MiniCase for Quiz-No2 – Multimedia Information Strategic Planning

Subject: "Don’t Reengineer. Realign."

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When companies began posting poor earnings results last spring, they moved to lay off employees and cut costs. Besides such firms as the Xerox and Whirlpool corporations, high-tech leaders like the Dell Computer Corporation and Cisco Systems Inc. joined the trend. Indeed, nearly half of the 804 executives at U.S. firms surveyed in April by the American Management Association said their companies would not meet revenue targets set at the beginning of the year, and 64 percent had already cut jobs and imposed hiring freezes.

Executives who take this reactive approach will soon discover that announcing a layoff is easy. The hard part is deciding which positions (and people) to eliminate. Harder still is getting work done effectively after those people are gone.

In the early 1990s, the solution of choice was reengineering, a tool that promised to “radically transform” work processes and deliver “quantum improvements” in performance. This method was popularized by the 1993 book Reengineering the Corporation: A Manifesto for Business Revolution, by Michael Hammer and James Champy. Unfortunately, the promise of reengineering did not match the results. Once the pressure for change dissipated, excised costs and personnel usually returned, leaving organizations inefficient and overstaffed - again.

Despite its record, reengineering is still around, in practice if not in name. Unless executives select a different approach to change, many of them will be forced to rely on the concepts of reengineering as the only way they know to make an organization run with fewer resources.

Managers can break out of this rut with an organizational model we call “strategic alignment.” Unlike reengineering, this new model does not impose rigid processes on organizations. Instead, it creates a corporate environment in which organizational elements, such as structure, processes, objectives, measures, and incentives, lead managers to make decisions that improve financial and operating performance. Strategic alignment impels managers to work out the tensions that often result in redundant staff and underperformance.

The logic of strategic alignment becomes clear when it is contrasted with reengineering, which is based on the century-old theory that variation is waste. At its heart, reengineering seeks to root out variation by routinizing, and if possible automating, core business processes. This approach makes sense when applied to clerical, easily measured work, like insurance claims processing. But reengineering’s bias toward static rules means it cannot accommodate the dynamic thinking and actions of humans in a knowledge economy. What’s more, reengineering underestimates personal motivation as an influence on individuals’ decisions.

Strategic alignment avoids these traps through two simple premises:

• Managers are rational actors.

They make decisions based on the incentives, constraints, and information in their environment. To improve performance, companies must change the factors that influence managers’ behavior.

• Organizations are complex, dynamic systems.

The factors influencing managers’ behavior constantly interact. If factors are misaligned, the result can be excessive internal conflict and unintended consequences.
Unfortunately, most executives struggle with their organizational design. The complexity is daunting, with thousands of design decisions to be made across organizational units. Realignment requires senior managers to see the big picture and push for deep-rooted changes.

Realigning an organization is arduous, but the payoff can be substantial. For example, we recently worked with a consumer packaged goods company that never hit its profit targets despite waves of overhead reductions. The root cause was a tension that arose because the company was simultaneously managed along brand and channel dimensions. Managers from both sides had added staff to corporate headquarters in a misguided attempt to reconcile the two competing views of the business.

To address the problem, the company created an organizational model that, first, acknowledged this inherent complexity and, second, deployed mechanisms to manage the trade-offs between brands and channels. A common profitability metric encouraged sales and marketing managers to work out their clashes directly, without constant intervention by middle managers. Indeed, these middle managers lost much of their organizational purpose once they were no longer needed to second-guess other managers. As a result, the retooled organization eliminated most of this layer of management, further enhancing efficiency and lowering head count.

Alignment does not micro-manage employees, demanding they use the one best way to do things. Instead, its system-wide, iterative approach balances competing forces so the right decisions are made naturally and logically. As circumstances change — through acquisitions, new technologies, or shifts in strategy, for example — the system rebalances. Getting the alignment right will provide benefits beyond the reach of reengineering.

**Instructions.**

Read the Minicase article above and answer the following questions.

**Q1.** This article puts forth the opinion that strategic alignment is a better option than reengineering. One of the reasons said was that “reengineering cannot accommodate the dynamic thinking and actions of humans in a knowledge economy”. Why do you think that is the case?  

[5 points]

**Q2.** An example cited in the article above describes a company having problems in reaching profit targets despite overheads reductions and cutting costs. What was the real problem? How was the problem solved through realignment?  

[5 points]