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Successful Clerical Cost Control

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Despite the common feeling that office tasks are too varied and complex for control techniques, there is almost always some control program that can prove effective. Here are some tested ones —

SUCCESSFUL CLERICAL COST CONTROL

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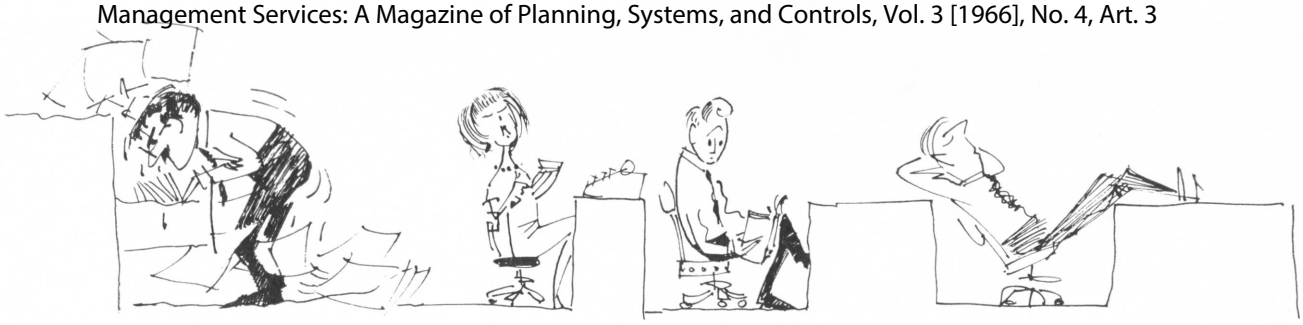
COST CONTROL is always an essential element of successful management, and in recent years controlling white-collar costs has become an important part of cost control in general. There are many reasons: White-collar workers outnumber blue-collar workers by a margin that is continuing to widen; more paperwork is involved in running modern businesses; and computers, which may some day stem the rising tide of paperwork and administrative costs, have not yet been utilized fully enough to do so.

Effective clerical cost control faces certain obstacles. One of the basic problems is a general lack of recognition of the importance of the supervisor. He is the person most directly concerned with the functioning of the white-collar workers, and thus he should be the most important source of cost control. Very often, however, he isn't a supervisor at all. In fact, it is quite common to find that he is simply the busiest and hardest-working clerk in the office and that he doesn't have the time or the "know-how" to direct the work of anyone else. His usefulness, as a source of cost control, is entirely lost.

Another obstacle is the mistaken belief that clerical and administrative functions are too difficult to control effectively because they are complex or irregular or because they involve judgmental activities. A concomitant of this belief is the feeling that the tools available for controlling these complex or irregular functions are too crude to accomplish much and that their in-



All too often the supervisor is simply the hardest-working clerk.

troduction therefore would not pay off sufficiently.

This has not been proven in our experience. Even with the crudest of tools the payoff is generally worthwhile. Sometimes, in fact, it is greater with complex functions than with those that are simpler. Broadly speaking, some control is always better than no control. With the correct approach or program, white-collar costs can be controlled. Furthermore, they can be controlled without major systems revision or mechanization; the job can be done with a short-term or immediate - improvement program and with minimal equipment expenditure, as opposed to a long-term project such as a computer installation.

Substantial savings possible

An effective and comprehensive approach to cost cutting can produce total savings of 15 to 30 per cent in clerical and administrative operations in a relatively short time. Initial savings can be made as early as six to eight weeks after the program begins. Such cost reductions are possible even in efficient companies that have extensive systems and procedures and, sometimes, work measurement programs in operation.

The size of the company does not affect the success of the program. For example, a large financing company implemented a cost-saving program in an operation involving 300 clerical employees and reduced the number of clerks by 75. A small trading organization eliminated 18 from a group of 53 employees. A well conceived approach should be effective for companies of any size. There will certainly be differences in application, since different problems require different solutions, but the basic principles are the same. The key to success is the proper implementation of the approach.

There are five major elements in a successful program to reduce and control white-collar costs: strengthening and improving supervisors' effectiveness; improving the utilization of personnel; increasing individual employee productivity; simplifying methods and procedures; and providing for the continuing realization of the benefits achieved. These are discussed separately in this article for reasons of clarity, but it should be understood that the elements are in fact tightly interwoven.

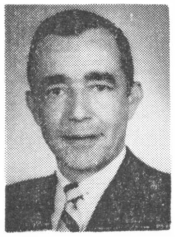
Supervisory effectiveness

The first element in clerical cost reduction is increasing the effectiveness of supervisors. Such questions as these should be asked: Are supervisors performing too many routine clerical duties that prevent them from effectively controlling the production of their people? Are the clerical groups too small to warrant full-time supervision, or, conversely, are the groups too large to be effectively supervised? Are the offices arranged so that supervisors can observe the people they are supervising?

As a general rule, in a nonroutine operation there should be one supervisor for from seven to twelve employees. Larger groups can be supervised by one person if many people are performing similar routine functions.

But, as was previously mentioned, it is quite common to find that the supervisor of an office group often isn't acting in a supervisory capacity at all. This is not surprising when we consider that he is frequently selected because of his technical knowledge of the job, with little thought given to his ability to plan and schedule work and to supervise those who do it. Frequently, too, he is not given any formal training in supervision.

Since the development and maintenance of an effective cost control program depend to a great extent on the supervisor's ability to plan and control work and to improve the productivity of individual employees, to be successful the program must provide for a qualified analyst to work closely with supervisors to achieve two objectives: to reduce costs and to help supervisors develop leadership skills so that



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Offices should be arranged so supervisors can observe the people in their section.

the cost reductions can be maintained. The effectiveness of the first-line supervisory organization forms the cornerstone of the program.

Utilization of personnel

The second element of the program is to improve the utilization of personnel. This element is sometimes overshadowed by the glamour of sophisticated systems or the technology of work measurement. Yet the realization of substantial savings may depend largely on finding ways to utilize people better.

Clerical activities are generally characterized by fluctuating volume and irregular flow, and both of these must be dealt with to realize significant savings. It is common to find each department's staffing based on its own requirements for handling peak volume. Between peaks some clerks are not effectively utilized. Improving the productivity of individual employees in a section with highly cyclical activity may reduce the overtime on peak days but may not, of itself, permit important staff reductions.

It's better to have each member of a small group perform the same job than to have each perform only a part of the job.

Cost cutting, then, requires more than increasing individual productivity. It must also be based on group planning and on flexibility in group handling. Larger homogeneous groups facilitate control and improve utilization. For example, better utilization of personnel can generally be achieved by having each member of a small group perform the same job rather than having each able only to perform a part of the job.

"Fixed" work assignments are a heavy cost factor. If sections of the accounts receivable file are permanently assigned to clerks by letters of the alphabet, for example, substantial time may be lost to the extent that the volume of each segment fluctuates. If the assignments are flexible, clerks can be placed where the volume is, thereby raising the group's productivity.

What about the planning and scheduling of the work and the people to do it? Is there a section or departmental schedule for receiving and completing work? Is the work planned for maximum manpower utilization on an annual, monthly, weekly, daily, or even hourly basis, so that tasks and personnel to perform them are correlated? Provision must be made for transferring people to where the work is (or vice versa, depending on what is to be done), and this calls for planning and perhaps a training program to achieve the necessary flexibility. Can utilization be improved through the use of early shifts, late shifts, staggered lunch hours, or temporary or part-time help?

All these questions must be considered before a final plan is put into operation.

Individual productivity

The third element in controlling cost is increasing individual employee productivity. This breaks down into two sub-elements: first, the establishment of some type of index or goal for performance, preferably on a short-term basis, and, second, the provision of proper control tools and the supervision to use them correctly.

A variety of techniques is available to measure performance—and an almost equal variety of views as to which is the best. The technique to use is dictated by the circumstances of each situation. One word of caution is in order. There is a danger of being carried away by the precision that seems to be offered by some particular technique and of assuming that it can be applied with equal accuracy in all areas. Many clerical activities are so variable that even a standard arrived at with the most precise technique will, in reality, be no more than a "rubber yardstick." In these cases, the means have to be justified by the end result.

In this article space permits only a listing of the principal techniques used in setting employee performance standards and a quick review of their advantages and disadvantages. (For detailed descriptions of these methods, the reader

is referred to the sources cited in the footnotes.)

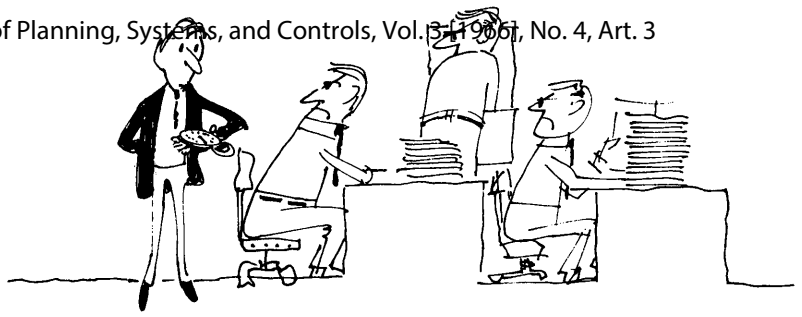
Some of the more common techniques for establishing performance goals are these:

Time Study[1] is very accurate for high-volume, repetitive activities but expensive to apply and maintain in other areas. Care must be used in introducing this method to avoid a negative employee reaction sometimes associated with the use of a conventional stop-watch study in the office.

Predetermined Standard Data:[2] Like time study, this method is very accurate for high-volume, repetitive activities but expensive to apply and maintain in other operations. This technique can be applied more rapidly than time study.

Work Sampling with Pace Rating[3] is a statistical technique to determine how time is actually being spent, adjusted by a rating factor based on a "normal" working pace. This is a much less expensive technique than time study or predetermined standard data, and it will produce fairly accurate results. A variation of this technique involves the selected application of predetermined standard data to key tasks, in place of the pace rating.

Actual and Historical Data:[4] There are several relatively inexpensive methods for generating performance goals from actual or historical data. The results range from fairly accurate to poor, depending on the type of job and the data gathering method used. Some of these techniques receive better employee acceptance but they all lack the objective and scientific basis of the techniques previously listed.



Time study is risky in terms of employee reaction.

Multiple Regression Analysis (MRA): Although individual productivity control is preferable, it is not always practical. Under such circumstances another mathematical technique, MRA,[5] may be used to develop group performance goals.

MRA is a statistical means of measuring the amount of change in one variable caused by changes in two or more related variables. It calculates the linear relationship that exists between variables. This relationship may be used to predict the change in one that will result from altering one or more of the remaining variables.

Thus, in a clerical work situation, if a statistical relationship can be established between the volume of work output of a number of tasks and the time spent on those tasks, then it is possible to calculate the number of staff required to perform any subsequent work volume that may arise. In any complex work situation where a number of tasks are being performed by a number of people it is necessary to use a computer to establish the statistical relationship between all work output and time taken on each task.

Estimates: Occasionally none of the previously mentioned techniques is practical. In project-type work, for example, estimates might be used. Although admittedly a crude tool, this may be substantially better than no tool.

These brief descriptions demonstrate that there is no single technique which will be best under all circumstances. The decision as to which technique to employ in a given situation will depend on the type of activity to be measured, the training and skill required of the analyst, the cost to apply and maintain the technique, the degree of accuracy required, and the degree of employee acceptance likely to be obtained.

It is always important to make adequate provision for the testing, refining, and revising of performance standards so that complete agreement as to the reasonableness and attainability of production goals is achieved. The final test of any performance goal is whether or not it can be achieved. It must be both attainable and sustainable.

An extremely effective control technique is to dispatch work in uniform batches of known quantity with a known expected completion time. Supervisory follow-up of substandard production on an exception basis can then deal with problems as they arise. Rigorous application of this technique tends to be limited to larger groups performing the same more or less routine activity. However, the principles involved have wider application through the use of post tallies and even estimates.

The application of these principles enables the supervisor to increase individual employee productivity and plan and control work more effectively.

Where there is no effective con-

[1] Ralph M. Barnes, *Motion and Time Study*, 4th ed., John Wiley & Sons, Inc., New York, 1958.

[2] H. B. Maynard, G. J. Stegemerten, and J. L. Schwab, *Methods-Time Measurement*, McGraw-Hill Book Company, Inc., New York, 1948.

[3] Robert E. Heiland and Wallace J. Richardson, *Work Sampling*, McGraw-Hill Book Company, Inc., New York, 1957.

[4] Anita P. Loeber, "Administrative Work Measurement," *Business Systems*, Systems and Procedures Association, Cleveland, Ohio, 1963, chap. 12.

[5] George N. M. Currie, "Clerical Time Management," *McGill Journal of Business*, Fall, 1965.

trol over production, it is common to find wide variations in the productivity of the same individual on different days or among individuals doing the same work in the same department. In one office, the average hourly production for Clerk A varied from a low of 10 to a high of 40. Clerk B, doing the same work, varied from a low of 30 units per hour to a high of 65. Since these variations could not be attributed to the nature of the work, they represented clear evidence of substantial lost productive time. Obviously, a significant improvement could be achieved simply by raising the low periods.

A production reporting system should also be established within a practical framework. An overly elaborate reporting system can carry the seeds of its own destruction. The control reporting system must provide the necessary information on a timely basis yet be simple and practical. Reports should be available to supervision as soon after the close of the work periods they cover as is possible. There must also be recognition of the varying informational requirements at different levels of management.

No discussion of productivity would be complete without emphasizing the point that adequate controls over quality must be established. Frequently, however, existing controls over quality are better than those over production. Since quality tends to rise as productivity improves, this area rarely poses special problems unless it is overlooked.

Some practitioners believe that methods and procedures changes should not be a part of a cost control program because they take too long to introduce and implement. This view is short-sighted; there are usually significant savings to be achieved through methods and procedures improvements. The additional time required to install the new methods and procedures can be minimized if changes are limited to those that promise a relatively quick payoff.

In fact, the close interrelationship between effective utilization of personnel and work flow makes some review of methods and procedures essential. Furthermore, productivity increases are achieved by continually investigating the reasons for poor productivity and taking corrective action as a result of such findings. It is at this point that many additional improvements in procedures and methods, not contemplated earlier, will become evident. We find that employees accept increased productivity and improved utilization programs in conjunction with methods and procedures changes. The changes will tend to make the increased productivity less obvious.

Common sense, too, dictates that methods and procedures be examined so that time is not wasted attempting to measure operations that are inherently inefficient or unnecessary.

Retaining the benefits

The fifth and perhaps the most important element is to provide for the continuing realization of the benefits achieved. During the conduct of the cost reduction program and continuing forever, there is a need for the active and enthusiastic support of top management if initial cost reductions are to be maintained. Probably the most important contribution management can make is to motivate the entire organization to want to reduce costs.

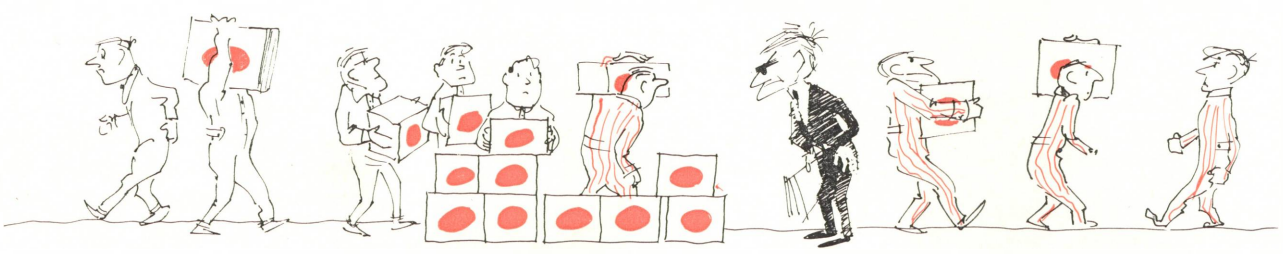
Several key steps during the installation period will have an important impact on the organization's ability to maintain the savings:

First, a plan must be developed in advance for handling the displaced personnel. Displacement can be handled in a variety of ways such as by letting attrition resolve the matter or by arranging transfers, etc. The important point is to decide on a plan.

Second, it is imperative to remove excess people from an area immediately upon making a change. If this is not done, the work will tend to be spread and it will be very difficult to realize the savings at a later date.

Third, an effective cost reduction program can be installed only by qualified analysts who have the time to stay with the installation until all problems and questions are resolved and the operation is functioning properly with the reduced staff. Improper handling of the installation and early post-installation phases of the program will surely mean that any savings will be only temporary.

Provision should also be made for a regular and continuing follow-up audit of the program to detect any problems or deteriorations so that necessary corrective action can be taken easily and quickly. Because human beings are involved, there is a natural tendency



There is little point in measuring operations which themselves are inefficient or unnecessary.

for any cost control program to deteriorate over some period of time if there is no follow-up. A regular follow-up audit can go a long way toward preventing this from happening. The follow-up should include a review of the performance of supervisors because of the importance of the supervisory organization to the continued realization of the savings.

Case histories

Let us look at specific examples illustrating how the five elements of a clerical cost reduction program have been applied successfully.

In one case a department that employed 73 people was reduced to 50. The department had been organized into three separate groups to process incoming accounts receivable, invoices, and cash collections and to maintain a record of the outstanding receivables, using punched cards. A large part of the work involved a coding operation.

A thorough study was made of the entire operation, including paperwork procedures, forms and work flow, staffing levels and utilization of personnel, job content (to simplify processing steps and eliminate unnecessary operations), and office layout and office equipment.

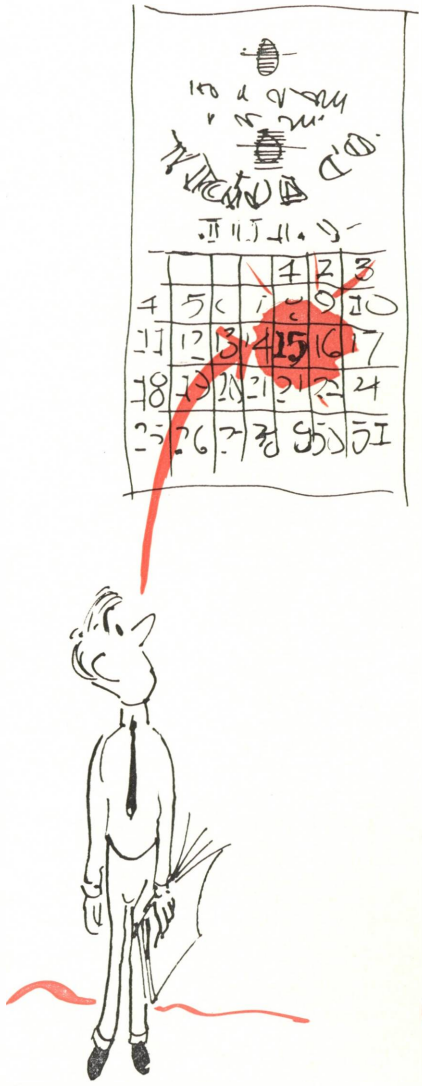
By combining operations so that each clerk could perform more than one step, it became possible for the clerks who processed incoming accounts receivable transactions to do a coding operation as well. Another major factor in reducing personnel was the introduction of individual productivity records. This brought to light wide fluctuations in daily production and gave supervisors first-hand knowledge of work loads and performance. Supervisors were then able to improve the performance of poor producers. Work schedules were rearranged to permit full utilization of personnel and to eliminate peak loads, which had caused excess staffing. For example, the due dates for the preparation of certain reports were staggered to eliminate the traffic jam that occurred when all reports were due the same day.

In another department, the number of employees was reduced from 29 to 22. This department had consisted of five small separate groups —each group doing identical work and handling a fixed portion of the work. In each unit were four to six clerks, one of whom acted as a part-time supervisor.

Reduction of personnel in this department was accomplished by combining the small groups into one large group under a full-time supervisor. Besides providing proper supervision, the change gave greater flexibility in transferring and assigning work. Once again, the introduction of individual records of productivity allowed the supervisor to evaluate individual performance to increase the productivity of low producers. The cumbersome posting of duplicate records was eliminated by developing one set of records containing all information required. This not only reduced processing time but also eliminated errors caused by recopying the information.

Conclusion

Launching the kind of program that has been described involves two basic requirements: qualified people and a carefully conceived plan to realize the potential savings. To be in a position to evaluate a proposed plan, management should insist on a brief preliminary survey, regardless of whether consultants are being used or the program is being proposed by internal staff. This survey should determine the approximate savings that can be realized; should develop a specific improvement program so that management will be aware of the type of changes that will be required; and should establish a timetable for carrying out the program. The net results, if the program is properly implemented, will be a simplification of operations, an upgrading of supervisory skills, improved utilization of personnel, increased individual employee productivity, and lower clerical and administrative costs.



There should be a regular follow-up audit of all improvements made in cost control.