



## TenStep Supplemental Paper

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### The Power of Process

*Focus on...totality of work!*

In today's business only the fittest survive. Virtually every company the industry notwithstanding is working to capture market share and outperform competitors. This struggle has both facets the 'bad' and the 'good'.

The business world offers no solace as it is characterized by intense global competition, worldwide overcapacity and powerful customers. On the flip side, in recent years, leading companies across various industries have achieved dramatic improvements in business performance by harnessing, redesigning and managing processes. This article delves into the various aspects of process management.

Quality is a never-ending quest and 'process improvement' a never-ending effort to eliminate root causes of problems. From the age of Industrial Revolution, emphasis on work was at the individual level. It was a piece meal structure with a focus on how various tasks were individually performed. Managers and higher authorities worked to improve performance and enhance efficiencies of workers with the aid of technology and improvement initiatives.

The term 'process management' has been in vogue for several years. Yet it is largely overused and misunderstood as it is often used to refer to any work activity. Some companies have even expressed fears that 'a process approach' might distract them from their focus on customers and results.

An understanding of a simple and precise definition for the process concept – a process is 'end-to-end work' – will help rethink these notions.

The process approach contradicts 'piece-meal' thinking. It focuses on the complete sequences of tasks rather than on individual tasks themselves. In short, the approach looks at the 'totality of work'. A process can be formally defined as 'an organized group of related activities that work together to create customer value'.

Customers care about results and to achieve best results, we need good processes, not disjointed individual tasks. For instance, what matters most to a customer is that he receives the goods he has ordered. He does not care how a company plans its delivery or allocates inventory.

Processes are not just new names for old departments, but cross-functional sequences of activities. Consider a simple process like sales order fulfillment. It is not just a goal for sales. It includes all work beginning with the receipt of an order till the customer is satisfied and pays the bill. This process encompasses work performed in operations, logistics, customer service and finance. Likewise, 'product development' goes much beyond 'Research and Development' (R&D) and includes work done by manufacturing, marketing and a host of other functions, which together create a new product.



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Conventional organizations are characterized by processes that are fragmented, unmanaged and unmeasured. End-to-end responsibilities are fragmented and diffused throughout the organization. For instance, no one person has end-to-end responsibility for order fulfillment.

Such fragmentation of responsibilities has severe consequences. Work bounces from one department to another and is thus replete with hand offs and non-value adding activities. Information is repeatedly entered, and in most cases, efforts are made to track and manage work rather than to perform it. Invariably errors proliferate, work waits in queues, process times stretch, confusion and misunderstandings among departments increase.

Such inconsistencies cannot be tolerated in today's economy. Outsourcing, automation and reorganizing are not permanent solutions for these performance problems.

Remember, the root cause of most problems is often very basic: fragmented and chaotic condition of end-to-end processes. By handling such processes with tact and redesigning processes intelligently, many companies have managed to drive out substantial non-value-adding work. Let's look at some instances.

A leading manufacturer of automobile parts had to regularly manufacture new parts for its customers. The request for the new part moved from sales (acquiring customer specifications) to engineering (designing the new part) to tooling (developing required tools) to manufacturing (making the part) and took almost twenty weeks in all. The company's competitor managed it all in just six weeks!

An analysis of the causes for delay, revealed poor communication between sales and engineering and slow transfer of designs from engineering to tooling. Also it was believed that samples were a distraction from real work, not a priority.

The company seriously reviewed and revised its processes with a holistic approach. Representatives from sales and engineering jointly met the customer to acquire specifications. Engineering and tooling personnel communicated electronically. All departments were measured and rewarded based on the performance of the process as a whole. The results were incredible...time taken to develop a sample reduced from 20 weeks to 18 days and overall cost of the process dropped by a remarkable 50%.

Another instance is that of an electric power company. A customer's request for a new connection initiated a chain of actions. While one department planned how the new connection had to be made, another negotiated the legal issues and a third scheduled and managed the construction. Since these departments worked independently of one another, there were extensive reworks. The customer was disgusted as it took six long months to get a new connection.

The company then addressed the process as a whole rather than in parts to arrive at a new design. As per this, one cross-trained employee would take the responsibility of handling a new connection from beginning to end with experts from other disciplines on call when required. By doing so, it slashed cycle time from six months to twenty days and cut costs to nearly half!



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As exemplified in the above cases, the companies worked to redesign processes as a whole, rather than looking for better techniques for individual activities. Process redesign involves rethinking of who performs tasks, when tasks should be performed, how they should be interconnected, what information should be shared and the like.

Moreover, the companies achieved the seemingly impossible task of improving apparently conflicting goals at the same time. For instance, conventional belief is that reducing cycle times entails increased costs. A process approach avoids such trade-offs by tackling non-value adding work, thus improving performance in multiple dimensions simultaneously.

What is the 'goal' in the quest for better quality and improved performance? Why do companies often end up fighting fires after having determined to make things better? A little probing will reveal that the 'goal' is to make things better, not to blame people for problems or failures. How then, can one achieve this goal? The first step would be to avoid the 'problem-solving approach' and adopt the 'process improvement' way.

Process improvement aims to make things better, not fight fires. A problem-solving approach on the contrary focuses on putting out fires and seldom gets to the root cause of problems. By engaging in process improvement, we seek to understand the root cause of problems and eliminate non-value adding activities, thereby enhancing customer satisfaction.

Creating and managing high-performance processes can bring dramatic improvements in a company's performance. It helps slash costs and cycle times while enhancing quality and flexibility. The previous article introduced the basics of process management. This article looks at process management in financial service companies.

Overall, financial service companies have been relatively slow in exploiting the power of processes. The reasons could be varied, but one common point is that these companies lack the process-friendly engineering tradition and culture that their manufacturing counterparts possess. However, during the past decade some leading financial services companies have adopted the 'process' way.

### **The case of BOA**

Let us take the case of Bank of America (BOA). BOA witnessed torrid growth in the mid 1990's due to many acquisitions. The bank was then challenged with numerous disconnected systems. By the late 1990's BOA realized that continued growth called for a new strategy to streamline and improve operations. The focus was certainly on end-to-end business processes.

The first process to be addressed was the telephonic customer loan lending process. This process began when a customer called a national sales associate of BOA to complete a loan application. The completed loan application was then sent electronically to BOA's loan centre. A loan centre associate would take a decision to approve or decline the loan. This witnessed a lot of 'back and forth' between the sales associate and the loan centre associate. Upon approval of the loan, the sales associate would notify the customer and initiate the collection of collateral information. This information was collected and



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approved by another loan centre associate, who would then prepare the closing documents. Following this, a personal banker would finally hand over loan details to the customer.

BOA realized that this process was highly fragmented. Almost five different people from diverse areas picked up the case after every hand-off. Thus, no one individual had the responsibility for the overall delivery to the customer. Each of the departments involved measured their internal cycle time and did not care about the customer's end-to-end cycle time. Moreover, the hand-offs at every stage were replete with misunderstandings among the various departments involved. The most noteworthy fact was that in this lengthy process, one loan centre associate, who had no direct contact with the customer, made the actual approval. The process was characterized by high costs, longer cycle times and lower loan approval levels.

### **The new process**

To rectify the process on an urgent and immediate basis, BOA convened a process redesign team comprising eight personnel from key functional areas. This team evolved a new process by combining several steps from the old process. The role of the loan centre associate was broadened.

With the new telephonic loan application process in place, a sales associate would begin the process of taking the customer call and complete the application. From here, a loan centre associate known as a 'consumer lender' would take care of the application. This individual made approval decision, but unlike the past, he was in direct contact with the customer, to ask questions and notify details. Following this, another loan centre associate, termed as 'relationship coordinator' obtained and approved the required collateral information before preparing the final documents. This individual however, was in direct contact with the customer, rather than relying on the sales associate.

The new process eliminated two steps and three hand-offs, minimizing miscommunications and rework. BOA found the resulting performance improvements incredible. Total cycle time reduced from 36 days to 19 days, and the number of dissatisfied customers dropped by nearly 80%. Loan approval rates shot up from 58% to 75%.

Considering the above, it is obvious that all processes must be carefully designed and managed. Financial service companies often find that they have no disciplined process for new service development. What exists instead is uncoordinated work in unrelated departments that sporadically yields a new service. The urgent need though is not to redesign processes but to create disciplined ones.

BOA did just that. It realized that systematic processes are key to success in today's rapidly changing and intensely competitive markets. Ideas for new services are captured into a formal process, tested and evaluated before implementing the successful ones. For this, it created a five-phase innovation process with well-defined inputs, outputs and metrics. According to BOA, this process, right from the early stages of implementation has produced new services that increase customer value.

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Apart from banks, even insurance companies have seriously taken up process management to achieve remarkable improvements.

The processes discussed so far can be termed as transactional processes. These are typically high-volume, routine processes that begin with a well-defined input and yield predictable results. However, other types of processes are also encountered in business environments. The forthcoming article will deal with them.

### **The ultimate word!**

Remember, process improvement is important. Industry experience has proved that process accounts for almost 80% of problems and people account for the remaining 20%. So consider processes seriously, lest your competitors should forge ahead of you and reap rich rewards!

Unlike transactional processes, developmental processes involve creative activities and have less well-defined results. They include product development and client relationship management. Enabling processes like Human Resource Management and Information Systems Development create and manage capabilities that core business processes (transactional and developmental) require. Governance processes like capital allocation and strategic planning help top management in guiding a company.

### **Exclusives!**

A new kind of process has been gaining attention in recent times. Known as 'inter-enterprise process', it may belong to any of the above types, but its exclusive characteristic is that, it crosses functional as well as enterprise boundaries. For instance, the process termed as 'supply chain' is a multi-enterprise version of order fulfillment. It extends all the way from the final customer to the raw material suppliers. Likewise, in the insurance industry, such a process starts with an application for insurance from a customer and extends to brokers and re-insurers involved in covering the risks.

The toughest part of process management, be it creating, redesigning or measurement is not technical, but cultural. Process change inevitably creates major personal changes for people involved in the process. The changes could happen in jobs, roles, responsibilities, careers, compensation and relationships at the workplace. These changes often provoke resistance in the form of arguments, passivity and disinterest. Overcoming such resistance requires intense executive leadership, an absolute prerequisite for process management.

### **Harnessing the power of processes**

Some key steps and techniques to take control of the power of process are:

- 1. Identify processes:** Most cases companies fail to recognize, manage and measure various existing processes. The first step towards process management is to recognize and clarify primary processes so that action can be prioritized.
- 2. Appoint process owners:** In conventional practice, no one is responsible for processes, even though they are identified and prioritized. This is because processes transcend

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functional boundaries. Hence, it is crucial to appoint process owners who take end-to-end responsibility, accountability and authority for every process.

**3. Establish process metrics:** The next step involves specifying the metrics by which processes will be measured, formulating baseline for these metrics and setting performance targets for the processes.

**4. Prioritize:** It is crucial to prioritize processes based on their importance to the customer, their poor performance or their tendency for quick improvement.

**5. Convene design teams:** Every process requires a team of full-time employees dedicated to creating and implementing new designs for it. These employees must represent various functions involved in the process. The team should also consult other employees holding independent and fresh perspectives.

**6. Design:** The process design team should evolve new models for process operations. Generally, a set of templates can be used. For instance, Bank of America (BOA) in its new process design for telephonic consumer loan lending implemented a template called an integrated case team.

**7. Implement:** The new process design must however be tested before implementation. The process implementation should be done in steps, not at a stretch.

**8. Align:** The management, measurement and reward systems must be realigned to support the new integrated process as opposed to the old fragmented one.

**9. Be Flexible:** Processes must not only be developed quickly, they must be constantly revised and improved to meet changing market conditions/customer requirements.

Conventionally, fragmented processes are supported by equally fragmented departmental Information Systems. Newly redesigned and integrated processes cannot reach peak performance using such disjointed systems. Hence, successful process management necessitates integrated information systems alongside realigning and integrating processes.

Many vital factors contribute to the success of process management, but attention is incredibly important though rarely addressed. Devoting sufficient attention to a process is critical for its success. Industry experts cite attention allocation issues and attention shortages as the primary cause for failure of most process improvement initiatives.

Processes and operations automatically improve when companies actually focus the attention of employees and managers on how work is done, measured and improved. According to industry and process expert Tom Davenport, attention (defined by him as 'the intersection of allocating sufficient time and brain cells') is crucial. He even defines process management as 'an attempt by organizations to carve out attention from other aspects of organizational structure and function to focus on a new, but basically familiar resource'.



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A reliable method to draw attention to processes is to evaluate and reward employees based on process performance. Promotions and cash rewards too go a long way in motivating employees.

Giving more attention to process management is fine, but how much attention is required and how do we take it away from other topics? This question is debatable as attention is a zero-sum resource, implying that if it has to be devoted to processes, it has to be taken away from something else. It is absolutely wrong to simply add process responsibilities to existing jobs and burden employees.

Piling process management on top of other initiatives that require attention is a wrong move. When a number of initiatives are ongoing in a company, process management may fail to take off until some of these initiatives are through.

### **The Bottom Line!**

Remember, there is no magic to process management. It is gaining centre stage in modern management as the opportunities for performance improvements are too great to be ignored. The goal is to include process management among the top five priorities of a company. Else, this crucial element will fail to get the attention it deserves.

The payoffs from process management are enormous and the need is pressing, hence the time to begin is 'now'!!