

## **Change Management and Business Process Reengineering**

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I am happy to be here at the Administrative Staff College of India, which plays a dominant role in executive training in the country. I deem it a privilege to address this gathering who as functional managers influence and direct the changes in the environment on a regular basis. 'Change Management', 'Risk Management', 'Corporate Business Transformation' or concept of a 'Learning Organisation' are all words currently used by management practitioners and organisation who are interested in improvement themselves. These expressions also spread to the methodologies used throughout the organisation called Business Process Re-engineering or Business Process Restructuring.

Some of the fundamental issues that contribute to the changes are :

- ? Growth of technology;
- ? Faster Communication;
- ? Knowledge explosion;
- ? Competition and increased interdependence;
- ? Growing customer expectations;
- ? Limited resources;
- ? Globalisation and economic integration;
- ? Ecological distress;
- ? Growing Security concerns;
- ? Increased regulatory guidelines; and
- ? Sophistication of the workforce.

Let us appreciate the fact that the magnitude of change today is both a challenge and an opportunity. Unbridled change presents unprecedented challenges and pressures requiring responses more sophisticated than we have faced ever before. In tumultuous environments, every solution brings more complex problems requiring more creative approaches. For example, Information Technology has shifted the problem of lack of information to a challenge of information overload. This in turn calls for different competencies in us. With so much information around, our ability lies not just in knowing the information but in using it in a focused manner.

We can see in change an opportunity for a fundamental shift in how we define our business - where we are going and how we will accomplish our goals. You can make a difference in the course of events affecting you and your organisation today and in future by learning how to manage change better. We need to initiate, direct and sponsor change to remain successful and competitive in the emerging environment.

Let us start with the basic question : why should we change and what should we change?

All enterprises, whether public or private, destined to thrive in the present millennium will, of necessity, be organisations that are constantly learning and changing, that maximise the use of knowledge and information, and deploy it faster and to better advantage than their competitors. Successful organisations will be characterised by their ability to use information better, learn faster, be dynamic rather than static, and foster innovation while managing risks. All of these outcomes will require significant organisational transformations in both public and private organisations.

Management Experts have classified organisations and managers working in them into three categories. The first category of managers is “No change”. These managers believe that their organisations face a future of relative equilibrium. Their industries are not in a state of flux; their market remains stable and has little chance of encountering any meaningful competition. They are rather satisfied with the current level of efficiency and lull under a false sense of security with their “satisfied under- performance.”

The second category is the “Sporadic, incremental change”. These managers believe that they face a significant, but confined period of change. They anticipate that many changes will affect their organisations but will influence only certain groups at specific and for a limited time. They predict that once the changes are in place, relative calm will prevail.

The third category is “Continuous and overlapping change.” These managers believe that there is no end in sight to transitions and hence have to make substantial adjustments. They expect the future to bring overlapping transitions that form a continuous stream of landmark modifications. According to reports, more than 75 per cent of corporate managers in U.S today fall under the third category of “Continuous and overlapping change.”

Once we identify the need for change, the next question in our mind is what to change. Business leaders in U.S in one of the annual surveys done in early 90s were asked as to what changes they considered important in their organisation for their success in business. Let us look at the fourteen tasks identified by them as important for their success in business :

- ? Initiating major reorganisation plans;
- ? Improving competitiveness through implementation of total quality management processes;
- ? Incorporating information systems as an integral part of business and production strategies;
- ? Ensuring customer focus with emphasis on customer-service attitude and behaviour throughout the organisation;
- ? Responding to new or increased global competition;
- ? Dealing with the turmoil associated with mergers, acquisitions and leveraged buyouts;
- ? Redefining the organisational culture to be more supportive of corporate business objectives;
- ? Initiating cost-containment mechanisms;
- ? Rightsizing the workforce;
- ? Establishing employee-involvement programs to generate a sense of empowerment and

commitment;

- ? Establishing new products and markets;
- ? Incorporating new production/ manufacturing procedures and machinery;
- ? Adjusting to the changing profile and needs of today's employees; and
- ? Complying with new Government regulations.

In my mind, these tasks are equally relevant to Indian business managers and leaders.

To take a first step towards change is to get rid off certain myths about change such as:

- ? It is impossible to understand why people accept or resist change;
- ? Bureaucracies cannot be changed;
- ? Change will always be mismanaged; and
- ? Employees are prone to resist change though it is good for the business.

Accompanied by this paralysing attitude towards change, there exists in some of us a spectre of fear of failure. There are also many who find comfort with the status quo and tend to feel secure with the existing order with the notion that if things have worked well so far, they would work well in future also. They are so oblivious of the silent and rapid changes outside that when the time comes they are swept away by the tide of change.

As I said earlier, if companies want to succeed today, they need to think in terms of radical change. Incremental changes are slow and insufficient to beat the competition. It is here that "Business Process Reengineering" comes as a useful tool to transform organisations.

### **Business Process Reengineering**

"Business Process Reengineering," has been practiced as a formal discipline since the early 1920's. Then it was known as "Methods and Procedures Analysis," always searching for new ways of restructuring workflows or improving business organisation. The application of this method to business was slow and sporadic due to secure business environment. When it was discovered that most U.S corporations were not creating wealth as measured by negative EVA (Economic Value-Added) ) business executives responded to the increasing pressure for performance by embracing "reengineering" as the cure that suddenly gave legitimacy to shocking organisations into adoption of drastic remedial measures.

I wish to draw heavily from the paper brought out by the University of Minnesota on Business Engineering and Process design in 1998, which provides illuminating and practical insights into the subject.

### **Separating Myths from Reality**

Just as we found certain myths about change, so are about Business Process Reengineering. Let us look at some of them:

Myth 1 : Business Process Engineering is either a relatively new concept or a passing fad. The need to transform organisations is not new. What is new is the expanding discrepancy between

the speed of technological innovation and organisational change responses. That is, organisations are not responding in the same speed as the growth of technology.

Myth 2 : Terms such as Business Reengineering, Business Process Redesign, Total Quality Management, Business Transformation, Process Change Management are interchangeable. Although these terms as they have entered the popular lexicon, are often interchangeably used, together they represent a family of change methods that transform work processes and organisations in ways that range from incremental to radical. The more discontinuous the change required, the more likely that changes in organisational structure, strategies, business capabilities, and cultural norms will be necessary to capitalise on the business opportunities resulting from reengineering work processes.

Myth 3 : IT drives Enterprise Engineering. “Technology permits changes in work, and work must change radically in order to take advantage of technology.” It is often very tempting for management to sidestep difficult but necessary decisions by seeking to reengineer an organisation through systems implementation ( *i.e.*, let the system force the decisions). “Information Technology provides the infrastructure and tools, which fundamentally change organisations, but management provides the strategic business vision that transforms technology into competitive advantage” should be the mantra of every CEO and IT manager. Systems implementations make business and breakthrough process change possible and business managers should partner with IT, not the reverse. IT is often blamed for the failure to successfully transform an organisation through implementation of systems when in fact, it is the lack of strategic business vision and leadership from the outset that has led to the failure to achieve desired outcomes.

Myth 4 : Work processes can be reengineered without significant organisational changes and organisational changes do not require changes in work processes. It is difficult to successfully reengineer existing processes to take advantage of the potential opportunities presented by technology without rethinking the existing hierarchical organisational structures and rigid processes and procedures ill suited to meet the integrated information needs of business users. This kind of mismatch often result in companies operating with inappropriate organisational structures.

Myth 5 : The Focus of Enterprise Engineering is Information Technology. Too often people view Enterprise Engineering as associated primarily with information, digital technology, networking, and communication rather than recognising it is primarily about people and their changing role in organisations. In many knowledge-based organisations today, expenditures associated with people represent the largest expenditure of resources. Pursuing technological potential without exploiting human potential will not yield the outcomes sought from Enterprise Engineering efforts. Failure to consider the human and cultural issues within an enterprise almost always results in a failure to successfully implement organisational change.

### **Enterprise Engineering Change Methodologies**

The purpose of Enterprise Engineering should be to increase the value of people whether through process or policy redesign, automation, expert systems, training, or access to information. In order to be successful, organisations will increasingly need to develop the potential of their employees, increase their knowledge and provide a work environment that facilitates learning and experimentation at every level in the organisation. It is important not to lose sight of the fact

that the potential of an organisation represents the sum of the potential of its people.

Enterprise Engineering at its best represents the fusion of information technology and management. The art of managed change rests not only in the ability to assess organisational readiness and capability to implement change from a cultural, human resource, financial or technological standpoint but also in determining which combination of business engineering approaches will yield the desired results in a given organisation. For

Enterprise Engineering to succeed two questions must be answered:

1. What is the strategic vision for the enterprise ? and
2. How to get from here to there ?

A significant determinant of the likelihood of success or failure of any particular approach is the ability to match the method to the desired outcome and the organisational circumstances. It is worth noting that no one methodology or approach is right for every organisation and every instance and there are documented successes and failures for every transformational strategy.

Whatever the methodology employed, Enterprise Engineering driven either by continuous or discontinuous change strategies is about the simplification of work to achieve higher quality, better results for customers, and lower costs. It is about replacing manual processes with automation, eliminating unnecessary bureaucracy, streamlining and minimising handoffs across departments, providing the right information at the right time to the right people, eliminating unnecessary work, reducing unnecessary controls, empowering every employee, and getting it right the first time.

### **Continuous Change Strategies - KAIZEN and TQM**

Before we proceed to deal with BPR let us look at Continuous change strategies practiced under Kaizen or TQM.

The least invasive type of change strategy available to organisations is one of continuous improvement, which operates under the principle that excellence can be achieved by making a large number of small or incremental improvements continuously over time. The goal is to please both internal and external customers by improving the quality of both processes and outcomes. Work teams and individuals are encouraged and empowered to suggest and implement improvements using a structured set of tools and techniques to correctly identify and define both problems and solutions.

*Kaizen* management approach originated in Japan in the 1960's where it is known as *Kaizen*, which means continuous improvement of products, services, customer support, relationships, systems etc. that involves everyone within the organisation. *Kaizen* is almost similar to Total Quality Management (TQM) except that *Kaizen* has originated in Japan while TQM in U.S.

The framework for continual process improvement whether under *Kaizen* or TQM represents the following:

- ? The customer defines quality;
- ? An organisation's senior management needs to create an organisational environment that clearly values quality and integrate those values into the organisation's operating policies, procedures, processes and rewards;

- ? Excellence in quality requires well-designed processes and systems;
- ? Quality requires an organisational culture that both demands and rewards continuous improvement;
- ? Quality leadership is demonstrated through the development of process oriented goals and tactical strategies and operating plans consistent with the principles of continuous process improvement;
- ? Strategies for achieving quality should include reducing the response and processing times, improving design quality and defect and error prevention;
- ? Management and operational decisions should be based information; and
- ? Excellence in quality requires the participation of trained employees every level in the organisation.

No matter how well implemented, quality oriented, continuous improvement strategy also has its limitations. Experience with TQM/Kaizen provides evidence to the conclusion that while institutional survival may require improvements in quality, quality improvements alone will not ensure success.

This conclusion is borne out by a study conducted in U.S which found that though the implementation of TQM resulted in measurable performance improvements, more than 60 per cent of the companies implementing quality programs failed to achieve significant, sustained improvements in quality, productivity, competitiveness, or financial returns. It important to remember that TQM is one of family of change strategies, rather than an end in and of itself.

### **Discontinuous Change Strategies**

The term “Business-Process Redesign/ Reengineering” is often used interchangeably to refer to procedure redesign and value stream invention and hence I wish to deal with each of them separately.

#### **Procedure Redesign**

Many organisations need more than incremental change in existing processes to achieve the necessary outcomes. They don't need to make existing processes more efficient or effective, they need to identify fundamentally new ways to do business.

Procedure Redesign is the least ‘invasive’ of the discontinuous change strategies because while it may involve streamlining of work flow, automation of activities, or improved information dissemination, it does not necessarily require replacing current processes or organisational structures. Procedure redesign is broader in scope than TQM, often spanning multiple, cross-functional departments and/or organisations. Although it does not typically require organisational changes, it may well require installation or modification of major information systems.

However, when radical changes are required, process redesign will not prove to be a satisfactory substitute or yield sufficient outcomes for the investment of financial and political capital.

#### **Value-Stream Reinvention**

Value Stream Reinvention, like TQM, focuses on pleasing the customer, but rather than

achieving this through incremental change, Value Stream Reinvention looks to radical changes in processes to achieve significant breakthrough improvements. As the term reinvention implies, this methodology starts with a clean slate and asks as to what is the best way to structure a function or process rather than focusing on how to improve an existing one.

Every organisation consists of a series of value streams with most large organisations identifying 10-20 primary value streams, which represent the functions, and processes that define an organisation. Typically one or two of these primary value streams will be designated as strategic value streams or areas where management believes they have the opportunity to among the best. Value streams that encompass functions that enable the business to operate are often referred to as support value streams. Examples of primary value streams in an educational institution might include:

- ? Instructional/Educational Programs;
- ? Research;
- ? Outreach/Public Service;
- ? Student Services; and
- ? External Sales and Services.

Examples of support value streams might include:

- ? Financial Management;
- ? Human Resources;
- ? Legal;
- ? Facilities Management;
- ? Information Technology;
- ? Internal Sales and Services;
- ? Auxiliary Enterprises; and
- ? Procurement.

### **Business Process Reengineering (BPR)**

Most large organisations could benefit from a complete redesign rather than the continual reorganisations, substitution of horizontal organisational structures for vertical organisational structures, “right sizing”, and other strategies commonly employed. But organisations may be reluctant to pursue more far-reaching solutions given the inherent difficulties and increased risks associated with enterprise change.

Traditional hierarchical organisations are characterised by their ability to preserve the status quo and reject paradigm shifts and change even when to remain competitive or survival depends on it. Mature organisations have deeply entrenched culture like the roots of an old tree. The problem with most mature corporations is that they have the wrong culture for the present era. It was set into place before the age of value streams, empowered teams, kaizen, computer networks, and so on.” Ironically, the stronger the existing culture and organisation is, the more successfully it can resist change. Thus successful organisations are often more at risk than new or less successful

ones in periods of paradigm shifts. Previous successes can also be a risk factor to the extent that it results in increased complacency with a compelling urge to maintain the status quo.

In the past, change occurred slowly enough that each generation of managers did not encounter obsolescence. Now technological advances recycle more quickly than management changes. Increasingly the premium is on organisations and individuals that learn more and faster than their competitors and can rapidly operationalise the outcomes of that learning process. Organisations must now deal with how to prevent both human resource and technological obsolescence. It is here that Business Process Reengineering or Enterprise redesign strategy has a bigger role to play.

What should an organisation expect as a result of implementing BPR?

- ? An overall reduction in the costs and energy required to run an organisation;
- ? Increased speed and efficiency and a reduction in errors and resistance to change;
- ? Faster communication of information and a reduction in the potential for information filtering and distortion;
- ? Reduction of barriers to fast, fluid, flexible decisions and actions;
- ? Increased speed of change and responsiveness to customer needs;
- ? Increased individual accountability and ownership of outcomes;
- ? Increased use of information driven decision-making and a concurrent reduction in political and power based decision models;
- ? Elimination of rules and controls that unnecessarily increase complexity without providing value addition; and
- ? Increased value from the organisation's investment in human resources.

### **Preconditions for BPR**

Given that BPR can revolutionise organisations and considering the high risk and cost associated with it, we need to ensure that certain preconditions are met before attempting BPR. Let us look at some of them:

- ? First, BPR, also referred to as enterprise redesign, places a premium on committed, visionary leadership with a clear vision of the direction of needed change, and the ability and persistence to constantly reiterate the message, inspire others and overcome setbacks over long periods of time *i.e.*, 5-10 years. No organisation can successfully navigate enterprise redesign in its absence;
- ? Radical redesign cannot occur without a fundamental rethinking of an organisation's strategic vision;
- ? Reinventing an organisation will create unanticipated problems, complexities and resistance that increase geometrically with the scope of the redesign. Sufficient organisation talent and strength, committed to the successful implementation of enterprise reinvention must be present at all levels of the organisation from the outset. Although many organisations consider enterprise redesign only in response to problems

that have evaded simpler solutions, in fact stronger organisations proactively initiating enterprise level redesign have a significantly better chance of success; and

- ? Finally, IT and HR functions should be reengineered first in order to support the demands of enterprise redesign. The ability to rapidly respond to new systems and information needs and deliver a high level of care and attention to individuals through retraining and counseling programs as well as new compensation plans, reward systems, and appraisal mechanisms is critical to the success of enterprise reinvention efforts. Where changing an existing culture is perceived as too costly, organisations can redesign themselves by creating new business units or splitting off existing units, merging with other organisations, or incrementally reengineering multiple value streams.

### **Recipe for Failure**

Let us look at what could make BPR fail in organisations:

- ? Lack of sustained management commitment and leadership;
- ? Unrealistic scope and expectations; and
- ? Resistance to change.

Therefore it is not only prudent, but also possible to avoid or minimise adverse impacts by building on the experiences of other organisations. I wish to share with you some of the steps to be considered for successful implementation of BPR:

*Planning for Post Implementation Continuous Improvement* : Anticipating and funding continuous improvement processes subsequent to the initial rollout of enterprise changes is necessary to obtain the full benefits of process and enterprise innovation efforts;

*Maximising Speed* : Moving as quickly as possible through the “Valleys of Despair or Death”(i.e., the period of time between when the change is announced to when it is implemented). The sooner a solution can be deployed, the sooner it can be improved and deliver the anticipated benefits. This approach is based on the assumption that the advantage of workable solutions now is greater than perfect solutions later;

*Minimising Unnecessary Handoffs* : This strategy extends the concept of cross functional value stream organisational models to the reengineering process by ensuring to the degree possible that the same sponsor and team members that design a process or organisational innovation or improvement are also responsible for its implementation and roll out; and

*Anticipating Dysfunctional Behavior* : Whether caused by fear, anxiety, resentment, uncertainty, lack of understanding or resistance to cultural change, dysfunctional behavior should be anticipated and addressed with both empathy and firmness. Once a transformation process is initiated, it becomes critical to any future change initiatives to achieve a successful outcome by constantly reiterating the will to persevere with change. The goal is to clearly and repeatedly articulate the reasons for change, the potential individual and organisational benefits to be derived and if possible a sense of excitement, enthusiasm sufficient to offset the potential discomfort of individuals. Where individuals or groups continue to resist, it is important to remember that consensus on difficult issues is not always possible and opposition does not necessarily signal a poor strategic choice.

Having said so much about managing change, business process reengineering, systems followed in various nations, it would be very interesting to look at the Indian scenario, more particularly, in the public sector and change in public sector even under today's conditions and the public sector's adoption of economic analysis of profit, production cost estimation and even schemes like the VRS has a cost cutting measure and disinvestment. In all these whirlpool of change if you ponder each organisation has thrown up leaders who have managed the transition, got over the resistance even crisis situation and brought about successful changes. These have come about with the involvement of the Top Management including the Board and the CEO who is seen as a champion, who is visionary, persuasive, exemplary and consistent in behaviour and who is able to translate the vision to a realistic plan and the followers take up the challenge. In the process, structures do get changed but the all pervasive leadership of the change agent is clearly seen through the teams, generating consensus and finally executing them. There could not be any better source than the human resources at the disposal of organisations and make them continuously participate. Often, we force the change from above rather than make them willingly accept and become part of the change. It would be an excellent exercise, if this team of senior officers who are present here from NABARD, ponder over what I have attempted to convey and write out a dissertation and put it up to their management so that a new NABARD emerges at the end of the exercise and some of the lingering concepts like bureaucracy, slow pace of computerisation, perpetual dependence on the Reserve Bank's unlimited fund support, get removed and NABARD aligns itself to current realities.

I thank you for your patient hearing and I hope this will set off a debate in your minds about doing something different, so that each one of you become a champion and is seen as a change agent.

**\* Address delivered by Shri Vepa Kamesam, Deputy Governor, Reserve Bank of India at the Programme on Managing Change for the Senior Officers of NABARD at the Administrative Staff College of India, Hyderabad on January 8, 2003.**