

## How Not to Tackle Operational Efficiency

*By Ashwin Damodaran and Paul McCormack*

Lower consumer spending and lack of readily available credit are among the clear signs of economic downturn management teams have been facing over the last eighteen months. So, instead of driving expansion through revenue growth or acquisitions, C-Suite executives have been faced with meeting Wall Street's expectations by driving operational efficiency.

Operational efficiency is the end product that emerges when the right combination of people, processes and technology come together to enhance the productivity and value of any business operation, while also driving down the cost of routine operations to an optimal level. Resources previously needed to manage operational tasks can then be downsized or redeployed to new, high-value, high-impact initiatives that bring additional capabilities to the organization.

While the concept of driving operational efficiency seems relatively simple, management teams often falter in the execution, leading to disastrous results. With that in mind, there are some proven ways not to drive operational efficiency within an organization:

- **Have a predisposed view of the outcome.** Management teams often launch large-scale projects with a predisposition of the results and outcome. Rather than taking the time to perform a detailed assessment on the state of the business, putting together a business plan and gaining approval from all levels within the organization, executives often take for granted the success of the initiatives. More often than not these initiatives are included in guidance to Wall Street and lead to missteps along the way, which in turn can lead to poor decisions or even collapse of the company. Examples of these predispositions are embodied by the telecom mergers of late 1990s that promised inordinate cost synergies and wider margins that never materialized — mostly due to mismanagement of the actual operational activities. Such oversight contributed to the bankruptcy filings of WorldCom and Global Crossing in the early 2000s.
- **Protect the sacred cow.** Sacred cows roam free in many companies, never being questioned and never being examined objectively; they are simply revered by those who are forced to live with them. Sacred cows can take many forms but are easy to spot with the simple question: "Why are we doing this?" If the answer is: "This is the way it is done in this company" or "Because this is the way we have always done it," you are likely dealing with a sacred cow. An industry that has long suffered from the sacred cow mentality is the music industry. The failure of music companies to recognize the sacred cow in the form of the compact disc and the importance of adaptation to changes in technology—online downloading, file sharing—have caused them to rapidly lose market share to innovative companies like Apple that now account for more than 25 percent of the overall music market in the U.S.

- **Assign the job to an executive with ego or who doesn't appreciate a team approach.** Management of large projects requires strong leadership, a great deal of finesse and the ability to build consensus among team members from various organizations. A fatal mistake a management team can make is to not recognize an executive's egotistical or selfish motive when putting together a project team. A great leader shares the successes with their team while being the one to fall on the sword in the event of the failure. As Peter Drucker said: "Management is doing things right; leadership is doing the right things." This is an essential component for success.
- **Risk management does not save cleaning the fan.** Project plans often lack a definition of the risks associated with the project. Planning for risks ahead of time will provide the management team with the ability to counter headwinds if they occur. Risk statements should be written in an "if then" structure so as to articulate the probability of occurrence, severity of the impact and the owner of the risk. This will save time if and when something hits the fan.

Executives need to find the best way to optimize what their companies do within their core competencies. The most nimble businesses are singularly determined in their efforts to ensure that the best people create the best processes, which leverage the best and most relevant technology.

People, and the experiences they bring, are critical to this effort. Process also is a key component to driving down costs for any activities that are repeatable. If faced with a new complex challenge, it is important to draw upon actual experience, best practices, and industry standards to design and execute any process. Technology crosses all industries, all business units, and all business functions. In any instance, selecting the right technology to enable business processes is no trivial task. This selection should include input from those who have implemented the same technology for the same purposes before, so as to anticipate and avoid complex issues in the future.

## **About the Authors**

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