

A Process-focused Approach to Improving Business Performance

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Abstract

The paper's aim is to describe how a process understanding of a business is being used as the foundation for improving the business's operational performance. It is based mainly on the experience of introducing the Six Sigma methodology to AXA, a major insurance and investments provider. A process focus demands comprehension of customer requirements, knowing the actual performance against those requirements, and change which brings performance into line with requirements. The paper shows that a focus on process understanding brings business benefit whether or not information systems are changed as a result.

1. Introduction

The modelling of business processes is now widely used as a means of capturing business needs for information systems. Its utility is wider. A process understanding of a business forms an excellent foundation for other views of that business:

- Customers – all the points at which customers interact with the business
- Value chain – how each activity contributes to the overall output
- Performance – whether the output from each activity is that which is required to achieve the overall output
- Organisation – where the organisational boundaries lie in process terms
- Information – all the information needs of the business
- Geography – where processes are split between different locations

The emphasis in this paper is on the first three of the views above, that is how process understanding can be exploited as directly as possible to enhance business performance.

2. Process Basics

A process is a transformation of inputs to outputs (Figure 1). The following points are key from a business perspective:

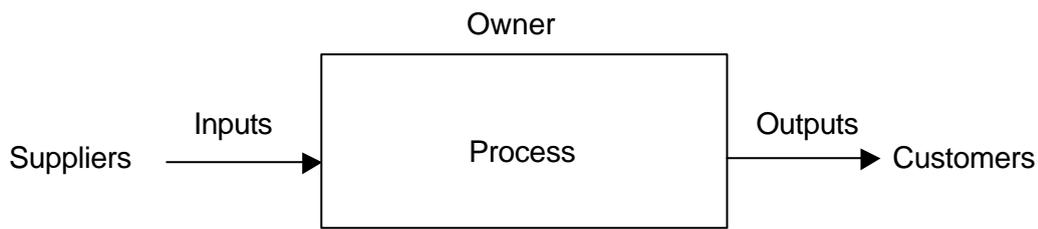


Figure 1

- Every process has at least one customer, external or internal
- If an output does not have a customer it is not in the value chain and should not be produced
- Customers specify the outputs of a process, in whatever form matters to them
- Processes must be owned if anyone is to be held accountable for their delivery
- Processes are made up of other processes, and can be defined down to whatever level gives an understanding which is of business benefit
- Everything above applies whether a process is automated, manual or hybrid

3. Dimensions of Process Focus

Once a process has been identified it can be developed to achieve the desired output performance. The development can be seen as being in one of three distinct dimensions (Figure 2):

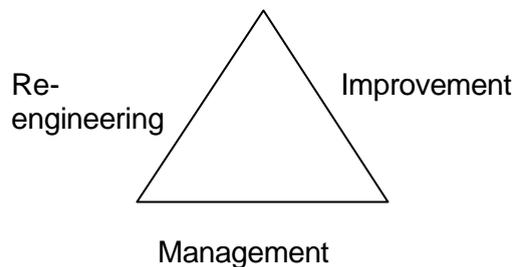


Figure 2

Process Management, in which the process is monitored and continuously improved by the people who operate it.

Process Improvement, where a project is undertaken to raise the performance of a process which is consistently failing to meet customer specifications.

Process Redesign or Re-engineering to radically change a group of processes because they are not capable of simple improvement.

Thus the dimension chosen depends on both current process performance and the extent of the change to the process needed. Each dimension will now be described in more detail.

4. Principles of Process Management

Process Management is a continuous activity and should be applied to every process in the business which needs separately managing because of its impact on customers, its costs or the risks it is assessed to have. It should be managed by its process owner and the process management measures should be the main performance information used by him or her.

The measures used to manage a process are not chosen arbitrarily or on the basis of what management information is already available. They are those which as closely as possible form a balanced scorecard which:

- tracks the customers experience of the outputs
- tracks the main drivers of output performance
- tracks costs and other business constraints
- controls risk

Measures should be limited in number or they will be ignored. Six to eight measures are the maximum which an individual can be expected to engage with in depth on a regular basis.

5. Example of Process Management

A key operational process in the life insurance - and many other - businesses is the setting up of new policies as the result of applications received. The process defined might look like that in Figure 3. The customer's specifications are that the policy documentation is received accurate and within 10 days of application. A key process driver is the completeness of the applications received and a risk is that the process will be exploited by money launderers. Measures are constructed accordingly and become the process's dashboard or scorecard.

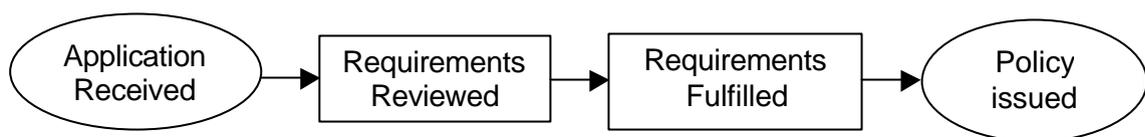


Figure 3

6. Principles of Process Improvement

A process improvement methodology provides a structure for a project so that it proceeds on the basis of established facts at each stage. The Six Sigma methodology provides a toolkit supporting five stages:

Define - setting the direction for the project by identifying a problem from the customers' viewpoint, defining the process which needs improving to solve it, outlining the business opportunity and forming a project team

Measure - quantifying the current performance of the process by gathering reliable data

Analyse - finding the root causes of the problem by analysing both the measured data and the process, and then quantifying the business opportunity

Improve - determining appropriate solutions to the root causes and implementing them

Control - ensuring the sustainability of the improvement over time using process management

7. Example of Process Improvement

Define - A project was recently undertaken by the author to improve the accuracy of commission payment. The customers of the company's commission payment processes are the independent intermediaries who sell its products on a commission basis. From their standpoint, the problem is that commission is not always paid at the rate agreed to the right intermediary. The overall process which needs improving is therefore from the setting of commission rates to the payment of commission. The business opportunity appeared to come from the potential incremental revenue from having intermediaries whose perception of the company was better and the cost savings in dealing with enquiries and adjustments post payment.

Measure – measurement consisted in this project of conducting an audit on a sample of payments. It established figures for the occurrence of inaccurate payments and classified them. For instance a significant proportion of payments were found to be in error because a nil commission arrangement had been made with the intermediary.

Analyse – The Analyse phase established by looking at the instances of incorrect payment that a root cause was that rates had been set up incorrectly on systems and that even though this was often identified, the workaround provided was not understood. This could potentially be corrected in all cases and gave rise to an unforeseen business benefit in avoiding the payment of future nugatory commission.

Improve – improvement is taking the form of ensuring that the designed process is working correctly by improving the procedures followed (minimising the opportunity for error) and ensuring that rates are set correctly (eliminating the opportunity for error).

Control – an SQL query has been developed to run regularly on the system to identify any payments made on nil commission arrangements. This will trap future payments in the future.

8. Principles of Process Re-engineering

Process re-engineering starts not from the existing ('as is') process but defines straight away an ideal ('to be') process. The re-engineered process is designed in such a way that it will be precisely matched to both its inputs and outputs. This tends to be necessary if a process has already been continuously improved over a long period of time, as well as of course if it has not existed before.

9. Example of Process Re-engineering

The author lead a team which designed and implemented processes for a new government agency which was the amalgamation of a number of units transferred from other owners. The previous owners then became the customers of the new agency – effectively a type of outsourcing. The new agency had to work up processes to offer a variety of services to a wide customer base. This flexibility had not previously existed and therefore necessitated the definition of a number of products and the processes to manage their development, ordering, establishment, billing and so on. The processes were defined and then the old units reorganised to produce the new agency.

10. Conclusions

The operational performance of a business is the result of the performance of its processes in a coherent value chain delivering what customers want. A process focus in a business allows it to be tuned up, maximising opportunities and eliminating non-value added activities, with or without changing IS support.

References

The Six Sigma Way

Pande, Neuman & Cavanagh, McGraw Hill 2000 (ISBN 0-07-135806-4)