



An efficient organization acts beyond mere cost-cutting

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Targeting today's organizational inefficiencies for tomorrow's success

Why organizational efficiency goes beyond cost-cutting targets

Efficiency is a key value driver for long-term value maximization. Economic and geopolitical challenges force organizations to question their current business practices and adapt where needed to achieve their objectives as efficiently as possible. Barely influenceable dynamics such as increased energy prices and supply chain collapses highlight the importance of saving resources and reducing costs. Establishing efficiency is a top priority for the majority of C-Suites – as doing so improves their return on investment. To what degree is efficiency one of your priorities?

A key success factor for successful organizations is the establishment of a lean foundation for efficient business practices. Here, everyone and everything required for the creation, delivery and retention of value works smoothly towards the business objectives while aiming for the best ratio of input to output – this is what we call "efficiency." While most organizations strive for it, the number of cases in which long-term efficiency improvements are successfully achieved is relatively small.

The common approach of reducing costs by 10-30% across the board seldom has a long-term impact. Organizations can be seen addressing the bottom line and focusing purely on visible costs: employee cuts and hiring freezes to reduce personnel expenses, the termination of vendor contracts to reduce infrastructure expenses, and the shifting of projects to the next fiscal year to reduce budgets. Focusing on these types of cost reductions may promise short-term improvements. However, frequent experience in our customer engagements show that long-lasting efficiencies are found when organizational adaptations go beyond low-level cost improvements.

Paving the way to increased efficiency in your organization

Instead of blindly cutting costs, it is essential to begin by gaining clarity on the substantial goals you want to achieve with your efficiency initiative. True efficiency improvements will only be realized when the actual causes of the inefficiencies are found. Is that the true objective you want to achieve, and do you want to line up with other successful organizations? In that case, top-level targets will not be adequate. While cost-cutting measures are often feasible, the real question is how you can achieve increased efficiency beyond a mere focus on these cost reductions.



In general, efficiencies can be increased at different levels of an organization to achieve bottom-line objectives (see figure 1). The greatest efficiency potential can be leveraged if it is identified and addressed at all levels and the flow is interlinked from top to bottom. To go beyond targeting the cost symptoms of inefficiencies, it is crucial to systematically identify the main pain points and their true causes. It might be that complex processes are the main pain point leading to unnecessary losses

Choosing a suitable and feasible approach for your organization

Should you be in a situation where visible efficiency improvement results are needed quickly, going through all the levels is too complex and time-consuming. The bottom-up approach may then be called for. This is rather short-term oriented and limited to specific areas, and comprises a narrowed examination of level 3 (delivery

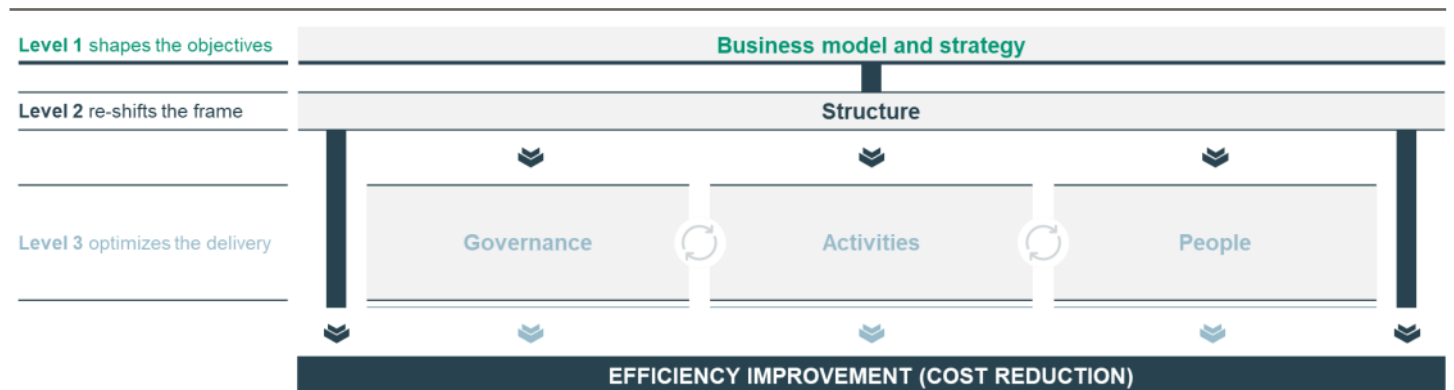


Figure 1: Levels of efficiency

in your value chain, or potentially it is a lack of alignment between your structure and your strategy that is keeping you from being your most efficient. Finding the right starting point for efficiency improvements in your organization requires an examination of all the levels, dimensions and interdependencies.

Yes, most of the time that is a lot of work! Depending on your situation, it might be necessary - but not always feasible - to take the long road and examine and adjust the entire organization to realize potential savings. Therefore, you must be clear on the objectives for the efficiency improvements you want to achieve. In time-sensitive and cost-pressuring situations, it might be sensible to take immediate and rapid action, with cost savings being achieved as quickly as possible, while knowing there might still be more efficiencies to gain. If it is more about achieving future-oriented goals that require less time-critical but more holistic results, the focus must be on long-term efficiency gains with a broader view of possible root causes. Business growth without a high level of efficiency often creates even larger issues down the road. Your strategy and the time available will determine which of the two approaches is suitable for achieving greater organizational efficiency (see figure 2).

dimensions), whereby it aims to find efficiency gains in the delivery dimensions. The lower the starting level, the quicker and more easily visible improvements can be achieved. If you opt for the bottom-up approach, you target the most pressing symptoms and may not necessarily find a cure for the true, underlying causes of inefficiencies. This commonly involves yo-yo effects. Nor does this necessarily mean that adjustments will not be needed on a higher level at a later point. Initially, however, it might be sufficient to adjust the activities or governance facets, for example, to achieve short-term efficiency and savings targets with less effort.

The top-down approach, which is rather long-term oriented and holistic, comprises a full examination from level 1 (strategic dimension) to level 3 (delivery dimensions), whereby each level is checked systematically for improvement needs, and the dependencies of the dimensions are examined from top to bottom across all levels. Here, the root causes of inefficiencies are identified, as is the potential misalignment of levels and dimensions. Frequently, structures are not aligned with the strategy, or daily activities do not reflect the structures in place, therefore leading to inefficiencies beyond a narrow view of a single level by itself. Starting at the highest level and systematically identifying the highest level of inefficiencies ensures a holistic, efficient organi-



Approach: Bottom-up	Approach: Top-down
<ul style="list-style-type: none"> ▪ Temporary fixes: Achievement of fast and visible efficiency improvements for temporary cost-savings ▪ Delivery adaptation: Adjustment of daily business by focusing on inefficiencies at the delivery level to achieve direct impacts ▪ Symptom treatment: Achievement of only a lessening of symptoms rather than treating the cause of the inefficiencies 	<ul style="list-style-type: none"> ▪ Durable effects: Achievement of the greatest sustainable long-term efficiency improvements and enduring cost savings ▪ Integrated view: Focus on holistic and integrated consideration of all potentials and interdependencies ▪ Future investment: Approach with more financial and personnel investment for highest long-term savings

Figure 2: Approaches of efficiency

zation in which structures and activities optimally support the overall business model and strategy. Although it is initially more complex and time-consuming, it usually saves resources in the long run and allows effective business growth.

Deciding on the appropriate approach for your organization does depend on your strategic goals and the time in which results need to be visible. If you are focusing on long-term goals, lasting positive results and business growth, examining and adjusting on all levels is inevitable. This will certainly require management time, adequate resources, and openness to change wherever inefficiencies are identified. It is only then advisable to opt for the top-down approach if you have the means to invest both the personnel and financial resources necessary to navigate a possibly year-long undertaking. Conversely, if you determine that your strategy is generally on the right trajectory, but you are uncertain as to how to implement it efficiently, commencing at a lower level might be a viable option.

Both approaches can be feasible depending on the main efficiency goal you want to pursue. Following a structured approach enables you to identify and leverage efficiency potentials at all the following levels:

Level 1: Business model and strategy

The *business model and strategy* shines light on the areas where organizations generate value and cause costs, because it is the "north star" for everything an organization creates and delivers. However, many organizations define it once and take it for granted – without regularly investigating and challenging whether their business practices are really focused on maximizing the organization's value. In efficient organizations, reviewing internal and external requirements is a routine for securing efficiency now and leveraging it in the future. It is only with a clear and relevant *business model and strategy* that an

organization knows where and how to focus in order to harness efficiency. To achieve long-term efficiencies, it is necessary to have measurable objectives and action fields that result in significant value. Instead of expanding their portfolio of strategic action fields, these organizations streamline it to sharpen their own focus. Having a realistic and feasible *business model and strategy* allows efficient organizations to focus on value-adding activities and not to waste resources.

Level 2: Structure

This is where the action is. Business objectives can only be accomplished by building on an appropriate *structure*. Organizational *structures* are often the result of historical growth without any major adaptations ensuring long-term stability. Most organizations tend to expand rather than streamline their *structures*. However, an organization's *structure* is the foundation for creating, delivering and sustaining value – hence it is the greatest efficiency lever. Efficient organizations have clear *structures* that are operationally functional for achieving their business objectives and whose set-up is as minimalistic as possible. A mismatch between the *structures* and the *business model and strategy* might not be visible at first glance, as *structures* develop gradually (and frequently in a way that is not conducive to efficient business practices) and are seldom explicitly questioned. Efficient organizations build their *structures* according to what is needed in which constellation and adjust it regularly with a clear focus on business goals. Outsourcing facility management since it is not part of the core business, or consolidating country organizations into regional structures to create synergies, are steps that require structural and operational adaptation. Yet they might enhance efficiencies for day-to-day business in the long-term.

Level	Definition
1 Business model and strategy	Represents the input for organizations' efficiency by enabling the organization to allocate its resources for generating value (= profit) with a clear long-term strategic plan.
2 Structure	Determines how the organization needs to be designed and operationalized to create, deliver and sustain value to achieve the defined business objectives.
Activities	Describes and defines the components and processes of an organization that enable the conversion of resources into products and services in a standardized manner.
3 Governance	Acts as a regulatory instrument, ensuring that business is conducted in accordance with internal rules, processes, and stakeholders, as defined by the given <i>structure</i> and the related <i>activities</i> .
People	Comprises all available human resources across the organization in terms of quantity structures and the specific qualities of each individual employee.

Figure 3: Definition of efficiency levels

Level 3: Activities

Once the *structure* has been established, ensuring daily operations, it is vital to ensure that everyone involved is providing value with their *activities*. At this point, you challenge whether the tasks fulfilled by employees genuinely mirror the operationalization of the *structure*. While it is essential to have detailed documentation of essential tasks in existing procedures, plenty efficiency levers may remain untouched. Efficient organizations seize the opportunity to challenge the productivity and value of each step within a process. Optimization potentials can be found in the assessment of bundling possibilities to avoid duplication of efforts, whether fewer personnel commissioned with individual tasks may be sufficient, or whether each task is business-critical. When considering those *activities* or projects that could be postponed if a conventional 10% cost reduction is required, you might also consider whether those projects generally are needed at all. It is almost always sensible to challenge which processes can be automated or have outsourcing potential. By checking for optimization potentials on a regular basis, one can significantly enhance process efficiency and error-resistance.

Level 3: Governance

The potential of a practical *governance* framework for the performance of the *activities* is frequently underestimated, even though it is essential for consequence and efficiency management. Only through creating unambiguous and transparent policies, all parties can efficiently deliver their own unique value within a set range of actions, supplying needed *structure*. While a *governance* framework of rules, standards and committees provides the foundation, efficient organizations assess whether the framework enhances the optimized delivery of the processes. They specifically aim for standardization and

a low degree of escalation, in the sense that a decision made by one position through a rule framework is more resource-efficient than the implementation of various boards. That is, while standards are required, high administrative efforts can also diminish efficiency gains.

Level 3: People

People bring an organization to life, creating corresponding business value and allowing it to reach its goals. So it is undoubtedly essential to have the right number of *people* with the right skills. Quickly implementing adjustments to achieve greater efficiency within the identified *structure* and *activities* is more complex than in any other efficiency dimensions. Hiring and training takes time, and reducing workforces in hard times is socially frowned upon. However, it is crucial to optimize personnel quantities by minimizing wherever possible, while still achieving the defined objectives. Aligning the workforce with the *structure* must be approached systematically, e.g. through comprehensive sizing or topic (re)distribution. Finding the optimum quantity and skill-level remains a theoretical construct in part. Yet efficient organizations continue to strive for optimization of their workforce by regularly evaluating where employees can contribute the highest value, identifying early reskilling initiatives, and re-examining the *structure* and *activities* prior to hiring additional employees. Instead of head-count reduction or hiring freezes across the board, the focus is on ensuring the efficiency of *people* within their roles, and where possible re-distributing employees to other *activities*. In critical situations, you will find yourself having to assess which tasks could be performed externally and which need to be fulfilled internally. Here, you may have to reconsider your existing number of employees when doing so.



Why culture matters, but is hard to grasp for sustainable efficiency improvements

As part of an organization's identity, its culture can be an essential source of an organization's success, although it is challenging to implement the needed change. Specifically, long-term efficiency improvements require a culture where each member internalizes efficiency in their own behavior and in their interactions with one another: the culture of efficient organizations is often based on the principles of questioning the status quo, reducing complexity, and a drive to identify even the smallest potentials for enhancing day-to-day business. Whereas overarching efficiency is focused on the tangible organizational components affecting efficiencies, culture is one of its floating companions. Although digging deep into the often-complex root causes of your cultural baseline might be tiresome, the efficiency potential and the probable cultural impact of your initiatives should not be neglected.

Inefficiencies can linger in various places within your organization, and to get in line with other efficient companies is to get to the root of your inefficiencies. Building an efficient organization is certainly not rocket science; it does, however, require management determination, a focus on business results, and dealing with inefficiencies at all levels. The challenge is to identify the starting point to reach your optimal level of efficiency.

Putting theory into practice

An individual assessment of your organization's position, objectives and opportunities provides the best basis for finding a suitable starting level for increasing efficiency and developing suitable short- or long-term results. So instead of just targeting the symptoms of inefficiencies in cost-cutting initiatives, think about how you can address efficiency at the different levels of your organization, to be even more effective and successful in the short- and long-term.

To sum it up, three takeaways are now crucial:

- 1. Know where to start:** identify the main goal of your efficiency initiative, the main pain points to be targeted, and therefore the level of efficiency that delivers the greatest value for your organization's needs.
- 2. Be systematic and focused:** consistently challenge your own and your organization's way of doing. By remaining dedicated, yet realistic, in setting your focus and corresponding measures, the cycle of recurring failed initiatives can be broken.
- 3. Aim for long-term effects:** short-term savings are always great and sometimes much needed, but, if possible, do not forget to take a closer look at how you can achieve more lasting success in increasing your organization's efficiency.

There is more than one right way to realize efficiency potentials – depending on the initial situation and your main goals, it is now important to define what to focus on to achieve the best result.



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