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Operational efficiency – An imperative for survival



“Every industrial organization should aspire to deliver the best products at the lowest cost possible paying the highest wage possible”

- Henry Ford

Operations of any organisation consist of core activities that translate into product/service delivery and customer experience. It is equally important for both manufacturing and service organizations. The smallest efficiency in operations can make a big difference to the company’s top-line and bottom-line. Leading companies adopt various strategies to achieve operational efficiency like Lean Six Sigma, use of Shared Service Centres (SSCs) or outsourcing, Business Process Reengineering (BPR), leveraging analytics, optimising real estate, changes in procurement strategies, reviewing organisation structure and engaging human resources.→

Operational Audit

An operational audit is an internal audit service that is mainly focused on the key processes, procedures, system, as well as internal control with the primary objective of improving the productivity, as well as efficiency and effectiveness of the operation. It also targets the key control and processes gap that causes wastage of resources and recommends achievable improvement. Thus, the focus is not restricted only to compliance and conformance. The intention is to do a value add which can help the company to improve the efficiency and effectiveness of the operations and to provide assurance where the optimum efficiency has been already achieved. →

Value Addition By An Auditor

Operational efficiency drives top line, bottom-line and helps in creating a good customer experience. Failure at any stage in operations is bound to result in cost increase, loss of customer preference and decline in the market share. Thus, it is imperative to closely watch operations to constantly achieve efficiency at least comparable with industry benchmarks. This may require professional help from independent auditors who can dispassionately study the processes, workflows and building blocks to identify redundant activities that neither add value nor are required by the customers. The auditor can help the organisations with industry benchmarking and a timebound action plan for achieving greater efficiency. He can assist the organisation in institutionalising appropriate monitoring mechanism and recommend preventive and corrective measures to sustain operational efficiency.

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1. **Application of a Lean Six Sigma (LSS):** LSS focuses on efficiency improvement through the reduction of variation in processes/output and elimination of waste. Originally born in manufacturing, this program has since been adopted by companies across various industries. In the year 1998, GE claimed benefits of \$1.2 billion and costs of \$450 million, for a net benefit of \$750 million. The company's 1999 annual report further claimed a net benefit of more than \$2 billion through the elimination of all non-value-added activities in all business processes within the company. Likewise, Honeywell has reduced the development time required to redesign Web sites by 84% for its specialty materials. Thus, LSS can help in eliminating non-value-adding activities and improving the operational efficiency and Turn Around Time, both in turn contributing to cost-saving and customer satisfaction. Progressively, it helps in the elimination of waste throughout an entire process. Lean defines various types of waste such as unnecessary inventory, transportation, re-work. Over-engineered products/services etc. and systematically decrease it.
2. **Shared Services Centres and Outsourcing:** An operating model that leverages Shared Services is generally more efficient than the model where each business area has its own, often redundant functions. A large organisation consisting of various Strategic Business Units (SBUs) may find merit in centralising some of the support functions in-house like Payroll, Finance, Accounts, Security,



housekeeping instead of creating an independent setup of these functions across SBUs. A Shared Services setup ensures that the entire organization, including operations, uses available resources in a pooled and highly efficient way. Some of the companies may find it attractive to do away with these functions within the organisation and outsource them to the organisations that specialise in providing these services.

3. **Business Process re-engineering:** Dogmatic continuation of the processes in an organisation without critically evaluating their efficiency can be counterproductive. Hence, many organisations review the processes at “As-Is” and “To-be” levels to identify the gap and modify the processes accordingly. Making process changes—including the adjustment of a company’s physical footprint, outsourcing/offshoring of particular processes, changes to organizational structure—can help increase efficiency. Process Design Reviews can also be used for automating workflows or make them operate in sync with the desired process flows. Companies should organise around outcomes, not tasks. This principle has helped Airbnb not only in streamlining the processes like Procure to Pay and Order to Cash but also in Product Development. The product development process was sequential and was spread across geographies. Designer, Engineers and Researchers worked in silos. This resulted in a time-consuming product development process. Subsequently, an Airbnb team of about 300 resources worked for 9 months to re-engineer the product development process. The result was astonishing – the new products could be



developed in 45 minutes without any revision or modifications, by the same team of Designers, Engineers and Researched who took disproportionately longer time earlier. This continues to provide an edge to Airbnb over the competition.

4. **Leveraging analytics:** The leading companies also focus on data analytics which allows them to slice and dice the operational data, identifying opportunities to make operations more efficient—such as workforce planning, cost optimisation, idle capacities, revenue and profitability per resource geography-wise and SBU wise which can be calendarized. It can provide important insights into intra-day and mid-/long-term work volumes and required capacity. Data Analytics is also used for understanding customer behaviour, changes in their liking which can be used for changing the product or services mix in time.

5. **Optimising Real Estate** - Each company has different needs in terms of brick-and-mortar structures and online presence. While generally the mix is directionally skewed towards more of an online presence, physical offices still play an important role. Reviewing existing physical footprint to rationalise it, relocation to the cheaper location if it does not affect customer service, renegotiating the lease, reduction in energy and utility consumption and study of 'own Vs lease' model can result in possibilities of optimising the real estate being used by the companies. It can also lead to options of hybrid models of work at the office combined with work from home. However, one has to be careful about its implications from customer perception and employee wellbeing perspective.



Many companies are adopting these models post the CoVID-19 pandemic. e.g., IT Services companies in India had to close down the offices due to CoVID-19. However, they were able to serve the clients without compromising on deliverable quality. Consequently, opportunities are being explored on the need of actual real estate requirement vs real estate owned/ leased by the companies.

6. **Changes in Procurement Strategies** – A significant cost is involved in the procurement of goods and services. There is a likelihood of procurement strategies may not be conforming with the industry best practices and thus, not achieving otherwise possible efficiency. Some of these strategies can be as follows:

- **Consolidation of procurement activities:** Dealing with suppliers in a bundled way by consolidating procurement volumes, allows companies to leverage scale-like qualifying for volume-based discounts, and provides great opportunities to negotiate with suppliers.
- **Re-negotiating existing contracts:** Going back and checking what prices the organization pays for all procured items is always worth it. Often aggregate volumes may qualify for discounts or other providers might be offering better deals/conditions than the existing supplier. ABC analysis should be carried out to ensure that at least the major procurement items/services are reviewed on an ongoing basis. This operational efficiency lever can lead to very quick but significant benefits.



- **Reduction in the number of suppliers:** Sourcing products from multiple suppliers fragments procurement volume and leads to a lowered potential for scale-based discounts. However, one has to be careful not to become single supplier dependent.
- **Supply Management solution:** When supplier management reaches a certain level of complexity, things can easily fall through the cracks. Using a dedicated Supply Management IT software can help to manage these relationships more effectively. For example, allowing regularly re-negotiate conditions, support order processing, source new providers and much more.
- **Standardising procured items:** Procuring different types of the same items adds complexity and does not always allow to benefit from ordering in volume to decrease unit costs. If one can standardize the items, that may result in additional discounts.

7. Reviewing Organisation Structure and Human Resources -

- **Eliminate redundancies** - The redundant pockets of teams doing the same thing are eliminated. strategically designing the organization in a way that properly supports operations and drives significant savings.
- **Review of a span of control** - Lean Operations is characterized by high spans of control (i.e., number of direct reports). When typical office teams of 7-8 staff members represent good practice, in operations and back-office, these numbers can go as high as 15-20 people in teams focused on simple activities. Typically, the more complex the tasks, the



lower is the span of controls. The increasing number of spans (e.g., via putting together some teams and reorganizing team management) can result in significant efficiencies.

- **Right-size organization:** One should ensure that the Operations organization does not have too many or too few employees – both are bad scenarios. Having too many employees means insufficient leverage of existing resources. Too few resources mean that they will be overloaded and may “burn out” at work resulting in the higher absence and sick rates, which will lead to operational bottlenecks. Industry benchmarking and comparison with them can be the first step in this direction to drive operational efficiency.
- **Value of feedback loop:** Asking team what they think and how they would like to improve the status quo – can lead to many practical ideas driving both efficiency and improving customer service, not to mention a higher level of staff engagement.
- **Idea management:** Staff in operations and back-office knows the business in-and-out and very often the best improvement ideas will originate from the company’s staff. Putting in place mechanisms to motivate people to share their ideas and promoting the culture of constant improvement is one of the manufacturing secrets used by such lean legends as Toyota and GE.
- **Incentivising performance:** All the above-mentioned points will fail in absence of appropriate incentive schemes. Equally important is to



ensure that the performance of the operations team is rewarded fairly and frequently to keep the interest of the operations staff alive.



Operational Audit

Case Study 1-

Government of a middle eastern country carried out an operations audit of telecom expenditure incurred by various government entities. The objective was to streamline the procurement to payment processes and to achieve cost saving. While globally cost per circuit in terms of Mbps moved southwards at a rapid pace, the telecom expenditure of most of the government entities remained same without any additional services being availed by them.

The operational audit focused on the following aspects

- (a) need assessment at the time of procurement of services
- (b) justification of continuation of the services procured
- (c) benchmarking the prices for similar services
- (d) quantifying the opportunities

During this audit, more than 67% of the active circuits were of less of than 1 Mbps speed (majority of them were of 64 kbps). The government entities subsequently procured circuits of higher bandwidth over a period of 18 years, practically making the circuits with less than 1 Mbps speed redundant. After careful study 85% of the circuits with less than 1Mbps bandwidth were recommended for termination without causing any disruption of the respective entity's operations. Instances of different rates for the same



circuit bandwidth, too, was identified. All this helped the company in saving more than 31% of annual cost of telecom expenditure.

Government also centralised procurement of not only telecom services but also other outsourcing facilities to mitigate risk of such recurrence. This was followed by integrating procurement workflows with a centralised dashboard. It further helped in tracking exceptions and investigating them proactively.

Case Study 2 –

In 1987 American Airlines removed a single olive from each of its in-flight salads, reducing costs by a remarkable \$US40,000 (\$55,000) a year. There was a direct saving in terms of procurement cost. However, weight reduction made the plane lighter which contributed to a significant cost saving on account of reduction in fuel consumption. With some planes burning up to a gallon of fuel every second, and fuel cost accounting for 21 cents in every dollar spent by airlines, lightening the load is an easy way to tighten the belt.

The case study indicates focus of Operations Audit on the most critical factor in the operations which has the maximum impact in terms of improving efficiency, achieving cost saving without adversely affecting customer service.