



E Squared UK Ltd

# Improving Organisational Performance through Strategic Process Alignment

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## 1 The Purpose and Structure of this Paper

This paper aims to address a thorny and controversial issue. Can process management, usually seen as a very tactical operation, be applied to organisations in such a way that it might enable them to improve their corporate performance? In particular can process be used as a tool to ensure that effort across the organisation is pulling in the right direction?

The solution which we propose is more than theory. It is based on years of practical application of process improvement techniques by expert practitioners in this field. Whilst not intended as a DIY guide to improvement, this paper does propose a technique and approaches to its use which aims to shed light on the solution at a very practical level.

The paper starts by explaining the problem: that try as they might, organisations of all shapes and sizes consistently fail to do the right things the right way. It then goes on to investigate why and to propose a practical solution based on a simple framework for analysis. The main elements of the framework are then discussed in more detail, through the use of case studies.

We conclude by addressing the machinery which needs to be in place for this to work. In particular we look at the link between processes and the Value Chain.

## 2 The Problem

Every organisation wants to do the right things the right way.

However, as organisations grow and become more complex, the right thing or the right way is not always clear.

Over the years, management theories, methodologies and tools have all essentially sought to address this, but all too often have fallen short of expectations. Why should this be, when at a high level every organisation operates to similar principles: they work out the big picture, set goals, decide what everyone needs to do and then drive them to achieve it?

Businesses put a lot of effort into defining exactly how things should be done then checking regularly that they are done. But in planning this, issues arise because critical detail is often missing.

The first issue is that individuals all too often fail to understand how they personally contribute to the organisational goal. Even with the introduction of broad-ranging measures such as Balanced Scorecards and their ability to drill targets down to the individual level this, can still be problematic. The strategic goal itself may not be well defined (e.g against SMART principles) and even if it is, the link between the low level targets and the high level strategic goal may be unclear or not defined at all. Without that there is a real danger that the low level targets become ineffective, or worse, work adversely to the achievement of the strategic goal.

The second issue is one of process alignment. As targets may be misaligned, so too may processes. All too often organisations map out processes at a tactical level, function by function, without understanding how they relate to the overarching Value Chain. So whilst operations at a functional level may be clear, their link with the achievement of strategic goals may not.

The third issue is one of compliance. Talk to any organisation and differing pictures of compliance confidence emerge at different levels of management. Whilst at a senior level managers may be happy that compliance criteria are met and formal standards maintained, deeper down there can be significant compliance drift. Operatives often pay lip service to procedures, short-cut tasks to speed the job, or worse simply meet poorly defined key performance indicators (KPI). Not all of this is able to be picked up in quality audits, hence the introduction of statistical management techniques such as Six Sigma.

Take the example of a particular engineering business. It was in the midst of rolling out a country-wide Business Process Management exercise as part of which it placed an onus on its managers to ensure their department's processes were mapped by a particular date.

A well intended decision was taken to define a process mapping KPI. All this KPI stated to the targeted management layer was "complete the mapping of your department's processes by the given date..."

It didn't say anything about the quality of the work or the expected outputs, but it did say that failure to achieve the KPI would determine whether the individual received a bonus for that year.

So, potentially value-adding work was set aside while the team mapped out their processes. No one really cared whether the processes were accurate or indeed added any value to the organisation. The exercise was purely Pavlovian: complete mapping = receive bonus and the result was perhaps predictable: rubbish in = rubbish out.

The resulting process maps were soon found to be almost entirely worthless and the whole mapping exercise had to be repeated but managed in an entirely different way. No surprise then, that the link to the KPI was immediately dropped.

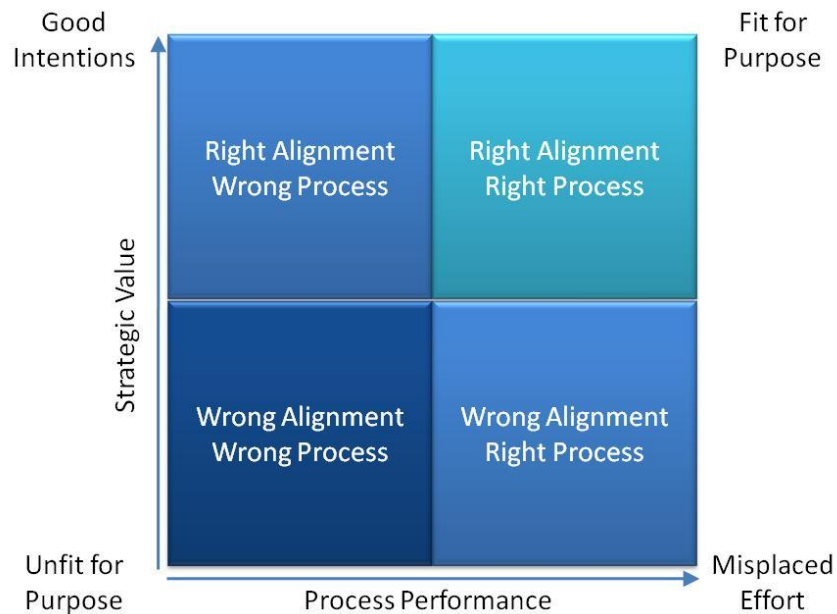
The real missing link was the cause and effect from the top down. The top down process - a "Golden Thread" - articulates a long, unbroken chain of activities, to which people and other resources are naturally attached. This cascade, from strategic intent to process, activity and task, containing performance criteria relevant to each level is the heart of a truly process oriented management approach

### 3 Identifying the Problem

The first step to solving the problem is to understand how processes both align with strategy and improve performance execution.

An organisation that has aligned its processes perfectly with strategy and has refined the nature of its processes so that they are optimised for performance is clearly fit for purpose; and the opposite also applies. In between are the areas where attention needs to be paid. Organisations that are well-intended have their processes well-aligned with strategy. However the processes themselves may be poor at generating results. Conversely effective processes poorly aligned with strategy may produce results, but often they are the wrong results.

This is summarised in the framework below.



## 4 Practically Analysing Process Fit and Performance

This framework can be of real practical use. By asking the following questions it can be used to challenge the fit and performance of any process in any organisation.

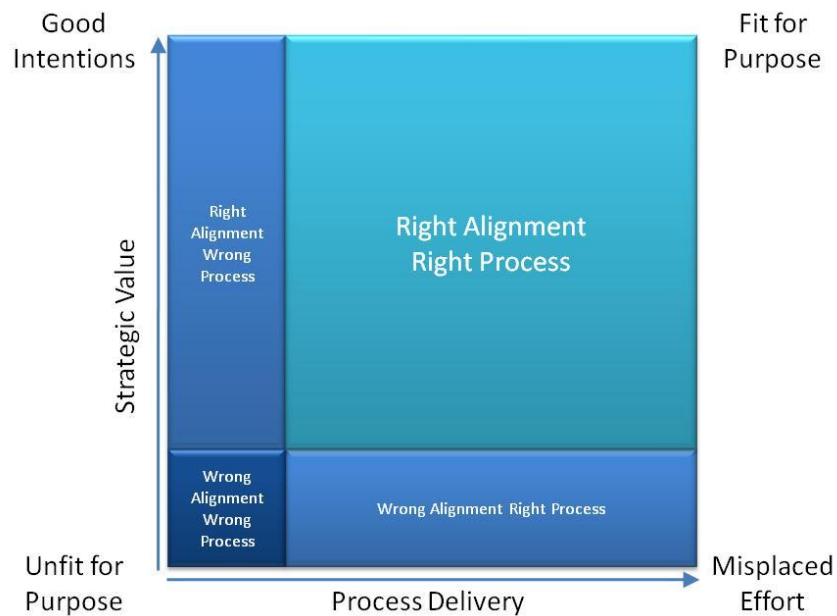
- **In what way is the process misaligned with strategy?**

The key here is lack of added value, with no tangible benefit reflecting strategy. We need to question if the process encourages inappropriate behaviour and/or constrains strategy realisation.

- **In what way does process execution fall short of requirements?**

Here we need to check out poor cycle time, any evidence of bottlenecks or capacity constraints in satisfying output demands. Also identify any inadequate quality checks or low yields.

In practice, for well-run organisations the picture looks like that shown below.



The majority of processes are indeed fit for purpose. However the principles still hold good and for such organisations, the following approach might be adopted.

- If processes can't be aligned with strategy then remove or at least minimise them.
- If process execution is questionable look either for ways to improve it, or if combined with poor alignment consider stopping it altogether.
- Just because alignment and execution performance is good, it doesn't preclude further room for improvement. The challenge is to prioritise these "right" processes in terms of their ability to deliver corporate results.

## 5 Analysis Case Studies

### 5.1 Is a result always a success?

#### 5.1.1 Situation

A snack food business had a challenge: change to the daily production runs demanded by its largest customer or lose business from that the customer.

The production manager was adamant that this was unfeasible, since a vital changeover carried out weekly was too complex and time consuming to be undertaken daily: it took 8 hours to complete.

Of course the manager was achieving some measurable success:

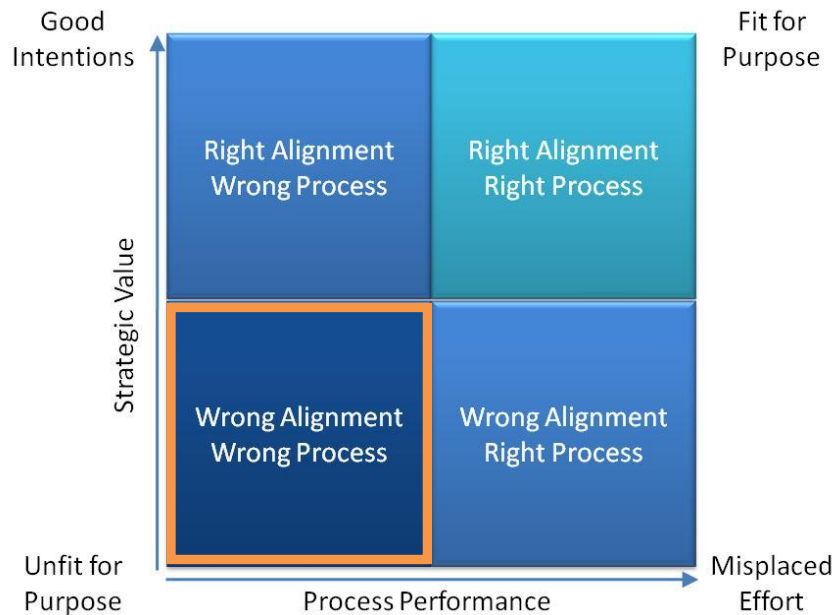
- He had a deadline to meet to be ready for the next shift: he met the deadline
- He had Food Standards Agency standards to comply with: he complied
- He had a budget to work to: he paid out exactly what he budgeted

But aligning the changeover process with the requirement for daily production runs was not going to be realised without a major process improvement.

#### 5.1.2 Analysis

The well-intentioned production manager was focussed on completing the operational job in hand – doing the right thing as he thought. But he was unable to look critically at his process and see ways to streamline and improve it – so doing the right thing the right way.

The frenzied activity once a week was never going to be good enough. The hapless, but determined manager was working furiously to fall short on both axes of the process grid:



By analysing the process and looking for opportunities to reorder, simplify, and “foolproof” the activities necessary, it was found that the process cycle time could be reduced sufficiently to align it with the daily production run requirement.

The important difference was to see the strategy as a given and then find a way to make the changeover process align with it. Having defined the strategic goal as daily production runs, a measure of realisation: revenue protection, was then able to be set. This meant that cost/benefit decisions on process improvement initiatives were better informed and their value towards the achievement of the strategic goal was able to be assessed.

“Lean manufacturing” consultants reworked the changeover and drastically reduced the time to less than an hour. This had a number of effects:

- It facilitated the introduction of daily production runs
- It created additional operating cost reductions by minimising overtime payments.

### 5.1.3 Conclusion

The original process was wrong in every way and thus unfit for purpose. It was performing poorly and it was not aligned with the achievement of the organisation’s strategic goal. It needed to be replaced with one that was.

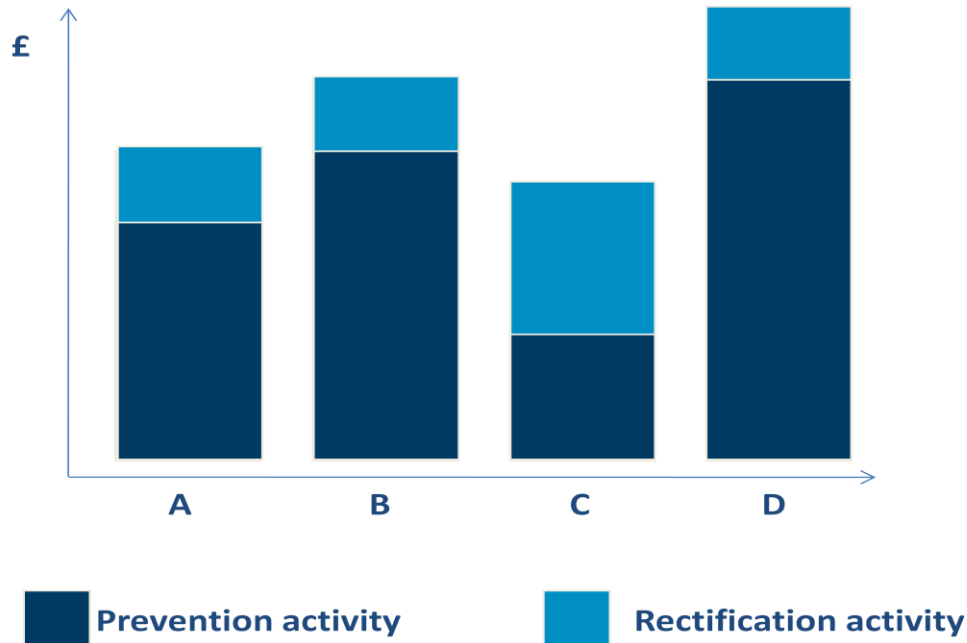
## 5.2 Is lowest cost a measure of a high performer?

### 5.2.1 Situation

Take a look at this historic comparison of quality costs from a pharmaceutical business’s four sites, all of which were fully compliant with Government drugs manufacturing legislation.

The graph shows the total cost of quality analysed against the two main quality management activities:

- Prevention activities such as chemical analysis of the pharmaceutical actives in the products, or tolerances in their manufacturing process.
- Rectification activities such as reworking product or investigating out-of-specification returns.



The company was keen to minimise its quality management cost but also prided itself on its customer service standards. As we shall show, these two aspirations were counterproductive.

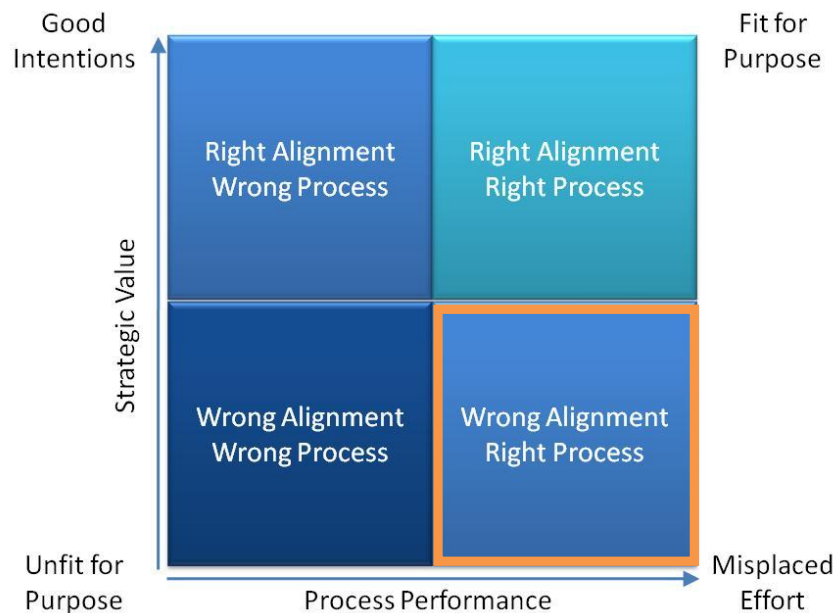
### 5.2.2 Analysis

In meeting imposed quality standards at the lowest cost, site C was the best performer: it had the lowest cost of prevention and was applauded for it. But site C also spent most of its remaining budget on rectifying problems: indicative of process shortcomings, quality failure and possibly customer dissatisfaction. This was particularly important since the organisation set very high targets for customer service: a time-to-order fulfilment success rate of around 80%.

As shown below, site C's reject rates, at 20%, were the highest of all four sites and four times higher than site D. Since high reject rates resulted in delays in meeting customer delivery expectations site C had the highest number of unhappy customers.

Site	A	B	C	D
Reject Rate	12%	7%	20%	5%

So what seemed like a possible “star performer” was actually doing the worst job of meeting a potentially more critical goal: that of maintaining the highest standards of customer delivery performance.



### 5.2.3 Conclusion

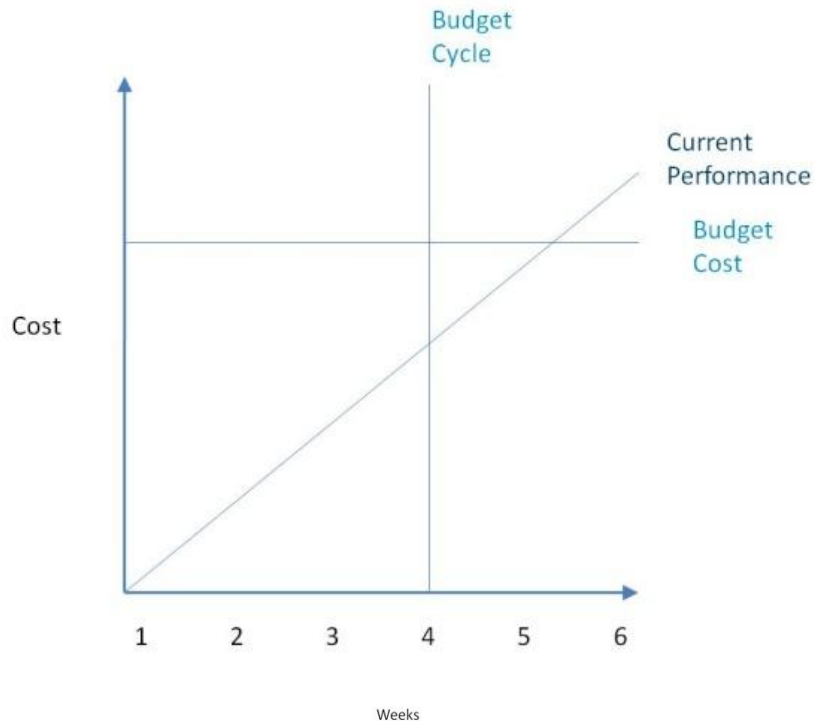
Site C was certainly running an efficient quality management process but unfortunately that process was not aligned with the business strategy. Operating the “right” process in the wrong way created a high potential risk to the realisation of strategic goals. It was misplaced effort.

## 5.3 Is hard work the way to get results?

### 5.3.1 Situation

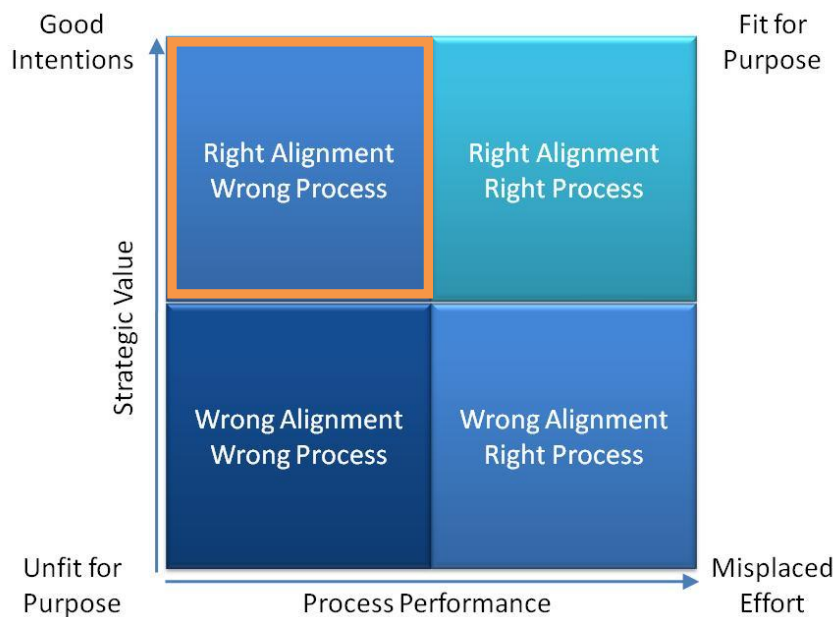
A high- tech defence contractor had put a lot of work into defining a management process which was aimed directly at maintaining the high levels of innovation and compliance demanded by its customers.

Operationally the process took six weeks to complete. It was perceived to be too onerous to be completed within a monthly cycle yet needed to be so in order to align with monthly financial reporting requirements. As a result cost was over budget, some activities were being short cut or ignored yet still information systems were out of line or incomplete.



### 5.3.2 Analysis

Analysing the cycle time for the process initially confirmed it was about 50% longer than the required performance. Further analysis revealed bottlenecks, unnecessary activity and poor delivery methods. So the business had good intentions but the right things were not being done because of resource wasted on doing the wrong things.



By looking at the process from a strategic perspective, the business was able to identify process improvement opportunities, plan resources more effectively and streamline financial reporting to yield a 50% reduction in the process cycle time. It realigned its top level Standard Operating Procedure with financial reporting requirements so that all core activities could be completed within the monthly cycle and resources properly assigned to value adding activity.

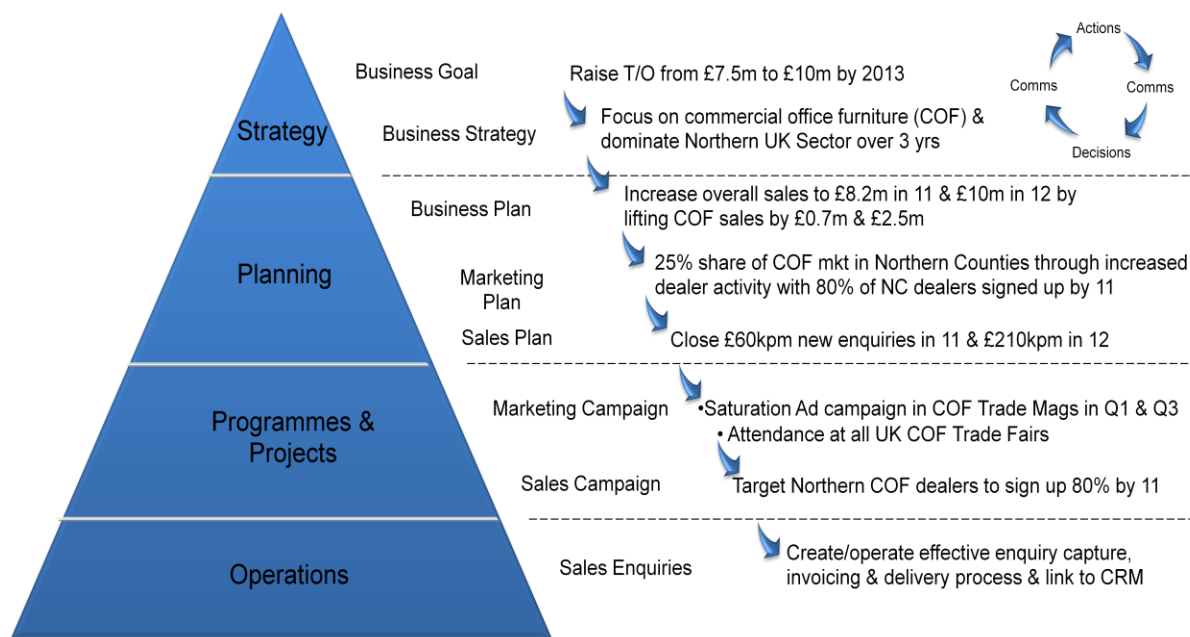
### **5.3.3 Conclusion**

Strategically the organisation was clearly aligned: it knew that in order to be effective it had to ensure that its Standard Operating Procedure was in step with its financial reporting requirements. The issue was that the process was 50% out of step. The process, not the strategic goal, had to be adjusted.

## 6 The Right Result

Whilst the 'right' result will be different in detail for each organisation, at a high level it will have a similar form. The right result enables any particular business goal to be clearly and logically translated into specific tasks of ever-increasing detail. At each level of the organisation these tasks define targets, processes and new Key Performance Indicators.

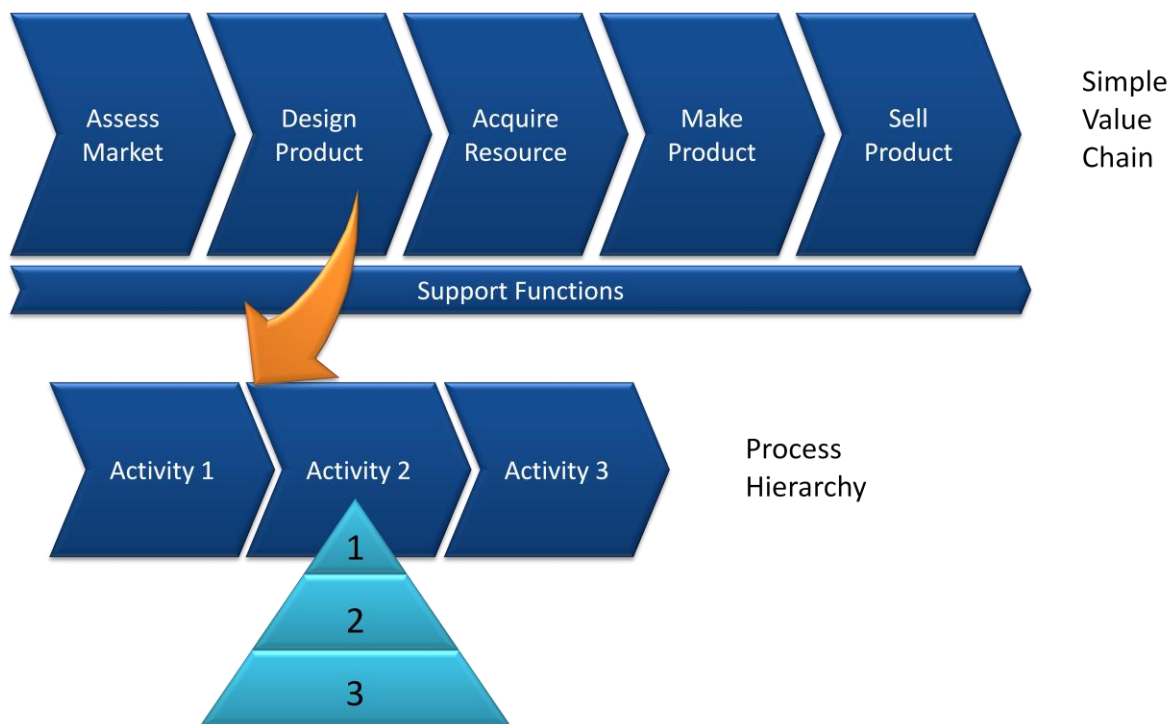
As an example let's take a fictitious furniture supplier: a small business with a turnover of £7.5m. It has set a strategic goal to increase that turnover by £2.5m over a 3 year period. The resultant marketing and sales strategy, plans, projects and operational tasks that flow down from that goal are shown in the diagram below. Each breaks the goal down into ever more manageable targets and those in turn relate to processes and the metrics that drive them. There is a clear line or Golden Thread that links cause and effect right down the organisation, from strategy to operations. Everyone along that thread knows exactly what they have to do to achieve the corporate goal.



## 7 The Starting Point: the Value Chain

The right result can be achieved across the operation by ensuring that all elements of the Value Chain which are relevant to that thread are engaged with it. In the example above we have focused on marketing and sales but undoubtedly other parts of the organisation from supply to manufacture and distribution, including all of the support functions, will be involved.

So the critical starting point is to identify and describe your organisation's Value Chain. Once described, the business's strategic goals can be mapped onto the value chain to provide the starting point and determine the relevant processes to manage, as shown in the example below.



The impact on corporate effectiveness can be profound and long lasting, primary due to the cultural shift this creates. Everyone at every level becomes much more aware of their contribution to the end result and thus much more engaged in its successful delivery. Process effectiveness decisions become much better informed and carry the weight of reality often missing in dry procedural manuals.

This is the major leap which many companies fail to take. From here the road to continuous improvement is both shortened and eased.

## 8 Summary

Throughout this paper we have described one of many approaches to Business Process Management and have provided some concrete examples of its application.

The requirement outlined at the outset was to understand how business processes can be aligned with strategy and thus deliver exceptional operational performance. We hope within this paper at a high level we have demonstrated this. Certainly the devil is in the detail but this is one area where detail needs to follow strategy. A top-down approach thoroughly planned and executed always works. A bottom up approach rarely does.