

Bain & Company Survey

ENGAGING EMPLOYEES WITH ZERO-BASED BUDGETING

By Akram Alami

KUWAIT: Based on a recent global survey by Bain & Company, more companies use the tool as they face more pressure to cut costs. The system is quite popular in companies in the Asia-Pacific where 80 per cent of executives interviewed by Bain for the 2015 report noted their plans to implement zero-based budgeting programs. And chances that history may repeat itself could show low levels of satisfaction in the use of the program. Less than half of big companies have reported success from their efforts.

Following our analysis of the experiences of 11 publicly-owned corporations, despite the benefits of zero-budgeting, the system failed to engage employees. These companies were evaluated across three metrics of success: the EBIT margin growth, revenue growth and employee engagement. Glassdoor data showed that less employees recommend the company to a friend, dropping in nine of the eleven cases, by an average of eight percentage points. Observing employee engagement in hundreds of cases, we found out that the decline takes place as the power to lead decreases, top talents leave and morale wavers.

We have seen though how the most successful companies boost employee engagement under zero-based budgeting by using an approach to organizational and business process simplification, which we call zero-based redesign. This method can revive a company's view about ownership, removing the idea that impedes employees from doing their jobs and simplifying the organization as well as disappointing practices that dampen the enthusiasm of results-oriented high performers. This is visible in one our cases: A manager at 3G Capital reported that

before the company used zero-based budgeting to simplify roles and objectives, remove layers of and standardize processes at Kraft-Heinz, he used to struggle keeping pace with a huge number of emails that go up to 300, including several unproductive meetings on a regular day. Now, the system has resulted to fewer than 40 emails in a day and meetings have become very targeted and well-organized.

A thoughtfully devised, simpler environment should energize people, enabling them to improve performance and earn financial rewards for their results. Higher employee engagement positions a company to increase both revenues and margins faster than competitors over the long term. It also can set the stage for agile ways of working.

How to achieve

How to achieve that vision? First, instead of treating overheads as expenses, regard the program as an opportunity to reframe them as a multiyear investment in building assets-the capabilities and human capital-that can deliver a sustained competitive advantage. Also, emphasize the central human element of building the organizational muscle for continuous cost improvement. By primarily focusing on technicalities such as cost packages and policies, the odds of success drop dramatically. Lasting results require a highly collaborative process designed to change long-term behavior.

As with any major change, the CEO and leadership team must be willing to maintain the commitment over the long term, serving as role models and coaches, and sending clear and consistent messages throughout the organization. As a starting point, companies need to clarify-possibly rediscover-their insurgent mission. Our colleagues Chris Zook and

James Allen introduced the concept of the insurgent mission in *The Founder's Mentality: How to Overcome the Predictable Crises of Growth*. At its highest level, the insurgent mission answers the fundamental question: Why do we exist? The company must understand the insurgent mission and the resulting strategy, spelling out how it differentiates the company in the market.

Next, the company needs to assess its current and past return on operating expenses to inform savings and investment opportunities. The objective is to determine how to weight opex toward those areas of the business that provide the best long-term returns and are most consistent with the insurgent mission, making sure every dollar is a working dollar in service to strategy. Each organization is unique, and to maximize results, the effort must be attuned to a company's culture. When designing the zero-based budgeting capability, the first critical questions to answer concern the scope of the program. Companies need to determine how restrictive to make spend policies, for example, or how deeply to tie incentives to zero-based budgeting performance.

Zero-based budgeting doesn't tell you how to take out the cost. To do that, companies need a holistic approach that tackles complexity just as it tackles overconsumption. In the same way that zero-based budgeting forces companies to scrutinize every dollar of spending, a zero-based redesign enables companies to radically revamp their operating models by analyzing which activities should be performed at what levels and at what frequency. It also helps them examine how they could perform these activities better-potentially through streamlining, standardization, outsourcing, offshoring or automation. Best-in-class companies reengineer the

work to optimize the cost to serve customers. They adapt the operating model to reduce organizational and business complexity, clarify decision making and accountability, and rebalance the portfolio to discontinue dilutive or non-strategic investments. This holistic line of attack delivers a simplified, latter organization that empowers employees by clarifying the link between individual responsibilities and the most critical value drivers in the business.

To avoid losing the hearts, minds and energy of employees, companies need to make a compelling case for change, linked to company strategy, and translate it into meaningful behavior change for employees. The best companies don't design their zero-based budgeting in a back room to be unveiled to the organization as a fait accompli. Instead, they co-create it with key change agents (e.g., the package owners) across the organization. With greater empowerment and responsibility, employees can become more engaged to make front-line decisions. Companies can further improve the employee experience and value proposition by channeling some of the savings back into investment in employees.

When most successful, zero-based budgeting creates a new culture of ownership. And feeling like an owner is something that employees can get excited about. Companies can achieve this only through strong leadership, a clear insurgent mission to guide the effort, tuning the zero-based budgeting dials to a company's unique needs, a holistic approach that addresses organizational complexity, and an unwavering dedication to keep employees engaged. This is what separates the companies that establish themselves as cost, energy and growth leaders-trifecta winners-from those that reap no more than temporary savings. — Akram Alami, Partner, Dubai - Bain Middle East

INDIA CRACKS DOWN ON SHELL COMPANIES; 200,000 SHUT

HUNDREDS OF SHELL FIRMS LOCATED IN KOLKATA

NEW DELHI/KOLKATA: When India's Prime Minister Narendra Modi banned high-denomination currency bills in a surprise move late last year, authorities noticed a surge in shell companies depositing cash in banks, seemingly in a bid to hide who owned that wealth.

The moment, said a top aide to Modi, was an eye-opener for the government, which had not realized just how much shell companies were being used to hide assets and launder money.

Modi's office has formed a team of top law enforcement and revenue officials to go after such companies, according to the aide and a government memo reviewed by Reuters.

Last month, the authorities ordered nearly 200,000 shell companies to be shut down, and the aide said the government is examining hundreds of thousands more. The systematic crackdown on shell companies - which have no active business operations or assets - is perhaps one of the most tangible outcomes of demonetization, which aimed to hit tax evasion and move India toward cashless, digital transactions that leave a paper trail.

"We are very much at war against black money. The impact of this (crackdown) will be huge on shell companies," the aide, who cannot be named in line with government rules, told Reuters. In his Independence Day address on Tuesday, Modi claimed credit for going after these companies, and warned that "looters of the nation's wealth will have to answer."

Modi took office in 2014, vowing to fight corruption and bring back billions of dollars stashed away overseas as well as in real estate, stock markets and front companies through a web of fictitious names. While the move to with-

draw 85 percent of bank notes shook the economy and was widely criticized, the fight against unaccounted wealth carries overwhelming support from ordinary Indians who often have to pay bribes for government services.

Lalbazar Street, Kolkata

A high-level task force leading the investigation has found hundreds of shell companies are registered in a few buildings in the eastern city of Kolkata, according to the government note reviewed by Reuters. More than 400 companies listed their address in a dimly-lit colonial-era building at 9/12 Lalbazar Street.

In its warren of offices were firms offering services such as earthmoving equipment, infrastructure financing, information technology consultants and many others which had office space the size of cubicles. Many were locked, with their padlocks coated in dust. Others were grimy residential quarters with laundry hanging from the windows.

Data separately provided by Tofler, a company information database service, identified nearly 3,000 companies in two offices in the building. Some were named after flowers.

A tax inspector said the Kolkata firms were a virtual money laundering industry and drew a parallel to the Panama legal firm Mossack Fonseca that emerged from obscurity last year after the leak of millions of documents from its offices that illustrated how the wealthy use offshore corporations to avoid taxes. "The Kolkata industry does the work of obfuscating money trails. Kolkata companies are a huge network that take your money from one end and bring it out the other," said the inspector, who didn't

want to be identified as he's not authorized to talk to the media.

FRAUD AND EMBEZZLEMENT

The shell companies support much of the fraud and embezzlement in India, tax authorities say. The owners of these companies create elaborate smokescreens, including naming personal servants and chauffeurs as board directors, the tax inspector said, adding they are used to obscure the ultimate beneficiaries, conceal political investment, route money to evade tax, commit fraud or manipulate tenders.

Last week, the Securities Exchange Board of India imposed trading restrictions on 162 listed entities as shell companies as part of its broader crackdown on illegal offshore transfers and tax evasion. Several firms identified in the list of front companies have challenged the decision, saying they were engaged in legitimate business. The Serious Fraud Investigation Office is creating a database of shell companies, and has so far identified 114,269 as front firms.

The database contains details of those involved in the shell company 'eco-system', from those who set up the companies to the beneficiaries of laundered money and the professional mediators who bring the operators and beneficiaries together, the government note said.

More than 370 front companies were listed at 23A Netaji Subhash Road, another site in Kolkata, according to the note. Sujit Kumar Mukherjee, the secretary of the 23A Tenants' Association, said he was not in a position to say if there were front firms operating from the building. "It is very difficult to say who is doing what behind the front door," he said.— Reuters



A plane of the Air Berlin company flying above the town of Wustermark, Germany. Struggling German carrier Air Berlin says it's filing for bankruptcy after its main shareholder, Abu Dhabi-based Etihad, said it would make no more financing available. —AP

RYANAIR FILES COMPLAINT WITH EU AFTER AIR BERLIN BANKRUPTCY

BERLIN: Germany yesterday rejected a claim by budget airline Ryanair of a "conspiracy" behind efforts to keep bankrupt rival Air Berlin afloat until a new owner is found.

The Irish airline lodged a complaint with European Union competition authorities after Air Berlin filed for bankruptcy protection and then got a 150 million euro (\$177 million) loan from the German government. Ryanair said late Tuesday there's "an obvious conspiracy" between the German government, Lufthansa and Air Berlin. The loan will help Air Berlin to keep flights running for the next three months, while it is negotiating a possible deal with Lufthansa and another unnamed carrier, reported by

German media to be easyJet. A spokeswoman for Germany's Economy Ministry said it was "absurd" to claim that the rescue package had been staged. Beate Baron told reporters in Berlin that the government expects the loan to Germany's second-largest airline to be repaid.

Air Berlin filed for bankruptcy protection Tuesday after its main shareholder, Abu Dhabi-based Etihad, said it would make no more financing available following years of unsuccessful turnaround attempts.

The airline, which carries some 80,000 people a day mostly on short-haul destinations, made a loss of about 782 million euros last year.—AP

SQUEEZE ON UK LIVING STANDARDS EASES AS WAGES PICK UP

LONDON: The squeeze on living standards in Britain since last year's Brexit vote appears to be abating, a development that should, if sustained in the months to come, shore up the economy as it gears up for its exit from the European Union.

The Office for National Statistics said yesterday that average weekly earnings, including bonuses, increased by 2.1 percent in the three months to June against the same period the previous year. The consensus in the markets was that it would remain at May's rate of 1.9 percent.

In light of Tuesday's news that inflation held steady at 2.6

percent in July, the earnings figures suggest pay packets have slightly more purchasing power than they had before. Should inflation ease back, as many economic forecasters predict, then wage increases could start to outstrip price rises, helping to shore up consumer demand at a crucial time when the British government is negotiating how the country will leave the EU. That hope helped the pound recover earlier losses to trade around \$1.2865.

"There is some cause for optimism that the squeeze on household finances could come to an end later this year,

though ultimately the light at the end of the tunnel could be provided by falling inflation rather than rising wages," said Ben Brettell, senior economist at stockbrokers Hargreaves Lansdown.

Last year's Brexit vote had an almost immediate impact on living standards. The 15 percent fall in the value of the pound stoked inflation by making imports like food and energy more expensive. Before the vote, wage increases were outstripping inflation, which was barely above zero.

The impact of the pound's drop has taken a while to make

itself felt in the British economy, potentially because consumers spent early in anticipation of higher prices to come. But prices did rise, retail sales, which are a crucial part of the British economy, weakened. As a result, economic growth has fallen from a quarterly rate of 0.7 percent in the fourth quarter of 2016 to 0.2 percent and 0.3 percent in the subsequent three-month periods. Another potential positive for the British economy is that unemployment has fallen to its lowest since 1975, to 4.4 percent in the three months to June from the 4.5 percent registered in May.—Reuters

EXCHANGE RATES

AL-MUZAINI EXCHANGE CO.

ASIAN COUNTRIES	
Japanese Yen	2.759
Indian Rupees	4.746
Pakistani Rupees	2.870
Sri Lankan Rupees	1.971
Nepali Rupees	2.981
Singapore Dollar	223.020
Hongkong Dollar	38.695
Bangladesh Taka	3.737
Philippine Peso	5.988
Thai Baht	9.127

GCC COUNTRIES	
Saudi Riyal	80.787
Qatari Riyal	83.207
Omani Riyal	786.772
Bahraini Dinar	804.440
UAE Dirham	82.482

ARAB COUNTRIES	
Egyptian Pound - Cash	21.200
Egyptian Pound - Transfer	16.972
Yemen Riyal/for 1000	1.216
Tunisian Dinar	127.210
Jordanian Dinar	427.490
Lebanese Lira/for 1000	2.018
Syrian Lira	2.159
Morocco Dirham	32.414

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	302.750
Euro	356.940
Sterling Pound	395.540
Canadian dollar	239.710
Turkish lira	85.890

Swiss Franc	316.020
Australian Dollar	240.230
US Dollar Buying	301.550

GOLD	
20 Gram	249.070
10 Gram	127.450
5 Gram	64.570

DOLLARCO EXCHANGE CO. LTD

Rate for Transfr	Selling Rate
US Dollar	302.350
Canadian Dollar	238.735
Sterling Pound	393.881
Euro	357.792
Swiss Frank	295.188
Bahrain Dinar	801.788
UAE Dirhams	82.699
Qatari Riyals	83.925
Saudi Riyals	81.517
Jordanian Dinar	427.010
Egyptian Pound	17.045
Sri Lankan Rupees	1.974
Indian Rupees	4.720
Pakistani Rupees	2.869
Bangladesh Taka	3.742
Philippines Peso	5.911
Cyprus pound	17.991
Japanese Yen	3.759
Syrian Pound	1.589
Nepalese Rupees	2.946
Malaysian Ringgit	71.323

Chinese Yuan Renminbi	45.779
Thai Bhat	10.082
Turkish Lira	86.247

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.382871	0.392871
Czech Korune	0.005577	0.017577
Danish Krone	0.043709	0.048709
Euro	0.349873	0.358873
Norwegian Krone	0.034008	0.039206
Romanian Leu	0.077607	0.077607
Slovakia	0.009030	0.019030
Swedish Krona	0.033435	0.038435
Swiss Franc	0.304634	0.315634
Australasia		
Australian Dollar	0.228985	0.240985
New Zealand Dollar	0.212702	0.222202
America		
Canadian Dollar	0.231927	0.240927
Georgina Lari	0.124850	0.124850
US Dollars	0.298800	0.303220
US Dollars Mint	0.299300	0.303220
Asia		
Bangladesh Taka	0.003278	0.003862
Chinese Yuan	0.043807	0.047307

Hong Kong Dollar	0.036636	0.039386
Indian Rupee	0.004186	0.004874
Indonesian Rupiah	0.000018	0.000024
Japanese Yen	0.002651	0.002831
Korean Won	0.000255	0.000270
Malaysian Ringgit	0.066897	0.072897
Nepalese Rupee	0.003022	0.003192
Pakistan Rupee	0.002626	0.002916
Philippine Peso	0.005829	0.006129
Singapore Dollar	0.216020	0.226020
Sri Lankan Rupee	0.001599	0.002179
Taiwan	0.009856	0.010036
Thai Baht	0.008757	0.009307
Arab		
Bahraini Dinar	0.796773	0.805273
Egyptian Pound	0.015274	0.021182
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000190	0.000250
Jordanian Dinar	0.422613	0.431613
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.020848	0.044848
Omani Riyal	0.780333	0.786013
Qatar Riyal	0.078909	0.083849
Saudi Riyal	0.079687	0.080987
Syrian Pound	0.001284	0.001504
Tunisian Dinar	0.122108	0.130108
Turkish Lira	0.081039	0.091339
UAE Dirhams	0.081043	0.082743
Yemeni Riyal	0.000984	0.001064