

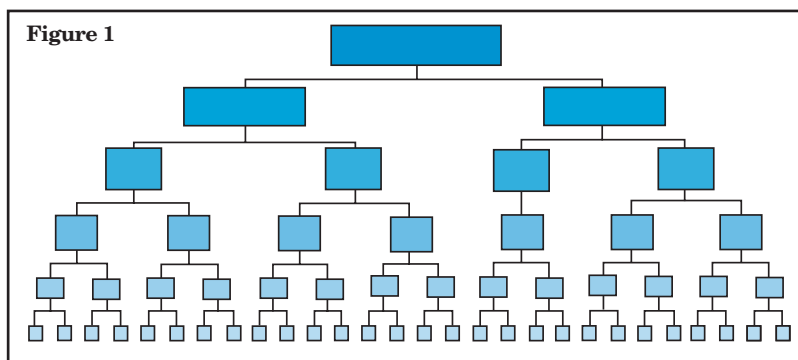
## A World of Change

If you ask a typical executive what makes his/her company great, the likely response will be:

- “We are more profitable than our competitor”
- “We have the strongest relationships with our customers”
- “Our people are the best in the industry”

Very rarely will process performance be identified as the key to greatness. However, business processes have emerged as perhaps the most critical driver of success in the 2000's. Today's high-performing companies know how to identify and correct process weaknesses as well as leverage process strengths. A quick look at the evolution of US business over the last few decades provides insights into why processes have become such a key driver of success.

Consider 1970. The business environment was completely different than today. For example, recall the nature and composition of the workforce. In 1970 employees weren't nearly as mobile; entire careers were often spent with the same company. Process knowledge was carried around in the heads of employees, and when employees retired they passed their knowledge on to their successor. Employees were expected to be able to rely on their extensive experience within the organization to work around process difficulties as they emerged. Managers were typically selected from within and promoted up through the chain of command, so by the time an employee reached executive level he or she had a firm grasp of the process complexities of the organization.



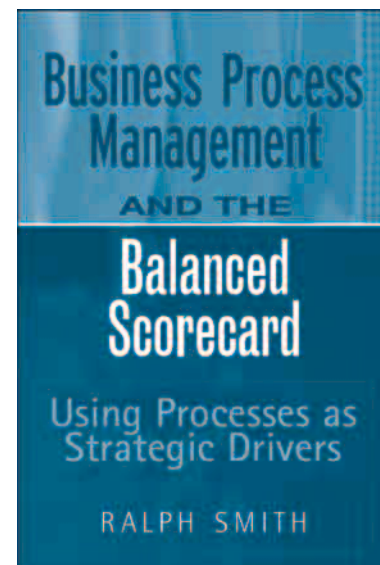
Processes were different in this era as well. It was still the age of specialization. The majority of organizations had the “vertical” type of organizational structure depicted in Figure 1.

Each person on the lower levels was responsible for one specific task, and the job of the first line manager was

to make sure these tasks were performed properly, and the next level managers made sure that the first line managers performed their tasks properly, etc.

This type of organizational structure can have profoundly negative effects on processes. Any process that requires even a moderate degree of cross-functional cooperation is bound to be handicapped by a vertical

*(continued on page 2)*



*This issue features the first of two excerpts from the new book Business Process Management and the Balanced Scorecard.*

*Navigating Your Organization's Future*

structure. At the lowest levels, each link in the chain was only looking out for and trying to optimize its *portion* of the process as opposed to the *entire* process. Many companies even rewarded employees based on how well they performed with regard to their own specific area, reinforcing some interesting behaviors. For example, a major aluminum manufacturer once paid its paint line employees by the number of pieces painted. The employees in this department therefore paid little attention to customer needs or job due dates... they simply painted anything easy to paint. In fact, they often painted material that wasn't even needed and socked it away in inventory just to artificially pump up their numbers. And since inventory management was someone else's worry, they saw no negatives to the situation. This type of behavior obviously came at a cost to the company, but in the environment of 1970 it was possible to simply pass the added cost on to the customer with minimal effect on the organization.

In addition to reinforcing counterproductive behaviors, this specialized and hierarchical organizational structure made internal communication extremely difficult. For example, Chrysler's product development time was several years long due to the practice of departments working independently and passing work back and forth instead of working together. This protracted development time obviously implied enormous risk, since the market and consumer preferences change so quickly. Another reason for process and internal communication difficulties was the lack of communication technology. There were no cell phones, email systems, wireless networks, internet, etc., making communication much more difficult than today. This phenomenon not only slowed down internal processes and knowledge sharing, but it had a significant effect on the marketplace in general as well. Lack of communication technology meant that in many cases the competition a typical company faced was local, versus the global competition we see now. Therefore, the customer didn't have as many choices and many companies didn't have the sense of urgency to improve.

Many companies thrived in this environment because customer expectations were also very different. Indeed, it was common for an automobile manufacturer to sell a new car to a customer and say "Make a list of all the problems you find, bring the vehicle back in a month and we'll fix all of them." The customer didn't even have a "take it or leave it" option... the situation was "take it or take it"! In this environment all manner of process problems could be camouflaged by price increases and the "find it and fix it" mentality. Process and the resultant product quality were low and prices were relatively high, but extremely high demand made everything appear all right.

### So what changed?

The world in the mid-2000's has undergone radical transfor-

*(continued on page 3)*

## The Customer — Where Strategy and Process Meet

*A business strategy defines, among other things, who your customer is and what value your organization will deliver for that customer. A business process is the engine that creates said value in the form of a product or service the customer will pay for.*

*Understanding how your processes create value for the customer is not always straightforward. That is why many process improvement and information technology projects deliver little business impact. To improve business results, start with the customer. Orion's Process Value Analysis seminar teaches tools to qualify what your customers value most and to link those customer needs to specific process activities.*

*Of course, for a business to be successful, the cost of creating customer value must be significantly lower than the value generated for the customer. Process Value Analysis also teaches tools to monitor and control costs as they accumulate during the value creation process.*

*Learn how to maximize the return on your business processes. Visit [www.odgroup.com](http://www.odgroup.com) to enroll for one of these Process Value Analysis seminars:*

<i>Denver, Colorado</i>	<i>November 29-30</i>
<i>Charlotte, North Carolina</i>	<i>November 30-December 1</i>
<i>New Brunswick, New Jersey</i>	<i>December 12-13</i>

## A World of Change (continued from page 2)

mation. Global competition is now the norm. Mergers and acquisitions have become the order of the day in many industries, creating fewer, larger, better-capitalized companies. The internet has completely changed the way business is transacted, as companies can access customers globally. The workforce has become much more mobile in terms of company-to-company movement. The heavy seniority, stay-with-a-company-your-whole-career phenomenon of the 1970's has been turned upside down; in today's environment staying with a company too long is seen as a sign of stagnation. Customers are ever more demanding; the product / services features that were considered extravagant yesterday are standard expectations today. Advances in technology make the speed of conducting business faster and faster. Versatility of products is the order of the day. For example, it is now commonplace to have cell phones that can send emails, take pictures, serve as stopwatches, etc.

### Historical impact on processes

All of these trends have dramatic affect on the importance of having good processes. Consider the ever-increasing mobility of the workforce. In the 1970's, companies could get away with letting experienced employees carry process knowledge around in their heads, without a lot of documentation. After all, people were in the same position for 30 years. But this practice cannot be followed if positions turn over every few years. If an organization lets its process knowledge leave every eighteen months, they are constantly putting themselves in a position of starting from scratch. Well-documented processes are a must to keep the organization running smoothly while employees come and go.

An excellent example is McDonalds. Certainly they experience heavy turnover, as many employees are school-age people working for a short time by design / preference. Yet few organizations do a better job of ensuring process consistency. The customer never has any question what to expect when placing an order, and the resultant food quality always meets customers' pre-set expectations. While many organizations have processes more complicated than preparing hamburgers, the critical principle remains: processes must be documented and followed to ensure consistency in the face of a constantly changing workforce.

Process excellence is also a key to leveraging the possibilities brought on by new distribution mechanisms. Pick, pack, and ship efficiency can drive significant profits through internet sales. Cooperation with suppliers can also yield distribution efficiencies through technology. Consider Wal-Mart. The merchandising giant has relationships with key suppliers in which they guarantee a certain amount of shelf

Topic	1970	1985	2005	Impact on Processes
Competition	<ul style="list-style-type: none"> <li>Local/regional</li> <li>Smaller competitors</li> </ul>	<ul style="list-style-type: none"> <li>National/ becoming global</li> </ul>	<ul style="list-style-type: none"> <li>Global</li> <li>Larger Competitors</li> </ul>	<ul style="list-style-type: none"> <li>Must have processes capable of standing up to the best, well capitalized companies <b>in the world</b></li> </ul>
Customers	<ul style="list-style-type: none"> <li>Take whatever you give them</li> <li>Limited choices</li> <li>Prefer "Made in USA"</li> </ul>	<ul style="list-style-type: none"> <li>Standards increasing</li> <li>Demand higher quality products and services</li> </ul>	<ul style="list-style-type: none"> <li>Very demanding</li> <li>Loyal to whoever is currently the best</li> </ul>	<ul style="list-style-type: none"> <li>Processes must be able to deliver excellent quality at efficient quality at efficient prices <b>just to meet customer needs</b></li> </ul>
Processes	<ul style="list-style-type: none"> <li>Functional focus</li> <li>Heavily manual</li> </ul>	<ul style="list-style-type: none"> <li>Recognizing need to integrate automation</li> <li>TQM generates focus on process improvement</li> </ul>	<ul style="list-style-type: none"> <li>Processes seen as enablers</li> <li>Cross-functional focus</li> <li>Technology driven</li> </ul>	<ul style="list-style-type: none"> <li>Companies recognize there are many problems that <b>cannot</b> be solved <b>functionally</b></li> </ul>
Technology	<ul style="list-style-type: none"> <li>Mainframes</li> <li>Focus on power</li> </ul>	<ul style="list-style-type: none"> <li>Desktops</li> <li>Focus on speed</li> </ul>	<ul style="list-style-type: none"> <li>Mobility</li> <li>Focus on access</li> </ul>	<ul style="list-style-type: none"> <li>An enabler <b>only</b> if processes are flowing smoothly to begin with</li> </ul>
Workforce	<ul style="list-style-type: none"> <li>Stable, with long term employees</li> <li>Experts on narrow range of tasks</li> </ul>	<ul style="list-style-type: none"> <li>Dynamic</li> <li>Increasing diversity</li> <li>Increasing breadth of knowledge needed</li> </ul>	<ul style="list-style-type: none"> <li>Mobile &amp; diverse</li> <li>Premium of thinking vs. simply doing</li> <li>Telecommuting/ works remotely</li> </ul>	<ul style="list-style-type: none"> <li>Processes <b>must</b> be well-documented to avoid losing institutional knowledge whenever and employee leaves</li> </ul>

(continued on page 4)

## A World of Change (continued from page 3)

space under the condition that the supplier keeps the shelves full of merchandise. This could not work efficiently without cooperation... and some slick technology. Like most stores, Wal-Mart electronically scans products at the checkout stand to determine how much to charge. What differentiates Wal-Mart from other chains is that this information is instantly transmitted to suppliers to inform them that product has been purchased. In this manner suppliers can keep a running total of inventory in each store and know when it is time for replenishment. This is truly a win-win situation for Wal-Mart, its suppliers, and the customers that benefit from lower prices.

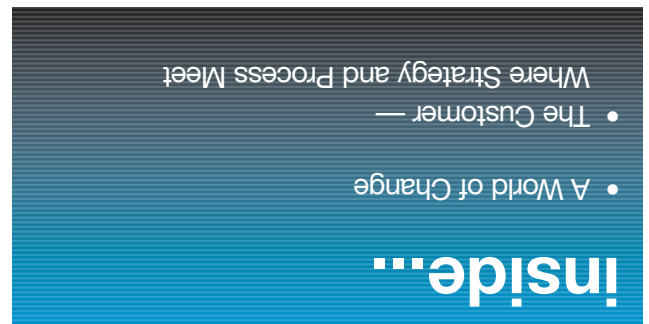
The final trend that reinforces the importance of process is ever-increasing customer expectations. There is a constant drive in today's world to do it faster-better-cheaper. Process excellence is often the only option available to meet customer needs. Since it would be unreasonable to expect customer expectations to stop increasing, it follows that process performance will be even more critical to meeting customer needs in the future.

### Summary

Companies that want to succeed in the business world of today must be prepared to face new realities. Customers want results, the workforce wants a challenging and rewarding job experience, competition is tougher than ever before, and technology is providing opportunities to explode forward as never before. There is no question that success in this environment is only possible if an organization is ready to focus on using their processes as a strategic weapon to deliver world-class performance.

In the next installment of excerpts from the *Business Process Management and the Balanced Scorecard* book, we will discuss how to conduct an assessment of your organization's processes to identify strategic drivers.

*Here Is Your Newsletter*



177 Beach 116th Street, Suite 4  
Rockaway Park, NY 11694

**ORION**  
DEVELOPMENT  
GROUP

