'Second Generation' Process Thinking: A Case Study From UK Financial Services

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Abstract

This paper traces the emergence of 'second generation' process thinking in a large UK Bank. In common with many companies, the bank had vigorously embraced the BPR revolution in the early 1990s, only to find the targeted benefits elusive and new challenges take priority. More recently, process has re-emerged as a force within the bank. This time however, the focus is not on radical change, but a more mature and sustained programme of 'end to end' process management.

As part of the new drive, a collaborative research exercise was launched to develop a generic model for measuring the effectiveness of Business Process Management (BPM). A synthesis of current research was used to identify the key dimensions of BPM and translate them into a robust measurement instrument.

Following an initial pilot, a comprehensive process audit was carried out. The findings recognised that the Bank had developed a strong process infrastructure, but found deployment limited with an ongoing focus on local performance rather than full 'end to end' management.

The findings were presented to the management team and used to develop a process improvement programme, focusing on rapid deployment and enhanced communication. As such, the research demonstrates the compatibility of developing theory with the delivery of practical value to business managers.

The paper concludes that there is evidence of new process thinking and invites researchers to monitor its future development and impact on the business community.

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BUSINESS PROCESS MANAGEMENT

The emergence of Business Process Management

In 1990, Michael Hammer launched the concept of Business Process Re-engineering (BPR), with his plea to companies to 'obliterate; don't automate' (Hammer, 1990). Process moved out of manufacturing and into the broader business community. The service sector became the new champions of process. Financial Services companies in particular showed a huge appetite for BPR, and matched this with significant levels of investment.

In practice, few companies delivered the targeted benefits from re-engineering, with reported failure rates as high as 75%. (Al-Mashari and Zairi, 2000). Meanwhile a plethora of new challenges emerged. The Financial Services sector, in particular, experienced unprecedented levels of change. Building Societies became banks; banks merged into 'super banks'. The growth of new channels and technologies created huge opportunities but highlighted the risks of technology dependency through the spectre of 'Year 2000'. New ideas such as CRM and ERP replaced BPR on the management agenda.

More recently, however, a number of researchers have identified a resurgence of interest in process in the business community, albeit with a significant change of direction (Armistead 1996; Lee and Dale, 1998; McCormack and Johnson, 2001). Process is no longer linked exclusively to radical change. Processes are now seen as 'a generic factor in all organisations. They are the way things get done' (Armistead, Pritchard and Machin, 1999). Hammer describes his own conversion to this new thinking: 'I no longer see myself as a radical person; instead I have become a process person (Hammer, 2001). The emergence of Business Process Management (BPM) as a pervasive issue, demanding management attention, is viewed as a natural product of organisational learning 'Employees at all levels have grown to incorporate a process view into all aspects of their work. Process thinking has become mainstream.' (Grover, Kettinger, Teng, 2000)

Process evolution in a Financial Services company

This paper uses the findings from an ongoing study of process management in a large UK Bank to explore the evolution of process thinking in an empirical context. The Bank is a large and complex organisation, with over 1000 retail branches. There are a number of subsidiary companies within the company, offering a wide range of financial products through diverse business processes.

The Bank grew rapidly throughout the late 1990's as a result of a number of mergers and acquisitions and the current organisational structure remains volatile.

A number of these companies had been involved in BPR programmes in the early 1990's. In some cases the programmes were short lived, with little impact on subsequent practices or culture. For one of the larger companies, the BPR programme was a significant initiative, with a more permanent impact.

The programme was launched in 1994, primarily as a vehicle for delivering significant cost reduction. Processes were considered too complex, often requiring a large number of 'hand offs'. The opportunities for streamlining seemed abundant and a 25% target for cost reduction was considered realistic.

A pilot exercise reviewed the mortgage sales process to fully evaluate these perceived opportunities. At that time, the mortgage process required customers to complete a minimum of five forms involving 167 questions. However, less than 20 unique pieces of information were collected through this process, the rest were simply duplicated demands for basic data such as name and address. Moreover, much of the unique data itself was either already held by the Bank, or could be expected to have been held for regular customers. The pilot confirmed that a simplified process would eliminate the waste associated with the process and improve customer service through reducing the time to offer. A full re-engineering programme was launched to develop and implement the new mortgage process and to extend the redesign methodology across the whole business.
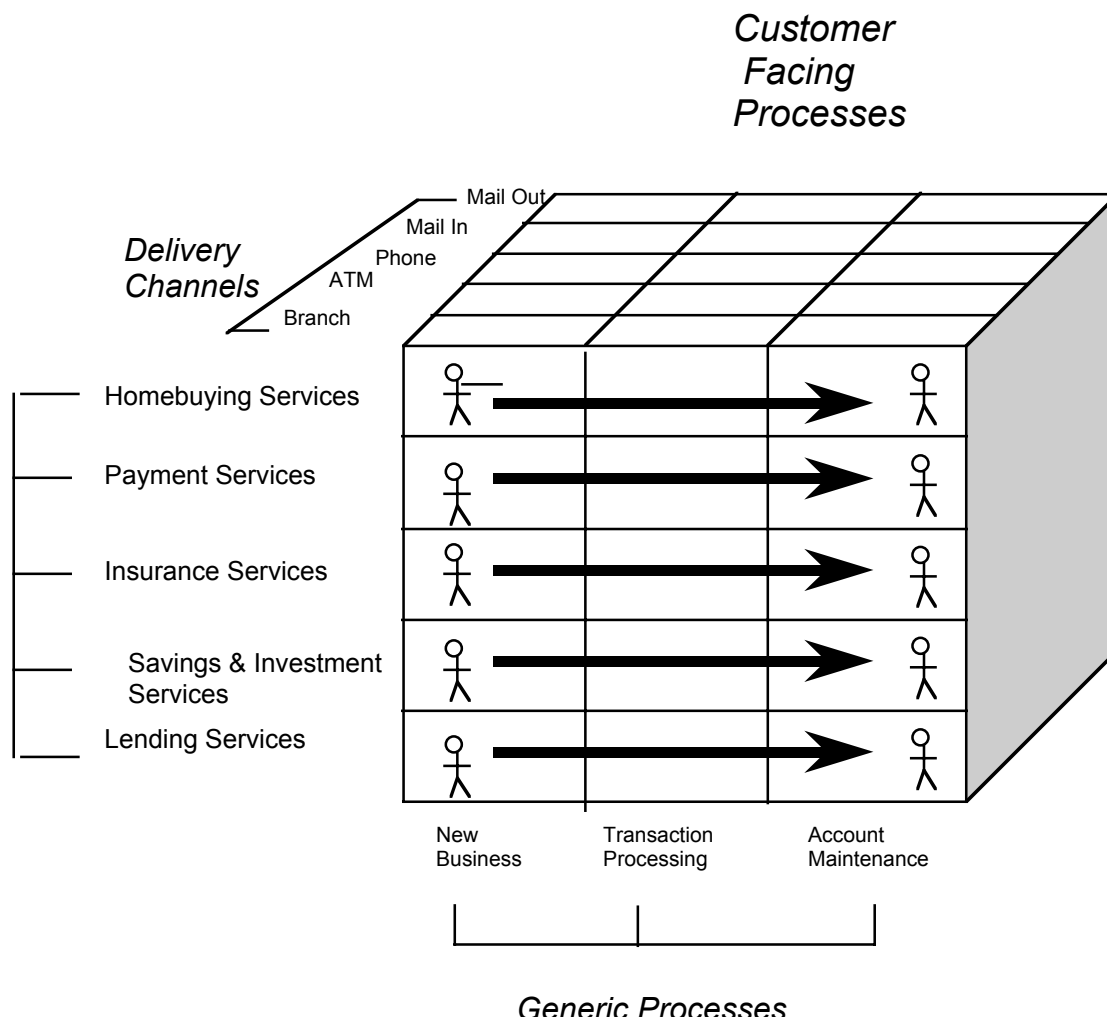
At the heart of this programme was the development of a business process model which, initially, defined three high-level groups of processes: Customer Facing processes, through which the business provided goods and services to customers; Direction Setting and Control processes, which defined the strategy for the company, monitored progress and managed risks and Support processes, such as HR and IT. Over time a fourth group of processes were identified which dealt with managing the customer relationship. Each group of processes were broken down into lower level Generic Processes. For example, the Customer Facing Processes consisted of Sales, Transaction Processing and Account Maintenance.

To facilitate a deeper understanding of the process model and its associated process concepts such as 'end to end' process thinking and 'customer focus', the Customer Facing Processes were represented in a 'cube' (see Fig 1).

The 'cube' highlighted the need to understand and manage processes from a number of different perspectives. Most staff were familiar with product groupings; few had thought in terms of generic processes running across different products and channels. Over time, the model became well recognised in many areas of the Bank, eventually becoming part of the organisational folklore as the 'Rubik's Cube'.

The model was used to launch process ownership. Initially, 5 Process Owner Teams (POTs) were introduced, organised along product lines. Teams drew from representatives of all business units involved in the 'end to end' delivery of the process, including staff from 'Support' areas such as IT and Credit Risk. These virtual teams operated in a matrix management environment. Process Owner Teams were accountable for end to end process performance. Line management retained accountability for local business unit performance. Process Owners, themselves retained line management responsibilities. Their accountability for the end to end process was an additional responsibility.

Figure 1 The Rubik's Cube

Customer Facing Processes

Delivery Channels

Mail Out
Mail In
Phone
ATM
Branch

Homebuying Services

Payment Services

Insurance Services

Savings & Investment Services

Lending Services

New Business

Transaction Processing

Account Maintenance

Generic Processes

Approximately a year after launching product based POTs, Generic Process Owners were introduced with responsibility for the radical redesign of their processes. The Generic Process Owners were full time positions, with dedicated staff and access to investment resource.

Processes were mapped using IDEF0. The maps were organised by product and generically and documented both the 'as is' position and the 'to be' position.

Process measurement was recognised as a critical enabler to the programme and an Activity Based Management (ABM) project was launched to provide 'end to end' process costs. The Bank already held extensive productivity measurement, organised broadly in line with the process architecture. This facilitated the implementation of an

ABM database which reported monthly costs for key 'end to end' processes, together with a range of service performance metrics, including AdeltaT (a measure of work content expressed as a percentage of elapsed time) and complaints. Costs were calculated on a 'bottom up' basis, using volumes and work content, rather than the traditional 'top down' allocation methods. As such the focus was operational improvement, rather than, for example, transfer pricing. Performance data was posted to key activities within the process and outputs were linked to the process map (see Fig 2).

Figure 2 ABM Output
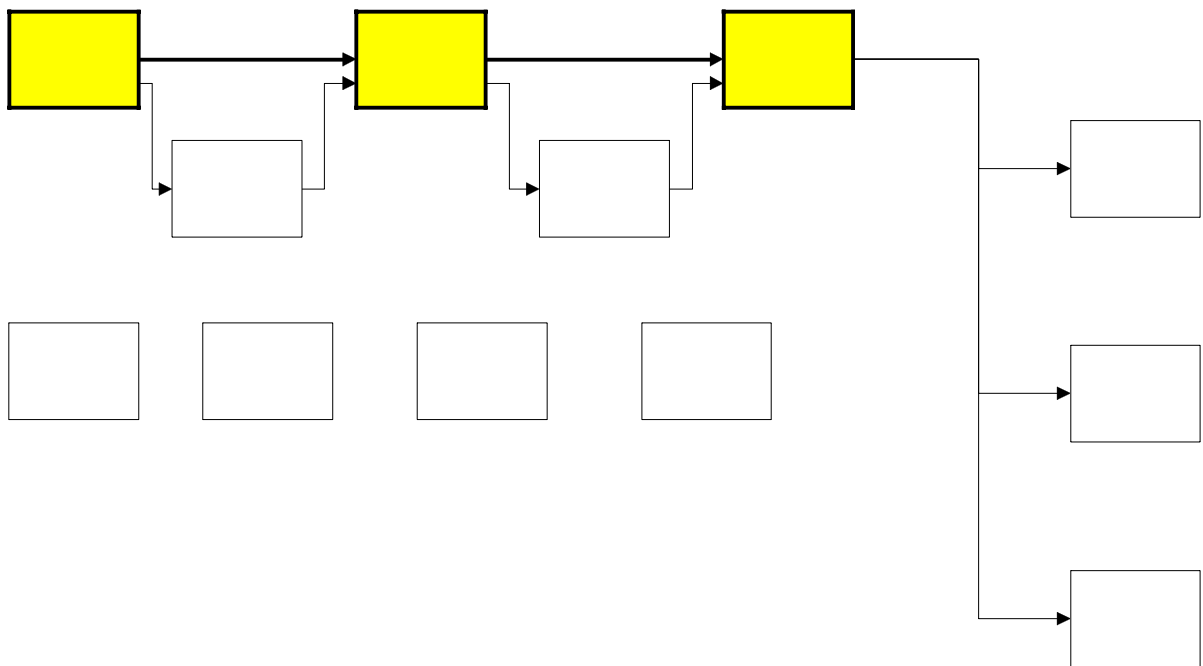
Many elements of the developing process infrastructure were considered 'leading edge' and their impact on the organisation was significant. However, throughout this period, cost reduction remained the key strategic driver for the company. In particular,

investment decisioning was based primarily on financial cost/benefit, with short term cost reduction as a priority.

The BPR programme, itself, was predicated on a 25% reduction in costs for major processes. The development of the process infrastructure was simply a means to an end, never an end in its own right. The radical redesigns failed to produce sufficient benefits measured against these criteria and the longer term projected benefits of 'process' were not 'high profile'.

Meanwhile, the management agenda became dominated by other issues. During the late 1990's the Bank went through a number of mergers and acquisitions, with the attendant organisational turmoil. The 'dot.com' revolution demanded a response; CRM was adopted as a key initiative. BPR, and process led initiatives were wound down.

By 2001, however, the Bank had stabilised and began to resume an interest in process issues. The original BPR sponsor was promoted to a Board role and retained a passion for process. Companies who had adopted a Six Sigma approach were reporting huge benefits. One senior executive explained the return to process as follows 'Some of us have always believed in process. We had to get the structure right first, now we can get going again.'

A Process Design Authority (PDA) was established and charged with the implementation of a Group Wide process model, process ownership and process governance. In marked contrast with the earlier BPR programme, the focus of this process initiative was to provide a better understanding of processes across the organisation as a platform for improving customer service, rather than simply reducing costs.

Drawing on lessons from the BPR experience, a process infrastructure was re-established, based around a process model, process owner teams, process governance standards and process measurement, including six sigma measurement.

The original '3 box' process model was developed to embrace new strategic imperatives, in particular the focus on the customer relationship and the requirement for organisational agility (Figure 3).

Figure 3 The New Process Model
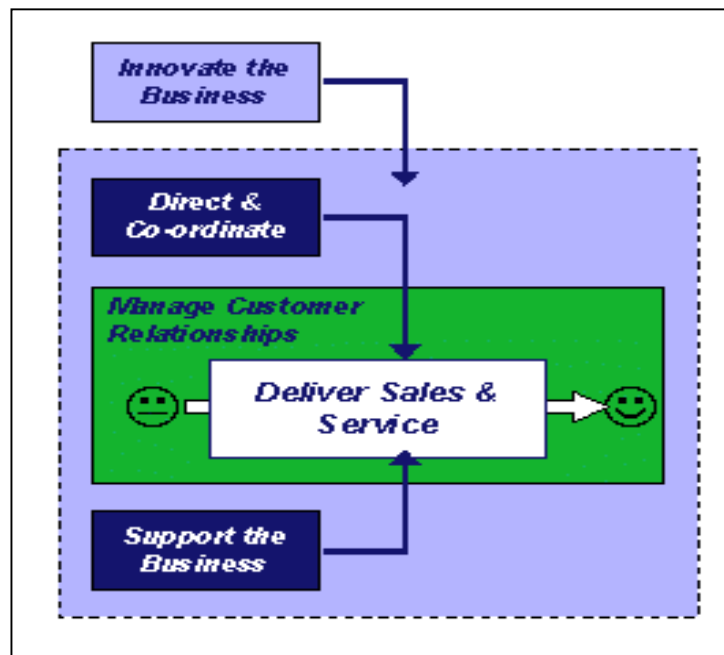
Five high level Process Owner Teams were introduced, initially organised around the main product groups. It soon became apparent that process management in Retail Banking demanded more detailed attention. Customer satisfaction was falling, following difficulties with the implementation of a new integrated banking system.

Fourteen POTs were established to provide more 'hands on' management of the key banking processes such as payments and enquiries. Their priority was to improve customer service, quickly, and dedicated resource was allocated to enable this.

High level process maps were captured in a central repository and formed the basis for change management. Retail Banking POTs introduced process measurement, based on six sigma techniques, and used the results to monitor performance and set targets for improvement. 'Process Dashboards' provided a simple representation of the process flow, linking customer requirements to delivery. Six sigma also formed

the basis for the process improvement methodology. The process model, maps, Dashboards and tools and techniques were posted to the intranet to encourage process thinking and enable effective process governance.

Figure 4 Process on the Intranet

Developing a BPM Measurement Model

The Bank was keen to fully understand its actual process performance and a collaborative research project was launched to develop and deploy a suitable measurement model.

A systematic review of the Business Process Management literature identified five criteria critical to the development of an effective process infrastructure:

- Process Identification
- Process Measurement
- Process Management
- Process Improvement
- Process Strategy

These criteria were the most frequently cited in the relevant literature and were also recognised within existing practitioner process measurements such as the EFQM model. As such, the Bank process experts were familiar with them and felt comfortable and capable of using the criteria to assess their performance in an objective manner.

A questionnaire was developed which specified detailed process conditions within each criteria. Again the detailed conditions were located in the relevant literature.

Following an initial pilot, the scope was made explicit to allow respondents to separately identify local Business Unit performance from the overall Group performance. This emphasis on 'end to end' process thinking was both a critical consideration in the literature and a cornerstone of the Bank's process thinking. A deployment metric was also introduced for each of the key areas of the process infrastructure to provide a platform for monitoring subsequent progress. The questionnaire was extended to incorporate output measures including process capabilities and actual process performance, as evidenced, for example, by customer satisfaction measurement and sigma scores for major business processes. To encourage returns and to provide a more comprehensive context for the analysis, a number of related process issues were addressed, including perceptions of barriers to implementation and benefits realised.

The questionnaire was distributed to 70 process practitioners across the Group with 50 completed returns. Full details of this research are provided in an unpublished paper 'Measuring Business Process Management: a Case Study from UK Financial services' (Maddern and Maull, 2003).

Survey Results

A summary of the findings is presented in Table 1 below.

Table 1 Business Process Management Performance 2002

Group BPM			
	Approach	**Extent Deployed**	**Deployed Score**
Process Identification	66	60%	40
Process Measurement	59	50%	30
Process Management	58	50%	31
Process Improvement	61	60%	36
Process Strategy	56	50%	27
Functional process management			50
Process Capabilities			54
Process Performance			60
Overall process management			**44**

The approach to process identification was found to be strong. Key processes were mapped end to end and there was a central process repository. However, processes in some Business Units had not been identified and there were concerns about the effectiveness of the repository.

The survey identified extensive measurement of customer satisfaction, with some use of six sigma techniques. Process measurement was not integrated with other measurement and had not been deployed across all areas of the company.

Process Owner Teams had a successful record in reducing complaints and had been integrated into 'business as usual'. However, Process Ownership was limited to Retail Banking and lacked a clear strategy for delivering large scale change.

An increasing customer focus was recognised throughout a wide range of process improvement initiatives and a number of improvements had been delivered, albeit time to delivery remained a concern.

Overall, there was a growing recognition of the value of effective process management, with continued executive support. However, process was not widely understood across the business where silo management still dominated.

As expected, traditional banking capabilities such as security scored highly. Customer relationship management capabilities such as contact channels and availability were also strong. Concerns were raised about error rates and many processes remained paper based.

Functional process management varied, with an average score of 50% in a range 37% – 68%. These higher scores suggested that scale and complexity are barriers to effective BPM.

A wide range of process tools and standards were in place across the Bank. Most Business Units had customer satisfaction measurement and 80% used mapping and modelling tools. On the other hand, there was little evidence of tools to support radical change, simulation was limited and few Business Units had implemented financial process measurement.

The key barriers to implementing BPM were culture, resource and political issues. Feedback included: 'We have a school of thought that we know what our customers want, we've been in the business for hundreds of years'; 'Process is still seen as an Operations issue'; 'There is senior executive support in Retail Operations, but process is not endorsed elsewhere in the Group'. Effective communication was reported as the most important factor in over coming these barriers, together with early and continued delivery of demonstrable improvement. Improved customer service was considered a key benefit.

Evaluating the model

The findings were, potentially, controversial, as the scores indicated that overall performance was not 'world class', a key company aspiration. A structured assessment tool developed by Malhotra and Grover was used to evaluate the robustness of the model (Malhotra and Grover, 1998). The literature provided

evidence to support content validity. Cronbach Alpha scores in excess of 0.8 supported the reliability of the findings. Multiple respondents had been used to triangulate the results. Appropriate respondents were chosen and the sample frame and size adequately identified. Some limitations were identified, including concerns with the basis of the weightings and the equivalence of incremental units. On balance, the assessment proved satisfactory and the findings were presented to the management team

Applying the Research

The findings were accepted by the management team and an improvement plan was developed to address the weaknesses which the survey had identified. Key actions included:
- the introduction of a new process repository with sophisticated interrogation facilities and the ability to develop 'pick and drop' process models
- a programme to capture all processes within the repository
- the development of a best practice approach to managing process change which required all projects to address the process dimensions of change
- a programme to extend six sigma measurement to the top 40 processes
- the introduction of stretch targets for key processes
- the extension of Process Ownership beyond Retail Banking
- the integration of process measurement into mainstream reporting
- a substantial increase in specialist process design resource
- the creation of a specialist simulation shared service resource
- a communications strategy build around Executive endorsement, supported by local briefings

Particular emphasis was placed on the rapid deployment of BPM across the Group.

Conclusions

This case study supports a growing consensus in OM research that process is re-emerging from its BPR origins to once again occupy a central role in business activity. However, this 'second generation' process endeavour is still embryonic.

Delivering business value remains the critical test and few companies have fully demonstrated that capability.

However that journey ends, the research can claim some success in demonstrating the compatibility of developing theory in the context of helping managers tackle business problems. The model, itself, clearly delivered benefit to the Bank. It enabled them to better understand the state of their BPM, identify areas of weakness and implement improvements. Moreover, the collaborative nature of the research process generated positive feedback from Bank personnel: 'As a result of this work, we have a much better understanding of our processes and we will use this knowledge to develop our process management going forward'.

Going forward, the future development of process management across the sector provides a fascinating challenge for business and researchers alike. Can 'second generation' process thinking be leveraged quickly and effectively to become a permanent platform for business orientation or is it simply a false dawn?

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