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feature

SEVEN PROCESS IMPROVEMENT TOOLS FOR SUSTAINABLE RECOVERY

Some useful tools for identifying, appraising & diagnosing the underlying causes of business financial distress.

The metaphor of corporate crisis as a burning platform is both symbolic and didactic for leaders everywhere. It resonates because it begs the question: 'When faced with an impending disaster, how do you respond?'

Unfortunately, for many failing businesses, it is all too easy to fall into the trap of believing that financial restructuring alone is a panacea for a company's problems. Financial restructuring can be seen as the systematic attempt to alter a company's financial structure in order to improve solvency, build resilience and create an appropriate capital structure for future growth.

When a crisis is imminent, many immediately turn to the company's financial statements in an effort to understand where the decline began and how it can be rectified. However, the financials can only reveal so much about the cause of a crisis. Financial restructuring can be useful, but often neglects a multitude of underlying issues. There is risk in simplistic diagnoses of business failure leading to a superficial treatment plan which will not reveal the underlying cause of the crisis.

When a company is in crisis, it is imperative to make a swift assessment of the prospects for a successful outcome. The essential first steps of a turnaround are to identify, appraise and diagnose. By thoroughly evaluating the business at all levels, a turnaround professional can evaluate whether the organisation has a realistic prospect of long-term recovery. Only when growth is determined to be viable and sustainable should the turnaround begin in earnest.

This critical assessment can be achieved through the use of business process improvement techniques. Business

process improvement (BPI) refers to a set of management techniques used to assess the core processes of a business and determine where improvements can be made in terms of time, cost and quality. BPI allows for an in-depth diagnosis of a business by conducting a complete analysis of all aspects of the organisation, to identify deficiencies so these can either be rectified or eliminated and ensure existing strengths are enhanced and exploited.

In turnarounds, BPI techniques enable a diagnosis of the root causes of a crisis, often yielding immediate corrective measures for identified problems. Likewise, given that turnaround practitioners must focus on achieving 'quick wins' that boost morale and generate cash, business process improvement tools can pinpoint where successes can easily, and rapidly, be gained.

Once the short-term survival of an enterprise is assured, steps must be taken to ensure its medium to long-term survival. BPI tools assist to implement continuous improvement strategies, helping to ensure that the growth achieved in the turnaround process is sustained long after the burning platform is extinguished.

THE ESSENTIAL TOOLS OF BUSINESS PROCESS IMPROVEMENT

Business process improvement (BPI) is typically applied in healthy organisations as part of ongoing continuous improvement. However, it can be more critical to apply them in turnarounds. When implemented effectively, BPI tools can deliver insightful and accurate analyses of a business' processes. They can determine where the problem lies and can highlight potential solutions to those issues.



The responsibility for leading business process improvement in a turnaround should not fall solely on the shoulders of the turnaround leader. They will already be faced with multiple challenges including managing the myriad demands of competing stakeholders.

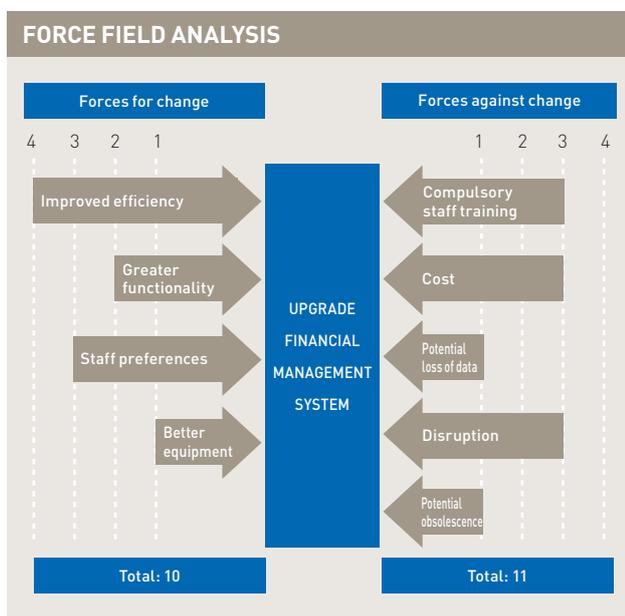
Ideally BPI will be led either by a member of the turnaround team skilled in business process improvement or an experienced BPI consultant. Irrespective of whether it is led by executive or an advisor, management will need to be supportive, engaged and collaborative.

Whilst the list of BPI tools is inexhaustible, the following seven techniques are fundamental to root cause analysis in turnarounds.

FORCE FIELD ANALYSIS

Force field analysis identifies factors which may help or hinder the achievement of a critical change or improvement within a business. Force field analysis requires an assessment of the forces that both propel and repel the implementation of an improvement. Upon completing this analysis, the turnaround executive develops plans to undermine or render impotent these obstacles whilst adding and strengthening the driving forces. In evaluating the factors that may frustrate a change, the viability of the change becomes clearer.

Force field analysis is useful for practitioners who are faced with a crisis and must evaluate the likely success of key initiatives.



CAUSE AND EFFECT MATRIX

Once a key goal of the turnaround has been identified (for example, restore solvency), a number of objectives which support this goal need to be determined. Possible alternative courses of action are then mapped according to their ability to achieve each objective.

The Cause and Effect Matrix highlights the strength of alternative actions against key objectives. It enables the prioritisation of options based on the benefits of each alternative action and the effort required to implement them. With time and resources being scarce in turnarounds, the Cause & Effect Matrix provides executives with the confidence to make quick, high impact decisions.

CAUSE AND EFFECT MATRIX

ROOT CAUSE: Poor cash flow • OBJECTIVE: Generate cash quickly

Action	Impact (net)	Difficulty	Total score	Priority
	1 Low 3 Medium 9 High	1 High 3 Medium 9 Low		
Create early payment incentives on invoices	3	9	27	2
Discount prices on goods/services	3	3	9	3
Increase online marketing	3	1	3	4
Outsource receivable management	9	3	27	2
Create telephone campaign to collect overdue receivables	9	1	9	3
Reduce casual staff hours	9	9	81	1
Reduce permanent staff	3	3	9	3

FIVE WHYS

Though simple in nature, the Five Whys technique is highly effective. It is ideal for interrogating the underlying causes of a problem. By sequentially questioning 'Why?', this technique helps turnaround practitioners approach the core of the problem. Each answer forms the basis of the next question, highlighting a chainlike sequence leading to the ultimate cause of a particular issue. Though the name suggests five repetitions, this tool can be used as many times as needed.

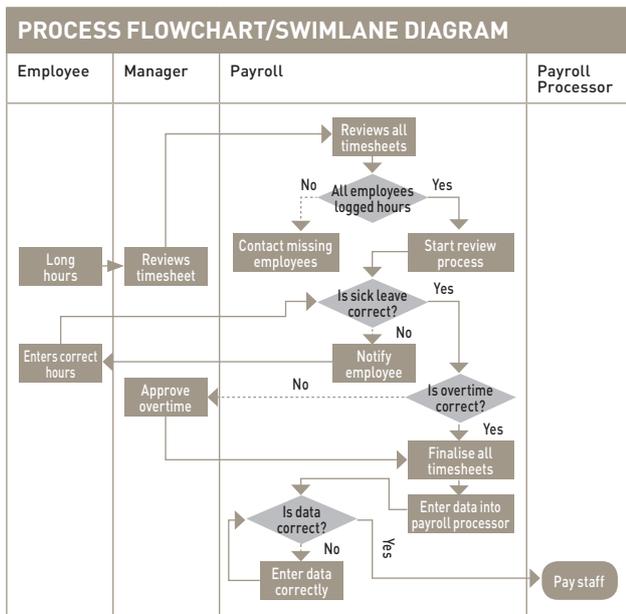
Central to this technique is the understanding that the chain of causality will always link to a process that can be altered or repaired, rather than focusing on causes outside of human control (such as time). This tool should be used when attempting to understand one core issue in the business, as it interrogates why the problem emerged in the first place.

PROCESS FLOWCHART AND SWIMLANE DIAGRAM

Designed to define and optimise business processes, process flowcharting identifies the steps needed to complete a key process. Mapping out every level of a process enables low-value or risky steps to be identified and eliminated or automated. This activity takes advantage of the benefits of streamlining and strengthening business processes. Designing process flowcharts can also improve standardisation to ensure there is little variation within the process.

Swimlane diagrams complement process flowcharts by delineating who does what at any given step in a process. The insights gained in this approach can be used to ensure accurate and efficient communication between different teams or departments, further enhancing the effectiveness and cohesion of organisational process.

Combining both process flowcharts and swimlane diagrams provides an opportunity to assess the business' processes by clarifying each step of a process and identifying which users are responsible for them. This can shed light on where delays or mistakes are likely to happen and both who is responsible and who is to be held accountable for them.

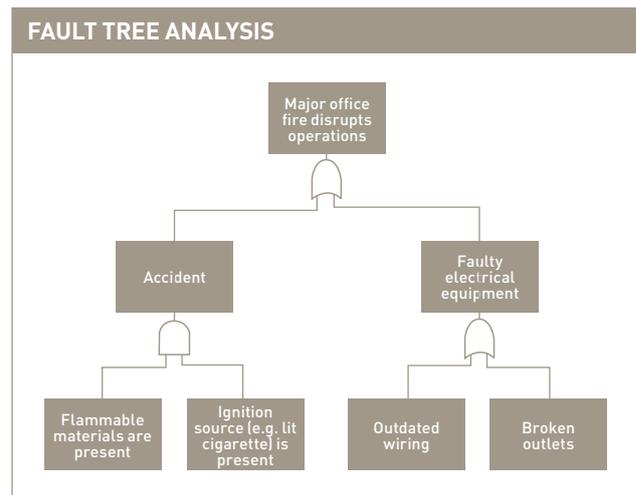


Common flowchart symbols		
Symbol	Denotation	Description
	Process	An operation or action step
	Terminator	A start or stop point in a process
	Decision	A question or branch in the process
	Flow line	Direction of flow for materials or information

FAULT TREE ANALYSIS

This technique requires a top-down, deductive approach to failure analysis; the issue is placed at the top of a 'tree of logic' and subsequent branches extending from the tree create a series of logic expressions which are denoted by different symbols. While Fault Tree analysis can be used to highlight compliance and safety requirements, it also functions effectively as a diagnostic tool to identify causes of more complex problems so these can be resolved.

Fault tree analysis is effective for holistically capturing and reviewing business processes. It also highlights how problems arise and where they are potentially exacerbated.

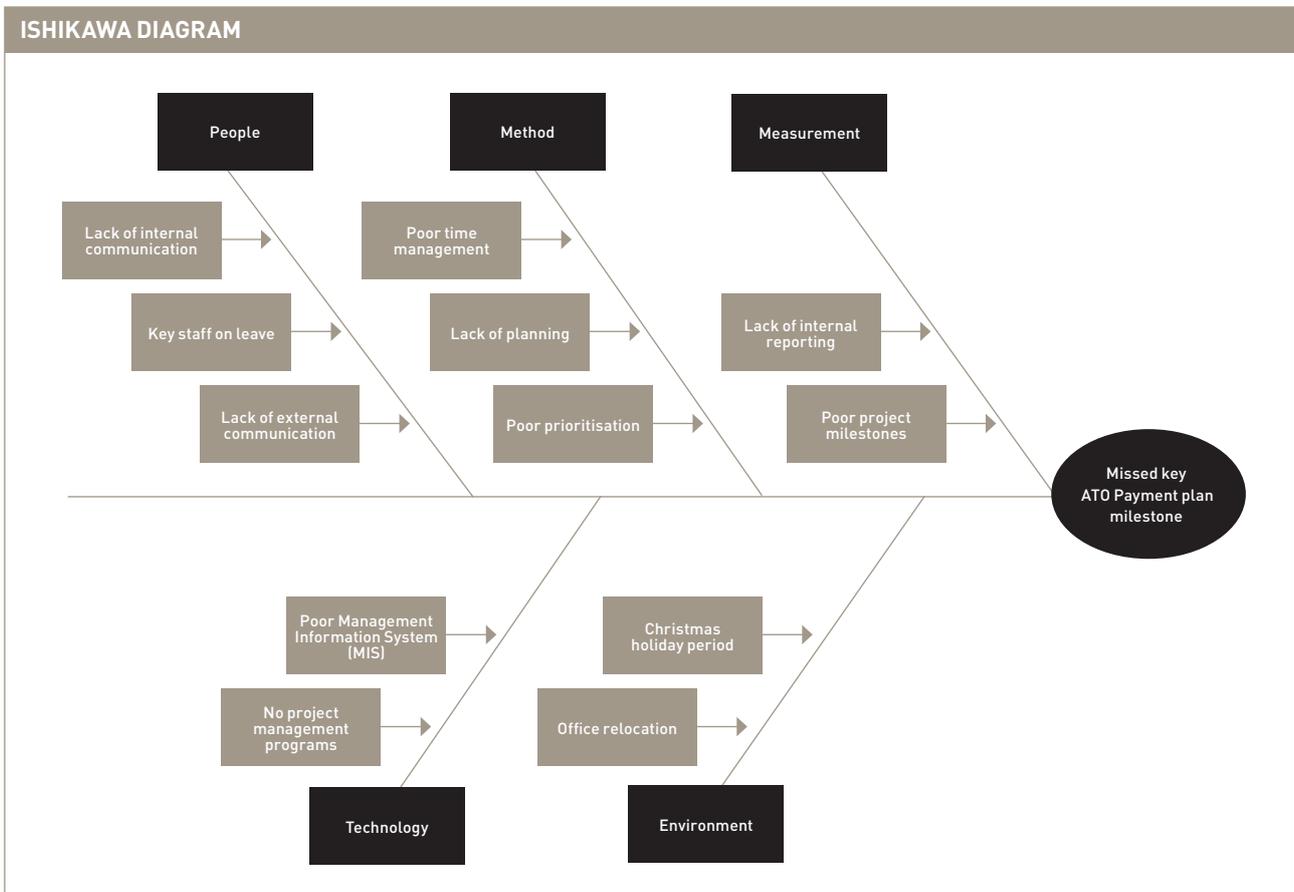


Common fault tree analysis symbols		
Symbol	Denotation	Description
	AND gate	The output event occurs if all input events occur
	OR gate	The output event occurs if at least one of the input events occur
	Basic event	A basic initiating fault (or failure event)
	Undeveloped event	An event which is not developed further

ISHIKAWA, OR FISHBONE DIAGRAM

The Ishikawa (Fishbone or Cause and Effect Diagram) provides a systematic way to examine problems and their causes. This technique shows the relationship between problems and their contexts, as well as the perceptions regarding the origin of those problems. It is designed to investigate, at each level and in great detail, root causes that potentially contribute to a particular issue.

The Ishikawa diagram captures a myriad of causes which contribute to an undesired outcome; it is suitable for practitioners seeking a holistic assessment of the factors contributing to the crisis.



SWOT ANALYSIS

When applied appropriately, SWOT analysis is a tool to review and assess the internal and external factors that affects the organisation’s short-term survival and longer-term resilience. It analyses the business’ relative (and relevant) strengths and weaknesses. Opportunities and threats are identified which can then support the development of strategies.

Strengths are defined as the internal capabilities that give the business a competitive edge, while weaknesses are the internal deficiencies that inhibit the achievement of its core objectives. By contrast, opportunities are future potential benefits available to the firm. Threats are potential risks that could harm the business.

An analysis of strengths and weaknesses can become abstract when viewed separately from external factors, so it is often helpful to begin with an analysis of Opportunities and Threats, two dimensions which consider the overall environment, and then to evaluate these against the reference points of their Strengths and Weaknesses, which are the firm’s internal capabilities.

SWOT is useful for practitioners who must evaluate an extensive number of situational factors. It captures and reviews all internal and external aspects that can strengthen (or undermine) the business’ chances of recovery.

SUSTAINABLE SUCCESS THROUGH BUSINESS PROCESS IMPROVEMENT

In a turnaround, a key first step is to undertake a diagnostic review. Understanding the root cause of business failure is imperative to the development of a successful turnaround plan. Only by knowing the real reasons for failure can a business undergo an enduring transformation. Otherwise, the turnaround team risks addressing superficial or surface level issues whilst neglecting the underlying systemic problems, which, when left unaddressed, will inevitably trigger another crisis.

Business process improvement tools, such as those outlined, help to ascertain the root causes of failure whilst also identifying and prioritising options for change. This is vital in restructures and turnarounds, as ‘quick wins’ can be achieved in a minimal amount of time, so momentum and morale can be gained. Once short-term survival has been ensured, more long-term action can be undertaken to further stabilise the business.

As the organisation returns to stability, frequent analysis of business processes, and the subsequent and continuous improvement of those practices, can ensure that any warning signs of potential business failure are quickly identified and remedied.