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Business Process Reengineering: The Birth, The Downfall, The Resurrection?

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Abstract

This paper will walk through the history of the business process reengineering (BPR) revolution, from its early beginnings in the late-1980s to its presence, or lack thereof, in business today. Most of the popular literature points to the rapid decline and even death of the BPR movement around 1995. Despite these indications, BPR remains alive and well in companies today. Although the acronym BPR is rarely used because of the negative connotations it brings, the tools, the process, and the intent of BPR proliferate throughout this new e-economy.

Introduction

Mutual Benefit Life (MBL) was one of the largest insurance companies in the U.S. Upon Hank Kates’ ascension to the president’s role in 1989, MBL quickly began to implement projects intended to reduce the bureaucracy in the company. A new case manager position was created to handle all processing steps for individual insurance applications. The traditional process involved 30 discrete steps, including 5 departments and 19 people. Application turnaround ranged from 5 to 25 days. The reengineered process headed by case managers more than doubled the number of applications that could be processed. Turnaround time was reduced to 2 to 5 days (Hammer, 1990). With such dramatic improvements, Mutual Benefit Life garnered icon status in the reengineering movement about to take place.

Much has been said and written over the past decade regarding the merits of business process reengineering (BPR). Some consider BPR the savior of their corporation. Others claim BPR drove them out of business. Whatever your opinion is concerning the success or failure of BPR, no one can dispute the intense focus placed on BPR projects during the early to mid-1990s. In fact, a study conducted by Computer Sciences Corporation (CSC) throughout the 1990s indicated reengineering was the top critical information systems issue in five of the six years between 1989 and 1994 (Alter, 1994). But what has happened since?

The Birth of BPR

Contrary to popular belief, the concepts behind reengineering (e.g., radical change, enterprise processes rather than individual pieces) date back to the lessons of Russell Ackoff, Eric Trist, Joseph Juran, and W. Edwards Deming, starting in the 1950s. Russell Ackoff’s research focused on managing organizations as systems. A system is a set of essential, interrelated parts, and any change made to one part will affect the system as a whole. One of Ackoff’s books is actually called Redesigning the Future. Eric Trist is best known for his approach to work redesign, called the sociotechnical systems approach. Sociotechnical systems allow for participative management in the form of self-directed work teams (Sirianni, 1995). Joseph Juran and W. Edwards Deming’s contributions to the quality movement also relate to the concepts of reengineering. Joseph Juran and his concept of ‘breakthrough management’ probably come closest to the current definition of reengineering. Breakthrough means change – a dynamic, decisive movement to new, higher levels of performance (Chander, 1996). Deming’s 14 points of profound knowledge also become relevant when analyzing the origins of reengineering. Point nine emphasizes the need to “break down barriers between departments. People in research, design, sales, and production must work as a team, to foresee problems of production and in use, that may be encountered with the product or service” (Deming, 1986). Point fourteen stresses the importance to “put everybody in the company to work to accomplish the transformation. The transformation is everybody’s job” (Deming, 1986).
James Champy, Thomas Davenport, and Michael Hammer began working together in the mid-1980s. Through various studies, they noticed a trend developing in business. Prominent companies started to redesign inefficient workflow processes. Most notably, Ford Motor Company redesigned its accounts payable process and reduced its staff by 75% after comparing its inefficient process to that of Mazda (Davenport, 1995). Similar redesign efforts took place at Kodak, Mutual Benefit Life, Hewlett-Packard, IBM, AT&T, and others. The Boston Consulting Group (BC), also noticing the trend, developed a consulting portfolio that combined their systems analysis methodology with a new process mapping technique. BC touted their ‘time-based competition’ service could improve a company’s overall performance.

The first real published document describing reengineering concepts was written by Dr. Davenport in 1990. Shortly after, Dr. Hammer published a paper outlining his thoughts. His famous “Don’t Automate, Obliterate” quotation came from this paper. Dr. Davenport’s book, Process Innovation, came out in November 1992. Dr. Hammer and Mr. Champy quickly followed with their book, Reengineering the Corporation, in April 1993. Reengineering, the fundamental rethinking and radical redesign of business processes to bring about dramatic improvements (Hammer and Champy, 1993), was born.

The atmosphere for reengineering uptake was ideal. North American companies were experiencing declining profits coupled with poor economic conditions due to recession. Global competition became fierce. Managers searched for new ideas in hopes of reversing their company’s financial crises. The consultants arrived in full force. The big firms, such as Boston Consulting Group, Ernst & Young, KPMG Peat Marwick, and Gemini Consulting, marketed new and proven business process reengineering methodologies. Information technology departments championed BPR as well. The payback for all of the unfulfilled hardware and software investments was about to be realized. Not far behind the IT departments were hardware and software vendors, showcasing their specific BPR solutions to anyone that would listen.

As if that was not enough to convince managers to ride the BPR wave, predominant icons in business supported reengineering. Peter Drucker, consultant, writer, and management guru, claimed that “reengineering is new and it has to be done” (Hendricks and Mumford, 1997). A Boston Consulting group study professed, “There is no alternative. Companies that are using BPR are growing and increasing in profitability. Companies that reengineer later than their competitors must find better ways to compete and create unique value. What is required is ‘aggressive process management;’ companies must constantly evolve to stay ahead” (Hendricks and Mumford, 1997). The Harvard Business Review and other prestigious journals published articles expressing the merits of reengineering. Wall Street responded favorably to companies pursuing reengineering projects. Soon after BPR’s birth, 50% of the Fortune 500 companies employed vice presidents of reengineering (Brown and Duguid, 2000). By 1995, ‘reengineering’ had grown into a $51 billion industry (Davenport, 1995).

The Downfall of BPR

The reengineering wave crested in the mid-1990s. Figure 1 (“Management fashion,” 2000) indicates business executives began to lose favor with reengineering in 1995. CSC came to the same conclusion.

CSC’s survey of over 600 IS executives revealed that reengineering was no longer their top priority (King, 1995). Not even two years had passed since Hammer and Champy’s book hit the market, and already reengineering had become passé. Accounts of BPR failures started to surface in 1994. The business community speculated BPR projects failed approximately 75% of the time. Dr. Hammer acknowledged that statistic in a January 1994 interview with Computerworld (Maglitta, 1994). Arthur Little’s study published in June 1994 claimed an 85% BPR failure rate. CSC reported a failure rate closer to 50%, as determined from their 500-company study (King, 1994).
The downward spiral continued into the new year. Each new study seemed to lead to the same conclusion; BPR was a huge disaster. The following list validates this point.

- Wilcocks’ 1995 study found that only 18% of organizations completing BPR projects received significant benefit (Clegg, Peltu, and Sell, 1996).
- CFO Journal’s 1995 study concluded that only 16% of senior executives were fully satisfied with their reengineering efforts. 68% experienced unanticipated problems (Hendricks and Mumford, 1997).
- Training & Development magazine in 1995 reported that reengineering failed 70% of the time, indicating human factors as the primary cause (Eisenberg, 1997).
- Deloitte & Touche’s 1995 survey (see Table 1) revealed that reengineering’s ‘Actual’ significant benefits were far below the ‘Expected’ significant benefits across several categories (Chander, 1996).

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Actual (%)</th>
<th>Expected (%)</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved service</td>
<td>48</td>
<td>69</td>
<td>-21</td>
</tr>
<tr>
<td>Improved quality</td>
<td>46</td>
<td>62</td>
<td>-16</td>
</tr>
<tr>
<td>Reduced costs</td>
<td>33</td>
<td>54</td>
<td>-21</td>
</tr>
<tr>
<td>Enhanced revenue</td>
<td>19</td>
<td>25</td>
<td>-6</td>
</tr>
</tbody>
</table>

- A 1998 report by the U.S. Government’s General Accounting Office (GAO) highly criticized several departments for spending $145 billion on BPR systems, intended to improve business operations, but actually produced disappointing results. Included in the denouncement were the Internal Revenue Service (IRS), the Federal Aviation Administration (FAA), the Department of Defense (DoD), and the U.S. Department of Agriculture (USDA) (Thibodeau, 1998).

Dr. Hammer once said, “reengineering is about eliminating work” (Maglitta, 1994). Unfortunately, reengineering became the scapegoat for massive layoffs. The term reengineering became synonymous with words such as reorganization, restructuring, rationalizing, downsizing, rightsizing, delayering, and dehiring. The founders of reengineering stressed layoffs and cost reductions alone were not the intent of reengineering projects; however, executives needed to show financial benefits and reducing headcount was the fastest way to do so. The Wall Street Journal depicted Dr. Hammer as “the management guru whose ideas launched tens of thousands of pink slips” (Eisenberg, 1997).

Statistics seemed to backup The Wall Street Journal’s condemnation. The following downsizing numbers and subsequent performance degradations illustrate the negative effects reengineering had the business community.

- CSC Consulting reported in 1994 that 73% of reengineering companies, on average, planned to eliminate 21% of their jobs (Davenport, 1995).
- American Management Association’s 1994 surveys indicated 30%-50% of large and midsize U.S. companies downsized (since 1988), but only 34% reported productivity gains, and 55% did not improve their operating profits (Eisenberg, 1997).
- Society for Human Resources’ 1990 study found productivity declines in 50% of the companies that chose to downsize (Eisenberg, 1997).
- Financial performance in Fortune 100 companies over a five-year period worsened because of downsizing, according to a University of Wisconsin study (Eisenberg, 1997).
- Wyatt Associates surveyed 1,005 downsized companies in 1994 and concluded that 68% were not successful in increasing their profits (Eisenberg, 1997).

Late-1995 brought forth the final chapter in the reengineering saga. Hammer, Champy, and Davenport all issued public apologies. Perhaps most telling was Dr. Davenport’s confessional story entitled The Fad that Forgot People. Published in November 1995, Dr. Davenport claimed “reengineering isn’t dead; it is effectively over...as is the case with any fad, there was a kernel of truth to reengineering. Over time, that truth got lost.”

The Resurrection of BPR?

E-business has captured most of the business attention during the year 2000. Concepts such as enterprise resource planning (ERP), supply chain management (SCM), and customer relationship management (CRM) are today’s business priorities. The term
reengineering is rarely used, and the acronym BPR is never used. But as will be discussed below, the reengineering principals are still alive. Davenport’s “kernel of truth” seems to have survived.

Enterprise resource planning became popular during the reengineering era. SAP released R/3, the third version of its popular financial accounting package, in 1992. R/3 could no longer be thought of as just an accounting package, however. SAP developed a product that integrated disparate business functions intended to ease the daily operations of an entire enterprise. R/3 supported several major business processes, including production planning, materials management, human resources, sales, distribution, accounting, and finance. SAP quickly became the second largest software developer in terms of market capitalization (Kalakota and Robinson, 1999), no doubt helped by the $50 to $60 billion marketplace created by the consulting companies. Whether BPR needed ERP or vice versa, it is clear that the two initiatives were linked, by timing and their ultimate goals.

Supply chain management is a process-orientated, integrated approach to procuring, producing, and delivering products and services to customers utilizing both internal and external parties (Metz, 1998). Traditional supply channels are proving inadequate to the demands of e-commerce, and as such there are rumblings of a reengineering revival (Kleiner). Companies are putting together strong business cases for reengineering inter-enterprise supply chains. The clean-slate approach, popularized with reengineering, is reappearing to aid in such tasks (Kalakota and Robinson, 1999).

Customer relationship management is comprised of the acquisition and deployment of knowledge about customers to enable a company to sell additional products or services, more efficiently. CRM requires integration across the enterprise, often times necessitating separate, autonomous business units to cooperate with each other. The ‘silo-centric’ infrastructure of the past must evolve into an integrated customer-centric infrastructure for CRM to be effective. Reengineering stressed the importance of optimizing the entire business process, rather than optimizing individual pieces. In much the same way, CRM looks consolidate isolated sales, marketing, and customer service data, enabling an organization to understand the complete customer (Kalakota and Robinson, 1999).

E-business success relies on efforts to redesign core business processes and to align those processes with a new organizational vision. Hammer and Champy have surfaced again to stress the merits of reengineering, although not with the same fever and passion as before. Champy (2000) is convinced business-to-business marketplaces cannot succeed without offering sellers and buyers reengineered processes. He concludes, “the new economy won’t work without reengineering.” Hammer (2000) also sees reengineering activities continuing. “Front office processes such as marketing, sales, and product development are utilizing reengineering concepts just as back office processes were utilizing them seven years ago. Internal inefficiencies within an enterprise drove reengineering in the past; reengineering is driving e-business initiatives today” (“The process,” 2000).

It seems reengineering has gone through the traditional life cycle of most new business trends (Alter, 2000).

1. Birth: A consultant or professor publishes a book or article on a Big New Idea.
2. Early-Adopter Phase: Major consulting firms and vendors notice the Big New Idea. Consultants tout the Big New Idea, write numerous books and articles about it, and persuade clients to adopt it.
3. Buzz Phase: Reporters and researchers write up the Big New Idea. Wall Street subsequently recognizes and rewards companies doing the Big New Idea.
4. Start of the Slide: Most of the early adopters fail. Reporters and researchers begin to question whether the Big New Idea actually works.
5. Free fall. Intense focus is placed on the failures. Reporters conclude the Big New Idea is passé. Conferences begin to criticize it. New business trends compete for attention with the Big New Idea. Eventually, the Big New Idea drops from sight and is deemed a failure.
6. Interesting: Additional information quietly appears concerning the Big New Idea. Enough information is gathered to outline the right way to implement the Big New Idea. Managers then use the Big New Idea with other Big New Ideas to solve business problems.

Change is the rule in businesses today. Very few constants remain, as Big New Ideas appear all the time. Avoid becoming a Big New Idea victim by doing your own homework. Prove to yourself that the newest Big New Idea is really something your company should embrace.

Remember Mutual Benefit Life’s very positive experience with reengineering? Unfortunately, they became a reengineering victim too. MBL successfully reengineered their insurance application process; however, they failed to reengineer the right process (Keen, Designing new organizational structures). Poor investment management forced MBL to file for bankruptcy in 1991. Ultimately, state regulators were forced to take over the company (Keen, 1996).
References


