



# A Process for Business Transformation

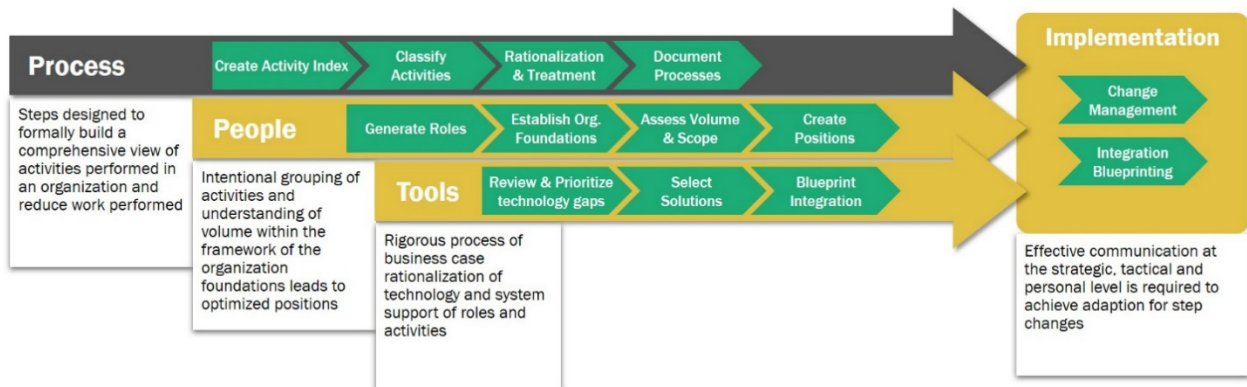
## A defined approach to assess processes

By [Andrew Klemm](#), Chris Burton, and Emily Cowperthwaite

Welcome to the second article in our series, “[A Process for Business Transformation](#)”. In this article, we will address the critical initial steps of transformation. These steps are designed to establish a comprehensive understanding of the activities and processes performed through-out an organization as well as set the foundation for subsequent transformation steps.

Beyond traditional continuous improvement projects, transformations are undertaken to achieve a step change in organizational performance. But what does this mean? Is there a universal definition that can be applied to the goal of transformations? The answer is both yes and no.

While each organization will have a unique set of requirements for their transformation (e.g. improved agility, strategic alignment, better customer interface), the one thing all transformations have in common is a need to reduce operating costs to varying degrees and activity levels. However, this is where one of the most common pitfalls of business transformations occur. One of the highest cost line items for nearly every business is personnel costs. Naturally, the desire or need to reduce costs invariably turns to a discussion on reducing personnel. There are two levers managers can utilize to reduce cost, reduce unit cost (cost per hour), or reduce volume (hours). Strategies exist to address both, but we have found it more helpful to think in terms of work. Any initiative seeking to reduce costs in a business without first addressing how to reduce work is destined to fail.





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### Step 1. Activity Index

Establishing an understanding of the universe of activities performed by an organization is a foundational task for every successful transformation. Without a comprehensive reference marker, transformation projects can digress into a loose collection of individual tasks rather than a holistic business initiative. A comprehensive index of activities acts as the initial data and information gathering point as well as a project reference point that will support and guide subsequent transformation steps by capturing relevant data points for each.

#### Common Pitfalls

The most common pitfall in this step happens when the Activity Index is developed in too close knit of a team. Seeking insights from the people that are performing the process is critical to creating a de-facto understanding of those activities. Another common mistake is documenting activities at too high of a level. You do not need to catalog every operation in a process for this index, but you should not assume the activities for one business unit apply to another; there is a high risk that business requirements dictate local variations to standard process which can be easily missed. Conversely, a preoccupation with perfection is also problematic. This exercise should not take more than five percent of the time allocated to the transformation project. Finally, try to avoid a preoccupation with ad-hoc improvements. If there are glaring issues that can be readily addressed with minimal effort, pursue them, but all too often we see higher yielding opportunities put on the back burner to chase down minor process improvements.

At first glance, creating an activity index sounds like a tedious activity and, in truth, it can be. However, the index and collection of key activity and process data will serve as the basis for the innovation and design elements ahead. It is a critical first step that if missed or glanced over will leave your transformation built upon a weak foundation.

#### Best Practices

While generating the activity index is a critical component to a successful transformation, it is not the place for innovation and there is no need to reinvent the wheel. When available, teams should make use of existing process and activity documentation. If there is no existing documentation to reference, several other available resources could provide a starting point. For example, the Association for Supply Chain Management (APICS) maintains a broad index of business processes and activities in their proprietary taxonomy. In more advanced data environments, teams may utilize process mining techniques to establish key activities as well as sequence. Either way, teams should always validate with frontline employees to prevent missing key activities or misrepresenting processes.

#### Key Activity Attributes

- Task/Activity/Report
- Description of Task/Activity/Report
- Goal of the activity
- Operating rhythm
- Responsible role
- End users/benefit to company/value added
- Issues & concerns
- Time to complete
- Key system interactions



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### Step 2. Classification of Activities

Once all the activities are indexed, it's time to classify them into three buckets: value-add, low value-add, and no value-add. This is one of the most time and resource intensive steps of transformation, but also most likely to pay dividends. While classifying, remember that it is imperative to be unbiased to the people, roles, and activities. You may find people create work that is not necessary, but every activity needs to be addressed honestly and with the success of the company in mind; consider the following:

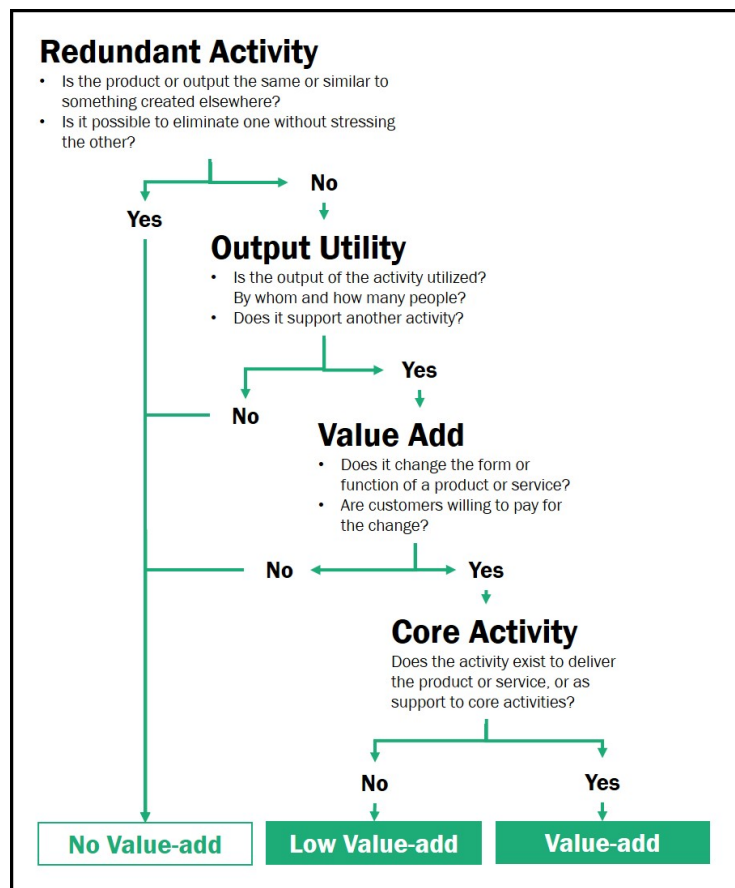
**Redundant Activities** – While an activity may seem to be value-add, this is not the case if multiple activities are producing the same or similar output. A review of outputs will reveal redundant activities. This is especially common in matrix organizations and it is often simpler to expand one activity rather than to have two concurrent activities.

**Output Utility** – Is the output of the activity used? By whom and how many people? Does it aid in the success of another activity? This step is especially useful in FP&A (Financial Planning & Analysis) function. No matter the industry or client maturity, we always seem to find a report that takes four hours to produce, was requested at one point in time, and the cadence was never stopped.

**Adding Value** – In Lean methodology, to determine if an activity adds value, it must meet the following criteria:

1. Does the activity change the form or function of the product or service?
2. Are customers willing to pay for the change?

**Core vs. Support** – Does the activity exist to directly deliver products or services, or does the activity indirectly support the business?



### Common Pitfalls

The most common pitfall in this phase of process assessment is a tendency to be too conservative in classifications. Many times, the same group that needs to assess the value of an activity has been, at one point in time or another, directly involved in performing the activity. Not making an honest assessment of an activity's value to the organization will lead to continued waste and inefficiency. You



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will likely encounter the most resistance in this process as managers and employees alike justify the activities that keep them busy.

Deciding on the value of activities and processes is the quickest way to identify improvements to the business. These classifications will help to inform the next step of the process where an un-biased assessment of activities will allow the transformation team to quickly eliminate work and reduce the effort required to operate the business.

### Best Practices

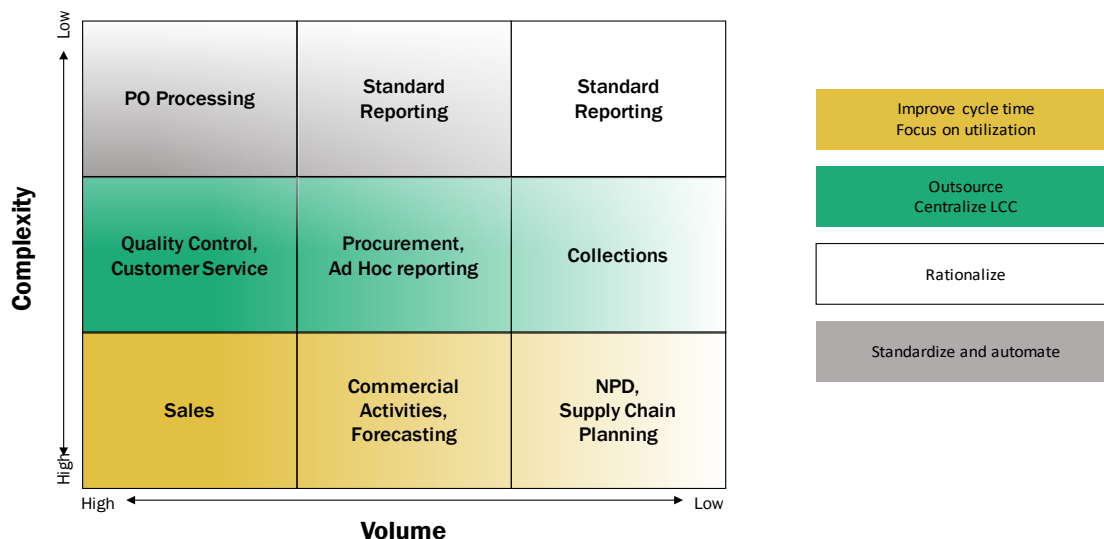
There are many ways to make determinations across the no value-add, low value-add, value-add continuum. Each team will have their own process and should make this assessment while taking into consideration the organization's strategic goals and differentiators. Again, classifications should not be made in isolation; obtaining feedback from frontline leaders and employees is critical to making a well-informed classification.

### Step 3. Rationalize & Define Future Actions

Throughout our experience delivering business transformation and organization restructuring services, we have learned that management is prone to reducing resources without reducing workload. The first goal of transformation is to reduce the human hours required to run the business. A powerful solution is evaluating activities before reducing headcount. By leveraging the classification of activities completed in the previous step, we can quickly reduce our workload by doing the following:

- If an activity is not value-add, rationalize the activity
- If an activity is low value-add, it is a candidate for outsourcing or automation
- If an activity is value-add, review the process and improve

Adding activities to a matrix of Complexity, Value-Add, and Volume will help to quickly identify potential action for activities as well as help quantify the impact those changes will have to the organization.





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### Common Pitfalls

Many of the same risks involved in process reengineering also exist in business transformations. However, there are a few that we have seen more often than others. The first is a blind drive to automate process in a bid to make a transformation digital. While automation is a great tool to reduce the total effort to operate a business, automation only makes sense to invest where processes are standard across business units and over time. An overestimation of standardization has led to many failed implementations of RPA.

### Best Practices

The utilization of a cross-functional team and support from outside the direct business is critical to make an unbiased assessment of improvement potential. This is especially true when rationalizing non value-added activities. The most successful transformation projects we have participated in underwent a robust initiative prioritization process driving the return on investment. Recent developments in data availability and analysis techniques have led to the emergence of process mining (see case study). Tools like this facilitate the identification of high impact improvement areas. While data drives much of the improvement identification, design, and execution process, teams should still elicit qualitative feedback before determining the improvement action to take. For example, the importance of relationships in effective collections might preclude the efficiency that could be gained by centralizing the function.

No matter the course of action ultimately decided upon, rationalizing, outsourcing, automating, or general process improvement, the goal of transformations needs to begin by seeking to reduce the effort of human capital needed to operate the business. This will free additional organizational capacity without increasing costs or allow for a reduction in costs. Without these initial process outset steps, we have witnessed many transformations devolve into disaggregated, localized improvements. While this can still provide a benefit to the organization, it rarely meets the intended goals and investment thesis for true transformation.

From here, the heavy lifting of transformation begins through reengineering processes, digital process support, defining what roles are needed, and which are best to perform these activities. We will cover each of these elements in more detail in upcoming articles. For now, we will skip ahead to cover the final step involving transformation process.

### Case Study

**Situation:** Senior management of a mid-market SAAS company grew frustrated by the FP&A team's inability to generate timely recurring reports. This issue peaked when the team struggled to respond to ad hoc analysis during an acquisition phase.

**Solution:** After an activity review, it was discovered that FP&A's time was spent reformatting .csv exports from the accounting and finance systems. Further, Accounting errors led to a lengthy, manual process often requiring FP&A to start from scratch.

**Phase 1 – Immediate Solution:** SLKone developed a highly automated workbook that would take all system outputs and “push” them into the pre-formatted recurring reports.

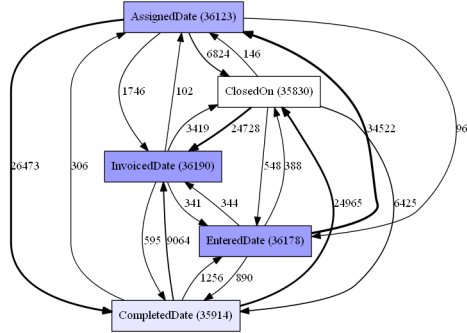
**Phase 2 – Long-Term solution:** SLKone assisted in the implementation of a new FP&A tool, specifically the automation of recurring reports and standardized formats to satisfy internal and external reporting requirements.

### Tool Highlight

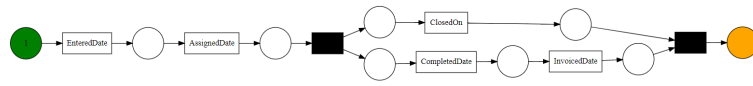
Process Mining, also known as Automated Business Process Discovery (ABPD), is a suite of data analysis techniques that utilizes system event logs to produce analyses and visualizations of business processes. These techniques have been proven to improve speed to insight in reviewing key processes, providing:

- Process sequence
- Process conformance
- Process cycle times
- Process volume
- Process exceptions

**Directly Follows Analysis** – Describes the path articles take through the process, including time between events and volume



**Petri Net Inducer** – Compares a defined process to an actual sequence, identifying non-conformance and non-defined steps



### Step 4. Process Documentation

After all the changes have been designed, roles assigned, and technology improvements prepared to go-live, it is easy to look back on the vast amount of work that has been completed and call the job well done. Process documentation is one of the easiest steps to complete, but often the most overlooked and is a major contributor to lack of lasting performance improvement from transformative initiatives.

While a lot of documentation, time, and effort will go into training at implementation, or time of change, the biggest threat to those changes is the natural evolution of the business. People change roles or leave the organization and key assumptions change. Documenting the process, activities, and related information creates a lasting repository to support training the next generation of activity performers and facilitates a common understanding of how your organization works. In addition, it serves as both a reference point and tool set for continuous improvement.

### Common Pitfalls

As mentioned above, the biggest pitfall to avoid is only allowing a select portion of the organization to view the documentation of processes. Innovation is a natural state for many people, and this can only be harmful when innovation occurs in isolation. By providing a holistic understanding of the process, employees will only better understand the importance of their contributions and provide improvement opportunities that do not conflict with the rest of the process. Finally, don't underestimate the need to train each function or group on the entire process. Without this understanding, they may lack confidence in the process or fail to understand the importance of following the process to the recipients of their efforts.



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Documentation for the purposes of training is a foundational step for any improvement project. The documentation from a transformation project should be held to a higher standard. Knowledge management is critical to the long-term success of step-change transformation and part of transformation is establishing a foundation for the future.

### **Best Practices**

The most critical element for successful process documentation is accessibility. Process designs, key decision points, system interactions, and responsibilities need to be accessible to every employee within the organization, given proper information security has been considered. At a minimum, documentation should include process, activities, goals of each activity, inputs, outputs, responsible roles, and system interactions.

### **Conclusion**

The goal for transformation projects goes beyond short term cost cutting; they should be designed to drive lasting step-change performance improvements for the organization. When approached as a traditional or smaller-scale improvement project, it is easy to succumb to the demand for immediate cost reductions, leading managers to reduce headcount. This stretches employees too thin and some months down the road, after victory has been declared, headcount requests will start to flow in to undo all the work that had been done.

In order to create sustainable transformation in business leadership, teams need to start by reviewing the activities and work that is performed by the organization. Only by reducing the work, and the effort required to perform this work, can true evolutionary change occur. Process and activity considerations have been placed at the beginning of the transformation timeline for this reason. The first three steps are designed to provide the foundation for the entire transformation while the last establishes a new regime of continuous improvement.

Our next article in this transformation series will link process and activities to human capital, realizing additional opportunities by creating roles, and driving utilization of personnel through intentional scoping of positions.

### **Case Study**

**Situation:** A \$50M building products facility was transitioning off a paper process for order and production management. Each team was trained on how to use the system and the process flow in their part of the process. Three days after launch, it was found that finished goods inventory had grown significantly. Since going live ~40% of orders had been produced twice. Cue a panicked investigation of the software.

**Issue & Solution:** It was discovered that the customer management team had entered orders into the system as requested; however, they were unsure if production would see the same thing. Many had continued to fill out duplicate paper production requests and submitted to the scheduler as they had done previously. Production, thinking they were leftovers from the conversion or that the orders had not been entered to the system, produced the product. Training was repeated and expanded to provide the customer service team the knowledge of how production received and produced orders, clearing the previous confusion.