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How Operational Improvements Drive Overall Performance

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One time-honored way for an organization to enhance its performance is by improving its operations. Whether the process studied involves the customer's, member's or grantee's experience interacting with the organization — or internal activities that promote collaboration, planning, coordination and workflow between departments — identifying and then implementing transformative changes can make a difference.

Let's look at the varied objectives of process reviews and the factors that are key influences on operational improvements.

What Process Reviews Can Accomplish

Some examples of recent process reviews (where we had the opportunity to participate) and the objectives set by management include:

- A large not-for-profit grant making organization that funds programs across the country decided to put their financial and administrative function under the microscope. Their goal was to redesign their financial reporting process to eliminate bottleneck points and shift the work effort to position the group to become a more value-added advisor who could provide analytical insight and guidance to other departments. Senior leadership needed a more effective function in order to more easily align fiscal spending with program outcomes and better anticipate variances based on trending patterns.

- The United States subsidiary of a global consumer products company found themselves with cash flow constraints due to a buildup in customer accounts receivable balances. They chose to examine the entire order-to-pay process and better understand their credit and collection practices and how best to reduce the level of exposure and financing investment. The past practice of throwing more people at the problem provided limited return and not knowing the true cost of servicing a customer distorted the apparent profitability of the accounts and product lines.

- To address the concerns of a carrier who provides professional liability insurance, a professional service firm recognized the value of establishing guidelines and repeatable processes for vetting new clients and revisiting existing relationships when specific risk factors emerged. Previously some of the clients they served had "bad actors" in key management roles that were engaged in questionable dealings, presenting a reputational risk for the firm.

- College administration used the retirement of a department head as the impetus to more closely examine all facets of the program, including the grant lifecycle (e.g., application, budgeting, funding, monitoring, reporting). To establish a future vision, the evaluation entailed mapping out the current state, identifying inefficiencies and capitalizing on opportunities to enhance automation and optimize resources.

- Under pressure to reduce costs, an insurance company opted to assess the efficiency and effectiveness of their Information Technology function. Management wanted to know whether they had the proper strategy and complement of talent, security, applications, platforms and vendors in place to sustain service levels, minimize risk and contain costs. It was also noted in the analysis that while on paper the IT headcount relative to the total employee base was higher than at peer companies, investments in process automation allowed the rest of the business to be more productive.

- A fast growing telecommunications company recognized that the existing process of tracking equipment, spares and other assets was ineffective; not only were records inaccurate, but some expensive items were missing and — too often — installers went into the field without the proper equipment. By undertaking a cradle-to-grave analysis of their supply chain, the key issues were remediated and a go-forward roadmap constructed that provided a more robust and reliable operating model.

Factors Influencing Improvements

Our experience has shown that significant operational improvements can be uncovered when you look at the following attributes of each process in a cross-functional manner:

Quality: We all recognize that product defects during production or distribution may result in customer returns, warranty claims, product recalls and adjustments of prior sales. In the service sector, quality matters also and the simple mistake of sending a client the wrong information or failing to meet a filing deadline will undermine any relationship and could even pose a liability.

Velocity: Given how comfortable we have become with having information available on-demand, organizations that are laggards are considered out of touch with the expectations of their members, customers and those they may serve. Particularly troubling are manual paper-based activities that delay cycle time and impede productivity.

Service: The customer or member experience is critical to the impression a company makes with those parties you work or do business with. A distributor who does not measure fill rates, for example, may not only lose sales but find that customers are moving to more reliable suppliers. Likewise, a finance or IT function that is slow in tracking, responding and addressing the needs of the user community may find that their jobs have been replaced by an outsourced provider that is willing to guarantee service levels.

Cost: Since the Great Recession, saving money or doing more with less seems to be part of every strategy. Processes that are burdened by performing tasks that add little value and spending time on rework result in extra costs. In a manufacturing setting, supply chain issues that require fashion goods, for instance, to be transported by air instead of by ship to ensure availability during the selling season erodes profit margins. In a grant-making or service organization, evaluating high costs in back office functions due to department silos or antiquated systems may lead to streamlined processes and cost-savings.

Control: Operational controls are established to ensure that management's directives are adhered to. They are often communicated to employees in the form of policies and practices and reflect prevailing regulations and laws. They are also essential to protect the organization's assets, minimize risk and promote operational efficiency. The breakdown or lack of controls can result in fines, fraud, security breaches and other adverse outcomes.

Innovation: While closely linked to many of the other attributes noted above, this attribute deserves special attention because living with legacy processes is the mark of a business in decline and will find it challenging to remain competitive. Some enablers of innovation can be information systems, linking companies with their business partners, deploying standard reporting structures and protocols as well as using tools for advanced planning, monitoring operational execution, analysis and performance measurement. Innovation can be hijacked, however, if an organization commits substantial funds to technology investments and undermines the effort by allowing employees to influence the design so the end product has the "look and feel" and functionality that simply mimics the applications that are being replaced. We have found that it is essential to create a culture of innovation and cost optimization by incentivizing continuous improvement.

Contact Us

Taking a fresh look at the design of processes critical to your operations every few years is a sound management practice and far more productive than waiting for a problem to occur that triggers a crisis atmosphere. If you would like to further discuss how best to approach such an assessment, feel free to contact either Risk Advisory Services Principal Larry Baye, Principal (lbaye@pkfod.com) or Risk Advisory Services Partner Mark Bednarz, Partner (mbednarz@pkfod.com).