the organizations have made the sourcing/manpower requisition process far stringent this year, with increased approval levels to ensure greater efficiency.

**Have you looked at overall compensation cost control?**

Measures that were classified as Compensation cost control:

- Salary freeze
- Salary cuts
- Reduction in variable bonus
- Delay in variable bonus
- Lengthening time of salary review cycle
- Overtime pay control
- Reduction in promotions

**Compensation Linked Measures**

According to the Hewitt Salary Increase Survey in Middle East in 2009, 99% of the organizations surveyed were evaluating initiatives for “overall compensation cost control”. The typical measures that have been implemented by companies for streamlining compensation cost appear to be through reduction in promotions, salary freeze for 2009, reduction in the total variable bonus payable for 2009 and overtime pay control<sup>2</sup>.

Through our interactions, we found that almost all organizations were actively focusing on maximizing their return on investments in human capital and increasing the productivity of their workforce. Later in this paper, we have highlighted some crucial factors that impact workforce productivity and insights that will help you use these factors to increase your organizational effectiveness.

 **Technology**

About half the organizations surveyed have evaluated the possibility of introducing technology to improve operational efficiency especially in internal business services. Of the interventions, automation of support functions like HR, Accounting and Payroll processing were found to be high on priority.

 **Outsourcing**

A small percentage of participants (20%) mentioned they were considering outsourcing non-core business functions to third party organizations. The top functions outsourced last year were Facilities Management, Information Technology, Physical Security, and Travel Management. The reasons were largely for the savings in cost and manpower resources as compared to doing jobs in-house. Industry resources estimate that successful outsourcing engagements can yield up to 40% savings on the cost of support functions in the Middle East market.<sup>3</sup>

<sup>2</sup> Hewitt Salary Increase Survey in Middle East 2009-10

<sup>3</sup> Arab Outsourcing Conference , April 2009 [http://fedtechmagazine.com/article.asp?item\\_id=456](http://fedtechmagazine.com/article.asp?item_id=456)

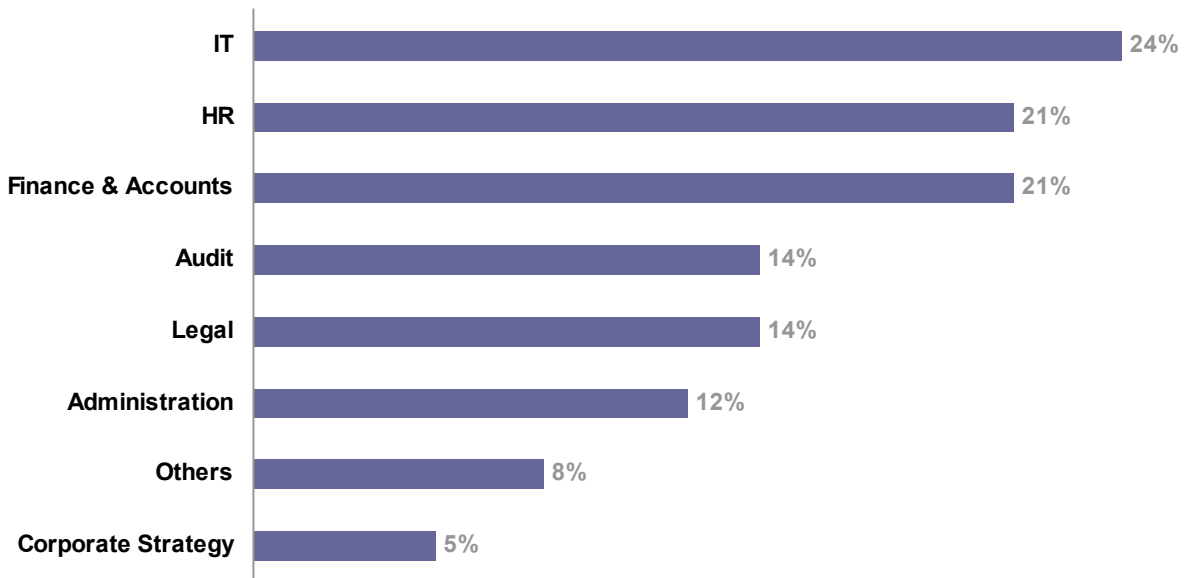
**Shared Services**

One fourth of the Organizations surveyed already have functional shared services model and these are typically conglomerates or regionally headquartered multinational companies. Shared services brings together functions that are duplicated across organizations/units/locations and deliver these services more efficiently and often more effectively. Functions most commonly clubbed under shared services for organizations in UAE are shown in the Exhibit 5 below.

Exhibit 5

% of respondents, n = 101

**Which functions are currently clubbed as shared services in your organization?**



Interestingly, top functions that have been transitioned to a shared services structure in the last one year are IT, Human Resources and Finance. This is largely as organizations increasingly realize the need to be prudent with respect to business and people issues.

# Fostering your Workforce Productivity

## Getting more returns from your human capital

Unfortunately initiatives around workforce productivity are largely viewed as a mechanism for reducing costs. In fact, it needs to be viewed as initiatives to deliver more and better value with the existing resources. Companies tend to focus on lowering the denominator in the equation and fail to focus on the output – better results.

To be able to improve the performance of your organization, it is important to understand the factors that affect productivity. The key factors that this study relied on were - organization design, alignment of your workforce, and effectiveness of people processes.

### ☑ Effective Organization Design

The first step towards improving workforce productivity is by ensuring the organizations are structured effectively. An efficient organization structure is one which has minimum redundancies and overlaps, and an efficient grading structure is one which has optimum number of grades with relevant grade progressions.

- ✓ UAE Market Number of Grades: The number of grades ranges from 5 to 22 (Average: 16; Median: 16).
- ✓ UAE Market Grade progression norm (with standard 12 grades): 24-60% (Average: 40%)

Additionally companies need to regularly benchmark themselves with relevant organization productivity ratios. Some of the key organization productivity ratios are mentioned in the Table 1.

Table 1: Benchmark Metrics for Workforce Productivity

Productivity Metrics	Global <sup>4</sup>
Cost of Manpower as a percentage of Revenue	8 – 25%
Revenue per FTE (in US Dollars)	316,704
Operating cost per FTE (in US Dollars)	192,309
Profit per FTE (In US Dollars)	49,026

### ☑ Aligning the workforce to organization's strategic direction

The second step towards improving workforce performance is to make sure organizations have the right number of people doing the right jobs. While this might sound fairly simple, our experience shows that most organizations tend to neglect the composition of their workforce over time and eventually realize that they are carrying more weight than they can pull. The effect of this can hurt the performance of organizations as a whole - especially during a tough economic climate.

Workforce composition should be tailored to meet strategic needs and business direction. This includes ensuring that organizations have the right number of people by both – Level and function.

In turbulent times most organizations make across-the-board cuts, focus on short-term tactics and fail to adequately connect with their workforce.

Leading organizations instead...

- ✓ Proactively manage the challenge and build a roadmap
- ✓ Balance both sides of the equation — cut and invest with strategic intent
- ✓ Explain why job cuts are needed and how employees will benefit as the situation turns around
- ✓ See this time as a catalyst for making the changes that they know are needed (including changes to HR)
- ✓ Know the recovery will arrive sooner for companies with high performing, engaged workforces

<sup>4</sup> Leading Global Manufacturing and Services organizations (Revenue range : USD 10 – 30 billion)

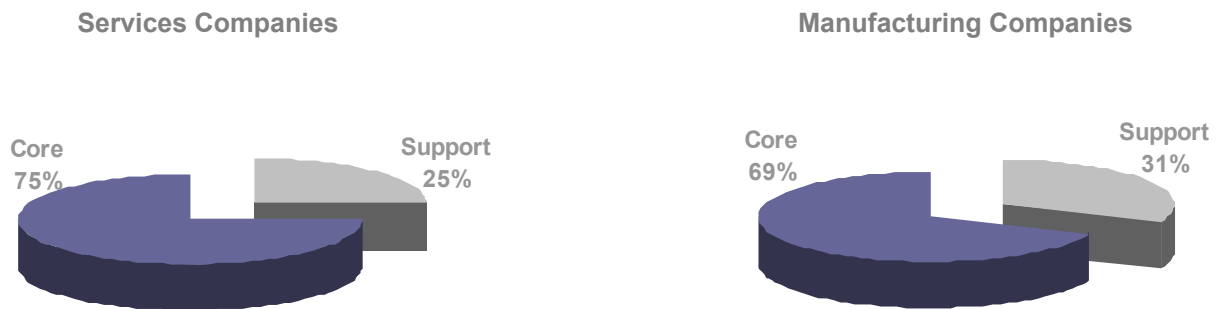
## By Function

The primary split of workforce is based on functions that are core to business and functions that provide support to your core activities. The staff in support functions / business services in organizations in UAE are almost a third of the organization strength. Graphs in Exhibit 6 show the split in percentages across manufacturing and services organizations.

Exhibit 6

Sample Size, n = 101

### Workforce Composition – Split between support functions and core functions



The next level of analysis involves looking at the composition of workforce by each function within support. Table 2 below shows the employee strength for commonly prevalent functions across sectors and organizations that were covered in the study. For both manufacturing and services sectors the proportion of staff in finance was the highest among all support functions.

**Table 2: Support Staff as a Percentage of Total Employee Strength for UAE**

Prevalent Support Functions	In Service Companies (in %)	In Manufacturing Companies (in %)
Finance	10	15
HR	4	5
IT	4	3
Legal	3	3
Administration	5	4

For functions that are comparable across organizations the average proportion of support staff (HR, Finance and IT) measured in terms of Full Time Equivalent (FTE) in organizations in the UAE is shown in Table 3. The number of employees serviced by each personnel in HR/IT/Finance is low in the UAE when compared to global benchmarks. Organizations in UAE seem to be investing / spending much more on support functions – there is a strong need for streamlining support services and making them more efficient.

Effective methods to address this problem of plenty is to club support functions like HR, IT, Administration, Public Relations, etc. under one umbrella to form a corporate support service function or outsource a few non core activities like IT helpdesk, payroll, travel-desk, facilities etc. In addition, organizations have continued to focus on technical training of their employees (including support staff) inspite of the reduced budgets due to the economic downturn, to ensure increased employee productivity and greater coverage.

**Table 3: Proportion of Support Staff in Organizations in UAE**

Employee Ratios	Representative Range UAE
HR FTE (Total Headcount to HR Headcount)	20-70
Finance FTE (Total Headcount to Finance Headcount)	10-40
IT FTE (Total Headcount to IT Headcount)	15-60

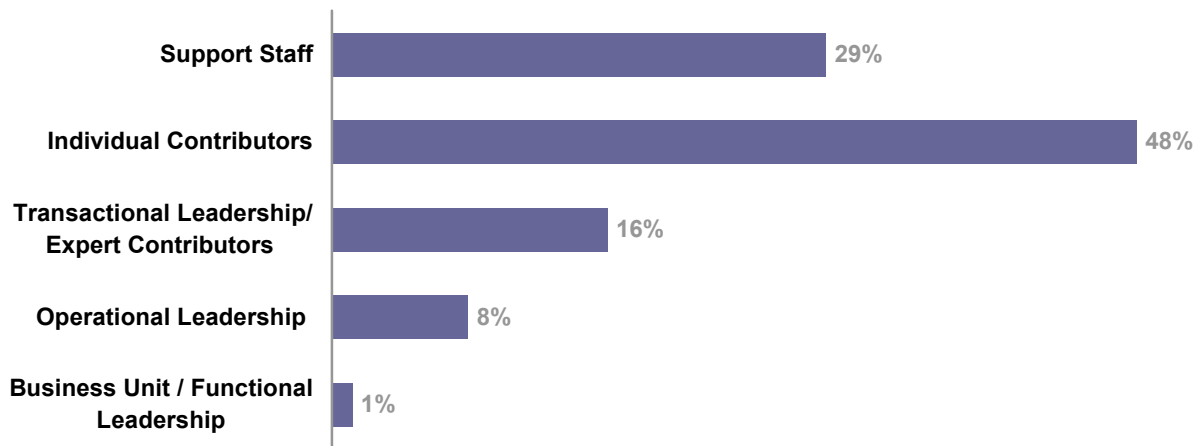
**By Level**

It is also critical to manage workforce composition by levels to ensure the structure is not too top heavy or layered. Managing the right balance across levels in organizations not just makes flow of control and decision making effective, it also plays a big role in optimizing your compensation costs as they are largely tied to levels/grades in the organization. Exhibit 7 highlights the average composition of workforce in organizations in UAE by levels of responsibility.

Exhibit 7

Sample Size, n = 105

**Workforce Composition by Management Levels**



For some relevant level benchmarks that are comparable across organizations worldwide, table 4 shows the management level ratios of organizations in UAE. The average UAE ratios are at par with global standards indicating that the span of control for managerial cadre in most organizations is possibly at ideal levels.

**Table 4: Workforce Composition by Management Levels in Organizations in UAE**

Management Levels Ratios	UAE Benchmark
Regular Headcount to Executive <sup>5</sup> Headcount	100
Regular Headcount to Manager <sup>6</sup> Headcount	11

<sup>5</sup> Executive: Leadership roles who are implementing strategies within a defined business area or functional area

<sup>6</sup> Manager: Managers of related activities who ensure the alignment of team priorities with broader organizational initiatives and objectives

**☑ Effective People Processes and Systems**

**Recruitment**

Planning for talent is a strategic priority for most companies. 90% of the participating organizations in UAE have an annual manpower planning process. In majority of the organizations (84%), the process of formal manpower planning process is carried out on annual basis, and in others it's carried out in a quarterly or monthly basis.

In light of the current economic conditions, organizations in UAE are keenly trying to maximize their returns from the recruitment process. Our experience and research shows that the most commonly used as well as cost effective methods are internal hires and through referrals.

Exhibit 8

Sample Size, n = 66

**Do you undertake an annual manpower planning exercise?**



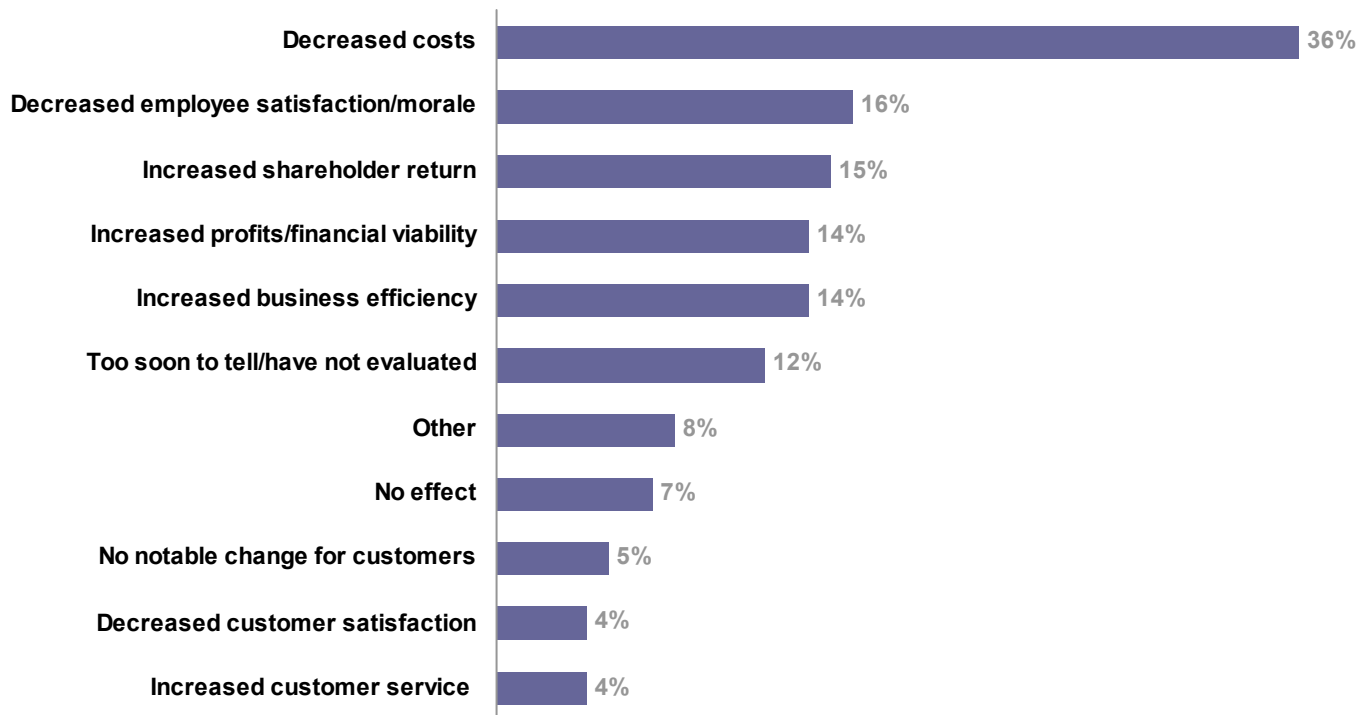
**Table 5: Prevalence and Cost Effectiveness of Hiring Methods**

Hiring Methods	Most Used (Ranking)	Cost Effective (Ranking)
Internal Hires	1	1
Referrals	2	2
Advertising	3	3
Rehire	4	2
Recruitment Agencies	5	4

Almost a third of organizations in UAE have looked at mass layoffs. Organizations execute large scale staff reductions to achieve a range of objectives, which in most cases revolve around effectiveness in managing the cost structure. At times, downsizing attempts fail to achieve these desired outcomes - the potential downsides (e.g., decreased employee morale, decreased customer satisfaction) that need to be considered sometimes far outweigh the advantages. The most commonly reported impacts on business results from workforce reductions include: decreased costs, increased shareholder return, increased business efficiency and profits, and decreased employee satisfaction/morale<sup>7</sup>.

<sup>7</sup> Hewitt Study on Employer Approaches to workforce reduction report

**Impact of Workforce Reductions on Business Results**



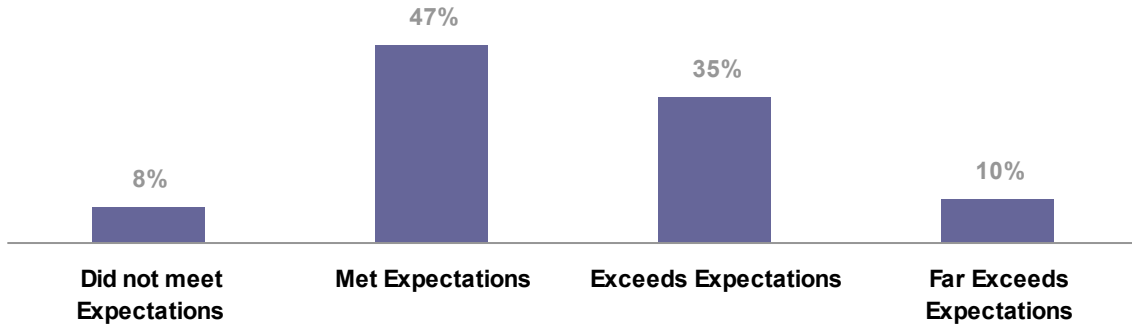
**Performance Management**

Performance management continues to be a critical internal process that ensures strong alignment with business objectives and drives effective execution. 97% of participating organizations have a formal performance appraisal process in place. 70% of organizations carry out assessments/ appraisals annually. However, thirty percent of the organizations carry out the same half yearly.

An effective performance-management framework is able to focus employees on the right priorities; make them feel accountable to deliver great results; energize, engage, and position them to give their best and feel that their best will be appreciated. An essential imperative for an effective performance management system is performance review and employee clustering across performance levels. An increasing trend in UAE is a functional normalized curve, which helps differentiate across performers and non performers.

In United Arab Emirates, almost half the population in most organizations falls under the average performance zone (meets expectations). Less than 10% of the population rests on either side of the performance curve – (Did not meet Expectations and Far Exceeds Expectations). The normalization curve shown in the Exhibit 10 illustrates the differentiation in performance standards for organizations in the UAE.

**Performance Normalization Curve for Organizations in UAE**



**Performance Linked Rewards**

Most organizations in UAE are also actively moving towards performance based differentiation in rewards. Typically employees who far exceed expectation are given almost twice the salary increase compared to those who meet expectation<sup>8</sup>. By creating a strong correlation between incentive and performance, organizations do not just manage to motivate and reward your high performers but also create a performance driven culture in the organization.

Many organizations have also changed their performance linked incentive plans in wake of the crisis in UAE. Our survey shows that many of them have increased use of individual performance and also the number of performance goals in the variable pay plan.

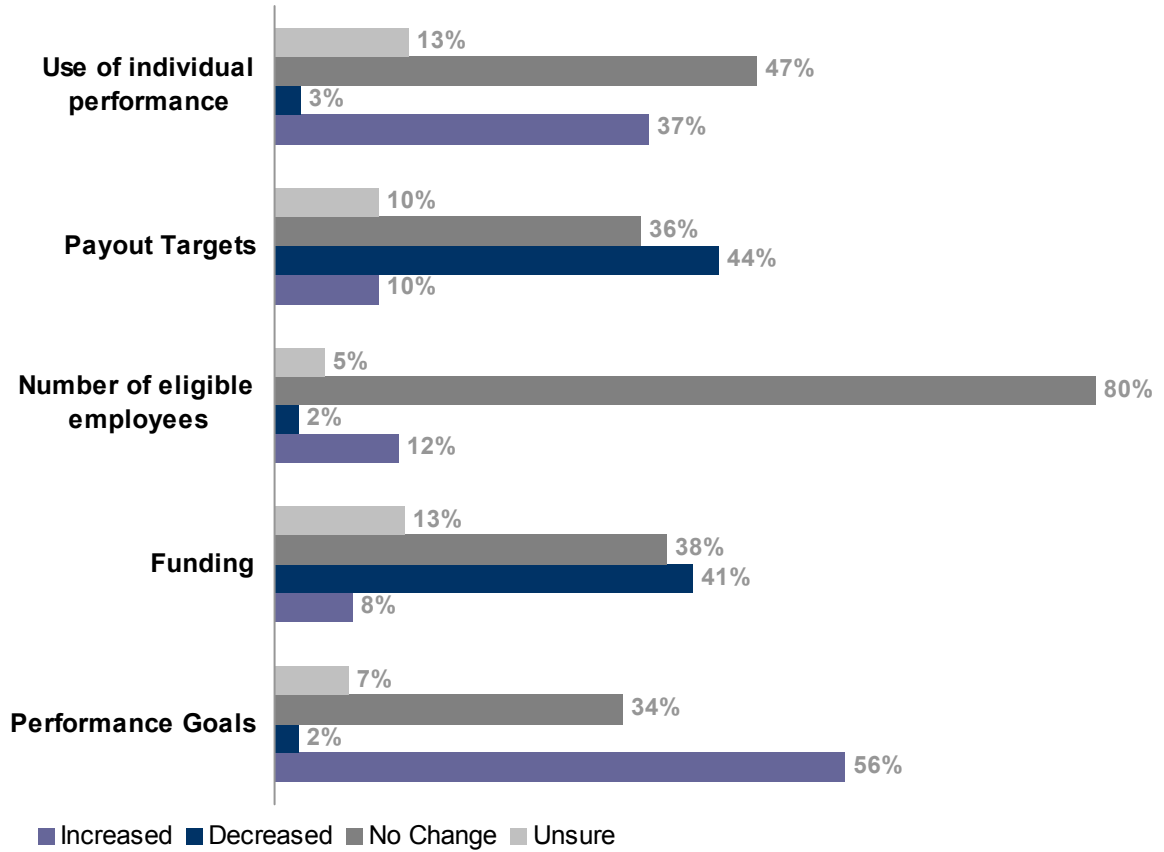
**Prevalent Practices in Performance Management**

The percentage of organizations in the Middle East that:

- ✓ Set goals and targets every year = **85%**
- ✓ Set stretched but realistic and achievable goals that most employees can meet = **79%**
- ✓ Have a balance between financial and non-financial measures for goals = **82%**

<sup>8</sup> Hewitt Salary Increase Survey in Middle East 2009

**Change in Performance Linked Pay Plans for Organizations in UAE**



**Training & Development**

Training and Development is often looked at as a discretionary spending activity and is usually the first to be put on hold when companies tighten their purse strings. More than 75% of the organizations surveyed in UAE had a formal training program in place and most of them are done internally. Over 86% of them have a training budget allocated to meet the training needs of the employees ranging from 1% - 10% of payroll cost.

A comprehensive trend being observed in the field of human resources is the integration of training and development with the performance management system. Performance management systems increasingly incorporate personal and professional developmental goals and training opportunities. Market trend indicates that internal job posting, assessment and career counseling are the most widely used sources by organizations to support continuous learning and development of employees.

# Lessons from the Best Employers in Middle East

## How the Best Employers are Managing the Downturn

Through our recently concluded Best Employers in Middle East 2009 Study, we found some very simple trends underlying **Best Employer** behavior in the downturn:

- ✓ **Reliance on standardized processes and systems** - Best Employers unerringly seemed to focus on developing sustainable systems around their critical people-management processes / activities – More than 80% of our Best Employers talked of strong focus on processes and their standardization across businesses. This focus on processes stood the Best Employers in good stead while the economy took a beating and many Best Employers displayed resilience and better decision-making capacity.
- ✓ **More confident about delivering on promises** - Best Employers seemed to find it easier to hire employees across different levels in their organization and thus perhaps did not go through the same levels of flux as other organizations in the Era of Talent Acquisition. More than 70% of our Best Employers had an articulated Employer Brand.
- ✓ **Job cuts the last option** - We found Best Employers engaging their HR and Finance teams to work together to identify potential areas of cost reduction in the people domain while constantly communicating that jobs were sacrosanct. It was interesting to see how quickly the conversation around the economic downturn would turn to a discussion on job cuts within most organizations, while with many Best Employer CEOs, the conversation often turned to discussion on how businesses were being restructured to make them more market-focused and people were being redeployed from lower performing parts of the organization to frontline functions to drive growth. Most Best Employers implemented unpaid leaves, reduced work hours, reduced benefits linked to cost of living, and announced pay cuts (with progressively higher cuts at senior levels), etc. before reducing manpower.
- ✓ **Better at dealing with manpower reductions** - It was interesting to analyze the approaches that Best Employers took to reducing headcount as opposed to many other organizations. As consultants we were impressed to see how methodically and, more importantly, compassionately some of our Best Employers went about the difficult task of “restructuring and rationalizing” employee numbers. These organizations had the benefit of strong performance management processes that enabled them to identify pockets of competence within non-performing units. They also had stronger training systems to ensure that employees could be transplanted with far greater ease. The process of manpower reduction was a structured process with specific guidelines set up by HR (and approved by the top team) for most Best Employers and the involvement of the top management in all exit conversations was a must.
- ✓ **Leveraging strength in communication** - Not only did more than 90% of the Best Employers display a well-defined communication strategy, the stewardship of this channel wasn't purely an HR task; more than 70% Best Employers ensured that top management was responsible for internal communication with support from HR.
- ✓ **HR as a strategic driver rather than a silent executor** - We mentioned that the HR departments of our Best Employers play the role of a business and strategic partner. The impact was apparent when we observed how the status of a business partner grace these HR departments much greater leverage with their management teams in driving better and well-analyzed people decisions during the economic crisis. The Best Employer HR departments were not only able to manage a significantly more humane process of manpower reduction but were also able to drive cross-functional teams in ensuring that all decisions were taken with sufficient analysis of concurrent risks for the business – More than 90% of our Best Employers felt that their HR department was able to effectively define and implement strategies and solutions to meet business requirements.

## Conclusion

Every organization goes through various stages in its business lifecycle which is shaped by several factors - both internal and external. Organizations today need to constantly evolve and adapt to change – be it due to a downturn or a paradigm shift. Preparing your workforce to be ready for this should be on priority for not just HR but also the top management in an organization. Improving the productivity of your workforce starts with understanding your workforce first and then implementing strategies that enable them to deliver better results.