



Why being efficient can be the worst thing for a company

Patricia Mathieson describes how one department's efficiency can totally mess things up for the rest of the business

Early in my career I worked in marketing for a Cambridge-based technology start-up business. The company's long-term vision was to become the market leader. Shorter term, it needed to sell £500,000 worth of products before its three-year venture capital investment ran out. My job was to help bring in customers and make the necessary sales.

Around 18 months in, one of our first units was returned with a mysterious rattle. When the box was opened it transpired that the sticky pads holding the components together had perished. But why were sticky pads used at all? The boards should have been screwed to brackets and fixed permanently in place. The obvious answer was that either a prototype had accidentally been sent out or the quality department had failed to pick up a production blunder.

On investigation, however, we found that the problem originated elsewhere. Charged with maintaining a positive cash flow, the company accountant decided on a 90-day payment policy and therefore withheld payment to a key supplier, who responded by refusing any further deliveries. Since production was tasked with shipping a certain number of units every month, it had to find a temporary fix. The customer received the product on time, but it quickly failed.

Having discovered what had happened, we had to locate, recall and re-assemble all the units shipped in that particular batch. It cost the firm hundreds of pounds in repairs and we had to put considerable effort into pacifying annoyed customers.

This is typical of what can happen as a business grows. While the team is small, the business's goals are clear and everyone understands what is required of them. People can communicate easily, know what each other is doing and lend a hand at whatever needs to be done at any one time. Consequently, tiny businesses with five people or fewer tend to be very effective.

Success, however, brings complications. What starts as a cohesive team develops into separate departments, each with its own area of responsibility. They are then measured on their performance in these areas: hence, at my old company, the finance department's target was based on cash-flow and the production manager's on throughput. Staff are measured on how well they perform tasks related to the departmental targets, and on it goes. Before long, the business has disintegrated into a series of islands so focused on their own efficiency that they lose sight of the company's overall goals.

Sadly, there is a big difference between efficiency and effectiveness, one that can turn profit into loss and cause a business with huge potential to fail. Efficiency is a measure of how well you perform a task or series of tasks. Effectiveness is about your ability to achieve a goal. My old company set itself the objective of shipping a certain number of units each month and the production department's use of sticky pads was certainly effective (up to a point) in helping to meet this, but not in a very efficient way. Measured against this, finance's efficient cash flow management was ineffective because it prevented the business from delivering a satisfactory product on time. Ironically, the company was cash rich and failing to pay the supplier on time cost far more than the few pounds earned from a couple of months' extra bank interest.

Even today, I can name several well-funded local businesses that have traded for several years and yet do not appear to have won a single customer. They seem to be efficient at sourcing investment and developing new technology, but if their goal is to make sales, they have not been effective.

Faced with poorer than forecast results, many companies, even small ones, feel compelled to re-organise. Often urged on by venture capitalists or bank managers, they fire their CEO or sales manager or launch a major business change programme. Sadly, whilst buying a little time, many of these so-called "solutions" make little difference. Indeed, they often mean massive disruption for the staff, so morale and productivity both go down.

Instead, it is worth re-visiting the business's goals and checking whether everyone remains focused on them. Mapping each department's targets and processes onto the overall vision can produce startling results. Things that are being done extremely efficiently in one department can sometimes undermine what is being done elsewhere and, at the least, can be

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counterproductive. There are often gaps where what is being done in one department falls short of the expectations of the next. How often does one hear comments like: "Marketing can't prioritise: too focused on short-term sales and not building a future for the company"; or "the development department never produces any documentation to accompany new designs." Rather than bad work, these comments often reflect a discrepancy between the business's own objectives and what people in the different departments see as important.

In my business, Bardwyck, we refer to the points where such failings impact other parts of the business as "conflict points". Resolving them is often relatively easy: re-defining someone's job, broadening a department's remit, changing a manager's targets or re-programming a machine may be enough to free up the system and make the whole business more successful.

If you were designing a business or project from scratch, you would first develop the main strategy and then create an operations strategy to underpin it. Businesses that are more established should review their vision and objectives every few years and measure how

effectively they are achieving them. Tweaking the operations infrastructure at that stage can prevent things from going wrong whilst avoiding expensive, disrupting re-organisation.

Being effective does not require total efficiency, although it certainly helps, especially if you are in a race against strong competition. But if you are efficient without being effective, you can waste time and money.



The perfect business is like an elite flying squad, in which every person and activity is extremely efficient but, more importantly, they work as one to create the ultimate series of flying formations. That is true effectiveness.

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