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Managing the accounting and finance function – Productivity trends and focus

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MANAGING THE ACCOUNTING AND FINANCE FUNCTION

Productivity Trends and Focus



BY
CLARENCE GOH



aced with a tightening labour supply, raising productivity is important to Singapore businesses. To understand the impact on accounting

and finance functions of businesses, the Institute of Singapore Chartered Accountants (ISCA) collaborated with Robert Half to survey over 550 senior finance executives in Singapore and the region, namely Hong Kong, China (Shanghai) and Japan, to understand where their focus lay regarding enhancing productivity of their functional units or departments.

This study focuses on trends in productivity-related initiatives undertaken by the finance and accounting function.

In Singapore, Hong Kong and Japan, 150 senior finance executives from each market, and in China (Shanghai), 102 respondents were surveyed. For Singapore, of the 150 respondents,



KEY FINDINGS ABOUT ACCOUNTING AND FINANCE FUNCTIONS

- + Firms in Singapore, Hong Kong, Japan and China favour staff-related initiatives over process-related ones to improve productivity.
- + Due to their similar stages of development, Singapore, Hong Kong and Japan face common challenges like an ageing workforce and high cost of living, which create pressure to improve labour productivity.
- + China places greater emphasis on technology adoption to raise productivity than the more developed economies.
- + Singapore lags behind others in leveraging outsourcing to enhance productivity.
- + Streamlining of business processes can drive improvements in productivity and quality of outputs.



60% were Finance Directors (FDs) or equivalent while 40% were Chief Financial Officers (CFOs) or equivalent. Of these, 58% belonged to firms classified as small (fewer than 500 employees), 25% to mid-sized firms (500 to 999 employees), and 17% to large firms (more than 1,000 employees).

In the other jurisdictions, there was also a good representation of respondents who held FD or CFO equivalent positions. The majority

of respondents were similarly from small firms – 61% in Hong Kong, and 53% in both Japan and China. For the remaining, 22% in Hong Kong, 18% in Japan and 26% in China were from medium firms, while 17% in Hong Kong, 29% in Japan, and 21% in China were from large firms.

Respondents rated six main areas that can contribute to productivity gains. Each area was rated according to the extent the respondents had focused on to improve productivity in

the past five years and also in the next 12 months. These six areas are further classified into two categories – staff-related and process-related.

Staff-related areas include (i) Motivating Employees, (ii) Improving Staff's Performance Evaluation, and (iii) Improving Training and Development of Employees. Process-related areas include (iv) Better Technology Adoption, (v) Streamlining of Business Processes, and (vi) Outsourcing of Business Functions.

FOCUS

PRODUCTIVITY TRENDS

PRODUCTIVITY TRENDS

We found that firms in Singapore, Hong Kong, Japan, and China tend to favour staff-related initiatives over process-related ones when looking to raise productivity, with this being relatively more prominent in the more developed economies of Singapore, Hong Kong and Japan.

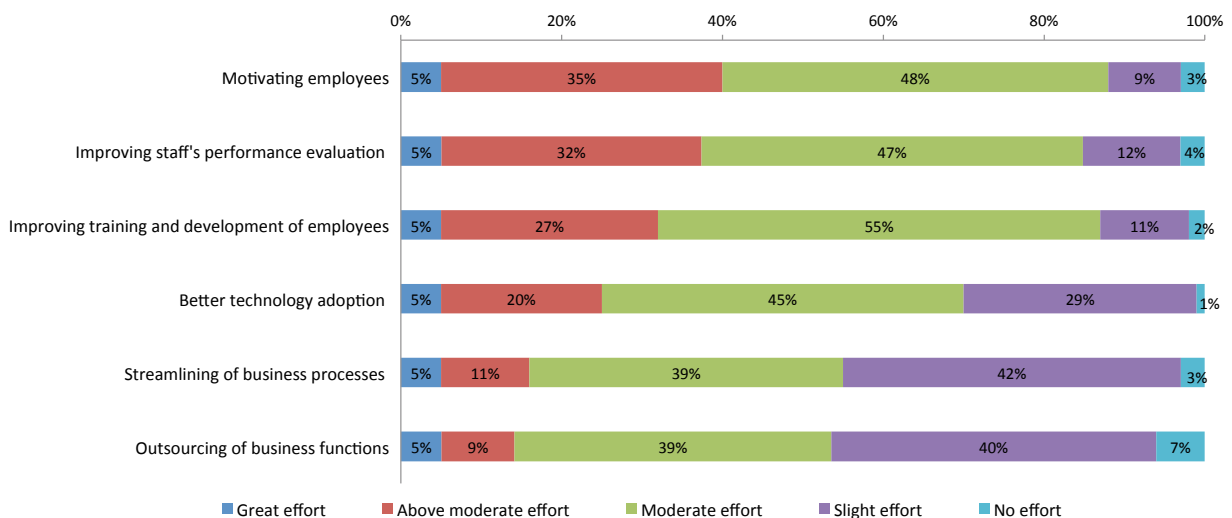
For Singapore, in the past five years, 40% of respondents rated “Motivating Employees” in the top two bands; 37% did the same for “Improving Staff’s Performance Evaluation”, and 32% for “Improving Training and Development of Employees”.¹ In contrast, the three bottom-ranked areas were process-related – 25% of respondents rated “Better Technology Adoption” in the top two bands; 16% for “Streamlining of Business Processes”, and 14% for “Outsourcing of Business Functions” (Figure 1).²

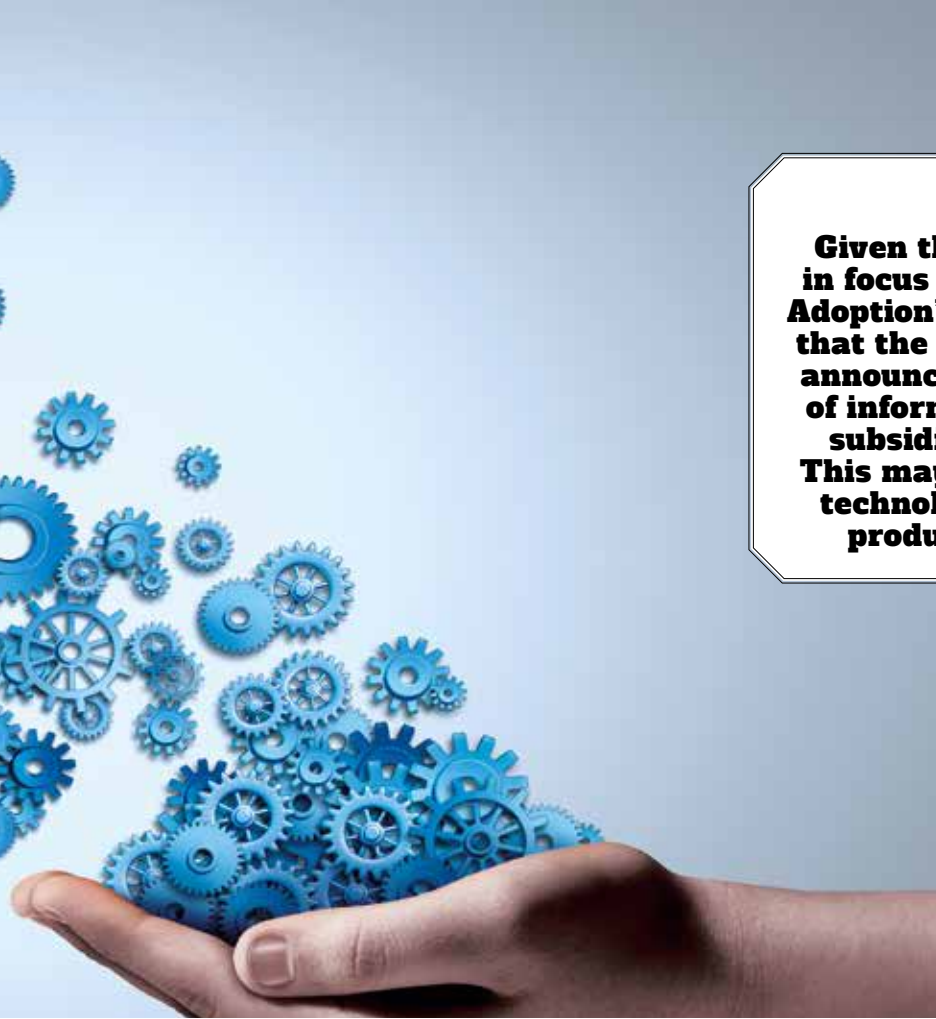
¹ In our analysis throughout this report, we followed a similar convention and analysed participant responses in terms of top three and bottom three-ranked initiatives. The rankings are based on the percentage of participants who responded with a rating in the top two rating bands in the survey.

² It should be noted that the types of business functions that are typically outsourced in the finance and accounting departments can often relate to “transaction activities” which are recurring in nature.



Figure 1 Extent of effort put into improving productivity in the past 5 years: Singapore

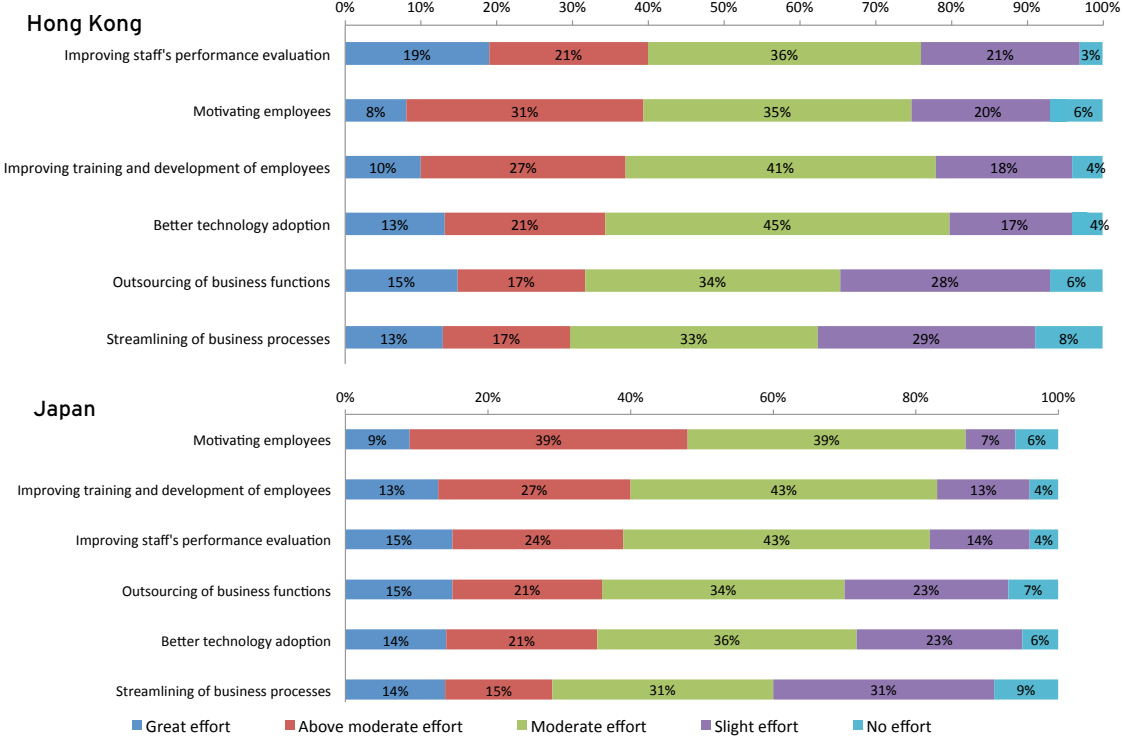





Given this apparent decrease in focus on “Better Technology Adoption”, it was perhaps timely that the Singapore government announced \$500 million worth of information and technology subsidies in February 2014. This may help firms refocus on technology adoption to raise productivity and growth.

We observed similar trends for Hong Kong and Japan, where the top three areas were also staff-related initiatives – 39% of respondents in Hong Kong and 48% in Japan rated “Motivating Employees” in the top two bands; 40% in Hong Kong and 39% in Japan did the same for “Improving Staff’s Performance Evaluation”, and 37% of respondents in Hong Kong and 40% in Japan rated “Improving Training and Development of Employees”. The bottom three areas were process-related (Figure 2).

Figure 2 Extent of effort put into improving productivity in the past 5 years: Hong Kong and Japan



FOCUS

PRODUCTIVITY TRENDS

The findings for Singapore, Hong Kong and Japan may be due to the countries' similar stages of economic and social development. While productivity levels are fairly high in these jurisdictions, they face common challenges, such as the ageing workforce and high cost of living. These factors may perhaps explain the focus of respondents on the stated initiatives to drive overall productivity and thus also wage growth.³

An ageing population may create some pressure to improve labour productivity.⁴ The *APO Productivity Databook 2013* ranked Singapore, Hong Kong and Japan comparatively high in proportion of aged dependents. Further, Singapore, Hong Kong, and Tokyo were ranked

³ According to The Global Competitiveness Index 2013-2014, compiled by the World Economic Forum, which is based on how productively a country uses available resources, Singapore, Hong Kong and Japan were ranked second, seventh and ninth globally.

⁴ The *APO Productivity Databook 2013* is published by the Asian Productivity Organization, and presents comparative data on productivity and economic growth covering 29 Asian economies and Australia, the European Union, Turkey, and the United States of America.

⁵ For example, a research article, "Productivity and Wage Growth in Singapore", published by the Ministry of Trade and Industry in 2011, documents a "relatively strong relationship between productivity growth and the real average wage growth of resident workers in Singapore".

⁶ Research evidence, such as, *Does Wage Inflation Cause Price Inflation*, published by Federal Reserve Bank of Cleveland, finds that higher prices can have an impact on wage inflation.

⁷ Contribution of "IT capital deepening" to labour productivity growth is presented in Figure 64 in the *APO Productivity Databook 2013*.

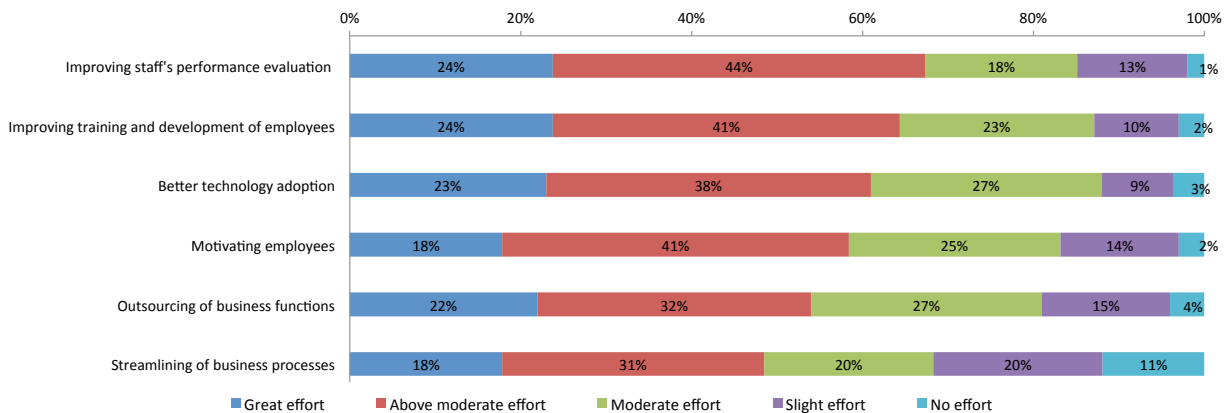


first, 13th, and 6th in a 2014 Economist Intelligence Unit survey as cities with the highest cost of living. There is a possibility that firms chose to focus on improving stated productivity initiatives in order to support pressures for real wage growth, given documented link between improving productivity and real wage growth. Pressure for wages to grow may also

be related to the effects of a higher cost of living.^{5,6}

As for our China data, the process-related initiative "Better Technology Adoption" (61%) is ranked top three, along with two other staff-related areas, "Improving Staff's Performance Evaluation" (68%), and "Improving Training and Development of Employees" (65%) (Figure 3).

Figure 3 Extent of effort put into improving productivity in the past 5 years: China





Statistics from the *APO Productivity Databook 2013* indicated that from 1970 to 1990, Singapore, Japan, and Hong Kong were ranked third, fourth and fifth respectively, ahead of China (ranked eighth), in terms of “Capital Deepening”. In contrast, from 1990 to 2011, China moved up the rankings to become first, while Singapore, Japan and Hong Kong moved down to be ranked 11th, 10th and eighth respectively. The report indicated “IT Capital Deepening” contributed relatively more to productivity growth in Singapore, Hong Kong and Japan than to such growth in China from 1985 to 2000, while from 2000 to 2011, “IT Capital Deepening” contributed relatively less to productivity growth in Singapore, Hong Kong and Japan, than in China.⁷

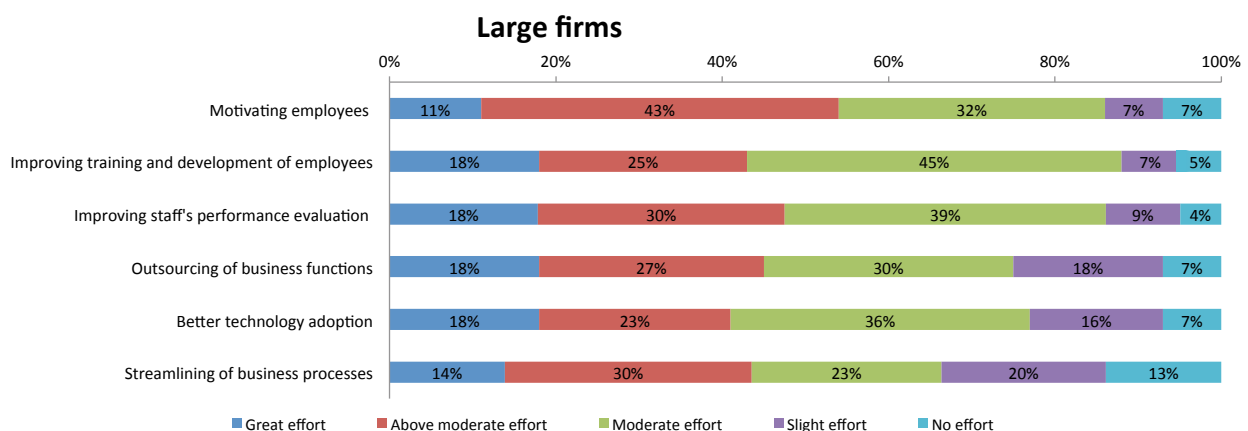
This comparatively greater emphasis on “Better Technology Adoption” might be due to China being at a relatively earlier stage of economic development where technology adoption may be relatively lower, especially given the less expensive labour. Belatedly, China may have to quickly build technological capabilities from

a lower base, and hence the stronger focus on technology to raise productivity.

In contrast, the more developed economies of Singapore, Hong Kong and Japan are likely to be at a relatively more advanced stage of technology adoption, and hence, placed a correspondingly lower emphasis on this area.

“Outsourcing of Business Functions” appears not to be a top priority for improving productivity among Singapore firms. However, firms in Japan and China seem to employ outsourcing relatively more extensively. “Outsourcing of Business Functions” ranks top three for large firms in Japan, and also for large and medium firms in China (Figures 4 and 5).

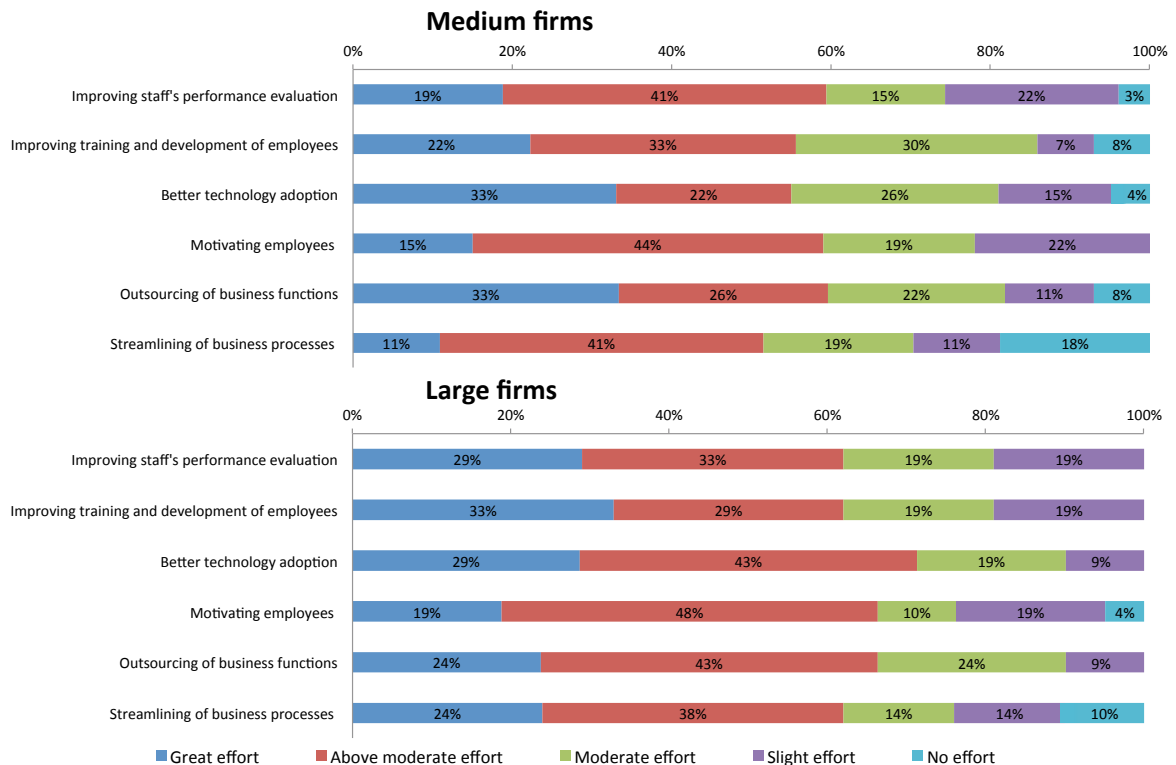
Figure 4 Extent of effort put into improving productivity in the past 5 years: Japan

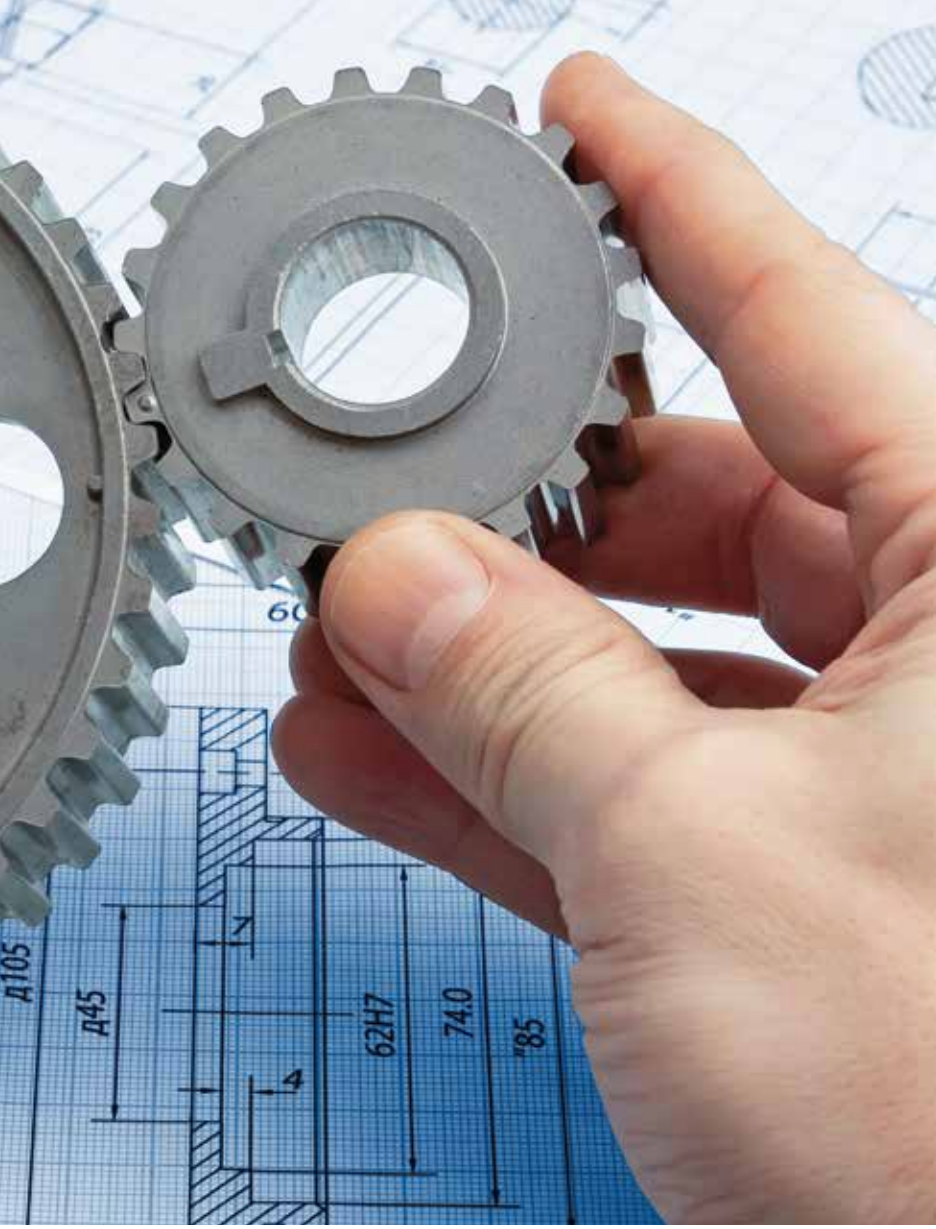




... in addition to driving improvements in productivity, streamlining can also improve the quality of outputs because it promotes reduction in the fragmentation of work and establishes clear ownership of work processes.

Figure 5 Extent of effort put into improving productivity in the past 5 years: China





There is evidence that outsourcing can significantly improve firm productivity.⁸ In the past five years, Singapore firms were found to be somewhat behind the other jurisdictions in employing outsourcing. This is a possible area Singapore firms could focus more attention on, when looking to raise productivity in the accounting and finance function.

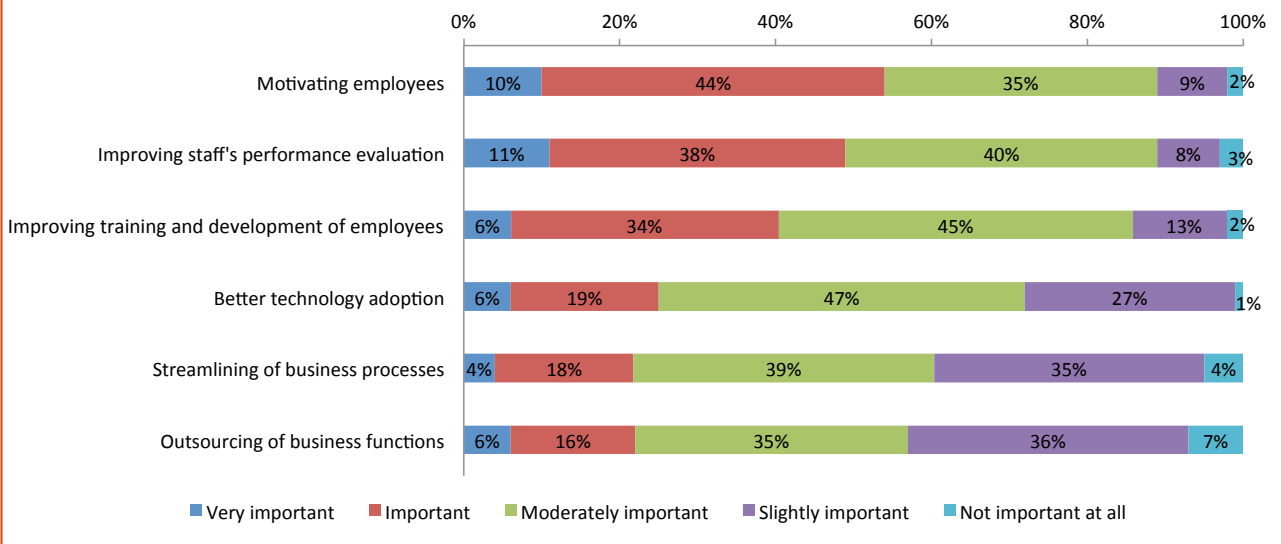
FOCUS GOING FORWARD

Looking ahead to the next 12 months, respondents in all four jurisdictions plan to place greater focus on productivity issues, compared to the past five years.

Singapore respondents indicate a continued preference for staff-related initiatives over process-related initiatives. Staff-related initiatives occupy the top three spots: “Motivating Employees” (54% in top two bands); “Improving Staff’s Performance Evaluation” (49%) and “Improving Training and Development of Employees (40%) (Figure 6).

⁸ For instance, the book, *Globalization, Outsourcing and Labour Development in ASEAN*, provides an overview and also past studies of the potential positive effects of outsourcing on productivity. Outsourcing service providers have also highlighted benefits such as allowing a company to remain flexible and able to make changes, while a company can still run its core function with the help of an outsourcing vendor to absorb changes being made to the organisation.

Figure 6 Importance of improving productivity in the next 12 months: Singapore

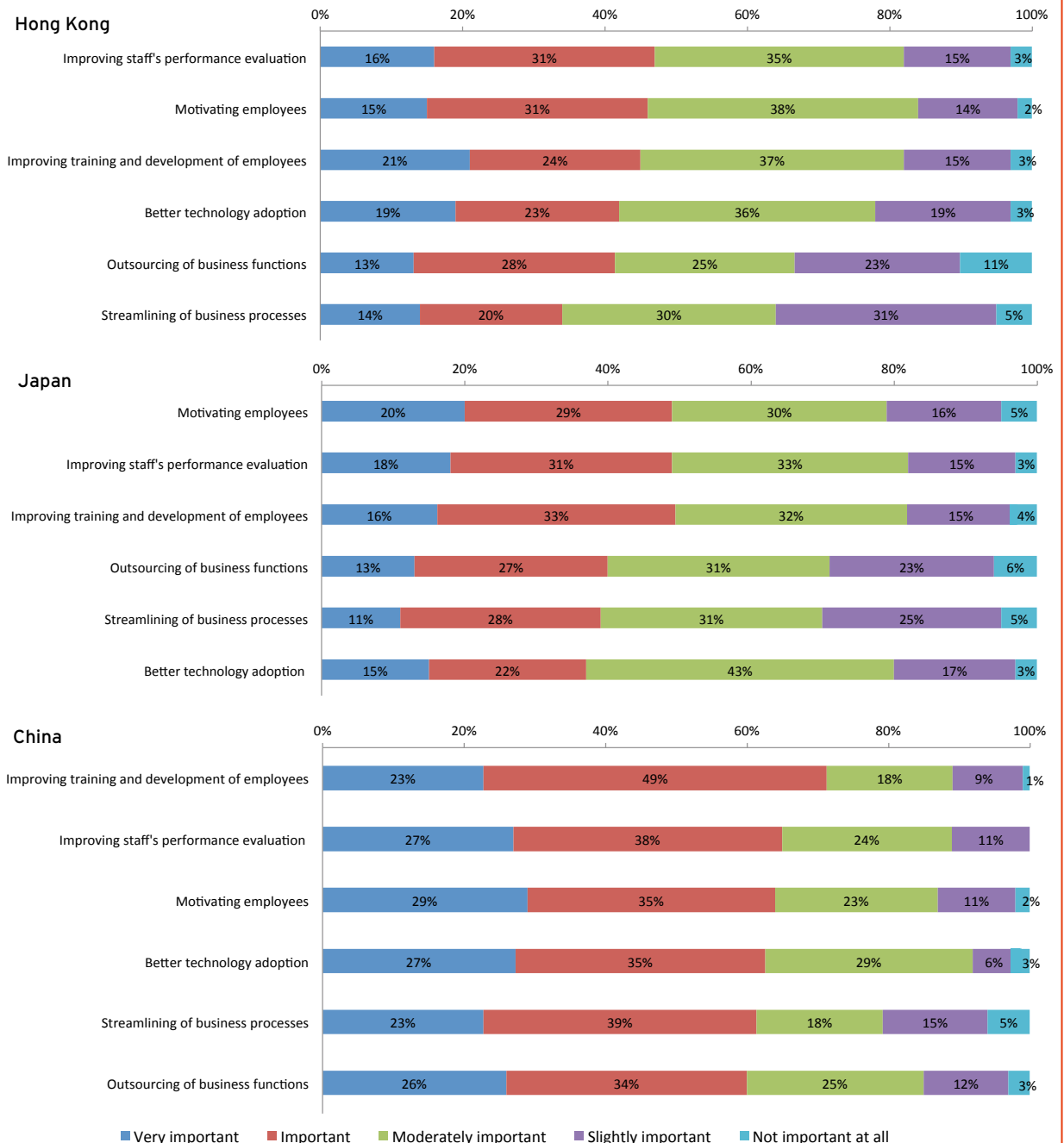


This same trend was also observed in the other jurisdictions, with staff-related initiatives being in the top three,

and process-related initiatives in the bottom three spots (Figure 7). Notably, 72% of respondents in China believe

training and development is important (top two bands), reflecting the need for China to upskill its workforce.

Figure 7 Importance of improving productivity in the next 12 months: Hong Kong, Japan and China



Looking at Figure 8, there appears to be an overall further increase in focus on productivity issues for the next 12 months in Singapore. The results show an increase in the proportion of respondents in almost all areas (rating in the top two bands), to improve productivity in the next 12 months, compared to the past; the only exception is “Better Technology Adoption”.

These findings are consistent with Singapore firms making continued efforts to raise productivity in response to the further tightening of foreign labour, and also with the enhanced productivity incentives announced by the government in 2014.



Figure 8 Top 2 band ratings of productivity initiatives: Singapore

	Past 5 years ("Great effort" & "Above moderate effort")	Next 12 months ("Very important" & "Important")
Motivating employees	40%	54%
Improving staff's performance evaluation	37%	49%
Improving training and development of employees	32%	40%
Better technology adoption	25%	25%
Streamlining of business processes	16%	22%
Outsourcing of business functions	14%	22%

The exceptions to this trend are the small and large Singapore firms, where there is a decrease in the proportion of respondents rating “Better Technology Adoption” in the top two bands for the next 12 months (Figure 9).

Figure 9 Top 2 band ratings of productivity initiatives (small, medium, large firms): Singapore

		Past 5 years ("Great effort" & "Above moderate effort")	Next 12 months ("Very important" & "Important")
Motivating employees	Small	40%	53%
	Medium	30%	46%
	Large	58%	69%
Improving staff's performance evaluation	Small	41%	52%
	Medium	16%	30%
	Large	54%	65%
Improving training and development of employees	Small	37%	38%
	Medium	16%	32%
	Large	43%	58%
Better technology adoption	Small	27%	26%
	Medium	11%	16%
	Large	39%	35%
Streamlining of business processes	Small	14%	21%
	Medium	10%	16%
	Large	31%	35%
Outsourcing of business functions	Small	16%	22%
	Medium	11%	14%
	Large	16%	35%

Senior finance executives in all four jurisdictions plan to focus more on productivity issues in the coming 12 months, compared to the past. Overall, these trends suggest that these executives are increasingly concerned about productivity.

Given this apparent decrease in focus on “Better Technology Adoption”, it was perhaps timely that the Singapore government announced \$500 million worth of information and technology subsidies in February 2014. This may help firms refocus on technology adoption to raise productivity and growth.

In Hong Kong and Japan, there was also a general increase in focus on productivity issues for the next 12 months compared to the preceding five years, but the focus is somewhat mixed in China (Figure 10).



Figure 10 Top 2 band ratings of productivity initiatives: Hong Kong, Japan, and China

	Hong Kong		Japan		China	
	Past 5 years	Next 12 months	Past 5 years	Next 12 months	Past 5 years	Next 12 months
Motivating employees	39%	46%	48%	49%	67%	64%
Improving staff's performance evaluation	40%	47%	39%	49%	62%	65%
Improving training and development of employees	37%	45%	40%	49%	62%	72%
Better technology adoption	34%	42%	35%	37%	72%	62%
Streamlining of business processes	30%	34%	29%	39%	62%	62%
Outsourcing of business functions	32%	41%	36%	40%	67%	60%



In Singapore and the region, streamlining of business processes as a possible means to achieve productivity gains appears to be accorded much less attention. When ranked in terms of its importance to increase productivity in the next 12 months, “Streamlining of Business Processes” was consistently ranked in the bottom two for Singapore (22%)⁹, Hong Kong (34%), Japan (39%), and China (62%) (Figures 6 and 7).

Streamlining of business processes might represent an avenue for firms

⁹ Refers to the percentage of respondents who rated “Streamlining of Business Processes” as “Very important” or “Important” (top two bands)

¹⁰ The book, *Globalization, Outsourcing and Labour Development in ASEAN*, suggests that outsourcing can improve firm productivity. A 2013 Bain & Company report further suggests that streamlining of business processes can drive improvements in productivity and also improve the quality of a firm’s outputs. Hence, outsourcing and streamlining of business processes have the potential to be more effective in raising productivity than other staff-related initiatives.

to achieve further productivity gains. According to a 2013 report by management consulting firm Bain & Company, in addition to driving improvements in productivity, streamlining can also improve the quality of outputs because it promotes reduction in the fragmentation of work and establishes clear ownership of work processes. Practitioner feedback further indicated that this can lead to productivity gains as a result of greater economies of scale, standardisation of operating procedures, less downtime during staff turnover, and various other cost savings.

Hence, firms could place some focus on streamlining of business processes, and consider the potential benefits of streamlining when implementing productivity initiatives.

CONCLUSION

Our findings provide insights into some main considerations involved in improving productivity of the accounting and finance functions in Singapore, and how they compare with Hong Kong, Japan, and China.

In general, the findings suggest that firms in Singapore, and in Hong Kong, China and Japan, tend to favour staff-related initiatives over process-related initiatives when looking to raise productivity.

The focus on staff-related initiatives is especially prominent in the more developed economies of Singapore, Hong Kong and Japan, possibly due to their being at comparable stages of economic and social development, where issues like the ageing workforce, the need to raise labour productivity to support wage growth and the high cost of living may have been contributing factors. Further, technology adoption may be relatively advanced in these economies and therefore of correspondingly less focus than in developing economies such as China. However, if technology

adoption is relatively advanced in the developed economies, it should be recognised that there still remains room for productivity growth by adopting technology.

According to *The Global Information Technology Report 2010-2011* by the World Economic Forum, Singapore and Hong Kong ranked relatively high – at fourth and 12th respectively – in terms of the friendliness of their market, regulatory, and infrastructure environment to innovation and information and communication technology (ICT) development. However, their businesses were ranked relatively lower – 10th and 25th respectively – in terms of their capacities to effectively use technology to generate productivity gains and innovation. The differences in ranking suggest that businesses here may not be realising their potential by adopting new technologies.

Senior finance executives in all four jurisdictions plan to focus more on productivity issues in the coming 12 months, compared to the past. Overall, these trends suggest that these executives are increasingly concerned about productivity.

The findings highlight areas where firms could perhaps pay closer attention to. Outsourcing and the streamlining of business processes are areas which are relatively less focused upon by Singapore firms but where productivity gains could still be achieved.¹⁰

Other than insights gleaned from the findings of this report, we are working on future reports that delve into the challenges faced by senior finance executives in implementing productivity initiatives, and also staff skills and training that decision-makers deem essential in driving productivity gains. ISCA

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