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## The Role of IT Processes in Value Chains

Most current process change efforts involve IT. It's hard to imagine most organizations functioning without the use of computers to capture data, process information, and maintain data of various kinds. In many organizations this has led senior managers to assign the responsibility for leading their process change efforts to IT. Other organizations, however, have concluded that IT groups too often approach process work as an opportunity to automate, ignoring the opportunities to improve the organization's processes. In other words, there is often disagreement about what the exact role of IT ought to be in organization-wide process initiatives.

I do not propose to offer a solution to this problem. Organizations are very different, and IT groups approach processes in very different ways, so the best solution will vary from one organization to the next. What I can do is offer some general observations that may be of help to specific organizations that are trying to sort out these issues.

Most organizations are CMM Level 2 organizations. CMM Level 2 organizations are focused on improving specific business processes at the departmental level using a variety of approaches and tools. Departmental process work is generally bottom-up and incremental and this approach is easily supported by IT and Lean and Six Sigma groups.

The problem becomes much more complex, however, when organizations begin to focus on organization-wide process improvement. This is generally a top down approach and requires the development of a business process architecture. One usually begins an architecture effort by asking what value chains the organization supports. Small organizations may only have one value chain, but large organizations tend to have several value chains and these need to be defined and delineated. Defining an organization's value chains requires understanding what business the organization is in and what strategy the organization is pursuing. It's a question best addressed by the executive management team of the organization, or at least to the planning and strategy group within the organization. The CEO is the ideal business process architect of the organization and senior executives are the best people to define the nature and scope of the business the organization is in.

Value chains and Level 1 processes are not focused on simply automating processes. Value chains are large processes, like making cars or selling insurance. Parts of these processes can be automated; however, management issues, product design and development, marketing and sales strategies and customer service are necessarily done by employees.

This issue is made much more complex by the fact that many organizations first venture into

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enterprise-wide process work when they decide to standardize software systems that are currently difficult to integrate or monitor. In the past two decades, the most popular way to do this has been to install off-the-shelf ERP software systems. The installation of ERP software applications is a huge and expensive undertaking and it seems natural to entrust it to IT. Many have concluded that this is a huge mistake. As Hammer famously put it, if you aren't careful you will end up spending vast amounts of money to pave cow paths instead of building freeways. Several studies have suggested that ERP implementation efforts often fail when they are not preceded by a serious business process architecture effort. In other words, an organization needs to define and then improve their major processes before they get into the specifics of wholesale automation.

Whether you are trying to prepare for ERP implementation, or you have already implemented ERP and aren't happy with the rigidity it has imposed on increasingly obsolete processes, the place to start is with a process architecture that defines your organization's needs and priorities.

The first step for an organization committed to organizing and improving its business processes, is to assure that its senior executives are on board. This means involving them in defining value chains and major processes and determining where their major problems lie. In a process-centric organization, the value chain is the key to everything else. Support processes of all kinds are ultimately judged by whether or not they support the core processes that generate value for customers. Thus, it is critical that the core processes are correctly characterized and measured in ways that allow senior executives to determine if they are really creating customer value.

It's not that it is impossible for an IT process group (or an Enterprise Architect) to create a good organization-wide business process architecture – I have known some that have – but it is very hard for people who are normally focused on automation to step back and develop a very broad vision of an organization's value chains. Moreover, senior executives rarely commit to a vision that they didn't develop themselves. Thus, in most cases, organization-wide business process architecture work ought to be done by senior executives, with the support of a BPM team.

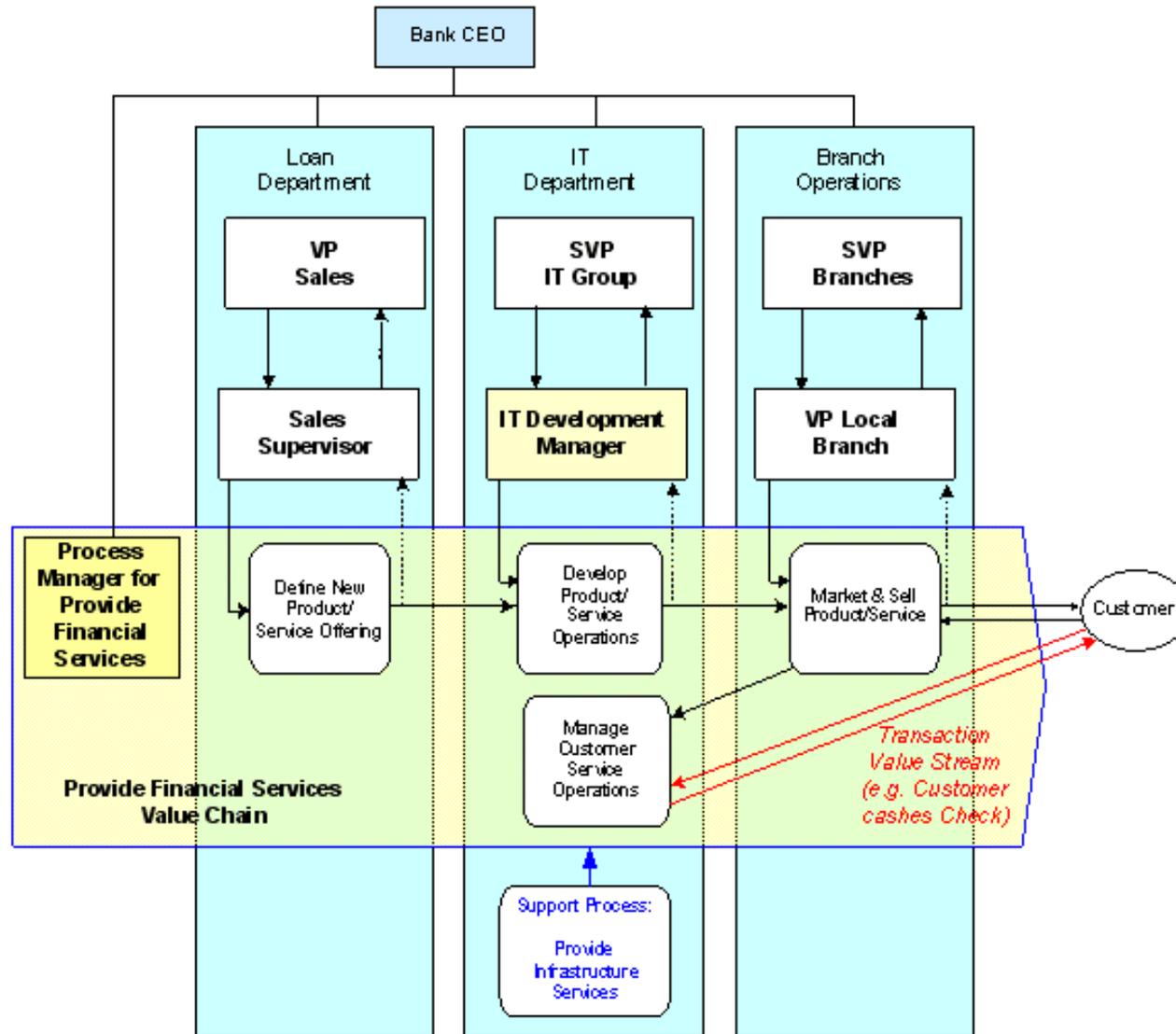
Once there is a well-structured, organization-wide architecture based on value chains, a variety of different groups can get involved in trying to improve specific processes within the various value chains. The key to managing this effort, however, is to have good measures of how the value chains and their major processes are performing. It's the measures that ultimately let everyone know if specific interventions are, in fact, generating increased value.

Assuming you have a business process architecture developed by senior executives, and a good system for obtaining ongoing measures of success, the next requirement is defining the managers of the value chains. Value chains cut across departmental or divisional lines and someone must be responsible for assuring that the value chain, as a whole, is optimized to achieve efficient flows and the desired outputs. This is not a role that any one group within the value chain can achieve. By its very nature, it is a task for an individual who is independent of any specific element of the value chain – it's a role for a senior manager. In most organizations, this means some form of matrix management must be employed. Some senior managers continue to be responsible for departmental work, but other senior managers need to be



responsible for the value chain flows and the overall performance of the value chain. That, in turn, means that, at least conceptually, the value chain manager must be responsible for IT systems used in support of the value chain's core processes.

Figure 1 provides a very high level view of a bank value chain that generates financial services for individual customers.

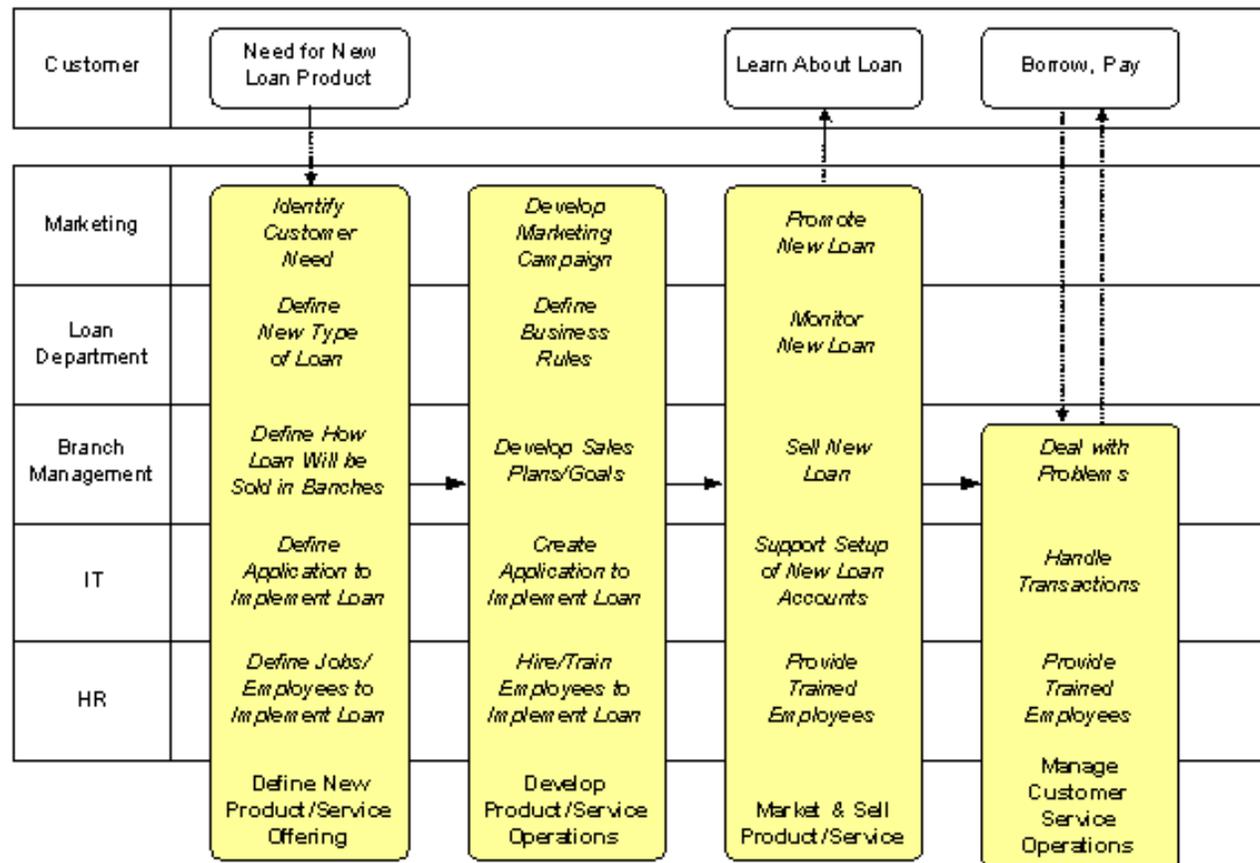


**Figure 1. A value chain and some departments within a bank.**

Obviously, Figure 1 is simplified and only shows a few of the departments that are involved in the complete value chain. In essence, we have a process that provides financial services for customers. The major level one processes include defining new product and service offerings, producing and delivering products and services, marketing and selling products and services

and managing day-to-day customer service operations.

Computers and software applications are an integral part of all of these processes. Two are especially heavily automated - producing and delivering products and services and managing customer service operations. Having said that, however, it's important to add that no one of these Level 1 processes is fully automated. In all cases there are people who monitor and others who interface with managers or customers when things go wrong or when questions need to be answered. At the same time, however, we could create a diagram that shows that both of the two processes we show in the IT column are supported by software systems and databases maintained by the IT department. To provide a better overview, we would need to switch to a BPMN diagram that lets us use swimlanes to show who is involved in each of these major processes, as in Figure 2.



**Figure 2. Some details about what is required of each of the Level 1 processes.**

I modified a BPMN diagram a bit to illustrate the point I want to make – that people and systems from multiple departments are involved in implementing each of the Level 1 processes. IT may play a very important role, especially in the actual development of the service and in handling day-to-day transactions, but it does not play the only role.

Compare this situation with the one shown in Figure 1 where we show that IT also provides an infrastructure for the bank's software systems. Providing infrastructure is a process that occurs largely within the IT group and is a support process. The key to recognizing a support process is that nearly every core process in the organization uses support processes, and if you try to show them on a diagram it quickly becomes a network that is impossible to read. For example, almost all processes require HR, IT and Finance support.

Let's see if I can summarize. The IT group at any large organization plays a vital role in the success of the organization and its value chains. If one is focused on the high-level processes in the organization, however, IT does not play the only role, or even the key role. Both senior executives that set strategic direction and employees that design, troubleshoot and interface with customers also play key roles.

If an organization decides it needs a business process architecture to manage its processes, then senior managers need to own the architecture and be heavily involved in its development, assuring it represents the overall strategy of the organization. And, they need to help establish the value chain measures, monitor them, and base decisions on those measures.

There are processes that are wholly or largely under the control of IT. Providing an infrastructure for the entire organization is a good example of a process that should be an IT process and creating new software applications is another.

The core processes of the organization, at a high level, should be under the control of business managers and, specifically, under the control of value chain managers. Value chain managers usually share responsibility with the departmental managers, but value chain managers are ultimately responsible for the smooth flow of the value chain, assuring that the core processes are generating value for customers and contributing to the success of the organization.

Till next time,

Paul Harmon

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