CD
CORPORATE DOSSIER
The Economic Times
April 10, 2009

P2
CD Special: Process Reengineering
Interviews with:
- Reengineering pioneer Jim Champy
- Kellogg School's Bala Balachandran

Consultant's Corner:
Why the auto industry must re-invent itself

P3
KRA with CKP
Über guru CK Prahalad on radical innovation
Global CEO:
Tissot's President Francois Tiebaud

P4
Luxury's Conscience Keeper
Why Francois-Henri Pinault is courting social responsibility
Far From Plain Vanilla:
Vikram Doctor recommends a nightcap of vanilla brandy

Business Process Reengineering involves tinkering with the organisation's DNA and it can produce an evolved species — or twisted mutants. But many Indian corporates are taking the chance, says Priyanka Sangani

BEYOND REENGINEERING

AS THE BACKLASH of the economic slowdown reaches China, a Chinese white goods manufacturer that sells to the US has come up with a novel way of saving costs. When the ship sets off from Shanghai, it has onboard only a few of the raw materials that go into the final product. Instead of the route traditionally taken by North America bound vessels, it stops at ports depending on where it needs to pick up the next set of components from, till it finally reaches North America. The raw materials are converted into appliances onboard this 'floating factory'. Not only does this mean savings on factory costs, but the company is also making optimal use of the travel time, normally the most unproductive part of the whole distribution process. And no, this isn't just wishful thinking. Professor Bala Balachandran, JL Kellogg Distinguished Professor of Accounting and Information Management, Northwestern University is currently working with this company (who he declines to name) on how to boost efficiency.

This, management thinkers say, is what the new face of business process reengineering (BPR) has to be all about. BPR as a means of boosting productivity has been around since the early 90s and has a loyal fan base. But given that the current slowdown is unlike anything seen before, companies will have to take steps unlike anything done before to be able to ride this one out and come out on top. According to Jim Champy, one of the earliest advocates of BPR, the idea of process reengineering is far more relevant today than it ever was, but companies don't seem to be picking up on it. "Companies today are slower to act, even though they know they need to do certain things. They are afraid to invest even if they have the cash — and this is dangerous," he says.

Even for companies that have been constantly re-inventing themselves, this slowdown poses a unique challenge. Vikram Ramakrishnan, principal, Booz & Company, says companies undertaking any kind of BPR must remember that there are huge discontinuities in the market. "The fundamental nature of industries is changing. Before undertaking a restructuring, companies need to look at processes and ask if they are needed at all," he says. Having decided what processes are dispensable, the next step would be prioritisation. When auto-maker Maruti Suzuki decided to find out what the non-value adding processes were and how to boost efficiency, it, along with Ernst & Young, came up with an online tool called 'Controls Manager'. Ajay Seth, chief GM-finance, says that this led to a host of benefits for the company. "Since the non-value adding activities were removed, it provided cost savings and improved turnaround time," he says.

CD SPECIAL

DESIGN: SHUBHRA DEY

Of course BPR is not always about finding a new-fangled way of doing business, but at times just sifting out what has really worked over the years. That is what shipping-to-telecom major Essar realised a few years ago. Its projects division had almost a dozen orders to execute with a purchase budget of $2.5 billion and that is when it decided to go back to something that had worked for it in the past — a central purchase team. VN Paradkar, CEO, Global Supplies (Essar) says that in the mid-90s there was a similar team in place which handled procurement for all group projects. Once those projects were completed, the team was disbanded and split between the individual locations. When things slumped about a decade later, the group decided to reassemble this team. Since the volumes are significantly larger, this enables the team to get special deals with suppliers.

“BPR is not just about reducing cost but also improving quality, speed to market and changing the customer experience.
Jim Champy

It's now about the survival of the fittest. Your own processes are the only factor that you have control over, you must work at changing them.”
Bala Balachandran

Anyone who has been involved with a successful BPR implementation can't stress enough on the importance of working across functions. Balachandran says that the most important thing to keep in mind while implementing any such exercise is to eliminate 'functional fiefdoms' and work across processes and not functions. Equally important is to have a strong internal team that is working on the implementation. Says Sunil Chandiramani, national director-advisory services, Ernst & Young, "The external team (consultants) can facilitate the process, but it has to be led by the internal team." When Hindustan Unilever started implementing its new distribution system in Mumbai, it eschewed external help. "We feel our people who have the knowledge at the ground are best suited to design and implement our plans," says Hemant Bakshi, ED-sales and customer development, HUL.

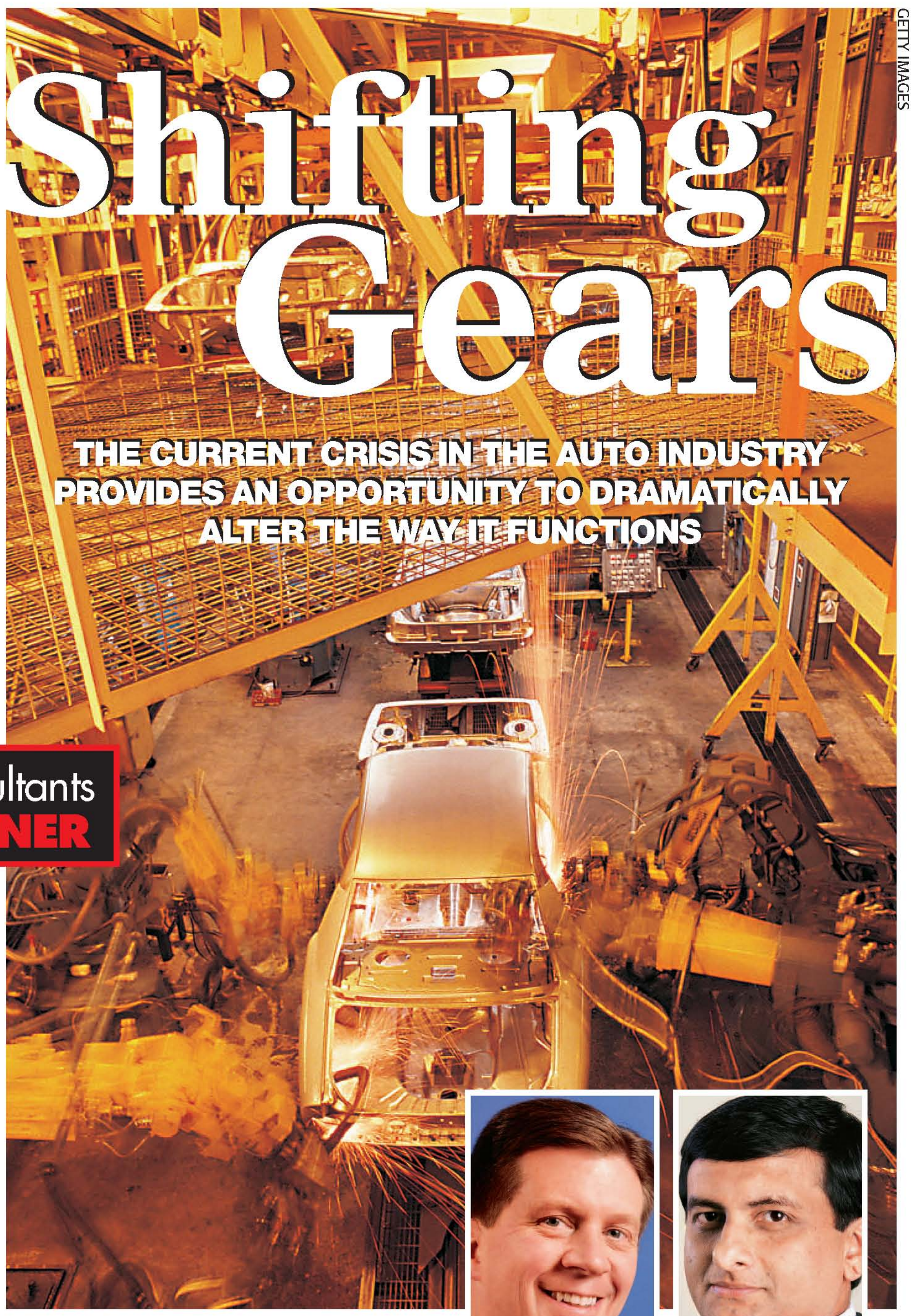
Chandiramani emphasises that BPR is only a means to an end and cannot be an end in itself. When the Godrej Group realised it could gain from synergies in its three FMCG companies, it set up a separate FMCG Portfolio Cell. A Mahendran, who heads this cell, says that the group has set itself a target of Rs 5,000 crore over the next few years, and the cell was set up as a step towards that end. At times, the BPR initiatives have less to do with controlling costs and are more about managing business. At Spencer's, the RPG Group retail arm, it was a clear case of a massive ramp-up in operations necessitating a series of restructurings. Going from an area of 2.5 lakh square feet to 15 lakh sq ft (from 52 to 400 stores) meant that the older systems were no longer adequate. Rather than do an incremental improvement on the existing processes, the company introduced an automatic replenishment system last year. "As a result of the new system, stock outs at stores have reduced, leading to increased same-store growth (one of the most important parameters in tracking retail growth)," says a company spokesperson.

But cost-cutting is not the only reason for a company to consider restructuring processes. When consumer goods behemoth Hindustan Unilever decided that it was time to revamp its distribution system, the change was brought about more by wanting to be in-line with the way retail, and consumers, would evolve over the next five years and less as a result of trying to cut costs. This once again required the company to do something radically different and not a piecemeal improvement on its existing systems. The result was a new system that relied a lot more on technology and a different distribution structure.

Process outsourcing firm Firstsource started reengineering its processes about a year ago, and there was a fair amount of scepticism as the company was growing at a perfectly respectable 70%. But CEO Ananda Mukerji says that it couldn't have been done at a better time. "In retrospect, doing it when we did has been a big advantage. We have been able to counterbalance some of the negative pressures thanks to the improvements we made. It helps that we have a year of this behind us," he says. Similarly, when KEC, the power transmission business of the RPG Group merged group company RPG Transmission and National Information Technologies (NITEL) with itself, the idea was to add a new business stream (NITEL) as well as bring in cost efficiencies (KEC and RPG Transmission were in the same line of business). Vimal Kejriwal, ED-international business, KEC International, says that since the merger was done last year before the slowdown, the company today is almost unaffected by recession. "While we were convinced about the rationale even when we decided to do this merger, the benefits have been brought to light thanks to the recession," says Kejriwal. Considering that the company has an order book that covers its revenue at current growth rates over the next 15 months, its little wonder that Kejriwal says that the word 'recession' means nothing to him.

PG 2: MAKING CHANGE STICK

Eric Schwalm, Mark Gottfredson & Sri Rajan



Shifting Gears

THE CURRENT CRISIS IN THE AUTO INDUSTRY PROVIDES AN OPPORTUNITY TO DRAMATICALLY ALTER THE WAY IT FUNCTIONS

Consultants CORNER

US PRESIDENT Barack Obama got tough with the American auto industry last week, rejecting General Motors and Chrysler's restructuring plan along with an appeal for $22 billion in additional federal aid — the day after forcing the resignation of GM Chief Executive Rick Wagoner. The Administration has given GM 60 days to come up with a strategy for viability and Chrysler a month to wrap up its proposed partnership with Italy's Fiat SpA. But the reality is, nothing short of a radical change in the companies' fundamental business model is likely to create the sustainable industry everybody wants to see.

India's ambitious car makers, themselves lashed by economic turbulence, have experienced falling sales in six of the last eight months. As they deal with a challenging domestic market, they are monitoring how America's Big Three cope in the coming months to see what lessons they can learn.

The car manufacturing system, as it exists today in the US, was created to cope with the massive increases in consumption, mainly in OECD countries, that followed the end of World War II. This system is geared to push waves of new products into the marketplace, independent of customer demand. Volumes are forecast, brand and product shares are estimated, and plans are formulated to supply the pre-determined production targets. Suppliers and dealers build their plans off the resulting master plans.

Ford, Chrysler and General Motors have built complex supply chains and organisations to support this business model. Each new product has taken several years and hundreds of millions of dollars to develop. The business model ties up massive amounts of inventory and working capital throughout the system. But as long as demand remained strong for the SUVs and trucks that produced virtually all of the Big Three's profits, the flaws in the system were masked.

Now, as the Big Three struggle to stay on top with this outdated business model, they've cut capacity, closed plants, consolidated suppliers and forced wage concessions. Over the years, there have been moments when individual leaders in the industry envisioned a different future. In the 1980s, Chrysler saw the potential for shifting to a model that enabled customer demand to pull products through the system. The company developed several innovative vehicles, reduced the complexity of all its cars lines and rolled out "velocity lists" to dealers to help them identify which vehicles the customers were most likely to buy. During that period Chrysler's sales increased by 40 percent. However, when the senior management turned over, the company reverted to the old ways of doing business, and the old vicious cycle returned.

The root cause of the problem for the Big Three is that the centrally planned push system that breeds complexity and inefficiency has become part of their DNA.

To succeed over the long term, the automakers need the business equivalent of gene splicing. They need to convert their push production and supply-chain model into a 21st-century consumer-driven demand-pull production model, using modular designs. It's a model that has previously emerged from Dell, Nokia and other leading technology companies. It's also fundamental to the most successful Japanese and Korean car companies, and to the Chinese and Indian automakers that will follow on their heels.

Mark Gottfredson

Sri Rajan

These businesses compete effectively because their product lines and production systems are dramatically simpler, their business models are lower-cost and their supply chains are tightly integrated from suppliers all the way to dealers.

So how can the Big Three get there? One idea might be for GM to take one of its brands currently rumored for elimination, Saturn, and transform it into a true consumer-driven, modular design, with a supply-chain model that makes no product without an order. The new business model would look very different from today's.

For starters, the customer experience and the role of the dealers would change radically. The desired car could be configured online in less than 60 seconds—the way Toyota's upstart Scion already does it — and the price would be quoted on the spot. No pushy salesmen. The actual sale of the vehicle would involve a transaction between Saturn, the bank and the consumer, with the order information immediately flowing into the supply chain. Cars could be delivered within a week to 12 days of the order.

Dealers would no longer be vehicle warehouses; instead they would be customisers of vehicles off a few standard platforms. Their showrooms would retain a few demo models, with primary services and warranty support in the back, but the footprint and capital costs of dealer operations would dramatically drop.

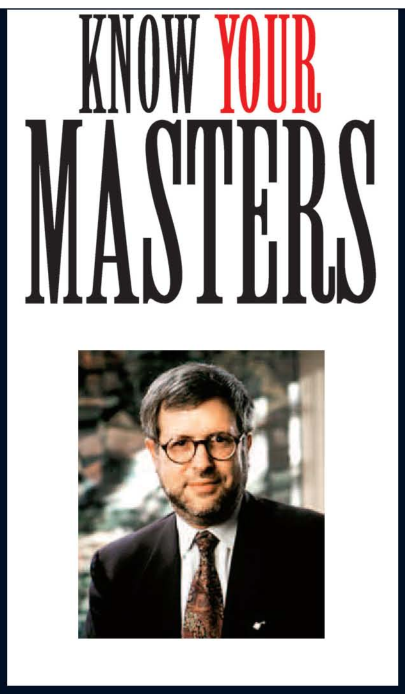
Product design would become a highly integrated process, involving suppliers, assembly plants, marketers and even dealers. All would collaborate to create designs that encourage using common parts, with incentives for efficiency. The template is already there. The rapid rise of Nokia in mobile phones during the 1990s showed what can be accomplished by adopting modular design, reusing parts and reconfiguring the supply chain to make the most of those efficiencies. Similarly, Tata Motors in India and Tesla Motors in the US demonstrate the possibilities for designing and producing cars faster and more cheaply.

One piece of good news is that the manufacturing plants themselves would undergo relatively little change. Many US operations are already world-class in terms of quality and productivity. But big changes are needed, both to the management model and to the financial processes used to guide the businesses, with a new focus on overall lead times, inventories and return on investment across the entire system, rather than the current zero-sum negotiations and warfare that batter the Big Three's supply chains.

The crisis in Detroit is unprecedented in its severity, but it offers a rare opportunity to align all of the stakeholders and finally change the game. There are bold solutions available. The question is: Who will be courageous enough to lead the change?

Eric Schwalm leads Bain & Company's North American Industrial Practice. Mark Gottfredson leads the firm's Global Performance Improvement Practice. Sri Rajan is a partner with Bain in India.

KNOW YOUR MASTERS



Michael Hammer

Born: April 13, 1948

Died: September 3, 2008

Education: He earned his BS and MS, and Ph.D. degrees from the Massachusetts Institute of Technology

Claim to Fame: This son of Holocaust survivors inspired sweeping changes in how businesses were run in the 1990s and was hailed by many the most important process guru in the latter half of the 20th Century.

His seminal debut book *Reengineering the Corporation*, authored with Jim Champy, was on The *New York Times* nonfiction paperback bestseller list for 41 weeks and its influence led to his inclusion, in 1996, on *Time* magazine's list of America's 25 Most Influential People.

Hammer was also an MIT Sloan School of Management professor and a published author in haloed business periodicals such as the *Harvard Business Review*.

Books authored: *Reengineering the Corporation: A manifesto for Business Revolution*
The Reengineering Revolution
Beyond Reengineering
The Agenda: What Every Business Must Do to Dominate the Decade

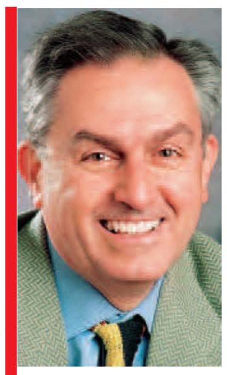
Key Concepts: Reengineering was the definitive buzzword of the 90s and while it would be unfair to call it Hammer's only theory, it's safe to say it was a blockbuster of a theory. The concept of reengineering promoted the idea of simplifying and reorganising business departments by having the workers break down their activities and then reassemble their work, using technology, for greater efficiency and productivity. So popular was reengineering as a business transformation tool that a survey in the 1990s revealed it was adopted by almost 80% of Fortune 500 companies. Hammer however drew equal amounts of praise as well as criticism when people realised that radical restructuring often involved major downsizing — always a four letter word. In fact the maximum cost of reengineering sparked off various instances of lampooning in popular culture including a movie called Office Space and the popular comic strip Dilbert where creator Scott Adams provides the hapless victim of re-engineering and "rightsizing" some strategies for fighting back, like stealing office supplies for instance. Far from feeling slighted the good-humoured Hammer called Adams the poet laureate of reengineering.

In the current downturn business reengineering strikes harder than ever and companies continue to apply Hammer's principles of cross-functional, IT-enabled process change.

Quotable quotes: "My modus operandi is simple, though not always easy to carry out. I take nothing at face value. I approach all business issues and practices with the same scepticism: Why?"

CEOs that used his tactics: Michael Hammer, it is said knew how to get the attention of organisations that suddenly found themselves in a period of unprecedented change and worked with CEO after CEO in the mid-90s from firms, including AT&T, trucking company Schneider National Inc. and Royal Dutch Shell. He consulted at scores of other large companies, and his seminars commanded a $50,000 fee.

CHAMPION OF REINVENTION



WHEN JIM CHAMPY and Michael Hammer, both systems engineers from the Massachusetts Institute of Technology first wrote *Reengineering the Corporation*, neither imagined that it would spend almost a year on the *New York Times* best-seller list, or go on to be reprinted in 25 languages worldwide. The idea behind the theory, says Champy, was based on the observation that successful companies like Toyota had got rid of the layers in the organisation and broken down structural walls between business functions unlike competitors like Ford. Champy has since gone on to write other books on related topics like *Reengineering Management* and *X-Engineering the Corporation:Reinventing your Business in the Digital Age*, the latest being *Outsmart*, a book on how to achieve breakthrough growth by outsmarting competition. In a chat with **Corporate Dossier,** he says that Walmart is perhaps the best example of a company that has put systems and processes into place while the going was good, and as a result, is having a dream run despite recession in the United States. Almost two decades after the initial hysteria, Champy reflects that business process re-engineering was an idea that took off like no management idea ever has. His one regret: People often treat BPR as a synonym for downsizing.

How relevant do you think BPR is in today's context?

I actually believe that the book (*Reengineering the Corporation*) is even more relevant today than when we wrote it. In the 90's, we were in the middle of a slowdown when we approached people with the idea and companies were looking to grow as their markets were expanding. The big difference between then and now is that we didn't have the internet and information technology infrastructure that we have today that allows work to be done dramatically differently. All the work in supply chain management is fundamentally process redesign and a lot of work is enabled by the ability for companies to connect electronically.

So do you see a lot more BPR happening?

No, in fact I find that companies are slower to act today. They know they have inefficiencies, but the financial condition is so uncertain that people are afraid to invest even if they have the cash. This is a dangerous situation because companies need to get more efficient. The other problem is that often management teams do not have the appetite for change which again stops them from doing things differently.

What is the one crucial thing that companies tend to overlook while implementing a BPR plan?

The most important thing is that a company has to look at how process changes are affecting the consumer or customer experience. BPR is not just about reducing cost but also improving quality, speed to market and changing the customer experience. Companies tend to focus too much on costs and forget that the value they deliver is of equal importance.

The other area where people tend to go wrong is that they fail to focus on the important processes and spend time and attention on non-critical areas. For instance a lot of banks will do what they call BPR but is essentially a consolidation of departments and reduction of staff, and in the process, service gets worse.

What advice would you give companies contemplating BPR?

What's really important today is that they have to become realistic about what they shouldn't be spending money on. Every company that has gone through a successful growth period is spending money on products and services that it gets very low returns on and companies have to stop doing this. They have to stop doing things that are not productive and put their money into changing the company.

Companies have to come out of this recession with a new operating model which is much more technology enabled and creates a dramatic pricing cost advantage. It is where the business has to go anyway. The good thing about a recession is that it gives you the opportunity to make changes.

Companies would also use this as an excuse for downsizing...

Absolutely. And unfortunately it's what happens when a company allows itself to get bloated. And it is legitimate. The other advice I give people is that it is important to get operations to a point where you still make money, even if your topline is down 25%. You can do that 1 of 2 ways – fire 25% of your people or try to intelligently rethink how you will do work – though you may still need to let go of people.

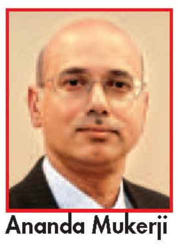
The other characteristic of this recession is that business actually looked good till last October and then suddenly fell. So a lot of companies did not reengineer but just let go of people. At times companies wait too long before they make themselves more efficient and are forced to fire people precipitously. This happens all the time and this will continue to happen.

priyanka.sangani@timesgroup.com

Making change stick

PG 1: MAKING CHANGE STICK

CD SPECIAL


Ananda Mukerji


Hemant Bakshi


Vimal Kejriwal


Vikram R


Sunil Chandiramani


Ajay Seth

IRRESPECTIVE OF THE REASON for the reengineering, perhaps the most important part of any such exercise is change management. And at the heart of the change management process lie the people. "You can start with good intentions and great economic logic for doing it, but it will simply fall apart if you don't manage to convince your people," says Mukerji. Doing things before others can prove beneficial in the long term, but it does come with its own share of pitfalls. Mukerji experienced this up close when he launched the BPR initiative. While he had to convince sceptical employees and clients that the company was not in any sort of trouble, the 'unfortunate' choice of name – Project Slim – with its immediate connotation of downsizing did not do much to allay people's concerns. As a result, the company undertook a communication exercise involving 17 sessions with the 1500 employees who would be part of the first wave of reengineering. There was also a separate section on the group intranet site where employees could get all the information they needed as well as post queries on the initiative.

When Essar's Paradkar recently introduced the system of e-bids for the procurement of supplies he had to deal with disgruntled employees as well as suppliers. "Whenever people see their job being automated, they aren't too welcoming," he says. On the other hand, certain blue chip companies refused to participate in the e-bid process, so after a few months of trial and error the company has now moved on to a hybrid model. "While most suppliers send in their bids using the portal, we continue to interact with the others and then decide on who to go with," says Paradkar. The company has also introduced an additional round of negotiations with the short-listed suppliers before the final decision is made. This means that while employees are more involved, they also need to brush up on their negotiating skills.

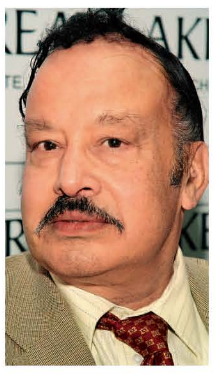
A final word of caution: companies often treat BPR as a one-stop measure and an excuse for downsizing and not a long term process. The other mistake companies tend to make is pick the wrong process to be reengineered, or make only superficial changes. Chandiramani says companies will often come up with a brilliant process change, but will then customise it to how they think it should be done. As a result, they're basically taking a new, roundabout route to get to where they already are.

Most crucial is making the changes stick, and this can be brought about only by a fundamental shift in organisational thinking. If this doesn't happen, a year down the line, the company is back to where it was which gives the naysayers an opportunity to say 'I told you so'. As a result, the company goes back to the earlier inefficient processes.

(Inputs by Moinak Mitra)

priyanka.sangani@timesgroup.com

RADICAL INNOVATION



COMPANIES WILL NEED to do something radical if they want to survive this slowdown, says Dr Bala Balachandran, JL Kellogg distinguished professor of accounting information and management, Northwestern University and the author of *Business Process Reengineering - Its History, Promises, and Problems*

How important is process reengineering at a time like this?

Whether times are good or bad, anyone who wants to be a successful long term player cannot afford to ignore 'processes'. Companies that have made it to the top should remember that the elevator has only one arrow — down. Staying at the top requires continuous process management and improvement.

In the current scenario, people are no longer willing to pay any price you ask and are deferring purchases. It's now about the survival of the fittest. Since your own processes are the only factor that you have control over, you must work at changing them. The problem is that by now, most companies have done everything that is possible, and you can't do continuous process improvement, but need to go all out and do something radical. The Nano was the result of a fundamental rethinking. If you don't; you will be wiped out.

What factors must a company keep in mind when undertaking a BPR exercise?

The most important thing to do is to eliminate functional fiefdom; approach reengineering horizontally, not vertically. Teams across functions need to interact among themselves. Also look at sub-processes and question everything. Ask yourself whether you need to be doing something in the first place, and then whether you need to be doing it differently. All this can be done only if it is a horizontal team. Finally, think in terms of customer pull instead of supplier push. That's what Dell did and it completely changed the way the company functioned. Customer centricity is important for a company irrespective of the nature of the business.

According to you, where do companies go wrong when implementing a BPR plan?

You have to involve people. Ultimately, any restructuring involves them and unless you are honest up front, they will not take you seriously. If there are going to be job cuts, tell them so, but also tell them that if they are willing to retool and relocate, you may be able to accommodate them elsewhere in the business.

The other thing companies often do is chop the wrong product or process. This often happens when teams work in isolation and that is why you need a cross-functional team. Most times if you make changes to one process, others will be impacted. The other thing is that companies often approach it as a short–term measure — BPR has to be an ongoing process otherwise it will not be truly effective.

How do you recommend companies undertake this exercise?

The most crucial thing to do is defining the problem. Identify what needs to be done and then prioritise. Remember that you may not need the kind of changes your competitor does – often companies will restructure their supply chain because that's what the competition is doing. But maybe your supply chain is fine and it is procurement where the trouble really lies. So be very clear about what you are doing — and don't expect miracles.