

How to Tackle Operational Efficiency

By Ashwin Damodaran and Paul McCormack

As the current economic downturn persists, companies are focusing on driving improvements in their financial results through operational efficiency or excellence. In an earlier article we detailed how NOT to tackle operational efficiency (See August 2010 BusinessEdge). This article will focus on the key elements and processes that should be followed when driving toward operational efficiency.

Operational efficiency is achieved when the right combination of people, processes and technology come together to enhance the productivity and value of any business operation. At the same time, operational efficiency drives down the cost of routine operations. It is extremely important that companies view achieving operational efficiency as a continuous process rather than a one-time project or event.

The objective is to establish a sustainable framework that generates process improvements and efficiency, which in turn, improves financial performance. The following five steps serve as the foundation upon which a company can build a sustainable approach to operational efficiency:

1. **Assess.** A cross-functional assessment of potential operational improvement opportunities can provide the management team with a range of options to evaluate. The assessment phase is critical to the long-term success of any operational improvement program as it requires alignment with the overall goals, objectives and strategy of the company. Management teams often rely on external resources to provide a holistic and unbiased view of issues and problems that the company is facing.
2. **Analyze.** During the analysis phase, the impact of operational improvement on people, processes, technology—and the resulting impact on financial performance—is documented and translated to ascertain the financial impact of the program. Focused breakout sessions with functional heads allow for the formulation of high-level cost-benefit analyses, which feed into individual business cases to be used as justification to pursue each initiative.
3. **Approve.** Once the team has created and presented business cases for each of the initiatives, a steering committee consisting of members from the leadership team should review, approve and prioritize each of the initiatives based on established criteria. The approval criteria should link directly to the strategic vision and roadmap for the company. Once approval is granted to pursue operational improvement, the management team should create a project management office (PMO). The primary goal of the PMO is to ensure that the appropriate project management policies, processes, and methods are consistently applied throughout the life of the project. In addition, the PMO will serve as the primary source for guidance, documentation, and metrics related to best practices involved in managing and implementing projects within the company. After establishing the PMO, the management team should assign resources to the PMO that assist in the development of a high-level roadmap that supports the approved business cases.

It is critical that management teams recognize the core competencies within their organizations in order to drive operational efficiency and achieve desired results. They often overlook the importance of adhering to a structured process; the use of a balanced mix of internal and external resources; and the use of technology to drive results.

4. **Execute.** Once the PMO and project resources are in place, it is critical that the team follow a clearly defined approach and execute against measurable objectives that tie back to the approved project plan. These objectives are a concrete statement or charter describing what the PMO is trying to achieve in the short term. A well-worded objective will be specific, measurable, attainable/ achievable, realistic, and time-bound (SMART). Execution against these objectives typically entails performing the following tasks:
 - Current-state analysis allows the team to gain a detailed understanding of how a process or procedure is presently executed in the company. The team would gather data and use models to document the processes, including technologies and touch points, or hand-offs between functional groups.
 - Designing of the future state is done after conducting the current state analysis, as it provides the team with context and insight into the ways by which people, processes and technologies can be leveraged to gain the maximum efficiencies. The team will create process models and activity dictionaries that outline the entire process.
 - Validation of future state through a gap-fit analysis highlights the changes that occur from transitioning from current state to future state, and it will highlight any gaps within the newly designed process. If a company has multiple locations that are impacted, this task would be conducted at each location.
 - Once the validation is completed, detailed methods and procedures are developed and deployed to assist in the performance of the future-state processes. Deployment of measurement tools, such as a balanced scorecard, is critical to validate success of the future-state process. Concurrent with the above, transition planning is completed through the creation and deployment of change management materials to ensure a successful migration from current-state to the future-state.
5. **Validate.** The validation of initiatives provides a critical link between strategic management and business process management. In many organizations, business conditions falter even though re-engineering and process improvement efforts appear to reduce costs and improve quality. Validation through tools, such as Balanced Scorecards, can assure that the visions created at the boardroom level are achieved by the organization. Scorecards communicate strategic objectives to the workforce in terms that are meaningful. In this phase, the leadership can measure and determine if shortfalls exist to the original plan, and if the reinitiation of the continuous improvement process is necessary.

Following a structured process similar to the one outlined above will guide a company in achieving its strategic objectives while driving operational efficiency within the organization. The establishment of a sustainable framework is based on the need to create discipline; however, it is important to note that there is no one-size-fits-all framework.

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