Assignment 5

Key Processes

BEFORE YOU BEGIN

This is the first of three assignments on process improvement, the second of the three fundamental elements of continuous improvement. Just as customer orientation begins with identification of customers, process improvement begins with identification of key processes. This assignment concentrates on what key processes are, how they can be identified, and what process management means.

The assignment begins with an example of an insurance executive's thoughts on key processes. The purpose of this example is to show that, like customer identification, process identification is not a simple matter. Instead, it can prompt a thoughtful analysis of a department, an organization, or a business. As you study the material, try to keep your own job, department, and organization in mind. The questions and exercises at the end of this assignment will give you the chance to apply what you have learned from the assignment to your own situation.

Educational Objectives

After completing this assignment, you should be able to:

1. Define and describe key processes.
2. Draw a work process model.
3. List and describe the questions that need to be asked to identify key processes.
4. Given a hypothetical situation, identify key processes.
5. Describe and explain process management.
6. Define or describe the key words and phrases for this assignment.

Outline of Required Reading

Notes

I. Identifying Key Processes
II. Process Management
III. Process Ownership and Process Planning
IV. Summary

Key Processes

Bill O'Brien, one of the pioneers of continuous improvement in the insurance business and a former president and chief executive officer (CEO) of The Hanover Insurance Company, wrote:

> At Hanover, we asked ourselves: "What's the essence of a property and liability insurance company?" Ultimately, we said it was twofold. In part, insurance depends on the management of probabilities: Would you write a particular insurance deal at 20 cents? How about at 12 cents? In that sense, insurance businesses are like networks of bookie joints, betting on high school basketball games.

> But the business also depends upon quality relationships with customers. I have seen insurance companies throw away fortunes by moving into the wholesale use of the telephone to settle claims. This worked all right for small claims, like a broken windshield. But insurance managers who understood the importance of relationships knew when to stop. They knew that a mere telephone response to a bad bodily injury would send claimants running to trial lawyers.

> Companies that tried extensive telephone settlement found out the hard way: At first, it was beautiful. They got rid of many high-salaried claims adjusters. But those savings, and then some, got eaten up in litigation costs, lost customers, and expensive settlements.[1]

What Bill O'Brien is doing in this statement is talking about work or, more specifically, identifying key processes. The statement deserves to be considered in some detail.

How does he proceed? By asking one fundamental question, answering it, and refining the answers with analogies and examples drawn from experience.

The fundamental question is: "What's the essence of a property and liability insurance company?" "Essence" is, in some respects, an odd word in this context. It has a long philosophical tradition and carries the sense of intangibility. But the statement goes on to clarify that it is used here to mean what is *essential*. This sense becomes clear from the use of the phrase "depends on" in the two answers to the question. O'Brien and others at Hanover asked themselves, in other words, "What *must* a property and liability insurance company *do*?" In the

language of continuous improvement, this question would read: "What are a property and liability insurance company's key processes?"

Key processes are those work processes that are essential to an organization and that have the greatest influence on customers.

As was pointed out in Assignment 2, advocates of continuous improvement consider work to be a process, a sequence of steps that results in a product or a service, an output. What a property and liability insurance company *does* can be described in terms of an extremely large number of processes. What a property and liability insurance company *must do*, what activities are essential to it, can be described in terms of a relatively small number of key processes.

O'Brien's answer limits these key processes to two. His answer begins, "In part, insurance depends on the management of probabilities." It concludes, ". . . the business also depends upon quality relationships with customers." For O'Brien, in other words, a property and liability insurance company's two key processes are: (1) managing probabilities and (2) establishing and managing quality relationships with customers.

Both of these processes are described in general, abstract, even vague terms. Neither "managing probabilities" nor "managing quality relationships" draws pictures of people in action, people doing specific things. No doubt for this reason O'Brien quickly provides very specific examples: "Would you write a particular insurance deal for 20 cents? How about at 12 cents? In that sense, insurance businesses are like networks of bookie joints, betting on high school basketball games." Another insurance person might have said that one of an insurance company's key processes is underwriting—deciding whether to write a piece of business and, if so, under what conditions and at what price. Similarly, he provides a concrete example of managing quality relationships with customers or, rather, how some companies failed to manage them: "I have seen insurance companies throw away fortunes by moving into the wholesale use of the telephone to settle claims." Another insurance person might have said that another key process for an insurance company is handling claims—determining whether a loss is covered and, if so, how it should be settled.

"Think globally; act locally."
—Jacques Ellul

This suggests that Bill O'Brien's statement could be reduced to: "What are a property and liability insurance company's key processes? Underwriting and claim handling." Reducing O'Brien's statement to this simple answer might seem helpful. If he is right, every insurance company would know for all time what its key processes are and would never have to consider the question again. That might *seem* helpful but it in fact would be disastrous. O'Brien's statement cannot be reduced in this way because what is lost in such a translation is *thought*. The most important word in his statement is "ultimately"—"What's the essence of a property and liability insurance company? Ultimately, we said it was two-fold." No doubt much time, energy, and effort were spent between the raising of the question and the formulation of the answer—an

answer that was not true for all companies, at all times, and under all circumstances, but for the executives in that time and place who devised and agreed on the answer. What is learned about a department, an organization, or a business by raising the question of what its key processes are and thinking through the answers is at least as valuable as the answers to the question themselves.

Identifying Key Processes

Just as customer orientation begins with the identification of customers, process improvement begins with the identification of processes and a determination as to which processes are key.

Assignment 2 looked briefly at what work processes are. Before discussing the identification of key processes, it will be helpful to consider work processes in more detail here. Nonetheless, the fundamental definition of a *work process*—a sequence of steps that results in a product or service, an output—remains the same.

Four identifiable groups of people are involved with every work process:

1. The customer
2. The work group
3. The supplier
4. The owner

As explained earlier, these roles are not fixed and permanent. Instead, the roles may shift often, almost constantly, but *are always defined by a position in the work process*.

Brief definitions of these groups will help show how they are related to a position in a process. As defined in Assignment 2, *customers* are the people who *receive the output*, the product or service the work process is designed to produce. Customers might use the output on its own or as the input for another work process. The *work group* consists of the people whose work produces the output. The *suppliers* are the people who provide inputs to the work process. (This means that *the work group is the customer of the supplier*.) The *owner* is the person or persons who are responsible for the output and for the operation and improvement of the process.

A **work group** consists of one or more workers who produce an output.

A **supplier** provides inputs to a work group.

An **owner** is responsible for the output and for the operation and improvement of the work process.

The work process begins and ends with the customer. Customers, through their requirements, define the attributes of the output. When customers receive and use the output, they provide feedback on it that might alter the requirements and redefine the desired attributes of the output.

Bill O'Brien has said, with regard to continuous improvement, that cooks came before cookbooks. The approach he took to key process identification at Hanover was homegrown and homemade; it arose naturally, out of his own temperament and out of the circumstances and people that then existed at the company. There are clear advantages

to working in this way. Different cooks, using the same recipe, notoriously do *not* come up with identical, interchangeable dishes. Nonetheless, students of continuous improvement have gathered and analyzed the practices of numerous organizations and have tried to deduce from those practices a systematic approach for identifying key processes. The result of these efforts is that key processes can be identified by raising four questions:

1. Which outputs are of the greatest importance to customers?
2. Which processes produce these outputs?
3. Which processes are most visible to customers?
4. Of the processes identified in response to Questions 2 and 3, which seem to have the greatest potential for improvement?

> A **cross-functional process** is a work process performed by people in separate organizations, departments, divisions, and so on.

The nature of these questions reflects a broad conception of what key processes are. Key processes are *primarily those processes that have the greatest influence on customers*. The final question goes a step further by identifying those key processes that might provide the greatest increase in customer satisfaction through improvement. The benefits of using this type of approach to key process identification are (1) it emphasizes customers and (2) it allows for the identification of *cross-functional processes*.

Organizational structures are often the reflections of internal considerations; that is, they are not always customer-oriented. Processes that are the most crucial for customer satisfaction often cross organizational, departmental, or functional lines. In such cases, the processes are segmented by department or function and are frequently designed to meet goals or objectives without regard to the needs or expectations of customers.

The four questions for key process identification are designed to identify those processes with the greatest influence on customer satisfaction without regard to organizational structure, the relative influence of various department heads, office politics, and similar gunk. Just as drawing a model of a work process can reveal how things are actually done, identifying key processes can cause an organization to focus on those internal processes that are of greatest importance to its customers and enlist customers as co-producers.

Raising and answering these four questions for a property and liability insurance company clarify why Bill O'Brien's statement cannot be reduced to the identification of two key processes—underwriting and claim handling. Doing so is a fundamental error in thought, a confusion of categories, mistaking an example for an answer. Customers might feel that receiving timely, accurate, and understandable bills is very important to them. Neither the underwriting process nor the claim-handling process will cause a company to meet that customer expectation. On the other hand, O'Brien's broad

statement—". . . the business also depends upon quality relations with customers"—*or* the first three questions posed for key process identification would lead to a consideration of the billing expectations of the company's customers.

Process improvement is the *second* element of continuous improvement, following customer orientation, because *processes cannot be evaluated, much less improved, without a thorough understanding of customer expectations*.

Process Management

One result of the application of the ideas of continuous improvement is a shift in emphasis from employee performance problems to process problems. As was suggested in earlier assignments, a performance problem suggests that one or more processes are in need of improvement. This shift has led some students of continuous improvement to consider the elements of *process management*.[2]

Basically, the five elements of process management are:

1. Process ownership
2. Process planning
3. Process control
4. Process measurement
5. Process improvement

Control and improvement are the subjects of the next assignment. Measurement is taken up in Assignment 7. An example should help clarify the roles of both ownership and planning in process management.

> **Process management** involves the ownership, planning, control, measurement, and improvement of a work process.

> **Process ownership** means taking responsibility for a process's design, operation, and improvement.

> **Process planning** refers to documenting, defining, and understanding the parts and interrelationship of the parts of each process.

> **Process control** means ensuring outputs are predictable and consistent with customer expectations.

> **Process measurement** means mapping performance attributes of the process and establishing criteria for evaluating them.

> **Process improvement** involves increasing the effectiveness of the process.

The Underwriter Who Cried High Priority
An Example of the Roles of Process Ownership and Planning

Concetta Altimara, a commercial accounts producer with Mid-City Insurance Agency had been calling on House and Haul, a warehousing and shipping operation, for some time with little success, unable to have a chance to even quote on the business. Recently, House and Haul decided to move into a newly constructed facility in a suburban industrial park. Frank Otter, House and Haul's treasurer, decided to obtain bids on the property insurance for the new building. He called Concetta and asked her to prepare a quote for him by June 1, then about a month away.

Concetta was elated that she would finally have a chance to quote on at least some of House and Haul's business. She alerted two underwriters she had worked with in the past, emphasizing her deadline, and asked for their help in competing for the business. Brad Tompkins, at Insure-All, did not sound particularly enthusiastic but agreed to work with Concetta on

developing the quote. Charlene Jenkins, with IIA Insurance Company, said that new construction in the area to which House and Haul was moving was of real interest to her company and she was anxious to do all she could to help Concetta obtain the business.

Concetta set to work preparing submissions for both companies—completing applications for insurance, obtaining photographs of the property, attaching recent financial statements on House and Haul's operation, supplying literature on the industrial park, and providing brief biographies of the potential client's management team. In a cover letter to each underwriter, she stated again her deadline of June 1 and asked to be notified immediately if more information was needed. She followed up by phone to confirm that the submissions had been received and again offered to obtain additional information.

Brad Tompkins at Insure-All liked the look of Concetta's submission, requested a loss control inspection and recommendation on the facility, and started to underwrite the business as submitted.

Charlene Jenkins called the head of the Loss Control Department to request that Concetta's submission be given a high priority. She explained that it was the kind of business the company was anxious to write but that a fairly quick turnaround was required if they were to compete for the business. The head of Loss Control explained to Charlene that they were short-handed. He also said underwriters thought every submission should be given a high priority. "If everything is given special treatment, nothing is," he said. "We work on a first come, first served basis. That's fair. Just send your request over and we'll deal with it."

A week before the deadline, Brad Tompkins provided Concetta with a quote that was not very aggressively priced or creatively underwritten. Concetta had not yet heard from Charlene Jenkins and phoned her. Charlene explained that she was still waiting for a loss control report and recommendation. Everything else was complete but she was not free to issue a quote without those documents. She told Concetta she had requested that the submission be given a high priority.

On June 1, Concetta presented a proposal to Frank Otter on House and Haul's property insurance based on Brad Tompkins's quotation. The business would be acceptable to Insure-All. Otter accepted the proposal two days later, saying that it was neither the lowest nor the highest bid he had received but he had been impressed by the thoroughness of Concetta's work and the promptness with which Insure-All's inspector had turned up at the new building.

Process Ownership and Process Planning

As illustrated in the example above, unclear ownership of a process can have disastrous results. In this case, the overall process—competing for new commercial lines property business—is not only cross-functional but involves more than one organization, Mid-City Insurance Agency, Insure-All, and IIA Insurance.

The underwriting process breaks down at the IIA Insurance Company through an apparent but unacknowledged conflict over the ownership

of a process. The commercial lines underwriters are dependent on loss control inspectors but have no authority and little influence over them. Charlene Jenkins assumes that the way to expedite loss control inspections, reports, and recommendations is to request priority service from the head of the Loss Control Department. The Loss Control Department head does not believe in priority service and has established a policy of performing inspections on a "first come, first served" basis. Charlene's apparent inability to do anything about this fundamental conflict again suggests, at best, unclear ownership of the process. She neither contacts a loss control specialist directly nor goes to her own department head with the problem. The situation is typical of chronic "turf battles" in organizations. No one is clearly designated the owner of the process—responsible for its design, operation, and improvement.

Similarly, it appears unlikely that anyone at IIA Insurance has done process planning, at least with regard to commercial lines underwriting. No one has seen to it that the parts and interrelationship of the parts of each process are documented, defined, and understood. On the contrary, because commercial lines underwriting and loss control are separate departments, *their activities are viewed as separate, distinct, and unrelated processes.* The result is what some commentators call "lack of alignment" in cross-functional processes and others, more accurately and refreshingly, call "craziness." What emphasizes the craziness in this case is that IIA's marketing department and underwriting guidelines appear to have targeted the type of business Concetta submitted. From the standpoint of IIA's potential customers—Concetta Altimara and, ultimately, Frank Otter—the company behaves in a way that suggests it has no interest in writing the business at all. Craziness of this type—an almost complete lack of contact with reality—is not rare in the business world generally nor in the insurance business in particular. But it takes an effort to spot it, diagnose it, and do something about it.

Identifying and managing key processes are crucial for any organization that intends to diminish its crazy behavior and meet the needs of its customers. Some insurance companies have restructured or reorganized with this end in view, establishing teams of underwriters, marketing specialists, loss control people, and claim handlers that are trained and dedicated to serve target market niches. The restructuring is designed to avoid the problems caused by cross-functional processes. But assigning ownership of a process and engaging in process planning are not on their own sufficient. Process improvement, what some have called the heart of continuous improvement, is also necessary.

Summary

Work processes are sequential steps that result in an output, a product or service. Work processes consist of the customer, the work group, the supplier, and the owner. Key processes are those work processes that

have the greatest influence on customers. Key processes are identified so that they can be improved.

In general, key processes are identified by answering these four questions:

1. Which outputs are of the greatest importance to customers?
2. Which processes produce these outputs?
3. Which processes are most visible to customers?
4. Of the processes identified in response to questions 2 and 3, which seem to have the greatest potential for improvement?

Raising and answering these questions can not only lead to the identification of key processes but also increase the understanding of a department, an organization, or a business.

Process management consists of five elements:

1. Process ownership
2. Process planning
3. Process control
4. Process measurement
5. Process improvement

The main reason for identifying key processes is to improve them. Process improvement is the subject of Assignment 6.

Assignment Notes

1. Bill O'Brien, "What Do I Believe Is the Essence of My Business?" in Peter Senge, *The Dance of Change* (New York: Doubleday/Currency, 1999), pp. 236-237.

2. This discussion is adapted from "Six Ingredients of Process Management" in Arthur R. Tenner and Irving J. DeToro, *Total Quality Management*, IIA Edition (Reading, MA: Addison-Wesley, 1994), pp. 83-86.