Improving Business Performance

by Andrew Spanyi

Introduction

"*It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change*" — Charles Darwin

The pressure on management to improve business performance is greater than ever. Increasing competition, escalating customer power, and rapid advances in technology have combined to demand a new and more adaptive approach to managing the business.

In spite of the significant advances in methods to improve business performance such as total quality management, six sigma, lean, business process reengineering, as well as technology enabled methods such as enterprise resource planning (ERP), CRM, Saas, and the Cloud, etc. – many organizations continue to struggle with the new normal.

A traditional functional view of the business is at the core of the obstacles in improving business performance. Arguably reinforced by the impact of the 2008 financial crisis, many organizations continue to view their business primarily in a functional context. Most companies develop plans, budgets and even reward systems in a functional or departmental context. Few companies have a schematic that defines the flow of large, cross-functional activities that create value for customers. Instead, the only schematic that such organizations have of the enterprise is an organization chart – and if that is the only picture of the business they have – then the organization structure, will likely dominate management thinking.

Customers don't care about how an organization is structured. They only care about what they receive – value for money, flawless delivery of products and services and responsiveness. This is something that executives should understand, as they are customers too. Yet, few traditional companies measure what matters to customers. They persist in myopically measuring the traditional financial metrics such as revenues, margins, profits, and cash flow and dedicate little emphasis on the set of critical to customer metrics.

The traditional functional view of the business and myopic measurement practices reinforce viewing the business from the inside-out as opposed to the outside-in – or the customer's perspective. Accordingly,

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executives often see the business through "thick and distorting lenses," as Drucker noted over five decades ago, and they don't understand, at the right level of detail, how their businesses get products and services developed, made, sold, and delivered. To compound the challenge, information systems are often just as siloed as departments, making it difficult to get needed performance data. Legacy systems developed solely from a departmental perspective and a proliferation of systems, applications, and databases, along with the batch processing needed to synchronize and move data between these multiple databases contributes to an increasingly complex IT environment. This is problematic as it is virtually inconceivable that an organization can execute and sustain significant improvements to business performance without enabling IT systems.

Organizations intent on improving business performance need to address the issues of a traditional functional view, myopic measurement practices and a complex IT environment head on. This Report proposes that a customer centric, process based view of business is one of the few remaining sources of competitive advantage and the following key management practices can be instrumental in this regards:

* Articulate strategy via key value streams or end-to-end processes
* Take action to improve business performance based on key opportunities
* Integrate and embed a systemic view of the business through focus, alignment and discipline

Selected key concepts are then illustrated via a case study.

Strategic Alignment

It is better to do the right thing wrong that the wrong thing right; the former leads to learning; the latter to reinforcement of error. – Russell L. Ackoff

Strategic alignment involves articulating strategic objectives in the context of value creating business processes. The key question to be asked and answered is "What scope of business performance improvement will be needed in each major end-to-end process for us to succeed in achieving our strategic objectives?" Asking and answering this question leads to making tough choices on where to focus business improvement efforts for optimal results in value creation.

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Assuming that the dialogue on a systemic view of the business has at least began a shift of attention towards value creating business processes, the need for cross departmental collaboration and focus on the critical few metrics that matter to customers; there are three pre-requisites needed to answer the above question:

- Clarity on the organization's strategic objectives
- An estimate of current performance for each key value stream
- The appetite to express strategy in a business process context

The following questions can be asked and answered to test the degree of clarity on the firm's strategic objectives:

- Has the organization developed a business strategy which describes the products and services it will offer, the markets it will serve, and the financial results it plans to achieve?

- Do the members of the top team have a shared understanding of strategic direction?

- Has the top team identified the critical few strategic objectives that must be attained if the strategy is to be successfully implemented?

An organization can clarify strategy in a business process context by estimating the size of the gap between current and desired performance and then developing a performance improvement plan that summarizes which business processes need to improved, by how much, and by when, in order to achieve the firm's strategic objectives.

While the task of estimating the size of the gap between current and required performance for critical processes can be as much art as science, as this example illustrates, it can sometimes lead to greater clarity on what is needed to achieve strategic objectives. While the strategic themes of growth and customer satisfaction are important to many organizations, the specific processes that need to be improved or redesigned will vary and may be unique to each company.

The following key success factors are essential in strategic alignment:

* Customer focus. Sustain the emphasis on measuring the quality and timeliness factors that matter most to customers.
* Fact based. Estimates of actual performance are a needed input into the discussion of the gap between

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actual and required performance.

* Critical few. Articulating strategic objectives in the context of value creating business processes needs to focus on the critical few areas for significant improvement. This requires decisions and tradeoffs on where to deploy limited resources.
* Clear accountability. Members of the SLT need to be designated with accountability for significant improvements.

Some of the pitfalls to avoid in taking strategic alignment include:

* Too slow. Momentum may be lost when it takes too long to gather estimates of actual performance.
* Too many. Focus on the critical few areas for significant improvement is needed. The likelihood for failure increases when too many candidates for significant change are identified.
* Lack of collaboration. Cross departmental collaboration is typically needed to significantly improve critical business processes.
* Lack of realism. Attention to the organization's capacity for change can lead to launching too many initiatives.

The combination of shifting management attention to value creating activities and aligning improvement efforts with strategy sets the stage for taking action to improve business performance.

Taking Action to Improve Performance

Regardless of the specific improvement method that an organization elects to deploy, the practices of business performance improvement essentially break down into three core activities: getting ready, taking action, and sustaining gains. In getting ready, it's vital to create and communicate a compelling case for change and orchestrate the deep commitment of people at various levels and in various departments such that action can be taken. Estimating the size of the gap between current and desired performance provides the raw material for crafting a compelling case for change, but that information needs to be shaped to provide both logical and emotional reasons for people to be wholeheartedly committed to a common course of action.

In taking action, an integrated method of improvement produces early wins to maintain momentum, and assures a tight linkage to IT. To sustain gains, discipline is needed in installing the appropriate measures of business

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performance, the infrastructure to institutionalize new behaviors and clear accountability for continuous improvement.

Creating a compelling case for change is the foundational first step in business performance improvement. A compelling case for change is typically built on either an imminent threat or a perceived major opportunity. Common themes sometimes emphasize that we must join forces and change how we do things to survive, or we must join forces and change how we do things in order to prosper. In some instances, there is a real threat, such as loss of market share or shrinking margins, in others a story is woven to create the needed sense of urgency. Such themes become clear in strategic alignment. In this respect, the themes that motivate employees to act are often markedly different from those that resonate with the members of the senior leadership team. Themes such as growth, profit, and competitive advantage are likely to capture the attention of executives, while other themes such as customer satisfaction and pride in their work may do more to engage employees in the case for change. What's important is that the three core activities: getting ready, taking action, and sustaining gains – must first be led before being managed.

A Regional Insurance Company's (RIC) Experience

The Chief Administrative Office (CAO) at a regional insurance company (RIC) believed in taking a customer centric process based view of the business. The company believed it had a solid strategy with a focus on growth and profitability. It then resolved to align its strategy with a process based view and began by defining the core value creating business processes. These are illustrated in Table 1.

Core Processes	**Supporting Processes**
Product Idea to Launch	Recruiting
Inquiry to Quote	Financial Reporting
Quote to Policy	Training
Policy Management	Information Technology
Loss to Final Resolution	

Table 1: Key Value Streams

When RIC attempted to identify the gap between current and desired performance, it found that most of the emphasis had been placed on metrics that mattered to the company and there was not too much data on the measures that mattered most to customers. There measures are depicted in Table 2.

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Process	What Matters to the Company	What Matters to Customers
Product Idea to Launch	Cost (actual to budget) and cycle time	Variance to Promised Date
Inquiry to Quote	Volume and Win %	Ease of use
Quote to Policy	Revenue	Prompt, Complete
Policy Management	Cost	Prompt, First time right
Inquiry to Resolution	Average time to handle	% resolved first time right
Loss to Final Resolution	Cost	Prompt, First time right

Table 2: Estimating Performance

RIC decided to use random samples, to estimate current performance and provide the top team with data so that the gap between current performance and the level of performance based on strategic factors could be estimated. This analysis revealed that the two top areas that required attention were:

- The Recruitment and On-boarding process
- The product enhancement process

The Chief Administration Officer (CAO) had the responsibility to significantly improve the Recruitment and On-boarding process. The current performance for the time needed to recruit and on-board new agents had been estimated at an average of 44 days and the top team had determined that a 50% improvement was needed in order to achieve regional expansion objectives. The impact on growth was clear, since the organization recruited over 200 agents per month to backfill churn and provide coverage in new territories. The CAO crafted a compelling case for change by emphasizing that "we need to work together to provide new agents with the prompt on-boarding they deserve" and thereby provided a message that motivated middle managers from Sales Management, Human Resources, Legal, and Marketing to collaborate and significantly reduce the time from new agent identification to agent on-boarding. By eliminating non-value added work and establishing cross-department service level agreements, within 60 days the cycle time for the Recruitment and On-boarding process was reduced to 26 days – an over 40% improvement.

As the thrust of RIC's strategy revolved around growth and customer satisfaction, both expansion into new states and a fine-tuning the company's offerings in all states were instrumental in achieving targeted growth levels. Expansion into new states involved both registering insurance products with state regulators and building sales distribution via a network of independent agents. As RIC planned to operate in over 30 states, each of which had unique registration requirements, a massive automation project was launches to streamline the product revision and registration process. In addition to these two efforts, improvement in responding to

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customers' inquiries and settling claims were identified also as being instrumental in achieving the strategic objective of customer satisfaction.

RIC also emphasized the development of a governance structure that had elements of both functional and value stream accountability to provide a new framework for the oversight of strategy execution. This served to assure that the actions needed to significantly improve business performance would be supported by the top team. Also, to deeply embed new business practices, an ongoing focus on the metrics critical to customer and the cross-functional flows of activity which create value were linked to the top team's scorecard.

The one area where RIC might have made more progress was to invest more heavily in a targeted sales training program. Independent sales agent productivity was low and churn was high. Had RIC invested more in equipping the independent sales agents with the skills needed for sales success, there would have been a fairly high ROI in terms of incremental sales growth and reduced agent turnover.

Andrew Spanyi is the founder and Managing Director of Spanyi International Inc. He is the author of several books; including, *More for Less: The Power of Process Management*, *Operational Leadership*, and *Business Process Management is a Team Sport: Play It to Win!* His work on process management is recognized internationally and he is a sought after keynote speaker. He has taught MBA and executive education courses at Babson College and has written extensively on business process issues and has had articles appear in a broad range of print and electronic media.

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