HOW TO WIN THE BATTLE OF BUSINESS FRAGMENTATION

If you are someone responsible or looking to understand how best to simplify & succeed in transforming or improving a business, this paper is for you. By providing a guide on where business fragmentation exists and its effects, this paper proposes a simple and effective approach to incorporate into your business improvement / transformation plan.

FRAGMENTATION AND WHY IT IS AN IMPORTANT CHALLENGE TO SUCCESS

Business fragmentation is where an organisation no longer operates consistently, usually due to failings in leadership and control. Such inconsistencies / misalignments introduce inefficiencies, financial loss and lower market perception. Typically, the larger and older the organisation the more fragmented it becomes.

TYPES OF FRAGMENTATION

Fragmentation can occur in six main ways, summarised around the outside of Figure 1. These areas of fragmentation will affect business performance in the KPI (Key Performance Indicator) categories[1] shown at the centre of Figure 1.

[1] As defined by the Telemanagement Forum – http://www.tmforum.org

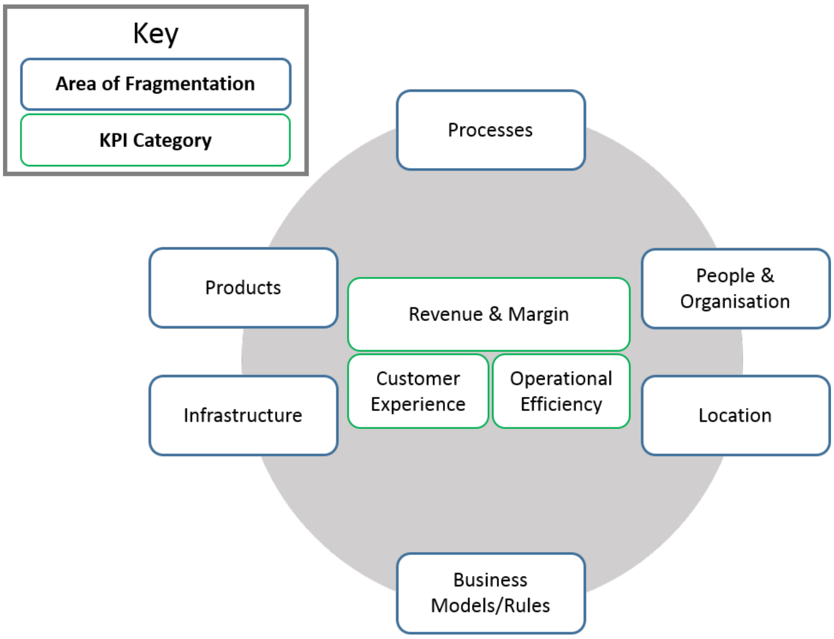

Figure 1: Areas of Fragmentation and the KPI categories they affect

To illustrate these types of fragmentation and their impact on the KPI categories, three example scenarios are given below:

1. Different departments independently rely on their own way of receiving and handling Change Requests (CRs). Expenditure is duplicated on supporting systems. Expenditure is wasted on time-consuming complications incurred from multiple disjointed CR handling processes across the organisation.
    - **Fragmentation Areas:** People & Organisation, Process, Infrastructure
    - **Affected KPI Categories:** Operational Efficiency, Revenue & Margin.
2. A company is fragmented along different product lines. There is limited coherence and cohesiveness (sometimes duplication) between the products, how they are managed and how they are offered to the market – impacting customer experience and brand perception.
    - **Fragmented Areas:** Product, Process, Business Models/Rules.
    - **Affected KPI Categories:** All
3. A company's distribution network relies on 3rd party logistics companies in different parts of the country. Each 3rd party requires a different delivery request format sent over different web interfaces and handled in a different ways – producing an operational overhead to the business.
    - **Fragmented Areas:** Location, Process, Infrastructure, Business Models/Rules
    - **Affected KPI Categories:** Operational Efficiency, Revenue & Margin

All these three scenarios include fragmentation of the 'process' area. This is due to independent organisations/departments coming to their own decisions on how-best to offer and deliver their services. These decisions may have resulted from disparate infrastructure, policies, organisation structure, products/services, business rules/models or localisation requirements (the other fragmentation Areas in Figure 1). Thus creating minor or major incompatibilities and inefficiencies between the different organisations/departments.

This paper asserts that any area of fragmentation will always result in process fragmentation. Conversely, these other areas of fragmentation can be uncovered by conducting a thorough process review[2] , such as Kaizen processing mapping.

START SMALL, BUILD ON SUCCESS

Whatever the area of fragmentation, alignment and consolidation can be difficult and often met with resistance from within the organisation. To motivate change, the scope of change requires sufficient senior backing communicated within the organisation – that spells-out the value of that change. Such benefits may include cost reductions from improved efficiency. Staff can be wary of the motivations behind cost reductions and resist change, therefore it is far better to consider efficiency improvements in terms of increasing business capacity, revenue and work-life balance – without jeopardising jobs.

The size and scope of change needs to be carefully controlled and road-mapped. It will depend on risk, budget, business drivers, expectations/milestones and (ultimately) senior backing.

Due to complexities and interdependencies within an organisation, keeping a strict and controllable scope that prioritises against "cost vs. benefit" brings success, awareness and organisational backing. Each stepwise change should aim to lay the foundations supporting the next round of changes. This is shown in Figure 2.

[2] "Are You Suffering from Fragmentation?", http://leanexecution.wordpress.com/2011/11/12/are-you-suffering-from-fragmentation/, Lean Execution – Intelligent Metrics, 12th November 2011

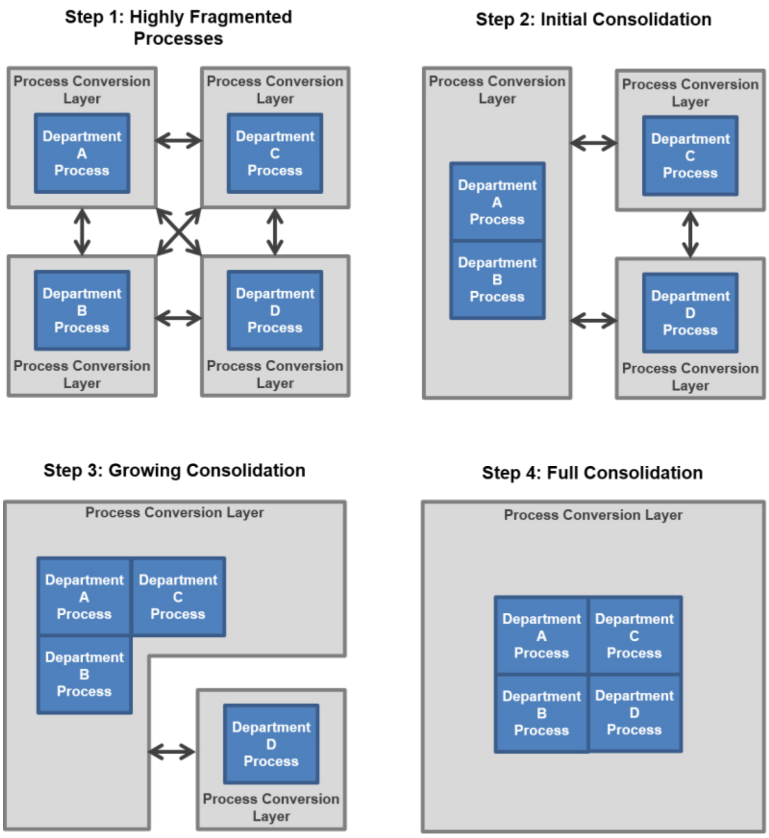

Figure 2: Stepwise approach to consolidating processes across a fragmented organisation

In Figure 2, step 1 starts with departments operating with highly fragmented processes. Each department relies on additional processes to adapting to their neighbours' ways-of-working. This "process conversion layer" will add operational inefficiencies and increase operational costs.

Step 2 aligns the processes in departments A and B, ensuring direct compatibility – to the point of not needing that process conversion layer. As previously mentioned, step 2's scope is chosen to bring fast and highly demonstrable business gains, to quickly communicate success and encourage buy – in from department C – thus facilitating repetition in step 3. Step 3 brings repeated success and the consolidation activity 'snowballs' in terms of buy-in, reach and business gains. In reality there may be more steps, but the principles still hold.

This approach should be used when developing an effective roadmap of change.

STANDARDISATION AND REUSABILITY

Large organisations are usually structured into a set of interworking departments who support one-another with activities that ultimately serve the end customer.

Each department can be regarded as a business in its own right, containing front-office and back-office functions serving and supporting neighbouring departments that work for one another. Work is distributed within an organisation along its internal value-chain. This is illustrated in Figure 3. An external customer approaches a Sales Office – which is traditionally classed as a front office (i.e. facing the End Customer). The back offices then serve the front offices, using process steps that direct value toward the End Customer – just like a conveyor belt in a factory.

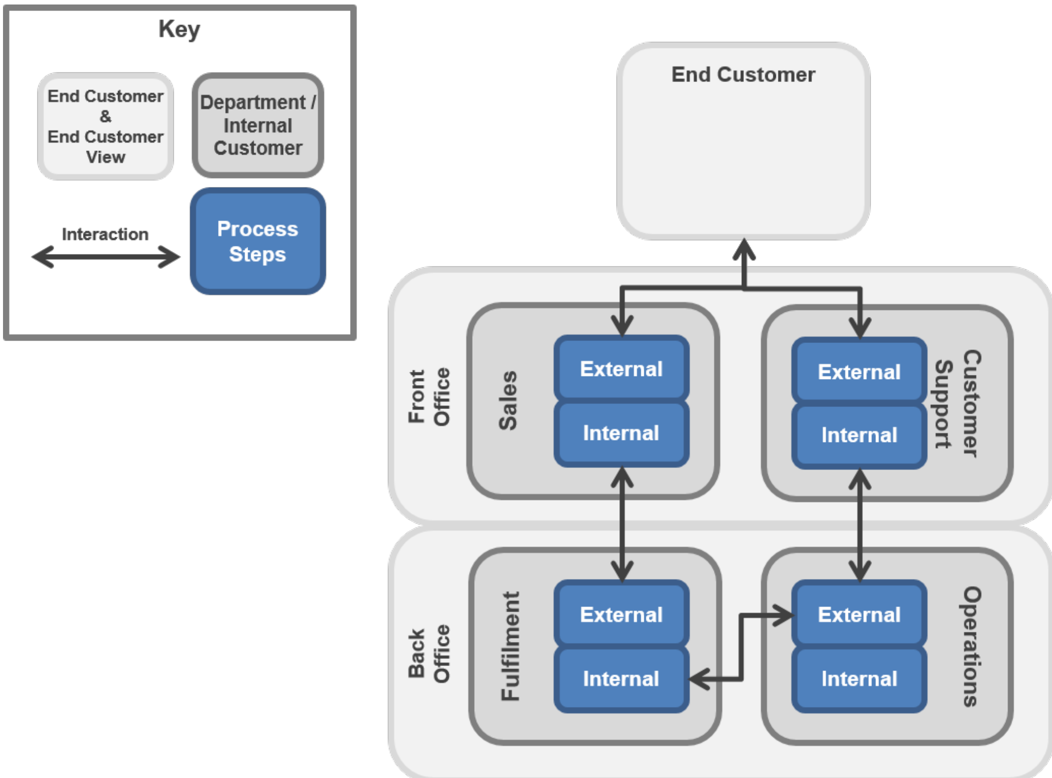

Figure 3: Intra-department chains that build value towards the end customer

All departments operate in a manner that Receive, Execute, Close requests and Monitor & Adjust their operation. These four generic process steps can be categorised as external/internal processes and the principle can be replicated across an organisation, as shown in Figure 4.

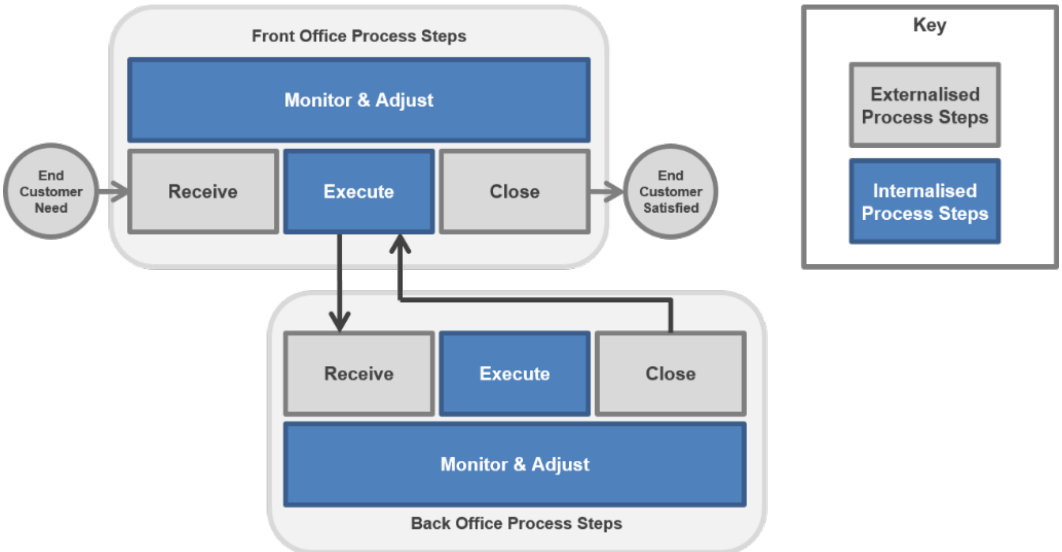

Figure 4: Internal and External Process Steps and how they relate between departments

Although this high level process framework should be replicated across the organisation, each department will have their own specific low-level activities and tasks, that need to interoperate with other departments with as little process conversion layer (Figure 2) as possible. It is transparency and communication within an organisation that will help to reduce process fragmentation. Similarly, KPIs should be consolidated, standardised and centrally managed across the organisation and its structure. A core set of KPIs can be easy to standardise (e.g. “Mean Time to Deliver”).

This approach will encourage different departments to identify synergies and create a consistent process culture that will bring:

1. Better co-operation
2. Improved practices
3. Success across departments
4. Faster and joined-up business evolution
5. Continued process maintenance and improvement across more of the organisation

CONCLUSIONS

Challenges due to fragmentation can be seen as major improvement opportunities. Such improvement opportunities can be mapped against the “Areas of Fragmentation” and the affected “KPI Categories” to help identify projects for business improvement.

Sytel Reply has experienced how this approach helped one of its clients to standardise their network service delivery operation. When compared with their ad-hoc delivery services, the standardised services resulted in 70% reductions in their "Mean Time to Deliver" KPI and a €1.4m OPEX avoidance over 2 years.

Whenever fragmentation is being addressed, clear, consistent and well-managed processes will:

- **Shorten the time to establish new areas of business** by reusing processes that can be tailored to the purpose of the new front/back office
- **Improve front/back office interworking** by operating to well-known and tried-&-tested processes, with well-defined collaborative activities
- **Lower the cost of supporting systems and services** through the sharing of functionality, subsequently tailored to the needs of each department
- **Quickly identify further areas of improvement** by using agreed KPI, monitoring and reporting approaches across the organisation

Once each process has been successfully consolidated and documented, it is necessary to continually ensure that the approach and success is maintained and not lost.

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