UNIVERSITI UTARA MALAYSIA

TITLE

BUSINESS PROCESS ORIENTATION (BPO) AND ITS CORRELATION TO ORGANIZATION PERFORMANCE: A COMPARATIVE STUDY BETWEEN MALAYSIAN COMPANIES AND THE MULTINATIONALS

By:

Roslan Hj. Ismail

Supervised By:

Dr. Abdul Jumaat Mahajar. PhD(UK), MBA (USA), BSc(USA) Deputy Dean, School of Management

2002/2003

May 2003



Sekolah Siswazah (Graduate School) Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PROJEK

(Certification of Project Paper)

	ROSLAN ISMAIL
calon untuk ljazah	MSc (Management)
(candidate for the degr	ee or)
	kertas projek yang bertajuk project paper of the following title)
(nas presented his/her	project paper of the following title;
RUSINESS PROC	CESS ORIENTATION AND ITS CORRELATION TO ORGANIZATION
DOUNT OF THE	SESS CHIENTATION AND ITS CONNECATION TO CHEARIZATION
PERFORMANCE	- A COMPARATIVE STUDY BETWEEN MALAYSIAN COMPANIES
	AND THE MULTINATIONALS
	erti yang tercatat di muka surat tajuk dan kulit kertas projek t appears on the title page and front cover of project paper)
	tersebut boleh diterima dari segi bentuk serta kandungan dan melipu emuaskan.
bidang ilmu dengan me (that the project pape	emuaskan. r acceptable in form and content and that a satisfactory knowledge of th
bidang ilmu dengan me (that the project papel field is covered by the Nama Penyelia	emuaskan. r acceptable in form and content and that a satisfactory knowledge of th
bidang ilmu dengan me (that the project paper field is covered by the Nama Penyelia (Name of Supervisor)	emuaskan. r acceptable in form and content and that a satisfactory knowledge of th project paper).
bidang ilmu dengan me (that the project papel field is covered by the Nama Penyelia	emuaskan. r acceptable in form and content and that a satisfactory knowledge of th project paper).

Abstrak

Orientasi Proses Perniagaan (OPP) atau "Business Process Orientation" adalah suatu "cara pemikiran baru" atau "cara baru melihat" organisasi kita yang memberi penekanan kepada proses berbanding hirarki, suatu cara pemikiran berorientasikan proses , hasilan dan pelanggan. Penyelidikan ini cuba mengenalpasti OPP di kalangan syarikat tempatan dan multi-negara di Malaysia dengan hasrat untuk menentukan korelasi OPP kepada empat pengukuran prestasi organisasi – keseluruhan prestasi perniagaan, konflik antara fugsi, jalinan hubungan antara jabatan dan semangat kebersamaan.

Hasil penyelidikan ini dengan jelas menunjukkan bahawa syarikat tempatan banyak memberikan penekanan kepada dokumentasi proses atau "Process View" sebaliknya syarikat multi-negara memberikan banyak penekanan kepada sistem pengurusan proses dan pengukuran prestasi atau "Process Management and Measurement System". Tujuan akhir untuk menjadikan organisasi kita berorentasikan proses adalah untuk membawa proes-proses perniagaan ke peringkat bersepadu atau "integrated stage". Teknologi internet dan e-dagang terkini membolehkan jalinan hubungan dan integrasi proses perniagaan di buat dengan lebih pantas dan mudah di samping menjadikan syarikat lebih berdaya-saing.

Hasil penyelidikan ini juga berjaya mempastikan dengan adanya OPP konflik antarafungsi akan berkurangan dan korelasi positif ditemui antara OPP dan jalinan hubungan antara jabatan, semangat kebersamaan dan keseluruhan prestasi perniagaan.

Author

Semester Author Volume Change Reference				
2002/2003	Roslan Ismail		1/2003	Final
		9		
	<u>.i.</u>			

Reviewers

Name	Position
Dr Abdul Jumaat Mahajar	Thesis Supervisor and Deputy Dean, School of Management

Copyright

This publication may not be reproduced, stored in a retrieval system, or transmitted in whole or in part, in any form, or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission from the authors.

TABLE OF CONTENTS

Abstract	II
LIST OF FIGURES	VI
Acknowledgments	VIII
1.0 INTRODUCTION	1
1.1 Research Background	1
1.2 Problem Studied	2
1.3 Organization of the thesis	3
1.4 Summary and Conclusions	5
2.0 LITERATURE REVIEW	6
2.1 HISTORY OF BPO AND THE REALITIES	6
2.1.1 Functional Orientation	7
2.1.2 Business Process Orientation in 1980s: BPO Foundations	8
2.1.3 Business Process Orientation in 1990s: Technology Enablement	13
2.1.4 Business Process Orientation in 2000: The E-Corporation	21
2.2 Previous Studies on BPO and Its Relationship to Organization Performance.	26
2.3 Summary and Conclusions	30
3.0 METHODOLOGY	31
3.1 Introduction	31
3.2 Research Questions	31
3.3 Purpose of the study	32
3.4 Research Design	32
3.5 BENCHMARKING TOOLS	33
3.6 Data Collection Methods	34
3.7 THE SAMPLING FRAME	35

3.8 Administration of the field works	36
3.9 PILOT TEST	37
3.10 RELIABILITY AND VALIDITY OF MEASURES	37
3.11 Data Analysis	37
3.11.1 Measurements	37
3.11.2 Concept Definitions	39
3.12 Assumptions	40
3.13 Limitations	41
3.14 Summary and Conclusions	41
4.0 RESEARCH FINDINGS	42
4.1 DESCRIPTIVE STATISTICS	42
4.1.1 Respondents Analysis By Industries	42
4.1.2 RESPONDENTS ANALYSIS BY POSITION	43
4.1.3 BPO BENCHMARKING RESULTS USING BPO MATURITY SCORES	45
4.1.3.1 Independent Samples t-Test Result for Process View	45
4.1.3.2 Independent Samples t-Test Result for Process Structures	47
4.1.3.3 Independent Samples t-Test Result for Process Johs	50
4.1.3.4 Independent Samples t-Test Result for Process Management and Measurement Systems	52
4.1.3.5 Independent Samples t-Test Result for Process Values and Beliefs	54
4.1.3.6 Independent Samples t-Test Result for Inter-functional Conflicts	57
4.1.3.7 Independent Samples t-Test Result for Inter-departmental Connectedness	60
4.1.3.8 Independent Samples t-Test Result for Esprit de Corps	63
4.1.3.9 Independent Samples t-Test Result for Overall Organizational Performance	66
4.2 REGRESSION FACTOR ANALYSIS RESULTS	67
4.2.1 Process View	67
4.2.2 Process Structures	67
4.2.3 Process Jobs	67
4.2.4 Process Management and Measurements	68

4.2.5 Process Values and Beliefs	68
4.2.6 BPO	68
4.2.7 Inter-functional Conflicts	69
4.2.8 Inter-departmental Connectedness	69
4.2.9 Esprit de Corps	70
4.2.10 Organizational Performance	70
4.3 Correlations Matrix	70
4.4 RELATIONSHIP DIAGRAMS	73
4.4.1 LOCAL COMPANIES	73
4.4.2 MULTINATIONAL COMPANIES	74
4.5 Multiple Regressions Results and Scatter Plot Graphs	75
4.5.1 Local Companies	75
4.5.2 MULTINATIONAL COMPANIES	83
4.6 SUMMARY AND CONCLUSIONS	91
5.0 DISCUSSIONS AND RECOMMENDATIONS	92
5.1 Recommendations	95
5.2 Summary and Conclusions	96
REFERENCES	97
APPENDIX – A (SAMPLE OF THE SURVEY QUESTIONS)	G
APPENDIX – B (RESEARCH SCHEDULE & ADMINISTRATION)	Н
APPENDIX – C (RELIABILITY ANALYSIS RESULTS – PILOT TEST)	I
APPENDIX – D (DATA ANALYSIS RESULTS USING SPSS)	J
APPENDIX – E. (BPO MATURITY SCORES & BENCHMARKING RESULTS).	K

List of figures

Figure 1:	Porter's Value Chain (1985)	p.9
Figure 2:	Business System Diamond (Hammer & Champy, 1994)	p.15
Figure 3.	Relationship Diagram Based on Regression Analysis Results	p.73
	(Standardized Beta Coefficients) For Local Companies.	
Figure 4.	Relationship Diagram Based on Regression Analysis Results	p.74
	(Standardized Beta Coefficients) For Multinational Companies.	
Graph 1 :	Industries Represented in the samples	p.43
Graph 2 :	Position Represented in the samples	p.44
Table 1 :	Group Statistics and t-Test Results for Process View	p.46
Table 2 :	Group Statistics and t-Test Results for Process Structure	p.49
Table 3:	Group Statistics and t-Test Results for Process Jobs	p.51
Table 4 :	Group Statistics and t-Test Results for Process Management	p.53
	and Measurement Systems	
Table 5 :	Group Statistics and t-Test Results for Process Values	p.56
	and Beliefs	
Table 6 :	Group Statistics and t-Test Results for Inter-functional Conflicts	p.58

Table 7: Group Statistics and t-Test Results for Inter-departmental	p.61
Connectedness.	
Table 8 : Group Statistics and t-Test Results for Esprit de Corps	p.64
Table 9: Group Statistics and t-Test Results for Organizational	p.66
Performance.	
Table 10: BPO Correlation Matrix for Local Companies	p.71
Table 11: BPO Correlation Matrix for The Multinationals	p.72

Acknowledgments

This thesis is dedicated to my wife Norihan and our growing kids Amirul Aiman and Amirul Irfan. My mother and late father who brought me up with love and sacrifice. I cannot complete this thesis without their sacrifice, patience, support and understanding.

My thanks also to Dr Abdul Jumaat Mahajar for supervising this thesis. I really appreciate his patience and dedications to allocate time reading line by line of this thesis.

I would like also to express my appreciation to Motosikal Dan Enjin Nasional Sdn. Bhd. (MODENAS) for their moral support and understanding by allowing me to edit this thesis during "free time" in the office. The experience that I go through since my first job in 1990 at The New Staits Times Press (Malaysia) Bhd., Electronic Data Interchange Malaysia Sdn. Bhd. and the opportunities to be one of pioneered staff to setup new organization like MODENAS has inspire me to write this thesis. Many thanks also to Haji Shariff Hassan and many others who give good support to follow up and help me collecting the questionnaires.

Last but not least to Graduate Schools, School of Management and Perpustkaan Sultanah Bahiyah. This thesis if my final deliverable to complete my M. Sc (Management) on part-time basis since May 2000 and the beginning towards doctorate level in future – Insyaallah. Thank you to Universiti Utara Malaysia.

Wallahualam.

1.0 INTRODUCTION

1.1 Research Background

Business Process Orientation is a "new way of thinking" or "viewing" our organization. This pattern of thinking is not new and has led to many reported successes.

According to McCormark (1999), Process orientation, and its relationship to improved cross-functional interaction, was actually introduced almost fifteen years ago by Michael Porter. He introduced the concept of interoperability across the value chain as a major issue within firms (Porter 1985). Edward Deming (1986) also contributed with the "Deming Flow Diagram" depicting the connections across the firm from the customer to the supplier as a process that could be measured and improved like any other process (Walton 1986). Thomas Davenport and James Short (1990) described a process orientation within an organization as a key component in the "New Industrial Engineering: Information Technology and Business Process Redesign."

Michael Hammer (1993) also presented the business process orientation concept as an essential ingredient of a successful "reengineering" effort. Hammer coined this term to describe 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 (Hammer, 1993). Hammer offers reengineering as a strategy to overcome the problematic cross-functional activities that are presenting major performance issues to firms and cites many examples of successes and failures in his series of books and articles. Hallmark and Wal-Mart are often put forward as success stories and IBM and GM as the failures.

The contents of the thesis is for internal user only

REFERENCES

- Al-Attas, Syed Muhammad Naquib. Prolegomena To The Metaphysics of Islam. 1995. International Institute of Islamic Thought and Civilization (ISTAC).
- Braganza, Ashley. Radical process change. 2001. John Wiley & Sons.
- Brown, Dean. What is eigenvalue?. April 2001, Vol 5, No 1. University of Hawaii at Manoa.
- Byrne, John A. (December 13th, 1993). The horizontal corporation. Business Week, pp.76-81.
- Coakes, Sheridan J. SPSS: analysis without anguish: version 10.0 for Windows. 2001. John Wiley & Sons.
- Clark, John J. A statistic primer for managers. 1983. MacMillan Publishing.
- Cagwin, Douglass and Bouwman, Marinas. The
 Association Between Activity-Based Costing And
 Improvement In Financial Performance. April 2000.
 University of Arkansas.

- Cervantes, Mario. Human Capital in the New and Global Economy. 2000. OECD.
- Drucker, Peter F. Beyond The Information Revolution.

 October

 1999.http://www.theatlantic.com/issues/99oct/991

 Odrucker.htm
- Drucker, Peter F. The Coming of the New Organization.

 Harvard Business Review. January-February 1988.
- Drucker, Peter F. Management: Tasks, Responsibilities, Practices .1993. HarperBusiness.
- Davenport, T.H, & Short, J.E. (1990). The new industrial engineering: information technology and business process redesign. Sloan Management Review. 31. 11-27.
- Davenport, T. H. (1993). Process Innovation:
 Reengineering Work Through Information
 Technology. Boston MA: Harvard Business School
 Press.
- Federation of Malaysian Manufacturers (FMM). FMM

 Directory 2002 33rd Edition. Jan 2002. FMM.

- Gates, William H. III. Business @ The Speed of Thought. March 2000. Warner Books.
- Garvin, David A. Building a Learning Organization. Harvard Business Review. July August 1993.
- Hammer, Michael and Champy, James. Reengineering
 The Corporation: A Manifesto For. Business
 Revolution. 1993. HarperCollins Publishers.
- Harvard Business Review. Breakthrough Ideas: 15
 Articles That Define Business Practice Today. 2000.
 Harvard Business School Publishing.
- Imai, Masaaki (1986), Kaizen: The Key to Japan's Competitive Success. New York, NY: McGraw-Hill Publishing Co.
- Lee, Hau L and Wang, Seungjin. Information Sharing in Supply Chain. Graduate School of Business, Stanford University. Research Paper Series No 1549.
- Lundeberg, M & Sundgren, B (eds) (1996) Advancing Your Business: People and Information Systems in Concert, EFI, Stockholm School of Economics, Sweden.

- Melan, E. H. (1985). Process management in service and administrative operations. Quality Progress, pp. 52-59.
- Malaysian Institue of Management. Management in
 Malaysia: A Basic Text on General Management
 With Local Reference To Managing a Malaysian
 Business. 2 ed 2001. Research and Publications Unit,
 MIM.
- McCormack, Kevin P and William C. Johnson. Business Process Orientation: Gaining the e-business competitive advantage, 2001. CRC Press LLC.
- McCormack, Kevin P. Business Process Orientation (BPO): What is it and How do you know when you have it?, November 1999.

 http://www.odgroup.com/articles/bpo.html.
- McCormack, Kevin P. The Development of a Measure of Business Process Orientation and the Relationship to Organizational Performance,

 April1999. http://prosci.com/mccormack.htm
- Porter, Michael E. How Competitive Forces Shape Strategy. 1991. Harvard Business Review.

- Porter, Michael E. From Competitive Advantage to Corporate Strategy. 1979 -1991. Harvard Business Review.
- Porter, Michael E. How Information Gives You Competitive Advantage. 1979 -1991. Harvard Business Review.
- Porter, Michael E. How Global Companies Win Out. 1979 -1991. Harvard Business Review
- Porter, Michael E. The Competitive Advantage of Nations. 1979 -1991. Harvard Business Review
- Roztocki, Narcyz. Implementing an Integrated Activity-Based Costing and Economic value Added System: A case study. State University of New York (SUNY).
- Reader's Digest. How to write and speak better. 1991. Reader's Digest Association Ltd.
- Reader's Digest. How to write and speak better. 1991. Reader's Digest Association Ltd.
- Reader's Digest. Great Dictionary of the English

 Language. 2001. Reader's Digest Association Ltd.

- Sekaran, Uma. Research Methods for Business: A Skill-Building Approach. 2000. John Wiley & Sons.
- Times Trade Directories. Times Business Directory of Malaysia 2001/2002. Times Publishing Group.
- Times Trade Directories. Times Business Directory of Malaysia 2001/2002. Times Publishing Group.
- Walton, Mary (1986). The Deming Management Method, Perigee Books. New York, NY.