

# **Business Process Orientation**

## **Gaining the e-business competitive advantage.**

**By**

**Dr. Kevin McCormack and Dr. William Johnson**

**Chapter II**

### **History of Business Process Orientation**

This chapter will review the evolution of business process orientation, beginning with the concept of functional orientation that began at the turn of the century through the TQM phase of the 1980's, the reengineering craze of the 1990's and the current e-business frenzy. The introduction of foundation process concepts and contributions by Edward Deming, Michael Porter, Peter Drucker and others are discussed as is the process thinking introduced by the Japanese.

## Overview

The orientation of a firm, the base point of reference for the people in the firm, is a critical aspect of all the business drivers. This “way of looking at the world” drives strategy, decision-making, investments and selection of employees and leaders. A study of U.K. manufacturers attempting to examine orientations in these firms identified the following types and descriptions of orientations.<sup>1</sup>

- Production: concentrate on reducing costs, achieving high production efficiency and productivity and increasing production capacity;
- Product: make products with good quality and features and improve them over time and then try to sell them;
- Selling: concentrate on promoting and selling what we can make;
- Market: identify changing customer wants and develop products to serve them better than competitors;
- Competitor: identify the closest rivals, learn their strengths and weaknesses, forecast their behavior and develop marketing strategies to capitals on their weaknesses.

Business Process Orientation was significantly missing from this list. Why? Did this orientation not exist or was it just not defined enough to measure and talk about?

Most of what has been written about business process orientation during the last two decades is in the form of success stories concerning new forms of organizations. Although empirical evidence is lacking, several examples of these new forms have emerged during this period that have been presented as high performance, process oriented organizations needed to compete in the future. Authors such as Deming, Porter, Davenport, Short, Hammer, Byrne, Imai, Drucker, Rummler-Brache and Melan have all defined what they view as the new model of the organization. Developing this model requires a new approach and a new way of thinking about the organization, which will result in dramatic business performance improvements. This “new way of thinking” or “viewing” the organization has been generally described as *business process orientation*.

During the 80’s, Michael Porter introduced the concepts of interoperability across the value chain and horizontal organization as major strategic issues within firms.<sup>2</sup> Edward Deming developed the “Deming Flow Diagram” depicting the horizontal connections across a firm, from the customer to the supplier, as a process that could be measured and improved like any other process.<sup>3</sup> In 1990, two researchers, Thomas Davenport and James Short, proposed that a process orientation in an organization was a key component for success.<sup>4</sup> In 1993, Michael Hammer, who led the Reengineering craze of this decade, also presented the business process orientation concept as an essential ingredient of a successful “reengineering” effort. Hammer described the development of a customer

focused, strategic business process based organization enabled by rethinking the assumptions in a process oriented way and utilizing information technology as a key enabler.<sup>5</sup> Dr. Hammer offers reengineering as a strategy to overcome the problematic cross-functional activities that are presenting major performance issues to firms. The apparent conflict between a functional focus (who I report to) versus a horizontal focus (who I provide value to) is offered by Hammer as being brought back in balance by adding a business process orientation to the organization.

As the “e-craze” of this decade (e-business, e-commerce, e-supply chain) replaces the reengineering craze of the 90’s, business process performance and the horizontal nature of e-corporations has risen to a new level of importance. Corporations are extending outside of their legal boundaries as a normal way of organizing. Partnering, functional outsourcing, business process outsourcing, alliances, and joint ventures are yesterday’s requirements for success. Today’s success depends on new e-forms of horizontal and vertical “virtual integration” that are appearing each day. Business process orientation is not simply a way to organize but an imperative for survival.

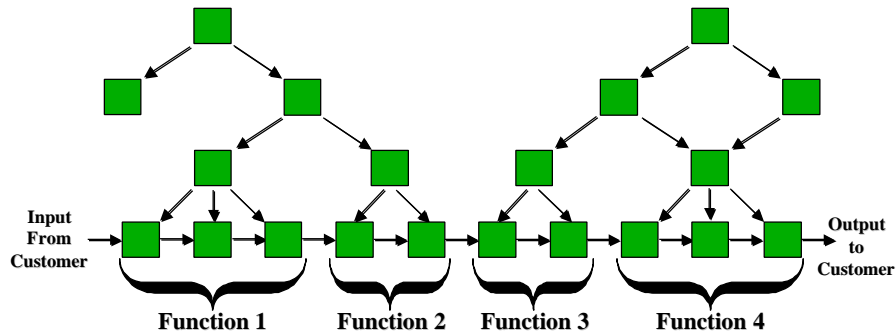
The remainder of this chapter presents the key contributions to the history of business process orientation, along with the imperatives for the e-corporation.

### **Functional Orientation; 200 Years and Counting**

Adam Smith, in 1776, described the concept that industrial work should be broken into its simplest task. This became the basic organization model of business for almost two hundred years. The modern business enterprise has gone through only two major evolutions since the Civil War in the United States.<sup>6</sup> Around the turn of the century, management became to be viewed as work in its own right. Up until that time, management was indistinguishable from ownership. J.P. Morgan, Andrew Carnegie and J.D. Rockefeller began the restructuring of the railroads and American industry using the basic principles of Adam Smith and the new concept of management work or hierarchy. Twenty years later, Pierre S. DuPont began the second evolution by restructuring the family business into the modern corporation. Alfred Sloan also began to redesign General Motors and further defined the business model. This institutionalized command and control, centralization, central staffs, the concept of personnel management, budgets and controls. This model is our tightly defined, tightly controlled, functionally centered organization model of today.

Business performance, as defined by Return on Assets (ROA), was attained with this model through the leverages of size and division of labor. This allowed organizations to maintain highly paid, scarce skills as well as effectively gather and deploy natural resources and labor, the two major factors in the success of enterprises of the time. The hierarchy of skilled managers was necessary to coordinate the functional activities, manage the information flow and interface with the other functions in the organization. The better the focus and coordination of the company resources, the more profitable the business.

The functional view of the organization is best described by the organization chart (Fig. 2.1).



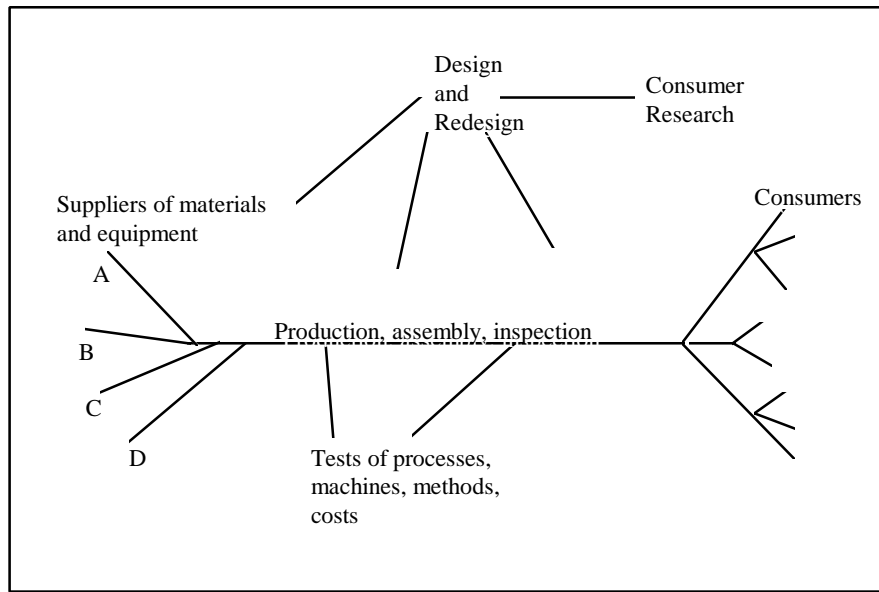
**Figure 2.1** The Typical Organization Chart

This chart shows which people have been grouped together for operating efficiency and it shows reporting relationships. What is not shown is the customer and what, why and how of the business. In functionally centered organizations, hand-offs between functions are frequently uncoordinated. The greatest opportunity for performance improvements lie in the functional interfaces - the points where the “baton” is being passed from one function to another.

Too often, what’s being managed is power and authority, not the activities that bring value to the customer, from the customer’s perspective.

### **Business Process Orientation in the 80s; BPO Foundations**

The concept of improving these functional interfaces by “viewing” the business differently is evident in Edward Deming’s philosophy, captured by “The Deming Flow Diagram” (Figure 2.2).<sup>7</sup>

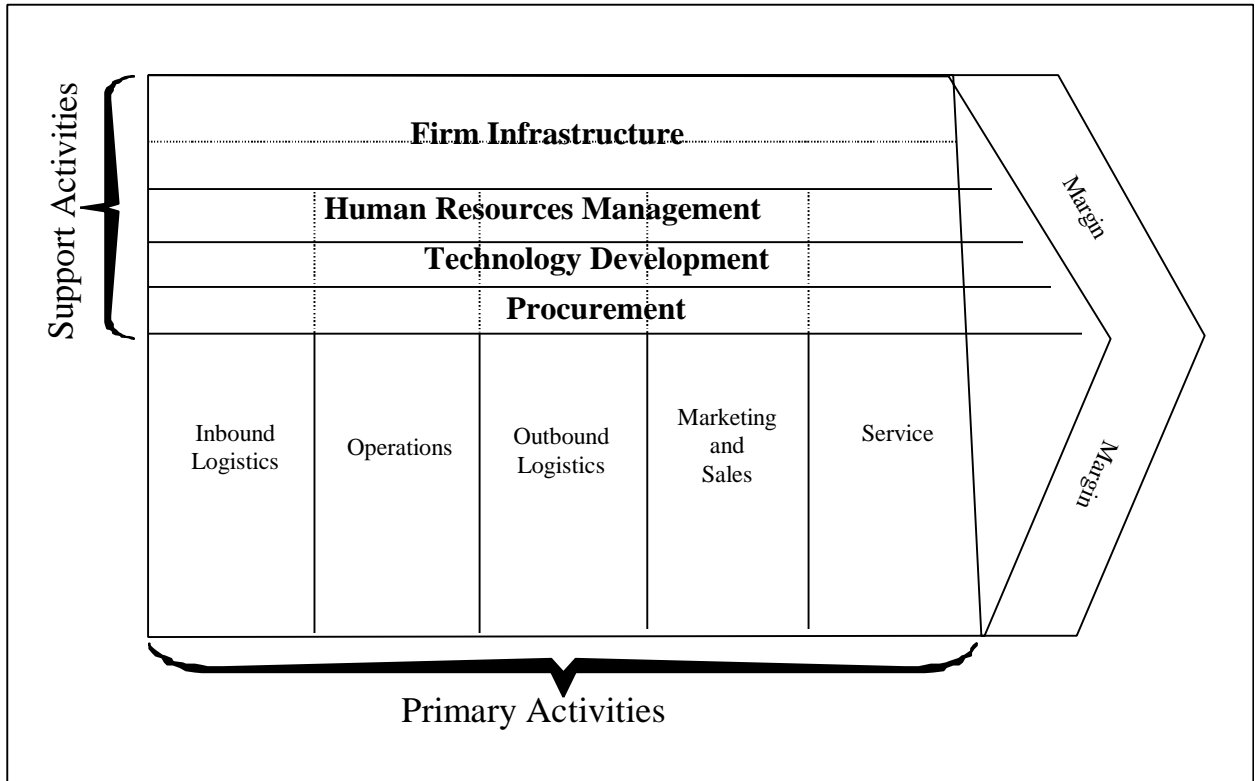


Deming - *Out of the Crisis*

**Figure 2.2.** The Deming Flow Diagram (Adapted from *Out of Chaos*- Walton 1986)

The flow diagram takes a business process orientation and describes a business as a continuous process connected on one end with the supplier and on the other to the customer. A feedback loop of design and redesign of the product is also shown as connected to both customers and suppliers. Deming's fourteen points and elimination of the seven diseases describe the strategies for optimization of the flow diagram and therefore the creation of superior customer value and superior profitability.

In 1985, Michael Porter introduced the “value chain” concept as a systematic way of examining all the activities a firm performs and how they interact to provide competitive advantage (see Figure 2.3). This chain is composed of “strategically relevant activities” that create value for a firm’s buyers. Competitive advantage comes from the value a firm is able to create for its buyers that exceeds the firm’s cost of creating it.



**Figure 2.3.** The Generic Value Chain (Adapted from Porter 1985)

A firm gains competitive advantage by performing these strategically important activities more cheaply or better than competitors. According to Porter, a firm is profitable if the value it commands exceeds the costs involved in creating the product.

A major way to develop competitive advantage in this value chain is described by Porter as managing linkages. Linkages are relationships between the way one value activity is performed and the cost of performance of another. Optimization and coordination approaches to these linkages can lead to competitive advantage. The ability to coordinate linkages often reduces cost or enhances differentiation. This recognition of the importance of linkages, according to Porter, has been strongly influenced by Japanese management practices. The ability to recognize and manage linkages that often cut across conventional organizational lines can yield a competitive advantage. The linkages between supplier and customer value chains can also be a source of competitive advantage.

The organizational structure often defines the linkages in a value chain. Integrating mechanisms must be established to ensure that the required coordination takes place. Information is essential for the optimization of these linkages and is rarely collected or connected throughout the chain. Porter suggested that a firm might be able to design an organization structure that corresponds to the value chain and thus improve a firm's ability to create and sustain competitive advantage through coordination, minimization and optimization of linkages.

Michael Porter's value chain is a method to define a business in a customer focused, strategic process-oriented way. Porter does not go into the details of coordination and optimization of linkages but suggested that a new organizational model can have a major impact on a firm's performance. It is clear that the closer the organizational structure is to the way the strategic processes are organized, the more effective it can be in providing value. This value, according to Porter, will lead to competitive advantage and profitability.

The Porter value chain and the suggestion that a firm organized around this structure can gain a strategic competitive advantage positioned the concept of business process orientation firmly as a key competitive strategy.

### **The Japanese Contribution**

Shortly after Porter introduced the value chain concept, a popular management principle, kaizen, the Japanese management principle that has reportedly given many companies a competitive advantage, was introduced.<sup>8</sup> This principle added a new dimension to the orientation of an organization.

Masaaki Imai, a leading Tokyo based management consultant, unequivocally stated at that time that "kaizen strategy is the single most important concept in Japanese management - the key to competitive success" (Imai 1986). Kaizen, as explained by Imai, is the overriding concept behind good management; a combination of philosophy, strategy, organization methods and tools needed to compete successfully today and in the future.

The philosophy component of kaizen is one of continuous improvement of everything, everyday, involving everyone. This, said Imai, is the unifying thread running through the philosophy, systems and problem-solving tools developed in Japan over the last 30 years.

The strategy consists of (a) recognizing that there are problems and establishing a corporate culture in which everyone can freely admit these problems, (b) taking a systematic and collaborative approach to cross-functional problem-solving, (c) a customer driven improvement strategy, (d) significant commitment and leadership of kaizen from top management, (e) an emphasis on process and a process-oriented way of thinking, (f) and a management system that acknowledges people's process-oriented efforts for improvement.

The kaizen tools consist of various approaches, methods, and techniques that analyze and organize the process and improvements efforts. Contributors are Deming, Juran and many of the quality leaders. Statistics, systematic problem solving, charting and teamwork are stressed in many of the kaizen tools.

Perhaps the major point stressed by Imai is that management must adopt a process-oriented way of thinking. Japan is described as a process-oriented and people oriented society where as the U.S. is described as a results-oriented society. In a results oriented society, only results count. In a process-oriented society, improvement efforts count. Both approaches, taken by themselves, are not the “right” way as described by Imai. Results-oriented tends to focus only on the what, thus neglecting the how, while the process-oriented focuses on the how, neglecting the what. Both have de-motivating and defocusing issues. What Imai proposes, is a combination of the two using the strengths of both. The implementation of this philosophy must also be embodied in the reward and recognition system of the organization. Imai proposed that the implementation of kaizen will lead to an organization with reduced conflict and improved connectedness across the department of the firm.

### **The Information Society**

In 1988, Peter Drucker also foresaw the need for a new organization model. Drucker saw that, given the major shifts in the environment, the old organization model was obsolete and a major barrier to competitiveness.<sup>9</sup> Demographics, economics, society and, above all, information technology, all demanded a shift to an “information-based organization”. This model consists of an organization of knowledge specialists organized in task-force teams. Traditional departments will serve as guardians of standards, centers for training and the source of specialists but it won’t be where the work gets done. The task-focused teams will work on a “synchrony” of activities or processes that span the old organizational boundaries and end with the customer. A sequence of tasks with hand-offs between functional groups will not exist.

Even before the e-craze or before the Internet came into commercial use, Drucker foresaw that the availability of information would transform the organization structure into a flat organization of specialists working on task-focused teams. The layers of command and control managers will not be needed. Some centralized service staffs will still be needed but the need will shrink drastically. This, Drucker said, will require greater self-discipline and an ever-greater emphasis on individual responsibility for relationships and communication. The workers in this organization cannot be told how to do their work, since they, not management, are the experts. They will require clear, simple common objectives that translate into particular actions. Leadership will focus the skill and knowledge of the individuals on the joint performance of the organization similar to an orchestra being lead by a conductor. Drucker’s model appears to describe a process-oriented, customer focused, team-based organization of empowered specialists held together by a common vision and goals.

As with the other models discussed so far, the implication is that this will lead to a firm's success if the management challenges can be overcome. Removing the functions from the process eliminates the interoperability issues and linkages between functional groups. This organizational model's linkage coordination and optimization will, using Porter's and Deming's principles, lead to a significant competitive advantage. If a solution to the management and reward issues can be found, this model would be a significant advance in organizational technology that would lead to reduced conflict and improved connectedness in a firm.

Table 2.1 summarizes the views of the key authors' reviewed so far that have proposed a new model that would lead to improved cross functional interoperability and improved business performance.

	Deming	Imai	Porter	Drucker
Strategic Focus	Long term focus on customer value Constancy of purpose	Customer focus	Strategic Relevant Activities	Information Based
Leadership / Mgmt	Coaching	Problem-solving culture	Linkage Mgmt	Joint performance focus
Reward / Recognition	Long term based on customer and team	Process and Results oriented	Integrating	Team and development based
Structure	Continuous Process, teams, supplier partners	Cross functional, supplier partnerships	Fits value chain, supplier/customer links, integrating mechanisms	Customer focused processes, teams, development groups
Philosophy	Cont. Improvement, empowerment, teams, training and education	Cont. improvement, systematic collaboration, process thinking	Manage / optimize links, cust. focused	Process oriented, cust. focused, specialist, development
Tools / Techniques	Data tools, stats	Analyze, organize, improve (stats, charts, JIT)	Value chain analysis	
Information	N/A	N/A	Essential for optimized links, connected throughout chain	Basis of Org, driver

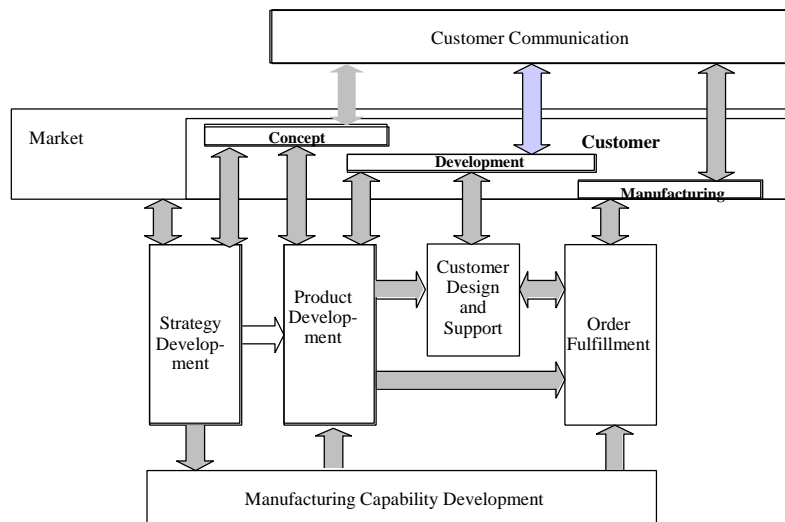
**Table 2.1.** Summary of New Model Views – The Foundations of BPO

## **Business Process Orientation in the 90s – Technology Enablement**

Dr. Michael Hammer started the reengineering craze when he declared war on the old organizational model in 1990 with his article “Reengineering Work: Don’t automate, obliterate” published in the Harvard Business Review.<sup>10</sup> His premise was that the old model, built in the 19th century, is no longer relevant and something entirely different was needed. This new model would be accomplished by looking at fundamental processes of the business from a cross-functional perspective and enable a radical new way of operating using information and organizational technology. The radical new processes would drive dramatic changes in jobs and organizational structures. This, in turn, would require radical changes in the management and measurement systems that would shape the values and beliefs of the organization. These values and beliefs of the organization would finally support and enable the radically new business processes by reflecting the important performance measures of the new process.

Hammer defined a business process as a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer. A reengineered business is composed of strategic, customer-focused processes that start with the customer and emphasize outcome, not mechanisms. This is the heart of the enterprise; how a company creates value and represents the real work.

Process thinking is described as cross-functional and outcome oriented and essential to customer-orientation, quality, flexibility, speed, service and reengineering. A company is defined not by its products and services, but by its processes. Managing a business means managing its processes. These processes are classed as value adding, enabling, asset creating and governing. Figure 2.4 is an example of a company, Texas Instruments Semiconductor Division, viewed as a process according to Dr. Hammer.



**Figure 2.4.** TI High Level Business Process Map (Adapted from Hammer 1993) <sup>11</sup>

The construction of this map not only creates a process “view” of a business but it creates a process vocabulary that is essential for cooperation and coordination within the firm. This map makes the business processes that were invisible, visible.

Hammer described the following changes that occur in the new process oriented model.

1. Work units change from functional departments to process teams.
2. Jobs change from simple tasks to multi-dimensional work.
3. People’s roles change from controlled to empowered.
4. Job preparation changes from training to education.
5. Focus of performance measures and compensation shifts from activity to results.
6. Advancement criteria change from performance to ability.
7. Values change from protective to productive.
8. Managers change from supervisors to coaches.
9. Organizations change from hierarchical to flat.
10. Executives change from scorekeepers to leaders.

Information technology enables the new organization to use the organizational technology components to build a high performance, customer focused, empowered, flat, results oriented, continuous improvement oriented and process oriented organization. This organization model, according to Hammer, would result in dramatic increases in business performance and profitability.

Thomas Davenport, in his book Process Innovation: Reengineering Work through Information Technology provided the foundation for this technology-oriented area of investigation by describing the needed revolutionary approach to information technology in business. This approach was new in how a business was viewed, structured and improved.<sup>12</sup> Davenport suggested that business must be viewed as key processes, not in terms of functions, divisions or products. One of Davenport's major propositions is that the adoption of a process view of the business with the application of innovation to key processes will result in major reductions in process cost, time, quality, flexibility, service levels and other business objectives thus leading to increased profitability.

The process view, according to Davenport, facilitates the implementation of cross-functional solutions and the willingness to search for process innovation, thus achieving a high degree of improvement in the management and coordination of functional interdependencies.

Davenport described having a process view, or a process orientation, as involving elements of structure, focus, measurement, ownership and customers. A process itself was defined as "a specific ordering of work activities across time and place, with a beginning, an end, and clearly identified inputs and outputs a structure for action". The existing hierarchical structure is a "slice in time" view of responsibilities and reporting relationships. A process structure is a dynamic view of how an organization delivers value. Processes, unlike hierarchies, have cost, time, output quality, and customer satisfaction measurements. Process improvements can easily be measured. A process approach to business also implies a heavy emphasis on improving how work is done, in contrast to a focus on which specific products or services are delivered. In a process-oriented organization, investments are made in processes as well as products. The definition and structuring of processes themselves lend them to measurements and improvements in inputs and outputs. The consistency, variability, and freedom from defects can be defined and measured once the process is defined. This provides a focus and feedback loop that facilitates improvement.

Davenport's process approach implies adopting the customer's point of view. A measure of customer satisfaction with the process output is probably the priority measure of any process. Customer involvement in all phases of a process management program is positioned as critical.

Clearly defined process owners are also positioned as a critical dimension of the new model. Process ownership is discussed as an additional or alternative dimension of the formal organization structure. The difficulty in process ownership is that strategic business processes usually cut across boundaries of organizational power and authority as defined by the formal functional organization chart. Davenport suggested that during periods of radical process change, process ownership should be granted precedence. This will, in theory, grant the process owner legitimate power and authority across the inter-functional boundaries.

Davenport further defined a process perspective as a horizontal view of business that cuts across the organization with product inputs at the beginning and outputs and customers at the end. A process-oriented structure is defined as de-emphasizing the functional structure of business. The functional structure is positioned as having hand-offs between functions that are frequently uncoordinated. The functional structure also does not define complete responsibility and ownership of the entire process. No one is managing the ship, only pieces of it. This is expensive, time consuming and does not serve customers well. The solution proposed is that the interfaces between functional or product units be improved or eliminated and sequential flows across functions be made parallel through rapid and broad movement of information. Viewing the organization in terms of processes and adopting process innovation, as explained by Davenport, inevitably entails cross-functional and cross-organizational change. Just the identification and definition of these processes often leads to innovative ways of structuring work.

During the 1990s, many studies examined the issue of reengineering and business processes. The focus on business improvement in the 90's was clearly on business process reengineering, re-orienting the organization towards processes, customers and outcomes as opposed to hierarchies. In most of the studies of technology oriented reengineering, re-orienting of the people and the organization was the major challenge and opportunity for business improvement. Coombs and Hull reported in a 1996 research study an emergence of a "business process paradigm", a heterogeneous collection of theories, concepts, practices for analyzing organizations, and practices for managing organizations.<sup>13</sup> The authors suggested that, although these are as yet heterogeneous, they all share a common view of a fundamental change in managing and thinking about organizations. They are distinguished from previous forms of management and analysis in that the focus is no longer on optimizing the specialist functions within the organization (e.g. Operations, Marketing, HRM), but shifts the focus to ways of understanding and managing the horizontal flows within and between organizations.

### **Business Process Orientation in the 90s – Organizational Design and Culture**

John A. Byrne, in the December 13th, 1993 issue of *Business Week*, provided the popular foundation for this area of investigation when he described the old organizational model as a vertical organization.<sup>14</sup> An organization whose members look up to bosses instead of out to customers. Loyalty and commitment is given to functional fiefdoms, not the overall corporation and its goals. Too many layers of management still slow decision-making and lead to high coordination costs. The answer, said Byrne, is the *Horizontal Corporation*. The outcome of this model is said to be greater efficiency and productivity and is achieved by reengineering or process redesign. Byrne states that A.T.&T., Dupont, G.E. and Motorola are moving toward this model along with many other firms.

The horizontal corporation is described as eliminating both hierarchy and functional boundaries and is governed by a skeleton group of senior executives that include finance and human resources. Everyone else is working together in multidisciplinary teams that

perform core processes such as product development. It is suggested that an organization of this type would only have three or four layers of management between the chairman and the “staffers” in a given process. A stated goal of Dupont’s is to get everyone focused on the business as a system in which the functions are seamless in order to eliminate the “disconnects and hand-offs”. G.E. Chairman John Welch speaks of building a “boundary-less” company to reduce costs, shorten cycle time and increase responsiveness to customers. Managers in this organization would have “multiple competencies” rather than narrow specialties and would function in a group to allocate resources and ensure coordination of processes and programs. Byrne cited numerous examples of companies that are organizing around market-driven business processes and realizing cost reductions of 30% or more.

Byrne described the horizontal corporation model as a firm that has the following elements:

1. The company is built around three to five core processes, not tasks, with specific performance goals and a “process owner” assigned to each process.
2. The hierarchy is flattened. Supervision has been reduced, fragmented tasks combined, non-value added work is eliminated, process activities are cut to a minimum and as few teams as possible are used to perform an entire process.
3. Teams manage everything. Teams are the main building block of the organization with limited supervision by making the teams self-managed. The teams are given a common purpose and are held accountable for measurable performance goals.
4. Supplier and customer contacts are maximized. Employees are brought into direct, regular contact with suppliers and customers. In some cases, supplier or customer representatives are full time working members of in-house teams.
5. All employees are informed and trained. Employees are trusted with raw data and trained how to perform analysis and make decisions.
6. Customers drive performance. Customer satisfaction, not stock appreciation or profitability, is the primary driver and measure of performance. The profits will come and the stock will rise if the customers are satisfied.
7. Team performance is rewarded. The appraisal and pay systems reward team results, not just individual performance. Employees are encouraged to develop multiple skills rather than specialized know-how and are rewarded for it.

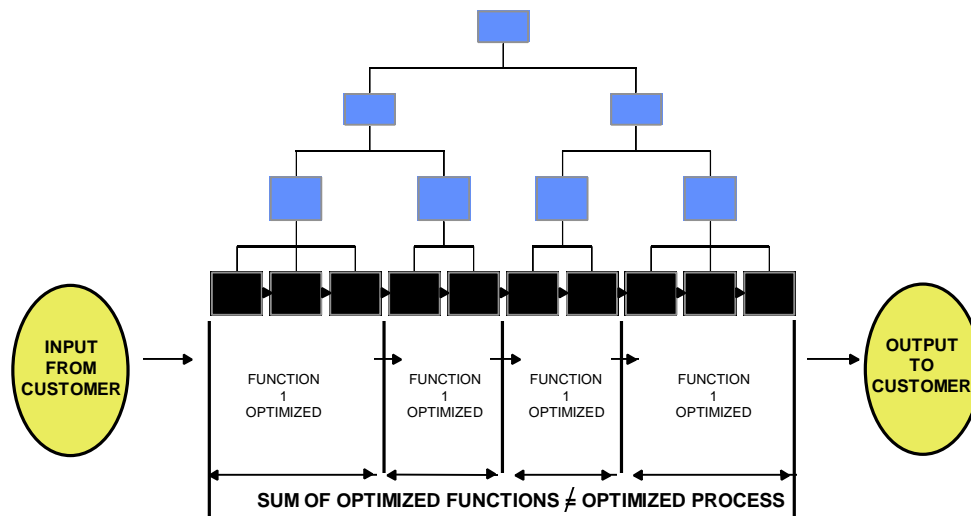
With this article in 1993, Byrne popularized the term “horizontal organization” and provided a prescriptive definition of a business process oriented model.

In an earlier work within the organizational design area, Rummler and Brache (1990), proposed a framework based upon the premise that organizations behave as adaptive processing systems that convert various resource inputs into product and service outputs which it provides to receiving systems or markets. These organizations are based upon process-oriented structures, measures, rewards and resource allocation.

Rummler and Brache suggested that the investments made in improving the firm using a functional orientation have resulted in functional optimization that sub optimizes the

organization as a whole. <sup>15</sup> People in functional silos focus on what is best for that function, many times at the expense of other functions. This means that while the individual function benefits, often times the firm as a whole loses. Figure 2.5 visually depicts their hypotheses of sub optimization.

## Business Processes vs. Functions



**Figure 2.5\_.** The “Silo” Sub-optimization Phenomenon

To address the sub-optimization phenomenon, Rummler and Brache suggest organizing jobs, structures, measures and rewards around horizontal processes. This process oriented organizational design is offered as the improved model of business performance. In fact, during the 1990s, Rummler and Brache built a sizable consulting practice helping firms implement this model.

Along this same line, Melan, from IBM, published several articles in the quality literature suggesting the use of the principles of process management used successfully in manufacturing. <sup>16</sup> Melan, suggested “viewing the operation as a set of interrelated work tasks with prescribed inputs and outputs” and provides a structure and framework for understanding the process and relationships and for applying the process oriented tools used successfully in manufacturing.

Examples of these tools are the basic strategy of process measurement and control, statistical process control, cycle time analysis and optimization, line balancing, variability

analysis and reduction and continuous process improvement. These strategies, tools and techniques can only be successfully applied once a process-oriented framework is constructed.

Melan describes the application of these tools to a business process as process management. According to Melan, process management means establishing control points, performing measurements of appropriate parameters that describe the process, and taking corrective action on process deviations. Melan defines the six basic features of process management as:

1. Establish Ownership of the Process.
2. Establish Workflow Boundaries.
3. Define the Process.
4. Establish Control Points.
5. Implement Measurements.
6. Take Corrective Action.

Melan also strongly stated that the implementation of process management has the potential to yield operational improvements and should not be underestimated.

In 1997, researchers Detoro and McCabe defined business process management as the organizational improvement approach of the '90s.<sup>17</sup> The current or functional view, as defined by Detoro and McCabe, is that a traditional organization is managed hierarchically; there is a chain of command where information flows upward to senior functional managers who evaluate the data, make decisions, and deploy policy and communications downward. Cross-functional issues are rarely addressed effectively and, consequently, the performance of the organization is sub-optimized.

Future organizations, they said, will rely more heavily on horizontal, or business process management. By using horizontal management, the organization is viewed as a series of functional processes linked across the organization, which is how work actually gets done. Policy and direction are still set at the top, but the authority to examine, challenge, and change work methods is delegated to cross-functional work teams. This "re-viewing" is the process of re-orienting the organization towards business processes.

Detoro and McCabe suggested that business process management solves many of the sub-optimization problems in traditional structures because it focuses on the customer, manages hand-offs between functions, and avoids turf mentality because employees have a stake in the final result and not just what happens in their departments.

Business process orientation, as defined by Detoro and McCabe, appears to be the restructuring and reviewing of the organization towards process, teams and outcomes.

## **Business Process Orientation in 2000 – The E-Corporation**

The completion of the interstate highway system in the United States ushered in the age of transportation and made every business a national business. The completion of a usable global information network, the Internet, has made every company and market a global one, every customer an informed consumer and brought us into a new economy, the “digital economy“, with new rules and new realities.

The Internet has the capacity to change everything and is doing so at a far greater speed than the other “disruptive” technologies of the 20<sup>th</sup> century, such as electricity, the telephone and the automobile. “In five years time, all companies will be Internet companies or they won’t be companies at all,” says Andy Grove, chairman of Intel. <sup>18</sup>

What is causing this major change in the way the world works? The list is long and somewhat speculative at this point but there are some things that are becoming clear. The new assets are not factories, machinery or raw materials but information, knowledge, relationships and connectivity. Location, or “place” in the 4P marketing language, is becoming almost irrelevant and might be replaced with “perfection”. “How you gather, manage and use information will determine whether you win or lose,” says Bill Gates of Microsoft. <sup>19</sup>

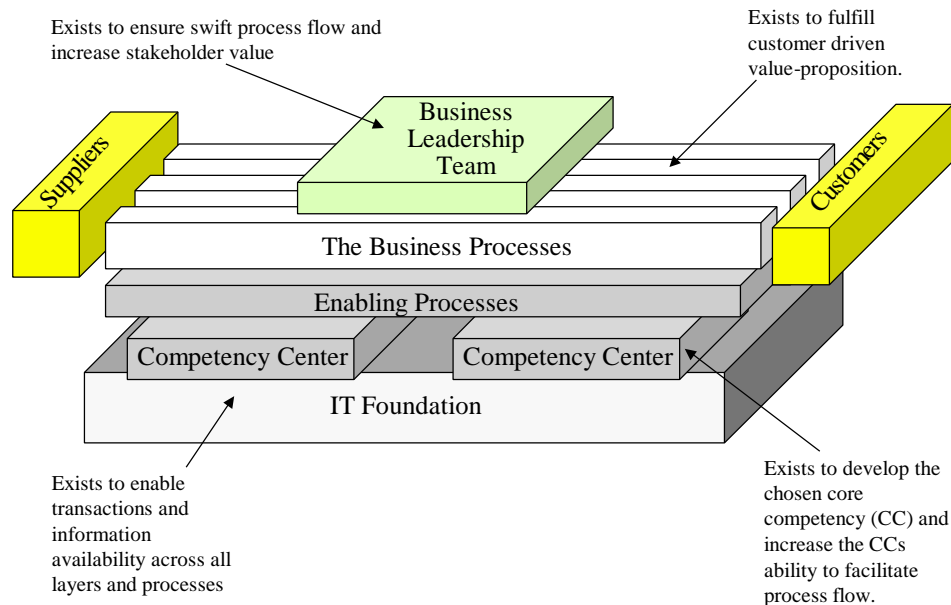
Having information available to every customer, when and where they want it at a cost affordable by almost everyone has dramatically shifted the balance of power and customer expectations. Customers, both end consumers and intermediaries, are expecting dramatically more; more information, more speed, more flexibility, more cooperation / collaboration and more service. They are also expecting less; less cost, less paper, fewer mistakes and fewer hassles and, in the digital economy, they have the power to demand it all. Meeting these expectations and demands is placing a tremendous strain on our systems, people, organizations and processes and has fundamentally changed the balance of supply and demand. Customers are in charge and information is the power. Understanding and leveraging this is the imperative for survival in the digital economy.

In a presentation to Wall Street analysts, Lou Gerstner of IBM described the new “dot-com” companies as “fireflies before the storm—all stirred up, throwing off sparks”. But he continued: “The storm that’s arriving—the real disturbance in the force—is when the thousands and thousands of institutions that exist today seize the power of this global computing and communications infrastructure and use it to transform themselves. That’s the real revolution.” <sup>20</sup> This means building the e-corporation.

What does this mean for business process orientation? As the e-forces force the corporation to perform at even greater levels and focus outward on the customer, there can be no effort that is not value-added. With effortless globalization enabled by the Internet, competition increases exponentially. There can be no such thing as internally focused people and functional processes that bring little or no value to the customer. The only way to compete in this e-world is become horizontal or business process oriented.

For example, hundreds of companies are now forming that exist solely around a business process; e-procurement. This totally business process oriented organization can operate at efficiencies that are 10-20 times that of the functional, internally focused model. These are only the first of the many BPO e-corporations yet to come.

What do these e-corporations “look” like? We offer Figure 2.6 as one possible view.



**Figure 2.6.** The BPO E-corporation

This totally horizontal view ignores traditional ownership boundaries and geographies. This view could include hundreds of legal entities and span the globe. The functions only exist as competency centers and these could also be different legal entities. The leadership is in the form of a team representing the stakeholders; the legal shareholders as well customers, suppliers and participants in the e-corporation.

It is apparent from this brief description and “view” of the e-corporation that BPO is the fundamental orientation guiding the building and operation. Therefore, defining, measuring and exploring the impacts of BPO becomes even more important today.

**Summary**

The BPO commonalities in the literature appear to be centered on a “process culture” with structures and systems consistent with that culture. A “systems” approach is also clearly a common component of business process orientation as is the integration of the entities outside of the formal organization (suppliers and customers). A customer focus is a strong part of this “process culture” as mentioned overwhelmingly in the literature.

A “business process culture” is a culture that is cross-functional, customer oriented along with process and system thinking. This can be expanded by Davenport’s definition of process orientation as consisting of elements of structure, focus, measurement, ownership and customers. Commitment to process improvement directly benefits the customer and business process information oriented systems as a major component of this culture.

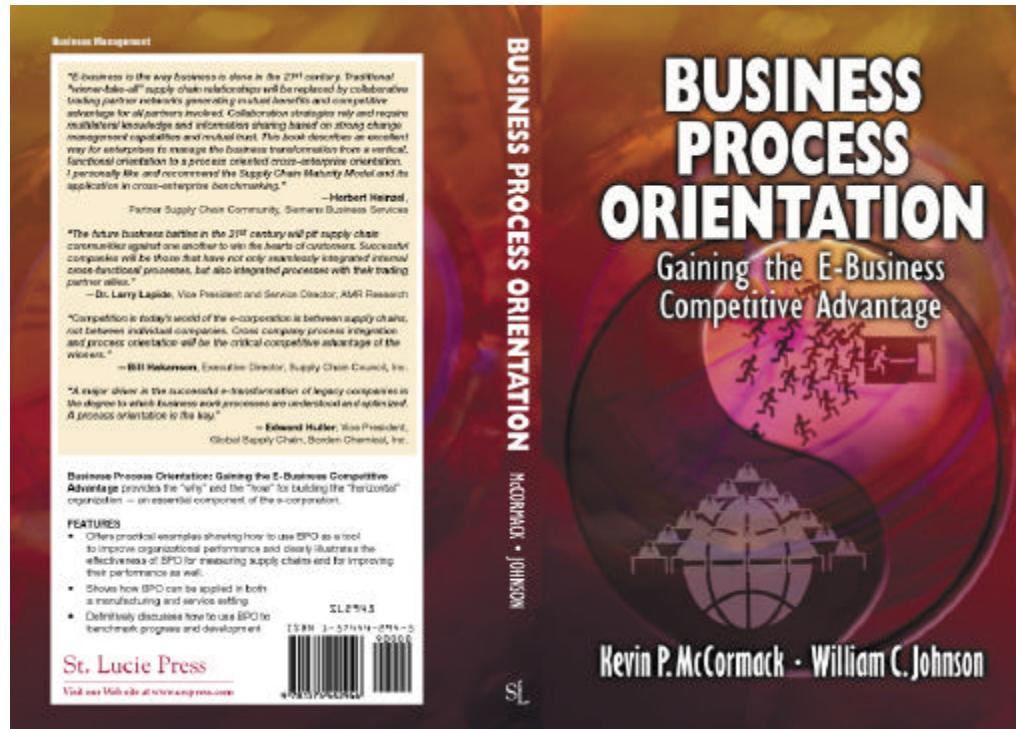
A culture of “teaming” and empowerment is critical for the practice of a business process orientation. This teaming culture consists of empowered individuals focused on customer value and continuous improvement of both results and processes. Integrating mechanisms such as teaming, reward systems and information are also key elements driving business process orientation.

Finally, process thinking is needed which is both cross-functional and outcome oriented. A process-driven organization can be characterized by such major components as business process jobs, structures, management and measurement systems, and values and beliefs.

About the authors:

*Dr. Kevin McCormack has over 25 years of business leadership and consulting experience in business strategy, process engineering, change management, organizational design, supply chain management and information technology. He holds degrees from Purdue University, an M.B.A. from the University of Houston, and a D.B.A. from Nova Southeastern University. He is currently the President of DRK Research and Consulting LLC, a business to business consulting firm in Birmingham, Alabama. He can be reached at Kmccorm241@AOL.com.*

*Dr. Bill Johnson is a Professor of Marketing in the Wayne Huizenga Graduate School of Business and Entrepreneurship at Nova Southeastern University. Bill is the author of 3 books and has published widely in numerous journals and conference papers. He holds a Ph.D. from Arizona State University and a master’s degree from Northern Illinois. He has also consulted for the soft drink, chemical and health services industries. He has also given seminars to executives from Brazil, Indonesia, Thailand and Taiwan. He can be reached at billyboy@huizenga.nova.edu University.*



Both are authors of the new book, *Business Process Orientation: Gaining the e-business Competitive Advantage*, ([www.crcpress.com](http://www.crcpress.com)) written to help business practitioners and academics understand the impact of well-defined and carefully integrated processes have on organizational performance.

Feel free to contact either Kevin McCormack at (205) 733-2096 or [KMccorm241@aol.com](mailto:KMccorm241@aol.com) or Bill Johnson at 1-800-672-7223 (ext. 5109) or [billyboy@huizena.nova.edu](mailto:billyboy@huizena.nova.edu).

## NOTES

<sup>1</sup> Payne, A.F. (1988). Developing a marketing-oriented organization. *Business Horizons*. (May-June).pp.46-53.

<sup>2</sup> Porter, M.E. (1985), *Competitive Advantage: Creating & Sustaining Superior Performance*. New York, NY: The Free Press.

<sup>3</sup> Walton, Mary (1986). *The Deming Management Method*. Perigee Books. New York, NY.

<sup>4</sup> Davenport, T.H, & Short, J.E. (1990). The new industrial engineering: Information technology and business process redesign. *Sloan Management Review*. 31. 11-27.

- 
- <sup>5</sup> Hammer, M. & Champy, J. (1993). Reengineering the Corporation: A Manifesto for Business Revolution. (1st ed.) New York, NY: HarperBusiness.
- <sup>6</sup> Drucker, Peter F. (1989), The New Realities New York, NY. Harper and Row.
- <sup>7</sup> Walton, Mary (1986). The Deming Management Method, Perigee Books. New York, NY.
- <sup>8</sup> Imai, Masaaki (1986), Kaizen: The Key to Japan's Competitive Success. New York, NY: McGraw-Hill Publishing Co.
- <sup>9</sup> Drucker, Peter F., (Jan.-Feb.1988). The Coming of the New Organization. Harvard Business Review pp.45-53.
- <sup>10</sup> Hammer, M. (July-August 1990). "Reengineering Work: Don't Automate, Obliterate." Harvard Business Review, pp. 104-112. reprint #90406.
- <sup>11</sup> Hammer, M. & Champy, J. (1993). Reengineering the Corporation: A Manifesto for Business Revolution. (1st ed.) New York, NY: HarperBusiness.
- <sup>12</sup> Davenport, T. H. (1993). Process Innovation: Reengineering Work Through Information Technology. Boston MA: Harvard Business School Press.
- <sup>13</sup> Coombs, R. & Hull, R. (1996). The wider research context of business process analysis. (Working Paper) Center for Research on Organizations, Management and Technical Change. Manchester School of Management.
- <sup>14</sup> Byrne, John A. (December 13th, 1993). The horizontal corporation. Business Week, pp.76-81.
- <sup>15</sup> Byrne, John A. (December 13th, 1993). The horizontal corporation. Business Week, pp.76-81.
- <sup>16</sup> Melan, E. H. (1985). Process management in service and administrative operations. Quality Progress, pp. 52-59.
- <sup>17</sup> Detoro, I & McCabe, T. (1997). How to stay flexible and elude fads. Quality Progress, V30n3, (March 1997). 55-60.
- <sup>18</sup> (Staff), "The net imperative", The Economist, June 26<sup>th</sup>, 1999.
- <sup>19</sup> Gates, B. (1999), Business @ the Speed of Thought, Warner Books, New York, NY
- <sup>20</sup> (Staff), "The Real Revolution", The Economist, June 26<sup>th</sup>, 1999.