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AN INTELLIGENT RESPONSE TO A FINANCIAL DOWNTURN

COMMENT

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HOW CAN YOUR ORGANISATION USE THESE ECONOMICALLY CHALLENGING TIMES TO PROVIDE A PLATFORM FOR FUTURE GROWTH? MANAGEMENT CONSULTANT ROGER PERRY SUGGESTS THERE ARE SEVEN ELEMENTS TO AN INTELLIGENT RESPONSE TO THE DOWNTURN.

For many organisations, 2009 will be one of the most challenging years on record. Although Australia may still technically avoid recession, we know there will be much slower growth.

The sudden and extreme nature of the change in economic conditions startled many organisations. While some have responded in a balanced and thoughtful manner, many others have taken short-term actions which may lead to medium term degradation of value. The approach taken towards lower growth may well determine which enterprises are best placed for the immediate change in cycle.

A thoughtful response to more economically challenging times can provide a platform for future growth, while still providing some protection from immediate threats. In the following text I have outlined the seven key elements of an intelligent response to the financial downturn.

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The Seven Elements

1. Eliminate non-core activity

From studies my group has undertaken over the past 16 years, I have found that many organisations do not have a clear picture of where staff time is really spent. Non-core activities – those activities that do not drive value – usually form a significant proportion of many roles.

Information identifying how roles are really structured (i.e. where the time is spent) can be enlightening to even the most "in-touch" of managers. Typically, a range of non-value added activities have crept into job roles over time. For example, reports may be produced that are no longer required. Signoffs may exist that are not appropriate. Tasks are divided between personnel to create hand-offs and inefficiencies. Errors in data can produce hours of searching and correcting. Many of such tasks can be removed or restructured out of the organisation and removing these activities liberates time for real value-added effort.

Sometimes the task is simply performed by the wrong person. For example, it is common for high cost staff to perform lower cost duties, so moving these activities to more appropriate staff can facilitate a boost in leadership energy which is invaluable in any cycle.

One financial services organisation is focusing an enormous amount of energy on liberating time to lead. Tasks that can be performed by more junior personnel are structured out of the leader's role and activities such as planning, communicating and mentoring are added into the role. This can provide enormous leverage in times of change (as long as it is associated with the right targets and measures).

Furthermore, eliminating some activities and consolidating core tasks into redefined roles can result in considerable cost reduction opportunities.

Some organisations are also taking considerable advantage of areas of high natural turnover by moving tasks to areas with low turnover. This provides a cost savings benefits at a low investment.

2. Reduce waste in essential processes (don't pay to annoy your customers)

In parallel with reducing non-core activity, processes should be redesigned to reduce waste, support the new structure and ensure efficiency. Not only does this reduce costs within an organisation, customers are provided with better service.

"Noise" is the term we use to describe the type of process inefficiency that is most obvious. "Noise" relates to errors, duplication, chasing down information that really should be there, rework etc. Evidence across 12 financial sector organisations indicates that "Noise" levels are generally higher than thirty per cent of all work performed. A simple way to interpret this is that thirty per cent of staff time is spent on tasks that the organisation would ideally prefer NOT to do. "Noise" should be targeted for removal to improve productivity and give a better customer outcome (e.g. reduced processing errors and faster response times).

Certain types of process maps (not all of them) will show obvious areas of potential improvement, such as duplication, rework and multiple handoffs. There will also be issues specific to each process that need to be managed. To identify solutions, the best people to ask are the people who know the processes best – the line staff who do the work.

Quantifying process inefficiencies is an important component of improvement – often we can be unaware that a few inefficient process steps, repeated frequently, can result in a significant time burden on staff. Improving the process and measuring the changes can be used to show cost reductions.

Implementing reductions in both non-core activity and process redesign are usually best achieved through strong staff engagement. Clear and honest communication with staff about the reasons for the change and engagement in the improvement process provides them with a sense of ownership.

3. Restructure for lower volumes (ensure you get the positive side of a revenue reduction)

Many organisations will currently be experiencing a drop in revenue. Customers are buying less, and taking longer to make decisions about what to buy. To continue to operate with lower revenue, organisations need to restructure so they are positioned for lower volumes.

There is more to this than volume assessment. Tasks and activities need to be fundamentally reassessed as well. For example, one financial services organisation has used the challenging times to reduce the administrative tasks required of the sales force and allocated these tasks to personnel who are currently under-utilised (because of lower volumes). This has positioned the organisation to aggressively target the customers of its competitors (who had responded more crudely by simply cutting the sales force).

Obviously, it is not just sales processes that should change to meet changing customer demands, but back-of-house processes that support sales and customer service.

"Often we can be unaware that a few inefficient process steps, repeated frequently, can result in a significant time burden on staff."

“The trick is to find the “leverage point” where costs can be maximally cut for minimum impact on retention.”

It can take time for these actions to produce tangible results: restructuring and the associated changes and training effort need to be completed before the actions can begin to have an impact. To accelerate the process, begin with the smaller, easier to implement changes. As these changes are bedded down, and the benefits become apparent, management and staff will be more accepting of the larger, more difficult changes.

4. Reduce complexity (simple costs less)

To further reduce costs, organisations should reduce complexity. Complexity can take many forms: complex product sets; complex organisational structures; complex policies; complex systems or complex channels to market.

Although not all complexity is bad, the pragmatic reality is that most complexity is not justified by the value it brings. Often it slows down services, increases the probability for error, and adds to costs. For example, in times of growth, organisations often develop new, innovative products that push performance boundaries. It is often the case that the removal of slow selling products is conducted with less enthusiasm. So, many organisations look to product rationalisation to reduce complexity. However, this is only the beginning, and it may not even be the best place to start. It may be that your organisational structures make marketing, selling and purchasing much more challenging than your competitors.

As with all change, smaller, quick wins should be implemented speedily and built on with larger changes. The resulting reduction in complexity will lead to cost savings.

5. Modulate service levels (and still keep your customers)

In times of growth, many organisations steadily lift service levels, motivated by competition and customer adhesion. In the current environment, organisations need to examine the relationship between service and cost, reducing cost but ensuring customers are not unduly impacted.

Detailed process examination allows processes that are less customer-sensitive to be identified. The trick is to find the “leverage point” where costs can be maximally cut for minimum impact on retention

One financial service organisation was convinced that speed was the most important criterion in customer service. However, when it truly examined its services from a customer perspective (this is more often claimed than actually done because we all carry the burden of assumptions about customer wants) they found that the customer really wanted a single point of contact. This meant that there was no escaping some form or reorganization. The customer was telling them that the key differentiator was not what they had assumed. This meant that service levels around speed could be sacrificed, but only in favour of what the customer really wanted – a single point of service and enquiry resolution.

6. Eliminate “Strategic Noise” (looks promising, but is it a leadership distraction?)

“Strategic Noise” means major strategic distractions such as major product launches, acquisitions, divestments, IT systems or other projects. Now is the time to reassess what is core to the business. What capabilities are really required? What competencies need to be developed?

Now is the time to close projects which have so far failed to deliver and realistically will not deliver in the foreseeable future. Now is a time for the hard decisions to reduce “Strategic Noise” by considering what value the project provides to the customer and whether the organisation is best placed to deliver that value.

7. Remember the basics (are we all looking over our cost lines right now?)

When looking at cost, it’s important to always go back to basics. Firstly, look internally:

¤ Are rosters designed efficiently?

¤ Are assets being utilised in the most efficient way?

¤ Have there been reviews of procurement, discretionary spending and property?”

Again, staff should be engaged in the review process. Often, they will be most aware of the changes in internal service, discretionary spending and other factors that can be made without unduly impacting service levels and staff satisfaction.

Secondly, look at the market. It has changed significantly since the beginning of the downturn. Are there better deals available now than previsouly? However, be careful not to put your suppliers out of business.

Implementing the Seven Elements

Do it quickly and engage, engage, engage

The challenge is to combine these seven elements into a quick, effective program that can be easily implemented The key elements for success are:

¤ effective data collection

¤ staff engagement and

¤ a “waved” implementation plan.

Staff engagement is important from day one. Honest and open communication with staff about the impact of the financial downturn, and the reasons for the changes, helps to ensure that a level of trust is built into the process. Staff are the most valuable resource the organisation has, and can provide the most accurate information about changes in process and structure.

The implementation plan should see low-risk, simple solutions implemented first (the first “wave”). These are followed by more complex solutions that require further analysis, planning and approval. Implementing the quick wins helps to build organisational momentum and removes some degree of inevitable skepticism.

Conclusion

There is an opportunity in the current economic climate to rapidly but rationally assess the way our organisations work; an opportunity to ensure that core activities and processes are efficient and fit for purpose. Organisations that implement a structured, considered response to the financial downturn, will be the best placed to take advantage of the inevitable cyclical change. **][**