

Shooting the Gap in Gap Analysis: The Softer Side of Business Process Improvement

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Have you ever noticed how consultants can overcomplicate things?

With the recent focus on IT as a driver of competitive advantage, much has been written about Business Process Improvement (BPI). And the theory among BPI consultants is that any business process worth doing is worth doing “world class” – and very often that means benchmarking your processes against your industry’s leaders before automating them.

The reasoning is straightforward enough: Since most world-class companies are paragons of efficiency, it makes sense to model their processes and the relevant technologies. Naturally, when inter-company processes are benchmarked, gaps result between the processes of the benchmarking company and those of the company being benchmarked. When this happens, business processes must be “reengineered” to close

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the gap – hence the term “gap analysis”. Enter the consultant to facilitate this process.

Imitation, while a great form of flattery, is a lousy form of strategy. Which begs the question: Is benchmarking a good idea? That depends.

Technology can improve business processes by:

1. Improving the quality of the process
2. Reducing cycle times by automating processes, and
3. Eliminating the errors associated with manual labor

But the risks of mixing technology and business processes include automating a bad process or investing too heavily in technology to automate what is already an efficient process.

In the last issue of JDETips, I argued that businesses are made up of people and processes, and that assets merely facilitate their value-creating interaction. If you buy this, then you also buy my belief that there are no “bad” people to blame when operating results are bad, but only a bad people / process fit.

According to consultant Bradford Smart, nobody is a “C player” all of the time. People are C players when they are mishired, mispromoted, or misdeployed within their company. The best organizations ask the question “what role can this person become an A player?”

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The trick is to align the individual’s responsibilities with their strengths and weaknesses.

Still, the benchmarking issue brings with it a chicken-and-egg dilemma: In the event of a poor person / process fit, should you bend the person to the process, or bend the process to the person? The answer is: Whatever makes you more competitive, benchmarks be damned.

The Basics of BPI

To understand BPI, it pays to understand that any value chain is only as productive as its slowest component or process.

In Table 1, you can see that the slowest component is Process C, with an output of 5 units per hour. That means that the output of the entire chain can be no greater than 5 units per hour.

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Adding another machine at Process C will increase the chain's capacity to just 6 units per hour, which is the capacity of Process B. Once the capacity of Process B is increased, Process A becomes the bottleneck. And so on. One way to smooth the production line is to increase the capacity of each machine to that of the lowest common denominator of 5, 6, 8, and 9. But then you'd have to find buyers for 360 units per hour. More on this later.

Bottlenecks are the least tolerable at Process C, where a decrease of just 1 unit per hour decreases the output of the entire chain by 20%. Buffer stocks in front of Process C would minimize the chain's downtime in the event that Process C crashes, but are there other ways to deal with this situation?

Among other things, we could produce at a rate of 5 units per hour and forego additional sales. Or we could determine what the market demand is for finished goods and "private label" our

production shortfall from other manufacturers. Perhaps we could outsource Process C (and Process B, for that matter). Or maybe we could simply try to "improve" Process C such that we increase its output to at least 6 units per hour. Whatever makes us more competitive is the essence of what BPI is all about: Diagnosing and fixing the supply chain's weakest link.

Hi-ROIC efforts

Three things that make the above example so simplistic is that it fails to factor in the core competencies of the manufacturer, the values of the assets involved, and the strategic value of the Processes.

Consider Table 2, in which two Processes (A & C) are deemed to be proprietary. Because they are strategically sensitive, we should not outsource them. Furthermore, their proprietary nature calls into question our ability to equitably private label our production shortfalls. Now what?

From a back-of-the-envelope financial standpoint, we might be well advised to outsource Processes B & D, and use the proceeds of the sale of the related assets to double our capacity at Process C. At least this way we can sell 8 units per hour by using \$2900 worth of assets. Before, we could only sell 5 units per hour on \$3700 worth of assets. Even after absorbing the costs of outsourcing Processes B & D, the new higher output on lower costs should significantly increase our Return on Invested Capital (ROIC). Isn't that what capitalism is all about?

Yet while you can buy workflow optimization software that will tell you what the most practical way to manage your supply chain, none of my analysis takes into consideration the firm's people. Only smart, flexible, motivated, cross-trained labor can give the firm's management an opportunity to make decisions based on what matters the most to Wall Street: the numbers. But it's never that simple.

Table 1

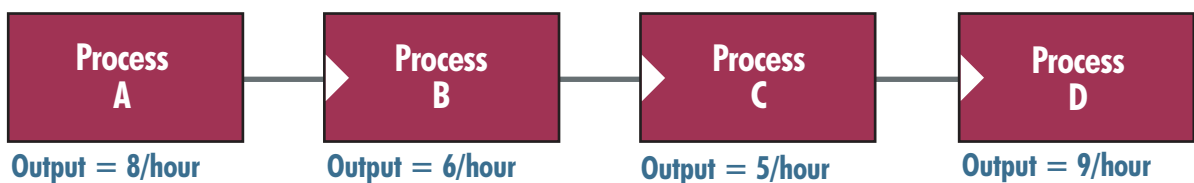
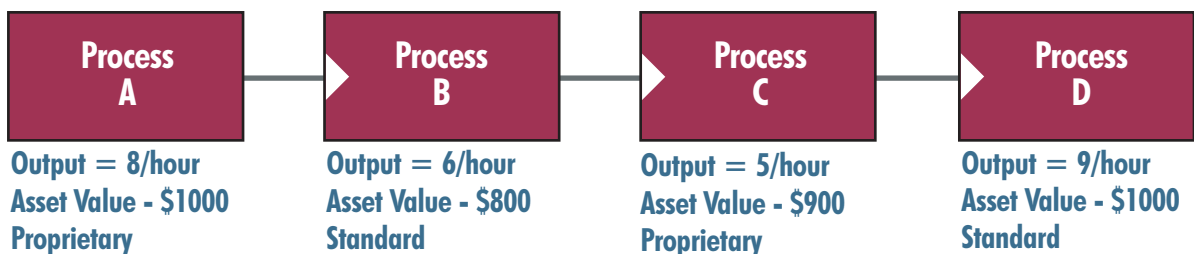


Table 2



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According to the Delphi Group, of the roughly 200 companies polled for its 2002 BPI survey, half of the respondents expected to spend between \$100-500 thousand on BPI software during the next three years. But consider this: If a company spends \$500,000 to optimize its business processes, all they will have gained is capacity. To monetize that capacity, they must either 1.) Grow sales, 2.) Reduce expenses, or 3.) Sell off idle assets. Number 2 is the road most traveled by businesses, and that usually spells layoffs – unless management believes that the firm is running lean already.

People vs. Processes

Clearly it's a relatively simple matter to optimize a process. It's harder to optimize a team of people. To the extent that he can control the HR side of this issue, the CIO will need to handle his BPI programs in three separate ways: 1.) Screening & Hiring good people, 2.) Managing & Motivating good people, and 3.) Outsourcing to good people. The last item appears to be the future of BPI.

Screening & Hiring good people

Going back to the example in Table 2, what happened to the workers who performed Processes B & D? Did we fire them? Maybe, but more likely is that we retrained them to perform Processes A or C, or we might have redeployed them elsewhere in the company (say, logistics, warehousing, or in some other semi-skilled capacity). That is, IF we were smart enough to hire smart, flexible, motivated people and then cross-trained them in other areas of the company before we needed to re-deploy them.

Realize that flexibility is an attitude. In addition to technical competence, the behavior you need is versatility. In baseball parlance, you need an all-star center fielder who can play other positions when asked. This type of versatility keeps overhead low, improves company stability, and increases product and service quality.

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Wherever possible, the CIO should screen for people who have a demonstrated ability to think on their feet, set priorities, take initiative, motivate others, and solve difficult problems with simple solutions. Hire people who can operate to the spirit of the law (and not the letter) when it's in the cus-

tomers' best interest. There are many excellent books on hiring winners, the best of which is "Top Grading" by Mr. Smart. An excellent taste of Mr. Smart's meritocratic ideas can be seen at:

<http://www.ghsmart.com/docs/Topgrading.pdf>

Managing & Motivating good people

Machines don't have bad attitudes. They don't require motivating, they don't sexually harass each other, and they don't fear what they don't understand. Yet there's more to your business than its assets. In business, like the Indy 500, everyone has pretty much the same machines, but if you have great people, then great things happen.

Likewise, the success of your business is tied to your ability to manage and motivate those around you. You do not want to "optimize" your processes in a way that unreasonably chafes your line workers. As ever, be hard on the issues and soft on the people. See last month's CIO Strategy Corner at:

<http://www.reliablegrowth.com/articles.html>.

Outsourcing to good people

Whether or not to outsource some or all of a process depends on how it can create the most value for your company. Ultimately, this involves separating your core competencies from all the other things you do. To determine if something is core to your business, ask three questions of each function:

- If we were starting this business today, would we create this function internally?
- Are we so good at this function that other people would hire us to do it?

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- Is this function an essential skill set for future leaders of the company?

If you can answer “yes” to all three things, then **do not** outsource the capability. Next, the cost of providing the service should also be taken into consideration. Does it make economic sense to outsource the function? Do the math before immersing yourself in the people issues. Let common sense prevail.

How to manage the relationships

According to outsourcing expert Michael Corbet, it takes a different skill-set and mentality to manage an outsource vendor than it does to maintain the function in-house. You need people who are part diplomat, part salesman, and part technician. Before you finalize the contract, you must identify your A player(s) who are capable of leading a win/win partnership that holistically integrates with the rest of your business.

As a rule, it's much easier to outsource “intellectually routine” processes than it is those that involve a high-degree of specialization. The greater the brain-power and creativity required of the process and the partnership, the higher the skill level needs to be for the person managing the relationship. Essentially, it all boils down to talent, which is why it pays to hire A players in the first place.

How to handle displaced employees

People's jobs are affected by outsourcing, and that scares them. Measure twice, cut once. Prior to making a BPI-related decision to outsource, ask:


- Whose jobs will be affected?
- What kind of alternative opportunities can we offer them?
- If no alternative opportunities exist, what can we offer them as severance?
- How will we make the announcement?
- How will we make the transition?

How to manage attitudes

Regardless of the facts at hand, senior managers often hold a negative view of outsourcing, especially if their area is under consideration. Depersonalize the issue by asking “What's the most economical way for us to perform this function?” Stress that outsourcing will allow those involved to concentrate on higher value-added activities, and align your reward systems with the behaviors that you want to drive through outsourcing. People always follow the money.

Last but not least, involve your managers in the vendor selection process. If your tactics are sound from the start, your people will have a tougher time subverting the process later. Giving them a voice in the decision making process will give them ownership in the BPI outcome. Communication is key to employee buy-in, which is the key to your BPI success. As ever, be hard on the issues and soft on the people.

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