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BUSINESS PROCESS TRENDS

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BPM vs. Process Improvement

BPTrends has consistently argued that any large company needs a wide variety of different tools and methodologies to deal with its business processes. There is a role for Lean and Six Sigma, just as there is a role for frameworks like SCOR and eTOM, for performance scorecards, for process redesign methodologies and for ERP and BPMS applications. Each has its place. Sophisticated organizations coordinate their various process resources to assure that they work together for maximum effect.

Many organizations think they need to choose between a BPM approach and a Lean Six Sigma program. That, in our opinion, is a false and pernicious choice.

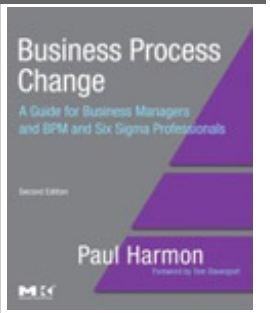
There are those who think that a Lean Six Sigma program is all a company needs. In part, of course, it depends on how you define Lean Six Sigma. Some Lean Six Sigma groups are much more flexible and comprehensive than others. We suppose that you could define Lean Six Sigma very broadly and include BPM within it, but that would be a very unusual Lean Six Sigma program. Many organizations evaluate and or/compensate Lean Six Sigma consultants and managers on the basis of the money they save the organization. Using a common Lean Six Sigma calculation, it is assumed that each Lean Six Sigma project will save money and thus, the more projects undertaken, the more money saved.

Don't get me wrong - I'm certainly not against saving money. Nor am I against continuous process improvement. In an ideal company, the managers and the employees that implement processes should always be looking for ways to improve their work. There is, however, a very significant problem with approaching process change as if it only involved process improvement and incremental cost savings. This approach loses sight of the big picture.

Six Sigma originated at Motorola in the Eighties and has been extensively applied there ever since. Each year the Motorola Six Sigma group reported additional savings. You might think that after 20 years of Six Sigma that Motorola would be the most efficient company in the world. In the past decade, however, Motorola's performance has been very uneven. A few years ago it was in very bad financial shape, and continues to have difficulty, even today. If one really believed that the only approach to improved performance was continuous process improvement, these results would be hard to explain.

The fact is that process change takes place on many levels. Sometimes an organization needs to step back and reconsider how its doing business. It needs to change its business model, create new products or adopt new ways of doing things. At other times, it finds a process that has been working well is now out of date and needs to be significantly redesigned. Anyone watching the business scene today knows that most companies are trying to figure out the best balance between doing things internally and outsourcing. The new business process models being created require entirely new ways of thinking about processes and process management.

In a survey undertaken by IBM in 2006, 765 CEO's from 20 industries were asked to suggest where their growth was coming from. The results are dramatic: They consistently claimed that they were getting growth from discontinuous business model innovations, and not from the more mundane improvements they were



making in operations or in products and services. (See Figure 1)

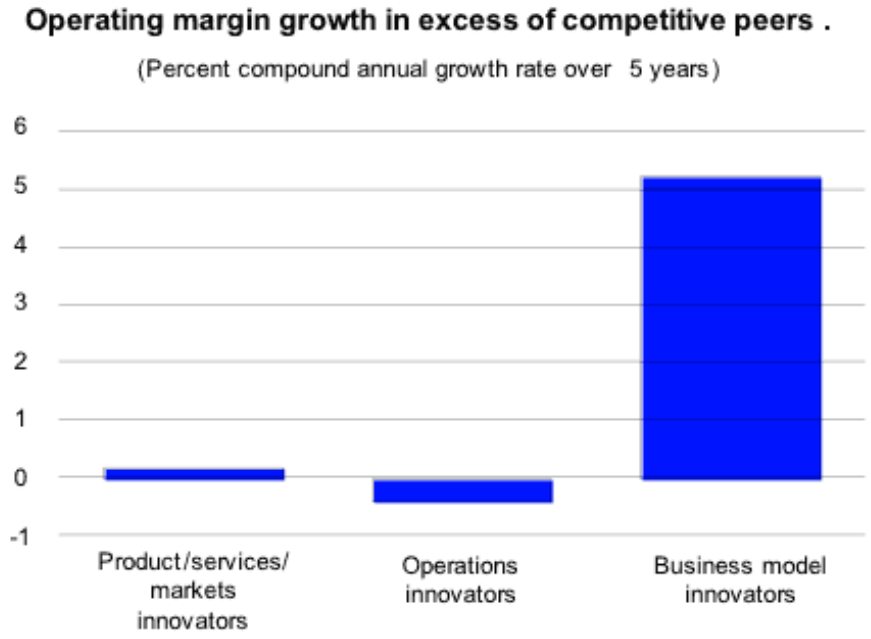


Figure 1. Where CEO's Report Their Organizations Are Getting Growth.

I suspect that if we asked the new CEO of Motorola, he'd say the same. It wouldn't be that he didn't value Motorola's process improvement efforts, but process improvement only helps if the overall process is right in the first place. Making a bad process more efficient doesn't help anyone. In fact, it causes harm, since you are wasting money improving a process that isn't doing what it should do in the first place.

Consider this from a slightly different perspective: most process redesign consultants report that the main challenges they face occur when one process hands off to another. (See Figure 2.) To identify this type of problem, the organization needs a BPM group that looks at value chains and large scale processes and examines where critical problems occur. Without a broad overview, you risk focusing on processes whose improvement will actually make the value chain less efficient. This problem is usually termed "sub-optimization." Consider Figure 2. Assume a Six Sigma team decides to improve a process within the manufacturing organization (a sub-process of Make). With the best of intentions the team sets out and examines the sub-process and decides that requiring a certain report distracts from getting the work done. To improve the sub-process, they eliminate the report. The sub-process is improved and the team reports a significant savings in the Make sub-process! Unfortunately, the report is a key input to a sub-process in Sell. Suddenly, even as the Six Sigma team is celebrating its success in improving the Make sub-process, people working on a sub-process in Sell are finding that their work is taking longer and yielding worse results. Making the Make sub-process more efficient was achieved at the expense of the overall value chain. The Six Sigma team has unwittingly sub-optimized the organization's overall performance.

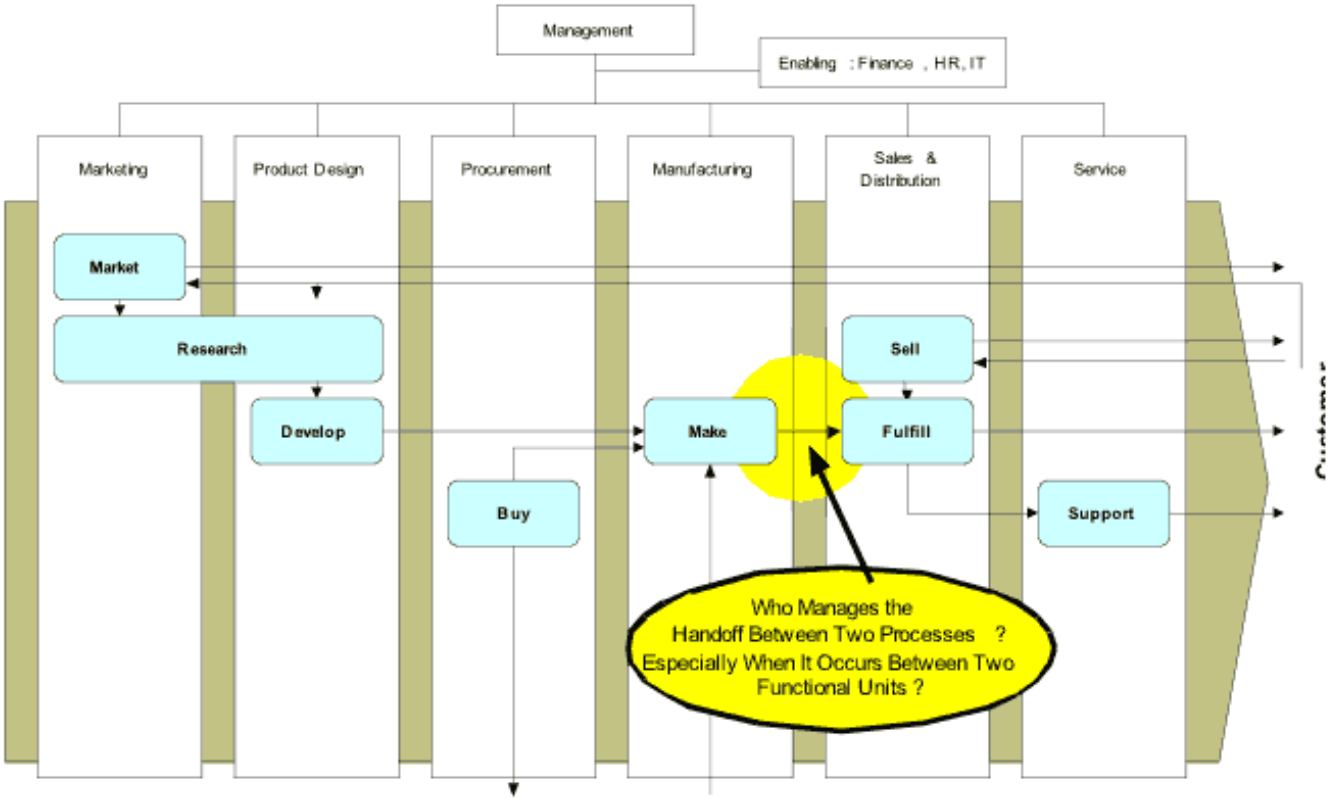


Figure 2. Major process redesign problems occur when smaller processes hand off to each other.

In a few cases, companies have launched Six Sigma and found a year or so later that they have made things much worse. In effect, they have engaged in massive sub-optimization where several different Six Sigma teams each report huge savings while the overall corporate performance keeps getting worse.

So far I haven't even considered the automation of processes. In most cases the Six Sigma people who focus on continuous process improvement do not focus on the possibilities of automation. In too many companies the two groups seem to compete with each other. In the worst case I know of, a Six Sigma team spent 6 months improving a process that an IT team was automating. At the end of the effort, the Six Sigma team claimed a significant savings and the IT team rolled out an application that replaced all the people that the Six Sigma team had been working with! Of course this isn't really the fault of the Six Sigma team any more than it is the fault of the IT team. In this case the problem lies with management - no one had an overview of the company's processes and no one was coordinating the company's process change efforts.

Business Process Management (BPM) is popular today because organizations realize that they can't continue to allow diverse groups to compete with each other and approach process change in different ways without some kind of coordination. There may not be any one right way of achieving process change, but having competing groups that don't coordinate their efforts is certainly the wrong approach. At heart, BPM is about establishing an overview, conceptualizing all the processes in an organization as a whole, and then developing a systematic approach to improving the performance of the organization. It involves prioritizing and coordinating. It involves using the right tool for the right job and managing process lifecycles. Every large process-focused organization will have one or two major process change efforts underway - efforts in which the organization's business model is changing - in conjunction, perhaps, with an outsourcing initiative

or a global supply chain coordination effort. In these cases major processes are being reconsidered from scratch. Most will have other processes that require major redesign efforts, often involving automation. At the same time, most organizations will have processes that are mature. In these cases the focus should be on increasing performance while reducing costs.

The primary criterion for the head of an organization's BPM group ought to be corporate success. Sometimes that will involve growth and sometimes it will involve making existing processes more efficient. More important, the head of the BPM group should be focused on the value chains and major processes. It is the health of the value chains that generates profits and secures a company's competitive position. The BPM group should begin by focusing on products, customer satisfaction and quality. After the value chains and the major processes are optimized then it is appropriate to try to figure out how to do the same thing for less money.

Trying to choose between BPM and a Lean Six Sigma program is like trying to choose between corporate management and the sales organization. You need both. Moreover, the former needs to manage and coordinate the sales organization's efforts to assure they are aligned with the organization's corporate goals as well as with other departments within the organization.

Lean and Six Sigma were great ideas in the Eighties. They are still important tools that every large company should be using to improve organizational performance. But they are just tools and no more important than automation efforts or major process redesign efforts. Today's company requires a coordinated, managed approach to business process change - an approach that can coordinate the use of all its tools and techniques to assure the success of the organization as a whole. That's what the best BPM programs are about.

Till next time,

Paul Harmon

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