Operational Efficiency Audit

A guide to help you get an in-depth look at how your departments/functions operate and focus on eliminating waste

Improving the efficiency of your operational activities means making things better, not just fighting fires or managing crises. It allows you to look at how you perform work and focus on eliminating waste - of money, people, materials, time and opportunities. The ideal outcome is that jobs can be done cheaper, quicker, easier and safer.

Operational Efficiency Audit

This guide is designed to help you get an in-depth look at how your departments or functions operate and addresses the following content:

Introduction

Discovering efficiencies in Operational Activities

When we look at the way we carry out work in the various departments that go to make up a business, we see that the work itself is broken into a number of different but interconnecting steps, carried out in a logical form. When these steps are clustered together they form operational activities that in turn lead to outcomes for the department.

Operational efficiency is found in these steps and the related decisions involved in the way work is accomplished and outcomes are produced.

Operational efficiency starts by getting people to ask a series of questions around the areas they are responsible for - how do we know we are doing the right things, how do we know what we do actually delivers the outcomes it should?

For example, here are some questions to ask about your purchasing, food production, front office and other activities that go to make up your operations:

- ❑ Are you getting the kind of results you expect from the way work is organised?
- ❑ Is there clear ownership and responsibility for the way the work is carried out and the results you get?
- ❑ Are your activities as efficient and effective as they should be when compared against targets (number of rooms sold, gross profit margins, etc.)?
- ❑ Do you measure results and manage your operations according to those results?
- ❑ Are your activities as streamlined and cost-effective as they could be?
- ❑ Can your employees carry out the activities required of them?
- ❑ Does everyone understand and perform your activities the right way, every time?

If you answered 'no' to one or more of the questions above, you may need to look at the efficiency of your activities.

This involves looking at what causes things to happen in each activity and to use this knowledge to reduce variation, remove activity steps that contribute no value to what is being done, and improve customer satisfaction. This also involves looking at all of the factors affecting each operational activity: the materials used, the methods and equipment used and the people who perform the work.

Improving the efficiency of your operational activities, then, means making things better, not just fighting fires or managing crises. It allows you to look at how you perform work and focus on eliminating waste - of money, people, materials, time and opportunities. The ideal outcome is that jobs can be done cheaper, quicker, easier and safer.

How do you get started on operational efficiency?

An essential first step in getting started on improving the efficiency of operations is for the department head to make it a priority. The importance of operational efficiency must be communicated from the top. Leaders need to promote an environment in which an efficiency mentality can thrive.

Instilling an operational efficiency mentality in a department can be difficult because it often requires some different ways of thinking than we are accustomed to. Operational efficiency requires everyone to become a 'fire preventer,' rather than a 'fire fighter.' The focus is on improving an activity's efficiency over the long term, not just patching up procedures and work routines as problems occur.

To get started on operational efficiency, Heads of Department and managers who have been fighting fires need to set aside the fire extinguisher and start thinking in these terms:

- ❏ What activities should we select for improvement?
- ❏ What resources are required for the improvement effort?
- ❏ Who are the right people to improve the selected activity?
- ❏ What's the best way to learn about the activity?
- ❏ How do we go about improving the activity?
- ❏ How can we integrate the improved activity?

A useful tool to help with making sense of these and other related questions is an Operational Efficiency Audit.

Operational Efficiency Audit

An Operational Efficiency Audit is a proven approach that can immediately show you where you can:

- ❏ Increase competitiveness.
- ❏ Reduce costs.
- ❏ Implement new ideas.
- ❏ Assign and reallocate resources.
- ❏ Streamline operations.

The Operational Efficiency Audit is summarised here and presented on the following pages. Using all 5 steps of the audit will increase the team's knowledge of the activities they are responsible for, broaden decision-making options, and enhance the likelihood of satisfactory long-term results.

Let's take a look at what's in each of the steps.

Operational Efficiency Audit

Step 1
Identify Key Outcomes for each activity

Step 2
Flowchart key steps for the activity

Step 3
Improve the activity and make changes (link to Operational Standards)

Step 4
Measure impact of improvements to the activity

Step 5
Show additional improvements
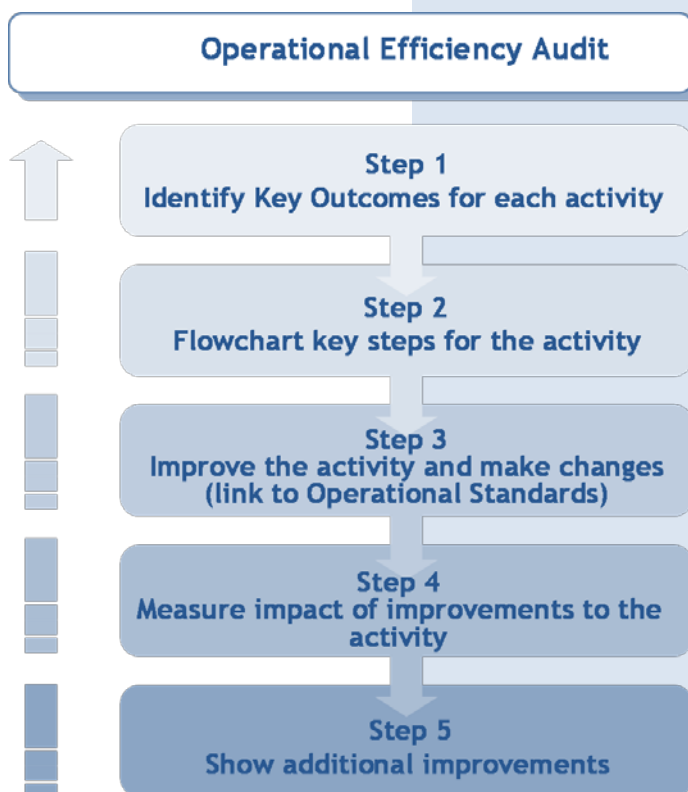
Step 1: Identify Key Outcomes

What are the outcomes you want to see?

Select the activity to be improved and decide on the *Key Outcomes* you believe the activity should deliver. In other words, what are the key goals for the activity (in food production, this may be the food gross profit margin, in front office it may be occupancy levels related to yield management).

When setting a Key Outcome for your purchasing activity, for example, this may be to reduce the value of stock held by 5% within the next twelve months, through more efficient ordering from approved suppliers resulting in a reduced range of goods in stock (note the precise, measurable and time-lined components of the outcome sought). Or it may relate to a clearly defined reduction in the cost of goods, through more efficient buying, leading to greater profit margins.

Once the Key Outcomes have been defined for the activity, here are some useful questions to ask at this step:

- ❑ Can the activity be clearly identified and defined?
- ❑ Does a problem in the activity occur frequently?
- ❑ Is improvement of this activity important to the department or business?
- ❑ Will people appreciate it if the activity is improved?
- ❑ Is there a good chance of success in improving the activity?
- ❑ Will success deliver on the Key Outcome?

Activities to consider for Operational Efficiency Audits:

- ❑ Departmental Activities, may include:
  - Food Production
  - Food Service
  - Bar Service
  - Front Office
  - Accommodation
  - Conference & Events
  - Leisure
- ❑ Other activities may include:
  - Facilities
  - The Environment
  - Hygiene, Health and Safety
  - Purchasing
  - People Performance
  - The Customer

The departmental activities selected will, of course, depend on the nature of the tourism business you are involved in.

Step 2: Flowchart Key Steps

Flowchart how the activity is currently carried out

How is the activity carried out and what is it delivering for you? It makes sense that before you improve something you must have a good picture of what is happening now. So, this step involves drawing that picture. One way of helping with this is to draw the activity in the form of a flowchart. This tool is used to generate a step-by-step map of the steps, actions, and linkages which occur between the starting and stopping points of the activity.

To develop an accurate flowchart, you should observe the flow of work through the activity. It may be necessary to follow the flow of work several times before you can see and chart what actually occurs. As you start work on this first flowchart, you need to be careful to show what is *really* happening in the activity.

You don't want to fall into the trap of flowcharting how you think the activity is working, how you would like it to work, or how an instruction or manual says it *should* work.

You can define the current situation by answering these questions:

❑ Does the flowchart show exactly how things are done *now*?
❑ If not, what needs to be added or modified to make it an accurate, current picture of the activity?
❑ Have the people involved in the activity contributed their knowledge of the steps and their sequence?
❑ After gathering this information, is it necessary to rewrite your improvement Key Outcome(s) (Step 1)?

Let's have a look at an example: a Purchasing Activity. This is an example only and shows what may be typical of activities in an organisation. We'll use this example in the next step to show where improvements might be made.

Purchasing Activity

Quotation Sought

Contract Agreed

Approved Suppliers Listed

Requisition Generated

Purchase Made

Goods/Services Delivered
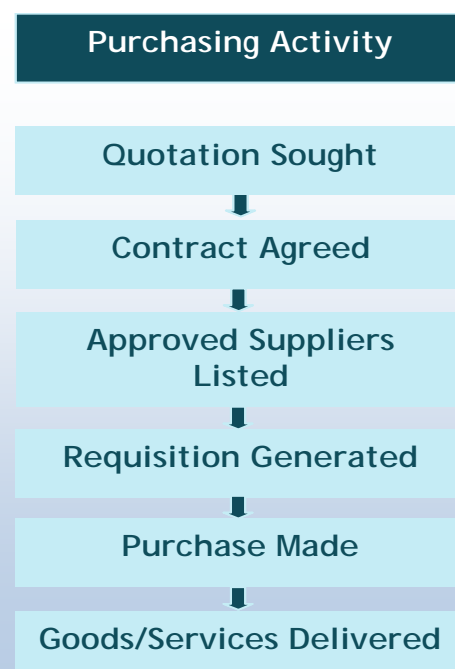
Step 3: Improve the activity

Improve the activity by removing redundant or unnecessary tasks and strengthening existing ones. You may have seen the activity on paper in its entirety for the first time in Step 2. This can be a real eye-opener which prepares you to take these first steps in improving the activity.

Reviewing this picture of how the activity really works helps to spot problems in the flow. You may locate steps that were installed in the past in an attempt to fool-proof the activity after problems were experienced and are now redundant. You may locate steps that are just too complicated, taking up time and not helping. All of these eat up scarce resources. You may find steps that are essential but are not being carried out effectively and need to be improved.

Besides identifying areas where resources are being wasted, you may find a weak link that you can bolster by adding one or more steps.

But before jumping in to make changes based on this initial review of the current flowchart, you should answer the following questions for each step of the activity:

❑ Does the step add value to the service delivered by the activity?
❑ What would happen if one or more steps were eliminated? Would the Key Outcome still be achieved?
❑ Are the necessary steps being performed by the appropriate person(s)?
❑ Are the necessary steps being performed correctly and in full?
❑ Where are the problems in the steps?
❑ What is the impact of these problems on cost and performance?
❑ Where are the areas for improvement (AFIs)?

If the answers to these questions indicate waste, increased costs or reduced performance you should consider doing away with the step or improving it. If a step can be removed without degrading the activity, you are recovering resources which can be used elsewhere in the department or business.

After making changes, you should now create a flowchart of the improved activity.

Let's take our example of the purchasing activity. Any unnecessary steps will now have been removed and you can concentrate on the activity as it *should* be. Now is the opportunity to ask questions around each step as described below. In this example, questions relate to how each step should be carried out, who should be involved, and what systems and practices should be built into each step.

Purchasing Activity

Quotation Sought

Contract Agreed

Approved Suppliers Listed

Requisition Generated

Purchase Made

Goods/Services Delivered

Are quotations sought for amounts greater than agreed levels? Are the required number of quotations defined? Do clear lines of authority exist?

Are terms and conditions drawn up and followed? Are price, quality and specifications agreed?

Are clear criteria set out for supplier approval? Is the list managed according to clear guidelines? Are responsibilities defined?

Are clear criteria set out for requisitioning, together with responsibilities and frequencies? Are minimum/maximum stock levels in departments defined and adhered to?

Are clear criteria set out for purchasing, together with responsibilities and frequencies? Are Purchase Orders required for amounts greater than agreed levels? Are minimum/maximum stock levels in stores defined and adhered to?

Are goods delivered on time, in the correct quantities, according to agreed specifications? Are clear criteria set out for receiving goods, together with responsibilities?

From this, **performance problems** are identified. It is useful at this stage to look at the **impact** of each problem in terms of cost (the cost of not doing the step right) and the effect on performance (achieving standards, achieving the Key Outcome). Once these decisions have been made, you can then look at where there are **areas for improvement (AFIs)**.

In a Front Office activity, for example, questions to identify performance problems may include how quickly enquiries are dealt with, how many are converted into bookings, what is the proportion of web versus direct bookings, how are rates for each managed, what impact do achieved rates have on yield, how well are repeat guests recognised and catered for, how quickly are guests checked in, what information are they given, are all food, beverage and ancillary charges accounted for and included in the guest's bill?

In our purchasing activity example, a **performance problem** may relate to panic buying at the 'Purchase Made' step. This may lead to buying goods from suppliers outside the agreed suppliers list. The **impact** from this can be higher costs, excess stock, wastage and inferior quality delivered to the customer. The **areas for improvement** may relate to better forecasting and planning combined with minimum/maximum stock levels defined.

Don't lose all the good decisions made at this stage. Use a simple format to capture them:

No.	Performance Problem	Impact	Areas for Improvement
1	Problem identified	Cost of the problem Effect on performance	Idea 1 Idea 2 Idea 3
2	Problem identified	Cost of the problem Effect on performance	Idea 1 Idea 2 Idea 3

Now comes the sanity check: can the improved activity produce services acceptable to customers and deliver on the Key Outcome? If the answer is 'yes,' you should agree the improved flowchart as the new picture of the activity.

Where changes need to be made, you can use the following list of questions as a guide:

- ❑ What steps in the activity will be changed?
- ❑ Are there any risks associated with the proposed change?
- ❑ What will the change cost? The cost includes not only money, but time, number of people, materials used, and other factors.
- ❑ What employees will be affected by the change?
- ❑ Who is responsible for implementing the change?
- ❑ What has to be done to implement the change?
- ❑ How much time will it take?
- ❑ Where will the change be implemented?
- ❑ How will the implementation be controlled?
- ❑ At what steps in the activity will measurements be taken?

This last question involves identifying measures that will show the success of the improvement. These measures may relate to most steps in the activity that need to be monitored on an ongoing basis. Keeping with the same purchasing activity example, the measures may relate to successes at a number of steps, for example:

- ❑ Number of suppliers for each category of goods.
- ❑ Minimum/maximum stock levels.
- ❑ Value of stock levels.

Important: make the link with operational standards (see Operational Standards of Performance). This is a critical element of the work done to improve the efficiency of the activity by ensuring that standards are updated in line with the changes made and the above measures are part of the standard.

Now, organise your team to improve the activity. This involves selecting the 'right' people to serve on the team, in other words, those who have a good knowledge of 'how things are done', are interested in improving performance and have the willingness to help. This also involves identifying the resources available for the improvement effort, such as time, money, and materials.

Step 4: Measure the impact

Measure the impact of the areas for improvement (AFIs) against the Key Outcome(s) and other identified measures at each step.

This is a good place for the team to identify any differences between the way they planned the improvement and the way it was carried out.

The following questions will guide the team in checking for efficiencies:

❑ Did the change in the activity eliminate the real cause of problems identified?
❑ Are the measures at each step closer to the activity improvement than the previous measures? This indicates how much or how little the activity has improved.
❑ Were the expected Key Outcomes achieved? If not, the team should analyse the steps and their measures further to find out why performance improved less than expected or even became worse.

Step 5: Show Additional Improvements

Are additional improvements feasible?

Determine whether additional improvements are feasible. Monitor the performance of the activity to see where additional, continuous improvements are possible, for example, can yield from room sales be improved further, can performance against standards be improved, can further savings be made and, of course, can improvements be transferred to other activities within the business?

Operational Efficiency Audit: Summary and Examples

Step 1: Agree the Key Outcome(s) you want to see the department delivering.

Step 2: Flowchart how the department is currently being managed.

Step 3: Improve the management of the department by removing redundant or unnecessary tasks and strengthening existing ones:

- ❑ create a flowchart of the improved activity - concentrate on the activity as it should be
- ❑ ask questions around each step - how it should be carried out, who should be involved, what systems and practices should be built into each step
- ❑ identify *performance problems* - look at the *impact* of each problem in terms of cost (the cost of not doing the step right) and the effect on performance (achieving standards, achieving the Key Outcome)
- ❑ identify *areas for improvement* (AFIs) that will produce services acceptable to customers and deliver on the Key Outcome
- ❑ agree the improved flowchart as the new picture of the activity
- ❑ identify measures that will show the success of the improvement at each step
- ❑ link to Operational Standards ensuring that these are updated in line with the changes made
- ❑ organise the team to improve the activity, identify the resources available for the improvement effort

Step 4: Measure whether the change has improved the activity, against the Key Outcome and other identified measures.

Step 5: Monitor the performance of the activity to see where additional, continuous improvements are possible.

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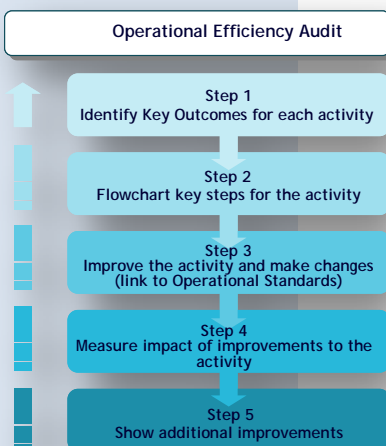
Typical steps, and questions relating to each step, are listed in the following flowchart examples. They are produced here for guidance purposes only. It is expected that each department would follow the five steps above (and defined in greater detail in the introduction to this section) to develop their own flowchart of the activity and, having asked questions around each step, develop an improved flowchart to generate

Food Production Activity

Opening Duties

Are defined standards in place for kitchen opening? Do the standards contribute to the smooth running of the kitchen? Is hygiene a priority?

Menu Planning & Ordering

Is menu planning effective? Are customer and business needs balanced in the menu planning process? Are menu pricing decisions based on effective profit margin and competitor analysis? Are performance measures achieved and targets agreed? Are only approved suppliers used for ordering food items? Are there agreed standards to guide and control ordering?

Receiving & Storing

Are defined standards in place for receiving food items into the kitchen?

Food Production & Presentation

Are standard recipes used in the preparation of menu items? Are employee skill levels high? Do food quality and presentation continuously meet the required standard? Are buffets well presented and maintained?

Hygiene & Safety

Are there comprehensive hygiene & safety management programmes in place? Are they working effectively? Are the systems independently verified and continuously improved?

Closing Duties

Are defined standards in place for kitchen closing? Are they continuously adhered to?

Food Service Activity

Managing for Profitability

Is the restaurant managed as a revenue centre and budgets set accordingly? Are performance measures achieved and targets agreed? Are sales promotional opportunities maximised and is upselling a feature of the restaurant? Are high-margin food and beverage items identified? Are they promoted effectively? Are employees aware of, trained in and delivering on high-margin sales? Are products and services appropriate for customer and business needs?

Preparation for Service

Are defined standards in place for preparing for service? Is hygiene a priority? Does restaurant set-up contribute to the smooth running of service at all times?

Enquiries & Reservations

Are enquiries and reservations handled professionally at all times? Are there frequent mistakes in meal reservations? Are reservations used as an opportunity to determine guest needs? Are opening/closing times reflective of guest and business needs?

Food Service

Are guest needs identified for all elements of the service? Does service consistently meet and exceed those needs? Are gaps in service identified and resolved? Are food presentation standards consistently achieved? Is customer feedback tracked and are targets achieved? Is wastage managed and minimised?

Beverage Service

Are beverages and wines served professionally? Is employee wine knowledge good?

Cash Control

Are billing and payment standards achieved? Are receipts issued to all guests? Are there frequent discrepancies in end of shift balances? Why?

Closing Duties

Are defined standards in place for closing? Are they always achieved? Does close down on one shift minimise the workload for the following one?

Front Office Activity

Managing for Profitability

Are reservations and front office managed as a revenue centre with budgets set accordingly? Are performance measures achieved and targets agreed? Are sales promotional opportunities maximised and is upselling a feature of reservations and front office? Are employees aware of, trained in and delivering on promotional and upselling opportunities?

Enquiries and Reservations

Are enquiries and reservations handled professionally at all times? Are conversion rates for enquiries agreed and achieved? Are Yield Management techniques used to maximum benefits? Are on-line bookings monitored and managed effectively?

Guest Check-in

Is there a defined check-in standard in place which is achieved at all times? Are all guests made to feel welcome?

Servicing Guest Needs

Are guest needs serviced effectively during their stay? Are requests for information and assistance handled efficiently and professionally?

Guest Accounts

Are billing standards effective? Is all guest expenditure captured and billed appropriately during their stay? Do guest bills regularly have to be adjusted?

Guest Check-out

Are there defined check-out standards in place which are achieved at all times? Is guest satisfaction checked upon departure? Does check-out make guests feel valued?

Cash and Ledger Reconciliation

Are cash and ledger reconciliation standards effective? Are balance discrepancies monitored, actioned and managed?

Bar Activity

Is the bar managed as a revenue centre with budgets set accordingly? Are performance measures achieved and targets agreed? Are sales promotional opportunities maximised and is upselling a feature of the bar? Are high-margin food and beverage items identified? Are they promoted effectively? Are employees aware of, trained in and delivering on high-margin sales? Are products and services appropriate for customer and business needs?

Managing for Profitability

Are defined standards in place for preparing for service? Is hygiene a priority? Does bar set-up contribute to the smooth running of service at all times?

Preparation for Service

Are bar food presentation, service and quality standards consistently met? Is the buffet/carvery system professionally managed? Is table service of a high standard? Is customer feedback generally good?

Food Service

Are beverages and wines served professionally at the bar/table? Is employee product knowledge good?

Beverage Service

Are effective stock control standards in place? Are they achieved all the time? Are requisitions of stock authorised and monitored? Is stock rotated according to agreed standard? Are wastages documented and controlled? Are there frequent stock discrepancies? Why? Are promotional opportunities maximised?

Stock Control

Are billing and payment standards achieved? Are receipts always issued to customers? Are there frequent discrepancies in end of shift balances? Why?

Cash Control

Are defined standards in place for bar closing? Are they always achieved? Does close down on one shift minimise the workload for the following one?

Closing Duties

Accommodation Activity

Managing for Profitability

Are performance measures achieved and targets agreed? Are sales promotional opportunities maximised and all promotional literature managed effectively? Are employees aware of, trained in and delivering on promotional opportunities? Are products and services appropriate for customer and business needs?

Safety & Hygiene

Are safety & hygiene a priority in the department? Are all employees fully competent in these areas?

Servicing Public Areas

Are defined standards and schedules in place for cleaning public areas and toilets? Are guest safety needs considered and responded to during cleaning? Do public areas create a positive image for the business at all times?

Servicing a Bedroom

Are defined standards in place for servicing bedrooms and bathrooms? Are these standards achieved throughout? Is customer feedback about rooms generally positive?

Stock Control

Are effective stock controls in place? Are they followed all the time? Are requisitions of stock authorised and monitored? Is wastage managed and minimised?

Cost Control

Are costs in relation to linen, towels and service cloths minimised? Are other costs such as flowers and bathroom accessories effectively controlled?

Storage

Are equipment and cleaning materials stored and used safely? Are pantries and accommodation trolleys well maintained at all times?

Conference and Events Activity

Managing for Profitability

Are conference and events managed as a revenue centre with budgets set accordingly? Are performance measures achieved and targets agreed? Are sales promotional opportunities maximised and is upselling a feature? Are high-margin products and services identified? Are they promoted effectively? Are employees aware of, trained in and delivering on high-margin sales? Are products and services appropriate for customer and

Enquiries & Reservations

Are enquiries and reservations handled professionally at all times?

Office Administration

Are comprehensive administration standards in place? Are event details accurate or are there frequent inaccuracies? Does the conference and events office contribute to the overall quality of the guest experience?

Set Up & Preparation

Are defined standards in place for preparing for all events? Is hygiene a priority? Does the quality of set-up contribute to the smooth running of events at all times?

Food Service

Does service at events consistently meet defined guest needs? Are service gaps identified and dealt with effectively? Are food presentation standards consistently achieved during all events? Is customer feedback in line with targets set?

Beverage Service

Are beverages and wines served professionally during events? Is employee product knowledge good?

Billing & Payment

Are billing and payment standards in conference and events achieved?

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Fáilte Ireland
88-95 Amiens Street
Dublin 1

www.failteireland.ie