

What Really Matters!

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Are you disappointed with the real returns you're getting from your performance improvement efforts or IT investments? While it may be little consolation, you're not alone. And based on the results of a recent study, it doesn't much matter whether your firm is dedicated to deploying Reengineering, Six Sigma, TQM or even Activity Based Costing.

A major multiyear research effort involving 160 companies over a ten year period recently reported that there was no direct causal relationship between the over 200 management tools and techniques they examined and superior business performance.ⁱ This study found that having a strong grasp of business basics was most critical, and those companies which excelled at what the authors call the four primary management practices-- strategy, execution, culture and structure--outperformed their industry peers, without exception. Further, those companies which outperformed their industry peers were also reported to have mastered at least two of four secondary management practices: talent, innovation, leadership, and mergers & partnerships.ⁱⁱ

Put another way, it doesn't much matter whether an organization chooses to deploy Six Sigma, Reengineering, TQM, Activity Based Costing, or Continuous Improvement. What does matter enormously is *how* these tools and techniques are deployed within the big picture context of leading and managing the business.

Thoughtful business leaders and practitioners will acknowledge that business process thinking is at the root of the post popular management tools of the past decade, and therein lies some really good news. The adoption of Enterprise Business Process Management [EBPM] principles and practices is not only essential to optimize the real return on the application of most common management tools and techniques, but it can be instrumental in facilitating clarity of strategic direction, flawless execution, a robust culture and an enabling structure. EBPM principles provide critical insight not only about what to do – but how to do it.

Conversely, deploying the most common management techniques in the absence of the key EBPM principles and practices means that the real results from many improvement efforts are likely to be sub-optimal.

What are the Essential EBPM Principles?

A full treatment of the eight principles of EBPM is available in *Business Process Management is a Team Sport*,ⁱⁱⁱ and summarized here.

The first essential principle is to look at the business from the *outside-in*, from the customer's perspective, as well as the *inside-out*. Why? To be successful, companies must explicitly understand and measure what customers require and the extent to which current business process performance meets customer and company requirements. The key steps involve first expressing customer requirements, typically in terms of value, quality and timeliness. Next, explicitly define the enterprise business processes to gain clarity around the inputs, outputs, major sub-steps, and functions involved for each. Then, establish the performance measures for those processes and assess current business process performance in terms of both a customer and a company point of view. This results in a draft enterprise business process model.

The second essential principle states that the company's strategy needs to be tightly integrated with business process management. Why? The undeniable, simple truth is that work gets done through cross-functional business processes. So, articulating strategy in business

process terms facilitates both implementation and communication. Most organizations find that business process thinking helps articulate strategic initiatives in plain language with measurable results. The key steps involved here include assessing the gap between current and desired performance in business process terms, and developing a business process management plan which clearly indicates the ownership of the enterprise-level business processes and the degree of improvement for each business process.

The third principle is to articulate the firm's strategy in such a way that it *inspires*, from the boardroom to the lunchroom, and remains front and center throughout the year. Why do this? Implementing strategy requires that people be on the same page in terms of what needs to be done. This involves linking vision and mission to key strategic initiatives expressed in business process terms so that people can relate their individual efforts in making strategy happen. The main output of these activities is a communication plan.

The fourth principle is the launching pad for organizational alignment. It states that action needs to be taken to assure that the organization's core business processes are designed to deliver on its strategic goals. Again, work gets done via business processes. The key steps include a mid-level analysis to flesh out and validate the scope of work indicated by the business process management plan.

The fifth principle says that the organization design must enable business process execution. In this context, organization design is defined as the composite of structure, measures and rewards. Putting this into practice relies upon an iterative method linked to business process improvement activities.

The sixth key principle addresses the need to assess and deploy enabling technology based on the value added through enhanced business process performance. Why? Business process performance relies increasingly on enabling technology and process automation. Again it takes iterative work to put this principle into action. Also, it's essential that the senior team be accountable for IT investments. Through BPM, the leadership team develops an explicit understanding of the performance and the key gaps in the execution of key business processes, and acquires a very clear sense of where technology will enable performance. Accordingly, they can make more informed decisions on which IT projects should be funded, what results can be expected and what the likely payback might be.

The seventh principle states that it's essential to hard wire the enterprise-wide performance measurement system to budgets and operating reviews. The potential for BPM systems to automatically "build-in" business process measures is essential in this regard. The repeated and regular review of business process performance via operating reviews is necessary to fully install this mode of thinking.

The eighth and final principle is sustained focus and alignment. This is where leadership resolve is tested with respect to having the courage and determination to make the necessary investments in people and technology.

How Do These EBPM Principles Facilitate Greater Clarity on Strategic Direction, Flawless Execution, an Enabling Structure and a Robust Culture?

Beginning with the role of EBPM in facilitating greater clarity around strategic direction, consider that competitive strategy is about being different. As Michael Porter outlined, this occurs by deliberately choosing a unique set of activities, which requires trade-offs and tough decisions.^{iv} Perhaps most importantly, it is the 'fit' between strategy, business process and organization design which most directly contributes to sustaining competitive advantage. The EBPM model emphasizes the need to tightly link business strategy to enterprise business processes, and reinforces the importance of measuring the current performance of each critical business process

in relation to customer requirements. This equips organizations to *express the organization's strategy in business process terms*, in part by determining the desired level of performance, using specific criteria to assess the gap between current and desired performance. Further, this serves to minimize the use of jargon and buzzwords which stand in the way of broadly and clearly communicating strategic direction.

The role of EBPM in facilitating execution is mostly related to the ongoing monitoring and management of the firm's major enterprise business processes. Yet, this is also where EBPM can work to optimize the real return on the application of the most common management tools and techniques such as Six Sigma, Reengineering, TQM or even Activity Based Costing. To illustrate, let's consider what EBPM can do for Six Sigma and Reengineering.

It is generally accepted that the Six Sigma tool kit is powerful. When organizations get sub-standard results with Six Sigma, the culprits are not to be found in the *DMAIC* [define, measure, analyze, improve, control] or the *DFSS* [Design for Six Sigma] methodology. Nor is it the fault of the black belts or green belts. Instead, the most commonly mentioned problems include inconsistent executive support, difficulty in choosing the right projects, project proliferation and even outright duplication when Six Sigma is implemented in the context of functional silos.

EBPM serves to minimize the likelihood of falling into these pitfalls through the need to establish a shared executive understanding of enterprise business process performance. Those companies who embrace EBPM principles and practices are more likely to deploy Six Sigma as the primary method to improve business process performance in the context of enterprise business processes and *not* in a functional context.

There are clear parallels with reengineering. The majority of process reengineering failures cannot be attributed to the team doing the work. Most teams can readily define the 'as-is' process and design the 'to-be' process. The most commonly mentioned pitfalls in reengineering and even incremental process improvement include the lack of a compelling business issue, insufficient executive sponsorship, inadequate communication, resource issues, neglecting the 'soft' stuff and poor project scoping.

Again, EBPM serves to minimize the likelihood of falling prey to these deadly sins through the need to establish a shared executive understanding of enterprise business process performance. Those companies who embrace EBPM principles and practices are more likely to deploy Reengineering as a method to radically redesign business processes in the context of 'a priori' knowledge of enterprise business process performance and the size of the gap to be bridged. Accordingly, the top team is more likely to be on-board and provide executive guidance and direction.

EBPM can also be instrumental in creating an enabling structure. In the absence of EBPM principles, corporate reorganization is arguably one of the most frequently attempted, and yet one of the most poorly executed, of all business management activities. The business process context created by EBPM provides for a decision making framework where it is clear that organization design must be such that it does not visibly impede business process performance. Given a shared executive understanding of the enterprise process model, chances are better that an organization will understand the powerful logic in the 'strategy begets business process begets organization structure' sequence.

Finally, the role of EBPM in creating a robust culture has everything to do with leadership. Because EBPM demands executives to collaborate in defining and managing business processes, this leads to more decentralized, front-line decision making. It changes the nature – for the better - of how goals are set, how problems are solved and how performance is measured, as these decisions become more cross-functional in nature and less traditionally command and control.

Let's be clear: this is not about the tools. The essence of EBPM is to be found in the thought models and executive behaviors which promote either an orderly or a revolutionary transition from traditional thinking to business process based thought models. Along the way, EBPM principles can facilitate greater clarity on strategic direction, flawless execution, an enabling structure, a robust culture and, as an added bonus, assist organizations in improving the real returns they're getting from performance improvement efforts.

ⁱ Nohria, Nitin, William Joyce, Bruce Roberson, 'What Really Works', Harvard Business Review, July 2003

ⁱⁱ Ibid

ⁱⁱⁱ Spanyi, Andrew, *Business Process Management is a Team Sport*, Anclote Press, 2003

^{iv} Porter, Michael, "What is Strategy?" *Harvard Business Review*, November-December 1996

^v Schouw, Dick, Seven Deadly Sins of Reengineering, IBM White Paper, 1999 and Rummler, Geary A, and Alan Brache, *Improving Performance*, Jossey-Bass, 1995, Chapter 11

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