
# Sustained cost reduction for government organisations

Achieving lower cost operations through identifying, prioritising and eliminating inefficiency, while building a cost-conscious workplace culture to sustain savings for the long term.

# Sustained cost reduction

*With gloomy economic forecasts, interest rates on the rise and government scheduled to start reducing debt, now is the time to seek out sustainable cost reductions.*

Most government bodies will be familiar with tactical cost cutting that delays spending and arbitrarily reduces staffing. However, delaying spending and instituting redundancy programs without also delivering operating efficiencies is unsustainable and risky. It can lead to falling customer satisfaction, reduced morale and a loss of organisational resilience in the medium term. With the current strong economic headwinds likely to persist for some time, a more sophisticated approach to reducing costs is needed.

Instead of tactical cost cutting, Parbery recommends an approach that cuts complexity and delivers operating efficiencies across a wide set of operational areas. Additionally, we recommend organisations critically examine their governance and culture with the aims of becoming conscious of their costs and equipping and empowering staff to take action to control the underlying causes.

> *Our strong economic headwinds means that a more sophisticated approach to finding and sustaining lower cost operations is called for.*

Achieving and sustaining cost reductions is particularly difficult for government, especially for ‘process-intensive’ agencies. These organisations are characterised by complex end-to-end business processes executed by highly skilled specialists, often operate or manage large asset bases, involve large numbers of diverse business areas, and/or operate with complex logistic processes. Examples of process-intensive organisations include Services Australia, the Department of Social Services, the Department of Defence, Home Affairs, Agriculture and many other government agencies.

> *Our sustained cost reduction approach helps identify and achieve substantial savings while maintaining or even improving customer satisfaction, quality and business output.*

# Why most cost reduction programs fail

*Most programs to reduce costs fail outright, or fail to deliver sustained reductions over the longer term. In our experience these failures can be traced to the following causes.*

### 1. Limited capacity to envisage savings stifles buy-in and support to change

Possibly because finding significant operational savings also means recognising a history of inefficient operations, many executives seem to find it difficult to accept that savings can be found at all. For this reason, many cost reduction programs become derailed at their conception by a lack of executive buy-in. Many defend their operations by pointing to complexity, yet it is that same complexity that obscures the inefficiencies they are reluctant to confront.

Executives in process-intensive organisations tend to have reached their positions because of their specialist experience, technical skills or qualifications related to their organisation's core functions. The complexity of process-intensive organisations means that the typical cost reduction strategies taught in business administration masters programs are unlikely to be the whole, or even part, of the way to achieve sustainable lower cost operations.

Benchmarking is often used to quantify potential savings, but the bespoke operating context of many process-intensive organisations makes benchmarking unreliable at best.

Many monopolistic organisations (such as water utilities, public hospitals and local councils) also make the honest mistake of selecting equally inefficient comparators when conducting such analyses; rather than seeking out leading organisations from whom they can learn.

### 2. Ignoring the 'workshop floor'

Many cost cutting programs, often due to concerns about industrial relations or worker morale, limit their engagement to managers and executives and ignore the 'workshop floor' when undertaking analysis and forming recommendations. However, in process-intensive agencies, it's often the staff who have the best insight into where costs can be most easily reduced. Failing to engage staff at all levels can also increase their resistance to the changes they are asked to embrace.

### 3. Savings enacted through budget control alone

Many organisations make the mistake of enacting savings by cutting the budgets of divisions, branches and sections and hoping that managers will identify efficiencies. However, managers (more so than senior executives) typically have little experience conceiving and implementing sustainable cost reductions. This leads to the taking of short-term actions (e.g. delaying or suspending expenditure), rather than delivering savings that will endure and not damage the organisation over time.

### 4. Analysis paralysis

Many agencies, especially those that operate complex assets and processes, have governance, policy and decision making systems that require the detailed analysis and testing of any change before allowing it to proceed. While there are often clear reasons why being risk-averse is the right choice, a 'one size fits all' approach can delay the achievement of easily implemented low-risk cost reductions at the cost of improved performance and reduced momentum for change.

### 5. Cultural cringe

Some departments have strong cultures that prioritise process adherence and compliance with polices or rules over innovation or cost minimisation. In extreme cases these cultures can actively discourage or dismantle innovation and cost reduction initiatives. Unless these cultures are addressed, savings will erode over time. A concerted focus on establishing a culture that is conscious of its cost and that embraces continuous improvement is required to sustain lower cost operations into the long term.

# A holistic proven approach

*Successful cost reduction programs deliver savings over the long term by reducing complexity, eradicating waste and resetting attitudes to spending control.*

## A holistic approach applied over 18 to 24 months

Achieving maximum savings requires a broad perspective to identify and realise opportunities across all corporate and operational areas, and also in the efficiency of working capital.

Opportunities are identified by assessing an organisation's structures, roles, processes, policies and use of technology and automation for unnecessary complexity and operational inefficiencies. In process-intensive organisations it is important to also focus on cross-organisational process steps and hand-over points between internal business units.

We recommend the use of **Lean Six Sigma** to deliver the maximum cost reductions in any process-intensive organisation. Lean Six Sigma works by finding and eliminating 8 key types of operational inefficiencies shown below.

## Eight categories of operational inefficiency

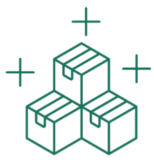
**Defects**
Additional cost due to avoidable product defects or services failures

**Overproduction**
Making more products or providing more services than are needed

**Waiting**
Lost time while waiting to commence an activity or for parts or material to be delivered, etc.

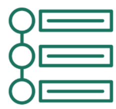
**Unused talents**
Failing to utilise the knowledge, talents and skills of human resources

**Transportation**
Unnecessarily or sub-optimally moving data, products, parts, plant and equipment



**Excessive inventory**
The purchase, storage, securing and management of excess plant, parts and consumables

**Excessive motion**
Lost time due to the unnecessary movement of people



**Processing complexity**
Costs related to unneeded steps, complexity and non-value-adding activities

Making cost reductions sustainable for the long term requires adoption of a cost-conscious culture. Supported by a revised governance model, such a culture encourages and empowers staff to take action to control costs everyday while embracing the principles of continuous improvement. This is a key focus of Parbery's approach to sustainable cost reduction programs.

We also recognise that poor customer outcomes are cost drivers in and of themselves. Therefore, an effective cost reduction program must include actions to maintain or even improve customer satisfaction, relationships and output quality while achieving and sustaining lower cost operations.

Successful sustained programs should incorporate **3 phases of change**, preceded by a short, Lean Six Sigma review:

## 1 Rapid cost reductions

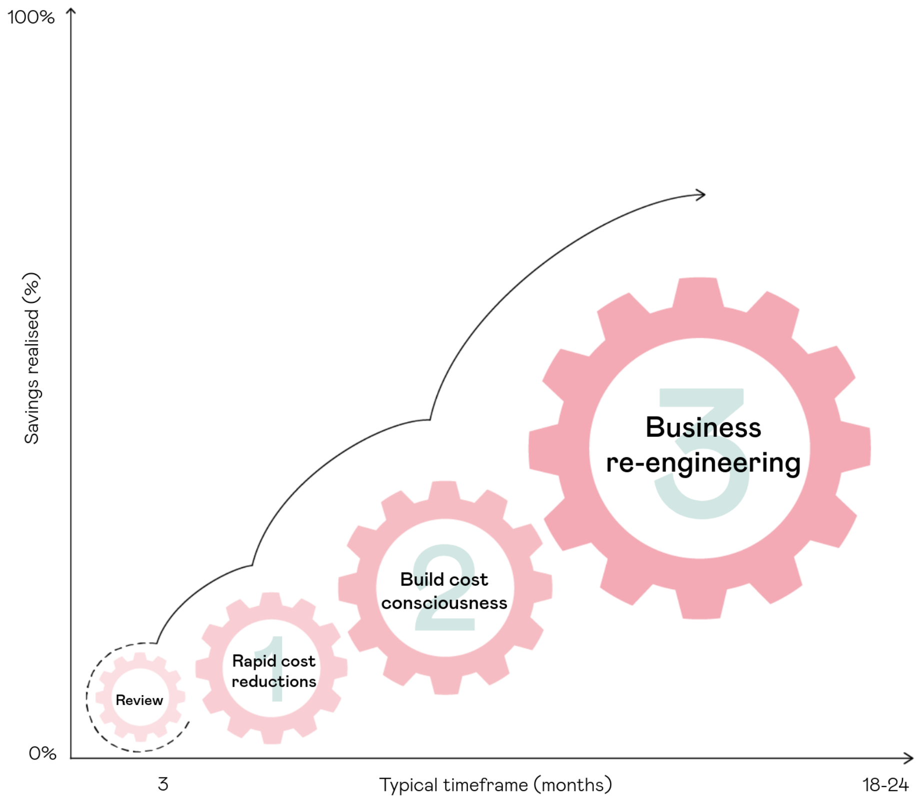
- Focused on changes that can be made with little investment
- Rapidly implemented
- Well-advertised and celebrated internally to build momentum for greater change and to help establish a cost-conscious culture
- Savings generated that can be used to fund the investment to achieve more complex and transformational opportunities

## 2 Build cost consciousness

- Staff encouraged to seek out and take actions that reduce costs while supporting core operations
- Changed governance arrangements to encourage a culture that welcomes ideas
- Innovation and astute action taking invoked by techniques such as weekly whistle-stop cost meetings and dynamic prioritisation
- Empowered by training delivered to key or influential personalities

## 3 Business re-engineering

- Careful implementation of integrated change to people, processes and technologies to enable savings
- Use of structured methods such as Lean Six Sigma to identify and substantiate large savings (in intensive processes)
- Focus on complexity reduction and automation
- Smart outsourcing of non-core activities




Implementation over 18 to 24 months allows time to build momentum for cultural change through rapid cost reductions, effectively transition to the required organisational culture to sustain lower cost operations and to complete the more complex business re-engineering identified in the review.

# Conducting a review

*A sustainable cost reduction journey starts with a review of existing operations and workplace culture.*

Successful cost reduction programs should commence with a focused review to determine where and how costs can be reduced. The review should also critically examine the workplace's culture to determine the governance and changes needed to sustain savings for the long term.

A well-conducted review includes preparation of a detailed assessment report and a plan for achieving and sustaining the cost reductions (i.e. using the three-phase approach outlined on the previous page). A business case can also be developed if warranted, with many organisations choosing to develop their business cases while implementing the recommended rapid cost reductions.

Most Lean Six Sigma reviews with process-intensive departments can take 6 months or more to complete. By deploying experienced and accredited experts and using our accumulated knowledge and insight, we are able to complete most reviews in just 8 to 12 weeks.

Our knowledge assets include a catalogue of potential actions for rapid reductions, culture change and business re-engineering that have been derived from research and through the work of our experts undertaken with organisations in many industries over many years.

# Case studies

*A sustained cost reduction program can deliver significant savings and often reveals savings not previously conceived as possible.*

## Streamlining a recruitment process

A large and complex government organisation relied on a sizeable recruitment team but faced underperformance, with long recruitment times and a complex process creating inefficiencies.

Our team was engaged to review its recruitment approach, examining strategies, structure, processes and technology. We consulted with recruitment staff, business leaders, HR stakeholders and candidates to understand pain points and identify opportunities for improvement.

Using Lean Six Sigma principles, the recruitment model was redesigned to streamline processes, improve governance and standardise practices. More than 30 recommendations were made, with key improvements including increased automation, improved talent attraction and pre-emptive candidate management.

This resulted in substantial outcomes: approximately $4 million in annual savings through reduced administrative effort and improved workforce planning; reduced time-to-hire; and improved satisfaction across hiring managers, candidates and recruitment staff with process clarity and reduced rework.

> *$4 million in annual savings were achieved through reduced administrative effort and improved workforce planning*

## Reducing hospital ancillary cost

A review at a large hospital found that significant savings could be found in its ancillary services (e.g. electrical, plumbing and IT services). This included the discovery that most technicians spent just 40% of their time doing technical work due to task scheduling that did not consider the impact of staff moving from one job to another across a very large campus, loose responsibilities, and a direction to minimise overtime costs over efficient job completion.

With the help of our experts, this major hospital was able to dramatically improve its maintenance performance, reducing the overall rate of unscheduled failures by 11% and shortening the time to resolve unscheduled incidences by 17% over twelve months.

> *The review found that most technicians spent just 40% of their time doing actual technical work*

## Reduced operating costs

The US Air Force was interested in trialling modern manufacturing industry approaches to reducing aviation asset operating costs while maintaining flight operations flexibility.

Our experts made a number of recommendations that would reduce maintenance, parts and logistics spend by enacting efficient inventory control and the adoption of point-of-maintenance documentation procedures.

In total, savings of more than $1 billion (USD) were identified with no adverse impact on flight operations or aircraft availability anticipated.

Initially trialled at Eglin AFB in Florida, the recommendations were then adopted across the US Air Force and were later incorporated into the requirements for its 3rd generation aviation maintenance management system.

> *$1 billion (USD) in operational savings achieved by applying Lean Six Sigma*

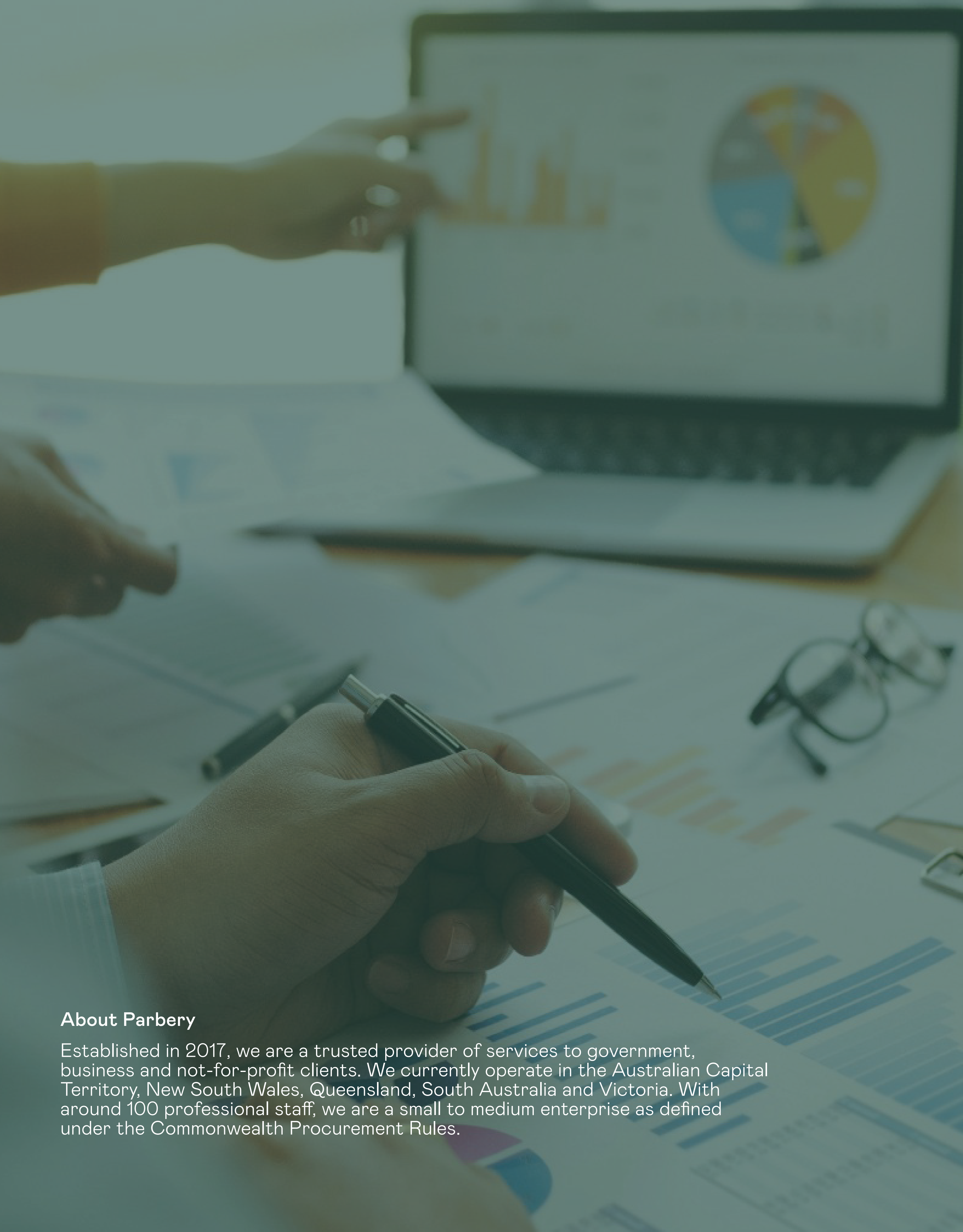
## Improving broadband rollout

NBN Co. was created to establish Australia's fast speed broadband network but was struggling to achieve rollout and budget targets.

A review undertaken with our experts identified that field crews with inadequate technical skill levels were damaging fibre lines and specialised tools frequently. This in turn was leading to rework, delays and additional transport and motion costs. Additionally, reliance on too few engineering experts was leading to excessive 'waiting' by field crews.

The resulting sustainable cost and complexity reduction program delivered sustainable savings of more than $100 million over a period of three years and accelerated the network's rollout.

> *$100 million in savings over three years after identifying field crews had inadequate technical skill levels*



## About Parbery

Established in 2017, we are a trusted provider of services to government, business and not-for-profit clients. We currently operate in the Australian Capital Territory, New South Wales, Queensland, South Australia and Victoria. With around 100 professional staff, we are a small to medium enterprise as defined under the Commonwealth Procurement Rules.

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