

Performance by Design: People, Process and Technology

A Roundtable Overview

Roundtable
on Digital Strategies

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Thought Leadership Roundtable on Digital Strategies

*An executive roundtable series of the
Center for Digital Strategies at the Tuck School of Business*

The U.S. and European Chapters convened to discuss opportunities for better business performance through process re-engineering and optimization. This Roundtable on Digital Strategies was hosted by ABB. CIOs were joined by executive colleagues responsible for quality, governance and running individual business units. Executives and academics participating were from ABB, BMW, Chevron, Eastman Chemical, Hilti, Holcim, IMD Business School, Nestlé, Tetra Pak, and the Tuck School of Business at Dartmouth.

Key Insights Discussed in this Overview:

- Process transformation itself can be improved. Such efforts are often ad hoc and impermanent. Consider five criteria for managing process change more effectively 1, 2
- Focus everyone on performance or outcome improvement, rather than “process” improvement. Doing so puts the emphasis where it should be and can help eliminate resistance 13, 16
- Don’t just centralize—standardize. Centralization alone generates questionable value, but process standardization can generate efficiencies, and even improve agility. The key is in managing the white spaces between functions 3–6
- Learn from the locals: When undertaking process improvement, consider benchmarked reference processes. They cross borders well, if local knowledge is enlisted 4, 5
- Process should sometimes be art, not just science. Be careful what you standardize—in some sales and service processes, relying on the wrong kind of consistency can vex your customers, your salespeople, or both 7–9
- Set priorities: Executives should distinguish core and competitive processes from commodity, then set up “toll gates” to decide which process improvements to take on first..... 9, 10
- Process outcomes are owned when process change is led by executives with line responsibility as priority one. Bake revenue and cost improvements directly into operating budgets to drive full accountability 10–13
- Cultural change management can be as important as process design. Change initiatives must be framed with a focus on performance and outcomes to generate buy-in. Use business process modeling tools to aid communication..... 13–15
- A common understanding of the benefits of any significant process change is critical to enlist individuals and drive adoption. In the future, individuals should be rewarded not simply for the hard skills they have, but also for their ability to adapt..... 16

Process Transformation: A “Consolidation of Compromises”

Sharing decades of experience in process re-engineering, through its many incarnations—whether TQM, business process re-engineering, Six Sigma or Lean—the members of the Roundtable began by recounting their experiences with process transformation and optimization.

Samuel Plüss, Head of Aggregates & Construction Materials for Holcim, candidly described how process transformation really happens in most organizations—very much by degree, and rarely coherently or comprehensively.

“There’s almost never really a business team sitting together and optimizing all of these processes,” he said. “Realistically, in the midst of running a business, it’s always a consolidation of compromises. And this leads to difficulties and to very complex systems in the end, which do not work very efficiently.”

“This is why business and IT so often find themselves mismatched,” he said. “You can have a sophisticated SAP system in place, but only 10 percent of your workforce can use it, and 90 percent still works somewhere on Excel—and that becomes the operational fact. So you ask for a financial or operating statistic, and back comes the question, ‘Which one do you want? The one we sent to headquarters, or the one we actually use?’”

Mike Wade, Professor of Innovation and Strategic Information Management at IMD, described the lifecycle of process transformation efforts—and the key roles that both technology and people issues often play.

“What we see is that quite a lot of organizations go through this process of standardization and centralization to some degree. And they implement and the organization goes through a difficult time. And ultimately, the change seems to work. But then exceptions start creeping in, and they become more and more of a factor over time, until [the level of variance in the process rises to what] it was before.”

“So looking across a lot of enterprise process-change efforts we see two problems,” Wade stated. “One is governance of [process transformation itself]. And the other is that too often when time introduces change, process doesn’t change with it.”

How to Know What Works: Five Filters

Early in the conversation, Haider Rashid, Group CIO for Asea Brown Boveri Ltd. (ABB), offered a framework of five variables that determine overall success in process transformation.

“I have five filters against which I’ve been qualifying all of these efforts,” he said. “First, you need to have a strong top-down drive. Second, you need to have the buy-in to achieve change—the buy-in of senior as well as middle management. Third, you need to have a lot of ownership, a clear understanding of who is actually responsible for the result and who’s going to finally make decisions. Fourth, you need to have your efforts totally aligned with your company culture. And fifth and most fundamentally, you have to have an effective business model.”

“You have to have managed each of these five factors to achieve workable change,” he said. “We launched an initiative called One Simple ABB—saying, ‘Look, we’ve got to come to a more logical organization, but we’re not going to try and change the whole world. We’ve got to come down from our 575 ERPs. We’re going to have only one ERP per country.’” That may not sound so radical, but in Sweden alone, we had 36 ERPs. We had to standardize our F&A and HR processes, and put in shared service centers to pay for the transformation.”

Rashid explained that their efforts succeeded because management invited every country manager to present a “One Simple ABB” plan to the executive committee. “When the country manager has to come and present it,” he said, “then they’re on the hook and they have to deliver it.”

This underscored what would become a recurring theme throughout the day: the need to effectively enlist people along the way for help in redefining and transforming process across the enterprise, and the need to hold them accountable in a meaningful way.

Centralization: “No Huge Value in Itself”

The group considered the benefits and trade-offs inherent in centralization vs. localization, on the road to process transformation—and determined that benchmarking standard processes for adoption at the local level had been helpful to many of them.

Martin Petry, CIO of Hilti Aktiengesellschaft, rang a nuanced note about centralization vs. localization. “We said, ‘Okay, if we really want to make progress in operational excellence, we need to change the entire company from the decentralized setup into a centralized one, with implications for IT being completely changing logistics moving in that direction, shared service centers for finance, global HR, and so on.’”

“But what is important to understand, is that the fundamental transformation from decentralized to centralized or global brings no huge value in itself. What we learned over the last ten years is that there are different phases. We need to differentiate between what is core and what needs to be as standardized as possible. And we often need to think about some flexibility and local deviations.”

Urs Bleisch, Head of Corporate IT for Holcim Group Support Ltd., reinforced the importance of local intelligence. “We have a program called ‘Dust on the Boots’,” he said. “Management has to go into the plants, to really know and understand what’s going on out there. I’d be surprised to hear that a new process expert sitting in a clean office could fully appreciate what is going on somewhere in Indonesia—really understanding their needs, their requirements, their pain points.”

Bleisch, however, also questioned the possibility of local management on some key emerging fronts. “You cannot manage some topics locally anymore,” he said. “CO2 trading, for instance—that’s a big topic for us. All of the sustainability topics, they have to be addressed within a company in a single, coherent, comprehensive way.”

Olivier Gouin, Group CIO for Nestlé, genially countered, “I don’t agree. If you see that processes are different in the different countries, the only way to go forward is to agree on common processes. And we’ve found that up front, there is no need to work on the IT side, because it will never work if we don’t standardize on the end-to-end process first. And what we have done in Nestlé is to bring

the people in—from the business community. We brought something like 300 people to one location in Switzerland for about three months to agree on common processes in every area. That way, when we implemented the IT solution, we required that the business process change management was done a year before the implementation of the solution—because we saw that as a prerequisite in order to get the business to adopt the change and not resist it.”

This would be a recurring theme throughout the day: how to enlist and leverage local creativity and initiative, while gaining the benefits associated with leverage and scale.

Make Room for Local Processes

Randy Krotowski, CIO of Chevron Global Upstream, underscored that local processes often have to be distinct. “We operate oil fields in every one of our business units,” he said, “and some of them are very different. In San Joaquin, California, we can drill a well in 36 hours for a few thousand dollars. In Nigeria, offshore, each well can cost \$100—and those wells then produce 25,000 barrels a day to a \$4 billion floating production storage and offloading unit. So they’re simply not going to use the same tools or processes to improve their performance. It’s differentiating technologies that will allow us to raise our production efficiency and lower our unit cost and get more oil out of the ground, wherever we’re finding it.”

Time and flux were also noted to be significant challenges to standardization. Bill Black, Group Senior Vice President of Quality and Operational Excellence at ABB, said “The situation is changing constantly. Nothing stands still. There is grave danger in dreaming that there are such things as global processes—except on a very limited application where you can be absolutely sure that there is added value from having a global process. You have to be very careful which ones you choose to centralize or standardize.”

Picking up cultural dimensions that would prove to be recurring themes throughout the day, Gouin said, “In my team, we have 40 nationalities just in the same location. All of our locations are very mixed culturally, because that’s part of our culture. We have always embedded people around the world, moving people around constantly, so it’s really a cultural issue for me more than anything else. We are a global IT group, but we are supporting a decentralized company. That’s why I still need a team of IT and business analysts in the country—because they know their business, their feedback is essential, and we need to discuss the process of change. The changes we need to make come from the functions, they come from top-down strategy, and they come from the bottom up, from the business.”

“The beauty of aligning all of that [through reference processes],” Gouin added, “is that whatever you design from one country then becomes available for everybody else in the form of an end-to-end process [that they can use to support their own goals].”

The Power of Benchmarked Process

This exchange led the leaders to explore the benefits of creating and benchmarking standard reference processes that can be adopted across the enterprise—sparing the friction associated with

enforced centralization or standardization, because the operating benefits of an effectively benchmarked process become self-evident and self-reinforcing.

Gouin explained how Nestlé has done it. “For example, we deployed a standard reference process in Latin America. Then we have a decision to go for a shared service. So we start by creating it there—an internal shared service, because it was more efficient from a cost point of view. And basically, it took a very short time to implement that in Latin America. The only thing they had to do was to take out the work-arounds that every single market had used to adapt to their local organization.”

“Within a single year all of Latin America was implemented in finance and HR from a shared service center. Why? Because they understand process. They were using the same solution, with the same tool, and that was the big advantage. So now we are doing that everywhere in the world.”

Plüss answered, “I think it’s really very interesting, this reference business process idea. It’s very interesting to consider how we’d apply it to our own operations. If we had a reference business process for certain core business activities—perhaps maintenance or production—then this could then be brought forward as a template or a basic tool to certain group companies, and they could decide to adopt it [based on the inherent efficiency it offers them].”

Gouin cautioned against the pitfalls of a benchmarked approach. “The biggest risk, I think, is having too much standardization everywhere, down to the lowest level of detail. For me, the business risk is that we prevent new stuff from happening in very different [and potentially more innovative] ways. I think we need to be [clear on the benefits of] flexibility, even at the country level. Then they can foster new ideas and generate new approaches.”

This led the group into a discussion of the limits of standardization, the need for a certain kind of artistry in operations—and the need to contain and bound that artistic impulse.

Standardization’s Harvest

Making a case for the direct returns possible with standardization, Krotowski explained, “We’ve been focusing on driving standard processes where they make sense. The model has been pretty effective. Originally, the governance was challenging, but as we demonstrated that we were taking some of the best people from the business units, focusing on improving performance across the system, working with the business units to raise performance, and then rotating people back out, we built a lot of credibility.”

Chevron’s results have been impressive. “We’ve moved production efficiency up since we formed this group from 89 percent to 94 percent,” Krotowski said. “And 5 percent on three million barrels a day of oil is a big number.”

Rashid answered, “I think that’s a great point, because IT people have it in their minds that standardization is always good. So they just go around saying, ‘We must standardize.’ And most normal human beings say, ‘Well, why should I?’ And so it’s difficult for IT people to go beyond ‘let’s standardize the process’ and talk about business outcomes, I think. And that’s the challenge.”

How Agility Can *Improve* with Standardization

IMD's Wade called out standardization as a variable independent of centralization vs. localization. "One of the things I'm hearing, here, is that standardization doesn't necessarily equal centralization," he said. "We tend to put those two together, but it's not necessarily the case. In fact, if you have good standardization, you could also have strong autonomy. You can have agility. You can innovation and flexibility. So I think that the key focus is how to identify and generate the right [level of] standardization. Centralization should happen depending on your own unique situation and circumstance. But the standardization piece is key."

Lionel Lechot, Head of Program Management for GLOBE at Nestlé, offered a provocative reinforcement of this thinking. "I think there is very often a belief that standardization and centralization go hand-in-hand," he said. And, actually, the learning we've had—or at least what we've managed with our GLOBE [initiative]—is exactly the contrary. Actually, our [Chairman] Peter Brabek-[Letmathe] said in the beginning, 'I want to continue to decentralize—and perhaps even decentralize more. And to do this, we need to standardize.' So [in most business' minds] this paradigm [that standardization and centralization are the same thing] clearly needs to be [corrected]."

As a working approach, there seemed to be general adoption of agile process among the executives present, as one standardized methodology for generating internal flexibility.

As Krotowski put it, "It does allow you to course-correct. A lot of our management is uncomfortable with it, because they don't know exactly what they're going to end up with by when—because agile development [explicitly allows] you to course-correct. In IT, we brought it in because we felt that we were being asked to build things when we had no clue exactly what the final solution would be. And if you can't spec it, it's hard to build it. So we brought [agile process] in, and actually it worked so well that some of our operations and staff groups have picked it up, because you can get [a great deal of development] done in a very short period of time."

Alexander Buresch, VP of IT Strategy, Planning, Enterprise Architecture and Risk Management at BMW Group, concurred. "Especially in the [business intelligence] area," he said, "we use agile process. [It ensures that] the business and the IT guys are sitting together, and developing [a shared vision for requirements and functionality] together, because agile is very much based on communication—and defining, for example, what the reporting should look like, or how the queries should be organized, or what should be the logic behind them. A lot of communication is necessary to make these projects successful."

Martin Schröder, Head of IT Process Competence, Sales Service & Supply at Hilti, said "I'm quite surprised to hear that there are a lot of companies using agile process and scrum so actively. I can see a lot of value in that."

Lechot cautioned, "If the exception becomes the norm, then planning becomes a bit difficult. So we do need to strike the right balance between predictability and being able to adapt to change."

BMW's Buresch said, "I think it's very important to understand that in [terms of] the business, agility is actually supported by standardization and commonality. For instance, having a consolidated architecture, with a consolidated and clear definition of master data, is much more

agile than [developing] systems and applications on the run. But it can be very difficult for the business to understand that before agility, you first must have standardization and consolidation.”

Petry agreed. “In effect,” he said, “standardization is the prerequisite for agility. But however you slice and dice it, there is always some white space to be managed. You need to be ready to accept that. There is no ‘perfect’ here, no circumstance where there won’t be white space to be managed. You can’t just have everyone managing in silos; you need a process organization that focuses on fixing the white space between the silos.”

The Limits to Standardization (or: You Want Barflies with That?)

M. Eric Johnson, Professor and Director of the Center for Digital Strategies at the Tuck School of Business at Dartmouth, offered an example of standardization’s limitations.

“When you think about processes,” he said, “particularly processes that reach out and touch customers, you have to be careful when thinking about what customers really value. Everyone will convince themselves that what they’re doing is strategic or differentiating, and that [there’s art to their customer service approach]. But the research shows that in many cases, customers really want what we call ‘conformance.’ They want things to be predictable and to turn out the same. McDonald’s has made a science out of conformance—process standards that are so good they can be implemented by teenagers.”

“The Ritz Hotel,” he continued, “for years provided very, very high levels of service, all highly standardized. They always had this kind of spooky ability to know your name very quickly, and they would pass that along with wireless to every person in the place. They would literally walk you to the bar, and that was a process standard.”

“But interestingly enough, about five years ago, they began to realize that not everyone appreciated that service. Some people didn’t want to be walked to the elevator or the lounge, particularly as more and more professional women were coming to the hotel. They didn’t want some guy walking them to the bar. It was creeping them out—[in effect thinking,] ‘Who’s this stalking me?’”

In effect, the Ritz had made an idiosyncratic judgment—detached from empirical observation about actual and evolving customer preference—that enforced a process standardization among customer service staff that unwittingly did the opposite of making guests feel more comfortable.

“So our major observation was to think carefully about whether this kind of process judgment really adds value to the customer or not. I think a lot of companies will fake themselves out—convince themselves that what they’re doing is somehow really adding unique value—that the customers really appreciate that, when in fact, they don’t.”

Can You Give an Artist a Checklist?

Petry underscored the hazards of standardization, and its tendency to preclude human judgment.

“[With] all of the information we provide to a salesperson, [we sometimes appear to presume] that a guy will behave like a robot—so if you ask for this, you’ll get that. But then we’ll ask our sales

managers, ‘Why didn’t we make progress in customer satisfaction or salesperson friendliness?’ [And of course the answer is,] ‘They behave like robots because we ask them to do that.’ So really, there’s more to it.”

Petry continued, “There is a more artistic approach that we need here, to a certain degree—or at least we need to drive a greater degree of freedom for the person to sense the situation and make judgments on the customer and potential steps that could be helpful.”

Krotowski said “I think there’s a large segment of what we do—in fact, some of our most valuable activities in the company—that really are not amenable to being embedded in a process. We’ll try to wrap them in workflows or frameworks, to provide a little bit of structure, but you can’t actually structure them a whole lot.”

“Of the many improvements you might try to make,” said Tuck’s Johnson, “there’s [always potential]. But why do sales hate it? Because they see nothing but risk. You put in a CRM and they’ll think, ‘You want me to put all of my customer knowledge in there. What value am I bringing to it anymore?’ A pharmaceutical company I was working with had rolled out PDAs for all the sales reps to record the details of each encounter. You could write a business case around this that would make you cry. It was beautiful, from an IT data and customer management perspective.”

“But the individual sales people just said, ‘You’re trying to make me irrelevant, right? You’re trying to suck everything I know about that doctor into the CRM, and then you could get rid of me, right?’ So the data the reps entered in the PDAs was completely useless to anyone other than them—all in code words and phrases and things like that.”

Petry cautioned about the false confidence that standardized process may generate in more “artistic” domains like sales. “You can also generate a bit of delusion when you put targets in front of people. We figured out that when you have 30 KPIs in sales, you can have a lot of indicators in the green, and not sell anything. In the end, the guys should sell—and not have eight oral reports per day and five metrics panels a week that make them all look like solid citizens, only they didn’t sell anything.”

What Pilots, Surgeons & Car Designers Have in Common

This question of individual autonomy versus process definition and boundaries generated some fascinating discussion.

Johnson offered examples in which standardized process could serve more autonomous or even “artistic” professionals. “In healthcare,” he said, “everyone thinks they’re an artist, at least in the US. Even down to the nursing staff, they’re highly trained, and they exercise a lot of judgment. But the problem is that even in the most sophisticated situations, process can really help. Even simple checklists in surgery have been shown to generate amazing improvements in things like reducing infection, or reducing post-surgery pneumonia—all very clear outcomes.”

“And in aviation,” he continued, “the biggest single killer can be reduced to human factors. That’s why, no matter how well trained the guy is, no matter how good the process is, no matter how good

the tools are, you still won't eliminate all the risk. So you need to introduce some things that overcome the human factors element, and checklists are a very good way of doing that.”

Hans Brechbühl, Executive Director of the Center for Digital Strategies, asked the group about any domains other than sales where process discipline had been a challenge to introduce successfully. “What about in R&D or in product innovation? We had a roundtable in 2005 or so, where 3M at the time was going through a real process re-engineering effort. The CEO, James McNerney, had brought Six Sigma from General Electric. Yet they've reversed a lot of that, pulling the process orientation back out of R&D. I recently read an article in which one of the 3M engineers was quoted as saying ‘It's really tough to schedule innovation.’”

Buresch said, “Our product development process used to be 64 to 68 months for a new car. So the challenge they gave us, about two years ago, was to bring that down by 30 percent. This was a very tough challenge, because not only did we need more process and structure for the R&D people, it also required a lot more IT—because you need a lot more information.”

Eastman Chemical's CIO, Keith Sturgill, capped off the prevailing metaphor by saying, “I suppose I would distinguish between process and procedure. The process is the canvas and the paints and the brushes. And then the artist puts it on the canvas, right? But in the process of creating a masterpiece, the artist has to have a certain framework in place that supports the artistic process.”

Process Improvement and Competitive Advantage

The executives turned attention to the task of prioritizing process improvement—and agreed that clarity about which processes are core versus commodity is a key distinction.

BMW's Buresch said, “We try to align our efforts by categorizing differentiating processes, industry standard processes, and corporate services and commodities. And if we figure out which are really commodities and corporate services, we can pick them up, implement them quickly, and then deliver them globally out of one system or one location.”

“An example of a truly differentiating process,” he continued, “would be a BI analysis tool or a planning tool. That can be completely differentiating—because we drive our business model completely different than, say, Audi or VW or Mercedes. And the differentiated process is competitive. So there we'll say, ‘This has to be our own thing. We'll build it on our own.’”

Sturgill said, “We try to segment our processes into two camps: commodity or differentiating. Commodity processes are those that we must do to operate our business but the process itself does not give us an advantage. Advantage comes from doing these processes cheaper than anybody in our industry. Differentiating processes are different. They deliver advantage in the way we do these processes. The target for process change, in this case, is maintaining or enhancing our competitive advantage.”

Differentiating which processes to really invest in, and in what order, is critical.

Priorities in Process Transformation: What to Fix First?

The group determined that the projects adding the most customer value are those related to design, quality, product, service and availability. As Gouin put it, “You can go all the way to the supply chain—and sometimes the supply chain itself can be customer differentiated.”

All of the executives appeared to have dealt with the challenge of prioritizing competing demands for IT resources, to support process improvements across the enterprise—and the danger of trying to improve on too many dimensions at once.

Per-Åke Tobiasson, Head of Global IM and the CIO of Tetra Pak, said “We have noticed that if you start too many global projects, then you will be overloaded organizationally. So before any project is considered ‘global,’ there has to be a toll gate where management or global leadership teams have to say, ‘Yes, we agree.’”

He continued, “We had about 12 global business transformation projects with an important IT component, but we have clear toll gates, so we don’t just start a lot of projects all the time. And then, of course, we have smaller projects, but not with global reach. So there we also have toll gates and we have clear processes about [how to decide which projects are truly global and take priority.]”

Rashid concurred. “We did a couple of global change projects pretty successfully,” he said, “and suddenly everyone’s doing global change projects. So there’s a risk of really doing change overload sometimes. So I like what Per-Åke says—that every global change project has to be approved by their executive committee. So they only let a certain number of big change projects through the gate.”

Process Transformation and Power: Shift the Center of Gravity

The group generated insights into the basis for driving accountability in process-transformation efforts.

ABB’s Black related, “One example which worked was at Airbus, a company of about 60,000 people: It was my job to run the integration program. We had five operating companies, a French one, a German one, a Spanish one, a British one, and a French oversight group. We needed make those five companies work in a more integrated and more centralized way.”

“The first phase,” he continued, “was just a rewiring of the legal structure and organizational structure. The most senior members of the management teams from the countries were taken in to lead the new central organization and these leaders were deliberately replaced with less senior people in the countries—and then we centralized all of the functions. We took every manufacturing guy, every procurement guy, every customer services guy, and we had them all report to people at the center.”

“We did all of these in about six months,” Black continued. “But we knew that a centralized organization wasn’t sustainable in the long term. So we had the plan to centralize, and then later, to decentralize once people had gotten used to working together across the national boundaries, which

had been impossible before.” The group was intrigued by this approach that brings change by shifting power toward the center deliberately leaving less strong players behind, then returning to decentralization with a team that makes that change sustainable.

How to Make Process Change Persist: Ownership and Accountability

Can full ownership of process transformation persist over time? Or, as Tuck’s Johnson put it, “Is that by definition something that’s transitory, where you see lots of executives popping up with titles like Vice President of Order Fulfillment Processes?”

“I’m hard-pressed to point anywhere I’ve seen it persist over the last a decade,” he said. “It seems much more like a three or four year [phenomenon], after which you begin to see something that looks more business- or functionally-oriented again.”

Plüss of Holcim answered, “It’s interesting to see in the last couple of years that you could have management truly buying in, but sometimes [the] shop floor just did not take it. So that means you could introduce a performance improvement program, and on [the] shop floor after two years, they’ve fallen back to the traditional process.”

There was widespread agreement that global process ownership works better if the responsible executive’s primary focus puts line responsibility first, around which process management is built.

As Oliver Gouin of Nestlé put it, “We have 32 end-to-end processes. We made the decision to stay with a functional organization. But as part of our program, we’ll have end-to-end processes report to a function. You might have, for example, someone report to the executive in charge of finance, but he’s responsible for the end-to-end process.”

Tobiasson added, “While we kept our functional organization, we started working in a process-oriented way—and then appointed senior positions as global process owners. So they had a heavy position in the line organization. But they also got the responsibility as a global process owner for order fulfillment, for example. And then, it was a top-management commitment. It demanded buy-in from senior people in the organization. They got added responsibility. So we didn’t take away responsibility. We added. And, of course, everything moved in the same direction. And gradually, we became more and more a global company using the global strength instead of just going market-by-market and by individuals.”

“Another good step we’ve taken,” Tobiasson continued, “is after we’ve implemented something, six months later, we do a follow-up review, asking if we’ve reached the benefits or returned to old habits—and that is really useful. It’s not an audit, but more of a review to see how we can do continuous improvement.”

To drive accountability for significant organizational and process improvement, Sturgill said Eastman Chemical this year formed a Corporate Productivity Council. “It is this group’s responsibility to drive process change within the company—especially cross-functional process change. It takes a certain amount of overhead to try to do this, but it’s really a proxy for the fact that we don’t have cross-functional process ownership with the company.”

The Ultimate Accountability Machine: Build Process Targets into Budgets

Along with assigning responsibility for process improvement to named individuals and groups within an organization, the group recognized the power of baking-in promised revenue improvements and cost reductions into the ultimate driver of accountability: operating budgets.

BMW's Alexander Buresch highlighted the automaker's approach, saying "We look at the sales side and the cost side. We measure both. We track thousands of measures that we took during the last three years, to get to several billion [in revenue or operating savings] through 2012. We measure every detail of every measure of a process improvement project we take on—both the benefit and the outcomes. So when a project is implemented, we'll cut off the costs on one side, and at the same time give them the money to do the project."

The executives shared great enthusiasm for building the promises of process improvement into revenue and expense plans. Keith Sturgill of Eastman Chemical related, "We formed our productivity council of 12 corporate officers," he stated, "to champion cross-functional process improvement. And as we establish the value from a particular process improvement, we link that value into specific targets and eventually into reduced operating budgets."

Krotowski responded, "That's fascinating. So making one of the [criterion] for proceeding is that you actually embed the targets into your business plans. Operating that way, it would be interesting to see how many projects would simply go away. And if they persist, then the level of commitment to ensuring their success will be accordingly higher. I like that."

Rashid concurred. "By immediately cutting the budget or immediately increasing the target, you've forced that case. I like that."

Schröder added, "Yes, once you buy into a project, that means that you have to either commit to an improvement—which means your targets go up—or you have to actually get your budget reduced. That's an interesting approach."

The Other Edge of the Budget Sword

The group discussed other circumstances where the process definition and accountability have been clear but the organization simply doesn't fund the systems needed to support it.

As Holcim's Bleisch put it, "We can have the processes in place, everything. But the breaking point becomes, 'Now we don't have the funds to execute.' That leaves people with a great deal of frustration. They know what to do—they just can't get it done."

"So you get shantytowns," as Johnson put it, "and people just going off and building their own."

"Right," Bleisch answered. "We say, 'We cannot do CRM. We have no funds.' And suddenly, they say, 'Okay. We're doing our own. We'll use Salesforce.com.' While I tend to believe that if you've got a burning case, people will make the funds available, sometimes it's that management feels, 'Look, it's optimized enough on the global level, and now we'll just let the flowers bloom in the meadows.'"

“If you were to ask an operating company,” he said, “they would invest. They would fund. But on the higher level, where in essence you don’t have the responsibility as such, saying ‘no’ is easy, it’s transparent. We say, ‘We’ll just take that out. At least we know what the contribution [margin] is—we saved this amount,’ when the locals would be glad to pay for it.”

It was clear that making a case for resources in process improvement, even with a clear business case, is a widely shared challenge.

From Process Transformation to Operating Performance

This led the group to shift focus to the larger question of how to better support operating and financial performance. ABB’s Black anchored this part of the exchange by saying, “We don’t actually talk much about processes. We talk about performance improvement. And we try to improve performance through creating councils and networks.”

Sturgill said, “That’s why we’re keeping the improved business outcomes front and center—the process improvement is the means to an end. We do process improvement to drive improved business outcomes. The value prop for the PI is stated in business results.”

Bleisch concurred, saying “I think the methodology as such is not so important. But having performance always in mind, and showing the trends and which direction the numbers are moving can be very motivating for people.”

“The difference,” according to Black, “is that we don’t stop at measuring the OEE or the inventory levels or the throughput times. We convert that into dollars. In every case, we convert that into dollars. Because I think it’s important. If you don’t convert it into dollars, you’re going to lose velocity and management support for the program, sooner or later.”

The executives agreed that process improvements that yield direct cost benefits are the easiest to identify, manage and deliver, but that measuring revenue benefit is equally critical.

Now, the Hard Part: Organizational Change

Hilti’s Schröder turned the focus toward the human factors that often impede process improvement. “If you want to change process in any significant way, you effectively need to change the organization—and often that means there will be war.”

Rashid agreed. “Yes, I think that it’s relatively easy to go to the executive committee level and say, ‘We want to change things, and standardize, and do whatever we want to,’ because the executive committee is there to make the changes and to bring the business forward. But then when you take it to the next level, immediately you encounter people who’ve become successful because they’ve mastered the current way of doing things. You’re telling them that the thing that made them successful for the last 20 years is the thing that you need to change. So it can be very difficult to get people to buy in.”

Petry agreed: “There are always two sides to the coin. One is the rational side, but number two is obviously emotions, because the biggest challenge can be all of the little three-and five-man day projects. Somebody has proposed them for years and years. It’s his monument or her monument, and she wants to see that in reality, and not only on paper—that incremental click or the extra field. ‘I’m proud of my new data field here,’ they’ll be thinking, ‘my John Smith radio button on Transaction No. 375. It’s my contribution.’”

“That makes a difference to people,” Petry continued. “When explaining the business case, you don’t get away from, ‘I want my monument. Where is my monument?’”

Schröder concurred, saying “People want to feel important. We have reports that are called after people’s names. They’ll say ‘That’s the Arndt Paul List, this is the John Doe Report,’ and so on. But at the end of the day, if something doesn’t bring us any more customer satisfaction or productivity, it’s not worth it.”

Krotowski said, “It’s easy to re-engineer a process. It’s hard to re-engineer the people around that process. And one of the things we’ve found is we have a pretty comprehensive change management methodology and practice within Chevron that’s been developed over many years. There’s no top-down in Chevron at all. I mean, if your boss gives you a direct order, you consider that good stakeholder input.”

“And so we’ve gotten pretty competent at behavioral change management,” Krotowski continued, “because it’s the only way you get anything done. We’re trying to get more sophisticated in applying that. Our VP of drilling has a budget of \$6 billion a year. He’s very focused on re-engineering behavior and looking at behavioral interventions for his organization as well as looking at more traditional activities such as managing vendors. I think we took out something on the order of \$700 million by doing that and he views behavioral shaping equal in importance.”

Improvements in operating performance of such magnitude clearly compel beyond any “soft” argument for organizational and cultural transformation.

Power Tools for Organizational Change

Sturgill described a novel use for business process modeling tools that seemed to surprise the group.

“We started to use business process modeling tools,” he explained, “not for the traditional reason, but as an aid to communication—so that we’re all speaking the same language. It’s amazing that we can use the same words, but we don’t always mean the same thing. When you get a process within a tool and then you map the basic inputs and outputs, all of the typical BPM-type things, all of a sudden we’re communicating. We see significant breakthroughs when we have a clearly defined and visible process in front of key stakeholders. That has been a major step forward for us, in terms of being able to put in process change.”

Petry asked, “What did you do in order to get people to that point? Because I can imagine that took a lot of time and effort. That sounds like a very expensive way to get to the same language.”

Sturgill answered, “Actually, it’s a very quick way. What we found [is that what] once took days, weeks, or months, we now can do in a couple of hours. When we get the key stakeholders, a good facilitator and a person good with the BPM tool into a room together we can quickly document a clear and consistent view of the “as-is” process. After that the light bulbs go on very quickly in ways to improve the current process.”

Who Should Guide Change?

The executives had seen and taken many different approaches to change management leadership within their organizations—from dedicated change management people to consultants to project managers—with no clear consensus on which approach should prevail.

“We have change management people who look at reward structures, training and development,” said Krotowski. “They’ll assess the impact of a potential change and the risk it might present to the individual. And then we do a lot to build a community around the change that’s going to happen.”

Rashid asked, “How do you say, ‘Look, I’ve got 15 people who do nothing but change management’?” One executive responded wryly, “Well, we don’t keep them in a single group—because that would be too highly visible.”

Buresch said, “We have a change management organization within our HR department, and they have toolkits they use.”

Krotowski added, “We’ve had central groups, but they tend not to last. I think they become too sort of ‘staffy.’ So we just have embedded a few people. We’ve brought in change management consultants a lot, but they don’t know the culture, the environment, the people—or what it is we’re trying to change.”

Citing a “built-in” option, Buresch said, “I think the best change manager is a project manager. If you have a good project manager, he or she will manage the change just as well.”

Outside the Walls

Brechbühl asked the group to consider the degree to which any of them are driving process transformation into the value chain and outside the walls of the organization. “Is anybody working this backward to suppliers, or forward in working with distributors, or wholesalers or otherwise?”

Black described ABB’s turbo charger factory, recently built in Klingnau, Switzerland. “We did some work with the logistics supplier for nuts, bolts, washers, seals—those kinds of consumable materials,” he said. “Those materials all sit in bins, which are now sitting on electric scales. And the weight is monitored and transmitted to a local area network, and then fed directly to the supplier.”

“So the supplier is monitoring the weight of those bins, and he’ll come in and keep them replenished. We give him a max/mid level on the bin. So that’s quite a tight integration with a supplier, which works rather well. We don’t have to worry about ordering these things or checking

up on quantities. The supplier does all of that for us. So it helps him, and it helps us because they can then look at our usage patterns and they can predict what we're going to need."

Understanding Generates Change

In managing the art and science of process improvement, it was clear that enlisting people in a fuller understanding of the benefits of any significant change is critical.

As Schröder put it, "I think it's important to make that part of the equation here. This is something that everybody deserves, no matter where they work in an organization."

"People don't use a system, or subscribe to a process, or agree to change a process because of compliance demands—feeling that they have to do it or they'll get into trouble," Schröder said. "They do it because of understanding. They understand the value being created, why it's important. That's what makes it work."

Petry said, "The dream that I have is that over time we'll have less reward and recognition simply for the subject matter knowledge, the skill itself—people not simply being proud thinking 'I know this and this and this'—and more people being proud thinking 'I know how to change.' Because that, in the end, should be the ultimate goal that we aim for—so that our organizations can move more nimbly, and our people will be proud to think 'I'm adaptive.'"

"It's all about performance improvement," said Krotowski. "We should never forget that. What is the purpose of a process, after all? If we forget business performance as the reason for process, we forget about the purpose that got us started—and then we end up in process 'holy wars' instead of focusing on generating business results."

"Along with process design, I think that when the ego and personal power issues are addressed, or at least explained, and people see the whole chain and the value it produces, they understand," said Krotowski. "And I think we then have a chance to get people moving."

"But it requires time," he said. "It requires a certain trust."

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Performance by Design: People, Process and Technology
26 October 2010

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