CHAPTER 2

THEORETICAL FOUNDATION

2.1. The Customers

It is important for managers to consider customer and their needs. In getting close to the customer by supplying their needs for high quality products and services at a price they can afford and especially for company achieve an organization's goals.

Information is important to manage an organization successfully and the most important one is know what the customer wants. Therefore, in the same way as an environmental monitoring system suggested earlier, we need a customer monitoring system. A system needs to be set up to find out who the customers are or will be and what they want. It must be oriented towards the future and the concept of the customer must be defined broadly.

Taking the definition to the extreme, each person can be a "customer" of every other person inside the organization, as well as the customer outside recipients of services provided by each person in the organization. As for managers it is how to develop a quality culture in the organization.

There are also two primary demand factors, demographic and geographic, which affect the market for goods and services in different industries.

Demographic factors include changes in the population and areas such as age and income distribution. Those changes provide threats or opportunities to an organization and have to be taken into consideration.

Geographic factors must also be considered since new locations for expansion or relocation are often required. The need for such changes may be due to customer demand or operating costs.

2.2. Customer Service

For most service organizations, this vision will be based on either experience of excellent service from other service providers or from a conscious attempt to find out what others are capable of achieving. (Clustterbuck David et al., 1993, p.8) The vision for customer service can be implemented and made a reality with pay attention to four areas (see figure 2.1).

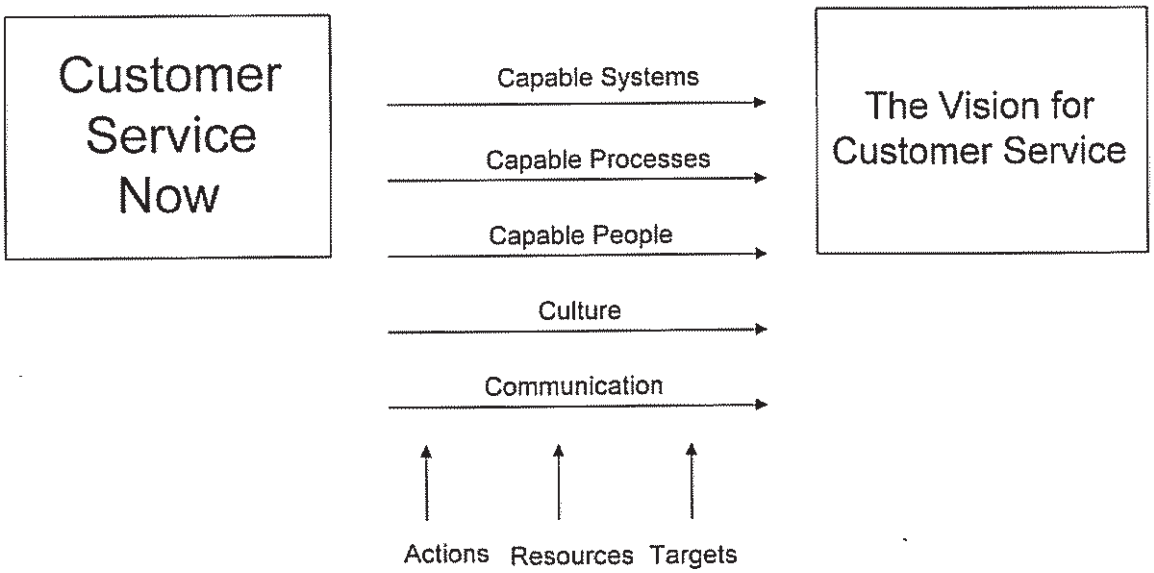

Figure 2.1. A Route Map for Change (Clutterbuck, David et al., 1993, p.8)

2.2.1. Capable systems and process

We need to ensure that the means of achieving the vision are embedded in the processes, systems and structures of the service delivery system. Processes and systems that waste time and need many resources proliferate in many service organizations. Why should it take several weeks to process an application for a mortgage or insurance policy, for instance, when the actual work required only takes minutes?

Those service companies, which recognize the need to align their internal processes with the needs of their customers, are unraveling the spaghetti of their organizational processes. This often requires a major restructuring which cuts across traditional functional boundaries within the organization.

2.2.2. Capable people

Often, service organizations expect staff to be capable of coping with poor processes. The poorly designed supermarket checkout scanner, which causes fatigue to the operator, does not help that person to respond to the needs of customers. Capable systems enable staff and customers to play their part in the service activity.

Front-line staff - sometimes called boundary spanners - fills the critical gap between the service organization and the customer. To fulfill this role well, they need clearly defined roles and tasks and the ability to do the job, established by recruitment and training. Excellent service providers also recognize the power of the service team to give mutual support.

2.2.3. Culture

Organizational culture plays a central role in allowing capable people to work capable processes. The achievement of the service vision in many cases only becomes a possibility when the way of the organization works changes fundamentally. Most experts of organizational change recognize that real and lasting shifts only come about if there are sustained alterations in the values of the organization. Cosmetic pretensions to have changed are more likely to produce the wolf of poor service in the sheep's clothing of customer friendliness - something many small businesses would accuse the retail banks of during the recession of the last few years.

2.2.4. Communication

Much of the research on service quality has revealed misconceptions between the various players in the service between customers and managers, between managers and front-line staff and between front-line and supports staff. Communication is concerned with gathering data and information, transferring messages and making sure they have been received and understood. Our model for communication is holistic, taking account of all parties who have either a direct or an indirect interest in service activities. It recognizes existing and potential customers, existing and potential employees, suppliers and agencies that might have an influence on the organization's activities.

2.3. Business Process Reengineering

BPR is the new paradigm used by successful companies to organize and conduct their business to achieve outstanding results. It fundamentally alters the way a company converts inputs to outputs (Tan, Victor S.L., 1994, p.39).

If focuses on innovation, speed, service and quality, BPR will call for business processes to be looked at in terms of organizational units instead of individual tasks. It goes about determining the ideal relationships between these units. BPR provides super-efficient processes that bring about radical improvements. (Tan, Victor S.L., 1994, p.39) In brief, there are five basic steps to going about re-engineering a process in a company (as see figure 2.2).

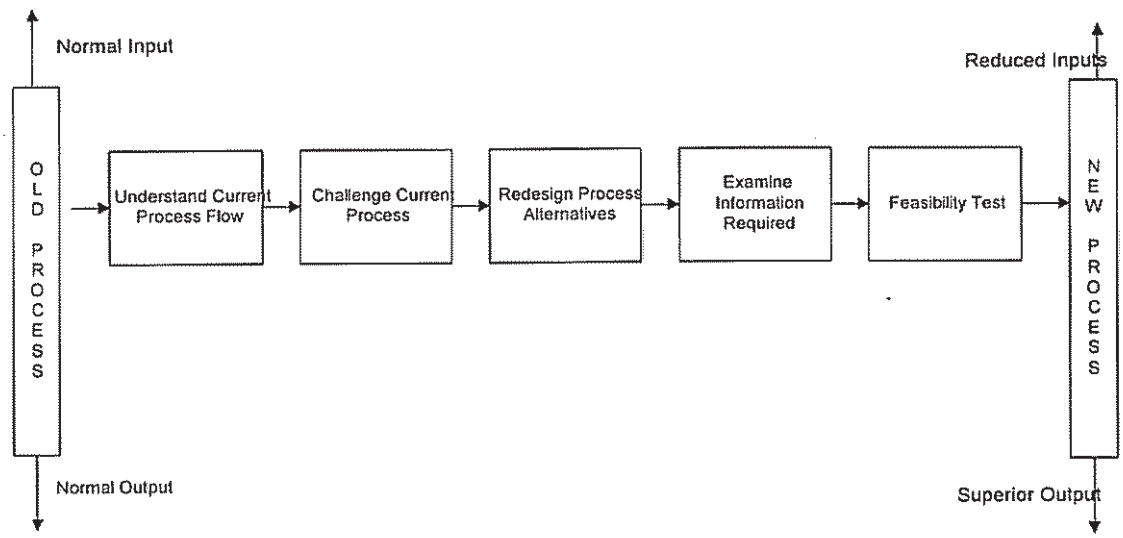

Figure 2.2. Reengineering a New Business Process (Tan, Victor S.L., 1994, p.39)

2.3.1. Understand the Current Process Flow

BPR is undertaken with the conviction that significant improvements in the performance of the existing process are critically needed. The first step is to document the actual current process flow. This is done by mapping out the interaction of the units that perform the production processes on the organization level. The process flow should depict the input-output relationships among suppliers, organizational units and consumers. A thorough understanding of the existing process flow will provide the basis to re-design a new and improved process.

2.3.2. Challenge the Current Process

This is a critical step requiring the accepted past assumptions questions. No stones should be left unturned in the search for a better process. No questions should be too sensitive or painful to ask. In fact, to stimulate creative solutions. A barrage of questions needs to be asked: why is the existing process performed as it is? Are there activities in the process that do not add value? Are there activities that are missing in the process that can add value? Which are the organizational units that should or should not be involved in the process?

2.3.3. Explore Redesign Alternatives

The search for a revolutionary process that can bring significant performance improvement requires a creative approach. This calls for breaking away from outdated models, rules and order governing the existing operations. Unless a company breaks away from the old paradigm, the new process will simply be an enhancement of the normal work process with incremental improvements. In considering alternatives, effort should be taken to assess whether the existing process can be designed differently. The impact of the new process should also be assessed in the light of suggested alternatives.

2.3.4. Examine Information Required to Support New Process Flow

Information is a key ingredient in enabling a new process to function. It is therefore critical to examine the flux of the information that is necessary to support the new process flow. An assessment must be made. As the information required between organization units. The best channel of communicating this information must also be considered.

2.3.5. Conduct Feasibility Test of New Process Design

The final step in BPR is to identify the additional resources - human, financial and physical that are required to ensure the success of the new process. While the formulating of new processes should not be hampered by the lack of resources, the reality is that organizations will be most likely to assess the feasibility of implementation based on the

availability of resources. It is thus vital to conduct a feasibility check on the new process before it is recommended for implementation.

2.4. The impact of BPR

BPR strives to achieve effective and efficient outcome through the four key emphases (Tan, Victor S.L., 1994, p.41):

2.4.1. Maximizing Value - Added Content

Non-value - added activity are those that not to add directly to the value of the finished output. Hence, redundancies and unnecessary approvals or checking and re-checking should be identified and eliminated

2.4.2. Compressing Process Time

Synchronized workflow with the smooth, timely and continuous flux of materials and information help to compress time. This can be achieved through the integration and coordination of cross-functional activities.

Carrying out the relevant activities efficiently also shortens time cycle. Employee productivity has an impact on process time. Radical improvements are often achieved not by working harder but by working smartly, and by applying relevant acquired skills and specialized knowledge.

2.4.3. Maximizing Flexibility

The ability to make decisions at the appropriate time increases flexibility, for example, in manufacturing operations, if resources are committed too early, changes to finished work or work in process can be costly. Likewise, if decisions are made too late, significant additional costs may be required to meet commitments.

Organizations can also improve flexibility by using information technology to provide 'what if' capabilities to assist in decision-making. Integrated systems and Local Area Network (LANs) can be used to reroute information for decision making to multiple

locations. Lap top computer provides the capability to access information for communications off-site if necessary. Hence, competitiveness is enhanced not only through an increased number of feasible options to meet customer requirements but also through the speed and quality of decisions.

2.4.4. Meeting Customer Needs

Accurate customer feedback is needed to ensure a process produces quality outputs. For examples, a new loan application process requires customer satisfaction in terms of an acceptable level of accuracy, content, convenience, timeliness and speed. The key to improvements is to design customer driven processes. This can only be done through staying in tune with customer needs and critically challenging existing business processes to ascertain whether they enhance the value of products or services which customers view as important.

2.5. Benchmarking

Benchmarking is about improving competitive position and using best practice to stimulate radical innovation rather than just seeking minor. Incremental improvements on historic performance (Peters, Glen, 1994, p.20). This can be done through benchmarking with vision to strive for and set standards.

The premise is basic (Loh, Michael, 1997, p.51), Benchmarking identifies those practices that have resulted in outstanding performance of successful companies. It identifies company's business applications. The greatest benefit comes from studying practices - the way that works is done rather than results, and from involving line managers in the process. Thus benchmarking is an operational process of continuous learning and adaptation that results in the development of an improved organization. Reengineering, such continuous improvement is not limited to incremental gains. It also implies a need for rapid breakthroughs. More importantly, benchmarking establishes standards of performance.

Benchmarking uses a basic four-step approach (Loh, Michael, 1997, p.54). The four steps follow the fundamental quality method as described by Deming: plan, do, check, and act.

In the first step, planning the benchmarking study, you select and define the process that is to be studied; identify the measures of process performance; evaluated your organization's own capability at this process; and determine which companies should be studied.

The second step in benchmarking is to conduct secondary and primary research. This includes an investigation of public disclosures about the particular process at target companies. It is important to learn as much as possible before making any direct contact because strange as it may seem, many companies are completely unaware of what has been written about them in the press and trade publications. More benefits can be derived if direct communication with companies includes site visits to make detailed observations.

The third step in benchmarking is analysis of the gathered data to determine study findings and recommendations. The analysis comprises several aspects; determining the magnitude of the performance gaps between companies, using the benchmarking metrics identified during the planning step and identifying the process enablers that facilitated the performance improvements at the successful companies.

The final step in benchmarking involves the adaptation, improvement and implementation of appropriate benchmark process enablers. The objective of benchmarking is to change an organization in a way that increases its performance. Thus benchmarking is a process with a built in bias for action. If companies are really serious about benchmarking they must accept the fact that it goes beyond conducting a business process study or obtaining a relative measure of business performance. Like reengineering or for that matter, visioning or even training on telephone-handling techniques does not embark on anything any intention of carrying through to fruition. It is not fair to make people always feel like bridesmaids but never the bride.

Benchmarking is a tool to achieve business and competitive objectives. It is powerful and extremely effective when used for the right reasons and aligned with

organization strategy. Organization must still decide which markets to serve and determine the strengths that will enable them to gain competitive advantage. Benchmarking is one tool to help organizations develop those strengths and reduce weaknesses (Besterfield, Dale H. 1995, p.244).

To benchmark, operating companies are furnished with guidelines based on a number of key concepts such as (Loh Michael, 1997, p.61):

- The customer defines quality.

  Customers are the only ones who determine if you are truly good.
- Operations and decisions need to be based upon facts and data.
- Shorten the response time of all operations and processes