

Class 3

Learning Objectives

- Understand the idea of business process and be able to differentiate a process-centric organization from a function-centric organization.
- Be able to explicitly describe the relationship of business processes and information technology.
- Identify managerial challenges of a process-centric organization and suggest solutions to overcome these.

The Readings

Michael Hammer has been a very influential person in getting North American and European companies to start thinking about their businesses in terms of processes, rather than functional hierarchies. He and James Champy wrote a book on Business Process Re-engineering, which has become an international bestseller (and was later followed by further books on the topic by Michael Hammer and Steven Stanton). The early articles by Hammer, Hammer & Stanton, and Champy in the readings here contain many of the same points as the books.

A very brief, initial definition of a business process is a set of goal-oriented activities that are performed in sequence, or parallel by organizational actors (not necessarily human beings). The activities use, process (change), or produce physical and information resources (materials, documents). A business process has a well-defined beginning and end, and a customer to which it provides value (not necessarily monetary value).

Note that this definition says nothing about organizational structure, information technology, the structure or the lifecycle of such processes. It is therefore perfectly possible to have a new business process invented ad-hoc, performed by a single person without any information technology support. Typically however, business processes are performed many times, it is important to ensure that they are well thought-out and clearly described, to deliver maximum value. Usually, they are supported by information technology that supports some of the activities.

While the idea of business processes goes back to the early 20th century, it was not until the 1980s that this view of an organization became popular, primarily through the work of Hammer, Champy and Stanton. Before organizations thought about themselves in terms of business processes, the dominant perspective was one of hierarchical organization along specific activities. The traditional departments of accounts payables, accounts receivables, production scheduling, shipping, purchasing, procurement, sales, marketing, etc. reflect this perspective in which the work is divided into activities and aggregated into functions or departments by the type of work. For example, the purchasing department does all the purchasing in an organization, whether it is bathroom tissue, photocopiers, or CNC multi-axis planing and drilling machines.

Hammer, Michael (1990). Reengineering Work: Don't Automate, Obliterate. *Harvard Business Review*, July-August 1990, pp. 104-112.

The first reading by Hammer (1990) focuses our thinking on the idea of business processes and the role that information technology (IT) can play. Hammer's article can be separated into two main points. First, he argues that companies should re-organize themselves away from functional hierarchies

towards a collection of business processes. Second, he argues that information technology should, besides merely supporting existing processes, be used to *enable* new, re-engineered, processes in order to achieve drastic efficiency gains. The examples in the article, Ford and Mutual Benefit Life (there are many more in his book), show what can be done when existing rules are broken. While Hammer lays out detailed principles for re-engineering, you should focus on two things when reading this article. First, do you believe the two main points I have identified are independent? In other words, do you think process orientation can be done without information technology support? What role does information technology play? What role does it need to play? Second, try to think more deeply about the concept of information. The theme of “Information” runs through Hammer's entire article, beginning with his argument that existing processes are designed to channel information to the top of the organizational hierarchy. So information in a sense is Hammer's motivation for process re-engineering and the examples he provides are taken from organizations that deal mainly with information. Do you think there are other differences between a process-centric and a function-centric organization than the way they use, create, and process information? What else will (or needs to) change? Part of the answer to that question comes in the later articles by Hammer (2007) and Champy (2006). Do you think process re-engineering is suitable for industries that are not information centric?

Review Questions:

After this class, you should be able to answer the following review questions:

- What are business processes and business process re-engineering?
- What two roles does IT play with respect to business processes?
- Explain any three of Hammer's (1990) six principles for re-engineering.