Midwest Facilitators Network Activity Workshop

April 26,2002

Pat Dowdle – Process Architect

Balanced Perspectives

Agenda

- Overview of Activity Based Management
- Activity Workshop approach
- Exercise: Define activities for Strategic Planning and Management Department
- Review activity costing
- Exercise: Define cost drivers
- Exercise: Define performance measures
- Action plans for improvement
- Review Output of Session

2

Activity Analysis
In the beginning…..

"To understand what activities are needed to attain the objectives of the business is such an obvious thing to do that it would hardly seem to deserve special mention. But analyzing the activities is as good as unknown to traditional theory."

Peter F. Drucker
The Practice of Management

3

Definitions:

- Activity: Work performed by people, equipment, technologies or facilities (CAM-I)
  - What you do : Manage the forecast
- Task: How you do it (step 1, step 2, etc)
- Process: "A complete end-to-end set of activities that together create value for customer" (Hammer)

Why start with Activities?

- Starting point for process improvement
- Focus usually begins in departments
  - tasks tied to activities
  - framework of work that is performed
  - resources tied to activities
- Building blocks of cross functional processes

5

Activity Workshop Approach:
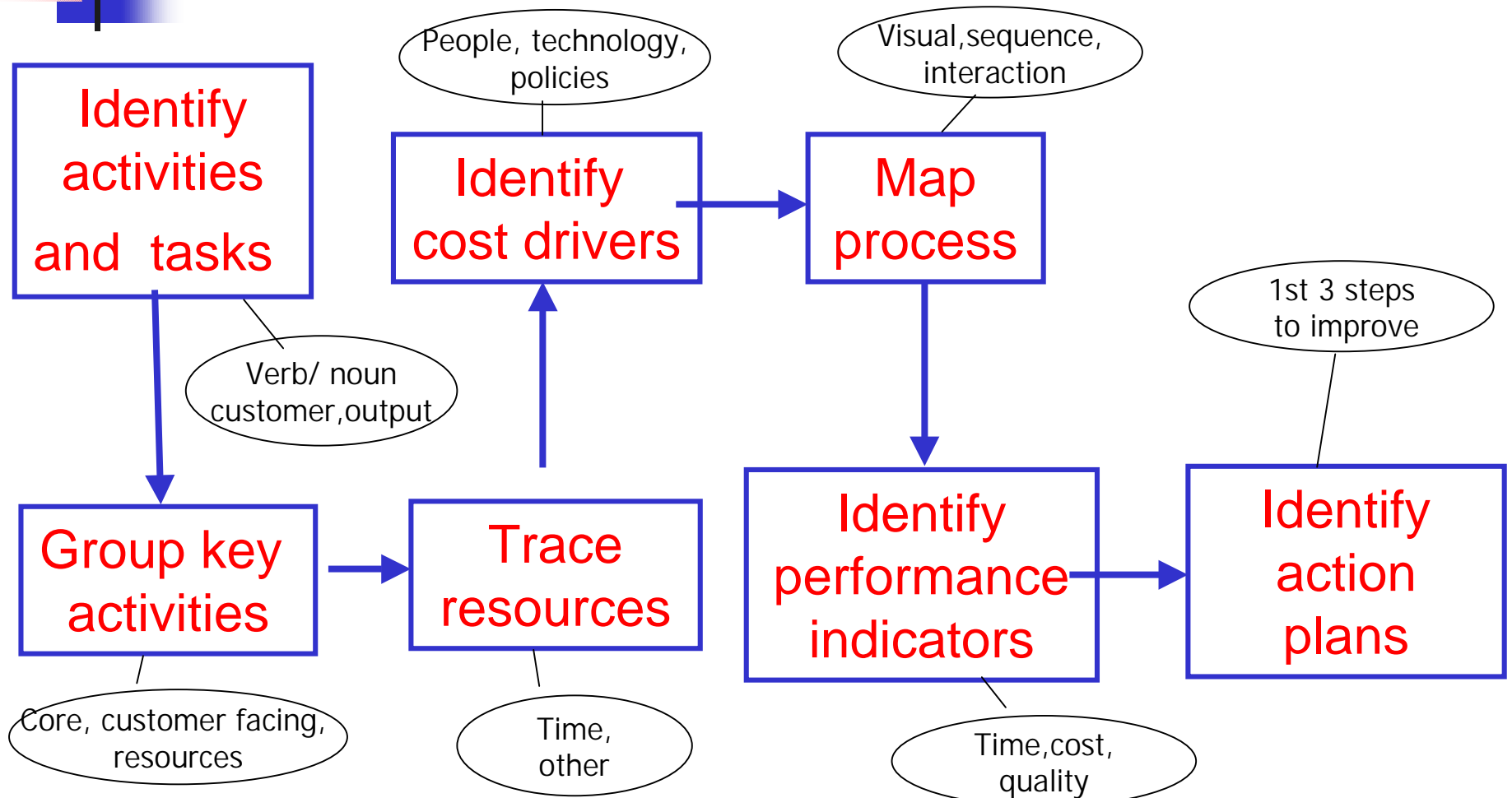
Identify key activities

Trace resources

Identify cost drivers

Map processes

Identify performance measures

Identify action plans

6

Activity Workshop Approach:

Identify activities and tasks

Identify cost drivers

Map process

Group key activities

Trace resources

Identify performance indicators

Identify action plans

People, technology, policies

Visual, sequence, interaction

1st 3 steps to improve

Verb/ noun customer, output

Core, customer facing, resources

Time, other

Time, cost, quality

7

Exercise 1: Define activities

- Focus: <u>Strategic Planning and Management Department</u>

- This department manages this process in the company

- The current process is long, frustrating , and viewed as a painful exercise

- Goal: understand , measure and improve the process

8

Define activities in this area:

- Verb/noun combination
  - Manage monthly close
  - Run the model
- Each activity:
  - Has an output
  - Has a customer (is done for someone)
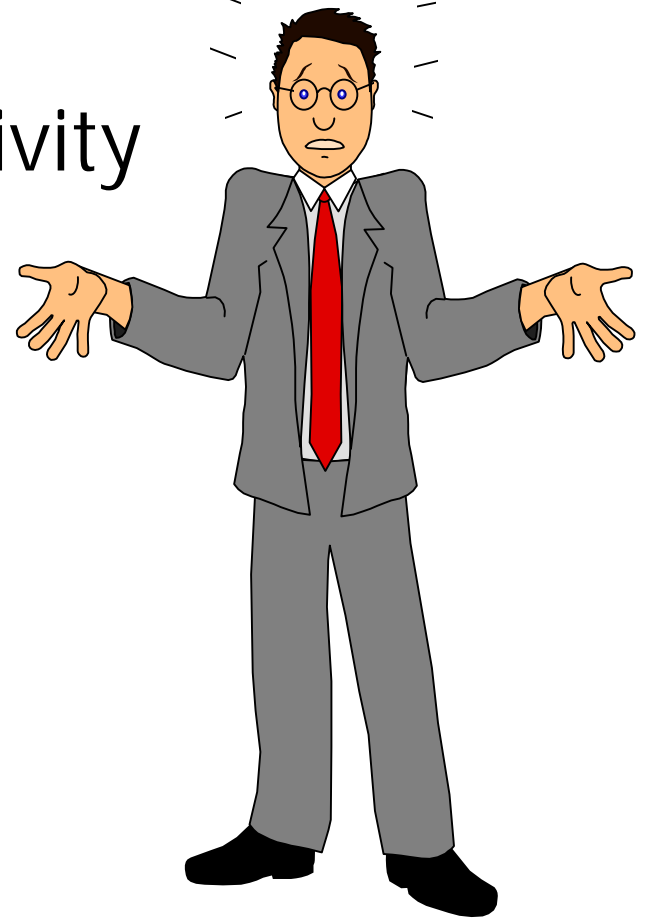- list 5-10 items using Group Systems

Group into list of activities:

- Identify the 5-15 key activities performed by the Strategic Planning and Management department

- Group common items together

- Tie tasks to activities

10

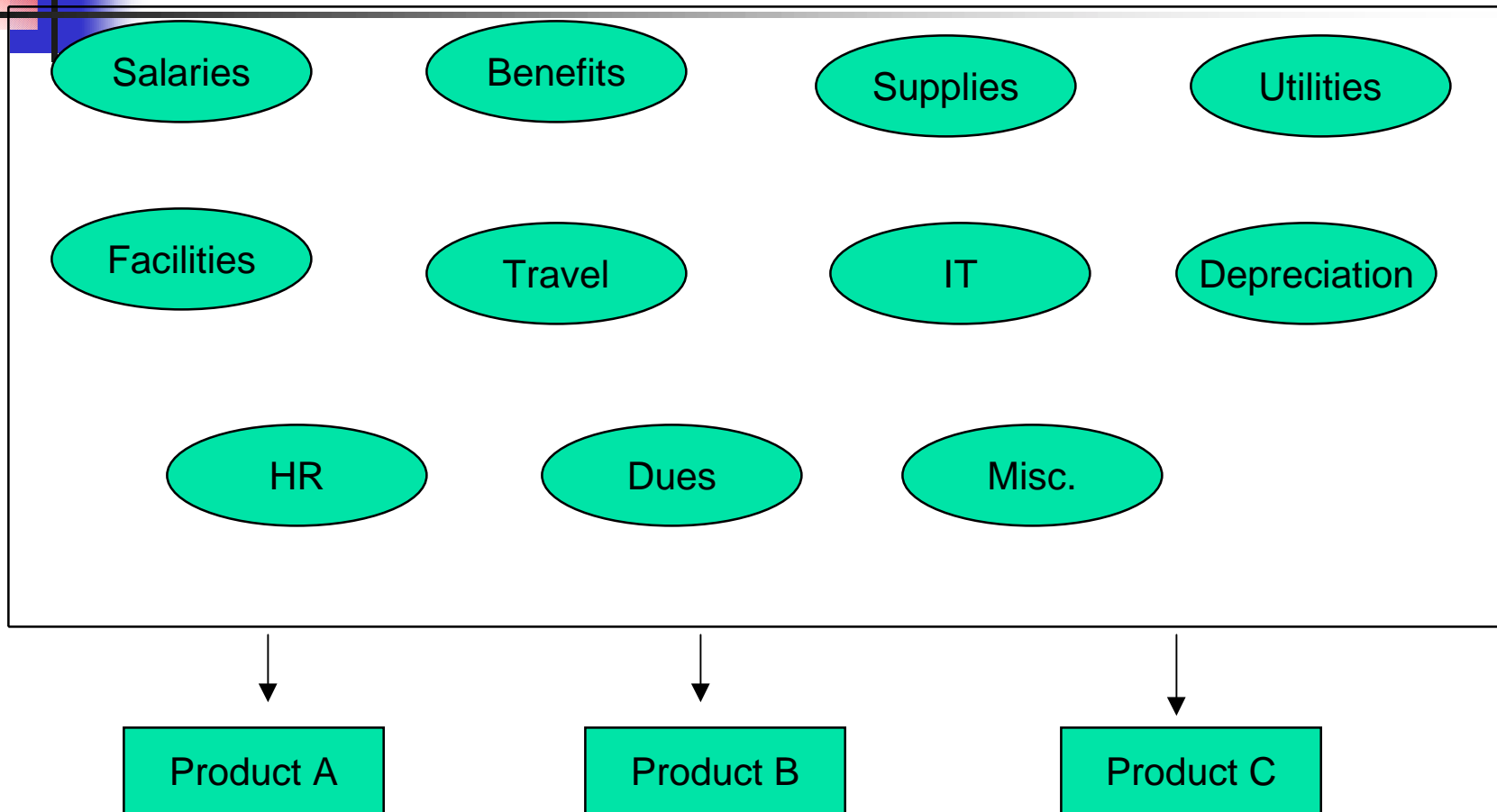# With the list of Activities:

- Determine cost of each activity
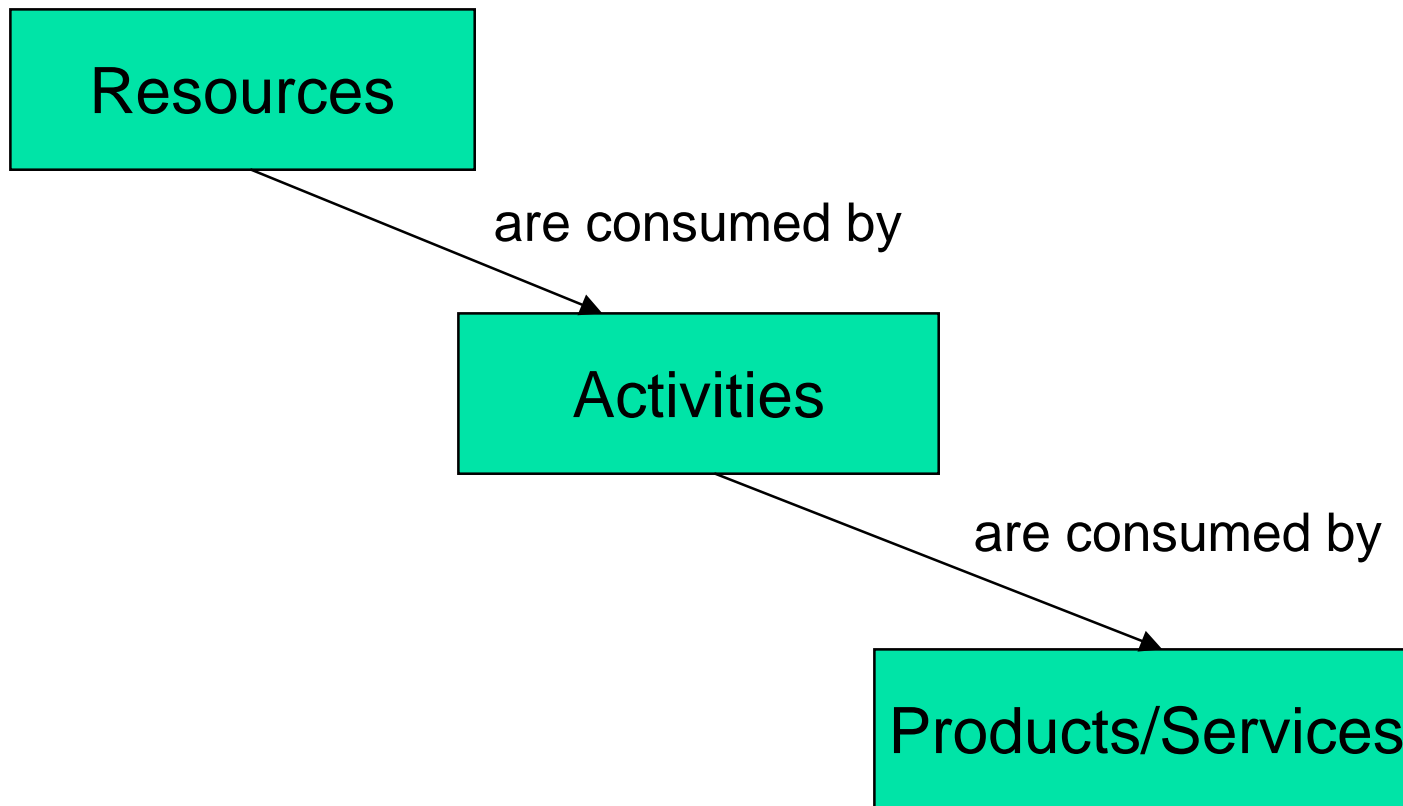
Typical Management Approach:

Monthly Department Statement:

	Actual	Budget
Salaries	$460	$490
Supplies	50	40
Occupancy	40	40
Computer	30	75
Other	20	10
	$600	$655

Traditional Cost Management View

Salaries	Benefits	Supplies	Utilities
Facilities	Travel	IT	Depreciation
HR	Dues	Misc.	

Product A   Product B   Product C

13

Early Cost Management Breakthrough:

Resources

are consumed by

Activities

are consumed by

Products/Services

14

Manage Activities--Not Resources!

From: Focus on Resources   **To: Focus on What is Done**

Performance Measures

(000's)

Workload

Salaries	$460
Supplies	50
Occupancy	40
Computer	30
Other	20
	$600

Activities

Visit Customer	$400
Expedite Order	70
Handle Complaints	40
Do Paper Work	60
Manage Dept.	30
	$600
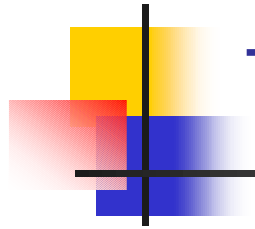
Trace Resources to Activities:

Resource	Tracing method	Strategic Management and Planning Activity			
		Manage Budget	Develop forecast	Update strategy	Train staff
Salaries-$460 →	Time %	$200	$137	$100	$23
Supplies-$50 →	Analysis	$21	$15	$9	$5
Occupancy-$40 →	FTE	$200	$12	$9	$2
Computer-$30 →	Analysis	$12	$16	$2	$0
Other-$20 →	Analysis	$7	$3	$6	$4
Total-$600 →		$440	$183	$126	$34

How can you use Activity data:

- With <u>activity costs</u>, determine:
  - product/service costing
  - product line profitability
  - customer profitability

> Key cost management information

17

Next: Manage Activities

- Have a list of activities and activity cost
- Don't stop there!!!!!

- Starting point: identify what causes resources to be consumed
  - ask the people who do the work

Identify Cost drivers:

- Any factor that causes a change in the cost of an activity

- Root cause of cost

- 3 types:
    - people
    - technology
    - policies/procedures

- key ?: what causes you frustration

Example: Manage employees

- **People:**
  - right skills
  - level of training required

- **technology:**
  - performance review forms used
  - access to employee data

- **Policies/procedures:**
  - timing of reviews/salary increases
  - level of link to strategy

20

Exercise : Identify cost drivers:

- **For our list of activities :**
  - Break into groups
  - Each group takes an activity
  - enter the cost drivers into the specific activity bucket in Group Systems

21

Map the activity/process:

- Visual

- Identifies the sequence of steps

- Identifies interaction between departments (handoffs)

- Identifies outside interaction

22

Manage Activities:

- We have identified:
  - the activities in the department
  - the cost of these activities
  - cost drivers of each activity
  - a visual of the process

- How do we measure performance?

Identify measures of activity performance:

- Service provider will determine the measures

- Service provider validates the measures with the customer

- Data to ask better questions

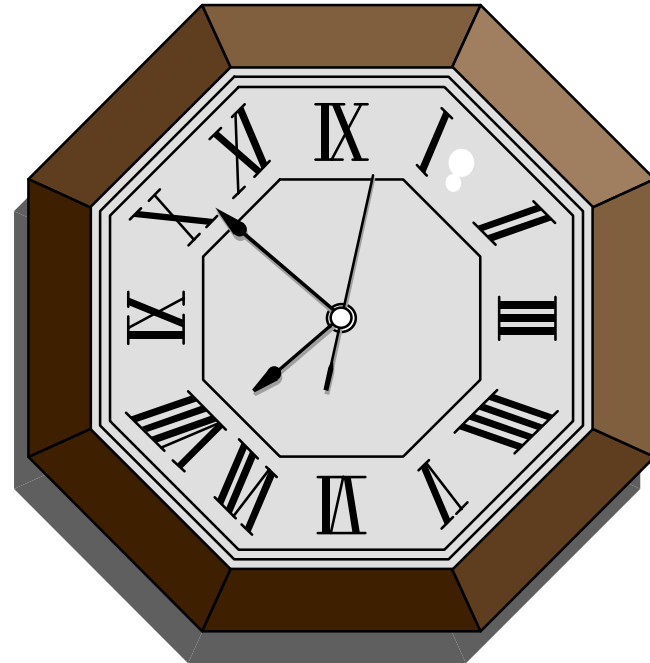- You can not manage what you can't measure!

24

Performance measures:

- Time
- Cost
- Quality

Example:Manage employees

- ## Time:
  - review completed by Feb 1
- ## Cost
  - 10 hours/review
  - activity cost/unit of output: $1000/review
- ## Quality
  - correct increase in 1st paycheck

Exercise : Identify Performance measures:

- **For our list of activities :**
  - Break into same groups
  - Each group takes the same activity
 - enter performance measures into the specific activity bucket in Group Systems

27

From Activity analysis, our department has:

- List of activities, and underlying tasks
- Activity costs
- Insight into the problems which occur
- Visual map of the activity/process
- Measures of activity performance

Use this insight to develop action plans:

- **Specific steps for improvement**

- **data which provides insight:**
  - address cost drivers
    - prioritize these factors
  - steps from process maps
  - performance measure
    - close gaps
    - where is more data needed

29
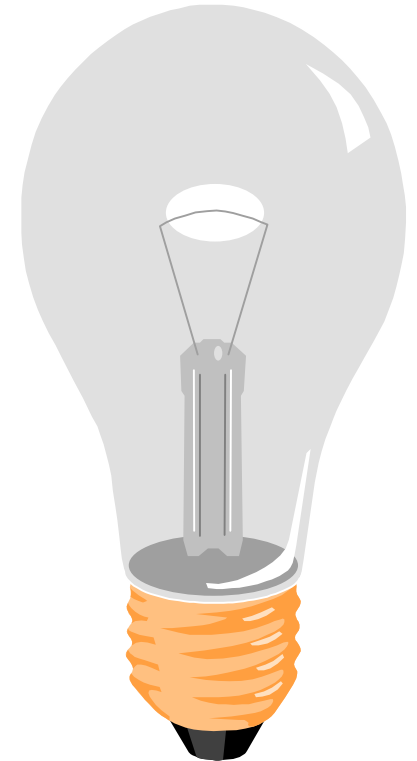
Identify action plans:

- **Identify Result or output desired**
  - reduce the # of drafts from 3 to 2
- **List 1st 3 steps to get there**
  - identify who else is impacted
  - meet with others in process
  - identify impact of 3rd draft

Group exercise: Identify action plans

- **What could be improved?**
  - Desired outcome or Result

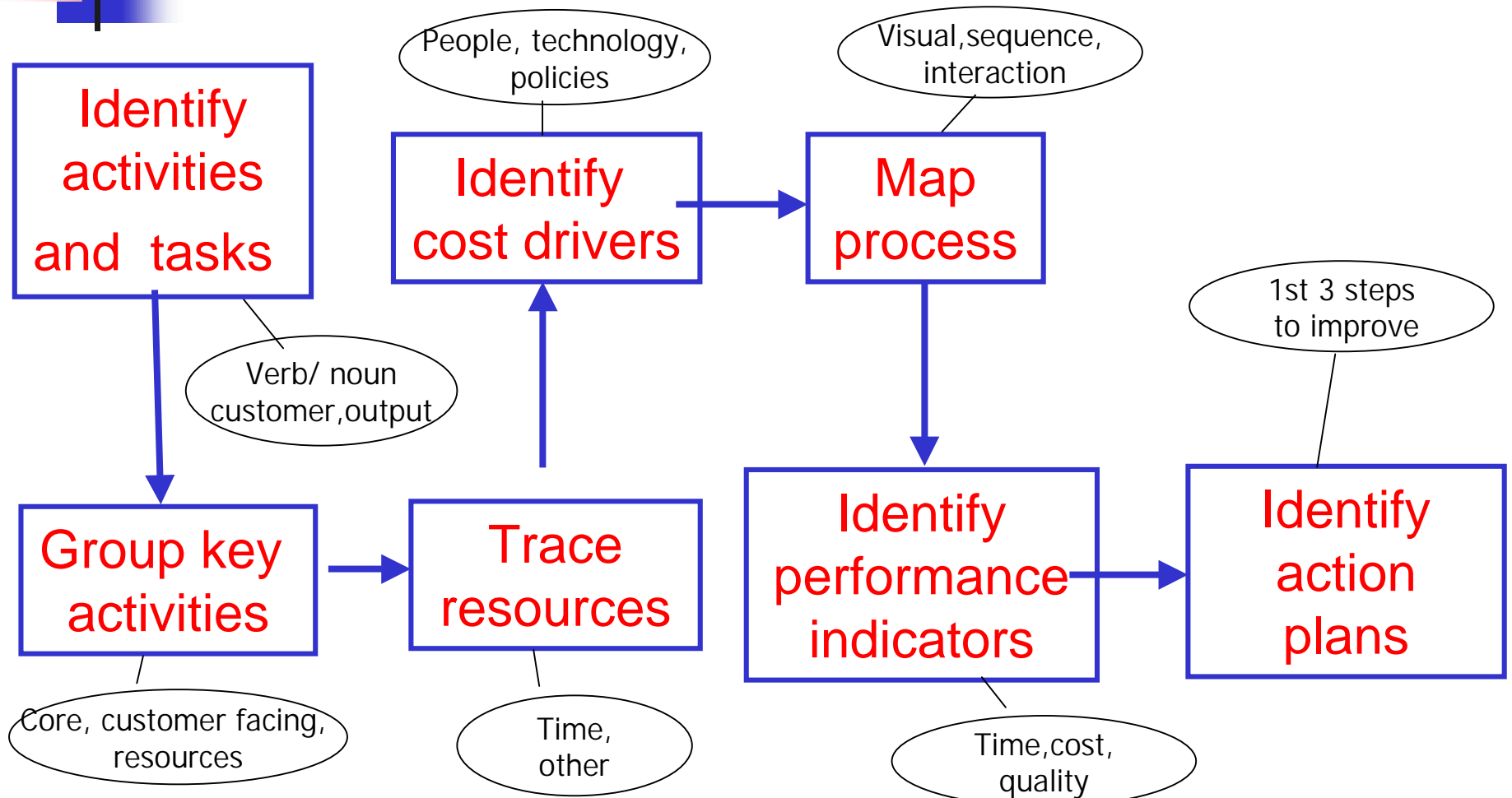- **What are the 1st 3 steps (put the idea into action)**

Activity Workshop Output:

- An activity dictionary which contains:
  - list of activities
    - task tied to each activity
    - output, unit of measure, and customer for each activity
  - cost drivers for each activity
  - performance measures
  - action plans for improvement

32

Activity Workshop Approach:

Identify activities and tasks

People, technology, policies

Identify cost drivers

Visual, sequence, interaction

Map process

1st 3 steps to improve

Verb/ noun customer, output

Group key activities

Trace resources

Identify performance indicators

Identify action plans

Core, customer facing, resources

Time, other

Time, cost, quality

33

More Information

- Pat Dowdle
  - Process Architect-Balanced Perspectives
  - 847-501-4319
  - dowdlesolutions@aol.com

- Value Creation Group (www.valuecreationgroup.com)
- CAM-I Website (www.cam-i.org)

Premise:

All products and services are provided to customers through cross-functional processes

35

Reality:

Most organizations do not understand or manage their cross-functional processes!

Result:

We do not manage <u>how</u> we provide services (and value) to our customers