

Implementing a Culture of Cost Consciousness

Bridging the Effectiveness-Efficiency Gap

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Synopsis: Looming budgetary cuts in defense spending, along with pressures to create a more flexible military force, challenges leaders to transform the U.S. Air Force into a more efficient and adaptable organization. This article proposes the economic principle of "Pareto Improvement" as the guideline for cost reduction within individual units. This principle bridges the gap between effectiveness and efficiency with two intended benefits: reduce costs and increase flexibility of operations. The article also proposes that tolerance for failure, persistence, and absolute leadership commitment are key supporting ingredients for leading effective change.

"There is nothing as difficult and dangerous as changing the order of things."

Niccolo Machiavelli

Transformation is difficult. Successful change is rare due to its enormity and the many opportunities for failure. However, transformational journeys are usually performed because external threats far outweigh change risks. In today's international environment, all military branches need to become leaner and more adaptable to change. There are three politico-economic forces present in the world that demand these changes. First, the US Government is facing a budgetary crisis. Second, the current enemies of the US are employing new tactics that force all military branches to develop more flexible deterrent mechanisms. Last, emerging economic superpowers threaten American economic and military superiority in the long term. Responding to these challenges requires sustaining effectiveness through leveraging of creative efficiency and focus. While sound strategy answers the need for greater focus, a cultural change to cost consciousness answers the need for creative effectiveness.

Developing a culture of cost consciousness does not imply direct and unequivocal cost cuts. In a condensed perspective, this philosophy asks Airmen to look at efficiency and effectiveness together, rather than follow the old adage of effectiveness first, efficiency second. The renowned management thinker and author Peter Drucker defined efficiency as doing things right and effectiveness as doing the right things. In the Air Force, we can ultimately define effectiveness by results (time and quality) and efficiency by cost. Cost consciousness means bridging the gap between efficiency and effectiveness. It implies manipulating the cost-quality-time relationship so cost can be decreased without reducing the quality and timeliness of our efforts. In economic terms, this is represented by narrowing the space

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between the effectiveness and efficiency curves, which represents excess resources. An ideal state exists when only the resources needed are given for any particular task. This state of resource allocation is called Pareto Optimality.

The concept of Pareto Optimality, developed by the 19th century economist Vilfredo Pareto, states: “A state of affairs where it is not possible to improve the economic lot of some people without making others worse off.” Pareto Optimality is a measure of **efficiency**. It implies the existence of an organization that is one hundred percent efficient and effective. Such a unit has maximized its resources to produce the tasks at hand and has no further ability to increase its services unless more resources are added to it. Its processes are extremely streamlined, leadership understands precisely what resources are needed, and the strategic goals of the organization are very specific. Admittedly this is an ideal state, although perhaps never achieved. Most important though, Pareto Optimality proposes a guideline for change from current state to greater efficiency: a **Pareto Improvement**.

Pareto Improvement is a change in a process that makes someone better off without negatively impacting anyone else. This concept prescribes a guideline to follow when trying to improve the efficiency in a system. As long as cuts do not impact directly contributing factors to the mission, they simply eliminate excess resources by bridging the gap between efficiency and effectiveness. In other words, the organization becomes more efficient while remaining equally effective. This simple principle should be offered as single guidance to leaders of any unit embarking in cost cutting efforts- modify processes in order to become leaner without impacting the mission.

Leading change through Pareto Improvement demands creativity, persistence and attention to detail. Focused projects are the conduit. Examination of current processes and waste removal are good starting points for the effort. Metrics generation followed by feedback sessions determine the next steps in the project. Whenever a reduction in operating expenses cannot be achieved without a negative impact to the mission, one of three conditions may be present:

1. We are not creative enough (research more options)
2. Rules and regulations prevent us from operating efficiently (change the rules)
3. We achieved Pareto Optimality (need more resources if demand increases)

There will be setbacks and dead ends. Functional silos will have to be broken. Values will have to be defined. Leading metrics would have to be defined for targets and risk analysis. Modern management techniques from Lean, Six Sigma, and Business Process Reengineering should be used to define value, processes, and requirements. In turn, leaders would gain greater understanding of processes and capabilities required. Last, effective change needs buy-in from the operators in the trenches. Change should be facilitated from the top, but implemented from the bottom. This is why defining guidelines for efficiency transformation should be simple enough while giving latitude for creativity. Pareto improvement offers a guideline to start the cost consciousness change. Sound change management of the process can ensure positive results.

The dominant factor in achieving success with change management (or any other major initiative, for that matter), as well as sustaining it is related to the quality of LEADERSHIP. Leaders at all levels and senior leaders in particular need to foster the culture to support learning and problem solving. That starts with

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challenging their mental models and the often undetected mental biases present especially in the most successful members of the organization

In the United States Air Force, three things need to coexist before effective change can take place:

1. Tolerance for failure.
2. Persistence over time.
3. Leadership commitment to change.

Preconditions to Change Management in USAF

Management without leadership can spell mission failure for a military unit. In the Air Force, we take care to emphasize this point in professional military education and our overall mentoring processes. However, process improvement initiatives across the Air Force have revealed that processes can suffer from lack of management as well.

In a recent interview Jim Womack, an American leader in quality management and founder of Lean Enterprise Institute, declared the problem in today's corporate world is too much leadership and not enough management. While acknowledging that a leader is in many instances the difference between disaster and success, he also emphasizes the importance of management focus on the creation and utilization of sound processes.

Leaders inspire and push people beyond the realm of "the normal" in pursuit of exceptional achievement. This can come at a cost--like increased stress, excessive expenditures, or the overuse of other resources. Sound management and strong processes can eliminate the need for excessive effort and still deliver required results. **BOTTOM LINE:** Effectiveness and efficiency can coexist in a culture of cost consciousness.

How can this concept be applied in the military/government staff environment?

In the military we hold heroism as an integral trait and leadership is the forum in which we interact. Asking us to focus on management is a difficult proposition. However, successful change management may have several preconditions that go against the hero mindset. These must be met to shift emphasis toward more effective management.

First, successful implementation requires a "tolerance for failure" environment. This tolerance buys the time necessary for changes to take place and benefits to appear. Studies indicate that companies implementing successful change had to create a protective "time shell" for change to take effect and positive results to surface. In this "shell", workers can implement rational change and test before implementing actions. On the other hand, organizations expecting a quick fix do not allocate the time and resources required for significant positive change to take place, thus gaining minimal success with the change implementation. A quick fix requires a hero that saves the day by pushing the process and avoiding failure. Was the process changed because of his or her effort, or will it fall apart the moment the

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hero leaves the scene? Did we think about the root cause of the problem, or simply use great personal talent to save a bad process? Maybe the process should sometimes fail...

Second, cultural change in the management of an organization requires persistence over time. In implementing Lean, companies like Boeing and Porsche concluded an average of 10 years of concentrated effort was necessary in order to streamline their core process lines. How can military leadership allocate the same level of consistency to an organizational change when the average tenure of a commander is two years? Once a new commander comes in, the vision and goals will often change. After all, the commander is also a leader ready to make a personal impact. One could try to implement change at a rate co-measurable with movement of personnel (PCS) rates. However, this attempt at expediting change could be very negative.

A possible solution to this dilemma might be a strategic alignment of organizational goals to pre-determined vision that is changed from the perspective of the customer (higher command, headquarters, etc), and not the unit commander.

The third, and perhaps the most fundamental condition for successful implementation of change in the managerial process, is an absolute commitment from the leadership. The strategic alignment and deployment to a predetermined vision focuses the leadership of an organization on the mission statement of the unit, and how mission will be managed, adapted, changed in order to implement vision in the next one to five years. All managerial efforts should be subordinated to the resulting priorities. The idea that groups of trained Lean, Six-Sigma, or any other “managerial experts” can go around the organization, have a few victories and “inspire” a managerial change revolution is an illusion preached by many organizations in both private and governmental circles. Leadership support should be more than a sponsorship of isolated projects. It should be strategic and comprehensive. Additionally, it should demand results. Two steps forward, one step back is OK. Zero steps forward is not...

Ultimately, the successful application of any process improvement in the military environment has certain challenges unique to the military realm. Among them, the instinct to get the job done quickly and move on, short attention span, and lack of strategic guidance are primary hindrances to rapid change implementation. It is paradoxical that the same drive that brings victory on the battlefield could also be an impediment to solid change management. Recognizing this threat is the first step. Then military leaders must install clear and sustained rules and regulations in order to create an environment conducive to change while preserving the hero attitude for the appropriate settings. The time and energy saved by a greater emphasis on effective management is well worth it.

In conclusion, bridging the efficiency-effectiveness gap requires careful and gradual transformation, implemented at the local level and supported in a consistent manner by higher headquarters leadership through guidance and with the use of effective feedback loops. Empowering people across the Air Force to lead Pareto improvements would not only increase efficiency, but would also increase the overall effectiveness of our force through the utilization of our combined creative power. To quote General George S. Patton: “Don’t tell people how to do things, tell them what to do and let them surprise you with their results”.

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