CHAPTER-7 REACHING STRATEGIC EDGE

BUSINESS PROCESS REENGINEERING-

➢ A process is a collection of activities which creates an output of value to the customer
➢ A business process is a set of activities that transform a set of inputs into a set of outputs for another person or process
➢ Business performance is the outcome of interrelated operations of its work processes. Thus, redesign of processes provides powerful basis for performance improvement
➢ Some processes turn out to be extremely critical for success & survival of enterprise. Thus, BPR focuses on such critical processes & are crucial for generating competitive advantage.
➢ Generic business process requiring redesign classified in three broad categories-
   ▪ Processes pertaining to development & delivery of products/services (eg- Research, engineering, manufacturing, logistics, etc)
   ▪ Process involving interface with customers (eg- marketing, advertising)
   ▪ Process comprising management activities (eg- planning, budgeting, HRM)
➢ To identifying such core processes, start from org’s vision & drive from there to processes that needs to be best to realize that vision
➢ By effecting total change in process instead of piecemeal change, one can double the speed of normal production, utilize assets several times more productively, respond to customer’s needs & expectations much more rapidly
➢ Need for change from primitive process to BPR-
   ▪ Operational excellence of an org is a major basis for its competitiveness
   ▪ Customer-focussed org needs to be realigned in terms of process orientation
   ▪ Process needs to be managed, not functions
   ▪ For considering totally new ways of redesigning process, abandon temporarily all the concepts, assumptions, purpose & principle
   ▪ Dramatic improvement in performance is prerequisite for overcoming competition
➢ Def- BPR refers to the analysis & redesign of workflows & processes both within & between orgs.
➢ Aim- simplify & streamline a process by elimination non-value adding activities, reducing drastically the number of stages of work & speeding-up workflow through the use of IT System
➢ Its main focus is process
➢ While reengineering may to restructuring of org., any restructuring doesn’t necessarily mean reengineering
➢ BPR begins with Fundamental Rethinking –
   It means starting all over, starting from the scratch. It begins with a totally free state of mind without having any preconceived notion. It implies forgetting how work has been done so far, & deciding how it can best be done now.
➢ BPR involves radical redesign-
   It is about business reinvention, not business improvement/ enhancement/ modification. It means going to the root of the problem areas & not attempting to make any superficial changes.
➢ BPR aims at achieving dramatic improvement
   It is meant for replacement of the old process by altogether new one to achievement dramatic improvement in performance
➢ RATIONALE OF BPR-
   New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options & the need to improve business processes dramatically

Contact on twitter- @tweetopians
IMPLEMENTING BPR IN ORG-

- Orgs. began business process improvement with a continuous improvement model
- This model attempts to understand & measure the current processes, & make performance improvements.
- However, some orgs. make reengineering efforts under assumption that current processes are wrong & irrelevant
- Under above perspective, process designers disassociate themselves from existing processes, thus, helping them in looking at the problem with a clean mind, free of any bias.

STEPS IN BPR-

- **Determining objectives & framework**-
  *Define objective* + It will provide the required focus, direction & motivation for the redesign process. It helps in building comprehensive foundation for reengineering process
- **Identify customers & determine their needs**-
  Understand customers (their profile, their steps in acquiring/using/disposing product to fulfil the purpose of redesigning process that clearly provides added value to customer
- **Study the existing process**-
  It provides an important base for redesigners, by helping them understand the “what” & “why” of the targeted process. However, as discussed some orgs may reengineer process with clean perspective
- **Formulate a redesign process plan**-
  It is the real crux of reengineering efforts, where customer focussed redesign concepts are identified & formulated. Alternative processes are considered & best is selected
- **Implement the redesign**-
  It is the key to achieve dramatic improvement. It is to be applied with application of other knowledge gained from previous steps. Operationalising of new process is the joint responsibility of designers & managers.

Role of IT-

- IT is a critical success factor
- A reengineered process characterised by IT-assisted speed, accuracy & adaptability is focussed on meeting customer needs & expectation quickly & adequately, enhancing satisfaction level.
- Globalization & competition call for better management, faster response to change, adherence to globally accepted quality standards
- Impact of IT is identified as-
  - Compression of time
  - Overcoming geographical restrictions
  - Relationship restructuring
- IT thus provides business value in three distinct areas-
  - Efficiency – by way of increased productivity
  - Effectiveness- by way of better management
  - Innovation – by way of improved products & services
- All this can bring radical change in quality of products/services, thereby, improving competitiveness & customer satisfaction

Central Thrust of BPR-

- BPR is multi-dimensional approach in improving the business performance
- Its thrust area may be identified as “reduction of total cycle time of a business process”
**BPR aims to reduce cycle time of process**
- by eliminating unwanted & redundant steps
- by simplifying systems & procedures and
- by eliminating the transit & waiting times as far as possible

**Basic Principles differentiating reengineering from other improvement tools**
- Reengineering doesn’t have scope for any partial modification in existing business process & aims at achieving excellence by redesigning entire process radically. It can be done by challenging existing rules/procedures & discarding them to achieve new process.
- BPR recognises certain assumptions about technology, people, organisational goals (on whose basis work is done in org) as no more valid. It recognises vast potential of IT for evolving a new process, resulting in efficient redesign of work structure
- Reengineering starts with process, but has its own implications on other parts of org. It, therefore, focuses on multi-dimensional approach, disregarding constraints of organisational structure
- It involves managing massive organisational change, which is always accompanied by whole lot of changes in practically every aspect of org. Work changes from task-oriented to process-oriented. People get choice of making their own decisions, instead of being directed

**Reengineering drive is to be supported by vision & commitment of top management**

**Merits**
- improvement on quality & cost
- It provides org. with many more opportunities for trying, Testing, modifying & learning.

**Problems in BPR**
- Disturbs established hierarchies & functional structures
- Creates serious repercussions
- Involves resistance among the work-force
- Take time & expenditure
- There can be loss in revenue during transition period
- Setting targets is tricky & difficult
- If not carried out properly, it may turn-out as a failure

**BENCHMARKING**
- It is an approach of setting goals & measuring productivity based on best industry practices.
- It is developed out of the need to have information against which performances can be measured.
- It involves regularly comparing different aspects of performance with best industry practices, identifying gaps, finding out methods to reduce gaps & to improve situations so that gaps are positive for org.
- It helps org. getting ahead of competition, by making them translate large amount of information to knowledge & use it in their planning & decision-making
- Benchmarking is much broader than controlling due to presence of major strategic dimensions
- It can be used to achieve improvement is diverse range of management function like
  - Maintenance operations
  - Product development
  - Product distribution
  - Customer services
  - Plant utilization levels
  - HRM
Benchmarking Process - Benchmarking process lacks standardization. Here are common elements:

- **Identify the need for benchmarking & planning** -
  - Define the objective of benchmarking exercise, &
  - Select the type of benchmarking, &
  - Identify realistic opportunities for improvements
- **Clearly understand existing business processes** -
  - Compile information & data on performance collected by different methods (eg.- interview, visits, questionnaires)
  - Includes mapping processes
- **Identify best processes** -
  - Within selected framework, identify best processes
  - Identified processes may be within or outside of the org
- **Compare own processes & performance with that of others** -
  - Performance between org & better performers is identified
  - Gaps are analysed to seek explanations
  - Comparisons need to be credible & meaningful
  - Examine feasibility of making improvements in light of conditions applicable to org.
- **Prepare report & implement necessary steps to close performance gaps** -
  - Prepare report on benchmarking initiatives along with recommendations
  - Report should also include action plans for implementation
- **Evaluation** -
  - Evaluate results of benchmarking process
  - Evaluation to be made in terms of improvements compared with objectives & other criteria set for this purpose
  - Periodically, evaluate & reset benchmarks in light of changes in conditions that impact performance

**Total Quality Management** -

- It is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost
- Father of TQM - Deming
- It is total-system approach, which is integral part of high-level strategy
- It works horizontally across functions & departments, involving all employees from top to bottom
- It extends backward & forward to include supply chain & customer chain
- It stresses learning & adaptation to continual change
- Simple sorting good products from bad is not the best way to ensure quality output. Focus is to be made on actions to prevent creation of defective product.
- It stresses that concept of quality control should be pervasive & need to be applied to all spheres of organisational activity, instead of only “manufacturing processes” (eg- administrative processes, service industry, etc)
- The responsibility of quality should be shared by everyone in an org
- **Principles guiding TQM** -
  - A sustained management commitment to quality -
    - Commitment to implement TQM has to start at the top of the org
    - Such claimed commitment should be supported by their actions
    - If management allows defective product in order to make sales, then, all the quality talks won’t make a difference to the people making product
If management takes sales hit if quality levels are not up to mark, then, the rest of the org. will understand that commitment to quality is real

**Focusing on Customer:**
- It has three rules: satisfy the customer, satisfy the customer, satisfy the customer
- Ultimately, it is the satisfaction of customers that determines success of org

**Preventing rather than detecting defects:**
- It seeks to prevent poor quality in products/services rather than detecting them
- A little precaution before crisis is preferable to a big lot of fixing up
- It saves cost & time

**Universal quality responsibility:**
- It is not restricted to Quality Assurance department of org
- It is a guiding philosophy to be shared by everyone in the org
- Orgs fully committed to TQM have done away completely with Quality Assurance Department

**Quality Measurement:**
- Basic TQM concept is that Quality is measurable
- In order to improve, we need to know where we are (what the current quality levels are), & an idea of where we are going (what quality levels we aspire to).

**Continuous improvement & learning:**
- It supports a philosophy of continuous improvement in all areas of org
- This philosophy ties closely with concepts of quality measurement & universal quality responsibility
- Continuous improvement refers to both incremental & breakthrough improvement.
- It may be of several types:
  - Enhancing value to customer through new & improved products/services
  - Developing new business opportunities
  - Reducing errors, defects, & waste
  - Improving productivity & effectiveness in use of all resources
- Learning refers to adaptation to change, leading to new goals or approaches
- Improvement & learning should be regular part of daily work, seeking to eliminate problems at their source

**Root cause corrective action:**
- Sometimes problems we thought corrected continues to occur
- TQM seeks to prevent this by identifying root cause of problems, & by implementing corrective actions that addresses problems at the root cause level

**Employee involvement & empowerment:**
- Employee involvement means every employee is involved in running business & plays active role in helping the org to meet its goals
- Employee empowerment means employees & management recognise that many obstacles to achieve goals of org can be overcome by employees provided with necessary tools & authority

**The synergy of teams:**
- In addition to employee involvement & empowerment, synergy of teams can be advantageous to address the challenges & problems of continuous improvement
Thinking statistically-
- Quality efforts often require reducing process & statistical methods are ideally suited to support this objective

Inventory Reduction-
- The management philosophy of inventory reduction is known as Just-in-Time Inventory management
- This concept was introduced to address material shortages, an effect of it however emerges- “as inventories grew smaller, quality improved”

Value improvement-
- There is a simultaneous linkage of continuous improvement & value improvement
- Essence of value improvement is ability to meet/exceed customer expectations while removing unnecessary cost
- Only cutting cost will not improve value if focus doesn’t remain on satisfying customer requirements/expectations

Supplier teaming-
- Develop long-term relationships with a few high-quality suppliers, rather than those with lowest initial cost

Training-
- This concept is based on empowering employees by providing necessary tools for continuous improvement.
- TQM is not an overnight cure.
- TQM implementation has a beginning, & if implemented properly, it doesn’t have an ending
- Continuous improvement continues indefinitely in orgs.

TQM & Traditional Management Practices-
Traditional Management means the way things are usually done in the absence of a TQM focus. Some of the key differences are as follows-

Strategic Planning & Management-
- Quality planning & strategic business planning are indistinguishable in TQM
- Measures such as customer satisfaction, defect rates, etc receive no less importance in financial/marketing objectives than strategic plans

Changing relationships with customers/suppliers-
- In TQM, quality means serving customers beyond their present needs & expectations
- Innovation is required to meet & exceed customers’ needs
- It views everyone inside the org
- Traditional Management places customers outside the org, & within domain of marketing & sales

Organisational structure-
- TQM views org as a system of interdependent processes linked through a network of collaborating suppliers & customers.
- Every process contains sub-process & is also a part of higher process

Organisational change-
- In TQM, envt. of org is viewed as constantly changing.
- Therefore, management needs to provide leadership for continual improvement & innovation in process, systems, products, services, etc
Teamwork-
- In TQM, individuals cooperate in team structures such as quality circles & self-directed work teams
- Departments work together toward system optimization

Motivation & Job design
- TQM managers provide leadership & motivation to make people contribute meaningfully to the noble cause, of value to org & society, which they believe as important
- It enables people to feel like winners

SIX SIGMA & MANAGEMENT-
- It changed the discussion of quality where quality levels were measured in percentages (parts per hundred) to parts per million or parts per billion. It strives 99.99966% products to be defect-free
- Product should be futuristic, i.e. exceed customer’s present expectations rather than meeting them

What is Six Sigma?
- It is a highly disciplined process that helps in developing & delivering near-perfect products & services
- It strives to meet & improve goals of org on quality, cost, scheduling, manpower, etc
- It works continuously towards revising current standards & establishing higher ones
- It targets different areas such as-
  - Improving quality/customer satisfaction
  - Reducing wastage/defects/cycle time
- Merits- dramatic cost savings, better understanding of customers, opportunity to retain customers, capture new markets, build reputation for top performing products & services,
- It requires breakthrough in every operational area, representing that the processes & products will perform with no defects
- GE’s key concepts of Six Sigma-

<table>
<thead>
<tr>
<th>Critical to Quality (CTQ)</th>
<th>Attributes most important to customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defect</td>
<td>Failing to deliver what customer wants</td>
</tr>
<tr>
<td>Process capability</td>
<td>What your process can deliver</td>
</tr>
<tr>
<td>Variation</td>
<td>What customer sees &amp; feels</td>
</tr>
<tr>
<td>Stable operations</td>
<td>Ensure consistent processes to improve what customer sees &amp; feels</td>
</tr>
<tr>
<td>Design for six sigma</td>
<td>Design to meet customer needs &amp; process capability</td>
</tr>
</tbody>
</table>

Six Sigma Methodology of DMAIC: directed towards improvement of existing process, product/service
- Define
  Define the process improvement goals, consistent with strategy of org & customer demands by discussing different issues with senior managers
- Measure
  Measure existing process to facilitate future comparison, by collecting process data & measuring relevant processes
- Analyse
  Verify cause-effect relationship between factors in the process by analysis to identify hidden & not so obvious factor
- Improve
  On the basis of analysis, make detailed plan to improve

Contact on twitter- @tweetopians
Control
Establish process capability by trials & pilot runs & afterwards continuously measure process to ensure identification & correction of variances before occurrence of defects

➢ Six Sigma Methodology of DMADV- strategy to design new products, processes & services
  ➢ Define- Same as DMAIC
  ➢ Measure- Identify factors that are CTQ, product capabilities, production process capability & risks involved
  ➢ Analyse- Develop & design alternatives. Create high level design & evaluate to select best design
  ➢ Design- Develop details of design & optimise it. It may require using certain techniques
  ➢ Verify- Verify designs through pilot runs. Hand over verified & implemented processes to process owners.

➢ Characteristics that separate six sigma from other quality programs-
  ➢ It is customer focussed. It keeps sight of needs of external customers to drive improvement effort
  ➢ It produces major returns on investment. (eg- It saved GE more than $2billion in just 3yrs)
  ➢ It changes how management operates. It makes org learn new approaches to thinking, planning & executing to achieve results. It puts the notion of working smarter, not harder.

➢ Six sigma as a management system-
  ➢ Management system involves accountability for results & ongoing reviews to ensure results
  ➢ Org can use six sigma as a guide to lead business, with their management system
  ➢ Although role of senior managers is critical & role of middle managers is key but results of six sigma takes place at front lines of org. It puts more responsibility in hands of those who work directly with customers

➢ Six themes of six sigma/elements of six sigma-
  ➢ ONE: Genuine focus on customer-
    Improvements of six sigma are defined by their impact on customer satisfaction & value
  ➢ TWO: Data & fact-driven management-
    Its base lies in concept of probability & normal distribution in statistics, by putting customer first & using facts & data to drive better solutions
  ➢ THREE: Processes are where the action is-
    Its focus is on mastering processes as a way to build competitive advantage in delivering value to customers, whether focus is on designing products, measuring performance, etc
  ➢ FOUR: Proactive management-
    *tell what is proactive* + being proactive is the starting point of creativity. It replaces reactive habits with proactive style of management
  ➢ FIVE: Boundaryless collaboration-
    Break barriers to improve teamwork in a org. Billions are lost every day because of disconnection between group that should work together for common cause
  ➢ SIX: Drive for perfection; tolerate failure-
    To employ six sigma, org must launch new ideas & approaches, which involves risk. If org’s personnel is afraid of the consequences of mistakes, they’ll never try
CONTEMPORARY STRATEGIC ISSUES-

➢ What is Internet Technology?
Integrated network of servers, high-speed computers, digital switches, routers, telecommunications equipment & lines, individual users’ computers which allows users to transfer data in digital form at very high speed

➢ Characteristics of e-commerce-
- Allows org to compete in global markets-
  ▪ True for org whose products are of good quality & can be shipped economically
  ▪ Opens up much bigger geographical market
  ▪ Escalates rivalry among sellers in different geographic areas to a whole new level
- Intensifies competition in an industry-
  ▪ It is done through strategic initiatives of existing rivals & new rivals
  ▪ Internet is an important & inexpensive new distribution channel
  ▪ Use of online system help in improving business efficiency & lowering operating cost
  ▪ Innovative use of internet adds a valuable weapon for competitive advantage
- Lower entry barriers-
  ▪ Activities of e-commerce can be outsourced
  ▪ Necessary software to establish website is readily available
  ▪ Cost of using a web hosting org to manage & maintain site is modest
- Online buyers gain bargaining power-
  ▪ Absence of obstacles to compare products, prices & shipping times of rival vendors
  ▪ Websites of vendors are few click away & available 24*7 for above comparison
  ▪ It is feasible for wholesalers to research features of competing manufacturers
  ▪ Feedbacks & reviews of products are readily available as well
- Reach best suppliers for collaboration to achieve efficiency & cost saving-
  ▪ Internet makes it possible for orgs to reach beyond borders to find best suppliers
  ▪ Helps integrate foreign suppliers into their supply chain to boost savings & speeding new products to market
  ▪ Both org & supplier gains bargaining power but efficient collaboration with chosen suppliers can help gain edge over rivals
- Diffuses new technology & ideas in world-
  ▪ Can use internet to monitor latest developments & to know what the leading companies in these areas are doing.
- It demands org to move swiftly-
  ▪ New developments occur daily
  ▪ Market & competitive conditions change very quickly
  ▪ Speed is a basis for survival. Late movers are doomed
- It opens up opportunities for reconfiguring industry & org value chains
  ▪ Link orders of customers with suppliers of components
  ▪ It enables just-in-time delivery, reducing inventory costs & allows production to match demand
- It is an economical means of delivering customer service
  ▪ Provides innovative opportunities to handle customer service activities
  ▪ Orgs are discovering ways to deliver service online
  ▪ It reduces staffing levels at telephone call centres, & cut time required by technicians to respond to customer’s faxes & e-mail.
Strategic Management in NPOs & Govt org:

- Many such orgs outperform private org on innovativeness, motivation, productivity & strategic management
- Govt orgs., often function as monopoly, produce a product with little or no measurability of performance & are totally dependent on outside financing
- Educational Institutions:
  - Join hands with industries to deliver education to make graduates more employable
  - Education system has undergone considerable changes with the introduction of computers & internet technologies
  - Enables students to access lectures anytime & chat with professors at fixed time
  - Online college degrees are common & a threat to traditional college & universities
- Medical institutions:
  - Strategies are made due to advances in diagnosis & treatment of chronic disease
  - Labs have started collecting door-to-door samples
  - Care can be made by electronic monitoring at home, etc
  - Millions of people research medical ailments online
  - Online sharing of results of medical tests & prescribing medicines
- Governmental agencies & departments:
  - Strategies are required to use taxpayer’s money in most cost-effective way to provide services & programs
  - But strategic autonomy is lesser in these orgs
  - Generally, these can’t diversify into unrelated business or merge with other firms
  - There is little freedom to alter org’s mission or objectives
  - Politicians often have direct or indirect control over major decisions & resources