

Operational Advantage in Uncertain Times:

Winning Through Efficiency

May
2026



Executive summary

The dominant responses to the cost and capital pressures of 2026 have been indiscriminate cost reduction and accelerated investment in artificial intelligence and automation.

Historical evidence from three major downturns demonstrates that broad-based cost cutting correlates with multi-year competitive decline. Organisations that cut reflexively tend to remove capability alongside cost, constraining performance precisely when adaptability is most needed. Simultaneously, the majority of enterprise AI pilots fail to deliver their projected business case, typically because technology is deployed on top of fragile or outdated operating models.

What follows is an alternative path grounded in operational precision. It draws on peer-reviewed research from the University of Melbourne, cross-industry data from 268 Lean Management interventions, incorporating the XeP3 methodology. The central finding is that the level of Noise observed varies from approximately 28% to 50% of staff and management time is consumed by process inefficiency, friction and rework. When translated into labour cost, this equates conservatively to around \$25,000 per employee per year in wasted effort, based on typical Australian employment costs. For a 500-person organisation, this represents approximately \$12.5 million annually in recoverable capacity that can be addressed without diminishing capability.

A four-step executive framework is set out. The first step measures actual work as it happens rather than as documented, isolating points where effort does not contribute to customer or business outcomes. The second step quantifies and prioritises noise system-wide, directing leadership attention to the largest recoverable value. The third step restructures work first, then roles, then people, in that sequence, ensuring decisions are made on the basis of a stabilised operating model. The fourth step reinvests the recovered capacity, typically 20 per cent or more, into margin protection, customer experience, growth or controlled cost reduction according to strategic priorities.

Sequencing is decisive. Conventional approaches address people first, then cost, then process, which removes capacity before the structural waste absorbing it has been identified. The framework proposed here inverts that logic, creating genuine capacity before any structural decisions are made. The same principle applies to digital investment: measure actual work, remove the noise, stabilise the process, then automate. This de-risks AI and automation investments and shifts them from speculative bets into disciplined capital allocations with measurable returns.

The macroeconomic context is presented, quantifying the limitations of standard cost responses, examining the nature and distribution of process waste, and providing supporting evidence from academic research and case studies across banking, healthcare, retail, petrochemicals and logistics. The objective is to provide a practical basis for decision-making in conditions where both cost discipline and operational performance are required simultaneously.

Introduction

External pressures are reshaping the 2026 operating environment in ways that expose the limits of indiscriminate cost reduction and accelerated AI investment making the case for a more precise form of efficiency that targets embedded process waste rather than organisational capability.

The operating environment in 2026 is defined by a convergence of external shocks that are both material and outside the control of individual firms. The effective closure of the Strait of Hormuz, elevated oil prices, persistent inflation, trade disruption and subdued global growth are combining to reshape cost structures, demand patterns and planning certainty. For Australian businesses, these forces are already flowing through distribution costs, shelf prices, consumer behaviour and operational risk in ways that are immediate and compounding.

The most consequential impacts are those that affect cash flow, margin and decision-making confidence. Sustained cost escalation is compressing margins where price increases cannot be fully passed on. Higher input costs and longer supply cycles are placing pressure on working capital. At the same time, households and businesses are adjusting behaviour, trading down, delaying purchases and reducing discretionary spend, which introduces volatility into revenue and forecasting. Supply chains remain unstable, pricing decisions carry greater risk, and credit conditions across value chains are tightening. These pressures are interconnected and reinforce each other, reducing organisational resilience if managed in isolation.

A defining feature of the current environment is that these pressures are exogenous. They originate outside the organisation and cannot be influenced directly. This creates a structural challenge for leadership teams. The available response lies in endogenous levers, the elements of cost, process and capital allocation that remain within management control. As a result, many organisations are actively seeking cost reduction opportunities to stabilise performance.

However, the evidence does not support indiscriminate cost cutting as an effective response. Broad-based reductions often remove capability alongside cost, constraining performance at the point where adaptability is most needed. This introduces a central tension. Leaders are expected to reduce cost while maintaining operational effectiveness and, increasingly, to invest in automation and artificial intelligence to support productivity and growth. These objectives are often pursued without a clear framework to reconcile them, increasing execution risk.

The pressure to act quickly compounds this risk. Accelerated decision-making can lead to poorly defined business cases, weak alignment between process design and technology, and suboptimal deployment of automation.

Introduction (cont'd)

In some cases, organisations with limited capacity to absorb implementation risk are pursuing these investments as a primary cost solution, increasing the likelihood of underperformance or value erosion.

Within this context, a more precise understanding of cost is required. Across most organisations, a significant proportion of operating capacity is consumed by process inefficiency, friction and rework. This “noise” is typically embedded, often unmeasured, and can represent a substantial share of the cost base. Importantly, it can be reduced without diminishing capability, offering a pathway to improved efficiency that does not rely on blunt cost reduction measures.

This matters because the traditional levers available to management each carry heightened downside risk.

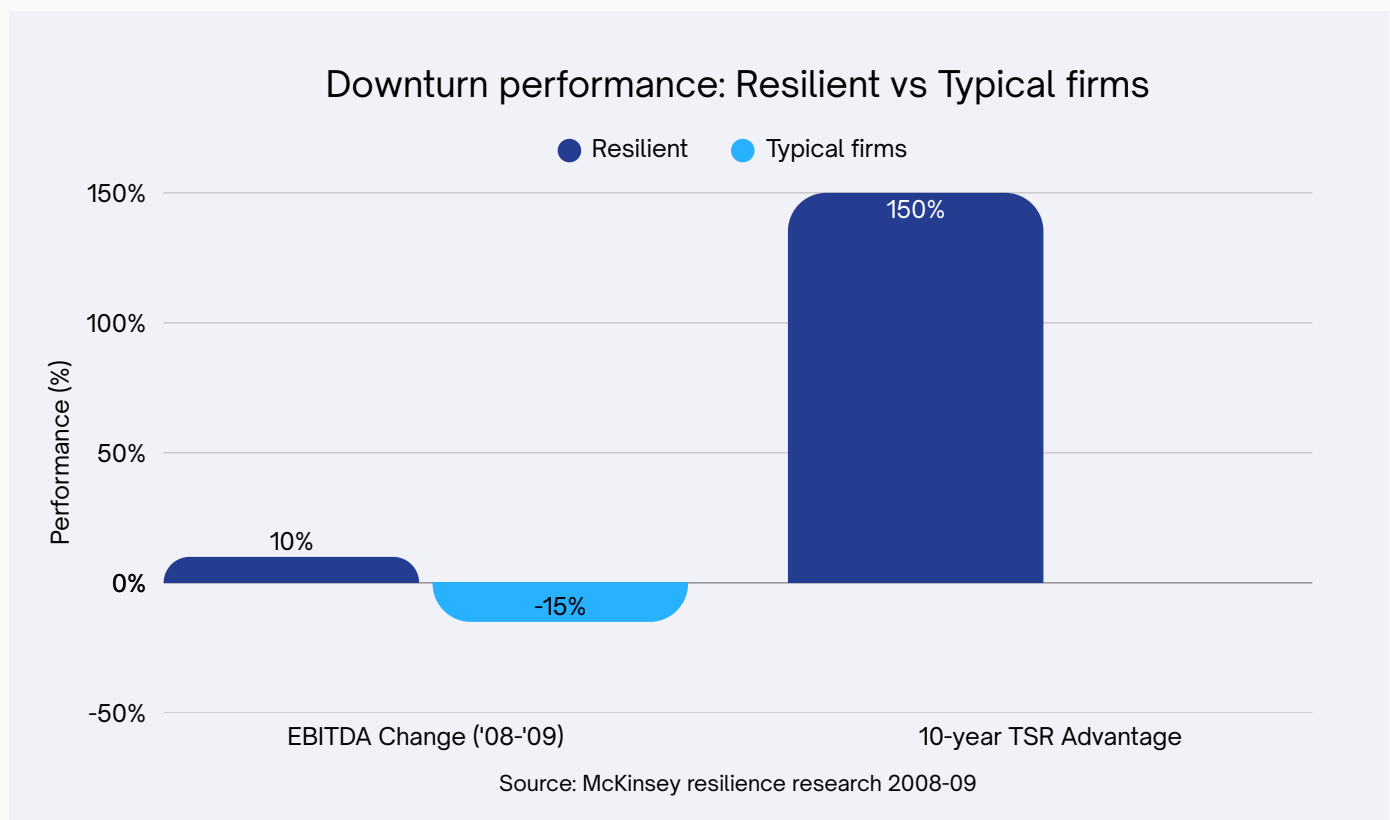
Price increases are constrained by customer sensitivity. Workforce reductions can affect service levels and output. Deferred investment can limit future competitiveness. In this environment, efficiency must be pursued with greater precision.

This paper examines the current macroeconomic conditions, the limitations of broad cost reduction, and the nature and scale of process inefficiency within organisations. It sets out a structured approach to improving operational efficiency by targeting avoidable cost while preserving, and in some cases enhancing, organisational capability. The objective is to provide a practical basis for decision-making in conditions where both cost discipline and operational performance are required simultaneously.



Background and context

In a fragile 2026 outlook where growth depends on AI, policy, and execution aligning, evidence shows that resilience comes not from blanket cost cuts but from disciplined choices about where to protect, fix, and selectively invest.



Forecasts for 2026 diverge more sharply than usual. The United Nations (UN) expects global growth of 2.7 per cent. The International Monetary Fund (IMF) puts the figure at 3.3 per cent. The gap is not a rounding difference.

The IMF's more optimistic case is contingent on AI investment, fiscal stimulus, and private sector adaptability all firing at once. If any of the three falters, the real trajectory shifts closer to the UN view.

Background and context (cont'd)

The pressures feeding into these forecasts are compounding. Inflation has moderated from its peaks but remains elevated enough to erode real purchasing power. Tariffs are escalating supply chain costs, particularly for inputs that cross borders more than once. Job growth has stalled. Consumer confidence is soft. Credit conditions are tight, which constrains the traditional strategy of borrowing through a downturn and forces more of the response to come from within the business itself.

Policy has not been passive. The International Energy Agency's release of 400 million barrels of strategic reserves is the largest coordinated intervention of its kind and has stabilised some of the acute price spikes. What it cannot do is repair structural damage to Middle Eastern refining and export infrastructure. Reserve releases buy time. They do not restore capacity. Leaders should therefore assume that any meaningful easing in energy and freight costs is months rather than weeks away, and that domestic action, not policy relief, will carry most of the weight.

The instinct to cut costs across the board during a downturn is old and well documented. The data on its consequences is equally well documented. Three episodes in particular, the 2008-09 global financial crisis, the dot-com bust, and the early-1990s recession, each produced consistent evidence that reflexive, across-the-board cuts correlate with multi-year competitive decline. The pattern is stable across sectors and geographies. Businesses that cut everything, including investments that support future earning capacity, tend to emerge smaller, less productive, and less able to respond when conditions improve.

Every downturn also produces a smaller cohort that outperforms through it. McKinsey's analysis of the 2008-09 crisis identified these resilient firms and measured what they achieved. During the downturn, they improved EBITDA by 10 per cent. Their peers lost close to 15 per cent over the same period. The compounding effect did not stop when the recession ended. Over the decade that followed, the resilient cohort built a Total Shareholder Return advantage of more than 150 percentage points over the rest of the field.

The scale of that gap warrants attention. It is not the product of marginally better execution during a difficult quarter. It reflects a different approach to cost, investment, and operating discipline sustained through the cycle. The firms that emerged stronger did not outwork their peers. They made different choices about where to cut, where to hold, and where to invest.

AI and automation sit across this picture as both opportunity and complication. They offer genuine relief on cost and productivity when applied well. They are also the single largest contingency in the IMF's growth forecast. If AI investment delivers at the pace and scale currently assumed, the upside case materialises. If it does not, the downside case dominates. The experience of recent years is that most AI and automation projects fail or underdeliver when they are layered on top of broken processes. The technology does not repair process weakness. It inherits it and, in many cases, amplifies it through faster execution of flawed steps. Two implications follow. First, investment in AI is not a substitute for operational discipline. Second, the return on AI investment is largely determined by the condition of the processes it is deployed into.

The conditions described here are not new in kind. What is unusual is that they are all arriving at once. Inflation, trade disruption, soft demand, tight credit, and energy shock are each familiar on their own. Together, they compress the margin for error and make the quality of executive judgement more visible than it is during calmer periods.

For leaders in 2026, these elements define the operating context for any discussion about efficiency and operational advantage. Growth expectations are conditional, external interventions are partial, and the historical evidence does not support indiscriminate cost reduction as a reliable path to resilience. At the same time, the tools that promise improvement are themselves highly sensitive to underlying process quality. The central question is therefore not whether to respond, but how to do so in a way that aligns with what the resilient minority have done differently in past cycles and that can be adapted to the specific conditions of this period.

The problem in detail

Diverging growth forecasts, persistent inflation, supply chain disruption, tight credit, the role of AI and automation are shaping a constrained operating environment where historical evidence shows indiscriminate cost cutting weakens performance, while outcomes depend on how organisations balance efficiency, investment and operational discipline.

Across industries, the dominant executive response to margin pressure has been consistent over multiple cycles. The first lever pulled is usually headcount reduction, followed by marketing cuts, deferred technology programs, paused training, and tighter controls on discretionary expenditure. This pattern is repeated despite evidence that it destroys long term value when applied reflexively rather than selectively.

Offshoring is a variation on the same theme. Reporting from mid-2025 indicates EY reduced its onshore administrative team significantly, with around 400 to 500 Executive Assistants and administrative staff let go as roles moved to offshore locations. The action followed a broader trend among the Big 4 firms (EY, Deloitte, KPMG, and PwC) of moving administrative support to lower-cost regions. Alongside offshoring sit the outsourcing of functions to lowest-bidder contractors, cuts to training and other soft budgets, and deferred technology and capital investment.

The financial logic behind headcount reduction is frequently overstated when examined at a full cost level. For a typical mid-level Australian employee earning \$100,000 with five years of tenure, direct payouts alone exceed \$40,000. Once recruitment costs, lost productivity during transition, knowledge drain, legal risk, and reputational damage are included, the fully loaded cost per displaced worker reaches \$60,000 to \$150,000, or 50 to 150 per cent of annual salary. In many cases, these costs exceed what would have been required to address underlying process inefficiencies.

A third reflex now sits alongside cost-cutting and price rises: the rush to deploy AI and automation as the answer to margin pressure. Research from the MIT Initiative on the Digital Economy (2025), in *The GenAI Divide: State of AI in Business*, finds that approximately 95% of enterprise AI pilots fail to deliver measurable business impact.

The problem in detail (cont'd)

The failure modes of the two responses compound when they are combined. Pausing process improvement preserves the inefficiencies that are eroding margin in the first place. Rushing to automate those same broken processes locks the inefficiency in at higher cost. In effect, executives pay twice for waste they have not first removed, once in the ongoing cost of the flawed process and again in the capital committed to automating it.

This is where the concept of noise becomes useful. Noise is the non-value-adding activity that creeps into every system of flow. It is the impact of failure, friction, and no/low-value processing in operations; physical processes as well as those intangible service and system processes. Examples include correcting errors passed down the chain, chasing missing information, duplicated checking, handling upstream failures, completing unfinished work originated by other functions, and managing the workarounds that build up around systems that do not quite fit the process.

The scale of this noise is larger than most executive teams estimate. Bevington and Samson's 2025 foundational research, validated by the University of Melbourne, finds that approximately 28% to 50% per cent of staff and management time is consumed by noise. That is close to two full working days per person, per week, absorbed by work that adds no customer or business value. Testing demonstrated that no sector of the economy escapes lightly; healthcare, retail, technology, agribusiness, minerals et al.

When translated into labour cost, XeP3 data validated across more than 268 Lean Management interventions equates conservatively to around \$25,000 per employee per year in wasted effort, based on typical Australian employment costs. For a 500-person organisation, this represents approximately \$12.5 million annually in recoverable capacity or \$34,000 every working day. Direct wage cost is only one element. Additional losses sit in failure demand, revenue leakage, and avoidable cost outlays in servicing that should never have been required.

Third-party estimates are consistent with these findings. PwC puts the cost of process friction to the global economy at more than US\$3 trillion each year. McKinsey places the share of operating expenditure consumed by rework, miscommunication, and fragmented systems at 20 to 30 per cent. Deloitte has found that managers spend 40 per cent of their time resolving internal issues that should not exist.

In ordinary conditions this level of waste is expensive but tolerable. In the conditions described earlier in this paper, with fuel costs elevated, input prices embedded in shelf prices, and customers trading down, it is the difference between a business that can hold its pricing and one that cannot.

The knock-on effects extend beyond cost. Noise is a primary driver of employee disengagement and voluntary turnover. The people doing the rework, chasing missing information, and covering for upstream failures are often the ones who leave. This turns blanket cost cuts into a double penalty. Retrenchments fall on productive time rather than wasted time, and the structural noise remains untouched. The organisation emerges with the same inefficiencies it started with, a reduced team carrying them, and a higher risk that the best of the remaining people leave within the year.

The challenge is not simply the presence of cost pressure. It is the way in which organisations respond to it. Without a clear understanding of where inefficiency resides and how it affects performance, there is a risk that actions taken to improve financial outcomes will instead constrain them.

Solutions: a disciplined approach to efficiency

A four-step, evidence-based framework to measure actual work, quantify and remove noise, using measured work data to redesign processes, sequencing structural and digital investment in the right order, and reinvesting the resulting capacity dividend into margins, customers, growth, or controlled cost reduction.

Before reducing headcount, pausing investment, or raising prices, leaders should measure and remove the noise that was always present but never systematically addressed. The work described in the previous section establishes that this noise consumes roughly 28% to 50% per cent of staff and management time and costs approximately \$25,000 per employee per year. For a mid-sized to large organisation, that translates into a multi-million-dollar opportunity that sits inside the existing cost base and does not require new capital, new hires, or a price increase to realise.

The reason this opportunity has remained unaddressed in most organisations is not a lack of effort. Lean programs, Six Sigma initiatives, and generalist consulting engagements have been tried repeatedly. The University of Melbourne's 2025 Lean Paradox research found that most methods miss the majority of noise, stall at identifying root causes, or deliver only spot improvements. The methods are not wrong in principle. They are incomplete in practice, because they rely on system logs, low-detail process maps drawn from memory rather than measurement workshops and assumptions about how work is performed.

Noise hides between the process as documented and the process as actually executed. Methods that do not close that gap cannot remove it.

**The governing principle
is straightforward.
Cut *smarter*, not
deeper.**

A four-step executive framework

The approach proposed here, drawn from the XeP3 methodology, is structured around four steps that an executive team can drive and measure against directly.

1

THE FIRST STEP

The first step is to measure actual work as it happens, not as it is believed to happen. This is the decisive departure from traditional improvement programs in capturing the people, hand-touched side of operations. Rather than relying on interviews, workshops, or process documentation, activity is captured at source as staff perform it. The objective is not to document process for its own sake, but to isolate points where work does not contribute to customer or business outcomes. The output is a factual view of where time is spent, by whom, and on what.

This is the too-often-missed complement to process mining or system data that baselines performance. For most executive teams, the first measurement exercise produces findings that would not have emerged from any number of workshops, because the people performing the work are often unaware of the scale of rework and workaround they absorb as normal.

The second step is to quantify and prioritise noise system-wide. Once activity has been captured, a prioritisation layer ranks where capacity is being lost, how much it is costing, and what the recoverable value is at each point. A digitised platform supports this step, pinpointing and quantifying noise across the organisation and giving leaders a data-led view of where effort is lost and what it costs.

The practical purpose is to direct leadership attention to the largest recoverable value rather than to the most visible or most frequently complained about processes, which are not always the same thing.

2

THE SECOND STEP



A four-step executive framework (cont'd)

3

THE THIRD STEP

The third step is to restructure work first, then roles, then people, in that order. This sequence matters. Fixing the work removes the noise that was absorbing capacity and cleans the slate to plan for value-generation activity to automate or agentify. Adjusting roles then reflects the revised work and capability mix to do it. Any people decisions that remain are made on the basis of a stabilised operating model rather than in advance of one.

Under this model, organisations begin implementing five weeks from starting their journey, which matters because it stems the daily compounding cost of delay in the current environment.

The fourth step is to reinvest the recovered capacity. Once noise has been removed, a typical outcome is 20 per cent or more of capacity returned to the organisation. This flows into reduced production cost, an engaged workforce, and improved percentages of customers staying on the 'happy path'.

That capacity becomes a strategic choice rather than a reactive one. It can be used to protect margin without a price rise, reinvested into customer-facing teams to reduce churn, or converted into labour-cost savings without forced redundancies. The decision reflects strategy rather than necessity.

4

THE FOURTH STEP

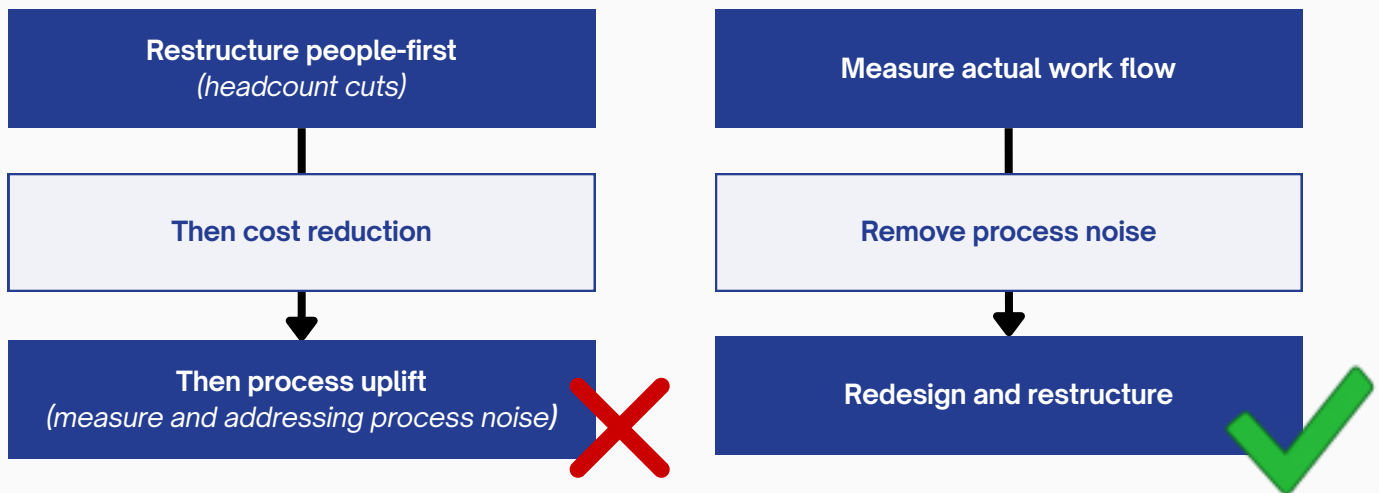
Why sequencing matters

The order of these steps is what separates the approach from the standard responses described earlier. The conventional sequence is people first, then cost, then process. That ordering removes capacity before the structural waste that was absorbing it has been identified.

The organisation emerges smaller but with the same inefficiencies, now carried by fewer people, which in turn drives the disengagement and turnover patterns already noted.

The sequence proposed here inverts that logic. Process and workload are addressed first, to create genuine capacity. Structures and investment decisions are then adjusted against that new baseline. People decisions, where they remain necessary, are informed by a clearer view of what the work actually requires. The approach is risk-managed by design.

Each step is informed by evidence produced in the step before it.



The AI and automation dimension

The same sequencing principle applies to digital investment, and it applies with particular force given the pressure on executives to accelerate AI and automation.

Most enterprise AI and automation investments fail to return their business case. The reason is rarely the technology. It is that the technology is deployed on top of fragile or outdated operating models, including processes, roles, and governance that were not suitable to build upon. Automation accelerates whatever process it sits on, which means it accelerates the noise as well as the value-adding work. The outcome is higher unit cost for the same defective output, delivered faster.

The correct sequence for digital investment is therefore: measure actual work, remove the noise, stabilise the process, then automate. Reversing this order produces two compounding problems. First, the inefficiency is locked in at a higher cost base, because automation now reproduces it at scale. Second, it becomes harder to fix later, because the automation itself becomes a sunk-cost argument against revisiting the underlying process. Organisations that take this path often spend the following two or three years defending a system they would not choose to build again.

Noise removal is the prerequisite that de-risks the AI investment decision rather than a competitor to it.

Once noise is quantified, understood, and removed, the business case for AI becomes measurable. The scope becomes defensible to the board. The return on investment becomes predictable rather than aspirational. AI shifts from a speculative bet into a disciplined capital allocation, which is the form in which it delivers for the resilient cohort of firms referenced earlier and underdelivers for the rest.

For boards and investors pressing for speed, this is the more credible answer than compressed timelines and rushed business cases. A stabilised process is automated faster, more cheaply, and with a higher probability of delivering the projected benefits than a fragile process rushed into automation ahead of the work that should have preceded it.

What the executive team sees

For a leader driving this approach, the deliverables are specific and measurable at each stage.

The measurement phase produces a factual baseline of where time and cost are being consumed. The prioritisation phase produces a ranked view of recoverable value by process, function, and site. The redesign phase produces a revised operating model with quantified capacity returned. The reinvestment phase produces a set of options, margin protection, customer experience, growth, or cost reduction, each with a dollar value attached.

This structure gives the executive team something that is generally absent from cost-reduction programs: a defensible, data-led case for the decisions being made.

Where headcount reductions are required, they are made on the basis of a stabilised operating model rather than ahead of one. Where pricing is being reconsidered, it is informed by a clear view of which cost pressures can be absorbed internally and which cannot. Where AI investment is being approved, the process it targets has been measured, stabilised, and sized for return.

The capacity dividend

The practical outcome of the approach is a capacity dividend of 20 per cent or more, released from the existing cost base without cutting capability. That dividend can be allocated according to where the business needs it most. In an environment where the standard levers, price rises, redundancies, and deferred investment, each carry heightened downside risk, the ability to generate capacity from within the existing cost base is not a marginal advantage. It is the difference between a business that is reacting to the cycle and one that is choosing how to respond to it.

Noise removal is the prerequisite that *de-risks* the AI investment decision — rather than a competitor to it.

Once noise is quantified, understood and removed, the business case for AI becomes *measurable*, the scope becomes *defensible* to the board and the return on investment becomes *predictable*.

Supporting evidence

The argument for operational efficiency as a strategic response to uncertainty is supported by academic research, cross industry application, and case evidence from real operating environments.

The evidence base does not point to deeper cuts as the defining factor in resilient performance. It points instead to selective operational efficiency gains, disciplined sequencing, and the preservation of investment in areas that sustain long term competitiveness.

Taken together, the supporting evidence validates three propositions.

- 1 First, across industries and economic cycles, **indiscriminate cost reduction is not the pattern associated with stronger outcomes.**
- 2 Second, **noise is both measurable and material**, with consequences for cost, capacity, service, and management attention.
- 3 Third, **organisations that remove noise before making structural cuts or major technology bets are better placed to protect margin, preserve capability, and allocate capital with greater confidence.**

Academic validation of methodology

The University of Melbourne's 2025 research paper on the Lean Paradox examined why conventional process improvement methods so often underdeliver on large projects. The study reviewed more than 200 engagements and identified a consistent pattern.

Lean and comparable methods stall when noise is distributed across functions, when root causes sit outside the immediate process boundary, and when the measurement phase depends on workshops and interviews rather than direct capture of work.

The same paper identified XeP3 as the methodology that consistently guaranteed real benefits on large process projects where conventional Lean stalled.

Cross-industry replication

The relevance of that finding is strengthened by the scale of replication. Results have been repeated across more than 113 organisations on four continents, including banking, healthcare, retail, petrochemicals, and logistics. The breadth matters because noise is often assumed to be a feature of particular industries, back-office functions, or mature businesses.

The evidence is that it is structural rather than sector-specific. The mechanisms that generate it, handoffs between functions, information gaps, unresolved upstream failures, and workarounds that accumulate around legacy systems, are common to almost every operating model. For leaders, that breadth matters because it reduces the likelihood that the observed gains are confined to niche conditions or unusually receptive organisations.

The following two case study summaries illustrate how the method translates into measurable outcomes.

Case Study 1: Supply chain

In a supply chain engagement, a supplier issuing more than 300 credit notes per month reduced that figure sustainably to fewer than 50. Credit notes are a direct indicator of process failure upstream, incorrect pricing, incorrect quantities, incorrect despatch, or disputes that should not have occurred.

A sustained reduction of that magnitude reflects structural change to the processes generating the errors, not tighter enforcement after the fact.

83%
REDUCTION

300 → 50

REDUCED CREDIT NOTES
ISSUED P/MTH

Cross-industry replication (cont'd)

Case Study 2: Healthcare

In a healthcare engagement, a cancer specialist hospital faced a 29-day average wait for non-urgent CT appointments, with throughput unable to meet demand. The bottleneck was resolved without additional capital expenditure.

The lesson translates directly to any capacity-constrained operation. Where demand exceeds throughput, the default response is to add capacity. The University of Melbourne research and the hospital case both point to the same finding: in most operating environments, a meaningful share of the apparent capacity shortfall is absorbed by noise in the process and removing that noise recovers throughput without the capital outlay.

97%
REDUCTION

29
DAYS → **1**
DAY

REDUCED WAIT TIME

Further engagements include work on aviation safety, process improvement with Australia Post, and cost, complaint, and cycle-time reductions in distribution centres. Taken together, the portfolio establishes that the approach is neither sector-specific nor limited to a particular operating profile.

Third-party quantification

The scale of the underlying opportunity is corroborated by independent estimates cited earlier in this paper. PwC puts the cost of process friction to the global economy at more than US\$3 trillion each year. McKinsey places the share of operating expenditure consumed by rework, miscommunication, and fragmented systems at 20 to 30 per cent. Deloitte has found that managers spend 40 per cent of their time resolving internal issues that should not exist.

These figures are consistent with the 28% to 50% per cent identified in the Bevington and Samson research and with the per-employee costs measured across the replicated engagements.

Independent research on firms that outperform through downturns

The central strategic argument of this paper, that blanket cost-cutting reliably damages long-term performance while selective operational improvement reliably produces a competitive advantage, is supported by independent research conducted well outside the process improvement literature.

Harvard Business Review's study of 4,700 companies across three recessions found that only 9 per cent emerged genuinely stronger. The cohort was not distinguished by deeper cuts.

Independent research on firms that outperform through downturns (cont'd)

It was distinguished by selective operational efficiency gains paired with continued investment in marketing, R&D, and new assets. The firms that cut everything fared worst. The firms that cut nothing fared only marginally better. The firms that cut with discrimination, removing waste while protecting the assets and capabilities that would support recovery, separated decisively from the field.

Bain & Company's analysis of the same pattern uses the analogy of a racetrack. The best drivers brake ahead of the curve to take out excess cost but turn hard into the apex and accelerate out while competitors are still braking. The operational equivalent is taking cost out early and precisely, then continuing to invest through the cycle while others are still cutting. The analogy is useful because it captures the timing element that the aggregate data can obscure. Outperformance is not only about what is cut. It is also about when the business moves from defence to reinvestment.

McKinsey's resilient-company research quantifies the outcome. Best performers in 2008 to 2009 improved EBITDA by 10 per cent while peers lost close to 15 per cent. The cumulative Total Shareholder Return advantage extended to more than 150 percentage points over the cycle. Nearly 70 per cent of the resilient cohort remained top-quintile players in their sector a decade later, indicating that the advantage built during the downturn was structural rather than transitory.

Implications for technology investment

The evidence also informs the role of automation and artificial intelligence. The high failure rate of enterprise AI initiatives is often attributed to technology limitations. However, the data indicates that the primary constraint is the operating context into which these technologies are deployed.

Where processes are inefficient or unstable, automation increases the speed and scale of those inefficiencies. This reduces the likelihood of achieving projected returns. Conversely, where processes are simplified and stabilised, technology can be applied to repeatable tasks with greater predictability of outcome.

This reinforces the importance of sequencing. Process improvement is not an alternative to technology investment. It is a prerequisite for effective deployment.



Consistency of findings

Across academic research, industry analysis and case evidence, a consistent pattern emerges:

1

A substantial proportion of organisational effort is consumed by non-value-adding activity

2

Traditional cost reduction approaches do not address this effectively

3

Process-focused interventions can release capacity without reducing capability

4

Organisations that apply these principles during downturns achieve superior outcomes

The convergence of these findings provides a robust basis for action. It indicates that the opportunity to improve efficiency is both material and accessible, provided it is approached with appropriate method and discipline.

This is not a theoretical position. It is supported by measurable outcomes across sectors and economic cycles. The challenge for executive teams is not to validate the existence of this opportunity, but to act on it with precision and consistency.

The way forward

The conditions facing organisations in 2026 are externally driven and unlikely to ease in the near future. Cost pressure, demand volatility and constrained capital are not isolated issues.

They reinforce each other and require a coordinated response. The evidence is consistent. Indiscriminate cost reduction weakens capability. Unsequenced investment increases risk. Efficiency, applied with precision, provides a more reliable path.

The practical question for any leadership team is straightforward. What would your organisation do with 20 per cent more capacity:

1. Protect margins without raising prices
2. Reinvest in top talent
3. Or fund the automation foundation that actually delivers a return on investment

The answer will differ by sector and strategy, but the prerequisite step is the same. It is to identify and remove the noise that is already consuming material effort and cost.

The timing also matters. Every week of delay is a week in which recoverable cost remains locked into current ways of working and is, in effect, permanently lost. It is also a week in which competitors who act early compound their position through cleaner processes, better service, and more headroom for investment.

**The way forward is quite clear -
*Before cutting back, cut your noise***

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If you have any questions or would like to discuss our findings further, please don't hesitate to reach out to us.

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