

Process-Based Management

ACME ENERGY SERVICES

Pat Dowdle • Jerry Stevens

MANAGEMENT ACCOUNTING GUIDELINE

CASE STUDY

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The following case is based on a real organization. The names and the content have been modified for illustrative purposes.

Background

Acme Energy Services (AES) is headquartered in Dothan, Alabama. AES generates and delivers electricity to 1.1 million customers throughout the state. AES is a regulated electric utility company with a generation portfolio that includes nuclear, coal, natural gas, and solar power plants, with approximately 6,400 megawatts of generating capacity.

AES's service area is located in one of the fastest growing areas in the United States. The organization is facing many challenges. Rapid growth in its customer base, as well as the capital required to accommodate that growth, is testing the company's ability to continue providing

reliable services in a heavily regulated environment where recovery of business costs can be a lengthy process. Add to the mix the continually shifting nature of oil, natural gas and uranium prices and the fact that a large portion of its workforce is nearing retirement. AES's business imperatives are to actively manage costs and business risks, improve prioritization of projects and resources, and retain critical knowledge in the corporate memory.

The organization needed to realign its operations, leveraging the drivers of resiliency, adaptability and innovation to ensure its sustainability (per the RAISE philosophy).

The Journey

The journey to implementing Process-Based Management began in the information technology (IT) division of AES. Several years ago, Paul Davis, the chief information officer (CIO) of AES for 12 years, saw that the IT division needed to shift away from being primarily a technology provider toward having a stronger focus on helping AES's business units improve their underlying business performance and processes. His vision — "One team working with our customers to advance and transform the business" — was the guiding principle used to implement a process mindset in the IT division and, ultimately, to the entire organization. He launched a process improvement project to organize the IT division and help it gain credibility so that it could lead a larger initiative driving process orientation throughout the entire organization.

Specific Activities

Over the next three years, the IT division worked with an external consultant to develop process maps of all core IT processes; identify and name process owners; establish a process governance structure; develop a process toolset and methodology to follow; analyze and improve all core processes; and develop training and communication on process efforts.

To keep with the CIO's goal to "advance and transform the business," the staff and supporting resources who worked on the process improvement project for IT, where the process improvement project seemed to be headed for success, formed a new and permanent department called the process excellence center (PEC) led by Sarah Phelps. This arrangement put the PEC in a position to provide process improvement services (i.e., mapping, facilitation, documentation, re-design, etc.) throughout the entire organization.

Tools and Training

Over the next two years, Sarah's attention gradually shifted away from directly serving the IT division toward an almost exclusive focus on other divisions in the organization. Up until this time, processes were mapped using a simple, user-friendly diagramming tool from Microsoft called Visio., but an enterprise process modeling tool and data repository was procured in year three of the process improvement project. This new tool enhanced the overall effectiveness of the PEC process methodology and continued the journey towards the overall long-term goal — to implement process-based management across the entire organization.

In the fourth year of the process improvement project, a new long-term vision emerged for the PEC: “To be a catalyst to promote and integrate process improvement across the entire enterprise.” To help achieve this new vision of business transformation, a process facilitator certification program was developed and implemented to build and develop consistent, high-quality process modeling skills and expertise amongst process support groups.

Growing Pains

Also in the fourth year, mounting evidence showed that things were not working as well as first thought in the IT processes. Paul met with all of the IT process owners late in the year to get a firsthand account of the issues. He discovered that one of the root causes was that there were no real performance incentives tied to the performers and managers of the processes. Paul surmised that, if this was happening in the IT processes, the same would probably be occurring in processes in other divisions within the organization.

At this point, Sarah and Paul determined that a PBM assessment would be a valuable tool to evaluate the IT division’s progress prior to deploying PBM across the rest of the organization.

(Re-) Assessing

Sarah chose an independent third-party assessment team to get an unbiased view of IT’s progress with PBM. The group performing the assessment followed the process shown in [Figure 1](#). The assessment team was joined by members of the PEC to aid in knowledge transfer and to enable PEC to perform future assessments.

Such a concerted effort demonstrated how the drivers of resilient and adaptive drivers (the drivers in RAISE) were fulfilled as part of ACME’s overall objectives to ensure they were both strategic and long-lasting, able to withstand and adapt to the ever-evolving demands of both customers and the changing dynamic of the market.

Assessment Questionnaire

The PEC worked closely with IT process owners and the process project team members to complete the assessment questions (see the [appendix](#) for questions from the assessment questionnaire). The questions were based on the categories in [Figure 2](#).

FIGURE 1: PBM ASSESSMENT PROCESS

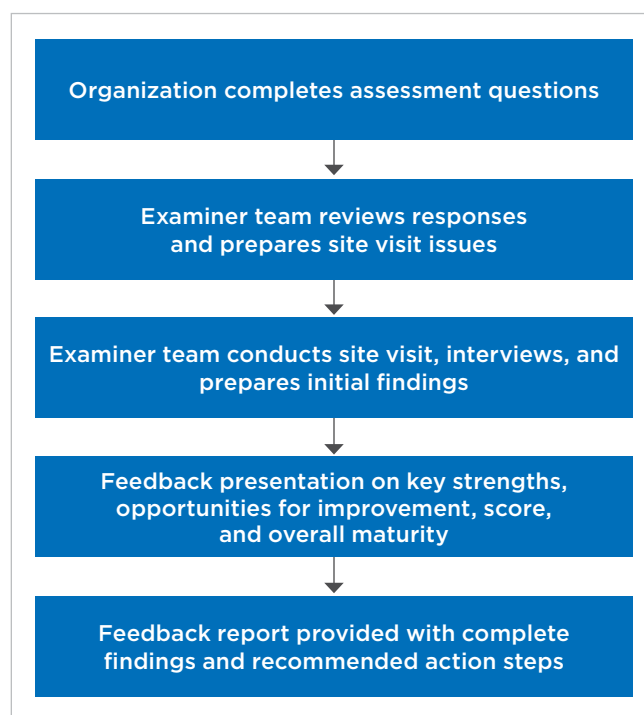
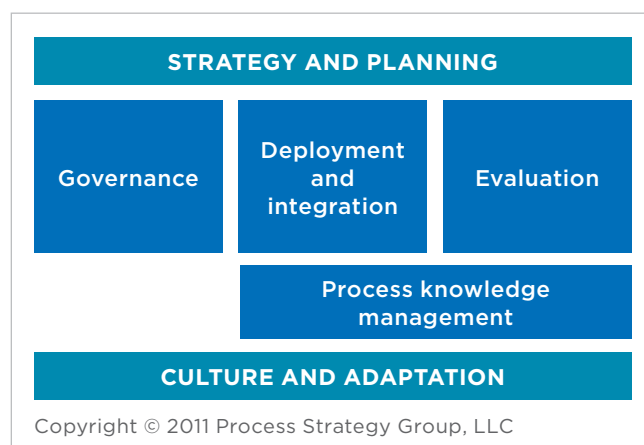
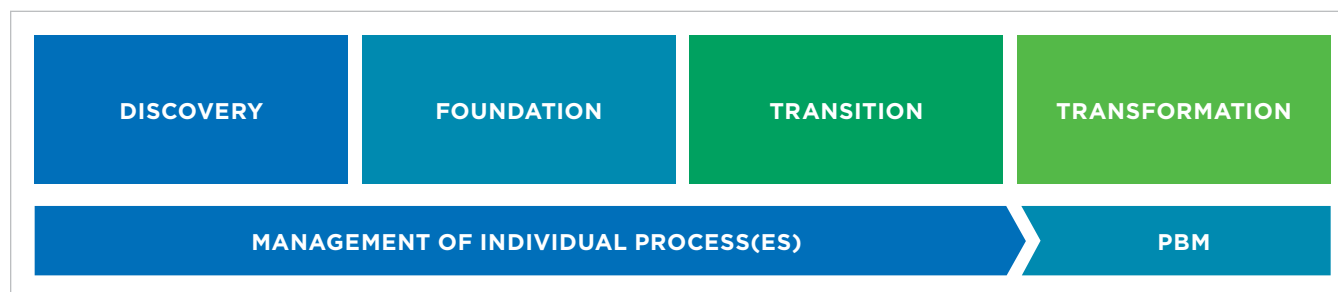


FIGURE 2: PBM ASSESSMENT CATEGORIES



One of the goals of the assessment was to determine where AES was with respect to implementing a PBM system ([Figure 3](#)).

FIGURE 3: PBM ROADMAP



Preparing On-Site Visit

After the questionnaire was completed, the assessment team reviewed the responses and prepared a site visit. Preparation for the on-site visit included the development of follow-up questions and identification of individuals to interview. The assessment team then carried out the on-site visit, interviewing key IT leaders and frontline personnel as planned. Their notes are detailed in the next section. As with the assessment questionnaire, the interviews conducted by the assessment team during their site visit followed the PBM assessment categories outlined in [Figure 2](#).

Strategy and Planning

This component of the PBM Assessment examines how the organization's business strategy and PBM strategy integrate. The assessment also evaluates how the organization executes its plan for implementing and continuously improving PBM.

- **Background:** The CIO had focused on business process transformation as a key aspect of the IT group's strategy. This supported the vision of "One team working with our customers to advance and transform the business." IT was focused on partnering with their business customers to change the business through innovation. They indicated that business process transformation is becoming IT's most strategic service offering.
- **On-site interviews:** Interviewees for this segment were Paul and Sarah.

What are the barriers to implementing the IT plans?

Paul: *IT has actively monitored and reacted to barriers to implementation, such as culture, mindset, new ways to do things, standards, processes, etc. However, there has been limited involvement of IT customers in the business transformation initiative. We have been so focused on getting our own house in order, we have let some tasks slip, which we know are important to expand the initiative outside of the IT division.*

Sarah: *IT has developed an approach to engage their customers in the business process transformation but they need to do a better job of implementing that approach.*

What communication on the strategy has taken place outside of the IT organization?

Paul: *I communicate the vision to the board, as well as to all my staff. We have identified other individuals and groups to target to get involved and to support what we are trying to accomplish.*

Sarah: *The strategy is pretty well understood within IT but much less understood in other areas of AES's business. That has caused some issues on transformation projects, as well as getting others to participate in projects.*

Have resources and funding been allocated?

Sarah: *The IT plan stated that the business leaders in IT will have a plan for the assessment of key processes. They will provide resources and funding to support that work. Funding for the IT initiatives was identified as part of the budgeting process. As PEC we led initiatives in the business and funding was often an issue if the improvement initiative had not been considered in the planning process. Alignment of IT and business plans could have helped address that issue. We have recruited much-needed subject matter experts for the process improvement teams. For the most part, the business areas were able to provide the needed resources. In some of the governance structure we were not able to back fill positions, so people took on some of the roles on a part-time basis."*

Governance

This assessment section examines the roles, responsibilities and structure in place to oversee the implementation and management of PBM.

- **Background:** The primary structure that oversees the implementation of PBM is made up of senior level management (director level) in IT. There are four individuals who report directly to the CIO and were handpicked by him to lead the effort. The group is commonly referred to as the "Gang of 4." This Gang of 4 was established after the completion of a project to re-design IT processes to formalize a structure that would oversee continued development and refinement of all IT processes.

The Gang of 4 created two groups to aid in PBM efforts: one group called the process services group (PSG) and one called the process excellence center (PEC). The PSG owns the portfolio of IT processes and is involved in improvements to any process.

The PEC is staffed with process consultants to aid in facilitation, process mapping and support for the process teams. The PSG meets every two weeks with the Gang of 4; the PSG and PEC meet together every two weeks. Each process has been assigned an owner by the Gang of 4, and any changes to processes are approved by the Gang of 4.

- **On-site interviews:** Interviewee for this segment is Paul.

How defined is the structure for process governance?

Paul: *Our vision of 'One team working with our customers to advance and transform the business' is heavily reliant on business process leadership. Business process transformation is IT's most strategic offering, and I have defined several structures to support our vision. First, the Gang of 4 is responsible for leading the improvement of all IT processes. Secondly, a group called process services group*

was formed to act as stewards of all the processes to guide and direct their design and ongoing improvements.

What defined roles and responsibilities are in place to make these structures work effectively?

Paul: *The members of the Gang of 4 and process services group all attended an overview workshop on process improvement and fully understand their role of stewardship. In addition, the process services group also received training on their role as process owners. An all-hands meeting has also been conducted to communicate our vision, structure and roles to the organization.*

To what extent has your process governance structure been communicated outside of IT? And what buy-in is there for using this structure on a more widespread basis?

Paul: *While we have full buy-in from IT, we have done some limited communication at the monthly CEO staff meeting. I have presented our vision, structure and strategy as a framework for a wider business transformation initiative that would include other areas of the business. We have some challenges in breaking down some of the functional silos and getting my counterparts to understand and think about cross-functional processes, but I am constantly talking about our successes in IT."*

Deployment and Integration

This component of the assessment examines the extent to which PBM deployment has been achieved, the organization's approach for cross-process integration, alignment with improvement methodologies, and stakeholder involvement.

- **Background:** IT has developed a process improvement program (PIP) that covers the approach used and what happens after a PIP project is completed. Through PEC, IT is improving process service to the rest of the organization. IT recognizes that the businesses it supports will ultimately need to understand their business processes as well.
- **On-site interviews:** Interviewees for this segment were Sony, IT manager, as well as Manny and Brock, PIP team members.

How does the organization monitor the implementation of pbm?

Sony: *The approach to evaluate the implementation is under development. Part of the challenge currently is that senior management performance measures are tied to IT process improvement projects, not the overall PBM implementation. The efforts to date had been mainly on process improvement projects. The build out of the foundation to support the move to PBM was identified, with pieces in place, and more steps to go.*

Describe the process improvement methodology used.

Manny: *As part of the PIP process, many different process improvement approaches are used throughout the organization. There is no standard set of PIP tools that is followed. Not having a standard approach has caused some problems. It makes it difficult to train team members, as well as to develop consistency in the projects.*

We feel we do a great job of facilitating the improvement session, and getting the team to come up with solutions addressing the issues that the team identified. However, there is little ongoing monitoring of process changes once they are implemented. In addition, the feedback loops built into the PIP process do not provide timely feedback to initiators on process recommendations.

Describe the scope of your process implementation efforts.

Brock: *In addition to the PIP efforts inside IT, PEC is providing process services to the rest of the organization outside IT. These services include facilitation support, and focus on addressing business issues, not just documenting processes. PEC also provides some assistance in documentation to meet SOX standards. This allows the organization to meet all its regulatory requirements.*

In our process efforts, we are just beginning to look at the interaction of IT processes and the business processes. We have not yet aligned IT processes to the cross-functional business processes, and realize that is a direction we need to follow.

Evaluation

This section of the assessment examines how measures are designed and monitored to track the implementation of PBM. It also evaluates PBM implementation against leading practices.

- **Background:** IT recently launched an IT metrics initiative, which will measure both process measures and measure the PBM implementation.
- **On-site interviews:** Interviewees for this segment were Sony, Manny and Brock.

Describe your approach to implementing process-based measures.

Manny: *We have struggled to develop consistent data to monitor processes. We recognize that this needs to be addressed and have included plans in the IT metrics initiative to develop measures as this project moves forward. One measure we set as a goal was that all documented processes in IT were at a CMMI level 2 capability. Around 50 percent of the current processes documented meet that criteria. [CMMI is the capability maturity model integration, which is a process improvement approach originally developed by the Software Engineering Institute.]*

Discuss how employees are recognized and rewarded for their performance in the move to managing processes.

Brock: *There is no formal reward system in place yet. Although most managers are on board with the process program now, there is no consistent way that managers recognize or reward employees. There are only a limited number of individuals that have process metrics in their performance plans. We recognize the need to develop a standard approach to keep everyone engaged and enthusiastic about the progress that is being made, and keep everyone focused on this journey we are on.*

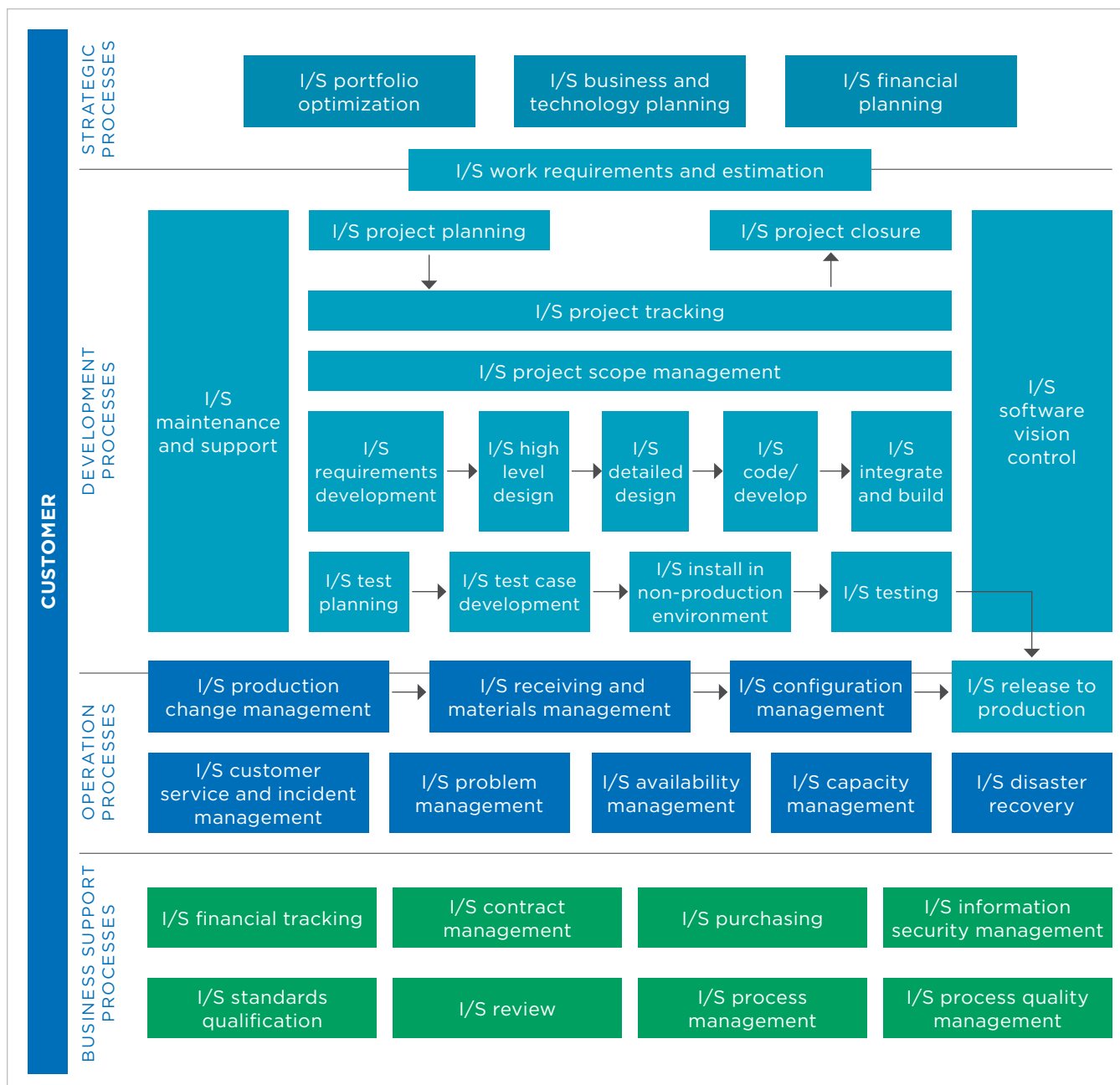
Sony: *There are some examples in place we can expand on. For example, there are some service level goals in individual performance plans that tie back to service level agreements. We see the same concept applying to process measures and tying them to both individual and team performance.*

Process Knowledge Management

This section of the assessment examines the structure and practices for capturing and utilizing process knowledge.

- **Background:** The AES process portfolio is divided into four areas: (1) strategic, (2) development, (3) operations, and (4) business support. Each area is further defined as depicted in [Figure 4](#).

FIGURE 4: AES PROCESS PORTFOLIO



The processes were grouped based on initial process improvement initiatives and follow the various departments within IT. Each area has a director and is assigned the responsibility to oversee and manage their specific processes.

- **On-site interviews:** Interviewees for this section were Pamela, IT director and Lily, IT manager.

What information is captured and shared for IT processes?

Pamela: *Our PEC group established specific process documentation standards that all process efforts follow. Each process is mapped using the casewise tool and all process artifacts are stored in the repository for easy access by anyone in IT. We capture descriptions, inputs and outputs, screen shots and other related information.*

What type of classification do you use for your process portfolio?

Lily: *We have not used any specific classification other than looking at the CMMI structure. We decided to group the processes based on each of our departments since we could better manage the people involved in the processes.*

How familiar are employees in IT with the process portfolio?

Lily: *All employees have access to our process repository in view-only mode and can easily see detailed information regarding each process.*

Who is responsible for overseeing your process knowledge management efforts?

Pamela: *While we have fully defined all of our processes and captured information for each process we currently don't have a specific group or individual responsible for ensuring ongoing updating and management of the process repository. Whenever a new improvement project is launched it is the project leader's responsibility to ensure any changes to the process are incorporated into the repository.*

Culture and Adaptation

This component of the assessment examines how an organization communicates its PBM strategy, develops and maintains its PBM competencies, and adapts its culture to PBM.

- **Background:** Process-Based management is communicated in a top-down approach from the CIO to the IT leadership to gain commitment and support. PEC and PSG are doing presentations, "lunch and learn" sessions and work group mentoring to aid in communicating PBM across IT and outside of IT.

Part of the IT approach to help speed acceptance of the new process culture is to create mentors who can provide support and address concerns. Part of what they do is compare former department processes with new ones and walking through the concerns with the staff. Hard questions are asked like "why can't you use this process?" and "what can we do to make the process work for you?"

- **On-site interviews:** Interviewees for this section were Andre and Susan, process performers, as well as Sarah.

What formal training have you received on pbm?

Andre: *Most of the information we have received on PBM has been through our staff meetings, newsletters and various presentations. Our all-hands meeting had a presentation by the PEC staff on what PBM was and how IT will become more process focused.*

What information have you received about the roles to support implementing pbm, such as process council, process owners, and process teams?

Susan: *We have heard about process owners but don't really know much about what they do. Several of us have been on process improvement projects, and we were part of the team that came up with recommendations on how to change the process. I guess those were process teams. Don't know what a process council is other than the Gang of 4 that all process changes have to be approved by.*

How has the mentor program helped with understanding pbm?

Andre: *Early on we had some help with process improvement techniques from the PEC staff. They were great! PEC would help with facilitating our team meetings, mapping out our processes and giving us different ideas on how to change the process to make it better. After the initial process efforts were completed the mentoring subsided, and no ongoing mentoring is occurring.*

How well have pbm concepts been communicated outside of IT?

Sarah: *Our CIO has done some communication to the executive team on the process efforts in IT. We have gone out and done presentations to groups that have contacted us to help with process improvements. There is no real formal program to have ongoing communication about PBM outside of IT; our primary focus has been on supporting IT process improvements.*

What programs exist to aid in changing the mindset in IT to a process-focused approach?

Sarah: *We have conducted several sessions with employees who are on process teams to help educate them on the value of PBM and why IT is moving to a process focus. The communication is tied very closely with our business transformation initiative and our overall IT strategy.*

How have job descriptions been modified to include a component of PBM?

Sarah: *We have not formalized PBM into our job descriptions, other than the PEC staff since their main focus is on supporting, facilitating and training the organization on PBM. All the PEC job descriptions have been crafted to include all aspects of PBM support, including process improvement roles and responsibilities.*

Appendix—Assessment Questionnaire

Strategy and Planning

1. How does your strategic plan address organizational actions needed to gain commitment to Process-Based management?
2. How does the organization standardize its approach to process improvement and how is this incorporated into the strategy?
3. Describe how process efforts are driven either by your overall strategy and/or by specific events/problems?

Governance

1. Describe your governance structure for overseeing the design, deployment and management of processes?
2. What forum do process owners use to discuss and resolve process issues with functional management?
3. How do you select individuals for the roles in your process-based management structure (e.g., process council, owners, teams and PBM office)? What level in the organization are those individuals and what is their tenure?

Deployment and Integration

1. Describe the scope of your process efforts and include any efforts toward implementing process thinking across the organization?
2. What process improvement methodology(s) do you use? Describe how each methodology is used and to what extent it is used?
3. Describe how your improvement methodologies (Six Sigma, Lean, Baldrige, BPM, etc.) and compliance methodologies (ISO, SOX, etc.) are integrated into your Process-Based management approach?

Evaluation

1. Who is involved in the design, development and implementation of Process-Based measures? Describe the responsibility of each participant?
2. Describe how end-to-end process metrics are shared among process owners and functional managers?
3. Describe how performance plans for process performers are linked to PBM implementation?

Process Knowledge Management

1. Describe the methodology or approach used to identify and classify your processes?
2. Describe the tool(s) used to capture process information?
3. Identify what detail(s) have been documented and or populated for your processes?

Culture and Adaptation

1. Describe the approach for communicating the process-based management program to the organization and to what levels it has been communicated?
2. Describe how process changes/improvements are communicated within the organization?
3. What competencies are developed for key individuals in your process governance structure (i.e., process council, owners and PBM office)?
4. How are competencies developed for each key role?



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