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How Do Processes Create Value?

I started on this Advisor a month ago. I read an article on processes and value that I thought was inadequate and I decided to see if I could provide a cleaner, more comprehensive description. As of last week, I was reasonably happy with the result, but the article was 15 pages long. My rule for Advisors is to focus on one topic and try to keep it under 4 pages. I sometimes fail, but I rarely run quite so far over. So, I decided to publish a summary of how processes create value in this Advisor, and publish the longer version as an Article in February.

Historically, theories of how processes produce value have relied on two major ideas. First, there is the idea that a set of activities creates a product that is valued by a customer. (The fact that a company values a product is irrelevant if customers don't value the product enough to buy it.) This is often associated with Porter's idea of a Value Chain – and is usually represented as an arrow that generates a product. Second, there is the idea that each activity in the value chain either adds value to the final product or it doesn't. This idea runs into problems because companies need support processes that customers don't value – like accounting and building maintenance. LEAN practitioners deal with this by talking about MUDA1 - value adding activities and activities that don't add value but are necessary, and MUDA2 - activities that do not add value, aren't necessary and should be eliminated. Neither idea is exactly wrong, but neither reflects current reality very well. A current theory of process value needs to take into account the fact that a significant number of organizations are no longer manufacturing products and are, instead, providing customers with services. In a service based organization, the customer interacts with the process in many different ways and each interaction contributes to the customer's perception that he or she is receiving value. In addition, organizations need to provide value for other stakeholders, as well. Shareholders need to feel they are getting value for their capital investment, and government regulators need to feel that the organization is complying with environmental and safety regulations, and with tax laws.

So, what is required of a modern theory of process value?

- First, it has to account for the fact that, today, customers interact with an organization's processes on many different occasions. One can't simply determine what it costs to produce a product - one needs to determine what it costs to deliver the entire service and determine the cost and the value created by each customer-process interaction.
- Second, we must decide how many stakeholders we want to monitor. Obviously, we could simply monitor the value of the process from the customer point of view. That's what an approach like Porter's was designed to do. Increasingly, however, there is a recognition that we need to monitor the value the processes generate for multiple stakeholders. Obviously, the customer is still the key stakeholder. However, if you can't

produce a desirable service because you can't find and retain key employees or you aren't producing reasonable returns for shareholders, you will likely encounter problems that may lead to bankruptcy. Any modern process value model must be designed to monitor how value is created to satisfy the perceptions of multiple stakeholders.

- Third, we need a model that defines how internal subprocesses or activities produce value. Without this model, we can't decide which subprocesses or activities should be supported, redesigned or eliminated.

Consider how a BPMN swimlane model helps us define service interactions. Figure 1 pictures a Rent Car process. The diagram shows the customer activities at the top, the Rent Car process in the center (the yellow area) and a support process below.

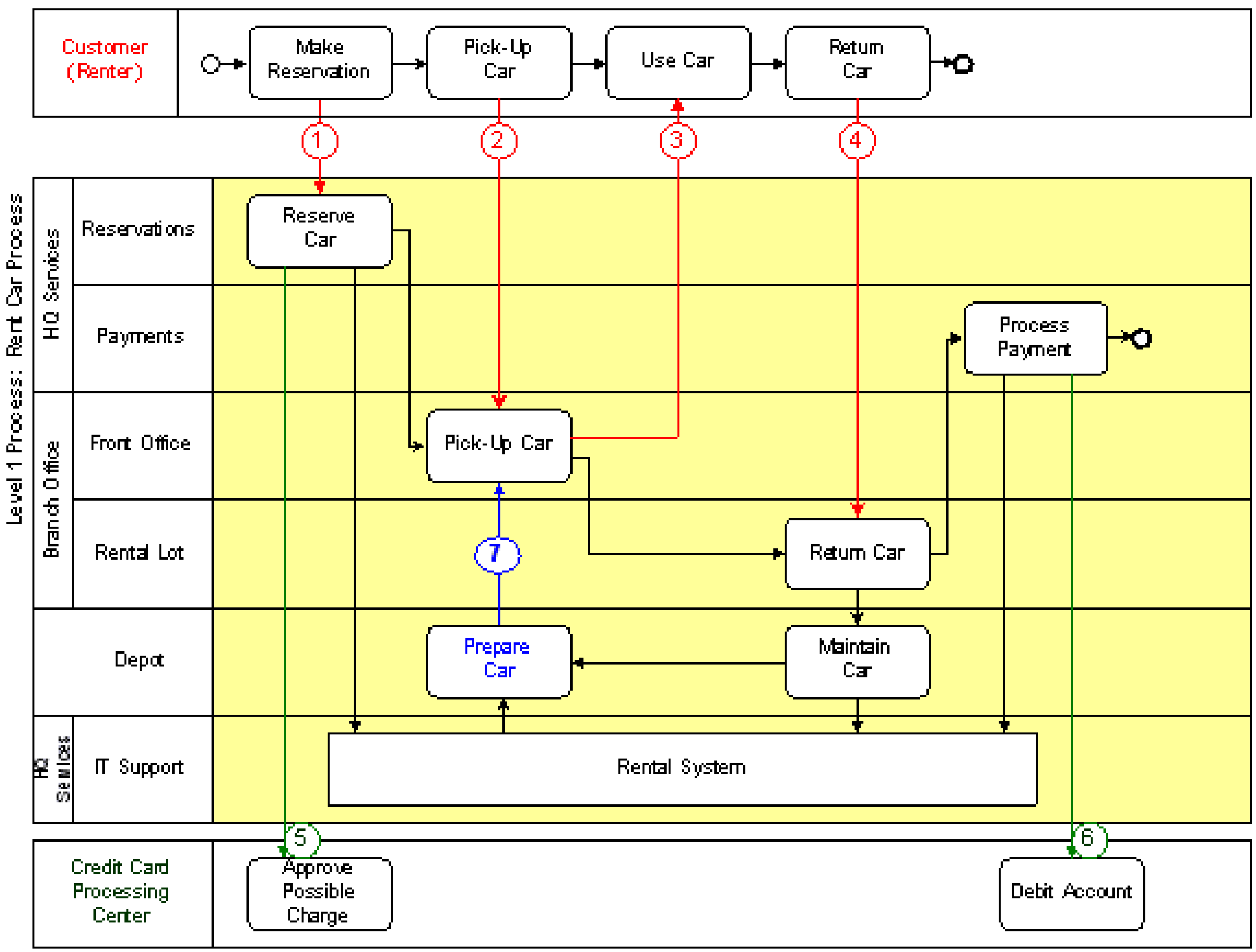

Figure 1 A BPMN diagram of the Rent Car process.

The first thing to notice is how well a swimlane diagram represents a service process; unlike a Value Stream arrow, there is no suggestion that the goal of the process is to generate a single outcome. By placing a customer swimlane at the top and showing how the various activities that comprise the Rent Car process interact with the customer's process, we can instantly see all the different interaction points between the Rent Car process and the customer. This is, obviously, a high level view of the Rent Car process, but it identifies four different points where the customer and the process interact.

In a service process, the service **is** the product. Thus, each interaction is part of the overall product, and each interaction is an opportunity to please the customer or to make the customer regret he or she chose to do business with the company. There isn’t a single product to evaluate, as one might evaluate the quality of a manufactured product by sampling units as they roll off the production line. One needs to evaluate each interaction to determine the quality of the service being delivered. One might say that evaluating human interaction is too subjective, but welcome to the world of service. Evaluating human interaction can be done. For example, a leading hotel chain requires that employees greet customers whenever they encounter them in the hotel. The hotel has a written procedure that defines when and how these greetings should be delivered and supervisors check and record how well employees are implementing the greeting procedure. Subjective criteria can be evaluated – it just takes a bit more work to figure out a good way to measure and record performance.

So, a quick glance at Figure 1 provides us with a list of a minimum of four customer interactions we want to monitor when we seek to determine the quality of the customer experience. We can drill down into each interaction and determine the specific steps that lead to the interaction. Thus, for example, we might evaluate the Return Car subprocess. How long does it take? What is required of the customer? What provisions are made for customers running late for flights? Lots of steps and quite a bit of human interaction determine whether or not the customer ends up feeling that the Car Return subprocess is efficient and pleasant, or inefficient and unpleasant.

In addition, although we haven’t tried to show them all on this diagram, one needs to track the interfaces between the process-in-scope and the activities of other stakeholders. In this case, we showed one business partner, the credit card company that the Rental Car company works with. The Rental Car company pays for, and expects, efficient service from the credit card processor; thus, each creates value for the other. In a similar way, we could show a government agency and the payment of taxes on rental transactions, or we could show the flow of money from this process to other processes and ultimately to the franchise owner and shareholders. Each of the activities along the flows leading to each of the various stakeholders adds its own value to the overall success of the Rent Car process. (In essence, when you think about it this way, MUDA1 disappears, and each activity either adds value for a stakeholder, or it isn’t necessary and should be eliminated.)

Finally, Figure 1 lets us examine one more aspect of value – the creation of value by internal processes or activities. We might want to know, for example, how the preparation of the car contributes to the value of the Rent Car process. In this case, we must back up from the ultimate value delivered to the end customer. The customer renting the car expects to pick up a car that is clean and in good operating condition. If the car is delivered to the customer with soda cans on the back seat and power windows that don’t work he or she probably won’t be happy. If we offer the customer a car that wasn’t cleaned properly or with a major defect that wasn’t caught in maintenance, then those processes have failed to add the value we expected. By extension, if the check-in clerk noted that the car was dirty on the inside and the windows were not working when the car was returned, and if he or she entered that information into a database, and if the problem was not corrected prior to the car's release for the next rental, then we must examine the IT and Depot sub-processes to determine which of them failed to deliver the value we expected. Defining how processes generate value isn't easy, but it is doable. It begins by determining each of the stakeholders in a process, defining a value proposition for each stakeholder and defining all of the ways the process interacts with each stakeholder to produce value. This produces a variety of different outcomes that need to be measured. We have found that a scorecard system is useful to help organize the measures of value produced, to organize the alignment between measures appropriate to the value chain, to subprocesses, and to activities, and to provide a good way to evaluate the performance of specific process managers.

For more a more detailed explanation of How Processes Create Value, watch for my Article in the BPTrends February Update.

'Til next time,

Paul Harmon

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