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TKG Perspective

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What's the "Process" of "Process Management"?

By George W. Millward, Managing Director

One of the adages that became popular over the last decade is "Manage the process; Measure the results". Executives have found that, like most such "easy to roll off the tongue" clichés, the reality of "managing the process" is much more difficult than it sounds. In fact, managing the results, at least from the executive level, is far easier to accomplish. And it is easier for the employees, as they perform their work the same old way. But the risks of loss – external in terms of customer and investor satisfaction and internal in terms of the economics of the bank and employee satisfaction – become too great to ignore.

A turbulent economy exposes the short-term nature and long-term danger of results management. Given the static economics of "business as usual," the CFO can push the numbers only so far. Then CEOs have to confront the hard fact that life has to change. The question becomes: "Change how, where and what?" The realization dawns that the only way to affect fundamentally the long-term value of the bank is to change business processes. So now the questions evolve to: "How do we do it?" "Who can do it?" "What is the investment?" "When can we see results?"

The Role of Strategy

Realizing long-term benefits of process change can only occur if the change is guided by a clear business strategy. While this guidance seems intuitively obvious, we have seen many banks whose leaders have worked hard to implement "best of breed" processes only to find that the market has moved away from them. So a solid business strategy sets the targets; process change builds the stage for prospering.

Elements of Process Change

The three key words are "People, Process, Technology."

1. **People.** Old-fashioned cost reduction, especially in Banking, nearly always leads to "head count reduction", across-the-board terminations of employees. That tactic may be very appropriate if the goal is short-term expense reduction. However, in Process Management, the focus on people is upon the *collection of skills and behaviors* that each employee brings to the job. The value add of people must be as much a part of the analysis as the costs incurred or work steps involved or technology applied in the work effort. The effort to match people (with their skills and behaviors) to the redesigned work pays extraordinary dividends. But that effort must be managed carefully as it must balance objectives of equity, fairness, and individual desires with the real needs of the company.
2. **Process.** What are the steps or tasks necessary to perform the work? These may be automated or manually performed; they may be time-intensive or not; they may be performed on a specific schedule or upon demand. In all cases these tasks must add value to the product or service. But difficulty occurs with the addition of the essential constraint of operating in a "well controlled" environment. So the imperative of "adding value" must include controls to address the risks (operating, financial, regulatory and legal, market, strategic) inherent in the process. In other words, appropriate and well-designed business controls add value to the enterprise.
3. **Technology.** "Technology" means the tools used to complete the process. The tools may be automated systems (in financial services, they almost entirely are such), but can be any technologies. The important point is that technology is treated as a critical part of the solution, but not the entire solution. For example, with the ubiquitous distribution of personal computers in office and home comes the belief that just applying some automation can be the solution to process problems. That is never true. It wasn't true in the 60's, when mainframe computers became prevalent; it wasn't true in the 70's and 80's, when mainframe software became capable of exploiting the power of the computer; it wasn't true in the 90's, when distributed systems became practical; and it's not true today Technology must be implemented hand-in-hand with process and the people to make the entire system work.


"People, Process, Technology" – that's the mantra. Guided by a rigorous business strategy, those three words hold the key to making your bank responsive to your customers. Following through with a well-designed approach to process change can result in the most effective utilization of your people and the highest return on technology investments. It can result in stunning progress towards achieving the Firm's business strategy. But . . . How can a company make this happen?

The "Process" in "Process Management"

The work involved in implementing significant process change is similar to that required of any large project. It is the responsibility of the executive team of the organization, and, while the actual steps are delegated to project team(s), the ultimate decision(s) must be made by the leaders of the firm. The following is a summary of the key steps along the way:

1. **Test your business strategy.**

   Is it robust enough to guide a fundamental restructuring of how your firm goes about its business? If it does not meet the test, then spend time working on this, first. But be aware that findings of the process analysis may require a revisit of the strategy, most likely as a result of challenges to strategic assumptions made in the planning process.

   The test of your business strategy must include confirming the risk profile embedded in the strategy. Risk profile includes the appetite for risk that is comfortable for your bank, and the tolerance for variation in risks and results. Understanding the risk profile at the "top of the house" enables the design of processes and controls that will deliver appropriate information enabling effective risk oversight by executive management and the board.

2. **Organize the project.**
   - Identify clearly the scope of the effort. Will it encompass the entire company, a specific business unit, a functional area? Each can be an appropriate setting; clear definition is essential. Obviously, the strategic implications become fewer as the scope of the effort becomes more tightly focused on functional activities. However, a focused effort on specific functions will reduce the likely pay-offs from the investment in the project. Make the trade-off clear.
   - Establish a project team. The membership of the team should broadly represent the business being addressed and the units supporting that business, especially finance, human resources and information technology.
   - Name a high quality project manager, someone perceived by the firm as a "rising star." Think of this process change exercise as that manager's "MBA" education in the internal operations of the firm.
   - Establish an executive steering committee with the authority to approve proposed changes.
   - Communicate the need for the project, its purpose and the team's membership to the entire bank. Clear, direct communication throughout the effort is essential to keep the level of concern manageable.

3. **Establish a systematic process to build the proposed design. The process includes:**
   - Review current situation.
     - Document current practices to the degree necessary to identify required change. This documentation must begin at the highest level of the area being assessed and drill down systematically into the organization.
     - Document the current technologies supporting the areas being analyzed, including strengths and weaknesses. This review must be fact-based; unfortunately, many discussions of the technologies being utilized quickly evolve into a debate over perceptions about them.
     - Review the current staff focusing on their skills and behaviors.
     - Develop financial analysis including organizational and product profitability as relevant to the study, including the identification of costs embedded in the current processes and revenue opportunities that are currently missed (such as rampant fee waivers).
   - Develop proposals for change. These proposals need to integrate the themes of "People, Process and Technology" in order to minimize the chance of continuing current practices.
     - The proposals need to be top-down. Begin the discussion at the highest level of the process being reviewed. Using this approach enables everyone to see the context for the proposed changes.
     - The imperatives for new skills from the employees and new functions and features from the technologies also become much clearer.
     - The control environment that supports risk oversight.
     - After all, the purpose of entering into this type of effort is to re-think the way the business operates.
   - Communicate progress with the entire organization. As noted above, communication is essential to manage the perceptions of the project.

4. **Review periodically the team's progress.** The above steps appear sequential; however, they need not be so. In fact, the team and steering committee should identify any opportunity to begin implementation as quickly as possible. Early successes not only begin paying for the effort, but also build the perception of progress across the organization.

5. **Implement well.** Of special importance is establishing performance measures that capture progress and risk measures that support oversight of the risk profile.

6. **Embed process management into the culture of the organization**. Large or small, organizations need to leverage improvements made available through change in markets and products.

Starting into a process change program is very uncomfortable. However, systemic process change can yield sustainable performance improvements with limited risk of falling back to the old way of doing business. It is one of the few ways banks will be able to build long-term value through this next decade of slow balance sheet and revenue growth.