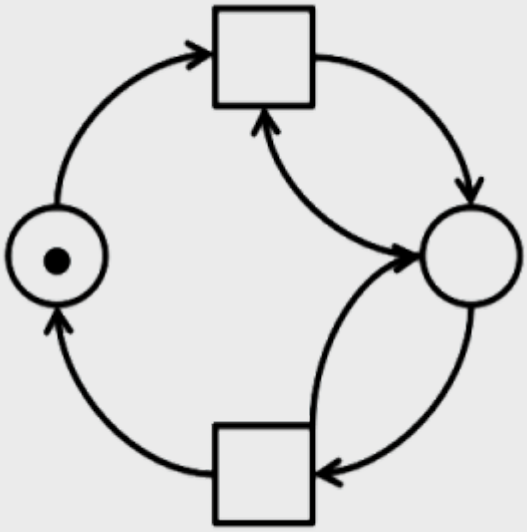
Why Business Processes Matter More Than Ever by Preben Ormen, 2017



I have been working in and around business processes for all of my professional life. To this day I continue to be struck by how important business processes are to everything we do.

What is even more striking, though, is the present, relatively low-level of attention given to processes by most organizations. To be sure, there are many so-called process improvement projects on the go out there, but it is certainly not receiving much public attention compared to the media circus around process re-engineering we saw in the nineteen nineties.

What happened? Business processes certainly didn't decrease in importance; in fact, I will argue that they are more important now than ever before.

My personal opinion is that we ran up against a constraint; a constraint I will argue is about to be blown away with far-reaching consequences.

Let me explain.

First let's agree a definition of process

We the people have known about processes for a very long time. The word has been in use for centuries so the concept is far from new.

While different people may describe or define a process differently, I have adopted a very simple definition:

“A process is a related group of activities that together produce the experience desired by the customer.”

I like this definition because it is loose enough to cover the necessary conceptual territory, because it puts the focus squarely on the customer and because it avoids being over-specific about things that in the end may not matter.

Realize that the “customer” in this context is not solely the end-customer who buys a product or service. From a process perspective, it is usually more helpful to consider that “the next process is the customer”.

As an aside, the definition of a process is very close to that of a project. E.g.,:

“A project is a temporary organization and process set up to achieve a specified goal under the constraints of time, budget and other resources.”

Were we to take out the word “temporary,” we would have something we could use to define a process. The inclusion of constraints is interesting, but I find the detail too limiting for a process definition. We need to understand and consider far more constraints than time, budget and “other resources,” whatever they may be.

A short history review to gain perspective

I will talk about three waves of development relevant to our understanding of and appreciation for this thing we call “process.”

1. The impact of the Second World War (WWII)
2. The legacy of the business process re-engineering phenomenon
3. The manifestation of automation

The impact of the Second World War (WWII)

WWII was in many respects as much a manufacturing war as it was a shooting war. The conflict quickly escalated to the point where such massive volumes of war materiel of all kinds were required that the current manufacturing operations simply could not cope.

Given the extreme time pressure to get results, just adding factories would not work because it would take too long, and besides, there weren’t enough available labour to do the work.

Something else had to be done, which is where Walter Shewhart and a host of others became engaged. Their work focused on the manufacturing operations; i.e., the manufacturing processes and resulted in dramatic improvements plus a new methodology called “statistical process control.”

Many have argued that the real reason the Allies won the war was the eventual superiority in manufacturing capability to maintain a steady supply of steadily improving war materiel.

Now, after the war, USA emerged as the occupier of Japan and initiated a massive rebuilding program of the country's industry. And along came the statisticians who had wrought the manufacturing miracle in the US. One of them was W. Edwards Deming who went on to earn cult status in Japan before being re-discovered in the West in the late nineteen eighties.

All of the lessons in manufacturing process improvement from the war years were put to use and refined and reshaped and evolved inside the emerging Japanese manufacturing organizations.

And so it came to pass that from the rubble of a defeated and war-torn country, arose a true economic giant with a prowess for producing goods of an unsurpassed quality and reliability at hyper-competitive prices.

The current poster-child for all this work is the Toyota Production System, which has been the subject of endless study and emulation around the world.

My point here is to impress upon you that we know a phenomenal amount about how to make manufacturing processes hyper-efficient. I also want you to notice that not a word was said about services.

Hold that thought.

The legacy of the business process re-engineering phenomenon

The manufacturing revolution swept the world in the nineteen eighties and nineties; and the evolution continues.

When it became clear that a focus on process could have such dramatic results, it was not long before the thinking jumped the factory fence so to speak and snuck into other areas of the organization.

The concepts from the manufacturing floor were now being applied to processes that did not take place in assembly lines. Many of the processes did not involve manufactured products at all, but rather concerned services like insurance and banking, supply chain and back-office administration processes.

This was fertile ground for improvements and the trend became known most famously as "Business Process Re-Engineering."

As in the manufacturing sector, the process improvements in service, back-office or administrative processes were frequently spectacular. Strangely enough, the movement died out and very little remains of it.

So what happened?

First, no process is truly static. In the West, we have a well-developed machine metaphor for our organizations: Build it, turn it on and run it. If it's not broken, don't touch it.

This means that we don't typically manage to build adaptive processes; they are usually quite static and rigid. This means that any non-trivial change requires additional, significant effort. That's a problem, because no leader can survive repeated re-engineering projects. The implication would be that if you re-engineer the previously re-engineered process then you must not have done a good job the first time.

The argument is weak, of course, because things change. But, consistent with the machine metaphor, our attitude seems to be that once something is no longer useful, just replace it; buy a new one.

Of course, replacing core business process is not cheap either, so the economics are heavily against us from the start. Particularly if the economy is good and the organization is growing. Good times tend to mask a lot of fundamental problems because the tendency is to just throw money at problems and create workarounds to keep going, going, going.

But there's more.

Second, we ran out of technology to support the processes. At around the same time as all this re-engineering was taking place, the world saw a new class of business software emerge on the market: ERP, or Enterprise Resource Planning, Systems.

These behemoths promised to provide integrated solutions for all areas of the business. The integration meant we would have information tied together end-to-end providing for the first time a comprehensive view of everything taking place inside an organization.

It should be easy to see that we can only take processes so far unless there is technology support to make the necessary information available at the right time and at the right place.

Furthermore, ERP implementations were in and of themselves massive process improvement projects. Because the ERP implementations took such significant efforts, other improvement work often had to wait.

This meant that process improvement projects could be expected to become constrained at some point by the lack of information because the underlying systems were not integrated across the long chain of activities typical of end-to-end business processes.

Now we had a typical chicken and egg type of problem. We couldn't get to the full process benefits because the systems weren't there. Similarly, the ERP implementations could not realize the promised benefits until the process around the system were developed and refined.

While we may think that re-engineering was a business fad and thus destined to an unavoidable, quick and definitive demise, the better explanation of its passing is the technology constraint. We had to wait for the wave of ERP system implementations to run its course before we could resume improvements.

In the developed world, we are now past the ERP wave. Every organization of consequence has one and is hard at work extending and adapting it. This means we have by and large exhausted the opportunities inherent in ERP systems no matter how good the embedded 'leading practices' are.

Where we are is in a land of large complicated ERP systems acting as a foundation for information processing in the organization with a host of manual processes built around the system functions. At their core, ERP systems are still transaction processing systems and getting information out of them remains a challenge.

Furthermore, while the ERP systems have given us technology where the information inside the systems is integrated, we are still short of integration between organizations and their respective ERP systems. This is a very real constraint on process improvement in an increasingly connected world.

On top of that, consider that manufacturing processes primarily deal with inanimate objects being transformed according to engineering specifications and processes with predictable performance characteristics.

Service processes, on the other hand, deal with people who, as we know, do not respond well to be treated as 'engineering specifications' and are anything but predictable except in very general terms. This means that automation of service processes is relatively more difficult than manufacturing processes. (I' not saying manufacturing is easy – I am saying the physics are different.)

This brings us to my next point.

The manifestation of automation

Although there may be important, unresolved issues with automation, I do not mean to imply that we the people are not automating wherever we can. Clearly we are.

We can see the astounding effects of automation in e.g., agriculture and manufacturing.

The agricultural sector used to be a main employer of labour. Not so anymore. Today, the use of machinery on and off the farm in the developed world allows some 1-2% of the population to feed the rest of us.

In the manufacturing sector we are now seeing stagnation of wages because the factory automation has reached such a magnitude that fewer and fewer people are required to operate the factories while output is still rising.

Here's what has happened: Labour has been replaced by machines, the work has been automated, and capital is now a dominant factor of production. This means that the returns from increased productivity is going more and more to serve the invested capital and less and less to the labour force, which is becoming marginalized. Ergo, future work will not be found in the manufacturing sector; it will be found elsewhere.

We are at a point now where we can produce almost anything we want in almost any quantity almost without intervention of people. And all this manufacturing capacity is looking for outlets. In such a situation, the focus will change from the manufacturing side to the distribution and marketing side; i.e., services.

We have already seen in the developed world that the service sector is growing past the manufacturing sector in overall importance. This trend is likely to continue unabated for the foreseeable future.

Not only that, the stakes will shift: If you can't compete on the cost because manufacturing becomes commoditized, you have to compete on service.

This should be good news for anyone with an interest in process improvement because our service processes are generally ranging from bad to terrible.

Thus endeth the history lesson.

The coming re-invention of process

Service processes have been constrained by lack of suitable technology. Some of that is disappearing as most organizations have mature ERP systems to tie information together across end-to-end business processes.

That said, we are still trying to figure out how to integrate, that is tie together, different independent organizations in a meaningful way either with technology or with processes around the technology pieces.

I think this situation will have to be resolved with more technology, not less. By this I mean that the technology has to become the process because every manual step in a service process breaks the automated flow, slows things down and increases risk of errors.

The technology we need to support service processes must be nimble, much nimbler than the current generation of ERP systems because they are notoriously labour intensive and challenging to change.

Here's the thing: services are not subject to the same constraints as manufacturing processes. Services can be changed by making a decision to do some things different and then just do that.

I realize that some service processes as we know them today are large and therefore, as we know them, unwieldy – I help clients with them every day.

Nevertheless, what we need is technology that will allow us to configure services and service processes much more dynamically and closer to real-time than we have seen in the past.

This is a hard problem to solve. But that is the nature of evolution: first we do the easy things, then we get on, progressively, to the harder stuff. Along the way, we redefine our concept of 'hard.'

What used to be hard 10-20 years ago is taken for granted today. For example, ERPs used to be hard, now every company has one or something like it. Computers used to be hard, now everyone has more than one.

In the preceding I shared some thoughts on what has passed before us and how things stand as of now. Here's what I believe we can expect to see in the years ahead.

The future of work

The future of work is intimately tied to the continued evolution of processes. You may have heard the quip that all work is project work, and I am sympathetic to the argument. However, I am far more convinced that a better statement is that:

"All work is process work."

While manufacturing ruled the world in the past, I think services and by unavoidable extension, service processes, will take on that role going forward.

Service processes have not seen anywhere near the productivity improvements experienced in manufacturing, but that will change as attention shifts and organizations begin to compete more and more on their services rather than on goods alone.

Technology has favored manufacturing up until now, but that, too, will change as the service sector increases its reach and domination in the economy. Developers go where the money is so it's a fair bet we will see new solutions coming on the market before long;

solutions that will put configurability directly in the hands of the process owners and operators.

I believe ever-increasing degrees of automation is inevitable, but that is not the same as saying it will be easy to implement.

The intellectual challenge we are facing is how to reduce the traditionally messy and imprecise service processes to a level of precision required to make automation work.

Sounds like fun to me, count me in.