Process-Based Management

A FOUR-PHASE APPROACH TO IMPROVE ORGANIZATIONAL EFFICIENCY AND EFFECTIVENESS

Pat Dowdle • Jerry Stevens

What is the issue?
Organizations fail to deliver appropriate value to their customers because of misaligned processes.

Why is it important?
In a customer centric environment, organizations must deliver appropriate value to their customers or risk losing them to competitors.

What can be done?
Process Based Management provides a strategic and systematic management approach that explicitly designs, manages, and improves processes to optimize overall performance and customer value.

MANAGEMENT ACCOUNTING GUIDELINE	GUIDELINE

CONTENTS

What is Process-Based Management (PBM)?

Process-Based Management (PBM) is a management approach that guides the actions and mindset of an organization. It has a wider scope than the management of individual processes. A process-based organization designs, manages, and improves its processes to optimize the delivery of customer value. Process-Based organizations use PBM as a guiding philosophy to differentiate themselves from and outperform their competition.

PBM enables organizations to:
1. Understand and meet customer expectations.
2. Transform to a process-centered employee mindset.
3. Manage end-to-end processes.
4. Integrate diverse initiatives.
5. Manage process-related measurement and rewards.

Fully implementing the structures and systems required to become a process-based organization requires an ongoing commitment from all executives, managers and employees. Changing an organization from a functional management approach to a process-based approach presents challenges relating to beginning a PBM journey, building and maintaining momentum, developing the required infrastructure and culture, and continually achieving success.

The decision for an organization to become Process-Based must be tied to the organization's strategy. Although process efforts usually start by addressing business issues in distinct areas (such as the supply chain or procurement), PBM requires that these eventually become linked and aligned to strategy.

The PBM roadmap is intended, in part, to provide that alignment. Ultimately, the organization's strategic objectives determine which steps from the PBM roadmap an organization will utilize. The starting point for these decisions is ideally a PBM assessment.

If an initial assessment indicates that process-based improvements are the key to achieving your organization's strategic objectives, it is time to begin the journey to PBM. Compared to traditional functional management, PBM ensures both superior performance and value to customers, employees, suppliers, and shareholders. The key lies not within a specific tool or method, but within the focus on designing, managing, and continually improving the organization's processes in a holistic manner. PBM can provide a competitive advantage if it is successfully implemented. Organizations that adopt PBM regard it as a primary driver for future success.

What is RAISE and How does It Apply to PBM?

In the current global economy, the business environment is always changing. Some changes are so dramatic that everybody notices them but others may slowly creep up over the years before they can no longer be ignored.

Fortunately, process-based management is one such tactic that an organization may employ to address how it will respond to these ever-evolving business challenges. PBM can also ensure an organization focuses on what matters most (versus reactively responding to "fires" or "crises") — its customers or core stakeholders — in an effort to respond to external market forces and focus an organization's efforts.

A useful ideology for showcasing the importance of the PBM design is CPA Canada's RAISE philosophy (where Resilient + Adaptive + Innovative = Sustainable Enterprises) in the implementation of the process-based management. The RAISE philosophy can help guide an organization (or enterprise) towards a unique strategy that provides an ongoing sustainable edge. The key drivers are explored next.

Organizations today must demonstrate their **resilience** in the face of constant turmoil and disruption. They need to respond quickly to these constant and unexpected external changes while at the same time sustaining regular business operations. PBM refocuses an organization's efforts back to what is important as these crises arise and enables organizations to isolate such problems proactively so that strategic focus and awareness are maintained.

Organizations more than ever need to be **adaptive** in their ability to adjust to these ongoing market shifts in the competitive landscape. Given this changed environment, they need to be nimble and flexible enough to "proactively" respond to any and all competitive or market changes. The PBM employs methods to adapt.

Opportunities to **innovate** are typically a primary contributor to organizational success and longevity. However, it is one area that many fail to adequately explore or execute upon. PBM is one such vehicle that can be leveraged to communicate the importance of innovation in achieve its strategic and operational objectives.

Embracing such drivers as key components of an organizations strategic and operational plans and decisions, ensures an organization's (or enterprises) sustainable competitive edge. Combining the resilient, adaptive and innovative drivers of success results in a unique and robust strategy for adopting and implementing PBM as explored throughout the course of this guideline.

How to Use this Publication

This publication addresses the challenges listed by outlining a detailed methodology for instilling PBM as the management approach of an organization. It is a guide to help organizations determine what steps it should take to implement PBM.

It also describes the four phases (Discovery, Foundation, Transition and Transformation, as depicted in Figure 1) an organization will follow to move along on its journey to become process-based. Organizations may choose to undertake the entire PBM journey, or follow only the first few phases. This is entirely appropriate, and the structure supports using this partial approach. An organization's strategy, and the degree to which PBM supports accomplishing the organization's strategic objectives, suggests the extent to which PBM should be implemented.

FIGURE 1: PBM PHASES
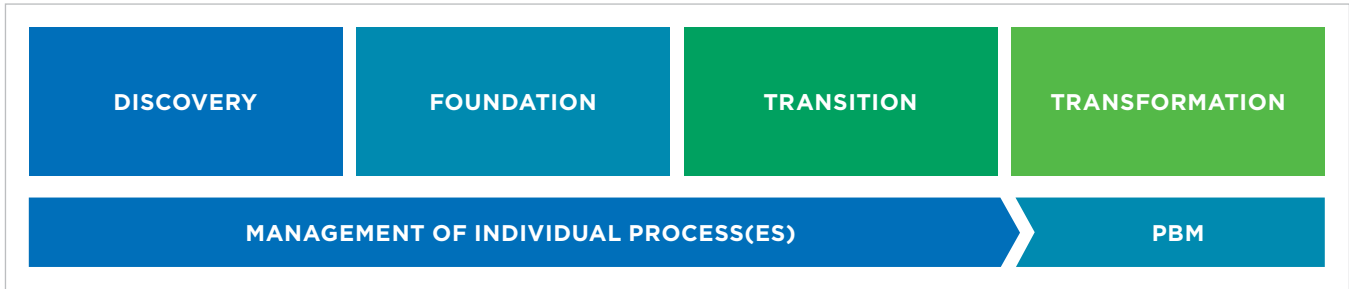
Each section of this publication details the requirements an organization needs to fulfill to be successful in each phase of the PBM journey. For example:

- Many organizations are just trying to figure out what process-based management is and how it may help the organization. The section dedicated to the Discovery phase will identify the organization's current state of process and where there may be opportunities for improvement.
- Most organizations on the process journey have gaps in what is needed for long-term success. Many of those issues are dealt with in the section on the Foundation phase.
- Some organizations may simply need to get better at managing individual processes, so they strive to undertake the requirements to make progress listed in the section on the Transition phase. Many businesses that do not understand how processes are accomplished, or how to manage them, fall into this category.
- Organizations that are accomplished at managing individual processes will want to target the management of cross-process relationships, which occurs as an organization moves along the journey into Transformation.

Application of PBM

As each phase of the roadmap is detailed, consider where your organization is on the journey, and where your strategy indicates it needs to be in order to have long-term success and ultimately ensuring a sustainable edge (RAISE).

PHASE 1 Discovery

The first phase of implementing PBM is a critical one for any organization pursuing PBM. Most organizations undertaking any type of process improvement project will utilize some, if not all, the steps in the Discovery phase to determine the best path for moving forward.

This initial phase of PBM implementation involves:
1. Forming a process advocacy group.
2. Assessing the current process environment.
3. Developing the case for change.
4. Developing an implementation plan.

1. Forming a Process Advocacy Group

One of the keys to a successful PBM implementation is to identify and form a process advocacy group to oversee development and deployment. The group should be comprised of individuals within the organization who have had success with process improvement initiatives in their department or functional area. These individuals should represent a cross-section of the organization's stakeholder group.

They can come from a variety of departments, but typically individuals from the departments in Figure 2 have the greatest potential for making a meaningful contribution.

FIGURE 2: CANDIDATES FOR PROCESS ADVOCACY GROUP

Operations	Business Planning
ADVOCATES	
Finance	IT

It is strongly recommended that the leader of the advocacy group, who becomes the process advocate, hold a senior management position (Figure 3) that fully supports the process mindset. Improvement experts who are experienced in both process methods (CPI, Lean, Six Sigma, BPM, etc.) and the tools (process maps, value chains, control charts, strategy maps, etc.) used in the organization play a key role in the group.

Another key role is communication, since the overall success of PBM is inherently tied to providing ongoing communications with key stakeholders across the enterprise. The communications role requires someone experienced in the design of communications plans and delivery of messages to all levels in the organization.

FIGURE 3: COMPOSITION OF PROCESS ADVOCACY GROUP

PROCESS ADVOCACY GROUP

PROCESS ADVOCATE — SENIOR MANAGEMENT

Improvement Experts	Communications
• Methods	• Design
• Tools	• Delivery

2. Assessing Current Process Environment

With the advocacy group assembled, the next step is to assess the current level of process thinking and to determine the amount of support for PBM that exists in the organization. This is necessary before the team can start to build a transformative plan.

This assessment is often led by the process advocate and the advocacy group. There are several methods they may use to assess the organization's mindset, such as informal interviews and discussions with several key individuals, specific structured questions developed by the process advocacy group, and/or third-party PBM assessment approach.

Regardless of the approach an organization selects, it needs to be deployed to a cross-section of individuals who are involved in process efforts. These individuals should represent the roles represented in **Figure 4** and should include 10-15 participants.

Any assessment conducted must include an identification of critical gaps in deploying PBM and should provide an indication of strengths that may be leveraged going forward.

FIGURE 4: COMPOSITION OF PROCESS ADVOCACY GROUP

| SENIOR EXECUTIVE |
| PROCESS EXECUTIVE   MANAGER |
| Leader \| Member \| Process performer |

In addition to assessing the mindset of the organization, the process advocacy group will also want to develop an inventory of tools, methods and initiatives currently in place to support the organization's process efforts.

Valuable insight can be gained by fully understanding the current process mindset of the organization. It is important to understand that not all organizations are ready or willing to make this move. If assessment results indicate areas for improvement and if feedback from senior management is positive, the organization is ready to move to the next step in the Discovery phase.

3. Developing the Case for Change

The process advocacy group will use the results of the assessment to develop a formal proposal to gain support from management for the development of an implementation plan.

To create the case for change, the process advocacy group begins by creating a readiness assessment based on the strengths and gaps identified in the PBM assessment, analysis of the organization's process mindset; inventory of tools, methods and initiatives; and the challenges that exist in the organization in order to move towards PBM.

The readiness assessment defines the operational conditions that articulate the benefits of PBM to the organization. These may include:
- Resource constraints
- External competition
- Internal functional competition
- Previous marginal or failed operational improvements
- Opportunities for improvements
- Process management successes

Using this readiness assessment, the process advocacy group will prepare a case for change and present it to senior management for feedback and approval before moving on to developing a fulsome implementation plan.
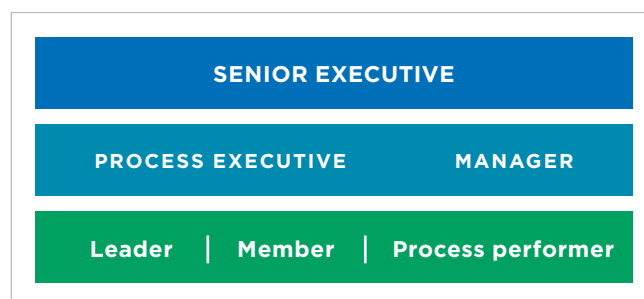
The case for change should include a discussion of the shortcomings of the organization's current functional mindset and its potential impact on customers. Specific examples that demonstrate the inadequacies should be given, and the ways that PBM addresses these shortcomings shown.

4. Developing an Implementation Plan

After the process advocacy group has received approval from senior management, it is ready to develop a PBM implementation plan using the information gathered in the Discovery phase. The plan consists of the following sections:

- PBM vision
- Goals and objectives of the PBM program
- Assessment of current process mindset
- Strengths and critical gaps in PBM deployment
- Project plan and timeline
- Projected costs
- Initial training requirements
- Communication plan for PBM deployment
- Roles and responsibilities to support PBM deployment

When the plan has been completed and approved, the organization moves to the next phase: Foundation.

Outputs of the discovery phase

The critical outputs from the Discovery phase consist of:

- An initial assessment of the organization to determine its readiness to move forward with PBM.
- An inventory of existing tools, methods and initiatives.
- A PBM preliminary implementation plan.
- A communication plan, which includes marketing materials.

Diagnostics tools

There are free diagnostics tools to help organizations get started on the PBM journey (see of this publication). There you will find free quick assessments that will provide an initial evaluation of your organization's progress in implementing process thinking.

- **Process-Based Management (PBM) quick assessment:** This short (10–15 minute) instrument provides a feedback report on the different aspects of PBM along with suggested action steps.
- **Process Improvement (PI) quick assessment:** This instrument provides a quick evaluation of the organization's efforts towards process improvement. This quick assessment is for those organizations that have a mindset of process improvement but haven't begun their journey towards a more holistic management approach of PBM.

PHASE 2 Foundation

DISCOVERY	FOUNDATION	TRANSITION	TRANSFORMATION

MANAGEMENT OF INDIVIDUAL PROCESS(ES)	PBM
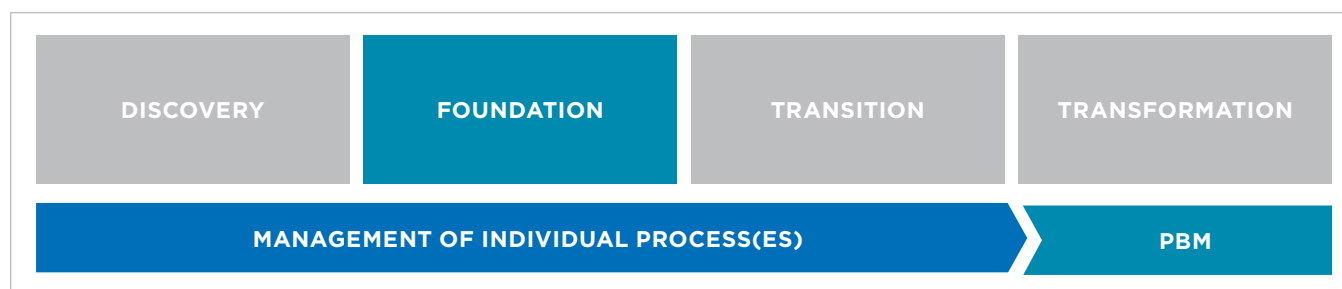
The objective of the Foundation phase is to create the structures required to support the PBM rollout to the organization. Many more individuals will become engaged in the PBM implementation process during the Foundation phase, which includes the completion of the following steps:

1. Establishing the governance structure.
2. Identifying and classifying processes.
3. Developing the process toolset.
4. Launching process to the organization.

1. Establish Governance Structure

One of the key steps of the Foundation phase is to put into place the governance structure (Figure 5) required to support the process-based organization. The roles established at this point will evolve as the organization moves along the PBM journey.
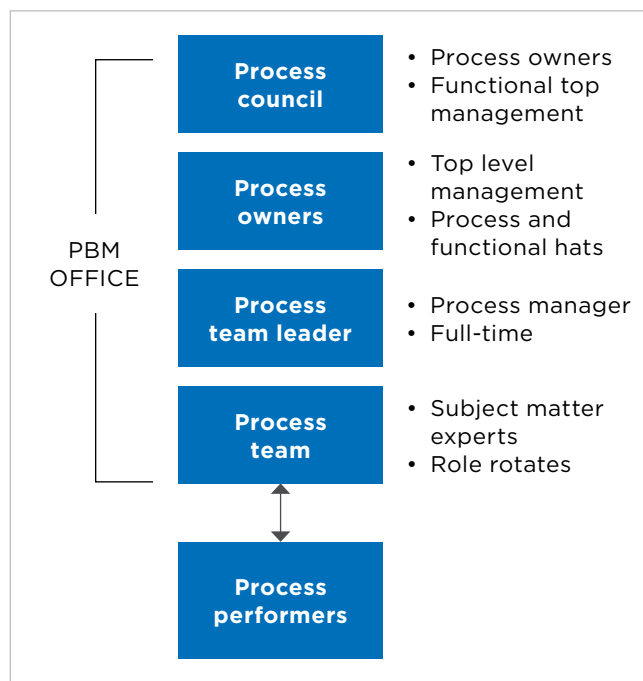
Process office

To start with, it is generally good practice to evolve the process advocacy group into a formalized process office which has the following roles and responsibilities:

- Develops the PBM implementation plan
- Supports the needs of the governance structure
- Develops and maintains the process toolset
- Develops charters for the process office, process council and process owners
- Develops and provides the training required by the various roles
- Supports the process teams as they improve their processes

FIGURE 5: PBM GOVERNANCE INFRASTRUCTURE

PBM OFFICE

Process council	• Process owners • Functional top management
Process owners	• Top level management • Process and functional hats
Process team leader	• Process manager • Full-time
Process team	• Subject matter experts • Role rotates
Process performers	

The process office needs to be staffed with individuals who collectively have skills in the areas of facilitation, process modeling, coaching and training, and business planning.

Process council

There is also a need to create a process council to oversee and direct all the process efforts and the PBM implementation plan. It will evolve as process efforts mature and will become similar to the executive committee in a functional-based organization. The process council is responsible for the process transformation that is occurring in the organization.

The process council is composed of senior leaders who can provide guidance and support to move the process efforts forward. In the Foundation phase, the process council's primary role is to support and nurture the process efforts underway, and provide support and resources necessary for the process office to establish the process toolset, training, and structure necessary to support the launch of target process teams and process improvement efforts.

2. Identify and Classify Processes

Another key step is to identify the current processes within the organization, develop a framework to classify those processes, and establish a priority system that will dictate the order in which they are addressed during implementation. As processes are prioritized, a process owner is appointed to oversee a process team, which is also established in this phase, to understand and improve the process. (These roles will be addressed in additional detail later in this section and in the Transition phase.)

While undertaking the work required by this step, the process office works with the process council to develop a list of the organization's processes. Compiling this list engages many people within functional areas, which helps develop consensus from both functional leaders and the process council on what the critical processes are in the organization. It begins to develop a process language, a critical component to ongoing discussions regarding processes of the organization.

Each process needs to be defined with:
- Process name: What will each process be called in our organization?
- Boundaries: Where does each process start and end?
- Inputs to and outputs from the process.

As this list is being developed, it can be validated against one of the external frameworks that many organizations are familiar with, such as the APQC Process Classification Framework or the Supply Chain Groups (SCOR) model. These frameworks provide a list of common processes. Reviewing these external models may identify processes that have not been considered already.

With the list of processes, the process office would work with the process council to develop a process classification framework. This framework provides a structure for understanding current processes and helps organize and focus process efforts. There are many ways to classify processes.

APQC: The American Productivity and Quality Center first published the process classification framework to serve as a high-level, industry-neutral business process model that provides organizations with a cross-industry view of common processes.

SCC: Another framework is the Supply Chain Operations Reference (SCOR) model, which outlines the consensus view of supply chain management processes as developed by an independent, non-for-profit organization called the Supply Chain Council (SCC).
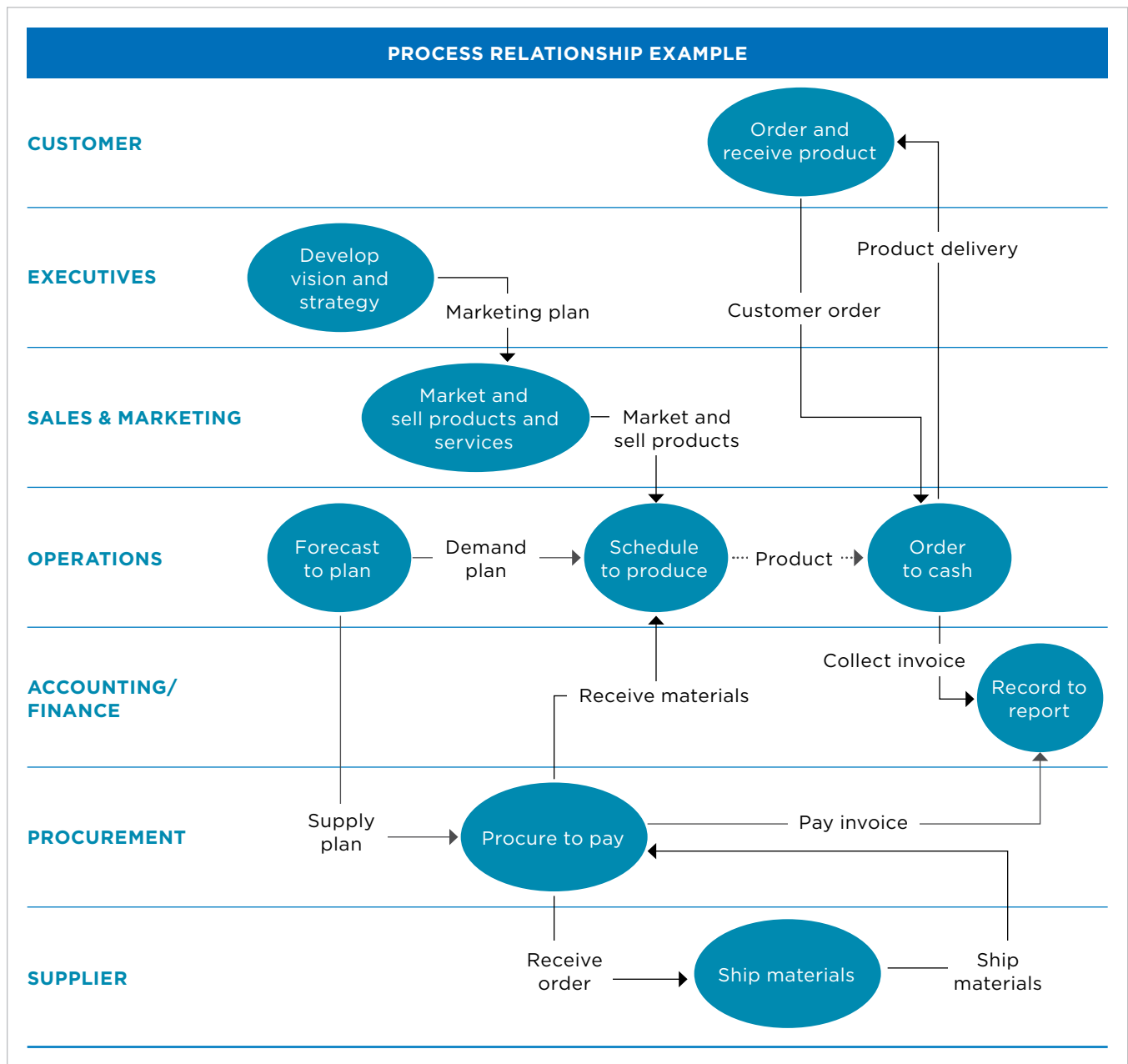
Some use terms like core and non-core, while others use a more strategic view which groups processes into four categories.

The strategic approach (Figure 6) requires the process council to clearly determine what its identity and priority processes are. These are the processes the company uses to provide value to its customers. It also divides supporting processes into mandated and background process categories. Many organizations have realized that these supporting processes can be done by someone else (for example, outsourcing the payroll process).

**FIGURE 6: STRATEGIC PROCESS PRIORITIZATION APPROACH
(ADAPTED FROM THE PROCESS EDGE, PETER KEEN)**

	IDENTITY	PRIORITY	MANDATED	BACKGROUND
DEFINITION	Defines the company for itself, its customers and its investors	Strongly influences how well identity processes are carried out	Processes that are legally required	Processes which support daily operations
EXAMPLE	• **Fed Ex:** Guaranteed on-time delivery • **McDonalds:** Speedy, consistent food preparation	• **Fed Ex:** airplane operations • **McDonalds:** Food supply management	• Regulatory reporting • Income tax filing	• Many administrative and overhead functions like payroll processing, accounting, office management

Without undertaking a process classification, there is a risk that the processes selected for PBM will not be the right ones. The process framework will change as process names change and boundaries shift. This is a natural occurrence as people work with the framework and expand their thinking about the organization's processes. Each time a process team is launched, its boundaries are reviewed so that it is clear what activities are part of the team's process. However, over time the process classification framework becomes stable and provides the necessary structure for process discussion at the management level. The structure is often shown as a process relationship map (Figure 7).

FIGURE 7: PROCESS RELATIONSHIP MAP

PROCESS RELATIONSHIP EXAMPLE

CUSTOMER — Order and receive product

EXECUTIVES — Develop vision and strategy / Marketing plan / Product delivery / Customer order

SALES & MARKETING — Market and sell products and services / Market and sell products

OPERATIONS — Forecast to plan / Demand plan / Schedule to produce / Product / Order to cash

ACCOUNTING/FINANCE — Collect invoice / Receive materials / Record to report

PROCUREMENT — Supply plan / Procure to pay / Pay invoice

SUPPLIER — Receive order / Ship materials / Ship materials

With the list of processes developed and prioritized, the process council has a starting point to begin improving processes. It is important to target processes that impact customers first, as well as those that support the strategy and operating plan. Senior executives, called process owners, are then appointed for the prioritized processes.

The process owner's initial responsibility is to form a process team by identifying and recruiting process team members, developing a charter for the process team to follow, and getting ready to launch the process team.

3. Develop the Process Toolset

The organization needs methods and tools to support its process efforts as process-based efforts take hold. The process office develops this toolset by reviewing methods and tools currently in use within the organization, some of which will become part of the process toolset, then filling in any gaps with tools available in the marketplace. It is good practice to introduce tools as they are needed rather than build a full toolset at the outset, since needs will change as the PBM journey unfolds. Also, the toolset will need to be continually updated and expanded.

An organization's toolset may include:
- Process mapping tools: there are many good products in the marketplace to suit the needs of a wide variety of organizations.
- Process improvement methodologies: mix and match from the many available (i.e., Lean, Six Sigma, GE Workout, Value Stream Mapping).
- A repository for process knowledge.
- A measurement system that develops, collects and monitors process performance data.

Definition of Terms

Lean: is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination.

Six Sigma: seeks to improve the quality of process outputs by identifying and removing the causes of defects (errors) and minimizing variability in manufacturing and business processes.

GE Workout: is a process improvement approach developed by GE in the 1980's for busting bureaucracy and attacking its organizational problems — quickly, simply and with the involvement of the people who ultimately carry out the decision.

Value Stream Mapping: is a lean manufacturing technique used to analyze and design the flow of materials and information required to bring a product or service to a consumer.

4. Launch Process to the Organization

The process council, working with other senior leaders, will develop a PBM policy and overall process strategy in the Foundation phase. The process strategy must align with the organizational strategy and make clear to everyone how the process efforts support the organization's strategy. As the PBM strategy is developed, the PBM implementation plan is updated by the process office.

The implementation plan includes ongoing communication of the process efforts, because it is at the Foundation phase that senior management communicates and launches PBM to the entire organization. This is accomplished through:
1. Town hall meetings with a consistent message about what the organization is trying to accomplish.
2. Periodic written communication about the journey and status.
3. Launch process teams throughout the organization and provide information about their goals.

Messages need to be communicated early and often—there is no such thing as too much communication about the process journey.

Outputs of Foundation Phase

The main outputs of work from the Foundation phase include:

- The process classification framework
- The PBM toolset
- Agreement on the process improvement methodology to be employed
- Formalized charters to PBM office, process council and process owners
- PBM offices established complete with an operating budget
- Process council established
- Process owners appointed to prioritize processes
- Establishing a PBM policy and strategy and updating the PBM implementation plan
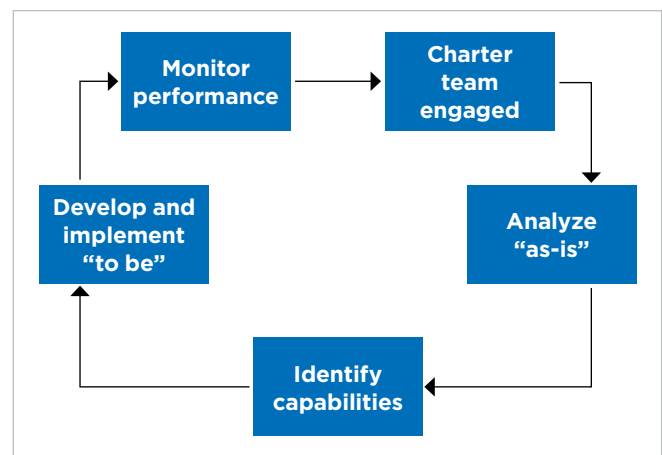
PHASE 3 Transition
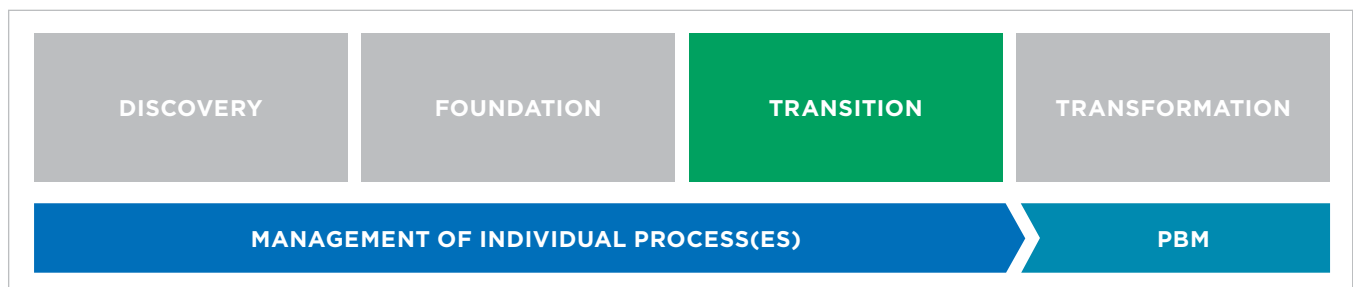
The Transition phase focuses on managing individual processes within the organization. The goal is to follow a consistent and focused approach when improving and managing each process.

Although many organizations have been improving their individual processes, most have not laid out a plan that includes steps that move them to a process approach. Typically, their goal is improvement, not the adoption of a new management approach, so they concentrate on the Transition phase without satisfying fundamental requirements of the Discovery and Foundation phases. These organizations will see some value from individual improvement projects but not the transformation that occurs by becoming a process-based organization.

There are five key steps in every improvement project (**Figure 8**). Each of these is detailed in this section.

FIGURE 8: FUNDAMENTAL IMPROVEMENT STEPS

1. Charter Team Engaged

In the Transition phase, process teams are launched to improve processes based on the prioritization that occurred in the Foundation phase. As teams are created, they need to:

- Work with the process owner to create a team charter identifying their roles and responsibilities, along with the goals for the team. They clearly state what the improvement cycle is going to accomplish. This should include a performance measure for the team members that will be added to their respective performance plans.
- Be trained (by the process office) on how the team will function, including the toolset to be used (including the improvement approach) and the ongoing responsibilities of the process team.

The process owner and process team leader work with the team to identify a schedule for the process improvement.

2. Analyze "As-is" Process

The teams will use the chosen improvement methodology to understand, baseline and analyze the "as-is" process. The improvement approach may include various methods and tools for different types of problems being addressed, since "one-size does not fit all" in seeking solutions. The process office provides support to process teams for the improvement of their process. This can be facilitated sessions, interviews, or a combination of the two.

Most improvement methodologies will follow steps similar to those shown in Figure 9 to analyze the current "as-is" process. The end result is a map and includes detail on the boundaries of the process, issues and problems, and current process measures.

FIGURE 9: STEPS TO ANALYZE THE "AS-IS" PROCESS

IDENTIFY BOUNDARIES

MAP THE CURRENT PROCESS

IDENTIFY ISSUES

IDENTIFY PROCESS MEASURES
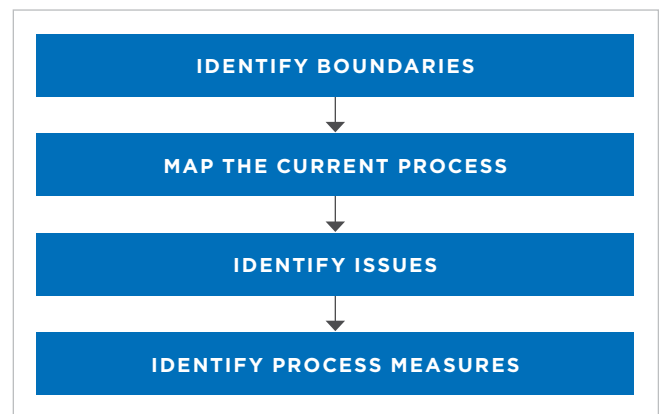
3. Identify Capabilities

When analysis of the "as-is" process is complete, the process team will look at other capabilities that need to be incorporated into a new process, based on a review of the organization's strategy and discussions with the process owner. The team should also identify opportunities and risk areas relative to the process, taking steps to leverage the opportunities and mitigate the risks.

The team should also consider available information technology (IT) capabilities. The IT team member (most process teams should have one) can provide this input, or the team can request input from the IT department on suitable technology.

The team may also consider other parts of the organization that have a similar process. It would be useful to review and understand how the process is performed in other areas. As well, there may be other organizations (either inside or outside your industry) that are known for doing a process well, which can serve as benchmarks. The goal is to learn as much as possible about different ways to perform your process so that the organization may be able to incorporate these ideas into its new design.

4. Develop and Implement the "To Be" Process

With a solid understanding of all aspects of the current process, the team now develops the "to be" process map. This requires thinking through how the new process should work in terms of both tasks ("how should it be done") and roles ("who should do what"). As the team reviews the process developed (Figure 10), they are checking that all issues have been addressed, capabilities identified have been incorporated, and measures of the new process have been identified.

After the "to be" process has been designed, the team identifies the specific process changes and develops a Transition plan to capture the key attributes of each change. This document will include a list of all the process changes and details for each change including:
1. A description and quantification of the impact of implementing the change.
2. The first three steps to implement the change (this helps the team think through how to start the implementation).
3. Assignment of team members to be responsible for managing the implementation of the change (usually two team members are attached to each process change so there is enough support to move forward).
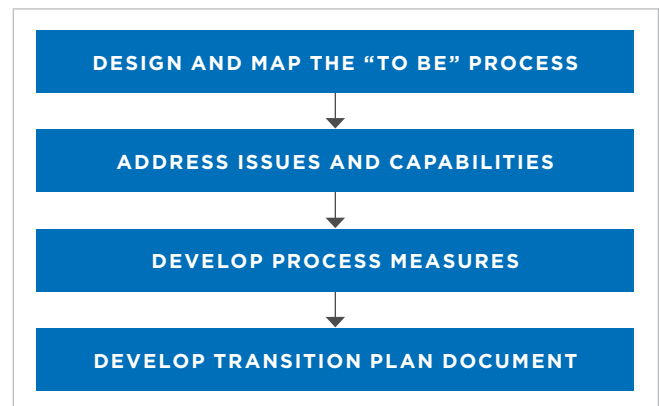
With the Transition plan complete, the team presents the changes to the process council and obtains agreement to move forward. It is expected there will be questions and clarification requested, but, if the team followed the standard improvement approach outlined, most issues should already have been considered.

With the process changes approved, the team begins the difficult task of managing the implementation of the process changes to achieve the future state. If the changes are complex or involve many groups, it may require a project plan that outlines the necessary steps and required resources. Managing process changes which are represented as individual projects increases the probability of successful implementation. Some process changes will not require much time or resources to implement, while others will be more challenging—taking three to six months of active management.

FIGURE 10: DESIGN AND IMPLEMENT THE "TO BE"

DESIGN AND MAP THE "TO BE" PROCESS

ADDRESS ISSUES AND CAPABILITIES

DEVELOP PROCESS MEASURES

DEVELOP TRANSITION PLAN DOCUMENT

It is critical that teams document the impact of all changes throughout implementation for comparison to the estimate that was developed earlier. Part of the impact will be the quantification of the change, so the teams can identify the costs savings or other improvement in process metrics. Proof that the approach is working helps justify continued investment in improving processes and moving the organization to become process-based.

As changes take hold, teams also update the process repository with updated process documentation. This repository may be documents held in a central location (usually maintained by the process office), and ideally it will be web-based so employees can access it from anywhere. Most importantly, the repository needs to be kept current so employees can rely on it.

5. Monitor Performance

As a new process is implemented, process teams and process owners begin to monitor performance to ensure what was anticipated is being achieved. The process measures are indicators of current performance: having current measures readily available allows the team to take action quickly before small issues become bigger problems.

As the process is now being managed on an ongoing basis, the process performers (those in the business who work with the process on a day-to-day basis) should have a process performance measure added to their incentive plans so they can be held accountable and rewarded accordingly for the ongoing performance of the process.

Outputs of Transition Phase

Key outputs of the Transition phase include:
- Documented end-to-end processes
- Current process metric
- Process improvement projects based on the key drivers of performance
- Measured impact of the improvements
- Updated performance plans based on the performance of end-to-end processes

Transition Phase is a Loop

The Transition phase lays out the steps a process team will follow to improve a process. However, there are multiple processes being managed as more process teams are launched. Each of them will follow the steps outlined in this phase.

As more and more processes are managed, integration and management across processes begins to become an issue. Just as functional organizations have functional silos, an organization managing individual processes runs the risk of creating process silos. It is during the next phase, Transformation, that an organization will need to start to manage across processes.

The process council will determine when it is time to move to the Transformation phase by assessing the organization's readiness. They consider the following questions:
- Is the management of individual processes starting to cause sub-optimization of other processes?
- Are cross-process issues surfacing?
- Are most steps in the Discovery, Foundation and Transition phases in place?
- Are enough processes being properly managed so the organization is ready to move forward?

PHASE 4 **Transformation**

DISCOVERY	FOUNDATION	TRANSITION	**TRANSFORMATION**
MANAGEMENT OF INDIVIDUAL PROCESS(ES)			PBM
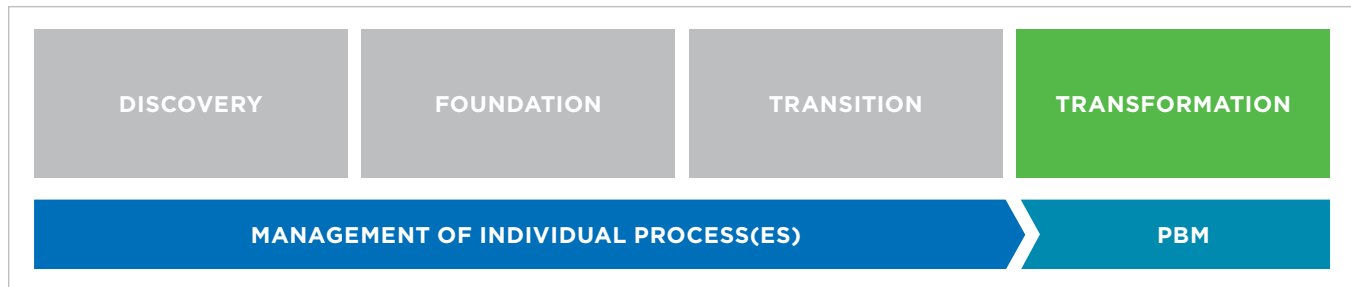
Organizations entering the Transformation phase of PBM do so with the explicit decision to adopt a process-based management approach. The Transformation phase provides the ability for an organization to progress from managing individual processes to optimizing across processes. The process-based approach begins to replace the traditional functional approach as the dominant management approach used by the organization.

In Transformation, the organization is "crossing the chasm" (*Crossing the Chasm* by Geoffrey Moore) to dramatically change the managerial mindset to a process-based one. There is a tremendous amount of effort and commitment required, so it is important that the organization is ready to make this move. Typically, an organization has only one shot at succeeding in the Transformation phase, so it is critical that process-based initiatives receive full support from both management and process performers. Transformation involves the following critical steps:

1. Create governance for cross-process integration.
2. Implement cross-process integration.
3. Align initiatives to PBM.
4. Assess cross-process performance.

1. Create Governance for Cross-Process Integration

The first step in the Transformation phase is to expand the roles of the governance structures to support the deployment of PBM across multiple processes. These governance roles were established in the Foundation phase and now need to evolve past their original intent.

The process council becomes more active by communicating and managing the deployment of PBM, reviewing and approving cross-process integration, and approving resources to support PBM and cross-process integration.

The process office is responsible for developing cross-process integration schemes to be used by process owners and teams, and designing the governance process to be used for managing and prioritizing cross-process integration.

Process owners, in conjunction with the process council, align PBM goals and objectives to all of the roles supporting PBM deployment (namely, the process council, process owners, process office, process team leaders). The performance plans of those in process leadership roles needs to be tied to the deployment of PBM to ensure its (ongoing) success. Incorporated in the performance plans are specific measures established to monitor the overall implementation of PBM.

2. Implement Cross-Process Integration

After a system for integrating across processes has been developed, it is time for process owners, process leaders and teams to identify key interface points between processes. These are identified through the review of process maps, and would be shown as an output of one process that is an input to another process. These interface points are used to develop new process metrics to manage and improve cross-process performance.

An important aspect in defining cross-process measures is the ongoing development of a process relationship map (Figure 7). The process relationship map defines the key processes being managed from the Transition phase, identifies any new processes identified by the process council for successful PBM deployment, shows how each process interfaces with another and with customers, and demonstrates key interface points.

With a process relationship map in hand, process owners and team leaders can analyze and assess which interface points are most critical and what cross-process measure would be appropriate to actively manage the performance of both impacted processes. For example, if the output of the "schedule to produce" process is a finished product which is then an input to the "order fulfillment" process, a cross-process measure could be the percent of orders not filled due to back orders.

3. Align Initiatives to PBM

As the organization moves into the Transformation phase, it is critical to show alignment of individual initiatives to the PBM strategy. All organizations have multiple initiatives underway at any point in time. Figure 11 shows that an emerging trend in management tools is the convergence of different types of initiatives that have a process component. In the Transition phase, the importance of managing processes was realized and the organization may have deployed various initiatives to improve their processes but each was separate and distinct, deployed independent of one another.

In the Transformation phase, the process council defines an integration strategy for all initiatives, built around a PBM vision.

FIGURE 11: CONVERGENCE OF INITIATIVES AROUND PBM
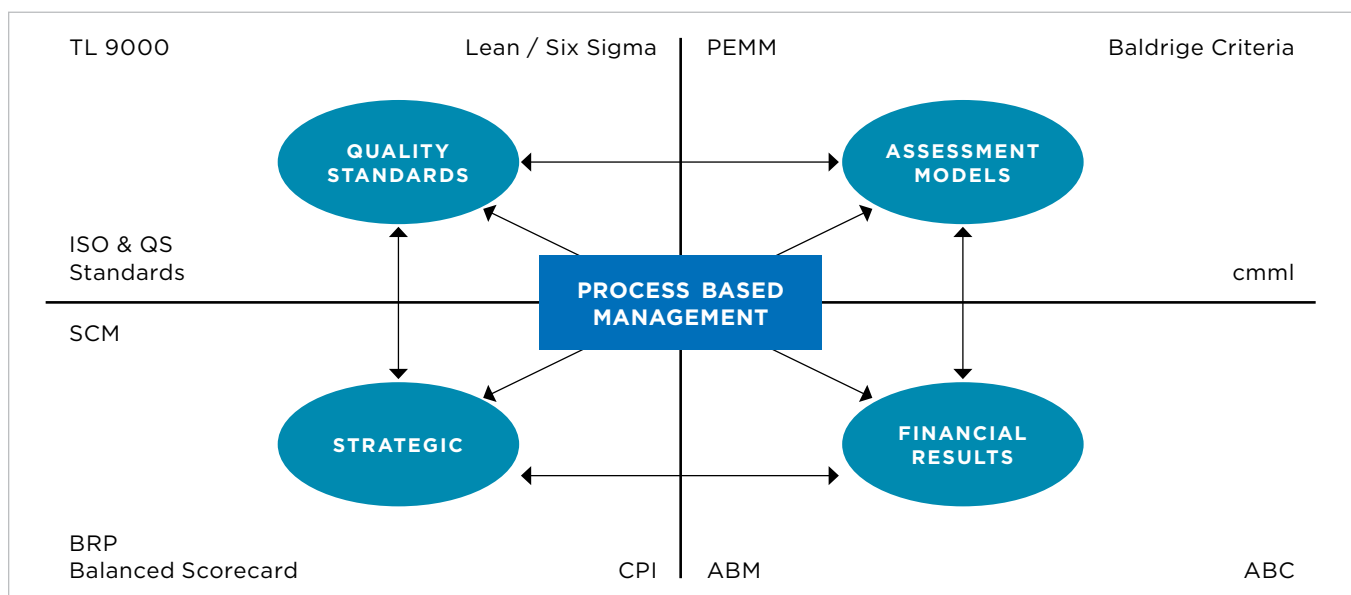
As the vision is further refined, the process office identifies leverage points across various initiatives and develops a plan for integration. To enable this integration, the organization must include PBM as part of its overall strategy. While this convergence is subtle to most, we view the use of PBM as the best way to integrate these various initiatives.

Many organizations view processes as separate and distinct, typically deployed independent of one another. However, this is beginning to change as management tools call for a more integrated approach:

- ISO 9000: 2000 standard has incorporated customer satisfaction, process understanding and an improvement/assessment approach.
- Baldrige criteria has moved toward "value creation" processes.
- Balanced Scorecard has one perspective focused entirely on processes.
- Six Sigma has come to the forefront as a way to improve process performance.
- Activity-based management (ABM) is integrating activity based costing with process understanding and improvement.
- Supply chain management (SCM) is seen as a critical process for organizations to manage.

4. Assess Cross-Process Performance

With cross-process measures in place, process owners will begin to actively manage overall performance across processes, which entails:

1. Aligning process measures to overall organizational strategy.
2. Integrating process capabilities between linked processes.
3. Establishing targets.
4. Identifying performance issues and developing process improvement plans.
5. Developing a method for analyzing and reporting cross-process performance.

Management of cross-process performance is key to a successful transformation to PBM. Leadership for PBM has specific, measurable objectives for driving PBM across the organization.

Key Outputs of Transformation

- Cross-process governance methods
- Cross-process integration plan
- Cross-process measures and targets

The journey for an organization to become process-based is a challenging one, which is why most organizations stop at the Transition phase. However, for those organizations that "cross the chasm," the rewards are substantial, including gaining a tremendous competitive advantage through increased customer loyalty because of consistent service; satisfied shareholders due to decreasing operating costs (the result of waste being removed from the organization); and engaged employees who do not need to have to "work around" a broken system to provide great service to external and internal customers.

In Summary

The term process-based management, as a concept, represents an operating philosophy that governs the mindset, decisions and actions of an entire organization. All organizations have an opportunity to leverage such a philosophy in their organizations to effectively optimize all day-to-day processes to derive unprecedented customer value.

PBM has applications in all sectors (i.e., private, public, not-for-profit, and government) and at all levels of the organization and across all departments.

Professional accountants in business by their very nature can leverage their know-how and expertise in guiding organizations towards implementing such a unique customer-centric and competitive strategy. The ability of PBM to drive alignment and focus across an organization demonstrates how powerful a tool it can be (if implemented correctly).

This facilitates the ability for an organization to maintain and sustain itself as a resilient, adaptive, innovative and sustainable enterprise (per the RAISE philosophy) in competitive marketplaces. Ultimately these drivers will aid both professional accountants and organizations in ensuring successful adoption while equipping themselves to engage in the Canadian ideal of good business.

Additional Sources of Information
www.ProcessStrategyGroup.com/Quick_Assessment.html

About the Author
Pat Dowdle and **Jerry Stevens** are process strategists with Process Strategy Group, where they help organizations advance toward becoming Process-Based organizations. Prior to forming Process Strategy Group in 2008, they were the program directors of the CAM-I PBM program, which conducted leading-edge research in the management approach of PBM. As part of that research, they co-authored *Implementing Process-Based Management in Organizations* (published by CPA Canada in 2009) and *Process-Based Management — A Foundation for Business Excellence* (2007). They have written numerous articles and are frequent presenters at conferences (see www.processstrategygroup.com for more information and access to a free quick assessment).

CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANAD

This publication is one in a series on *Process Based Management*. The entire series of **overview**, **guideline, case study 1** and **case study 2** are available on our **website**. For additional information or for general inquiries, please contact us at **mags@cpacanada.ca**.

DISCLAIMER
The material contained in this management accounting guideline series is designed to provide illustrative information of the subject matter covered. It does not establish standards or preferred practices. This material has not been considered or acted upon by any senior or technical committees or the board of directors of CPA Canada and does not represent an official opinion or position of CPA Canada.