

Current Print Edition



March 2008

Features

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Beyond process improvement: the pathway to process-based management

The quality movement, which gained much momentum in the mid-1980s, ushered in many positive advancements in process improvement. Now, organizations have to step up with more change — integrated improvement. Management accountants should be leading the way

By Todd Scaletta, CMA



Every organization, whether it is large, medium or small, public or private, profit-driven or not-for-profit all have one thing in common — their operation requires processes. The ability of an enterprise to improve and integrate their processes as well as link these integrated processes to the organization's strategy are critical aspects of process-based management. In addition, extending this ability to its value chain partners' processes will provide the necessary competitive advantage for sustainable success in the 21st century. This ability to take a system view of the organization, beyond functional efficiencies, is referred to as process-based management (PBM).

The process view — a good start

The quality movement, which gained momentum in the mid-1980s, led to positive advancements in process improvement. A number of methods and tools were employed to enhance an organization's quality through improved processes. A few examples include: Total Quality Management (TQM), Business Process Re-engineering (BPR), Activity-Based Management (ABM), Lean Manufacturing, International Standards Organization (ISO) certification and Six Sigma. However, these methods and tools are often limiting because they tend to examine only individual processes rather than integrating these processes into an examination of the complete system at work within an organization.

Although the process view is a critical part of the foundation for an organization to become PBM oriented, this process view often leads to individual methods and tools competing for resources. For example, in a large organization different functional areas or divisions may have several initiatives running concurrently — an activity-based management project driven by finance, a lean thinking initiative led by the manufacturing division and ISO certification undertaken by the quality department. These similar but competing initiatives detract from an integrated view of the organization, which calls for the maximization of the organization's processes from a customer/citizen value point of view.

An example of how a process view can be limiting in comparison to a system view comes from a case study performed by the Consortium of Advanced Management International's (CAM-I) PBM group. In this case study, CAM-I studied an organization that was able to achieve cost savings of more than \$1 billion through a process improvement initiative. However, this initiative was limited to improving a process rather than the whole system. The result was that the organization's customer satisfaction rating plummeted. Several negative outcomes occurred as a direct result of this initiative: (i) operations couldn't support products that were being sold by the sales department; (ii) there was poor communication between operations and the repair department,

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which led to long wait times for customer service repair work and (iii) the customer service department was understaffed and unable to handle all the customer complaints in a timely manner. The @Socket: billion in savings from the process improvement quickly evaporated because an integrated system view wasn't considered during the initiative.

A PBM approach can create the change necessary to avoid this situation.

A system view — aligning processes and strategy

In the book *Process Based Management: A Foundation for Business Excellence*, the authors state that "PBM goes beyond managing only a process or managing processes as if they were functions. PBM is dedicated to bringing what often appear to be unrelated activities, functions, processes, and lines of business together to work with a focused mindset towards achieving the organization's strategic goals." (Refer to Figure 1 — Aligning Activities to Accomplish Strategic Goals.)



PBM isn't a specific tool but rather a philosophy that focuses on changing the mindset of the organization toward that of enhancing customer/citizen service through understanding and improving how processes integrate with each other and the organization's strategy.

An example of an organization that operates in a PBM environment is Southwest Airlines, which has received extensive press about their successful business model. One key aspect of their business model is their turnaround time. Southwest Airlines is able to turn around (unload, service and load) an aircraft in 25 minutes, which is an excellent benchmark standard that would be impossible to achieve without integrated processes and a systems view.

CAM-I's PBM research — a roadmap to PBM

CAM-I is a leader in the practical research of PBM. A sample of some of the organizations that have been involved with CAM-I's PBM program over the years includes: Allied Signal, Bank of America, Chrysler Corporation, CMA Canada, Grant Thornton, GTE, Honeywell, IBM, SAP, SAS, StatOil, US Air Force, US Marines, Texas Instruments, and Valmet. To date, CAM-I has produced two books, *The Road to Excellence: Becoming a Process-Based Company (1997)* and *Process Based Management: A Foundation for Business Excellence (2004)*, as well as articles in *Cost Management* and *the Journal of Corporate Finance and Accounting*

CAM-I's PBM group is currently working on two additional deliverables: a roadmap to become a PBM organization, and an assessment tool to determine where an enterprise stands on its journey to becoming a PBM organization.

The completed roadmap will include specific steps to become a PBM organization. It will also address details such as what, why, how, and who as well as the duration, inputs, outputs and resources required for each step on the journey.

The CAM-I PBM Roadmap includes the following seven stages:

- Awareness
- Commitment
- Engagement
- Managing Processes
- Integration
- Embedding
- Optimization.

The movement between stages is a pathway, which describes the progression an organization would take to the next stage. These six pathways are referred to as: discovery, foundation, transition, transformation, institutionalization and realization.

The following is a brief description of the seven stages or milestones:

Awareness— The organization has a desire to make improvements to its processes and has completed the CAM-I PBM Assessment Tool to understand where they are on the Roadmap.

Commitment — Having moved past the awareness stage, through a discovery period, the organization has achieved “pockets of success” through process improvement initiatives. An initial PBM implementation strategy has been developed and approved by the executive team.

Engagement — The organization has established the process governance to ensure PBM has the structural support necessary to be successfully implemented. In addition, a classification framework (such as the American Productivity & Quality Center’s Process Classification Framework) has been completed and the process teams have been launched.

Managing processes — Process teams are operational and effectively managing individual processes. At this stage, the organization is successfully improving processes and may choose to stay at this point on the Roadmap. Some may choose to remain at the “managing processes” stage for an extended period to improve as many individual processes as possible before integrating these processes as part of a PBM implementation. Others may choose to remain at this stage simply because it is sufficient in relation to the competitive market in which they operate.

Note that an organization may be at the “managing processes” stage without having formally gone through the previous three stages. However, to progress past process improvement to PBM, all four stages (awareness, commitment, engagement and managing processes) must be completed. These first four stages provide the necessary foundation for PBM.

Integration — Processes are integrated and linked to the organization’s strategy. Organizational goals and objectives are based on processes rather than function.

Embedding — PBM is considered embedded in an organization when “process language” is used by senior management in regular communication both inside (e.g. presentations, newsletters) and outside (e.g. press releases, speeches) of the organization. Incentives are tied to process rather than functional performance. Another key indicator that PBM is embedded is when the PBM philosophy remains in place even after the PBM champion leaves the organization.

Optimization — The PBM philosophy is sufficiently understood and accepted within the organization and the enterprise is able to extend PBM beyond its own walls to suppliers and customers.

The completed CAM-I PBM Roadmap will aim to provide guidance, through the use of a detailed assessment tool, to organizations who wish to move beyond process improvement and become process-based organizations.

The management accountant’s role

The prospect of a process based versus a functional oriented organization will be ideal for management accountants, especially if one considers the competencies set out in the recently published CMA Competency Map. The CMA Competency Map outlines six functional (yet integrated) competencies: (i) strategic management; (ii) risk management and governance; (iii) performance management; (iv) performance measurement; (v) financial resource management; and (vi) financial reporting. Some examples of how these functional competencies are critical in a PBM setting are as follows:

Strategic management— Senior management needs to make the strategic decision to commit to a PBM environment. This commitment requires the proper alignment of resources to ensure successful implementation of the initiative. Management accountants can be called upon to align the necessary resources, which include the use of finances, engagement of people and investment in infrastructure to successfully execute the strategic intent of the organization.

Risk management and governance— Internal controls are a critical part of any ongoing PBM setting as the processes integrate and cut across functions. A clear understanding of enterprise risk management becomes accentuated in a PBM setting. Processes by their very nature extend beyond the walls of the organization to both suppliers and customers. An organization needs to have a full understanding of the risks that extend throughout their supply chain. Having the appropriate process governance structure in place to support the PBM philosophy is an essential element to successful implementation.

Performance management — A significant area of change in a PBM setting that management accountants can influence will be a shift from accounting for responsibility (cost, revenue, profit, and investment) centres to process centres. Although the mechanics for responsibility accounting

will essentially be the same as process accounting, there needs to be a mindset change to effectively implement this new methodology.

Performance measurement— Design and implementation of a strategic, integrated performance-based measurement system is a hallmark of world-class PBM organizations. A PBM organization requires additional metrics to ensure its processes are integrated and linked to its strategy. These integrated performance measures are also used to develop appropriate compensation and incentive systems for the organization.

Financial resource management — As an organization transitions from a process view to a system view, financial resources will need to be assigned to ensure the necessary funding is in place to implement this transition.

Financial reporting — Although this competency will continue to encompass the financial and regulatory reporting required by organizations, a specific financial processing aspect becomes part of this dynamic. Recent legislation in Canada (Multilateral Instrument 52-109) and in the U.S. (*Sarbanes-Oxley Act*) requires filing companies to ensure their financial reporting process is understood and documented by the organization. Some progressive organizations in the U.S. have used the *Sarbanes-Oxley Act* to not only review and document their financial reporting process but to actually improve financial reporting and other related processes.

Enabling competencies — The four enabling competencies outlined in the CMA Competency Map include (i) problem solving and decision making; (ii) leadership and group dynamics; (iii) professionalism and ethical behaviour; and (iv) communication. All of these competencies will be needed by management throughout the entire transition of an organization from a process view to a system view (PBM).

In addition to the competencies described by the CMA Competency Map, the current CMA accreditation process, through the Strategic Leadership Program (SLP), provides an integrating perspective (beyond a singular focus on the finance function) to candidates. And although PBM is not specifically considered in the current SLP, elements of a process view are evident throughout the program. These elements will provide the foundation for CMAs to be well-positioned to excel in the new system view, PBM world.

Undertaking a major change such as PBM inherently entails significant risk to the organization. However, these risks are outweighed by the long-term benefits of having the dynamic trio of quality, time, and cost available to your organization through PBM. That is, being able to deliver a quality product or service the customer desires in a timely and cost-effective manner.

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Special thanks to CAM-I's PBM group, who helped in the drafting of this article — in particular, Dennis Daly, Jerry Stevens and Pat Dowdle.

To find out more about PBM and other leading-edge strategic financial management topics, plan to attend an upcoming conference jointly sponsored by CMA Canada and CAM-I that will take place on September 6 and 7 at the Delta Meadowvale in Mississauga, Ontario.

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