

## **Improving Efficiency – the way to fight the recession**

As attention turns towards the worsening international and domestic economies many businesses must be asking how they will survive. The recessionary conditions are telling us that Boards may have in the past been talking about how their organisations must become more effective and efficient, but many have failed when it comes to action – and the results have been devastating to the organisation, employees and individual directors as well as the economy. The time for ‘jaw boning exercise’ is now over and it is time for Boards to take ownership and to provide the leadership to drive home change. This may mean that many may have to pick themselves up, shake themselves off and start all over again.

So what must organisations do to survive in the current situation? If organisations, large or small, profit generators or community driven, take heed of the messages coming from the Prime Minister, John Key and Auditor General, Kevin Brady, then members of their boards and governance teams will already be talking about finding ways to improve the organisation’s effectiveness by improving efficiencies and driving productivity.

For many organisations this will not be a small step but a significant paradigm shift. In order to achieve an across-the-board commitment and lift productivity growth, a change of mind set and a renewed effort on achieving desired outputs is called for, both at management level and in the boardroom. The challenge for a Board is both behavioural and intellectual which will involve analysing the impact of change on any strategic initiative and vision. This may include revisiting the organisation’s core reason for being and reconsidering everything in the light of that review.

In order to achieve this is it important to have the right competencies present at the board table. It is also about process. Board members need to heighten their capabilities and make the hard decisions collectively in a timely and unified manner. For management it is about rethinking the desired outputs and making sure that such outputs are aligned with the organisation’s strategic intent, and that the appropriate measurement regime is in place and is able to provide useful and timely feedback about actual performance measured against the strategic intent, as opposed to stand alone outputs. Boards also need to ensure that corrective actions are implemented promptly.

For the much needed efficiency drive the starting point is an organisation’s strategic intent. However thinking strategically causes difficulty for most boards and management teams because each individual in a governance team has his or her own perspective on strategy which may have been formed from a different knowledge base (finance, marketing, operations etcetera). A shared understanding of the entities business model and industry relationships is extremely helpful in business and for strategic discussion. However, without accurate information the drive for increased productivity and efficiencies directed to achieving the strategic intent, could well be doomed.

Sometimes it is just the basic information structure that may be the constraint. For instance, often it can be found that the objectives set in those strategic plans are not articulated in the simple and compelling way that would enable everyone to understand where the organisation is going and how each person needs to contribute to the goals and vision. However there are times when the measurement system contains deficiencies.

Measures and desired outcomes need to be well documented and communicated, but this will be ineffective if Boards do not ensure that the proper management of risk is in place, nor does it hold management to account when slippage is showing. Such disciplines have in many cases, been weak or have been caught out in the euphoria of time as the collapse of business is showing us. Often the missing connection is a clear message flowing downward from the Board or governing committee as to who is accountable for what, how the measures relate to others and how collectively measures convert into a board risk assessment tool. The secret for management is in knowing how to identify key activities and their associated measures for success and how to begin designing an evidence-based program that allows boards and management to work collaboratively though this difficult climate.

One way to achieve the organisation's goals is to have strategies that enable the entity to achieve its objectives both at organisational and board levels in a synergic manner. In difficult operating conditions such as these we are currently facing, it is about adopting well-thought out strategy and more importantly placing even greater emphasis on its execution framework.

The expectation at Board level is to see all board members revisiting the entities strategic intent and ensuring management has a framework that not only measures and reports achieved outputs against desired outputs, but also regularly reviews their alignment against the changing environment and will communicate any changes it requires to ensure that it stays on course. In this way a Board will know that the right processes are assisting in the monitoring of how the entity is performing in the current climate. More importantly they can reassure their stakeholders that all energy and effort is being directed appropriately. If the monitoring signals begin to turn red, as opposed to green, the Board or governing committee's fiduciary obligation to its shareholders calls for it to take action immediately.

The four essential steps every organisation needs to take to ensure its survival are:

- Review and adapt its strategy to the new conditions
- Put in place a strategic execution framework which ensures alignment of the activities with the strategic objectives.
- Constantly monitor the effectiveness of both its strategy and its execution framework through evidence-based indicators.
- Review the strategy and framework based on that monitoring and make the necessary changes (if any are required).

In many respects the practice of achieving efficiencies throughout an organisation is an exercise of common sense, good policy, transparency, taking into account good financial and risk management. But during an economic recession we are constantly being reminded that we may not be able to achieve the optimal efficiencies that we have been able to reach during good times. Despite this we now have to turn all our energies and effort onto lifting productivity and efficiencies. This means not waiting for things to happen, but instead acknowledging that a fundamental requirement is to be proactive when recognising that change is needed. This can be achieved by putting our feet firmly on the efficiency ladder and beginning to drive home to everyone throughout the organisation what has to happen to make the difference. It is about board members and management working as a governance team in a collaboratively manner. The impact may be quick and substantial and the benefits enormous.

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This article has been prepared by two directors of Valeo International Limited.



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