Executives, Process, Outsourcing, and Mergers

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At every conference I attend, I am questioned about how process practitioners can get more support from senior management. My usual response is that you do not do it by trying to "sell" process. Instead, you emphasize helping executives solve problems that are important to them. I realize that this is easy to say, and a lot harder to do,, in no small part because many executives have no idea what is involved in process work or how process practitioners can supports their corporate objectives. Too many senior executives associate processes exclusively with Lean or Six Sigma efforts and think that process practitioners exist simply to reduce overhead or cut costs. Or, they associate process work with IT and think that process analysis is something you do in order to automate a software application that will support company operations.

Let me suggest two other areas where process work should be important to executives. Many outsourcing projects and most mergers fail to achieve their stated goals. The business press puts a lot of emphasis on the latest mergers, mentioning that billions have been paid and that the new firm will be the largest in the industry. Or, they report that thousands of jobs are being lost in the US as an entire IT shop is moved to India or a production line is relocated to China. Seldom do they report that the outsourcing contract was canceled three years later or that four years later the merged company spun off all of the operations acquired in the merger.

The business press makes much of the financial values of mergers – stock prices soar for awhile and executives get bonuses. Movies have been made to show how powerful and sexy it is to negotiate such industry-altering deals. The reality, however, is that most mergers fail to achieve the stated goals and ultimately, the cost to the acquiring company exceeds the projected benefits. It turns out that the strategic benefits that everyone focused on when the deal was announced cannot, in most cases, be achieved because the two organizations cannot overcome the practical problems of integrating their day-to-day operations.

In some cases, it's a matter of culture. A company with technical and R&D strength merges with a company with marketing and sales strength. In short order, the senior executives from the engineering firm are at odds with the executives from the marketing firm and are convinced that if they don't stop them, they will soon erode the firm's reputation for quality products.

In many cases, this issue can be resolved by determining how two equally important but different sets of processes can be modified to work together efficiently. At this level of detail, of course, it isn't just the different points of view of the people involved – it is also about databases that don't communicate and software applications that structure tasks differently. And it's the cost of the transition – moving half the new organization from Oracle ERP to SAP ERP, or vice versa.

In an ideal world, every company would know its processes, right down to the specific activities that are performed, the people and training required, and the software applications and databases that support those activities. In such a world, two companies could sit down and compare their processes and arrive at a systematic plan for transitioning to an integrated operation. Unfortunately, this ideal world describes two companies that are at least mature CMM Level 3 organizations. Each would have its processes defined and have good measures to suggest which processes were performing well and which had problems. Similarly, they would have a process architecture that defined which support processes supported which core processes and what software and training resources were required by each of the processes.

Most organizations are CMM Level 2 organizations. They have some processes defined – usually their most important core processes - but don't have a complete architecture and don't have good process-focused measures. Equally important, for our discussion here, there is no BPM group and no CxO driving a process perspective.

I've often thought the problem should be addressed at the board level. Instead of just looking at the financial projections and asking which executives would stay and what jobs they would get, smart board members ought to ask for process maps that show how operations are to be merged. It isn't that the board members need to get involved in the details of how to integrate the processes, so much as it is that they assure that the management is thinking about the practical problems of actually integrating the processes of the two firms.

It doesn't take too much work to put high level process diagrams in a standard modeling tool and show where there are overlaps and where there are differences. One of the leading US auto companies did exactly this when they decided to build a new auto plant in Brazil a decade ago. They generated process diagrams of their three most productive auto production processes, overlaid them and used the diagrams as the basis for process design for the new plant.

In our opinion, a minimum requirement for any merger should be a careful study of their respective process flow diagrams and a plan for how to effectively manage the integration of their processes.

In a similar way, outsourcing ought to be planned by a business process group. It isn't as if you can simply move a process elsewhere and forget about it. The process you outsource will require most of the same inputs the existing internal process requires. And it will generate outputs (like production and scheduling data) that other processes that are still internal to your organization will need to do their work -- just as the internal version of the process does today. Moreover, it will need a manager who resides in the company doing the outsourcing who will monitor the work of the outsourced process, using all the techniques that any good process manager relies on. You can outsource a major process, but you can't outsource the ultimate process management responsibility that monitors and controls the process. And that, in turn, means that the manager who is ultimately responsible for the outsourced process will need to understand the process in much the same ways as a manager responsible for an internal process.   Smart outsourcing contracts ought to include process diagrams and information about when and where the outsourced process will be monitored.

In way too many companies, executives charged with overseeing the merger or negotiating the outsourcing contract, have no knowledge of process. Many don't even understand there are process issues involved. They lack the basic knowledge required to perform due diligence of the processes, let alone the ability to manage the merged operation.

Once again, in most situations the company doing the outsourcing is a CMM level 2 company that is still working to figure out its own core processes and has little or no experience with a comprehensive, architecturally-based approach to defining the processes involved in a specific merger or outsourcing contract.

Most executives understand that mergers and outsourcing contracts involve strategic and financial considerations, but they fail to appreciate the importance of the operational issues and ignore the insights and knowledge that process architects could provide. Those behind these initiatives too often get caught up in the excitement and ignore the data about failures, believing that their merger or their outsourcing venture will be the exception.

Positioning your BPM group as a source of expertise in these situations can help senior managers understand that process professionals can provide insights and assistance in areas other than cost savings, continuous improvement, and automation.

Till next time,

Paul Harmon