Re-engineering of Administrative processes and their impact on improving performance of Multinational Corporations.

إعادة هندسة العمليات الإدارية وتأثيرها على تحسين الأداء الشركات متعددة الشركات.

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Abstract:

During the age of globalization and increased competition, change has become a general phenomenon of business environment. Most corporations have been compelled to be more innovative and adoptive to the change to survive. Reengineering of Administrative processes (RAP) can be defined as one of the change management approaches in any company. This study aims to highlight the impact of Reengineering of Administrative processes (RAP) on improving performance of multinational corporation. This study applied a descriptive analytical method. The results revealed that multinational corporations Ford Motor, IBM Credit which have fruitfully put reengineering into practice, which are very dynamic companies, that they have been able to improve the quality, reduce the cost and speed up the time, to achieve best performance. also, the RAP helped the company to remain a global market leader.

Keywords: Re-engineering of Administrative processes, performance, Ford Motor Company, IBM Credit.

JEL Classification Codes : M15, M1, M13.

الملخص:

في عصر العولمة وازدياد المنافسة، أصبح التغيير ظاهرة عامة في بيئة الاعمال. اجبرت معظم المؤسسات على ان تكون أكثر ابداعا وتكيف للتغيير للبقاء. اعادة هندسة العمليات الإدارية واحد من أكثر المناهج الإدارة للتغيير في أي شركة. تهدف هذه الدراسة الى تسليط الضوء على تأثير إعادة هندسة

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العمليات الإدارية على تحسين الأداء في الشركات متعددة الشركات. تم الاعتماد على المنهج الوصفي التحليلي، بينت النتائج ان الشركات متعددة الجنسيات شركة فورد، شركة أي بي ام للائتمان بقت إعادة الهندسة بشكل جيد في الممارسة العملية، وهي شركات أكثر ديناميكية، فقد تمكنت من التحسين الجودة، تقليل التكلفة وتسريع الوقت، لتحقيق أحسن أداء. ساعدت إعادة هندسة العمليات الإدارية الشركات ان تظل رائدة في العالم حتى الان.

الكلمات المفتاحية: إعادة هندسة العمليات الإدارية، الأداء، شركة فورد، شركة أي بي أم للائتمان.

تصنيفات *JEL*: M15, M1, M13.

1. INTRODUCTION

In today`s business environment, organizations are facing so many challenges worldwide, e.g., technological developments, globalization, hyper competition due to the large size of companies not only locally but also globally, consumers' demands, issues related to work force, governmental regulations. All this challenges made this organization unable to stabilize because of the changes that were taking place in external as well as internal environments. That is to say, organizations must be dynamic and have flexible structures to accommodate with external environment turbulence. Managements are continuously rethinking of new, better and more effective and efficient ways of doing administrative processes more profitably at less cost.

It is inevitable for companies to give up obsolete ways of doing business and adjust to changes in their environment. In recent years, "Re-engineering of Administrative processes" became one of the most significant method used for change. The concept "Re-engineering of Administrative processes" is an approach to development of organizations focusing on radical change of strategic operations. The main reason is that an organization creates value through its processes, as RAP purported to produce positive results for firms, such as cost, productivity, service, customer satisfaction, and speed.

In the 1990`s Michael Hammer and James Champy introduced their book "Reengineering the Corporation" emphasizing the need for

organizational change and gave birth of this new term: Reengineering of administrative process(RAP). In a global economy that competes on knowledge and time, organizations have been embarking on reengineering of administrative processes as a way of removing insufficiencies or sharpening their strategic edge. Many firms engaged in Reengineering of Administrative process(RAP) projects reported success in Cost saving, Quality, breakthrough, better customer services, time reduction and revenue increases.

Re-engineering of Administrative processes is recognized as the tool for success in both production and services sectors of private as well as public sector: for example; in 1994, 69% of USA based firms and 75% of European firms involved in re-engineering. Most of the giant corporations has undergone through Reengineering od Administrative processes in the recent past including; Ford`s accounts payable system re-engineering process, IBM (International Business Machines) Credit`s inefficient approach process.

Research Problem:

Re-engineering has become a interesting topic for academics and research, because of its crucial life role on improving performance, the companies think that Re-engineering is the solution to fit with changes in the world of business and to improve a performance company. In this light, the researchers can extract the problematic of the study in the following question:

What are the direction of Multinational Corporations under study to the concept of Re-engineering of Administrative processes?

Research Hypotheses:

- Develop the deep understanding of essence of the process of Reengineering of Administrative Processes to attainment of business goals.
- There is an impact for the Re-engineering of Administrative processes on the improving performance.

- Ford Motor Company and IBM Credit among the companies that successfully utilized Re-engineering of Administrative processes in the initial years.

Research Objectives: The research encircles the following objectives**:**

- Take a closer look at the Re-engineering of Administrative processes with its various concepts and implementation steps**.**
- To critically evaluate the RAP activities of Multinational corporations.
- To analyze the impact of RAP on the efficient performance of the Company.

Research Methodology:

The study revolves around the historical challenges, their respective solutions and impact on the performance of Ford Motor Company, IBM Credit company in its history, the study is descriptive in nature.

2. Theoretical Framework:

The business environment throughout the world is also going through a continuous and rapid change. Companies are now looking for new ways to make their organizations and businesses more efficient and competitive. They are trying to find new solutions to their business problems. A new era started, when corporations such as Ford Motor Corporation and IBM Credit Corporation come up with an amazing solution to Improve their existing condition: Re-engineering of Administrative processes(RAP). It proved to be a novel approach for corporate change, and continue its popularity since then.

The concept of Re-engineering traces its roots back to managements theories. The purpose of Re-engineering is to “make all process the best-in class”. In 1990, the idea of Re-engineering was first propounded in an article in Harvard Business Review by Michael Hammer.

Hammer and Champy (2009) define Re-engineering of Administrative processes as the fundamental rethinking and radical redesign of administrative processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed (Amanquah & Adjei, 2013, p. 60).

There are numerous definitions made by different academic Scholars

and practitioners in the Literature:

According to Lindsay and al., Re-engineering is a management tool, in which administrative processes are examined and redesigned to improve cost efficiency and service effectiveness (ERIM & vayvay, 2010, p. 24).

In the view of Doomun and Jungum, Re-engineering is an organizational initiative to fundamentally re-examine and redesign business processes with the objectives of achieving competitive breakthrough in quality, responsiveness, cost, satisfaction and other critical process performance measures (Stahl, 1998, p. 14).

For Davenport and Short(1990), Re-engineering of Administrative processes (RAP) is the analysis and design of workflows and processes within and between organizations (Kenebara, 2016, p. 3).

Within all the above definitions, The Re-engineering of Administrative processe is one of the major popular change management approaches that has recently received a lot of attention in the world of change recently, Also, its opreration interests in improving the performance.

2.1 Causes and effect of Re-engineering of Administrative processes:

A company has willingness to change because of the inefficiency process, the decreasing of market share, the increasing of unsatisfied customer, or the competitor challenges.

According to Hammer and Champy there are three possible situations that a company takes on reengineering (ERIM & vayvay, 2010, p. 26):

Firstly, the company may be in a desperate situation. For instance, the company`s costs higher than the competitors or than the one the business model allows. The customer service it provides may not be good enough and may not appeal to the customers in the market. The products the company offers may have a product failure rate higher than the competitors`. In other words, if the company needs dramatic improvement to survive, it needs re-engineering.

Secondly, the company may be doing quite well, but management may anticipate and expect some serious and threatening problems or competition in the near future.

Finally, the company may be doing well and being in a peak condition, but the ambitious and challenging management may want to do better and make it more difficult for others to enter into the competition.

Many of Re-engineering case study was failed on the implementation. Only 5% from all of the company who implemented the Re-engineering was successfully implemented (Nugroho, 2002, p. 106).

Ford Motor Company had 500 employees for account payable department, matching purchase order, receiving report & suppliers invoice. The reengineering system eliminates reconciliation to supplier invoices and reduces head count by 75%. Electronic payments were made once the receiving details match the purchase orders.

IBM Credit Company: once a credit request, there are 4 departments that must be passed toward the credit decision, financing arrangement, credit checking, approval and issuance. Each process was done by each department. The reengineering system combined the fourth process into pooled interdependence, called by case manager, which handled the fourth processes.

A financial service company (Alpha) at New Zealand, Alpha failed to implement Reengineering because of lack of commitment, leadership and also support from the senior management.

From those examples, there was some concluding remark about Reengineering failure. The lack of understanding of Reengineering and the inability to performance happened because of misunderstanding of Reengineering.

- many considered reengineering as an intuitive, creative endeavor instead of an engineering discipline;
- Some may confuse reengineering with other programs such as Total Quality Management(TQM) and some many confuse functions with process;
- When the results do not meet the unrealistic goals, they conclude that the reengineering project has failed, these unrealistic expectations reduce the commitment and confidence of management to Reengineering.

The summary of all reasons are lack of an effective methodology, wrong

process and objectives, over reliance on information technology and the most important thing was lack of top management commitment.

Reengineering needs a new way of thinking to break out of the old way and to develop visions. There may not be a dramatic improvement. It means, a wrongly defined change objective would assure reengineering failure. the most important thing would be the top management commitment. Reengineering is a top down process. It will influence great things without the commitment of senior management or top management to the change and the shifting of operation and culture.

2.2 Pitfalls to avoid while conducting Reengineering (Goksay , 2012, p. 93)**:**

- **Distinguish the re-engineering effort from the main goals of the organization:**

One of the common pitfall is considering the reengineering initiative separate from organizational objectives. They should be seen as means of reaching organizational goals. That`s why; companies should not take on reengineering projects without reference to their strategic aims.

- **Underestimate the changes required to achieve a process orientation:**

Lack of understanding about the tremendous upheaval which can result from implementing reengineering, too much attention to the process design phase and not enough on other aspects can result in a stalled initiative.

- **Run before you can walk:**

Companies which want to achieve dramatic performance improvements through reengineering should prepare themselves for it and proceed with slow and confident steps.

- **Do not expect too much too soon:**

Change, in whatever form it takes, is a process that happens in time. That`s why companies should know that the real benefits of reengineering may take some time to realize.

- **Be careful about the title:**

It is the results that count and the important thing is the improvements that the change program brings.

– **Over reliance on information technology:**

While undertaking reengineering projects many managers err in over relying on information technology solutions. They forget to analyze the business process and attempt instead to simply automate the ineffective process.

– **Pilot the new process:**

running a pilot process before implementing the new one helps identifying problems and bottlenecks related to the process and helps eliminating failures which are likely to happen. This kind of trial may take time and cost much but in case of the failure of the new process the time and cost in order to amend it would be much greater.

– **Wrong process and objectives:**

Defining a change objective wrongly and choosing a wrong process which will not add great value to the organization`s overall performance would result in reengineering failure.

3. A Case Study

3.1 Ford Motor Company:

Ford Motor Company was founded in 1903. It was ranked 11th in the fortune 500 companies for the year2018. It has eight automotive brands (Aston-Martin, Jaguar, Volvo, Lincoln, Mercury, Ford, and Mazda) and four service divisions (Ford Credit, Hertz, Quality Care, and Quik-Fit).

In the 1980s, the American automobile industry was in a depression and in an attempt to cut costs. Ford decided to scratinize some of their departments in an attempt to find inefficient processes (Hammer & Champy, 1995, p. 6).

One of their findings was that the accounts payable department was not as efficient as it could be : their accounts payable division consisted of 500 people, as opposed to Mazda`s.

While Mazda was a smaller company Ford estimated that their department was still 5 times bigger than it should have been.

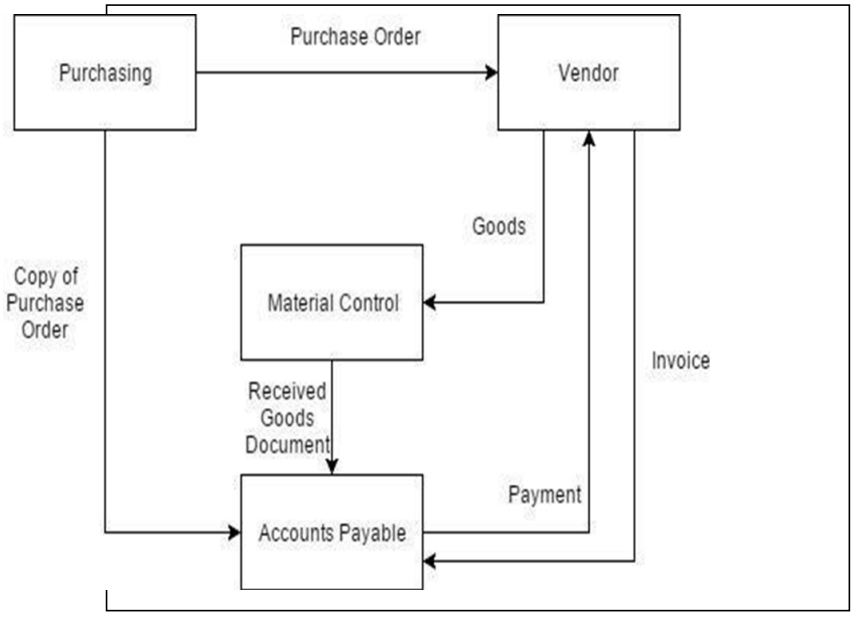
Accordingly, Ford management set themselves a quantifiable goal: To reduce the number of cherk working in accounts payable, by a couple of hundred emplyees. Then, they launched a Re-engineering of Administrative processes.

Initiative to figure out why was the department so over staffed. They analyzed the current system, and found out that it worked as follows:

1. When the purchasing de department would write a purchase order, they sent a copy to accounts payable,
2. Then, the material control would receive the goods, and send a copy of the related document to accounts payable.
3. At the same time, the vendor would send a receipt for the goods to accounts payable,

Then, the clerk at the accounts payable department would have to match the three orders, and if they matched he or she would issue the payment. This of course, took a lot of manpower in the department.

Fig.1. Business problem that need reengineering solution



Source: https://bprford.wordpress.com

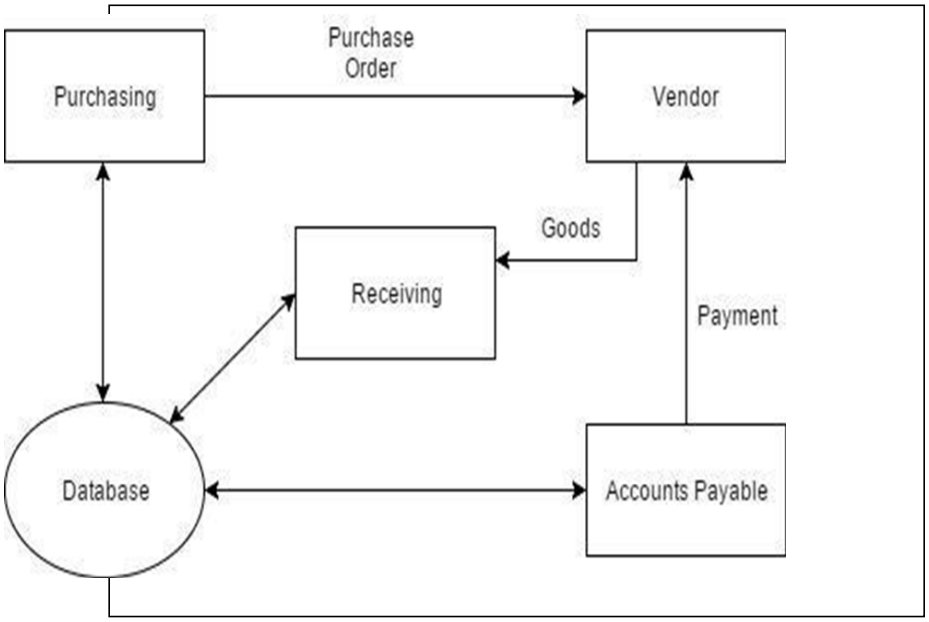
The drawback in this system was that Ford`s accounts payable organization was performed by so many people. The departments spent most of its time on mismatches, instances where the purchase order, receiving document, and invoice disagreed. In these cases, an accounts

payable clerk would be investing the discrepancy, hold up payment, generate document, and all in gum up the works. Its process was not efficient.

The management thought that by rationalizing processes and installing new computer systems, it's could reduce the head counts. One way to improve things might have been to help the accounts payable clerk investigate more efficiently, but a better choice was to prevent the mismatches in the first place. To this end, Ford instituted "in voiceless processing". Now when the purchasing department initiates an order, it enters the information into a no-line database. It doesn't send a copy of the purchase order to anyone. When the goods arrive at the receiving dock, the receiving clerk checks the database to see if they correspond to an outstanding purchase order. If so, he or she accepts them and enters the transaction into the computer system.

Under the old procedures, the accounting department had to match 14 data items between the receipt record, the purchase order, and the invoice before it could issue payment to the vendor. The new approach requires matching only three items part number, unit of measure, and supplier code- between the purchase order and the receipt record. The matching is done automatically, and the computer prepares the check, which accounts payable send to the vendor. There are no invoices to worry about since Ford has asked its vendors not to send them. Ford dint settle for the modest increases it first envisioned. It opted for radical change- and achieved improvement.

Fig.2. Ford`s reengineering accounts payable system



Source: https://bprford.wordpress.com

So as is the case with RAP, Ford Completely recreated the process digitally.

1. Purchasing issues an order and inputs it into an online database.
2. Material control receives the goods and cross-references with the database to make sur it Matches an order.
3. If there`s a match, material control accepts the order on the computer.

The results of Ford`s reengineering program were:

– Head count in Ford`s purchasing department fell from 500 people to 125 people at the same time efficiency improved dramatically.

So, the reengineering of procurement at Ford illustrates another characteristic of a true reengineering effort: Ford`s changes would have been impossible without modern information technology which is likewise true for the reengineering effort at IBM Credit. The new

processes at both companies are not just the old programs with new wrinkles.

3.2 IBM Credit Company:

IBM Credit finances the computers, software and services sold by IBM Corporation. Processing a finance application used to take between six days and two weeks as the application wound its way from the credit department to the pricing department to an administrator who wrote out a formal quote letter (Gibbs, 2015, p. 3).

When IBM Credit realized that processing an application actually took only about 90-minutes and the rest of the normal processing time was spent with the application sitting on a pile on a specialist`s desk waiting to be looked at, they decided to reengineer the entire process.

In Class Process Reengineering Case IBM Credit Processing

A loan deal at the IBM Credit Corporation is processed as follows (Sorunke & Ameen , 2016):

Step 1: A salesperson calls in with a proposed deal. The call is taken by one of a half dozen receptionists sitting around a conference table. Whoever receives the call logs it and writes the details on a piece of paper. A clerk then carries the paper to a second person, who initiates the next step in the process.

Step 2: the computer specialist enters the data into a computer system and checks the client`s credit history. This person then writes the details on a piece of paper and carries the paper, along with the original documentation, to a loan officer.

Step 3: The loan officer modifies the standard IBM loan agreement for the customer.

Details of the modified loan agreement, along with the other documentation, are then sent to an interest expert.

Step4: The interest expert determines the appropriate interest rate for the loan using an information system. Then, the interest expert writes a quote letter and sends it back to the salesperson via overnight mail.

The results of the reengineering program were:

– Turnaround time was reduced from a typical 7days to 4 hours.

Without any increase in staff numbers, IBM Credit has been able to achieve

a hundred-fold improvement in productivity it can now handle 100 times the number of credit applications handles before reengineering was undertaken

So, IBM Credit achieved a dramatic performance breakthrough by making a radical change to the process as a whole. IBM Credit did not ask, "How do we improve the calculation of a financing quote?" or "How do we enhance credit checking? "it asked instead, "How do we improve the credit issuance process?" (Michael Hammer & James Champy)

4. CONCLUSION

Based on the literature and sample case studies presented in this study, it can be established that Reengineering of Administrative processes is an effective management approach adopted and applied widely by many multinational companies and can have very successful results if it is implemented properly and carefully.it has been examined as a change tool.

In today`s global business world, multinational corporations are on the edge of learning how they can gain competitive advantage by integrating their geographically dispersed competencies, arbitrating comparative cost advantages, leveraging their strengths and avoiding dangers of economic exposure, therefore, reengineering of administrative processes can be presented as a trustable change management approach for multinational corporations in this decade. some results are as follows:

- The applying of concept of reengineering of administrative processes can get many benefits for companies.
- Maintaining leadership in the market requires innovative organizations willing to reengineer to succeed.
- Reengineering represented by the strengthening of the competitive position, increase marketing share, increase production, efficiency, and cost reduction.

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