The Process Enterprise: An Executive Perspective

Article

2 authors, including:

Mary Pa
sudharsan engineering college

2 PUBLICATIONS   **7** CITATIONS

Some of the authors of this publication are also working on these related projects:

Project   Peer-to-Peer View project

Hammer and Company

The Process Enterprise: An Executive Perspective

By Dr. Michael Hammer

June 2001

TABLE OF CONTENTS

INTRODUCTION

The terms process and process enterprise are now firmly embedded in the contemporary business lexicon. However, many executives still remain uncertain about the real meaning and significance of these terms. This White Paper is intended to offer senior managers a clear picture of the nature of process enterprises and why they are important. We will review the notion of process and its power, summarize the characteristics of a process enterprise and consider what it takes to create one.

PROCESSES AND PROCESS WORK

Put simply, a business process is an organized group of related activities that together create customer value. The focus in a process is not on individual units of work, which by themselves accomplish nothing for a customer, but rather on an entire group of activities that, when effectively brought together, create a result that customers value. A customer does not care that we have allocated inventory or planned a delivery; the customer only cares that he receives the goods he has ordered. The difference between process and task is the difference between whole and part, between ends and means.

The two key words in the definition of process are together and organized. All people performing a process share a common purpose and work towards a common goal. They also have an organizing framework, a process design, that specifies exactly what work is to be done by whom, when, and where.

Some typical processes include order fulfillment, product development, and order acquisition. Processes are not merely new names for traditional departments; they are cross-functional sequences of activities rather than groups of people. Processes transcend organizational boundaries. Order fulfillment includes all work from receipt of an order until the customer is satisfied and pays the bill; it typically encompasses work performed by customer service, operations, logistics, and finance, among other departments.

Similarly, the product development process encompasses far more than R & D. It entails work done by marketing, manufacturing, finance, and a host of other groups, all of whom are performing activities that contribute to realizing the ultimate goal: a new product. Processes are goal-directed and outcome-focused. Order acquisition is not merely a euphemism for sales. It is the name of a process whose mission it is to acquire an order. To be sure, sales is part of this process, but so are many other activities and organizations.

People are doing process work when they work with an appreciation for the process of which they are a part, for the result they are helping to produce, and for the customer for whom they are producing it. People are doing process work when they follow a precise design rather than improvising and handling every situation on an ad hoc basis. Process work can best be appreciated by contrasting it with traditional task work. In task work, one person enters orders, another checks credit, a third allocates inventory, a fourth picks and packs, a fifth does traffic planning — with little or no concern (or even awareness) for what the others are doing, and with no overall framework that ties the all the pieces together. One result is complexity and non-value-adding work, which in turn breed redundancy, miscommunication, conflict, rework, and all the other performance pathologies from which companies chronically suffer. Another is a lack of repeatability, consistency, and predictability, as work is done differently each time it is performed. The root causes of these problems are to be found in the narrow perspectives that task workers have, their virtually total ignorance of the larger context in which they are working; in parochial organizational identification and affiliation, through which allegiance is given not to customer or company but to function and unit; and in incongruent measurement and reward systems that reinforce limited concerns and perspectives.

Process work, in contrast, is customer-focused, holistic, and outcome-oriented. It is disciplined and repeatable. Processes represent a new perspective on an organization's work. They create an outward rather than an inward focus; they are directed towards customers and the results that customers require. People in process enterprises still do

tasks; however, they think process. They understand the effects of their own activities on others and on customers; they evidence ownership rather than compliance; and they take responsibility for outcomes.

One common misperception is that process is somehow the enemy of creativity, that it implies routinization and automation, that it may be relevant for transactional work but not for such innovative work as developing products and marketing them. This is wrong. Process is not the opposite of creativity; it is the opposite of chaos. Process creates discipline and repeatability by putting individual activities into a larger framework. When they have a process perspective, people can focus their creativity where it belongs, on the content of their work, rather than on its structure.

The Payoffs of Process

As one senior executive has put it, "Process is a revolution in thought, leading to changes in business." Because people performing process work have a broad understanding of their work and feel ownership of it, process work engenders far less non-value-adding activity than does task work. When each individual is narrowly focused on a specific task, managers and administrative personnel must perform a host of non-value-adding activities to "glue" together isolated bits of work: checking, supervising, controlling, expediting, and the like. With process work, most of this non-value-adding activity is unnecessary. Front-line personnel have the knowledge and perspective needed to make their own decisions; checking and rework become unnecessary when everyone understands each other's work; disputes do not arise when everyone is aligned around a common goal. Less non-value-adding work means less overhead, reduced cycle times, fewer errors, and greater flexibility. Process work is also predictable and repeatable, since processes deliver results by design rather than by luck or herculean individual effort. These process designs also provide a handle for improving performance over time, through the application of process redesign techniques, six sigma quality improvement, new information technologies, and the like. Thus, process work not only delivers

3

high performance, it delivers sustained high performance. The overall results of a process approach to work are lower costs and increased customer satisfaction, the twin underpinnings of growth and organizational success.

Process work has yielded spectacular benefits for companies in a wide variety of industries. A few contemporary illustrations:

- By managing service installation as a process, creating a precise and uniform design for it, and measuring its performance, Duke Power increased the percentage of situations in which it hooked up electrical service by the date promised to over 98%; in some of the company's service territories, that figure had been as low as 30%.

- IBM has reduced the time needed to bring new products to market by as much as 75%, by managing and measuring the entirety of product development as an integrated process.

- Allmerica Financial, a diversified insurance company, has applied process discipline to most of its operating processes. As a result, the company reduced operating costs by hundreds of millions of dollars as volume increased, and simultaneously vaulted from 37th place to 4th in an independent rating of customer satisfaction.

- Air Products and Chemicals has incorporated its customer interactions in a process called Customer Engagement. By systematically rethinking its design, the company has simultaneously increased the productivity of its delivery vehicles while achieving a major reduction in customer out-of-stock situations. In consequence, accounts receivable have declined while the percentage of business lost to competitors has fallen by 80%.

Similar results have been reported in dozens of other leading corporations, including 3M, UPS, Conectiv, Merck, and Progressive Insurance, to name just a few.

4

The Process Enterprise

A process enterprise is simply one that supports the effective performance of process work. This definition deliberately says nothing about new organizational charts, new titles, or any of the other appurtenances of reorganization. As we shall see, a process enterprise does entail some new organizational apparatus, but that apparatus does not define it or capture its essence. At its heart, a process enterprise is simply one that enables, rather than inhibits, its people to do process work. The acid test of a process enterprise is not the organization chart; it is rather the behaviors and attitudes of its front line personnel.

Functional organizations are not process-friendly. Functional departments and geographic units are much like medieval fiefdoms: isolated, independent, and profoundly suspicious of each other. They abet and reinforce fragmented task work. The structure of a traditional organization, its measurement systems, and its managerial style conspire to prevent its people from doing process work. A process enterprise differs from a traditional one in numerous ways in order to live up to its definition as a process-friendly working environment.

In what follows, we summarize fourteen distinguishing characteristics of a process enterprise, fourteen ways in which it differs from a conventional enterprise. We call these the facets of a process enterprise. These are specific characteristics and attributes that we encounter in organizations whose people are performing process work. These facets fall into two categories:

- essentials: critical defining facets of a process enterprise
- enablers: facets that support process operation and management

Essentials

Model A model of the enterprise in process terms. It depicts the organization's business processes and major sub-processes and identifies their primary inputs, outputs, and relationships. This model provides the basic vocabulary needed in a process organization. It also provides a big-picture view of the enterprise as a whole. It is essential that the model be expressed clearly and simply and be readily comprehensible, even to those unaccustomed to process thinking.

Process owners Senior managers with overall responsibility for processes and their performance. The management roles, styles, and systems of traditional organizations are irrelevant or even counterproductive in a process environment. Members of process teams do not need conventional supervisors and managers. They have the capability and the motivation to perform their process without anyone looking over their shoulders. However, they do need to be provided the design of the process they are performing and the tools and resources they will need to perform it. This is the role of the process owner. The process owner creates and maintains the design of the process; provides those who perform it with the supporting capabilities (such as systems) that they require; trains them in how to perform it; offers them guidance when they require it; measures process performance and takes remedial action when required; and represents the process in the company's overall decision-making.

Designs Precise specifications of how each process is to be performed in order to produce the desired output. A design identifies exactly what activities are to be performed, by whom, and in what order. A formal process design allows everyone in the process to know what needs to be done and how his or her own work relates to everyone else's. Process design turns the accidental into the deliberate and makes processes repeatable and predictable. Process designs also enable organized performance improvement efforts, whether incremental (TQM and six sigma) or radical (reengineering) in nature.

Measurement Metrics of process performance that provide end-to-end, holistic quantification of process outcomes and performance, focused on the results that matter most to customers. There is no commitment to processes without an equal commitment to their measurement. On the one hand, measurement provides a basic framework for process work; it allows everyone to understand how well a process is currently performing, as well as how efforts to improve it are progressing. But just as importantly, disseminating process performance measurement information encourages people to care about process. When business performance is discussed in process terms, people quickly get the message that processes are really important.

Teams Work groups of individuals who together perform a process. Process work is team-based work. All the people involved in performing a process must recognize that their individual efforts can only be successful when integrated with those of their teammates. Teams must be chartered and established as the organization's basic work unit, and all the people in a team must know and identify with each other.

Leadership A process enterprise is so fundamentally different from a traditional one that it can never come into being, nor operate as it should, without the absolute and passionate commitment of the senior-most executives of the organization. They must deeply comprehend the process imperative and be forceful and resolute in planning, implementing, and communicating new ways of doing business.

Enablers

Process literacy An awareness by the entire workforce of the enterprise's customers, the value they require, and the processes through which this value is created and delivered. To do process work, all individuals must understand their own processes and the larger context in which they fit. They must also have an appreciation of what it means to work a process rather than a task. Developing this literacy requires a major educational effort, though not one necessarily delivered in a conventional classroom format.

Integration Mechanisms that ensure that all the organization's processes work together, and that functional fragmentation is not replaced by process fragmentation. An important such mechanism is the process council, a body consisting of leaders, process owners, and other key executives. The role of the process council is to connect the overall goals and strategies of the enterprise with the performance of individual processes. It provides a mechanism for resource allocation and strategy development as well as a venue for conflict resolution.

Coaching Managerial attention to developing people through education, career planning, and personal mentoring. The performance of a process enterprise is highly dependent on the capabilities of its people; they are truly its most valuable asset. Coaches are managers of this asset, developing the people on whom the processes depend. Coaches assure that the organization has the right numbers of the right kinds of people and that these people are developed in ways that meet their personal goals as well as the changing needs of the enterprise.

Culture A value system that encourages the behaviors that process work demands. Process work requires that individuals take personal responsibility for results, that they eschew finger-pointing and buck-passing, that they value teamwork, and that they make customers their top priority. It is the responsibility of executive leadership to formulate, communicate, and personally exhibit this value system on which process performance depends.

Information technology Process-oriented computer systems that support the integration of all the activities in a process through communications and shared data. Legacy functional systems reinforce fragmentation and make process work almost impossible. In contrast, modern integrated systems whose components have seamless interfaces and share a common database, like many ERP systems, have the capability to support end-to-end processes rather than the isolated activities of individual departments.

Facilities Work environments that reinforce team work and process performance. The layout of the workspace must support the natural flow of a process rather than institutionalize functional boundaries. Shared work space, co-location, and the absence of walls are some of the physical manifestations of a process enterprise.

Human resource systems Career models and compensation systems appropriate for process-focused personnel. Process performers need models for professional advancement that are not based on functional boundaries and hierarchical promotion. People in process enterprises must be managed like high-contributing autonomous professionals, and their careers must reflect this perspective. Process careers center on professional growth and learning new skills and disciplines. Similarly, partly basing compensation on process performance leads to shared goals and alignment around process outcomes, and further reinforces the importance of process. Processes are an effective dimension for compensation, lying between enterprise performance (which is most important but on which an individual has little effect) and personal performance (which people can control but which is of little consequence). Designing a new compensation system is of course complex and sensitive, and care must be taken to avoid inducing undesired behavior.

Management systems Budgeting, planning, and financial systems that are aligned around processes. These ensure that the organization's decision-making, as well as its work, is centered on processes.

We must stress again that these facets do not by themselves define a process enterprise; appointing process owners or implementing process measures do not a process enterprise make. Rather, these mechanisms create the conditions that allow a process enterprise to take root and flourish. They are means, not ends. They must be put in place with the explicit goal in mind of enabling a new kind of environment in which front-line workers will be able to perform process work.

Creating the Process Enterprise

A process enterprise differs from a conventional one in a great many ways, and the transition to it is not an easy one. However, this fact should not deter executives from embarking on the journey. The rewards are enormous, and leading organizations have already blazed a trail that others can follow. Naturally, no two companies will follow exactly the same path. However, we have identified a small set of factors critical for the success of this endeavor.

Passionate, committed, and sustained executive leadership. A change of this scope and magnitude can not possibly succeed unless it is the top personal priority of the most senior managers in the organization. Only they have the clout needed to make the deep changes required and to compel the participation of all constituencies. In particular, only they have the leverage needed to overcome the greatest impediment to the success of this transition: the resistance of the upper-middle management of the company. The leaders of this effort can not delegate responsibility for it down to the levels with the greatest vested interest in seeing it fail. Rather, they must maintain strong personal involvement in the effort. This often means that executives will have to triage their own activities in order to devote the energy to this transition that it demands. Moreover, since the shift to a process enterprise can not be accomplished overnight, their involvement must be a continuing one. They must not allow themselves to be distracted by other issues or by ephemeral phenomena, nor can they give up when difficulties inevitably arise. They must be in it for the long haul. This journey is a marathon, and constancy of purpose is needed to reach the finish line.

Rapid results. This is one marathon that must be run at a sprinter's pace. The implementation plan can not call for years of investment before the first benefits are achieved. An organization will dismiss such an effort as an empty exercise and lose heart at the lack of progress. Indeed, such a strategy will inevitably lose funding and even the enthusiasm of those who first got the transition underway. It must never be forgotten that creating a process enterprise is not an end in itself. Rather, the goal is to achieve the sus-

tained high level of business performance, that can only be accomplished in a process enterprise. It is neither necessary nor prudent to wait until the end of the transition to begin to reach this performance level and reap its financial benefits. The transition to a process enterprise can and must be structured as a series of releases, each of which is implemented quickly and delivers real and quantifiable business benefits. Each release will typically affect only certain processes or only certain parts of the enterprise, or implement only certain of the facets explored above. As a rule, the first release should take no more than 9–12 months to deliver value; each release creates and sustains momentum for the journey as a whole. Together, the releases define a roadmap to the final destination of a fully process-centered organization.

Realism. Some of the facets of a process enterprise (such as a process architecture, process owners, and process measures) are needed in order to get the transition under-way. On the other hand, others (such as process-based compensation) need not be addressed immediately. The transition plan must reflect the relative difficulties and importance of these facets. It must also take into account the particular characteristics of the organization itself: its history, competitive context, strengths and weaknesses, and cultural norms.

Rationalizing the change portfolio. We have found that most companies have far too many change initiatives underway. Each new passing business concept garners its sup-porters, who initiate a task force to address it. These task forces frequently take on lives of their own, long outlasting the interest and enthusiasm of those who chartered them, and rarely leading to any noticeable change or improvement. The result is widespread organizational confusion and cynicism. Moreover, no organization can afford or effec-tively manage a large number of uncoordinated and even conflicting initiatives. The process transition affords an important opportunity to prune these programs, terminat-ing some and folding the rest under the overarching umbrella of the process enterprise.

Conclusion

Process is emerging as the dominant organizational axis of the 21st century corporation. Besides the dramatic improvements in operating performance that it delivers, a process enterprise also conveys important strategic benefits. In a process enterprise, employees understand their work and why they are doing it, and they have more control over their worklives. Therefore, a process enterprise is a high morale environment, less afflicted with cynicism and turnover and more open to change. Since a process enterprise is not bound into a conventional hierarchy or a fixed organizational structure, it can be flexible in the use of its resources and respond rapidly to new business situations. Its customer focus ensures that market needs are continually evaluated and used to drive ongoing improvements in operations. Finally, managing processes as assets enables the enterprise to use them as platforms for new strategic initiatives. Obviously, a process enterprise demands a lot of its people: commitment, responsibility, maturity. It also requires that everyone confront the complexities and ambiguities of the real business world. But neither these concerns, nor the challenges of the transition to the process enterprise, should deter corporate leaders from this path. The direction they must follow is clear. The future belongs to the process enterprise.

For information about how Hammer and Company can support your company's transition to a process enterprise, please contact Bill Salamenta, Senior Director, at 617.354.5555 extension 101 or at bill@hammerandco.com

DR. MICHAEL HAMMER

Dr. Michael Hammer is one of the world's foremost business thinkers. He is the originator of both reengineering and the process enterprise, ideas that have transformed the modern business world. Organizations around the globe have achieved unparalleled performance improvements by applying his principles to their operations and structure.

A highly sought-after lecturer, Dr. Hammer also serves as an advisor to leaders of the world's most progressive companies. His public seminars are attended by thousands of people annually. He is the author of numerous articles and books including the international bestseller *Reengineering the Corporation: A Manifesto for Business Revolution* (HarperBusiness, 1993); *The Reengineering Revolution: A Handbook* (HarperBusiness, 1995); and *Beyond Reengineering: How the Process-Centered Organization is Changing Our Work and Our Lives* (HarperBusiness, 1996), and his latest book, *The Agenda: What Every Business Must Do to Dominate the Decade* (Crown Business, 2001).

Dr. Hammer was formerly a professor of computer science at the Massachusetts Institute of Technology, and he is a founder and director of several high-technology firms. He was named by *BusinessWeek* in 1992 as one of the four preeminent management thinkers of the 1990s, and in 1996 he was named by *Time* magazine to its first list of America's twenty-five most influential individuals.

Hammer and Company

One Cambridge Center

Cambridge, Massachusetts

02142

Telephone 617.354.5555

Fax 617.354.1046

www.hammerandco.com