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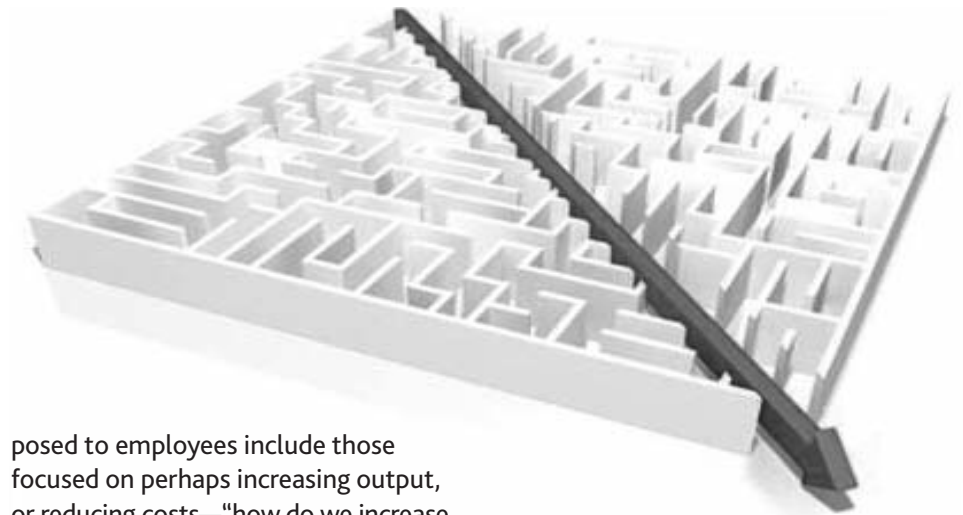
Enhancing Performance in a Recovering Economy

by John Macrae

Nearly two years after the economic recession officially ended, the U.S. economy is still recovering—at a rate described by The Federal Reserve as “considerably slower” than expected. Corporations, stuck in a web of economic entanglements that include natural disasters, a jobless recovery, and an apparent “new normal” characterized by diminished consumer spending, must take new approaches to strengthen profitability, protect assets, and drive enterprise value.

Corporate executives responded to the recession in the expected manner, cutting costs by eliminating jobs, preserving cash flow, and reducing discretionary spending in order to temporarily reduce overhead and improve profitability. Today it bears asking, what steps should be put in place to maintain and even improve upon what may have been previously seen as a stopgap?

One answer is to take an in-depth look at the organization’s core business processes with an eye toward not merely making the existing process as efficient as possible, but also maximizing the value produced by the process. The distinction is subtle, but critically important. When driving out costs and improving efficiency, management’s focus is often on enhancements to the current process. Typical questions



posed to employees include those focused on perhaps increasing output, or reducing costs—“how do we increase output by ten percent” or “how do we cut costs by 15 percent.” These programs produce small improvements in operating performance and allow companies to maintain the status quo with other organizations implementing similar improvement programs.

When focusing on designing a process that enhances value, the questions posed to employees instead become, “what do we do that doesn’t add value to the customer?” and “what would happen if we eliminated a non-value added step?” Companies often find that the potential contribution to the bottom line produced by focusing on value and eliminating the waste of non-value added activities dramatically exceed the benefits of cost reduction programs. This can best be seen by example.

We’ll consider a process that most organizations experience—the financial closing process. For most, it takes weeks to make the manual adjustments and journal entries needed to close the books for a financial period. Inefficiencies can have a negative effect not only on financial reporting, but also on operations as business units fail to receive the information they need to make accurate and timely decisions. By re-envisioning the closing process, our clients have been able to cut the number of transactions needed to close the books by 90 percent and the number of hours invested in the process by 85 percent, thus reducing the closing process to a couple of days. But if the potential performance gains of analyzing business processes to enhance value are so great, why isn’t everyone doing it?



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Unfortunately, the first challenge is determining where to start. The processes by which companies add value to shareholders are complex and interwoven across the organization to an extent that only top management sees them from beginning to end. The managers who are close enough to the process to recognize the need for a top-to-bottom overhaul don't have the authority to implement programs that cross the functional boundaries needed to implement change. Even where top management supports the effort and can draw multiple departments into the effort, few have the requisite training to effectively implement such a program.

To help our clients address this challenge, J.H. Cohn has created the Business Discovery Boot Camp. In this program, our "Lean Senseis" work collaboratively with client management teams over

the course of a two- to three-day, top-level review of the organization to define its core and enabling processes and its primary value streams. We identify the reports, controls, systems, and metrics used to measure, manage, and control these processes. We lead the team in conducting a gap analysis to identify and prioritize opportunities to improve cash flow and profitability and mitigate operational risk. We work collaboratively to establish a mutually agreed upon return-on-investment criteria to secure the consensus of the management team on what improvement initiatives to launch.

Once the improvement priorities are set, our consultants can roll up their sleeves alongside client teams to map the process and identify the root causes of inefficiencies and errors and redesign the process to eliminate waste. If this sounds like hard work, it is. But typical

benefits of a boot camp include: team building, decreased cycle time, improved throughput and capacity, increased customer service levels, lower investment in working capital, and improved decision-making.

With forecasts indicating that the recovery of the U.S. economy will be both long and slow, and with corporations having already implemented traditional performance improvement programs, executives must decide what leverage they have to influence shareholder value. The answer may lie hidden in the organization's core business processes. ■



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