REENGINEERING THE CORPORATION

A Manifesto For Business Revolution

MICHAEL HAMMER & JAMES CHAMPY

MICHAEL HAMMER is the originator of the business reengineering concept. He first proposed the concept in a *Harvard Business Review* article entitled *"Reengineering Work: Don't Automate, Obliterate"*. Dr. Hammer was named by *BusinessWeek* as one of the four pre-eminent management gurus of the 1990s.

JAMES CHAMPY is Chairman of CSC Index, the management consulting firm based in Cambridge, Massachusetts which pioneered the development, practice and implementation of business reengineering initiatives.

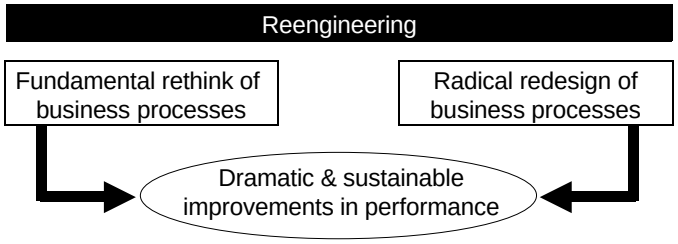
MAIN IDEA

Reengineering means to disregard all the assumptions and traditions of the way business has always been done, and instead develop a new, process-centered business organization that achieves a quantum leap forward in performance.

To achieve reengineering success, a fresh perspective and approach is required. A clean sheet of paper is taken and, given what is currently known about customers and their preferences, a new organization is developed which will optimize the process of creating satisfied customers. Reengineering is the process by which the organization that exists today is retired and the optimal version of the new organization is constructed.

Reengineering is the opportunity to develop the rules by which business in the future will be conducted rather than being forced to operate by the rules imposed by someone else. As such, reengineering underpins every attempt to seize and maintain a true competitive advantage.

Reengineering is defined as the fundamental rethink and radical redesign of business processes to generate dramatic improvements in critical performance measures -- such as cost, quality, service and speed.



In practice, reengineering means to start over with a clean sheet of paper and rebuild the business better.

Reengineering initiatives typically lead to a business organization with these characteristics:

1. Business processes are simplified rather than being made more complex.
2. Job descriptions expand and become multi-dimensional -- people perform a broader range of tasks.
3. People within the organization become empowered as opposed to being controlled.
4. The emphasis moves away from the individual and towards the team's achievements.
5. The organizational structure is transformed from a hierarchy to a flatter arrangement.
6. Professionals become the key focus points for the organization, not the managers.
7. The organization becomes aligned with the end-to-end process rather than departments.
8. The basis for measurement of performance moves away from activity towards results.
9. The role and purpose of the manager changes from supervisor to coach.
10. People no longer worry about pleasing the boss -- they focus instead on pleasing the customer.
11. The organization's value system transforms from being protective to being productive.

Reengineering is not solely about creating new business processes -- it focuses on creating a new company.

Successful reengineering programs undertaken by large and small corporations in the past have these common themes:

1. A focus on processes rather than organizational boundaries.
2. The ambition to create breakthrough performance gains.
3. A willingness to break with old traditions and rules.
4. The creative use of new information technology.

Every company's reengineering program must be unique if it is to achieve anything substantial. There are no guaranteed-to-work or step-by-step prescriptions that can be followed in reengineering.

To succeed at reengineering, follow these guidelines:

1. Always start with the customer and work backwards.
2. Move fast.
3. Tolerate risk.
4. Accept imperfections along the way.
5. Don't stop too soon.

In short, reengineering is the opposite of business as usual.

Section 1
The Reengineering Concept

Main Idea

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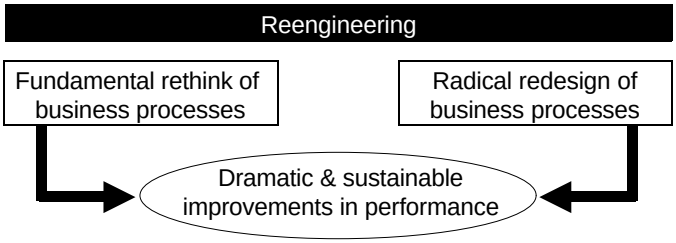

In practice, reengineering means to start over with a clean sheet of paper and rebuild the business better.

Supporting Ideas

To succeed in today's global economy, corporations must have organizational structures and business processes that:
1. Are fast
2. Deliver high quality consistently.
3. Are flexible.
4. Are low cost.

Traditional businesses are unlikely to be able to deliver on these requirements because of the way business management has evolved. The four key stages in the evolution of business management have been:

- Stage 1 -- 1776
  Adam Smith published *The Wealth of Nations*. In this, he suggested the specialization of labor as a way for workers to achieve greater productivity. Smith's ideas suggested efficiency could best be achieved by breaking large jobs down into small tasks which could be performed repetitively.
- Stage 2 -- 1820s
  The railroad companies introduced bureaucracies to avoid collisions on single-track lines -- formal operating procedures, centralized management and a rule for every contingency. This was the forerunner of the command-and-control system still in use today -- where there are workers and supervisors to keep things organized.
- Stage 3 -- Early 1900s
  Henry Ford introduced the assembly line -- workers performed one tiny step in a complex process where the work is brought to the worker rather than the other way around -- while Alfred Sloan created small, decentralized management teams for GM so that huge, sprawling operations could be managed efficiently.
- Stage 4 -- The 1945 -- 1960 Era
  The hierarchical or pyramid organizational structure became popular as the best way to match production capacity and demand for mass produced consumer goods. Functional middle managers were added to provide control and management.

These principles were all appropriate for their times, but in today's environment, they inevitably result in:
1. Delay and errors.
2. Rigidity.
3. High overhead costs.

The reality is corporations cannot move into the new competitive environment by adapting the old management methods -- a complete and sweeping redesign is called for. Reengineering delivers those changes.

The key rhetorical question of reengineering is:

"If I were re-creating this company today, given what I know and the current level of technology, what would it look like?"

Inevitably, the answer to that question will have four key elements:

1. A focus on fundamentals.
   Addressing the issue of precisely what it is the corporation does, why is it done the present way and what are the tacit rules and assumptions embedded in present practices. Reengineering ignores "what is" and concentrates on "what should be".
2. A radical redesign element.
   Reengineering is about reinventing the business -- not making superficial changes or marginal enhancements to the old ways of doing things.
3. The potential for dramatic results.
   Reengineering leads to quantum leaps in performance -- not incremental improvements.
4. A business process orientation.
   Reengineering evolves around business processes -- not tasks, job descriptions, people or structures. A business process takes an input or inputs and generates an output which is of value to the customer. A business process only works if it generates added value, not internal activity.

Generally speaking, three types of companies undertake intensive reengineering programs:

- Companies that find themselves in deep competitive trouble -- and who often require an order of magnitude improvement somewhere in their operations to be able to compete with others in their field.
- Companies with managers who can see problems arising a little further down the road they are traveling on -- and who want to begin reengineering before all competitive advantages they possess evaporate.
- Companies with managers who are ambitious and aggressive -- who see reengineering as a way to position the company to extend their lead over their competitors.

The reengineering concept:

- Should not be confused with automation -- since doing the wrong things more efficiently will make few, if any, improvements to a business.
- Is not restructuring or downsizing -- since reengineering seeks to achieve more with less rather than scaling back what's being done.
- Is different from an attempt to "flatten" an organization -- since the problems facing companies are deeper, process based rather than superficial, organizational problems.
- Allows fragmented processes to be brought together -- thereby eliminating the need for a business bureaucracy.
- Differs fundamentally from total quality management (TQM) or similar programs -- since TQM seeks to enhance and improve the existing processes through ongoing, incremental improvements whereas reengineering seeks to discard existing processes entirely and replace them with break-through processes delivering leaps in performance.

There are no hard and fast rules about what a reengineered business process will look like -- simply because each will be individual and process-specific. There are, in practice, some recurring general themes most reengineered processes tend to align with:

- Several jobs are combined into one.
  Reengineering tends to reverse the assembly line approach. Instead of having many people involved, none of whom can be held accountable, many reengineering programs combine process steps and make a team directly responsible for creating a satisfied customer. That eliminates the errors, delays and inefficiencies of hand-offs.
- Decision making falls to the workers, not the managers.
  When a business process is reengineered, the responsibility for making decisions often becomes an integral part of the process itself rather than being separated. The advantages of this are:
  - Fewer delays.
  - Lowering of overheads and fixed costs.
  - Better response to customers.
  - Workers are empowered to create value.
- Process steps are performed logically and naturally.
  In many older industrial-age business processes, an artificial amount of linearity was introduced as part of the control function. Inevitably, arranging tasks that way slows work down and creates a drag on efficiency. Most reengineered processes allow multiple jobs to be completed simultaneously, and for the sequence of activities to be organized logically. The benefits:
  - More gets done by fewer people.
  - The chances of obsolescence or reworking are reduced.
- The end of standardization -- processes can have multiple versions of the same product fine-tuned for niche markets.
  The paradigm of the industrial age was to achieve economies of scale through mass production. In today's business environment, those manufacturing efficiencies can still be achieved while delivering a product or service that is fine tuned to the requirements of specific markets. Most reengineered processes deliver impressive production planning flexibility and capabilities. The benefits:
  - Simplification of processes usually occurs.
  - Greater added value can be delivered.
- The work is performed where it makes most sense.
  In industrial-age organizations, the work usually had to physically travel to where each specialist was located -- creating loads of overheads keeping track of things and fitting all the pieces together. When a business reengineers its processes, these functions can be shifted around the organizational boundaries to become more efficient. Inevitably, doing so simplifies management procedures and reduces drag on the company.
- Checks and controls are reduced or eliminated.
  When processes are reengineered, checks and controls are put in only where they make economic sense. In fact, the majority of reengineered processes tend to have controls that aggregate patterns rather than seek permission for individual circumstances. That way, problems that are developing can be identified and dealt with early.
- Hand-offs and reconciliations are minimized.
  A reconciliation is required whenever the data generated by one part of a business process fails to match up with the data from another part of the same process. In other words, it's work that doesn't add any value. Most reengineered processes end up reducing dramatically the number of points of contact between the company and its customers -- eliminating the need for hand-offs from one department to another and reducing the possibility of irregularities arising for any reason whatsoever.
- Single points of contact -- case managers -- assume responsibility for the results.
  In many industrial-age companies, the customer had to interact with a number of people to deal with the company. That caused confusion and frustration -- simply because bringing each new person "up to speed" on the specifics of a situation was a major exercise in and of itself. Most reengineering programs eliminate that problem altogether by creating a one person contact point -- frequently designated as the case manager -- to act on behalf of the customer and follow the entire transaction from start to finish. The case manager integrates processes and simplify things for customers.
- Companies enjoy the benefits of centralized purchasing power and decentralized operations.
  Many companies that have reengineered their processes end up combining the benefits of both decentralization and centralization. In other words, business units tend to operate as if autonomous (giving them greater flexibility and market responsiveness) while at the same time enjoying the economies of scale (purchasing power and pooling of key information) centralization delivers.

Every reengineered business program is unique, and will require insight, creativity and sound judgment to develop. However, the general themes and patterns others have previously followed may be of value in the development of reengineered processes.

Key Thoughts

"At the heart of business reengineering lies the notion of discontinuous thinking -- identifying and abandoning the outdated rules and fundamental assumptions that underlie current business operations. Every company is replete with implicit rules left over from earlier decades: "Customers don't repair their own equipment". "Local warehouses are necessary for good service". "Merchandising decisions are made at headquarters". These rules are based on assumptions about technology, people and organizational goals that no longer hold. Unless companies change these rules, any superficial reorganizations they perform will be no more effective than dusting the furniture in Pompeii."

– Michael Hammer & James Champy

"America's business problem is that it is entering the twenty-first century with companies designed during the nineteenth century to work well in the twentieth. We need something entirely different."

– Michael Hammer & James Champy

"Fundamentally, reengineering is about reversing the industrial revolution. Reengineering rejects the assumptions inherent in Adam Smith's industrial paradigm -- the division of labor, economies of scale, hierarchical control and all the other appurtenances of an early-stage developing economy. Reengineering is the search for new models of organizing work. Tradition counts for nothing. Reengineering is a new beginning."

– Michael Hammer & James Champy

Section 2
The Characteristics of a Reengineered Corporation

Main Idea

Reengineering initiatives typically lead to a business organization with these characteristics:

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5. The organizational structure is transformed from a hierarchy to a flatter arrangement.
6. Professionals become the key focus points for the organization, not the managers.
7. The organization becomes aligned with the end-to-end process rather than being focused on departments.
8. The basis for measurement of performance and compensation moves away from activity towards results.
9. The role and purpose of the manager changes from supervisor to coach.
10. People in the organization no longer worry about pleasing the boss -- they focus instead on pleasing the customer.
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Reengineering is not solely about creating new business processes -- it focuses on creating a new company.

Supporting Ideas

Taking each of these points in turn, in a reengineered company:

1. Business processes are simplified rather than being made more complex.

   Companies that reengineer invariably end up dismantling departments and instead put together process teams that handle work logically rather than within the artificial department constraints. Inevitably, the process team approach will be more logical and make more sense than any other approach.

   Process teams within a reengineered organization can be of any shape or size. The work to be done dictates the optimum size and structure of the process team -- not any artificial constraints, preferences of the managers or external factors.

2. Job descriptions expand and become multi-dimensional -- people perform a broader range of tasks.

   Before reengineering, a worker may perform one task repetitively all day every day, without ever giving thought to the big picture perspective of what is being created.

   After reengineering, the worker is part of a process team which has full responsibility for the entire process. In that situation, every team member has an appreciation and familiarity with each step in the process, and will more than likely be required to perform several of those steps at different times. Thus, work becomes multi-dimensional, more rewarding and more closely linked with the end result. There's ownership in the process output.

3. People within the organization become empowered as opposed to being controlled.

   Reengineered companies don't want people who follow the rules -- they value employees who can set their own rules to achieve results. Therefore, reengineered companies look for employees that are self-starters, self-disciplined and who are motivated to achieve.

   Another way of looking at empowerment is to consider what happens when a supervisor visits an employee. In a traditional company, the real work screeches to a halt while the employee focuses on satisfying the supervisor. By contrast, in a reengineered company, the employee is thinking, interacting, using judgment and making decisions on the basis of what will create a satisfied customer. The supervisor becomes a resource towards that objective.

4. The emphasis within the organization moves away from the individual and towards the team's achievements.

   Reengineering effectively removes the artificial boundaries put there by department structures. Instead of being focused on a single aspect of the delivery of value, a process team is formed which assumes total and complete ownership of the process.

   Teams may be structured in many different ways:
   - As case teams which handle recurring tasks.
   - As process or virtual teams -- for as long as required.
   - As one-person teams.

   Regardless of the exact nature of the team -- which should be dictated by the process needs first and foremost -- responsibility and rewards for results need to be spread equitably throughout the entire team.

5. The organizational structure is transformed from a hierarchy to a flatter arrangement.

   In the team environment made possible by reengineering, decisions are made on a consensus basis rather than by a manager. That has the indirect effect of reducing a manager's role -- and their need to be part of the loop.

   Invariably, organizational structure is less of an issue at reengineered companies than industrial-age organizations. Equally, that leads to a flattening of the traditional management structure. With work being organized around processes and teams, the organizational structure becomes a secondary issue.

6. Professionals become the key focus points for the organization, not the managers.

   Reengineering will always change the boundaries between different kinds of work. In the past, the roles filled by the manager -- checking, reconciling, monitoring and tracking -- will most likely have been at the center of operations.

   After reengineering, the creation of value becomes the main focus point. As such, the people who do that most effectively will become the center of focus. Teams will do whatever is required to maximize the efficiency of professionals with the skills applied.

   Overall, it's a more positive approach to business. Invariably, much of what managers did in the past was unproductive but considered necessary to maintain order. Reengineered teams have a totally different approach -- people are working because they're motivated to achieve.

7. The organization becomes aligned with the end-to-end process rather than being focused on departments.

   When a process team assumes responsibility for performing a job, the organization as a whole becomes focused on results rather than activity. There's also a greater sense of completion and achievement for the workers because they can identify directly with a result they care about. That also encourages growth and learning for the team members.

8. The basis for measurement of performance and compensation moves away from activity towards results.

   Instead of being paid for their time, workers in a reengineered company are paid for their results achieved. Most often, this tends to be structured as a base salary and a performance-based bonus -- which can grow to a substantial level if outstanding results are achieved.

   In reengineered organizations, performance is measured solely on the basis of the added value created. The compensation system recognizes and rewards that value creation process.

   In the reengineered business environment, advancement from one position within the company to another is not given as a reward for previous results. Instead, it's entirely ability driven.

9. The role and purpose of the manager changes from supervisor to coach.

   Process teams don't need bosses -- they need coaches. A boss allocates work. A coach helps the team solve problems, and facilitates achievement by providing the requisite resources and other inputs. In short, managers in reengineered companies take pride in the accomplishments of the teams they are responsible for assisting.

10. People in the organization no longer worry about pleasing the boss -- they focus instead on pleasing the customer.

    In the industrial-age companies, the average employee's attitude was: "My boss pays my salary and determines whether or not I get promoted. Therefore, I'll concentrate on keeping him happy".

    In a reengineered company's process team, the attitude becomes: "Customers pay my salary. I'm not paid just to turn up. I get paid according to the amount of added value I create. Therefore, to make more, I've got to create more satisfied customers."

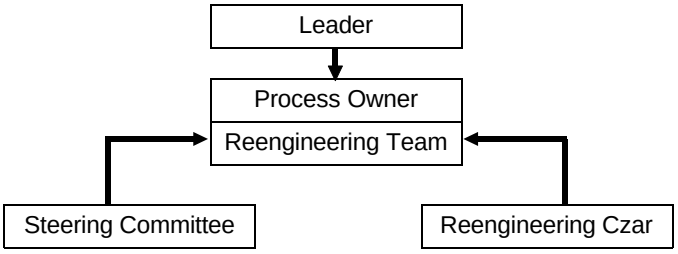
11. The organization's value system transforms from being protective to being productive.

    In a protective organization, every manager wars with every other manager over issues like blame for problems, jurisdiction, fault and allocation of resources.

    In a productive, reengineered company, everything in the value system is centered around the creation of customer value. Everything is aligned with and judged by that criteria alone :
    - The way people are paid.
    - They way performance is evaluated.
    - The way promotions are made.
    - The way people actually spend their time.

    Changing corporate value systems is always going to be a big part of any reengineering program.

Most companies that have successfully navigated reengineering programs find there are five key roles that need to be filled:



Ideally, the Leader will appoint the Process Owner, who will convene a Reengineering Team to reengineer the process, with assistance from the Czar and under the auspices of the Steering Committee.

The Leader -- must be a senior executive of the organization who has enough clout to cause the whole organization turn itself upside down and inside out while reengineering occurs. The leader must also be a consensus builder -- persuading people to accept the disruptions reengineering will bring.

The Process Owner -- will usually be a senior manager (often with line responsibility) who has prestige and credibility. The process owner will make reengineering happen at the individual process level. Most often, process owners are already intimately familiar with one of the functions involved in the process that will undergo reengineering.

The Reengineering Team -- carries out the heavy lifting. These people actually get their hands dirty figuring out the nuts and bolts of the reengineered process. The best teams have between five and ten members -- a mix of outsiders (people who don't currently work in any of the functions being reengineered) and insiders (people who do work in those areas).

The Steering Committee -- is a broadly based collection of senior managers of the organization who:
- Set priorities for the Reengineering Team.
- Decide the allocation of resources.
- Resolve any conflicts that arise.
- Monitor the results achieved.

The Reengineering Czar -- is responsible for management and coordination of all the reengineering teams working within the organization. In effect, the Czar keeps hands-on tabs on the state of play in each reengineering initiative, and provides that perspective to the leader. The Czar acts both as a resource to each reengineering team and as a custodian of the bigger picture issues.

The key points to keep in mind about this structure are:

- Processes, not organizations, are the object of reengineering. Therefore, companies don't reengineer their sales or manufacturing departments -- they reengineer the work these departments do.
- Information technology is the main enabler of reengineering programs. Most reengineering will change the way a company thinks about its information.
- Reengineering is never focused on fixing old processes. That will deliver marginal improvements at best. Instead, reengineering is focused on breakthroughs -- quantum leaps forward.

Section 3
Reengineering Case Studies

Main Idea

Successful reengineering programs undertaken by large and small corporations in the past have these common themes:
1. A focus on processes rather than organizational boundaries.
2. The ambition to create breakthrough performance gains.
3. A willingness to break with old traditions and rules.
4. The creative use of new information technology.

Every company's reengineering program must be unique if it is to achieve anything substantial. There are no guaranteed-to-work or step-by-step prescriptions that can be followed in reengineering.

Supporting Ideas

Case Study #1 -- IBM Credit Corporation

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.

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.

Here's what IBM Credit did:

- The four specialists who previously processed the application were replaced by a generalist -- called the deal structurer -- who processed the application from start to end using templates on a new computer system which provided all the data and tools each specialist commonly used.
- For unusual cases, the deal structurer can still call on the specialists to provide additional expertise. The specialist and the deal structurer then team up to develop a customized package as required. This happens only rarely, however.

The results of the reengineering program were:

- Turnaround time was reduced from a typical 7-days 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.

"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

"No two company's business situations are identical, and no two companies will tackle reengineering in just the same way. The only absolutely essential element in every reengineering project is that it be directed at a process rather than a function. Practically everything else in reengineering comes down to technique -- which is to say that it is right if it works for you and wrong if it does not."

-- Michael Hammer & James Champy

Case Study #2 -- Ford Motor Company

In the early 1980s, Ford looked at its 500-person accounts payable department closely.

It was soon realized that the majority of each employee's time was spent tracking down discrepancies between purchase orders, shipping receipts and invoices. Ford decided to reengineer the entire parts procurement process.

Therefore, the steps Ford took were:

- An online database was created of purchase orders. Whenever a buyer issued a purchase order, it was entered into the database.
- As goods are received at the receiving dock, someone checks the database. If the shipment matches a purchase order, it is received. If the shipment does not, it is not accepted. Therefore, there are no possible discrepancies between what was ordered and what was physically received.
- As soon as the shipment is received, the database is updated and a check is automatically generated and issued to the vendor at the appropriate time.

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.

"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. They are entirely new processes that could not exist without today's information technology. We say that in reengineering, information technology acts as an essential enabler. Without information technology, the process cannot be reengineered."

– Michael Hammer & James Champy

"We learned that you can't plan an entire reengineering project in advance, because what you discover during the project changes your plan. Every change you design is a living rough draft, not a perfected process. Reengineering is an iterative process. The problems you encounter themselves lead to better solutions, which is why it's essential to attack change in manageable chunks. We also learned that in reengineering you have to reengineer both human and technical systems, not just one or the other, and it can't all happen at once."

– Pamela Goodwin, senior vice president,
Direct Response Group, Capital Holding Corporation

"We actually set up two different kinds of reengineering teams, one to come up with the ideas and the other to test and refine them in the real world. The first team we called the core team. As soon as we had a process design, we put the second team, which we called the lab team, to work. Their job was to test the core team's blueprinted design by using it to process real orders. They would try the new process, change it however they liked and then feed their results back to the core team. Thus, our reengineering program was iterative. The lab team became, in effect, a prototype for the case team concept that our core team developed. As a result of reengineering this way, our labor costs have dropped from about $88 million to $6 million."

– Regis Filtz, manager,
Carrier Access Services, Bell Atlantic Corp.

Case Study #3 -- Hallmark

Hallmark totally dominates the U.S. greeting card industry. Despite its success, the company decided to embark on a reengineering program with the objective of reducing the time lapse between noting a new niche market to serving it with a card on the retailer's shelf. (At that time, it took 2 -- 3 years to get a new line of greeting cards from concept to market. The company was making about 50,000 revisions to designs each year, and Hallmark had no accurate way of finding out what was selling well and what was not).

In essence, Hallmark looked to reengineering as a pre-emptive competitive strike rather than as a response to a bad situation.

To reengineer, Hallmark took these steps:

- A reengineering team was set up, staffed by some of the company's best and brightest employees.
- Three key objectives were articulated:
  - To reduce new product development time to 1 year.
  - To produce products buyers and retailers would love.
  - To reduce costs with improvements in quality.
- 100 employees were appointed to nine teams, each of which addressed a specific "leverage point" -- the critical parts of the business that needed to be changed. These teams came up with 100 recommendations, 12 of which were chosen for a pilot project.
- The pilot program:
  - Captured sales data at the point-of-sale.
  - Communicated actual sales data throughout the company.
  - Formed cross-department groups to develop new cards.
  - Eliminated entirely old style review processes.
- Once it became clear the pilot program was generating impressive results, the reengineering initiatives were put into action company wide.

"It was my conviction, and that of the members of the operating committee, that the future was not going to look like the past and that the solutions of the past were not likely to work in the future. The continual refinements -- tweaking each and every departmental task -- would no longer be enough. Only a radical change in the way we did business would address our issues."

– Robert L. Stark, president, Hallmark Cards, Inc.

"We concluded early in the game that this was a top-down process, not something that was likely to reach critical mass on its own or something that would bubble up. Continuous improvement can do that -- bubble up from a unit and reach critical mass on its own volition. We knew that because of the cross-divisional and cross-functional nature of this effort, it had to be driven from the top-down. When you drive something from the top, you have to articulate clearly and communicate why it's being done. That's why we started with our beliefs and values as an organization, then moved to our vision, and linked it to our business priorities to get everyone working towards the same objectives."

– Robert L. Stark, president, Hallmark Cards, Inc.

"Reengineering is not a one time trip. It is a never ending journey, because the world keeps changing. Processes that have been reengineered once will someday have to be reengineered all over again. Reengineering is not a project; it must be a way of life."

-- Michael Hammer & James Champy

Case Study #4 -- Taco Bell

In 1983, the Taco Bell subsidiary of PepsiCo had fewer than 1,500 restaurants and $500 million in total sales. The company had stalled, with little or no growth over the previous five years.

To reengineer, Taco Bell did these things:

- The customers were asked what they wanted. The company assumed they wanted bigger and better restaurants. The customers said all they wanted was "good food, served fast and hot, in a clean environment, at a price they could afford."
- A decision was made to reduce the costs of everything about the business except the cost of the food and its packaging.
- A vision of the company as a leader in the restaurant business and not just the Mexican food business was articulated.
- The management process was completely and dramatically reengineered -- three layers were eliminated, including the entire "district manager" supervisory level. Every job in the system was redefined. Restaurant managers were given greater latitude to run their own businesses, and ultimately became "Restaurant General Managers".
- Taco Bell reengineered the way its buildings were designed. Before 1983, the typical Taco Bell was 70-percent kitchen and 30-percent customer area. Since 1983, that ratio has reversed -- new Taco Bells are 30-percent kitchen and 70-percent customer area.
- Taco Bell reengineered its marketing to become value-driven.
- Taco Bell developed ways to pre-cook the food centrally so that restaurants could concentrate on retailing rather than manufacturing.
- Taco Bell introduced new management information systems using the latest technology to keep track of sales minute-by-minute.
- The company introduced a new performance measurement called "the total share of stomach". Instead of measuring success as market share of the fast-food market, Taco Bell looks at its goal to become the value leader for all foods for all meal occasions. That creates a broader vision and stimulates the development of new innovations.

As a result of these reengineering programs:

- Taco Bell has grown from 1,500 restaurants in 1983 to 3,600 in 1993.
- Turnover has increased from $500 million in 1983 to $3 billion 10 years later -- an increase of 22-percent per year.
- Profit has grown at a rate of 31-percent per year over the same period.

"Throughout the total reengineering effort, we maintained just one simple rule -- enhance those things that bring value to the customer and eliminate those that don't."

– John Martin, CEO, Taco Bell

"The most dramatically drawn lesson is Martin's recognition that the customer must be the starting point for everything in reengineering. In reconceptualizing the company's processes, Martin and his people always began with the customer's needs and worked backwards from there. This perspective stands in sharp contrast to that of the traditional manager who put fryer maintenance skills at the top of the list. Taco Bell's reengineering was unambiguously customer-driven."

– Michael Hammer & James Champy

Section 4
The Keys To Reengineering Success

Main Idea

To succeed at reengineering, follow these guidelines:
1. Always start with the customer and work backwards.
2. Move fast.
3. Tolerate risk.
4. Accept imperfections along the way.
5. Don't stop too soon.

In short, reengineering is the opposite of business as usual.

Supporting Ideas

Taking each of the guidelines in turn:

1. Always start with the customer and work backwards.
   Business processes exist solely for the purpose of creating a satisfied customer -- they have no other valid reason to exist. Therefore, reengineering at its very heart means a realignment of the company's resources towards the goal of meeting the needs of the customer.

   From an internal perspective, the best way to generate enthusiasm for a reengineering program is to set ambitious goals that stretch and challenge the organization. People won't be motivated to abandon the familiar and adopt the reengineered processes unless they are inspired by the vision of what the company is becoming. Provide that spark of motivation.

2. Move fast.
   Reengineering is a dramatic, radical process. It simply cannot be undertaken slowly or deliberately. Reengineering must be achieved quickly and decisively -- otherwise the forces of internal resistance (for the way things have historically been done within the company) will overwhelm and impede the process.

   Reengineering must be done at speed -- the faster the better. Experience has shown there is generally a 12-month window of opportunity for a successful reengineering initiative.

3. Tolerate risk.
   Change -- and therefore progress -- always involves risk. Therefore, in undertaking reengineering, the people who are by nature risk-averse will feel disoriented and disfranchised.

   Experience has shown probably the only way to offset the fear of change within an organization is to demonstrate dramatically the greatest risk of all comes from sticking with the status quo. If people can be convinced "business as usual" probably means being unemployed very soon, they'll suddenly develop a voracious appetite for trying something new.

4. Accept imperfections along the way.
   No reengineering program ever emerges full-blown right out of the box. Reengineering is always an iterative process -- where something new is trailed and expanded on if it works or altered if it doesn't. That means there will be partial failures along the way as a normal, expected part of the process.

   The key is not to avoid mistakes but to learn from them and move on.

5. Don't stop too soon.
   Many organizations suspend reengineering when they see the first sign of success. Others stop at the first hint of a problem. Both actions are equally damaging to the long-term success of the organization.

   The true breakthroughs always require perseverance and patience.

Key Thoughts

"Organizations that approach reengineering with understanding, commitment and strong executive leadership will succeed at it. The payoffs of successful reengineering are spectacular -- for the individual company, for its managers and its employees, and for the American economy as a whole. The time for hesitation is gone; the time for action is now."

– Michael Hammer & James Champy

"In the last decade, many miracle cures have been prescribed for the ills of American business. Most of them have passed through the patients without discernible effect. Reengineering, in contrast, promises no miracle cure. It offers no simple, quick and painless fix. On the contrary, it entails difficult, strenuous work. It requires that people running companies and working in them change how they think as well as what they do. It requires that companies replace their old practices with entirely new ones. Doing so isn't easy. It cannot be accomplished with motivational lectures and catchy wall posters. "

– Michael Hammer & James Champy

"Leading corporations in nearly every industry have already begun to reengineer. As more companies bring their core processes up to higher levels of performance, the reengineering option becomes a competitive necessity for others in the same industry. Reengineering by even one key participant in a market creates a new benchmark level that all competitors must meet."

– Michael Hammer & James Champy

"Reengineering is still a new endeavor; all of us engaged in it are pioneers. The world of the industrial revolution is giving way to an era of a global economy, powerful information technologies and relentless change. The curtain is rising on the Age of Reengineering. Those who respond to its challenges will write the new rules of American business. All that is needed is the will to succeed and the courage to begin."

– Michael Hammer & James Champy

"Progress is a nice word. But change is its motivator, and change has its enemies."

– Robert Kennedy

"We believe that reengineering is the only thing that stands between many U.S. corporations -- indeed, the U.S. economy -- and disaster."

– Michael Hammer & James Champy

"Business reengineering isn't about fixing anything. Business reengineering means starting all over, starting from scratch."

– Michael Hammer & James Champy