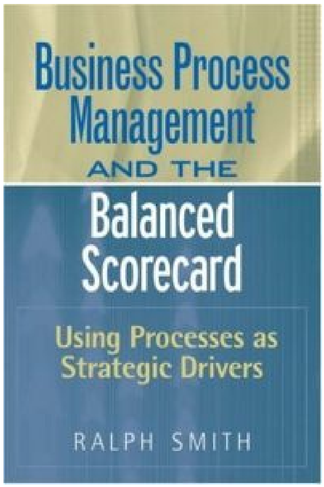

Book Business Process Management and the Balanced Scorecard

Focusing Processes on Strategic Drivers

Ralph Smith
Wiley, 2006

Recommendation

The emphasis on process performance as an element of organizational success is growing. Strategy consultant Ralph Smith explains the evolution of strategic processes as tactical weapons in business leaders' competitive arsenals. He provides a brief analysis of the current state of global competition and demonstrates how what he calls "process-based competition" evolved from Total Quality Management. However, his book is not just historical; it is practical. Smith explains how to create a "strategy map" and how to use it as a foundation for your balanced scorecard. He organizes the final chapters of his book around a six-step flowchart that will help you become an effective strategic-process competitor. The book is concise but dry. Like many authors with systems of their own, Smith advocates using facilitators and consultants – especially himself – to guide you through your strategic process. However, underneath his sales pitch lies a good deal of substance. *BooksInShort* recommends this book to executives who are looking for practical implementation strategies.

Take-Aways

- Business process management has evolved radically since the 1970s.
- Formerly, firms did not think about the relationship between their goals and processes. Today, organizations incorporate "process performance" into their strategies.
- Use a six-step flowchart to implement strategic project management at your company.
- First, create "vision statements" and "mission statements" to delineate your firm's aspirations and purpose, and to focus and build consensus among your employees.
- Second, assess the gap between your firm's present position and its future goals.
- Third, illustrate your company's cross-functional relationships on a "strategy map" to show how the firm plans to compete and how each person's work affects its success.
- Fourth, customize a balanced scorecard (BSC) to show you whether you are on course to meet your specified goals.
- Your BSC should provide feedback on how to improve your processes to achieve your goals and strengthen your company's operations.
- Fifth, use all your collected data to execute your plan for process improvements.
- Sixth, monitor your progress. Make adjustments when necessary to stay on track.

Summary

Why Processes Matter

The 1970s was the great era of giant command-and-control companies. Back then, vertical structures were fashionable, and people viewed corporations as vast, intricate mechanisms in which the operation as a whole would run properly if each person in the hierarchy did his or her assigned task. Interdepartmental communication was minimal, and workers and managers did not think about the relationship of their activities to the goals of the organization. For example, one aluminum company paid employees according to how many pounds of material they produced. This discouraged them from paying any attention to "customer needs, job due dates or special requests." Customers, in fact, had little choice. Their option was not "take it or leave it," but rather, "take it or take it." Companies knew customers had no viable alternatives.

"Current trends in the business world are forcing organizations to focus on process if they want to remain successful."

However, by the mid-1980s, the business environment had changed. In reaction to globalization and foreign competition, many organizations started to re-evaluate their processes. Technology, entrepreneurship and initiatives such as Total Quality Management (TQM) replaced the top-down 1970s ethos. Companies realized that they could improve their processes, save money and raise quality by requesting workers' input. This also helped them retain employees in an environment of increased worker mobility. Firms reassessed the old hierarchies and manuals, and recognized that good economic times were no excuse for complacency. They began to fix their broken procedures in a practice of "continuous improvement."

"Many of these trends, such as the mobility of the workforce, rising customer expectations and the speed at which business is conducted, are not likely to stop in the near future."

The Internet made even more drastic changes in the way businesses work. Firms now sell to customers and buy from suppliers around the globe easily, cheaply and quickly. Customers expect high standards from the products and services they consume. The companies that can use technology and modern business processes most efficiently have the competitive advantage over those that remain rooted in traditional business methodologies. Information and process efficiency are not just goals: They are essential weapons in your competitive arsenal.

Processes and Strategy

Business process management evolved in four "waves":

1. **"Total Quality Management"** – TQM implied "ironing out the wrinkles" of business processes to make them more efficient. Many businesses and organizations, such as the U.S. Department of the Navy, began reorganizing their operations in the mid-1980s. They wanted to identify and analyze their most successful business practices, and apply them to offices and locations throughout the organization. Although widespread today, this way of operating was revolutionary just a couple of decades ago. At that time, the idea was to design the organization correctly and let it run on its own, rather than to raise issues of quality. Businesses competed through the products and services they offered their customers. By rationalizing how they produced and delivered those goods, they found they could both increase quality and lower cost.
2. **"Business process re-engineering"** – Contrary to popular opinion, re-engineering, as introduced by Michael Hammer and James Champy in their 1993 book, *Re-Engineering the Corporation*, was not a code word for layoffs and downsizing. Rather, it implied that continuous improvement and incremental changes, as stipulated by TQM, were not enough to improve a company's processes. Firms gave up trying to iron out the wrinkles in the shirt and started realizing that the shirt no longer fit. Re-engineering meant taking a big risk to completely redesign processes so that businesses could become more efficient and receive bigger rewards. By integrating processes throughout the company, firms could reliably produce high-quality goods and services.
3. **"Process-oriented organizational design"** – The next phase was for businesses to manage their processes holistically, through process-oriented organizational design. Rather than conceiving of each function as isolated in its own silo, executives began to view functions and accountability in relation to one another in a matrix. Managing by the quarterly numbers was no longer enough. They had to think in terms of integrated processes and how the work of each department affected others down the line.
4. **"Process-based competition"** – This is where "process performance is integrated into strategy." In fourth-wave firms, processes guide strategy, which, in turn, decides the future and the direction of the organization. Managers began to realize that they could use their new structures to compete more successfully, igniting process-based competition. These days, organizational strategy is no longer stationary until senior management deigns to change it; it is adaptive. Management receives information, learns from its operations and changes to meet the organization's goals.

"'Things are the way they are because they got that way'. This statement implies that it is critical to understand how a current situation developed and evolved if you truly want to be effective in changing the status quo."

To implement strategic process management, use this six-step flowchart:

Step 1: "Vision and Mission"

The "vision statement" and the "mission statement" are two very different entities:

- **Vision statement** – Communicates where you are going, what your company will become and what it will be doing in its perfected future state. The vision should be inspiring. Present it in a way that allows everyone to buy into it. While the vision should require your team to stretch, it shouldn't require them to jump across the Grand Canyon. Your vision should be radical enough to inspire action and urgency, yet practical enough to implement.
- **Mission statement** – Provides a compelling description of your organization's reason for being, what it provides and for whom. The mission statement is for your employees, to give everyone a common understanding they can use to align their work.

"A high-performing organization...must not only understand how to identify and correct its process weaknesses...it must also...leverage process strengths and opportunities for strategic advantage."

The mission statement is not a public relations piece. Sure, you can create something that the public relations department can promote as your corporate mission, but don't confuse that with your actual mission statement, which should inspire your company's every activity. The difference is crucial.

Step 2: "Strategic Assessment"

In this step, identify and analyze the gaps between your company in the present and the organization you wish to create, as outlined in your vision and mission statements. Take this large task in two phases:

1. **Informal SWOT assessment** – This is a discussion of strengths, weaknesses, opportunities and threats. A facilitator can help keep SWOT conversations

focused and prevent them from drifting into unproductive side discussions. Too often, SWOT analysis sessions degenerate into debates about current problems or future programs, or finger-pointing. How many people you include in the discussions depends on the size of your company, but include enough people to get a wide variety of feedback on where your company is today and what team members really think. Separate facts from analysis: The SWOT discussion should reveal facts about your current strategic position. Don't worry about consistency. If you collect enough information, it will probably seem to point in many different directions.
2. **Formal analysis from various perspectives** – During this phase, use the mass of information you gathered during the SWOT analysis and look at it from several points of view, including (but not limited to) "financial, customer, process and learning." Each of these perspectives raises important questions. For example, from the financial point of view, you should identify key indicators, trends and external factors. Use any technique that will help you get reliable answers to your questions. Once you see where your organization stands and you compare it to your corporate vision, the strategic gaps you need to close will become apparent. Obviously, you cannot do everything at once. Categorize and prioritize your activities, and identify the constraints that may limit your ability to close the gaps.

Step 3: "Strategy Map"

A series of articles by Robert Kaplan and David Norton in *Harvard Business Review* made the concept of strategy maps famous. Strategy maps are visual tools that reveal the cross-functional, cause-and-effect relationships throughout your organization. The maps explain how the company intends to compete and how each person's work affects its success. The maps do not simply describe company operations. Rather, they show in which direction a company must move to implement its strategic goals. For example, if you want to increase customer satisfaction, create a strategy map that shows what should occur in finance, customer concerns, processes and learning to meet that goal.

> "Putting together a Balanced Scorecard is much easier once the strategy map has been created. The first few columns of the BSC that deal with perspectives and objectives are already completed on the strategy map and can easily be formatted."

As you create your maps, you may find that they include functional areas that do not easily fit into one of those categories. That's fine; tweak your maps so they work for you. Meet with each functional group, and garner team members' input on the design to make sure that what you are constructing is relevant and useful.

Step 4: "Balanced Scorecard" and "Strategic Initiatives"

The fourth step has two interconnected components:

1. **Balanced scorecard (BSC)** – Also designed by Kaplan and Norton, this management tool gauges whether the organization is on track to meet its strategic objectives.
2. **Strategic initiatives** – These are your plans for closing the gaps you identified during the mission and vision phase.

> "The scorecard is simply an information providing tool. A good analogy is to view the scorecard like a scale when you are on a diet."

You can use a properly designed BSC to drive your agenda, but the BSC need not be your only measuring system. Your company needs to quantify lots of data, and trying to fit too much information into your BSC will obscure your strategic goals and make the BSC unwieldy.

Don't be afraid to use the same metrics in various measuring regimes; just be sure the data come from the same source. You'll have a problem with using the same measure in numerous places only if you use multiple sources and end up with different numbers for the same measurement.

> "The Balanced Scorecard...help[s] an organization monitor the effectiveness of strategy and make midterm course corrections between iterations of the strategic planning process."

Don't become dependent on your BSC. It is a tool that you should change if it isn't providing helpful feedback. Your BSC should measure and supply feedback for your strategic processes, and your strategic processes, in turn, should yield data for your BSC. Both your BSC and strategic processes must flow into the execution of your company's operations and strengthen your competitive advantage.

Step 5: "Execution"

You probably know of companies that created vision and mission statements they never used. Other firms skip the formation of strategy maps, even though they provide a strong foundation for creating a BSC. Your strategic maps, BSC and strategic initiatives should focus and energize your management team and enable them to work together to close the gaps between where you are and where you want to be.

Step 6: "Monitor and Adjust"

As you monitor your progress, evaluate what you are accomplishing and where it is taking you. Make course corrections when necessary. Alter your strategy maps, BSC, strategic initiatives and even your vision and mission statements, as you see more clearly where you're going. Use them as tools to gain a more lucid understanding of your company and as tools to fashion your processes into strategic weapons that your competitors will be hard-pressed to match. Aim to succeed both in the present and in the future.

About the Author

Ralph Smith has helped hundreds of firms improve their performance and has been a featured speaker at several universities in the United States.