

## **Five key levers to productivity improvement – every day**

While cost reduction has been a pre-eminent business tactic for improved profitability and share market performance for the past 5-7 years, it is rapidly approaching its use by date as businesses find it harder and harder to make substantial one-off gains. Some businesses are even being penalised in the share market for failure to invest. Improving productivity is now a complex process of manipulating business levers in concert. Five key levers for every day productivity improvement are:

### *1. Cost structure*

While businesses are used to identifying areas of high cost, it is equally important to examine the structure of the cost base (balance between fixed and variable, labour vs IT, operations vs corporate overhead, etc.) and trends in this structure over time. Operations functions are traditional targets and have been significantly streamlined whilst support functions (e.g. HR, IT, finance) and corporate areas (e.g. product development and management, marketing, etc.)

have grown. The focus on operations functions tends to be because it is easier to measure their productivity or value. Support and corporate functions are harder to measure precisely because they are essentially knowledge based functions. The key is to develop an appropriate metric for the value that they bring and the investment that is required.

### *2. Organisation of work*

Organisational restructuring is an important tool to realign the business with a new strategic direction or to improve productivity. However, it can be disruptive and may not be the best way to address productivity issues. Further analysis is necessary to determine the optimum configuration of teams (skills and responsibilities) and allocation of work (steps in a process). For example, a team may work more efficiently and provide better customer service if they complete the entire process for a particular customer. Alternatively, developing expertise in a particular part of the process may result in greater productivity and better service to customers. Your teams are the experts in what works and doesn't work. Encourage them through a formal process and rewards to maintain a focus on this aspect of business productivity.

### *3. Business processes*

This lever continues to be used effectively by businesses and more rigorous approaches such as Six Sigma have gained new currency in recent years. However, with the increased availability of off the shelf technology solutions and enabling technology such as middleware and workflow, the challenge for business is how to maximise the value-add from knowledge based activities as distinct from automation of more standardised, repeatable activities. This requires new ways of thinking regarding process, skills development and training of staff in order to achieve productivity improvement across the business.

### *4. Knowledge management*

We have referred to knowledge management several times. This is a discipline and a process which is much talked about but often relegated to the realms of information management which in some businesses is viewed as a step above records management. Every business now operates in a global, knowledge based economy. The lever to manipulate for improved performance is the ability to make knowledge an active ingredient in day to day operations. A current example is product life cycle management software. This software not only captures knowledge at every stage of a process for reuse but brings diverse functions together, e.g. Marketing and Engineering, to share information in a common format. Not only does this result in a better product but it also delivers productivity improvement in the process.

### *5. Information Technology (IT)*

IT continues to challenge business managers with its big

promises, big investment and big risk. In addition it seems to be increasing in complexity.

Business needs to take charge of this situation and start to proactively integrate IT into its management processes rather than leaving it to one side.

Doman Vaughan has developed a five step approach for business to better manage its investment in IT. Refer to our article "IT Portfolio Management"

(<http://www.domanvaughan.com/it-portfolio-management-and-planning.html> ).

### *Conclusion*

These levers, unlike periodic or one-off cost reduction initiatives, must be manipulated within the framework of an embedded continuous improvement process. To achieve this goal, each of the levers needs to be integrated into business as usual processes in the organisation and not just visited or re-visited periodically in response to challenges in the external business environment.

### *About Doman Vaughan Consulting*

Donna Vaughan, an experienced management consultant, and Desne Doman, an experienced senior manager in IT, have formed a specialist management consultancy focusing on:

- Breakthrough business and operating model design
- Rapid program set up
- IT portfolio investment and sourcing strategy

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