McKinsey BPR Approach

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1 General aspects

Also McKinsey uses a set of basic guiding principles, or prerequisites, which must be satisfied in order to achieve reengineering success. McKinsey, with its background in strategy, organizational change and rationalization, traditionally has a strong organizational scope, and emphasizes the consideration of organizational variables. The firm has developed its own reengineering flavor, going under the name of "Core Process Redesign". The focus of the McKinsey approach is on primary, customer value adding processes and the necessary changes of organizational variables to establish these processes.

Despite the fact that the Core Process Redesign approach is conceptually de-composed into three phases, McKinsey emphasizes the fact, that these three phases, applied to a reengineering project, can not be divided. Additionally it is pointed out, that the change process is highly iterative, i.e. that the application of the model, despite its graphical representation as a straightforward process, is not linear. The diagnostic phase is considered as being the key for the identification of performance improvement opportunities and obstacles.

2 The role of IT

Even though McKinsey recognizes the need for IT analysis in reengineering projects, there is no emphasis on that point, i.e. that IT analysis and design are not considered as main objectives of a reengineering effort. McKinsey identifies the role of IT during the different phases of the BPR exercise as following.

Diagnosis. During this stage, the fit of the IT architecture and organization with the needs implied by business is assessed. This is achieved through a simultaneous mapping of process and information flows, together with the identification of the architectural and organizational barriers to change.

Redesign. The different process design options are assessed with regard to the technological implications. This includes the consideration of investments required for technology development, implementation and deployment, the possible effects ot IT-use on lead times and operational costs and the benefits from eliminating non value adding work.

Pilot test. When new processes are tested in pilot studies, the performance of the new IT systems is measured according to the capacity required to fulfill the process objectives. This business simulation phase investigates the functioning and co-functioning of the different technological components. Depending on the complexity of the targeted solution and the level of business criticality of technology, this simulation phase can be of high importance.

Generally, McKinsey accepts the fact, that IT often accounts for substantial improvements in the areas of cycle time and improved information flow. However, redesigning the IT core architecture must not necessarily be a part of the redesign effort. The replacement of IT with newer systems is no main objective, and not a goal in itself. Much IT value can be realized by improving information flow and access with innovative solutions within the existing infrastructure, keeping the need for IT investments on a moderate level.

Observing the increasing importance of IT for many business, McKinsey also reconsidered its service offering. Since 1998 an information technology practice, the Business Technology Office (BTO), has been established as a virtual organization with office locations in various places around the world. In order to extend the firms service offering into the electronic commerce market, McKinsey has also recently established a practice in this field under the name of @McKinsey.

3Reengineering principles

McKinsey uses nine reengineering principles, which are divided into two time related categories. The first category contains prerequisites, i.e. factors to be addressed in advance of embarking on the improvement effort. The second category describes the aspects requiring attention during the project.

Before

- **Senior management readiness.** The ability of senior management of being open to organizational change, to understand its implications and possible outcomes, is crucial to the success of any improvement effort, but is also a major enabler of positive performance impact.

- **Strategy must drive reengineering.** Business strategy must be sound, well described and feasible in order to provide a context for core process definitions and to allow the creation of processes being aligned with the business' objectives and performance requirements.

During

- **Cross functional participation.** The process redesign teams must include people from the relevant business functions, i.e. all functions being affected by the initiative. As part of the choice of team-members it must also considered that they are serving as members of the project team, not as stakeholders of the existing business functions.

- **Focus on performance metrics.** The selection and application of relevant performance metrics is critical to achieving success in high impact areas. Performance metrics must also fit the business objectives and it must be considered that metrics in a process-based organization are substantially different from those being used in a functional structure.

- **Analytical depth.** In order to create a balance between breath and depth of the analysis, the aspects of detail richness and holistic perspective must be considered.

This includes to emphasize both the need to adopt an end-to-end process view, and the need for a quick identification of leverage points.

- **Solid diagnostic.** Of the two basic reengineering approaches, either starting with process design from a clean slate, or departing from the current processes, McKinsey proposes the latter one. A careful process diagnosis is advocated in order to create a redesign based on facts, which is considered more powerful than if current processes were disregarded, since improvement potentials and performance gaps might remain undetected.

- **Performance impact.** While a reengineering project as a whole ia aiming at long-term improvements, it is essential that substantial benefits can be reaped already during the initial 6-12 months, in order to create positive examples and sustain a climate of success in the organization.

- **Creativity.** The ideas generated in the initial phase must be taken into account without constraints, i.e. that nothing is principally disregarded, while the feasibility is tested during a later stage. This aproach, similar to the idea collection phase in brainstorming sessions, prevents innovative ideas from being lost or abandoned.

- **Accountability.** The overall performance of a process must be referenced to a single point, i.e. that factors influencing process performance must be identifiable and measurable.

4 The reengineering approach

A reengineering effort guided by McKinsey typically involves three broad phases with different time frames – diagnostic, redesign, and implementation, each of them consisting of a number of partial steps and activities.
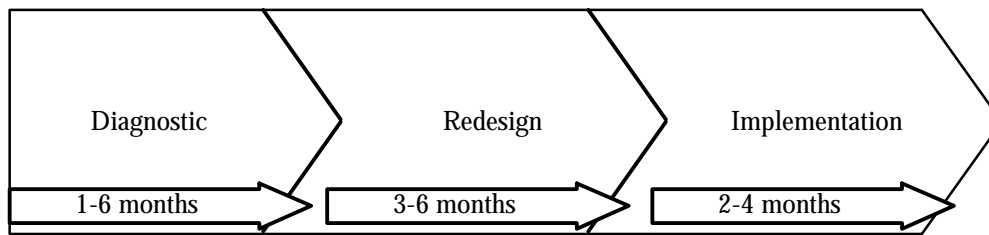
Figure 1: McKinsey's reengineering phases

Diagnostic - **Steps**

- **Definition of core process scope.** The initial step is to identify the organization's core processes - the processes being most important to the implementation of business strategy and with the highest value delivery. The scope refers to their organizational span, i.e. their range across business functions.

- **Quantification of performance gaps.** Performance gaps, i.e. the difference between targeted and current performance need to be identified in a way that makes them quantifiable and measurable during the diagnosis phase.

- **Diagnosis of existing processes.** The existing processes need to be scrutinized and the previously identified performance gaps diagnosed. The underlying causes are derived by analyzing the activities being part of the process in terms of speed, quality and cost. Additionally, the relations and interdependencies between activities are analyzed in order to identify wait-states and insufficient coordination and communication.

Diagnostic - Activities

- **Develop value driver understanding.** Business value is created by certain drivers, and these factors must be understood in order to identify and assess the value creating potential of organizational processes. Value drivers are those activities that make a process' output more valuable than its input.

- **Define 3-5 core processes.** For each organization, it should be possible to identify a limited set or core processes, i.e. processes where the primary

value stream takes place and that have the highest contribution to business objective achievement.

- **Identify core processes with maximum performance impact.** In order to achieve substantial improvements fast, the core processes with the highest impact on organizational performance are selected and targeted as the initial objects. This does, however, not mean that the remaining processes can be neglected. The argument for selecting a sub-set of processes first follows the Pareto-principle, i.e. that a small number of processes account for the largest share of potential improvement.

- **Identify process activities.** Each process can be broken down into a number of activities. This de-composition process is iteratively continued until the level of desired remaining complexity has been reached, i.e. that the process is broken down into nearly decomposable sub-systems.

- **Set performance goals.** For each of the selected processes, a set of performance goals is developed. These goals are set upon the basis of an ideal process design and are used in order to identify the magnitude of the identified performance gaps.

- **Measure current performance and identify performance gaps.** For each of the processes chosen for investigation, the relevant performance variables are measured and related to the identified performance goals. The magnitude of performance gaps, i.e. the difference between desired and actual performance, is identified in the primary dimensions time, quality and cost.

- **Identify sources of pathologies.** While performance gaps are symptoms of pathologies, the underlying sources need to be revealed. For this identification process, it is necessary to look beyond the boundaries of a specific process, since possible causes might be found in interdependencies with other processes.

- **Determine causes.** The process of determining the causes of pathologies includes the verification of possible causes that have been identified in the

previous activity. It also means to divide direct and indirect causes and to track symptoms over multiple steps to the original generator.

Redesign - Steps

- **Definition of redesign vision.** The redesign phase starts with an overall description of the future objectives of the organization and the business processes existing within it. It also describes the new business process at an overall level and their primary sub-processes and interconnections.

- **Redesign of processes in detail.** In this phase, a detailed map of the processes' future design is developed, including all sub-processes, relations between activities being part of the processes, interrelations, process-teams, etc. The level of detail can vary significantly and is mainly depending from the desired complexity to remain and the amount of local decision making and design that is considered feasible.

- **Pilot test of new processes.** The new process design needs to be tested in order to verify the process logic. The test also includes the assessment of the resource allocation and the process' interconnections with other processes.

Redesign - Activities

- **Develop clean slate process design.** The design of the new process is following the clean-slate approach. Following this rationale means to develop a new process without taking departure from the existing one and to rearrange it. However, it does not mean to disregard the results of the analysis of the existing process. Learning from analysis during new process design means to consider the shortcomings of the existing process that have been identified.

- **Identify IT and organizational implications for new processes.** A new process design will possibly new opportunities and needs with regard to IT-use and the organization being required for establishing the process. These

implications need to be identified and described in order inform the change specification activity.

- **Generate redesign initiatives.** Process redesign activities need to be initiated from within the organization by gathering together people who bring their specific competencies and capabilities into the design process. It is crucial, that the design activity is initiated and conducted within the company, and not done by outsiders.

- **Specify changes required in practices, organizational structure and information systems.** Based on the process design scheme and the identified organizational and technological implications, the actual changes in work practices, organizational structures and technological systems are outlined. This process also includes cost estimations for the necessary changes, that are balanced against the targeted benefits from the new process.

- **Design process pilots and system prototype (if necessary), test pilots in an iterative way.** The new processes are developed as pilots, together with the technological support systems. Within a "process laboratory", the new process are tested and tuned iteratively.

Implementation - Steps

- **Define implementation plan.** The implementation plan consists of a road-map for the process implementation and roll-out. It contains descriptions of the implementation time-frame, resources, migration activities, training, and other related activities.

- **Roll out initiatives throughout the organization.** In the same way as process design, the roll-out of new processes must be driven internally. In many cases, the process design teams also take on responsibility for implementation.

Implementation - Activities

- **Identify required phasing, resource assignment and performance objectives.** The initial activity of the implementation phase contains the development of a master-plan for the new process introduction. In order to avoid inter-locks and mutual dependencies, it becomes necessary to develop a phasing model. Also, the resources being required for the implementation must be defined and assigned.

- **Designate change management leadership.** Change management can be facilitated, but not driven by external consultants. Consequently, selecting people that are determined and dedicated to the change effort is important to manage the actual change process. At the same time, change managers need a sound understanding of the organization and business in order to foresee and overcome barriers to change.

- **Develop actual organizational change management program.** The change management program is the detailed description of *how* the new processes, and the related organization and technology are to be introduced. A change management program includes time-plans, training programs, workshops, etc., but also resource allocations, feedback mechanisms and adverse events handling. Another important aspect is the migration plan, describing how changes can be introduced without disrupting ongoing operations.

- **Launch initiatives.** In order to sustain momentum, process implementations are normally conducted in parallel, i.e. that multiple processes are introduced simultaneously. To launch several implementation initiatives at the same time therefore requires high-level project management capabilities.

- **Manage to explicit performance objectives.** Although the new process designs have been tested and tuned as pilots in a lab-environment, the "real" processes need to be adjusted in order to ensure performance according to the defined objectives. This fine-tuning process is the final stage of implementation and has no clearly defined end. From here, process

management and improvement is carried forward into a continuous improvement phase.

5 Final considerations

Typical McKinsey guided process improvement efforts have a strong focus on organizational issues, such as the reduction of levels in the structural organization, the re-organization of units and departments, and the development of organizational strategies. When considering the objective, approach, and scope used during reengineering efforts, the following picture emerges.

Objective	Approach	Scope
Reengineering is a targeted effort to gain substantial improvements in business unit performance...	by reconfiguring activities and information flows...	that are sufficiently broad to comprise core processes.
• One time effort • Major bottom-line impact • Breakthrough performance goals • Simultaneous improvements • Phased impact (short/long term)	• Concurrent information and activity flow redesign • Focus on high leverage areas • Driven by fact base • Iterative design	• One of 3-5 activity/information flows required to deliver value • Cuts across organizational boundaries • Holistic process view