

Linking Processes and Strategy

The link between business processes and strategy is not well-established in the vast majority of organizations. Many companies fail to capitalize (or even understand) how to use processes as key strategic drivers. This article, the first in a three-part series, will describe why the process-strategy link is vital to your business, introduce the reasons why the link is not exploited, and describe mechanisms useful for identifying which processes have strategic significance.

Why is the link between process and strategy vital?

Strategic thinking is the practice of identifying the most desirable future state of the organization and executing the tactics necessary to ensure it is realized. Processes represent “how things get done” within an organization; the key tasks a company must execute to deliver value to the customer. The connection between strategy and process is not always obvious, but the company that understands the bi-directional link between the two is well-positioned for success.

A company that focuses on strategy will identify the process gaps that need to be closed to achieve their mission and vision. Resources will be then dedicated to improving process performance in each of the designated key areas. In this sense strategy drives process excellence.

On the other hand, superior business process performance can generate new market opportunities. A prime example is Wal-Mart, which is renowned for its excellent distribution process. While this process was defined for traditional Wal-Mart products, it has been leveraged to distribute non-traditional Wal-Mart fare such as groceries. This has both increased and diversified the company revenue stream. World-class processes can often be used for competitive advantage in this fashion. In this sense process excellence drives strategic direction.

Why do companies fail to connect process and strategy?

The link between strategy and process is not always exploited because of the dynamics of the work force. This often represents the single most significant barrier. Mobility in the executive suite often precludes a solid understanding of company processes and how to properly leverage them. At the executive level, senior managers usually “climb the ladder” by jumping from department to department or organization to organization. It should be no surprise that these leaders do not have the depth of business process knowledge needed to recognize their strategic potential. Another disconnect occurs because those charged with executing organizational processes (i.e.- the “practitioners”) are not trained or skilled in strategic thinking. If practitioners are asked to state the first thing that comes to mind when they think of the processes in their organization, typical responses include

“They need to be streamlined”

“They are bureaucratic”

“They are not sufficiently documented or defined”

“They only work because of band-aids and workarounds”

Notice that each of the above responses is negative. It has been our experience at Orion that practitioners have a tendency to focus too much attention on process *problems*. This is certainly

an important facet of improving company performance, but viewed in isolation it can be incomplete and misleading. In order to properly link strategy and process it is critical to consider different opportunities to leverage positive performance as well.

Organizational dynamics also plays a role in connecting process and strategy. There are literally thousands of processes in a typical organization, and it can be difficult to focus on the “vital few” with strategic significance. Compounding the difficulty is that many organizations are very silo-oriented, with poor interdepartmental communication and relationships. Companies of this type often are not effective at strategic process identification. Each function feels that either a) their process is the one that needs all the attention and / or b) all the problems are everyone else’s fault.

Navigating through the barriers is not a simple task. It helps to think of processes in terms of the four categories detailed below.

Which processes have strategic significance?

There are four types of strategically critical processes in an organization. They fit into the following categories:

- Strategic improvement
- Process extension
- Market extension
- Enterprise creation

A brief explanation of each category and relevant examples are detailed below.

Strategic improvement is the mechanism that companies are most familiar with and therefore represents the most common link to strategy. It involves identifying which processes are the constraining forces in the company; the key processes that limit the company from achieving its mission and vision. For example, consider the order taking process at Domino’s Pizza. Many years ago they had multiple process problems: it took forever to collect enough information from customers to fill an order, potential customers were kept on hold so long they would often hang up in frustration, and there was no buying history for customers to identify potential new products that would be of interest. Since this is the lifeblood of their business the process was targeted for strategic improvement. Technology was developed that that enabled dramatic process change, solving all the problems in one fell swoop. Domino’s now uses caller ID to identify repeat customers. As soon as the phone is answered the salesperson knows the customers name, address, and buying history. This makes it easier for the customer to order, enables the salesperson to cross-sell (“Would you like breadsticks with that?”) or suggest products a customer had tried previously, and speeds up the process to the point that fewer potential customers get lost in the queue. In addition to the operational advances (e.g. cycle time) you may have expected from this example, Domino’s increased its average sales by more than 12%. Every organization has one or two processes such as this that could and should be tabbed for strategic improvement.

Process extension involves widening the span of process control to incorporate more links in the value chain. This can be done for a number of reasons. Some companies do it to solve a problem for their customers. For example, General Electric sells a wide variety of appliances through a network of distributors. The smaller distributors cannot afford to keep the entire GE product line in inventory because of the carrying costs. GE developed a process extension strategy that involved them creating regional warehouses where stock for the entire product line was kept. The smaller distributors were allowed to order from this regional stock, provided that they gave shelf space to the full line of GE product in their stores. By moving its boundaries and extending its processes to include inventory activities that were traditionally the domain of the distributor, GE created a win-win solution. GE sales increased significantly due to increased product exposure while distributor inventory costs were decreased.

Other companies adopt process extension strategies to create competitive advantage. An example is Enterprise Car Rental. What differentiates Enterprise from other rental companies? They pick you up. Many years ago they reasoned that the vast majority of rental outlets were in airports, but people needed rentals at other times, too. One of the most common is when their own car is being repaired. Enterprise took advantage of this realization by modifying their own process: they worked out the logistics of how to bring the car to you. When your own vehicle is not available this convenience is of paramount importance. Enterprise also negotiated agreements with body shops across the country to ensure that when cars were needed they would be Enterprise cars. Consequently Enterprise has become the largest rental car companies.

Market extension involves leveraging process excellence in a certain niche to enter other niches. A perfect example is Progressive Insurance. Progressive began as a carrier that specialized in the high-risk end of the market, covering drivers with multiple incidents and accidents. Due to the relatively low volume of drivers in this segment, the company found it necessary to maximize the efficiency of their processes. They streamlined underwriting and claims handling to make them industry-class. This efficiency yielded the positive results and resulting financial wherewithal to enable Progressive to extend into the “mainstream” market segment. (Recent Progressive commercials trumpet their ability to offer brokerage services as well; they offer to check multiple carriers and place your business with the lowest-priced company. This makes Progressive an excellent example of process extension as well.)

Enterprise creation is the most dramatic and aggressive form of strategic process leveraging. It involves capitalizing on excellence in process performance to establish profitable new businesses. An obvious prerequisite of enterprise creation is that current process performance should be almost world-class. A great example is H&R Block. Their core business is to provide tax services, and they have been well-known for years. The uneven volume of work over the course of the year at a tax preparation firm creates many management challenges. It is difficult to maintain stability when there is a tremendous build-up of demand leading to April 15 and a huge drop-off immediately afterward. H&R Block had to become extremely proficient at the processes of recruiting, hiring, and training to remain profitable. They bring in a squadron of temporary workers, educate them in the “H&R Block way”, and let them go after tax season. The excellence in these processes led them to look for opportunities to use them in other ways... and led them to establish a foothold in the temp service industry. By doing this they can leverage the

excellent reputation of their company and diversify into a completely different business. Indeed, H&R Block temp services are springing up in large cities throughout the country.

Conclusion

Every company has the opportunity to get more out of its processes. To their credit, many companies use business process improvement as a means to achieve operational excellence (lower costs, faster cycle time, better quality). However, few take advantage of the opportunity to achieve the larger, long-term benefits possible from leveraging their unique business processes as key strategic drivers.

It is important to remember that opportunities to strategically leverage process performance typically do not just “happen.” It is necessary to dedicate specific time to each of the four mechanisms identified above, trying to determine which organizational processes are candidates for each. In our next article we will discuss how to gather strategically critical information and develop a high-level strategic plan.