Re-engineering of administrative processes and their impact on improving performance

A Case Study of Ford Motor Company

DJEROUROU Kheira [1], OUAHRANI Medjdoub [2]

[1] University of Mostaganem (Algeria), Kheira.djerouro.etu@univ-mosta.dz.

[2] University of Mostaganem (Algeria), medjdoub.ouahrani@univ-mosta.dz.

Abstract:

Increased competition and globalization compel most companies to be more innovative and adopt new approaches that conform with change. Re-engineering of administrative processes (RAP) is an essential change management approach in any Company. The purpose of this study is to assess the impact of RAP on improving performance of Ford Motor Company. this study applied a descriptive analytical method. The results revealed that Ford is a very adaptive Company which can fastly respond to dynamic market. Repeated RAP activities helped Ford motors Company to improve its performance and to remain from the top world motor companies.

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

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Corresponding author: *Djerourou kheira*, *e-mail:* Kheira.djerouro.etu@univ-mosta.dz.

1. INTRODUCTION

In the area of business, successive technology and economic developments, competition, consumer demands, working conditions are all changing. Change occurs because of so many reasons; it can be external as well as internal. Organizations can`t stay stable, because of increasingly dynamic environments, organizations are continually confronted with the

need to implement changes in strategy, structure, process and culture. There are many strategies and tools that organizations can choose from, in order to manage change successfully.

During the past years, as a management concept, Reengineering of administrative process has gained considerable attention in the world of change management. Because Reengineering of Administrative process has been touted as a vital management tool in order to achieve dramatic improvements and organizational competitiveness by business circles and also to re-invent themselves to achieve performance improvements within this continually changing business world and marketplace. In involves reinventing processes by abolishing the old ones and finding imaginative ways of accomplishing work while designing completely and radically new processes.

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 business process reengineering 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.

One of the most famous examples of Reengineering of Administrative process (RAP) in action was Ford Motor Company`s restructure of its accounts payable department.

Research Problem:

Re-engineering has become a hot topic for academics and research, because of her life crucial 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 companies. In this light, we ask the question:

Is there an impact for the Re-engineering of Administrative process on the improving performance in Ford Motor Company?

Research Hypotheses:

− To develop a deep understanding of essence of the process of RAP to maximize attainment of business goals.

− There is impact for the Re-engineering of Administrative processes on the improving performance.

− Ford Motor Company is one of 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 Ford`s accounts payable process.

− 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 in its history, the study is descriptive in nature.

2. Theoretical Framework

The rapidly growing markets, information and awareness in the world demand organizations to change their administrative processes to compete globally. Organizations are taking initiatives to provide better and different services to their customers in different ways to meet the expectations of the customers. Rabid improvements in the technology have forced the organizations to change their strategy, policies and capacities. Re-engineering of Administrative processes (RAP)is also important and organizations are using this approach now days to improve their performance, to become more efficient and effective.

Re-engineering of Administrative processes approach is better

because it focuses on those goals, objectives and targets which are not only understandable but also easy to attain to reduce the cost, improve the customer satisfaction, loyalty and performance of the organizations.

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 & ozalp, 2010)

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

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

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)

Within all the above definitions, The Re-engineering of Administrative processes is one of these most popular change management approaches which have attracted great attention in this world of change recently, its also oprerations interests inimproving the performance.

2.1 Principles of Re-engineering of Administrative processes:

As part of his analysis, Hammer (1990) listed seven principles of re-engineering. (Peppard & Rowland, 1995)

- **Organize around processes and outcomes, not tasks:**

Re-engineering the system enables assigning the responsibility of an entire process to a single person and designing that person`s job around an objective or outcome, such as a complete process, instead of one of the tasks necessary to complete the process.

- **Treat geographically dispersed resources as though they were centralized:**

Information technology allows firms to virtually centralize their resources, aggregating the resources of multiple locations. Economies of scale are then used to decrease costs.

- **Capture data once and at its source:**

Information that is gathered at the source has fewer chances of having error introduced into it. Rather than having "accountants" generate information from processes, which is then sent to other accountants, this principle focuses on generating the information at the time it is developed, Electronic data interchange(EDI) data developed by the customer in formulating the order information can be used directly by the vendor, eliminating the need for duplicating data.

- **Subsume information – processing work into the real work that produces that produces the information:**

This principle suggests that people who produce the information should also process it. Doing as this principle states, will allow companies reduce their time delays, errors and help them work more effectively and efficiently. In the past, we could see examples of companies which set up departments that are separate from other departments and just process information that are produced by other departments.

- **Have those who use the output of the process, perform the process:**

Organizations are composed of discrete departments each operates specific processes. Each department performs its specific type of work and transmits its finished work to another department. This way of doing business works but it is a slow and bureaucratic process. This principle states that people who use information from the system should be those who perform the process that produces that information.

- **Put the decision point where the work is performed and build control into the process:**

In many organizations and processes, those who do the work are

different from those responsible for making decisions about the work. This principle indicates that people who do the work, possibly supported by IT, should be allocated decision-making rights or responsibilities.

- **Link parallel activities instead of integrating their results:**

This principal claims that instead of integrating tasks after they are finished, connections should be formed between parallel functions, teams and coordination should be established while their tasks are being done.

2.2 Companies in need for Re-engineering of Administrative processes:

According to Hammer and Champy there are three possible situations that a company takes on reengineering:

Firstly, the company may be in a desperate situation. For instance, the company`s costs may 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. (Chan & Choi, 1997)

3. A Case Study

The past decade has been very big on change. With new technology being developed at such a breakneck pace. A lot of Companies started carrying out RAP initiative. There area lot of the both successful and catastrophic RAP examples in history, one of the most famous being that of Ford.

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). (Sanjeev, Surabhi, Kavita, & Abhilash, 2016)

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.

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:

- When the purchasing de department would write a purchase order, they sent a copy to accounts payable,
- Then, the material control would receive the goods, and send a copy of the related document to accounts payable.
- 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. the process flow chart
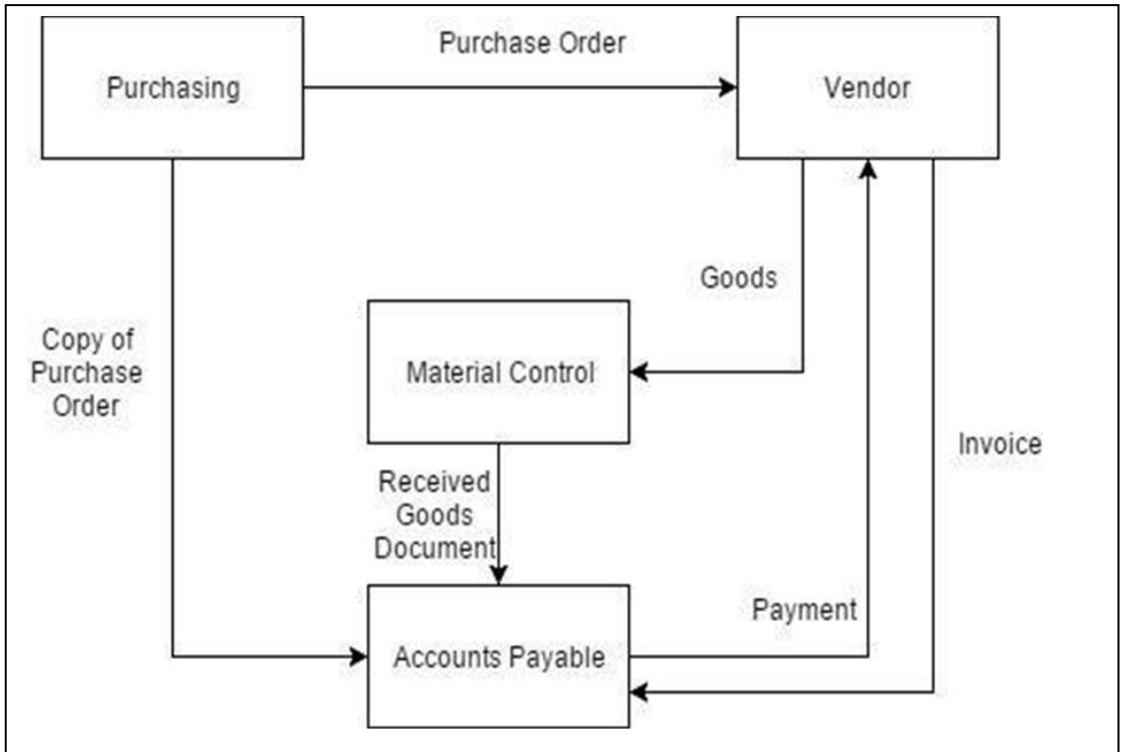
Source: (Alameemi, 2014)

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 "invoice less 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.

Table 1. The problem with this process

Performance Measure	Old Process
Cost	The company is spending too much in salaries of the employees to handle the entire process. Also the time it takes before the entire process is done is time lost for production
Speed	• The process takes time and has redundancies. • The accounts payable department needs receive 3 documents for this process all without the aid of computers: purchase order, receiving document and invoice from the vendor. • Each task needs to be initiated by personnel in order for the process to be run and has to wait for each personnel to initiate the task before another rask can be done.
Quality	The process is prone to human errors and confusion.
Service	The service to the customer is impacted as the manufacturing time.

Source: (Buncaras, 2019)

Fig.2. Accounts payable new
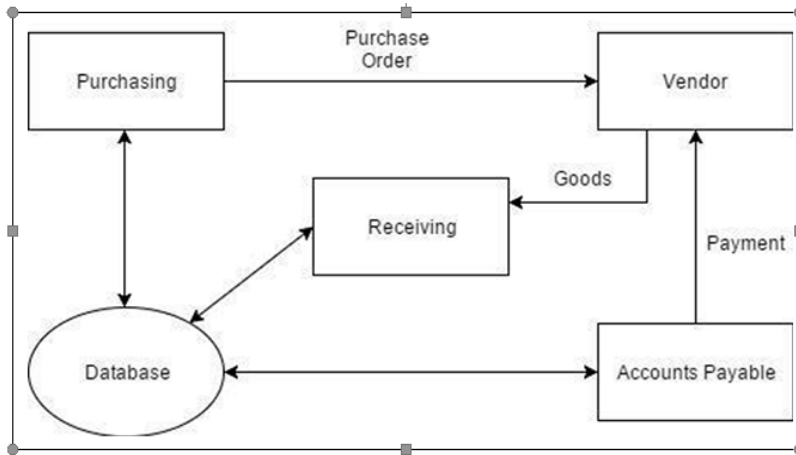
So as is the case with RAP, Ford Completely recreated the process digitally.

− Purchasing issues an order and inputs it into an online database.

− Material control receives the goods and cross-references with the database to make sur it Matches an order.

− If there`s a match, material control accepts the order on the computer.

Table 2. Radical change in the performance measure after RAP

Performance Measure	Improvements
Cost	Reduced their workforce by 75% hence less cost to the company when it comes to salaries of employees.
Speed	• The waiting time before the document reach the accounts payable department was reduced. • They had increased vendor relationship as the vendor no longer has to wait long before they can get the payment from the accounts payable department.
Quality	• Human errors are lessened as it is now centralized and digitized. • If there are errors, it is easier to make corrections.
Service	The company`s productivity increased dramatically as there are no more delays in the purchasing of the raw materials

Table 3. Ford accounts Payable

Before	After
More than 500 accounts payable clerks matched purchase order, receiving documents, and invoices and then issued payment. It was slow and cumbersome. Mismatches were common.	Reengineer "procurement" instead of AP process. The new process cuts head count in AP by 75%. Invoices are eliminated. Matching is computerized. Accuracy is improved.

Source: (School of Management, 2004)

5. CONCLUSION

One of the main lessons learned from this, can be summarised by the question why should we automate something that we do not need to do? We better redesign first our process so that only those things that actually need to be done are there and then automation becomes incredibly more effective, thus the importance of redesign before automation. You know thinking about redesigning the structure of the process before we actually throw in technology at it. And that`s what motivated the title of the article in Harvard business reviews that popularised this approach which was titled don`t automate, obliterate.

some results as follows:

- Fords discovered that reengineering only the accounts payable department was futile. The appropriate focus of the effort was what might be called the goods acquisition process, which included purchasing and receiving as well as accounts payable.
- When Ford reengineering its payables, receiving clerks on the dock had to learn to use computer terminals to check shipments, and they had to make decisions about whether to accept the goods.
- Purchasing agents also had to assume new responsibilities- like making sure the purchase orders they entered into the databases had the correct information about where to send the check.

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