



The ROI from continually improving performance



The discipline of regular, continuous performance improvement doesn't just happen—with careful planning and oversight, every leader and manager can reflexively pursue it as part of their "day job."

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Introduction

As C-suite leaders strategize and plan for the future, it's important to consider how effective performance improvement programs are—and how they can continue to add more value. While fears of recession have faded, we find that there are forces at work—such as high interest rates, tight labor markets, a retreat from globalization, and softening GDP growth—that make the business environment more challenging.

This means companies should be doing everything they can to preserve margins and increase value, which includes looking at every function and business unit for efficiencies. Companies can't afford to leave money on the table. By improving or eliminating inefficient processes and the costs associated with them, the savings can be invested in activities that produce a much higher ROI and add value.

While continuous performance improvement (CPI) is a well-established discipline in many industries, such as manufacturing and finance, we find that keeping up with rapid growth in some sectors, such as technology, has left little time or management bandwidth for wide-ranging performance improvement.

Companies that pursue continuous performance improvement embed the discipline across the organization and make it part of their corporate DNA. These companies find ways to increase EBITDA margins and grow earnings every year. These efforts engage a wide variety of stakeholders—from HR, technology, and boards of directors—and involve a broad front of initiatives across the organization, and are tightly focused and time-bound (tied to annual budgets and goals). And they complement the multiple transformation efforts that are typically underway in large organizations (see "Continuous performance improvement and transformation" on page 3).

In this paper, we look at how companies can make sure that CPI is embedded in the plans of every function and operation—infusing continuous improvement into their organizational culture and DNA or expanding the range of performance improvement efforts. We also look at some leading practices and emerging tools, such as generative artificial intelligence (AI), that can help CPI efforts succeed.



Continuous performance improvement and transformation

Continuous performance improvement is about increasing productivity and efficiency in existing, sometimes already great, processes—doing things faster, better, and with less labor where possible. This can involve anything from shifting schedules on an assembly line, automating a repetitive process step, and implementing quality control processes to reduce error rates, or tightening upstream tolerances to improve yield. It can also include redesigning workflows and rewriting job descriptions, and might require better contract enforcement with suppliers. A performance improvement should have a clear and specific goal—reducing processing time by a specific percentage or eliminating unplanned overtime expense.

A transformation, by contrast, is a fundamental change in a process, operating model, business model—or an entire organization. A transformation has widespread impact on the organization and requires new ways of working and cultural change. A successful transformation delivers both financial and strategic value—enabling the company to grow in new markets.

Transformations are complex, time-consuming, laden with risk, and require dedicated leadership and teams, as well as partners to help with planning, oversight, and implementation. Continuous performance improvement should be part of the “day job” for managers and executives. It should be a well-developed muscle that grows stronger every year. Continuous performance improvement is also essential for making sure that transformations stick—and continue to deliver value every year.

Continuous performance improvement now

The proper implementation of CPI can drive performance and help breed long-term success. It can create consistency around the delivery of products and services, optimizes processes and improves efficiencies, builds brand loyalty, fosters innovation, and enhances your company's overall adaptability in a rapidly changing business environment. The infographic below shows how various industries typically approach performance improvement and provides examples of recent successes.

Industry examples



Technology, media, and telecom

Situation: A leading technology hardware provider had acquired a company with new business models around software subscriptions, SaaS, and professional service offerings. The client wanted to rapidly integrate the target to realize deal synergies and enable the new business models. The client also wanted to build M&A integration tools, capabilities, and assets that would enable future deals and integrations.

Approach and result: Following months of close collaboration with the client, KPMG provided a platform of reusable capabilities and a cost reduction roadmap. A variety of proprietary tools and insights were leveraged to help achieve the client's objectives, including AI capabilities, integration planning and frameworks, and KPI tracking. In addition, KPMG provided automation-as-a-service to analyze the client's problem statement and implement the appropriate automated solution to deliver desired results and created an integration management office to integrate automated reporting, dashboards, and workflows.



Consumer & retail

Situation: A global retail chain with omni-channel presence in more than 40 countries and a portfolio of more than 15 brands needed help to integrate across reporting systems and gain line-of-sight into cost drivers.

Approach and result: To help this client with cost transparency, KPMG co-developed a brand management approach by 1) evaluating cost drivers across front and back office, 2) allocating and aligning costs with the right cost centers, and 3) ultimately, providing a top-down strategic reporting view that gave the management team the insights it needed to drive actionable decisions. The client captured 15 percent EBITDA and reduced working capital by 5 percent.

New tools and opportunities

Rapid advances in data analytics and emerging tools such as generative AI open up new avenues for performance improvement. Although still in its infancy, generative AI appears to have significant potential for accelerating performance improvement and automating tasks for white collar employees whose work has not been affected significantly by automation. It also has an important advantage: Anybody can be trained to create the simple prompts that can generate sophisticated analyses (see “What can generative AI do for performance improvement?”).

In the finance sector, there have long been inefficiencies in both the credit approval process and compliance. In both cases, generative AI is already being tested to automate document generation and speed up contract production or compliance reports.

In the consumer and retail (C&R) sector, generative AI can help find inefficiencies in inventory management by more accurately predicting demand and timing for specific products and automating the restocking of high-demand items. In supply chain operations, generative AI can be applied to summarize actionable manufacturing performance insights for factory employees, or power a chatbot to help create forecast reports that improve productivity for a demand planner.

In industrial manufacturing, companies have long used data analytics and, increasingly, machine learning to monitor and manage the production process. On the manufacturing floor, these tools can identify bottlenecks, detect defects, and monitor machine performance to schedule preventative maintenance and avoid downtime. However, there are many potential applications for generative AI outside of manufacturing and supply chain operations across back, front, and middle offices.



Across industry sectors, executives expect generative AI and other sophisticated technologies to reduce time spent by employees on tasks such as composing emails or writing routine reports, creating more time for higher value activities such as problem-solving and customer contact. The possibilities—from improving the customer experience on help desks to finding new sources of efficiency across departments and functions—are virtually endless. The companies that excel in capturing these opportunities will be those that have ingrained the habit of applying new technology for continuous performance into the company’s operational DNA.

What can generative AI do for performance improvement?

Across all industries and functions, leaders are rushing to learn about generative AI and exploring ways to leverage this technology to improve the productivity of their organizations. But how much should you expect from generative AI and how can you use it for continuous performance improvement?

Clearly, expectations are high. In the KPMG June 2023 executive survey, more than 75 percent of respondents said they saw generative AI as by far the most impactful emerging technology they will use, and 71 percent plan to implement their first generative AI solution within two years. At the same time, they recognize there are clearly risks and barriers that need to be managed, ranging from legal, reputational, and cyber risks to overcoming generative AI's own issues, such as hallucinations—the tendency to make things up when it lacks sufficient data.

Generative AI can be very powerful for CPI by arming knowledge workers with new tools to increase efficiency. Potential use cases exist wherever there are knowledge workers in the organization, but the density varies with both function and industry. Early pilots suggest that attractive areas to explore may be in finance, HR, sales, and software development. For these, examples of productivity improvements in the 10–30 percent range have been published for applications at scale. Naturally, this assumes that freed up time can be redeployed to drive higher value-add activities at the same cost.

To stay ahead of competitors in the generative AI race, you need to launch a portfolio of these key initiatives now:

- ◆ Seize the opportunity and evaluate potential risks to shape your generative AI strategy.
- ◆ Launch a top-down, proof-of-concept effort to find and demonstrate valuable use cases.
- ◆ Implement a safe version of your favorite generative AI software and make it easily accessible for all employees to enable bottom-up experimentation and preempt later adoption challenges.
- ◆ Collect the most attractive use cases from all these efforts and start horizontal scaling of what has been found to work best.



How to infuse your organization with an ethos of continuous performance improvement

To make performance improvement programs continuous rather than episodic (launched every few years but rarely yielding lasting results) requires effort from people across the organization. Performance improvement needs to be part of an organization's muscle memory, not something you have to relearn every few years. It has to become a force that you're constantly applying to the business. Continuous performance improvement has to become a habit that doesn't require extra thinking. As retired U.S. Navy four-star admiral William McRaven once told graduates at a memorable commencement address, success starts with proper habits. Make your bed to perfection each morning as a reminder that if you do the little things right it makes the big things possible.

From the CEO down to the lineman in the factory and clerks in accounts payable, everyone has a role to play. Employees need to be clear about taking ownership of their CPI tasks and must be held accountable for both the quality and timeliness of their implementation of CPI. They need to believe that their other teammates are working toward the same goal.

Top leaders must set the larger objectives that translate into action and hold the organization accountable for the culture of performance improvement. Leadership can also make sure that proper incentives are in place; performance improvement may be routine, but managers and employees should be rewarded for success. As President Dwight Eisenhower once commented, "The essence of leadership is to get others to do something because they think you want it done and because they know it is worth doing."

While everyone in the organization needs to be involved in this effort—with initiative and insights from the front lines—CPI is not a free-for-all. It needs to be carefully choreographed by the top leadership. This CPI process has to be organized, governed, and managed correctly at the highest level of the company or it could fail to achieve the desired results.



Set relevant, achievable, and measurable KPIs.

To start, make sure you have the necessary KPIs in place. While most firms have been working with a variety of KPIs, new ones may be required to capture the full range of inefficiencies—return on assets, return on sales, and benchmarked performance at a high level, overall equipment effectiveness, return on marketing, and inventory turns on a more granular level.

Companies need to agree on what measures are required early in the process and make this an integral part of the reporting and visibility outcomes. The metrics can be adjusted from time to time based on the insights gained from lessons learned in the CPI process. You need to find the friction points within the organization that haven't been the proper focus of your CPI program. Something as simple as reinventing the accounts receivable process may be a game changer.



Provide the necessary technology and data

Having the right tools and data is essential. Make sure these dependencies—both within certain functions and across different functions—are properly tested to ensure that the design and execution proceed according to plan. Teams need to be in communication across functions as part of the vetting process.



Build a culture of continuous improvement

As with transformation programs, the biggest obstacles to performance improvement can be the failure to adopt new ways of working. It helps to co-create process changes with employees, rather than imposing a solution. To build a culture of continuous improvement, leadership can communicate often about progress and objectives, and celebrate wins. Encourage open dialogue about performance improvement and welcome ideas from all employees.



Apply proper governance and accountability

A successful CPI program needs to tightly link operational realities and financial results. Another important step on the path toward CPI is project governance. Make sure that process-specific ideas are tied to the overall financial performance and any transformation efforts that may already be in place. Designate owners for each improvement effort, agree to KPIs and timelines, set milestones and reporting cadence, and communicate the results.



How KPMG can help



As a trusted collaborator, we work closely with clients throughout the entire CPI journey. Utilizing our extensive industry knowledge and experience, we employ an integrated, cross-functional approach to effectively optimize performance, digitize processes, and drive growth, even amidst economic volatility and rapid market shifts.

KPMG has the ability to introduce and connect clients with industry and process professionals from a diverse range of sectors, enabling access to a wealth of valuable insights. Leveraging our extensive experiences in the field, we are able to share unique lessons and provide tailored guidance to drive success and growth for our clients.

We can help you identify inefficiencies and pain points by conducting a formal working session or full diagnostic to uncover and quantify improvement potential. In this way, we provide our clients with valuable insights and actionable steps to help optimize their operations and achieve their goals.

KPMG also can work with you to build business cases and think through investment tradeoffs that help you understand

how to create the value for one-time and ongoing investment potential.

KPMG can codify impacts and opportunities created through emerging technologies such as generative AI, and can provide tailored guidance to help you develop effective orchestration and governance strategies to manage continuous improvement.

Finally, we have years of experience creating and executing the change management programs needed for CPI implementation—our focus on the people and communication aspects of these efforts is of paramount importance.

KPMG Elevate is our CPI solution—it is focused on balancing growth and cost to sustainably improve a business' financial trajectory. Our team of professionals can guide you from strategy to execution, delivering measurable improvements to revenue, operating margins, cost structures, and working capital positions to help you quickly unlock value and achieve your goals.

Companies potentially benefit from four main approaches of the KPMG Elevate program:

1

Focus on value.

We know that companies focus more than ever on value when seeking CPI. We put value at the center of everything we do, always balancing risk and reward. We carefully monitor and orchestrate multiple projects to ensure successful execution and value capture.

2

Close attention to culture.

We also know the critical role people and culture play in making CPI an essential part of an organization's muscle memory. We emphasize ongoing leadership commitment and help generate employee engagement to create a culture that embraces continuous improvement and innovative thinking.

3

Smart application of technology.

Technology and data are the essential parts of CPI programs. Data-led insights help your firm increase financial value by uncovering new opportunities to perform better, profit more, explore new potential, and reduce costs.

4

Reimagine experiences.

By examining, exploring, and reframing what's possible, we help clients develop processes and ways of working that create better experiences for all stakeholders—employees, customers, partners, and clients.

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