

Process Based Management

IMPROVING ORGANIZATION EFFICIENCY AND EFFECTIVENESS

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What is the issue?

Organizations fail to deliver appropriate value to their customers because of misaligned internal processes.

Why is it important?

In a customer-centric environment, organizations must deliver appropriate value to their customers or risk losing them to competitors.

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Introduction to the concept

Too many organizations focus on cutting costs without considering the impact this will have on their customers. This finding is based on several case studies on Process Based Management (PBM). The organizations studied were able to dramatically cut costs; however, this created a significant negative impact on customer service. Why? It is largely a result of management not focusing on the organization's processes and how those processes deliver value to customers. Management within these organizations did not understand how all of the organization's processes worked together. When changes were made to cut costs in one process, there was an unintended consequence in another process. By managing processes in a holistic manner, an organization can proactively manage the cost and quality of products and services provided to customers.

A focus on process improvement has been on most organizations' radar screens since the 1993 release of *Reengineering The Corporation: A Manifesto for Business Revolution* (Michael Hammer and James Champy)

and the 1996 publication of *Beyond Reengineering* (Michael Hammer). Since then, there's been an emphasis on ways to improve organizations, with programs such as Total Quality Management, the Malcolm Baldrige Quality Award, and the Canada Awards for Excellence. In addition, the emergence of process improvement methodologies such as Six Sigma and Lean, have continued to focus management's attention on the impact of managing the organization's processes.



However, managing individual processes is not enough. Management needs to manage the interaction between processes and the organization's portfolio of processes in a systematic way. This leads to managing an organization from a process perspective.

Although management understands the need to improve and manage processes, few do so on an ongoing, integrated basis. Quite often, process improvement projects improve the process, and yet when they are "successfully" completed, they have suboptimized the performance of the organization. It is commendable to manage the performance of individual processes; however, a larger and enduring impact comes through managing an organization's portfolio of processes in an integrated fashion, i.e., by becoming a process based organization.

Management can get discouraged when implementing PBM because it requires a substantial change to the managerial mindset. However, there are significant benefits realized by customers, employees, shareholders, and other stakeholders of organizations that strive to become process based. With the possible exception of a new enterprise, the journey to become fully process based does not occur quickly. A process implementation plan needs to:

1. Keep management engaged and committed.
The shift requires a long - term perspective.
2. Address not only what needs to be put in place, but when.
3. Create a structure to communicate to all of your stakeholders to keep them aware, involved and onboard with the journey. They need to understand WIIFM (what's in it for me?).
4. Look at how work will change and how roles will evolve, and how performance will be measured, monitored, and communicated on an ongoing basis.

What is PBM?

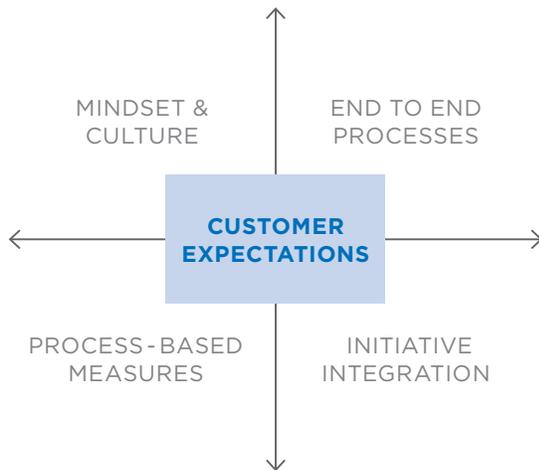
Most organizations are comprised of groups of functions that perform processes to provide products and services to their customers. Management has spent years improving how to manage functions. They have chosen from a constant supply of new methods and tools, yet often achieve limited or no success. It is time for management to focus on improving how to design and manage processes, and the linkages between processes, in a holistic manner. Whether organizations are large or small, public or private, for - profit or non - profit, real value comes from a focus on, and management of, an organization's processes. The mandate of organizations of the future is to successfully implement PBM.

PBM is an operating philosophy that governs the mindset, decisions, and actions of an entire organization. PBM recognizes that products and services are created and provided to customers through cross - functional processes. A process based organization explicitly designs, performs, manages, and improves processes to optimize overall performance, with the primary emphasis on delivering customer value.

PBM is a holistic management approach that focuses on (Figure 1):

- Promoting a process - based culture and mindset.
- Managing end to end business processes to continuously improve the time, cost, and quality of products and services delivered to customers.
- Integrating diverse initiatives into a process - oriented approach.
- Linking incentives and compensation to process performance.
- Understanding and meeting customer expectations.

FIGURE 1 Key concepts in PBM



Why is PBM relevant?

PBM manages the entire portfolio of processes, not just individual ones. This allows management to focus on customer expectations. Customers do not see individual processes; they see the results of all the processes working together. In too many instances, these interactions are not well coordinated and result in poor service and/or poor product quality. Organizations that are good at both managing their entire portfolio of processes and managing the space between them in an integrated manner will outperform their competitors.

Traditionally, customer needs are served through the performance of multiple functions or by portions of one or more processes. This causes many challenges:

- Functionally focused organizations are inefficient at coordinating work across functional boundaries. The goals of functional areas frequently conflict, and take priority over the needs of the customer.

- Other than those in select positions, employees often do not understand how they provide (and, equally as important, fail to provide) value to customers.
- Teamwork may be promoted in name, yet internal communications are silent on encouraging process performance over functional results.
- Employees are frequently not empowered to understand, analyze, and improve processes. When they are, they compete to fund endeavors that, if successful, often improve their function while sub-optimizing performance of the overall process.

By placing the focus on customers and managing the end to end processes, PBM provides a competitive advantage in the current customer-centric business environment.

How professional accountants add value

Professional accountants can add value to the implementation of PBM in several ways:

ENABLING VALUE

- **Strategic implementation.** Senior management needs to make the strategic decision to commit to a PBM environment. The move to become process based needs to be included and recognized as part of an organization's strategy. This commitment requires the proper alignment of resources to ensure successful implementation of the initiative. Professional accountants can be called upon to align the necessary resources, which include the use of finances, engagement of people and investment in infrastructure to successfully execute the organization's strategic intent.
- **Performance management.** Professional accountants can influence the shift from accounting for responsibility (cost, revenue, profit, and investment) centres to process centres.

PRESERVING VALUE

- **Risk management.** Understanding processes and process measures is critical to identifying risks and the management and mitigation of those risks. Internal controls are a critical part of any ongoing PBM setting as the processes integrate and cut across functions.
- **Financial resource management.** As an organization transitions to a process view, financial resources will need to be assigned to ensure the necessary funding is in place to implement this transition. In addition, quantifying and communicating the impact of process changes requires the skills of the professional accountant.

REPORTING VALUE

- **Performance measurement.** Design and implementation of a strategic, integrated performance-based measurement system is a hallmark of world-class PBM organizations. A PBM organization requires additional metrics to ensure its processes are integrated and linked to its strategy. These integrated performance measures are also used to develop appropriate compensation and incentive systems for the organization.

This publication is one in a series on *Process Based Management*. Guidance and Teaching Cases are also available on our website. For additional information, please contact Carol Raven, Principal, Strategic Management Accounting & Finance at 416 - 204 - 3489 or email craven@cpacanada.ca.



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