Design It Well and You Won't Hate Regulatory Change!

Adrian Reed

Introduction:

▼

The phrase 'regulatory change' can be enough to send shivers down the spine of executives, process owners and project sponsors.

Whatever industry you work in, it is likely that there will be at least some regulation—with some domains being very heavily regulated.

A traditional view that some stakeholders may take is that regulation is essentially a constraint—something that must be responded to and complied with, but since it is something that applies to all organizations it isn't going to drive competitive advantage.

It is often seen as something necessary but 'dull', which burns resources which could have otherwise been useful spent on other projects.

Whilst this perspective is completely understandable, arguably being able to adapt to regulatory requirements well can contribute towards competitive advantage.

There are often multiple ways of achieving the regulatory edicts, and organizations that can quickly assess the impacts and formulate and evaluate potential solutions will be at an advantage.

Organizations that have well designed and well documented business, processes and system architectures will be able to deal with regulatory change more effectively and efficiently, requiring less time and budget to those that have to start by re-discovering and mapping the 'as is'.
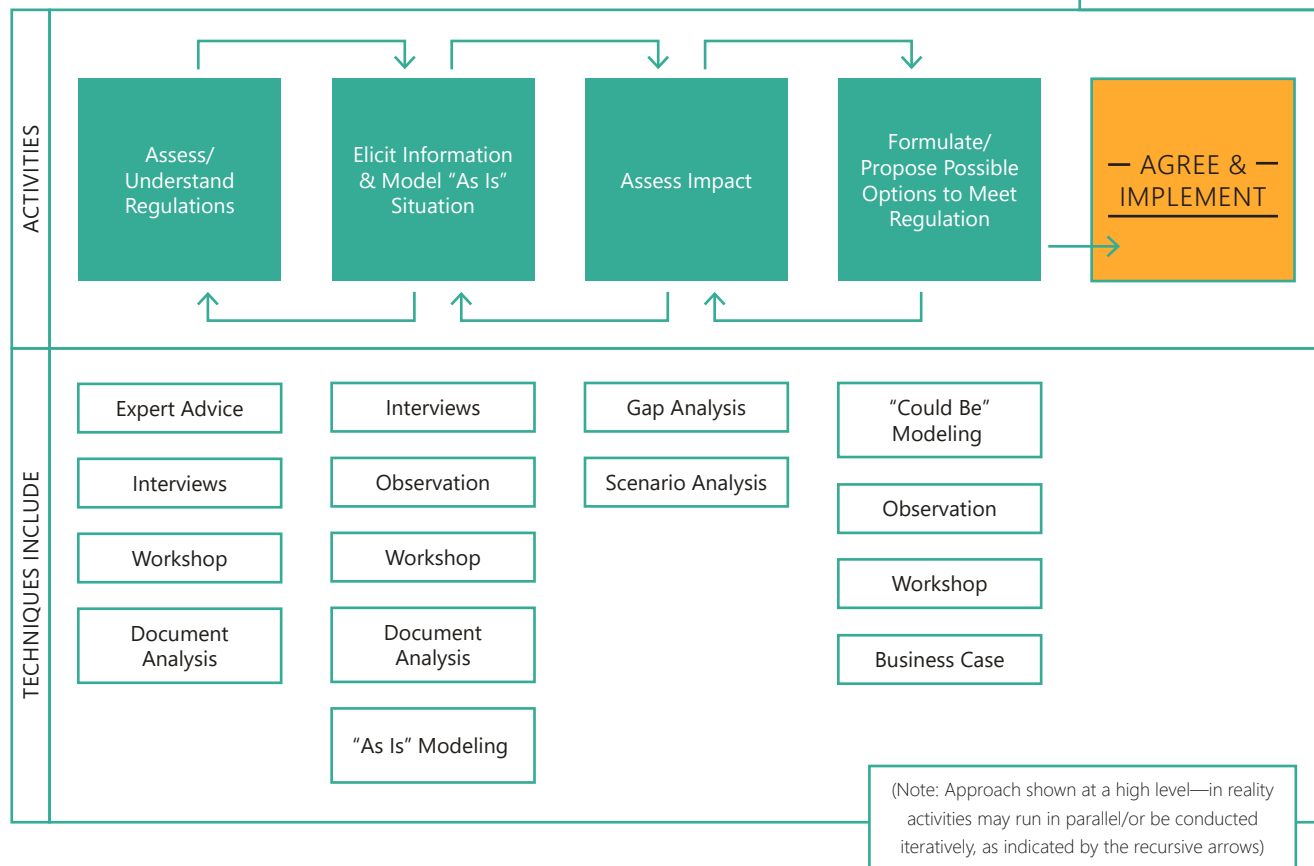
More efficient delivery of regulatory change means more resources for other initiatives too. It will never be easy, but we can certainly make it easier!

Why The Bad Name?

It is worth reflecting and expanding on why regulatory change is seen as so problematic. One possible approach to these types of change is illustrated in the diagram below:

ACTIVITIES

| Assess/ Understand Regulations | Elicit Information & Model "As Is" Situation | Assess Impact | Formulate/ Propose Possible Options to Meet Regulation | — AGREE & — IMPLEMENT |

TECHNIQUES INCLUDE

Expert Advice	Interviews	Gap Analysis	"Could Be" Modeling
Interviews	Observation	Scenario Analysis	Observation
Workshop	Workshop		Workshop
Document Analysis	Document Analysis		Business Case
	"As Is" Modeling		

(Note: Approach shown at a high level—in reality activities may run in parallel/or be conducted iteratively, as indicated by the recursive arrows)

As the diagram illustrates, a common starting point is to understand the regulation or legislation itself. This is often an extremely tricky task requiring specialist knowledge and advice.

Yet gaining an understanding of the regulation is only one step—it is also necessary to understand where our business processes and systems will need to change in order to remain compliant.

In medium and large size organizations this can be a gargantuan task in itself—particularly when an up-to-date view of the 'as-is' business, process and system architecture has not been maintained.

Let's imagine a hypothetical regulatory change was made to a piece of legislation with the aim of preventing identity theft. Let's suppose there were three key requirements:

An individual's date of birth may not be used for identification/ authentication purposes.

Identification/authentication of an individual must utilize at least three pieces of information, including a six to thirty character passcode that the individual has set.

An individual's date of birth may not be stored unless there is a genuine business need.

Admittedly, this is a rather unlikely scenario, and certainly we'd need more detail about each requirement before proceeding, but it illustrates a useful point. Initially these three high level regulatory rules seem fairly simple—and we might deceive ourselves into thinking that they would be quick to implement.

Yet, many organizations might find it costly and time consuming to do so. It is likely that there will be scores of processes and procedures that are affected by these changes, as many involve identifying or authenticating a customer. This will include sales, support and many more, as well as variants for different channels (online, face-to-face, post, telephone).

If processes are not well modeled and managed, then the relevant information may be dispersed amongst multiple teams, stored in different notations and at different levels of granularity. Or even worse, it might be formalized at all! Equally, organizations may find it difficult to assess where client information such as date of birth is stored.

Often customer information is stored on a plethora of systems, sometimes including 'under-the-radar' home-grown spreadsheets and databases that don't exist on any formal architecture diagrams.
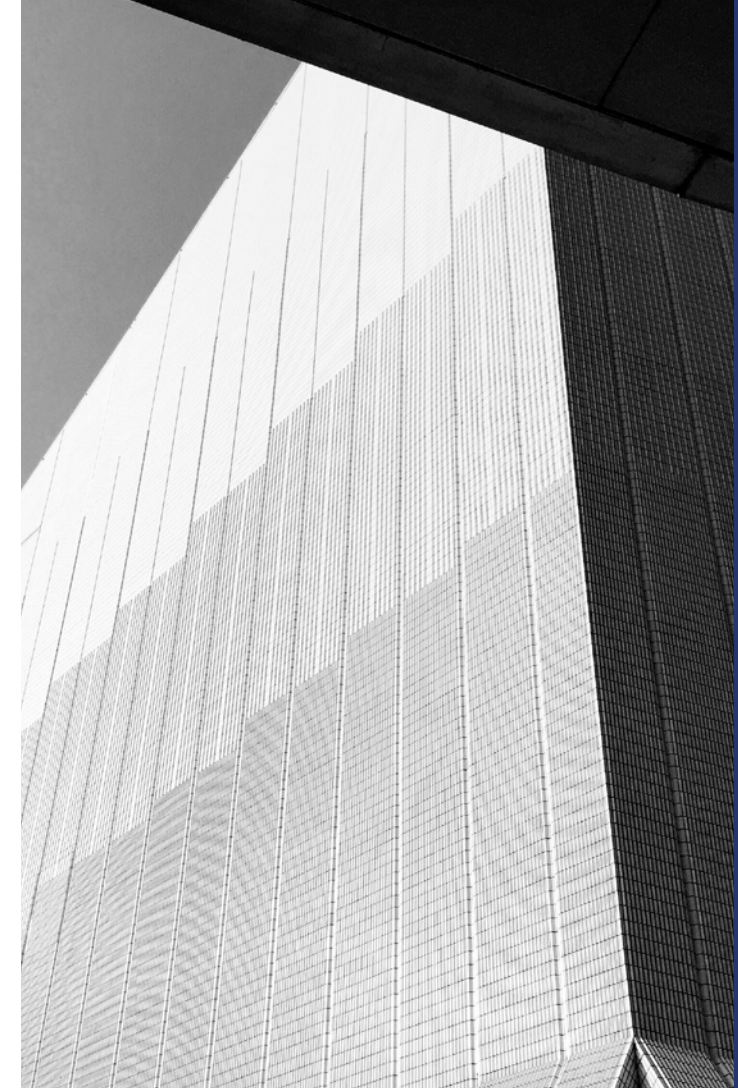
So, three fairly simple high-level regulatory requirements become far more complex when examined—and if we don't have a coherent view of the 'as is', then we'll end up expending significant effort establishing it.

No wonder regulatory change has a bad name! But it doesn't have to be that way...

Using It to Our Advantage

Many of the issues described above can be reduced or avoided when processes are well managed, maintained and documented.

Having a single source of the truth, a single repository that all stakeholders can refer to will mean that it is far easier to assess where change needs to be made.

Yet, if an organization hasn't yet internalized the value of modeling and managing processes, it can be difficult to gain buy-in to do so. This is where we can potentially turn regulatory change to our advantage: In many industries regulatory change is almost a constant; once one change is deployed another crops up!

Each one of these changes requires processes to be mapped—and the tragedy is that often these process artefacts exist only in transitory requirements documents. **If we are mapping and modeling processes anyway, why not use this as a catalyst to capture and manage them?**

Rather than treating business process management as a stand-alone initiative, we can look to work alongside and utilize artefacts that are needed for other purposes. With some extra effort in the short term, we can save ourselves time in the longer term.

This approach is, of course, easier said than done. Yet, it can help subtly build buy-in from at least two angles:

Additional value from regulatory change:	Benefits of process modeling & management:
What might have initially been seen as a 'dull' regulatory change, is now contributing to a wider initiative. This might mean that stakeholders are more likely to spend time and participate.	We can use this opportunity to show the benefits that well modeled and managed processes can bring, making future conversations easier.

Model for Flexibility

Innovation and change will be easier if our processes are flexible, whatever the source of that change.

If we are able to quickly assess, experiment and adapt, we may be able to respond to our business environment faster than our competitors.

This will help us to seize opportunities and protect against threats, and will help us gain a competitive edge. It will also help us respond faster to regulatory change.

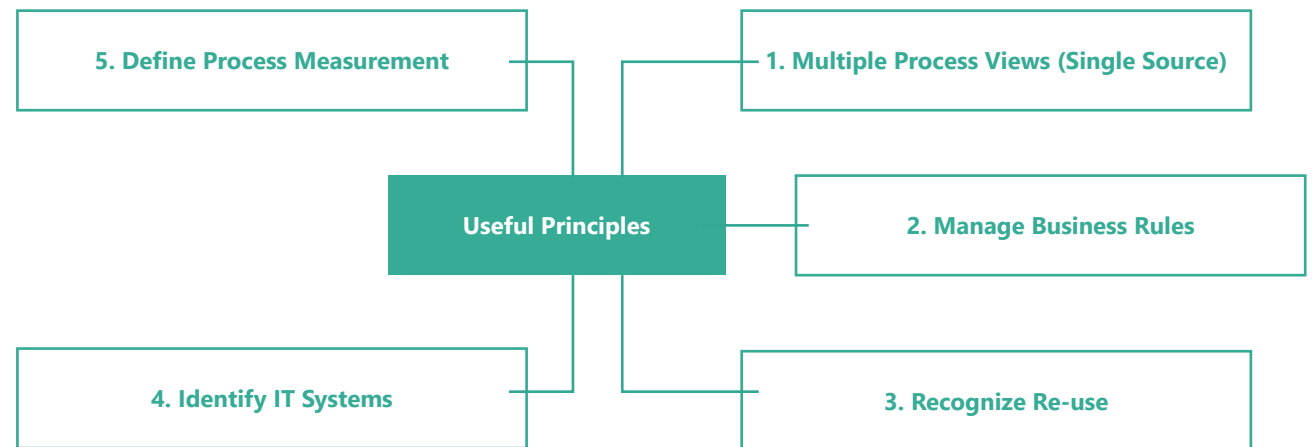The five principles below, amongst many others, will help us strive towards flexibility:

```
┌──────────────────────────────┐          ┌──────────────────────────────────────┐
│ 5. Define Process Measurement │          │ 1. Multiple Process Views (Single Source) │
└──────────────────────────────┘          └──────────────────────────────────────┘

              ┌──────────────────────┐     ┌──────────────────────────┐
              │  Useful Principles    │     │ 2. Manage Business Rules │
              └──────────────────────┘     └──────────────────────────┘

┌──────────────────────┐                   ┌──────────────────────┐
│ 4. Identify IT Systems │                  │  3. Recognize Re-use │
└──────────────────────┘                   └──────────────────────┘
```

Figure 2:

Five Useful Principles

1. Multiple Process Views (Single Source):

Process models have multiple 'consumers'. There will be senior managers and executives who want a 'sky high' view, perhaps wanting to know key metrics and pinch-points.

There are middle managers who will be interested in optimizing processes in their areas, whilst understanding the impact on other areas. And, of course, there are end users and operators who will be using end-systems and will also need procedure guides and training guides.

Whatever modeling notation or tool we use, it's important that we consider the types of 'view' that we want to create in advance. It is important to understand the needs of each stakeholder, and seek their views and engagement.

We can draw the most beautiful process models in the world, but if our stakeholders don't find them useful (or if they don't feel engaged) they might only use them begrudgingly (or not at all).

Even worse, they might develop their own parallel set of process artefacts, duplicating effort and resulting in their being no reliable 'master' to refer to.

2. Recognize Re-use:

There will likely be some steps and logic that are common to many processes. Assuming they will always be common, it is worth calling them out and specifying them once (e.g. as a common/re-used sub-process).

Drawing on our previous hypothetical example, if we had a common 'Authenticate Customer' sub-process, it would be far easier for us to begin to identify where change is necessary and the processes that are affected.

3. Manage Business Rules:

Closely related to re-usability, there will likely be a plethora of business rules that are common between processes. IIBA®'s Business Analysis Body of Knowledge (BABOK®) Guide defines a business rule as:

"A specific, practicable, testable directive that is under the control of the business and that serves as a criterion for guiding behavior, shaping judgments, or making decisions."

(IIBA, 2015)

The types of rules will vary depending on the specific context in which we are operating, but thought should be put into how they are captured and where they are stored. Ensuring there is a central location where rules can be managed and referred to is extremely beneficial.

Some organizations may invest in a sophisticated rules engine that is called by multiple systems and processes, meaning that there really is a 'master' repository of rules. If this isn't possible, then having a central record of each rule and the systems that execute it will help greatly with impact assessment of any changes.

Additionally, capturing or visualizing business rules in a single location often enables us to look for duplication, contradiction, outdated or unnecessarily complicated rules. Simplification of rules can help processes flow more smoothly.

4. Identify IT Systems:

Processes will often be enabled, orchestrated or supported by one or many Information Technology (IT) systems, some of which might be newer/more flexible than others which might be considered 'legacy'.

It is important to ensure that the process models show which systems are involved in which processes. Where relevant, it is also important to model the interactions between systems—knowing the points at which data is exchanged or messages are sent will help us understand where interfaces exist.

More generally, it is also important that relevant systems' architecture artefacts and specifications are kept somewhere central, and are kept up to date.

5. Define Process Measurement

It is valuable for us to consider 'what success looks like' and how the efficiency and effectiveness of each process can be assessed.

Defining Key Performance Indicators (KPIs) and targets is a useful first step, utilizing tools such as Kaplan & Norton's Balanced Business Scorecard can help ensure we do not inadvertently focus too narrowly.

Once we have defined the measures and targets, it is useful to ask how and when measurement will take place—this may spawn additional considerations or requirements for data collection.

Either way, understanding how a process will be measured can help us ensure we design it with the relevant principles in mind. An organization that is looking to cut costs and offer a 'no frills' service will have a very different set of processes (and process measures) to one that is offering a high-end luxury service!

Cultivating a Change-Ready Culture

Another significant challenge with implementing regulatory change can be simply that it is change.

As much as we might not like to admit it, we probably all (to some extent) feel uncomfortable with change that affects us. For some stakeholders that have been operating a process in a particular way for a long period of time, change might be particularly unsettling.

There is no easy resolution to this issue, although consciously cultivating a culture that is ready for change may help. This is easier said than done of course, but by instilling and encouraging the view that continual adaptation and optimization of processes is the 'new normal', barriers to change will gradually reduce.

With a well modeled and well managed set of processes we are much more able to make smaller, incremental changes on a regular basis. If a front-line worker has an idea or raises a suggestion we are much more able to assess the potential impact and benefits and then, if it looks beneficial, trial it.

This can be extremely empowering—rather than processes being imposed on teams and departments every few months or years, they are incrementally adapted to meet the needs of the market place. Of course, there needs to be careful management of this approach, but when managed well the marginal gains that each adaptation makes can add up.

When teams are used to processes changing on a fairly regular basis, and when they feel real engagement and ownership for their work, implementing and 'selling' a regulatory change to them might not be as hard.

Summary

Regulatory change is often seen as an inconvenient and often painful necessity. It may be perceived as taking resources away from other, more attractive, initiatives.

Whilst we are unlikely to ever make regulatory change completely pain-free, ensuring that our organization's processes are well modeled and well managed will at least reduce the pain!

Regulatory change is often seen as an inconvenient and often painful necessity. It may be perceived as taking resources away from other, more attractive, initiatives. Whilst we are unlikely to ever make regulatory change completely pain-free, ensuring that our organization's processes are well modeled and well managed will at least reduce the pain!

Regulatory change can even be used as a catalyst for producing business process models—which can then be stored in a common repository. Gaining buy-in will be crucial, and when modeling processes it's crucial that we consider who will be reading and referring to them. Ensuring we can serve-up multiple 'views' of the same process is important.

If we build flexibility into our processes from the very beginning, change—including regulatory change—will be easier. This is a collaborative effort and will require buy-in at all levels. Yet, it will allow us to respond to the business environment more quickly, enabling us to more easily seize opportunities and protect against threats. And in doing so, we can cultivate a change-ready culture.

References & Further Reading

Cadle, J., Paul, D. and Yeates, D. J. (eds) (2014). Business Analysis. Swindon: BCS Learning & Development Limited.

Kaplan, R. and Norton, D. (1996). The balanced scorecard. Boston, Massachusetts: Harvard Business School Press.

IIBA, (2015). Guide to the business analysis body of knowledge. Toronto : Ontario: International Institute of Business Analysis.

Reed, A "Adrian Reed's Blog" [Online] http://www.adrianreed.co.uk

Orbus Software UK **London**

Orbus Software US **New York**

Orbus Software AUS **Sydney**

Orbus Software UAE **Abu Dhabi**

orbus software