



BPM and Six Sigma

Dr. Phil Samuel

Vice President
Breakthrough Management Group

Phils@bmgj.com

Innovation behind the Scenes

Business enterprises thrive by creating unique value for customers and by generating wealth for shareholders. We know this. What's not so well known is that creating value is a cyclical activity that can be managed and optimized with an enterprise-wide performance excellence system. Such a system guides the interplay of several key aspects of value creation: innovation, operations, improvement and the management of processes, products and services.

During the course of organizational evolution, various methods and approaches are used to create value. Business Process Management (BPM), Hoshin Planning, Balance Scorecard, Lean Six Sigma, Activity Based Management, ISO, SCOR and CMMI are some notable examples.

BPM provides the necessary discipline to manage enterprise-wide business processes, its participants and the outcomes generated by them. Specifically, BPM involves mapping and analyzing process relationships, defining expected performance levels, redesigning processes for optimal performance and monitoring and controlling them for sustainability and accountability.

Lean Six Sigma, on the other hand, provides a framework and methodology for optimizing processes to reach entitlement for customers and the business (provider). Generally speaking, Six Sigma reduces defects and variation, while Lean eliminates waste. The integrated Lean Six Sigma approach of improving process speed and quality provides an elegant formula for reaching process entitlement.

With much in the literature on the synergy between BPM and Lean Six Sigma, there is a need to ratchet up the conversation – to unravel the mysteries around the innovation aspects of processes, not just the improvement aspects. While approaches like Lean Six Sigma optimize existing processes and achieve entitlement performance, process innovation approaches create new value beyond entitlement through creativity and redesign.

Value Creation

To explain the interdependencies and linkages between innovation, improvement and the management of processes, products and services, see the following simple model. A business creates deliverables called products (or services) for customers, who have three types of expectations – performance-related, perception-related and outcome-related.

The first two types of expectations – performance expectations and perception expectations – are related directly to the products (or services) delivered. Performance expectations are unambiguous, objective and measurable attributes of product or service such as elapsed time, price, weight and quantity. (Like when the bank sends the checks you ordered on time). Perception expectations, on the other hand, are related to attributes that address subjective characteristics of product or process, such as easy-to-use, relevant, durable, timely and flexible. (Like when the bank teller is “nice” to you).

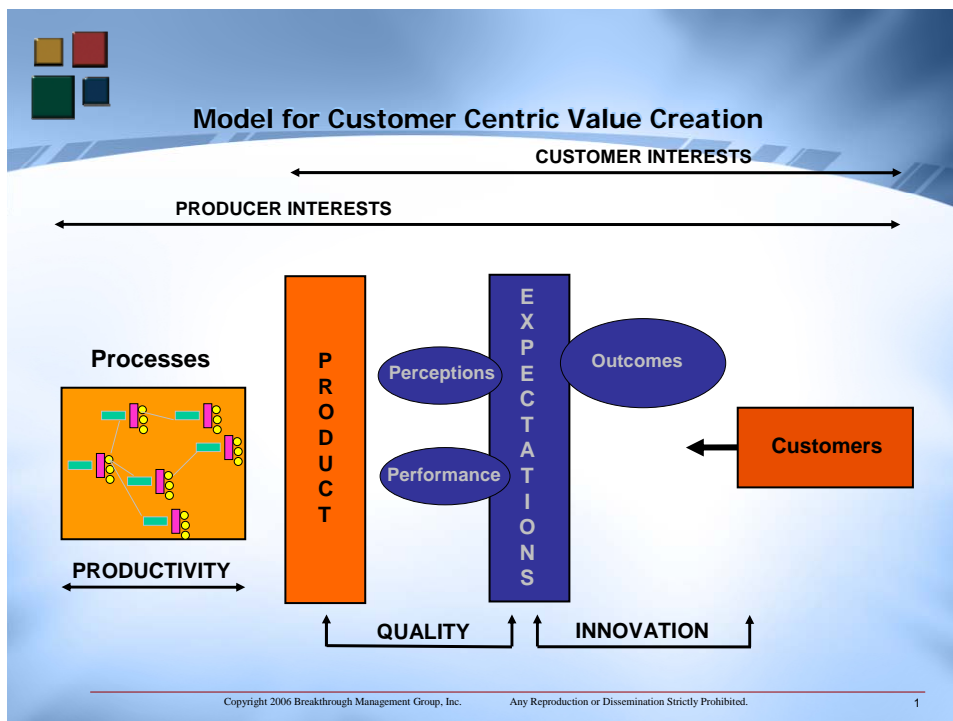


Figure 1. Model for Customer Centric Value Creation

Product (or service) expectations, whether performance or perceptual in nature, form the basis for producer-customer relationships and customer satisfaction. They also dictate the processes used to create, deliver and support products. By understanding and measuring performance and perception expectations, an organization can improve the quality of products delivered to customers through detailed attention to the way it creates value: its processes.

The third plank of value creation, or type of customer expectation, is outcome expectations – the results achieved by using the product or service. For example, the user of a watch expects the outcome of knowing the time with certainty. Outcome expectations are critical to the innovation process, as they define the heart of human need.

In other words, capturing and measuring customer outcomes are the first steps toward innovation. Driven by this, you can discover new solutions and implement them in a way that creates significant value in unoccupied market territories.

For example, there are several dimensions involved with achieving the outcome of successfully organizing and managing personal finances – and Intuit is a company that's done well in this area. Before the introduction of Quicken, customers had two basic options: 1) use one of the 40-plus accounting software applications or 2) use pencil and paper.

On one hand, pencil and paper performed very well on the customer outcome dimensions of low price and ease of use. But pencil and paper failed to deliver on such other outcome dimensions as accuracy and reliability of transactions, speed and flexibility with financial calculations, and the capability to perform analysis. On the other hand, the accounting software provided better results but performed poorly on such dimensions as inexpensive and easy-to-use.

Intuit's Quicken product delivered a new portion of value to customers by focusing and delivering the desired outcomes that are important to customers managing personal finances while minimizing the undesired outcomes.

Process Innovation

For Intuit and others, business process innovation is key to delivering new value at the strategic, product, customer and balance-sheet levels of a business. Regardless of what you do, or what the customer buys from you, value is created, delivered and supported by processes – core, customer-facing, enabling or other (pick your own terminology).

As I said, capturing and measuring customer outcomes is the first step of innovation, or process innovation. Once you've taken this step successfully, you can discover new ideas and develop new processes in support of your view of your customers' world. For example:

- Amazon perceived “ease of buying” as an important (perceptual) value dimension for some of its customers. As a result, it offers the “buy-items-with-1-click” option during the check-out process at Amazon.com. To facilitate this operation, Amazon had to innovate on many behind-the-scenes business processes.
- FedEx created a system that allows customers to track the location of their packages during transit and delivery. While customers only saw the tracking information on the internet and the scanning operations performed by the driver, most of the innovation occurred in the enabling business processes.
- Progressive Insurance introduced an “on-site claims adjustment service” to facilitate peace of mind for customers. In facilitating and supporting this service, Progressive innovated along many process dimensions.
- Often, business process innovation is made possible by the IT-enabled automation of manual tasks. Wal-Mart's strategic innovation of “everyday low prices” could not have been realized without the associated, rule-based business process innovations.

Many forward-thinking, innovation-elite companies have created superior value for their customers by innovating along strategy (or business model) dimensions. However, the secret recipe for their success lies in their ability to innovate at the process level.

Ideal Final result

So how does an organization determine the superiority of one process innovation over another? While there are several useful measures, perhaps the best is to calibrate the distance between any proposed or possible innovations and the Ideal Final Result (IFR).

The IFR is a state in which all desirable outcomes are maximized while all undesirable outcomes are minimized – for customers and the provider. The IFR is accompanied by the related concept of “Ideality,” which is the ratio of all relevant desirable outcomes to undesirable outcomes. (Desirable outcomes benefit both customers and the provider. Undesirable outcomes incur cost and harm to customers, the provider and society.)

Based on this equation, you can see that as innovation approaches the Ideal Final Result, cost and harm become minimal. Therefore, the “itself” processes become superior innovations. “Data enters itself,” “glass cleans itself,” “software corrects itself” and “data organizes itself” are examples of this. It goes without saying that business rules and IT automation pave the path toward reflexive functionality by virtue of something's existence.

Thinking on the strategic aspects of innovation, and meditating on their connection with everyday processes, yields an epiphany for action. Create value for the organization and its customers by engaging in process innovation – regularly, tangibly and, of course, effectively.

Doing so enables you to win the battle for customers: as process innovation activities meet their outcome expectations, quality-related activities (Lean Six Sigma) fulfill their more performance and perception expectations. When both these capabilities come together under one roof and interact, dare I say, synergistically, that's what people call a "world-class organization."