This article originally appeared in the 2011, No. 2, issue of

Outlook

The journal of high-performance business

Process Performance

Why operational excellence matters

By David S. Toth and Hundley M. Elliotte

Relatively small improvements in business processes can put companies significantly ahead of competitors. But first they need to decide which processes really matter—and develop the disciplines to manage and sustain them.

Time was when product, service or structural innovations were sufficient to secure a company a place in the pantheon of leading global brands. No longer. In today's markets, competitors can swiftly copy or reverse-engineer the most game-changing innovations; indeed, such one-time structural novelties as online retailing are now commonplace.

Small wonder, then, that superior execution, which has ranked first among The Conference Board's top 10 CEO challenges since 2007, is becoming an increasingly critical differentiator—and that companies are paying more and more attention to the business processes that make it happen.

Companies that combine the right operating model with superior execution are winners in good times and bad. They not only ride out recessions more successfully, they also emerge from them more quickly. As companies resume the quest for profitable growth and high performance in the upturn, they can no longer afford to ignore the role of process in delivering value to their customers.

Definitions of customer value will, of course, vary from company to company. For some, it's all about establishing a reputation as an innovator by being first to market; for others, it's a function of low cost or superior service support. For all, however, operational excellence in underlying business processes is critical to value delivery.

Accenture recently surveyed a wide range of industry leaders in the United States, the United Kingdom and Germany about the importance of process to their businesses (see sidebar, page 82). We found broad agreement among the respondents that performance improvements of as little as 9 percent or 10 percent in such key underlying processes as product launch, procurement and customer service would differentiate their companies significantly from competitors.

What's more, if improved performance in key processes can be sustained, these companies confidently expect to be able to maintain a "process-based advantage" for a year, or even two.

So what's stopping them?

Our research also reveals a remarkable degree of confusion about process—not only around issues of identification but also around questions of governance. Few companies actually know which specific business processes are critical to success: On average, across geographies, just 22 percent of our survey respondents could identify them with confidence.

In addition, a lack of alignment between senior and middle management plainly hampers improvement efforts. While the C-suite regards a lack of talent as a key deficiency, for example, the middle managers who typically direct most improvement efforts complain about insufficient resources. Meanwhile, there is a struggle to coordinate project management—where the process improvement work is actually done—across functional areas.

Although companies do seem to appreciate which functional areas matter most—sales and marketing and R&D topped our survey respondents' list—we believe that the principal reason they have difficulty identifying key underlying processes is that they focus on these areas individually. The key to success is to recognize that most customer value is delivered cross-functionally and that, therefore, process excellence must be similarly cross-functional.

Bringing new products to market is not the sole responsibility of

R&D, for example. It also involves marketing to determine consumer needs, as well as product and portfolio management to ensure those needs are aligned with strategy downstream and effective supply chain management. It then needs marketing again to help ensure value delivery.

We call these cross-functional areas *value streams*. And only by identifying relevant value streams, taking steps to reduce complexity in their underlying processes, transforming those processes in the right way and sustaining improvement through disciplined governance can companies realize the process-based advantage that drives superior execution and profitable growth.

Our experience suggests that getting process management right is a four-step journey.

1. Link strategy with execution

By focusing on the three to five key value streams that support business strategy and financial objectives, this approach helps companies identify which underlying processes actually differentiate them from competitors. Additional advantages include better alignment between executive and middle management, more appropriately focused technology investments—and a much clearer, end-to-end vision of what constitutes superior execution.

Consider, for example, the case of a mobile broadband provider that wanted to improve the speed and efficiency of its technology rollouts across several different markets. The company knew that many functions were suboptimal; procurement, for example, was buying on an ad hoc basis, without proper purchase orders.

But it wasn't until value streams were defined and a workshop brought together representatives of all concerned with execution—from the people responsible for leasing land, through logistics specialists, to those who actually built the transmission towers—that the company was able to clearly identify the specific functional processes delivering value to customers, and was thus able to improve them.

Identifying and mapping key value streams in this way can help any company understand which processes are important and why. The results, moreover, can be a revelation. One leading US-based retailer, for example, knew that customer-centricity was core to its value proposition. It still took value stream analysis to reveal that almost 60 percent of its processes were producing results (ease of doing business, for instance) that its customers simply did not value.

2. Eliminate unnecessary complexity

Improving processes that are irrelevant to requirements is plainly a waste of time. But eliminating process complexity—the next step on the journey to a process-based advantage—can be challenging.

Many companies have achieved top-line growth by extending their product lines, customers and markets either organically or through acquisition. Oftentimes, however, earnings growth has failed to keep pace—because expansion has resulted in duplicate or redundant processes that are destroying value rather than enhancing it.

Many companies, indeed, suffer from complexity on three fronts:

- duplication across a proliferation of business units that operate, in effect, autonomously (HR functions in every channel, for instance);

- a bloated product portfolio; and

- processes hampered by multiple handoffs and overwhelming volumes of reporting.

Understanding the costs of these complexities is an essential prerequisite to eliminating them. After completing its value chain exercise, one US-based retailer recognized, for example, that its infrastructure upgrades were out of alignment with the needs of execution. Numerous applications designed to help employees deliver products quickly and cheaply had to interact with a central IT system so complex that it was thwarting their efforts.

In fact, complexity on all three fronts was not only preventing the retailer from serving customers profitably, it was also handicapping the most basic business processes—to say nothing of the retailer's ability to respond swiftly to shifting customer preferences and execute new product and service strategies to drive future growth.

3. Transform in the right way

Taking the right approach to improving suboptimal processes is as important as identifying the right processes to improve—and not all processes need to be improved in the same way. Deciding how to transform processes, which is the third step on the journey to process-based advantage, will depend on each individual company's strategic positioning and customer value proposition.

As a rule of thumb, Accenture defines processes as core, critical or differentiating—and companies need to assess the performance gaps across each type of process before deciding whether to standardize, optimize or innovate them.

In our experience, some 80 percent of an organization's processes are core to supporting execution—and standardizing them can cut operating costs by close to 10 percent. Standardization also opens up opportunities for automation, as well as for structural changes such as centralization or offshoring, which can reduce costs by an additional 70 percent.

We find, moreover, that operationally excellent enterprises tackle both structure and execution. And by blending both, they achieve true competitive advantages—the ability to drive growth while also reining in costs and improving efficiencies, for example.

For organizations in the throes of globalization, the benefits of standardization are especially striking. Take the case of a leading oil company that as a result of growth through acquisition was struggling to manage a host of legacy and inherited business processes. Many of these processes had been designed to differing standards in an industry where compliance with health, safety and environmental regulations is a major concern. By putting all its business process management on one simplified, streamlined technology platform, the company not only cut costs and boosted overall efficiency, it also

Transforming processes to enhance the customer experience

A large electric company in the southern part of the United States is one of the biggest rate-regulated utilities in the country. It also has a reputation for high-quality, low-cost service.

Indeed, the company takes great pride in its long-held position as a top-quartile performer in national customer satisfaction rankings. So when the utility decided to deploy an advanced metering infrastructure—replacing traditional, manually read meters with "smart" meters across its entire service area of more than 4 million customers—it also resolved to ensure that the transformation would enhance its standing as a provider.

That, to be sure, was a tall order. As a way of improving efficiency, the transformation was to the long-term advantage of customers—in Accenture's experience, the typical starting point for most process innovation initiatives. But it also threatened to increase both the volume and complexity of meter readings. Smart meters, after all, not only establish immediate, two-way communication with the utility; customers can also monitor their daily usage. And since different customers have different billing and service arrangements—some, for example, can sell surplus energy back to the grid—the level of data exceptions was likely to rise exponentially.

The utility swiftly recognized that both better service and cost control depended on redesigning operational processes in such a way as to take optimal advantage of cross-functional process synergies (see story).

By completely redesigning its customer connect and disconnect, monitoring and billing processes along "lean" principles, the company has effectively preempted the process complexity that could have compromised its obligation, as a regulated utility, to put customers before profit.

That's not all. Thanks to a business process repository that holds all activities as readily accessible "objects" in a database, the utility's business process improvements are also sustainable in the long term.

enabled more viable expansion in the future.

It may be necessary to optimize core processes—the 15 percent of processes we define as critical—if one or more of them are significantly underperforming. When a Canadian utility decided to reduce the overall costs of its new business sales effort, for example, the company discovered serious inefficiencies in its critical municipal permit payment process. Optimizing the process—applying Lean Six Sigma approaches and tools to identify and mitigate variation and waste, thereby ensuring that payments were conducted in parallel rather than serialized—helped cut more than $14 million from the company's $90 million total process expenditure.

Process innovation, on the other hand, is usually necessary only when the 5 percent or so of processes that are truly differentiating are seriously floundering.

4. Sustain process improvement

Ensuring that process improvements are continuous and sustainable is the final step on the journey to process-based advantage. And in our experience, it hinges, crucially, on three distinct aspects of governance: a formalized process improvement capability in the workforce; an appropriate structure to guide employees' efforts, maintain competency and track value; and the right technology to monitor progress.

The oil major, for example, has created a center of excellence to act as a single internal source of high-quality business process management services. The center provides process owners with process modeling services and conducts modeling workshops.

About the research

Accenture conducted 178 web surveys among companies in the United States (105), the United Kingdom and Germany (73 in total) to understand the role and importance of process in the success of their business and to determine if they had the capabilities to implement process improvements.

Some 28 percent of our respondents represented the electronics and high-tech industries; 25 percent were from consumer products; and the remaining 48 percent were split evenly between financial services and communications and telecommunications. About 56 percent of respondents had total annual global revenues of less than $10 billion, while the rest had more.

The program has generated cost savings and efficiencies by allowing the company to rationalize its business process management staff and establish a single point of contact for process improvement initiatives. Moreover, the company's globally standardized approach to business process management helps ensure that it enjoys a uniform level of process quality regardless of where it operates.

One leading European consumer products company, meanwhile, is using a centralized database, or business process repository, to ensure sustainable process management improvements that will help harmonize the globalization of its operations. And a large Southern US electric utility's process improvements—the result of a total and virtually all-encompassing transformation of the utility's customer experience (see sidebar, page 5)—are now company assets, available via a business process repository to anyone in any business function who requires access to them.

The transparency inherent in business process repositories and centers of excellence is the cornerstone of sustainable process improvement. Indeed, such long-term assets are a hallmark of process-based advantage and thus, of course, superior execution.

Our survey found that fewer than half of participating companies maintain process expertise in a central repository at the enterprise level, and that even fewer use centers of excellence (less than 30 percent). But it also revealed that a minority of respondents that could actually identify which business processes really matter to them were also more likely to maintain process expertise in a center of excellence—just as they were also more likely to consider their process performance levels to be better than industry benchmarks, or to boast better financial performance than their competitors.

Turning processes into drivers of long-term competitive advantage will require a combination of determination, discipline and dedication. For most companies, it will also involve radical cultural changes that few will find painless.

The rewards, however, in terms of effectiveness, efficiency and predictability, will be well worth the effort.

About the authors

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