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A Case of Business Reengineering Failure: Looking for Traditional Management Philosophy

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Introduction

Business process reengineering (BPR) is the latest process oriented technique, presumed to radically improve business performance (Davenport, 1993; Hammer, 1990). Since the seminal article of Hammer (1990) in the Harvard Business Review, BPR has gained prominence among the widely used management techniques for improving business performance. However, there is evidence that a majority of BPR projects end in failure. Some of the reasons include complexity of operationalizing BPR techniques, tools and practices, as well as underestimating the need for management support, task restructuring, people management, and information technology (IT) (Chung et al. 1997).

This paper begins with a description of ALPHA Bank, and its strategies in emerging financial competitive environments. Next, we describe ALPHA Bank's BPR efforts and finally, conclusions and implications for managers follow.

Background of ALPHA Bank

ALPHA Bank is a regional bank in Texas. In consumer lending services, ALPHA has consistently fared well with an average market share of about 13%. ALPHA provides loans to almost one third of the automobile dealers in Texas. It serves about five hundred thousand active cardholders, with outstanding credit card balance of about $500 million.

In terms of technology, the bank serves its customers with 24-hour telephone banking, PC-based home banking, and a very large number of ATMs. The bank has also implemented state-of-the-art computer technology to enhance its relationship with its customers by providing them easy access to customer information.

The banking industry has traditionally understood competition in terms of price, quality, convenience, and service. However, in the present information intensive environment, banks are redefining competition by understanding customer preferences and needs for financial services and delivering those services in a timely, convenient, price-sensitive, and comprehensive manner.

To meet the challenges of the new competitive banking sector, ALPHA Bank chose to reengineer its consumer lending function to expedite loan processing, reduce redundant work, and standardize business practices on an enterprise-wide basis. To implement these changes, ALPHA made extensive use of information systems to attract new customers and meet existing customers' demands in services.

BPR Efforts at ALPHA Bank

In 1996, ALPHA Bank made dramatic changes in its operations, however, it short-circuited the process of operationalizing and pilot testing the business processes for change. By moving to dramatically change business processes, it created an overcautious change environment in the bank, producing distrust and an uncooperative atmosphere. Employees and management were unsure of the kinds of changes they were looking for. When asked to articulate their vision of BPR changes, the perception of change among management was related to productivity and quick turn around, while for employees it was related to lay-off and head-count, and still to some others, it meant creation of more bureaucracy. None of the employee and the management teams explicitly expressed their visions and ideas about changes from the perspective of customer preferences and values.

There were problems related to understanding employee information requirements for new processes. Even though management tried to initiate the change, it did not foresee the gravity of the employee support that is essential for fully implementing the BPR project. By choosing wrong problems to solve or solving a right problem wrongly can have disastrous impact on the organization. That is exactly what happened at the ALPHA bank.

Research Approach

The case study analysis of ALPHA Bank began with a site visit in early August 1996. Data were gathered from interviews, and ALPHA's annual reports. Four ALPHA executives and several bank employees, including the Manager of Asset Systems, the Director of Strategic Information Systems, the Manager of Application Processing, and a Development Team Leader were interviewed. Since August 1996, contact with bank managers and employees were maintained via telephone and fax.

All the formal interview sessions were recorded through tape-recorders and the transcribed tapes were analyzed by a set of faculty members and students. The main key points were identified and expanded. Because of the exploratory nature of the study, we used a grounded-theory approach for the study. Based on interviews, conversations, and follow-ups, the salient features of the case were compared to other studies available in the BPR literature. Since the main aim of the study was to highlight the problems that the bank was facing in light of available BPR literature, the case was analyzed with a focus of determining the deviations from the prescribed norms. If some discrepancies were found between the discussion of the participants and the results from the literature review, we tried to analyze the discrepancy. For example, although BPR literature is indifferent on the role of IT in BPR, despite the critical role of IT advocated by Hammer (1990), in our study we found top management committing a lot of faith in the IT department in restructuring the business processes (see also Kettinger et al. 1997). At the same time, we also found that top management was reluctant to expand the authority of the IT department. These un-seemingly contradictory facts were new in light of the available BPR research. An in depth-analysis revealed that during the restructuring phase, the bank was going through lot of hard times in its financial benefits. This caused lack of trust between management and employees, and at the same time made it almost mandatory that management make changes and increase its control over the employees.

Problems in Redesigning the Business

ALPHA Bank's main reasons for reengineering were based on a number of factors. First, obviously management wanted to create a sense of order of legitimacy by trying to do something new. Second, while many other banks boasted their success in redesigning their businesses, it was imperative for ALPHA to redesign its own processes for competitive advantage and improvements. It was also important because consumer lending operations were becoming inefficient, and reconciliation of different accounts from various sites was difficult because of inconsistent, redundant, and stand-alone operations.

Even though in ALPHA bank the BPR initiative started from the top, it was not a strategic priority. Moreover, management did not communicate its strategic vision as a result of BPR (see also Cardarelli, et al. 1998). One of the reasons for this misalignment was that ALPHA Bank was not very clear on what it wanted to achieve through BPR. For different members, including management, the goals were different. As one of the executives put it, "I believe we want to fire some people, and BPR is just an excuse to do it." One of the members stated, "We are not sure what we are trying to achieve by disrupting a well-running company. There is no goal, just disruption."

Regardless of whatever the expectations of the BPR effort were, top management failed to articulate its vision to other employees. Moreover, without committing necessary resources and responsibilities to employees, management tried to find easy solutions for problems it wanted to solve. For example, without offering authority to the IT department, management entrusted it to find users' requirements and work with other employees to increase employee cooperation. However, in reality, many employees did not take these initiatives seriously, and considered IT department as a nuisance and did not rely on IT division's initiative in designing their systems. With these contradictory views of IT from employee and top management perspectives, IT department was sandwiched in pleasing top management by working on systems which were incomplete in their specifications, and design requirements. The IT department had to not only struggle for getting adequate resources, but also had to deal with peoples' resistance. Many members blamed IT department as the chief catalyst for disrupting the organizational harmony. To facilitate understanding of the banking business in the IT department, top management did not make a conscious effort to facilitate the task force (in which IT department and management teams cooperated) understand each others' roles and capabilities to build on change process (Sayer, 1998). IT department was not sure of the strategic directions of the company, and management was skeptical of IT department's capabilities for change. In a way, the relationship between management and the IT department became more strained rather than cooperative, as a result of the BPR initiative.

There were problems in employee reorientation programs as well. Employees seemed to perform worse after BPR efforts were initiated. As one of the employees put it, "I don't know, what the hell is going on here. There are a lot of lies in the name of *change*. It is better if I go on leave, because I cannot focus on my job any more. I don't know when it is going to be redesigned and who knows if I will ever work on it." The qualitative study of ALPHA

Bank's BPR initiative provides many insights into how a company actually deals with BPR on an enterprise-wide basis. The study uncovered the ideological methodologies used to guide BPR efforts that led to the failure of BPR implementation.

Lessons Learned

The lessons we learnt from the study are that the first and foremost requirement for top management is to communicate its strategic vision to the entire organization. Top management should be clear and precise as to what it expects out of the BPR effort and articulate it to every one in the company. Without a clear understanding of the goals, the BPR efforts are likely to be pushed into different directions, creating confusion and disruption. Top management should also make personal efforts and commitment to ensure that adequate resources for the change process are provided. For the people who are put in charge of leading the change, management should make it clear what their new roles, responsibilities, and authorities are. Without assigning any new authorities, people in charge are likely to be frustrated in bringing any worthwhile change in the business. BPR should be based on a business need and not the other way around. One of the ways to do it is to make it a strategic priority. If business processes are interdependent and require too much time and effort for implementation, business reengineering should be approached with a strategy that includes incremental improvement. Incremental improvement can act as backup in case reengineering does not succeed, as incremental improvement can easily be comprehended by employees and can be rolled back if they do not succeed.

The relationship between systems analysts and their customers should be a healthy one. An unhealthy relationship often manifests in over-budget, late-completion time, and not meeting customers' expectations. To balance this situation, IT managers and customers need to come together to build a partnership based on trust.

Based on our experience, we view BPR change comprising of the following major activities. The first activity involves employee training, the second activity starts with the implementation of task-force, the third activity encompasses a phased IT integration, and finally processes are redesigned. If efforts fail at this point, the organization can revert to its earlier state without causing much disruption. If BPR efforts succeed, employee training and task-force become catalysts to improve to a new set of realities.

Conclusion and Contribution

This study makes a number of contributions. First, the study highlights some of the dangers of implementing BPR without a thorough analysis of the working principles. Participation between top management, employees, and technical people is important, but equally important is the commitment of resources. The study also highlights the importance of the IT department in process re-engineering endeavors. Even though IT departments can be peripheral to most of the strategic issues, they play a very crucial role in BPR. If the IT department is not provided with enough resources and authority, most of the BPR efforts can end in disaster. In essence, the outcome of BPR implementation could be quite drastic, if the top management does not convey their demands, and goals to the organization. While much of BPR literature is reluctant in pointing out the dangers of BPR, this study makes important contributions by highlighting some of the dangers of BPR based on the field-study.

References

Available from the authors.