

**THE RELATIONSHIP BETWEEN BUSINESS  
PROCESS REENGINEERING (BPR) AND  
ORGANISATIONAL PERFORMANCE:  
A CASE OF EAST AFRICAN BREWERIES LTD**

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**MARCH 2008**

DECLARATION

This research project is my original work and has not been submitted for a degree in any other University

Signature: ..... Date.....

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This research project has been submitted for examination with my approval as the University supervisor.

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## DEDICATION

This research work is dedicated to Mary, my wife, Edwin, Willies and Ellias. my three sons, who have supported and encouraged me all through the programme.

## ACKNOWLEDGEMENT

My gratitude goes out to many people who have supported me in very many different ways in the course of the research project work. I wish to acknowledge the direct or indirect support I received from these people and institutions.

First and foremost, my utmost appreciation goes to my supervisor, Mr. Duncan Ochoro, whose guidance throughout the course of the research study enabled successful completion of this work in good time. Without his advice and support, this work would not have achieved this level of success.

I am also grateful to the staff at both the Main Campus and Lower Kabete Campus libraries for their guidance in tracing the much-needed books, journals, past projects and materials that were essential for the success of this project.

Most sincere appreciation to all those who responded to the questionnaires and therefore provided the key data and information that was used in this project. To East African Breweries Limited management, which allowed them to provide such confidential information. I also say thank you very much.

Last but not least, to all those whom I have not mentioned by name, but still supported me in one way or another. Top in this group are my immediate family members, friends in the social circles and my colleagues at work.

May God bless you all.

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## ABSTRACT

Re-engineering has been defined as the fundamental rethinking and radical redesign of business processes to bring about dramatic improvements in performance. Business Process Reengineering (BPR) is an approach that aims to achieve a radical rethinking and redesign of organizational process in order to significantly improve key performance measures, such as quality and cost of delivery).

The concept has been implemented by various organizations in Kenya, while many others continue to burn the midnight oil with the puzzle of whether to implement it or not.

East African Breweries Ltd (EABL) is one of the companies in Kenya to have gone full board with implementation of business process reengineering (BPR). consistently over the years. These moves have been in response to the changing local as well as global environment. The outcome has been years of admirable success and sustained growth as measured by its profitability.

This study focuses on the relationship between Business Process Reengineering and organizational performance using the case of EABL. The source of data for this study was Finance Directors and senior managers in the three subsidiaries of EABL in Kenya. These are the people charged with the planning, development and implementation of various BPR processes in EABL.

The main findings of this study are that Business Process Reengineering (BPR) results in a symmetrical relationship with organizational performance. The growth of EABL profits can largely be associated with sustained Business Process Reengineering despite various challenges associated with new changes in an organization.

The study is not an end in itself, but should be evaluated in view of the limitations of a case study. It should not only be useful to all the major manufacturing companies in Kenya, but also EABL in making decisions on whether to implement BPR or not to embrace it as a way of growth. Those intending to conduct research in BPR will also find the findings of this study useful.



## CHAPTER ONE: INTRODUCTION

### 1.1 Background

Hammer (1990) claimed that the major challenge for managers is to obliterate non-value adding work, rather than using technology for automating it. This statement impinging on the general, and more specifically information technology, had been used primarily ; automating existing work, rather than using it as an enabler for making non-value adding work obsolete.

Unlike a company's turnover, an Industry's performance or a nation's gross national product, no one gathers statistics on how successful an organization is at managing change. Nevertheless, over the years, particular types of change initiatives have attracted sufficient attention for it to be possible to gauge the degree of success achieved in implementing them. There are three types of organizational change, which because of their perceived importance, have received considerable attention; the introduction of new technology in the 1980's; the adoption of Total Quality Management (TQM) over the last 15 years, the application of Business Process Re-engineering (BPR) (Bass and 2004).

BPR was hailed as 'the biggest business innovation of the 1990's' (Mill, 1994). Though less well documented than either new technology or TQM, Wastell et al (1994:37) concluded from the available evidence that 'BPR initiatives have typically achieved much less than they promised'. Other studies of BPR have similar conclusions. More specifically, Bryant (1998) cites a reported failure rate for BPR initiatives of 80%. Breslin & McGann (1998) put the failure rate at 60%, whilst Bywater (1997) puts the figure at 70% of cases that leave organizations worse off rather than better off (Hammer & Champy, 1993).

However, the critics were fast to claim that BPR was a way to dehumanize the workplace, increase managerial control, and to justify downsizing, that is, major reduction,

the work force (Grecnbaum 1995, Industry- Week 1994), and a rebirth of Taylorism under a different label.

Despite this critique, re-engineering was adopted at an accelerating pace and by 1993, as many as 65% of the Fortune 500 companies claimed to either have initiated reengineering efforts, or to have plans to do so. This trend was fueled by the fast adoption of BPR by the consulting industry<sup>1</sup>, but also by the study Made in America, conducted by MIT. That showed how companies in many US industries had lagged behind their foreign counterparts in terms of competitiveness, time-to-market and productivity. Despite all this, companies have continued to practice reengineering and succeeded; why has this process continued to dominate the business world?

#### 1.1.1 The need for Reengineering

As one business leader put it, "You don't reengineer unless you have to," and these days, almost everyone has to. In reengineering the Corporation, the driving forces behind reengineering were characterized as the three Cs: customers, competition, and change. Customers have become much more sophisticated and demanding; they have a much greater range of alternatives, are much more knowledgeable about their own needs, and are exerting ever greater pressure on their suppliers. Competition, which at one time was local and relatively gentle, has become global and cutthroat. Whether in geopolitical realities, technology, or customer preferences, the pace of change is dizzying, what was unthinkable yesterday is routine today (Hammer & Stanton, 1996).

In a world of rapid flux, organizations must change their priorities from a traditional focus on planning, control and managed growth, to emphasize speed, innovation, flexibility, quality, service, and cost. It is virtually impossible to retrofit organizations into this new reality. Reengineering is the only solution (Hammer & Stanton, 1996)

In the face of intense competition and other business pressures on large organization, quality initiatives and continuous, incremental process improvements, though still

essential\* will no longer be sufficient. Objectives of 5% or 10% improvement in all business processes each year must give way to efforts to achieve 50%, 100% or even higher improvement levels of change require powerful new tools that will facilitate the fundamental redesign of work (Davenport, 1993).

To be a truly world-class organisation, the company needs to work as a team and all the functional areas of the business need to be properly integrated, with each understanding the importance of cross functional processes. As the basis of competition changes from cost and quality to flexibility and responsiveness, the value of process management is now being recognised. The role that process management can play in creating sustainable competitive advantage was termed Business Process Reengineering (BPR), and was first introduced by Hammer (1990); Davenport and Short (1990). These authors outlined a new approach to the management of processes, which, it was claimed, was producing radical improvements in performance. The three driving forces behind this radical change are an extension of Porter's (Porter, 1980, 1985, 1990) work on competitive advantage, and were summarised by Hammer and Champy (1993) as: Customers who can now be very diverse, segmented, and are expectant of consultation. Competition that has intensified to meet the needs of customers in every niche, and Change that has become pervasive, persistent, faster and in some markets a pre-requisite.

Customers, competition, and change have created a New World for business, such that organizations designed to operate in one environment are inadequately equipped to operate well in another. Companies created to thrive on mass production stability, and growth cannot be simply improved to succeed in a world where customers, competition, and change demand flexibility and quick response. This is also what Drucker (1969) termed the "Age of Discontinuity" or the challenge to the traditional assumptions of business.

Hammer and Champy (1993) have found within struggling US companies the long held belief that all would be all right if only they had the correct product and service

it is the right time. This thinking in a change environment is obsolete due to the limited life span of products. The decision to be made is whether to adopt a radical reengineering approach to change or a more gradual continuous improvement approach based on Total Quality Management (TQM). The choice depends on the magnitude of the needed change, the feasibility of it, and the resources required to accomplish it (Davenport, 1993). Both reengineering and TQM approaches share certain principles and adopt a process perspective, so it is possible to make some general propositions on managing change that will enable a company to reinvent its competitive advantage (Jaworski and Kohli, 1993).

### 1.1.2 Defining Organisational Performance

The Oxford Dictionary defines performance as the act of performing; of doing something; using knowledge as distinguished from merely possessing it, and any recognized accomplishment. Thus, 'performance' can refer to either the 'ends' (results) or the 'means' (actions) that produced the ends. Ends performance (e.g. profit) is necessarily historic in nature because it occurs before being reported. Means performance (e.g. production rate) describes current processes at the time of reporting. Ends performance is, in effect, a later indication of the success or otherwise of previous means performance.

Performance is used to describe, evidence (indicators such as profit) of our previous decisions and behaviours plus evidence, such as strategic behaviours, that we are currently engaged in decisions and behaviours that directly impact current and near-future (e.g. current financial year) outcomes and evidence of current decisions and behaviours that intentionally target the advancement of capabilities of the organisation in the future. Ultimately, organisational performance refers to its ability to attract and retain the 'best' mix, quantity and quality of all types of stake-holders.

### 1.1 J East Africa Breweries Limited (EABL) - History

LABI formerly Kenya Breweries Limited (KBL) is the largest brewing company in East Africa and owns Kenya Breweries, Uganda Breweries, Central Glass Industries, Kenya Malting and United Distillers and Vintners (Kenya) Limited. Kenya Breweries was founded in 1922 by two white settlers, George and Charles Hurst. One of the subsidiaries of KBL (Tanzania Breweries) was started in the 1930s. After being nationalized in 1967, Tanzania Breweries was not properly managed. However, in 1993 the Tanzanian government entered into a joint venture with South African Breweries Limited to run Tanzania Breweries. They turned Tanzania Breweries around.

In 2002, EABL and SAB Miller Pic. effected a share swap of their interests in their subsidiaries: Kenya Breweries Limited and Tanzania Breweries Limited. EABL acquired 20% of the equity of Tanzania Breweries. SABMiller Pic. acquired a 20% equity stake in Kenya Breweries. To expand its market reach, EABL began exporting its products in 1986 and now exports to Australia, Japan, USA, Canada, and Europe.

Last African Breweries Ltd. (EABL) deals in branded alcohol beverage business. The Company has a wide collection of beer and spirit brands with breweries, distilleries, support industries and a distribution network across the East African region. Its operating companies include Kenya Breweries, 20% ownership of Tanzania Breweries Limited (TBL), Port Bell Breweries in Uganda and Central Glass Industries. In its list of products are Beers like Tusker, Pilsner, White Cap, Allsops, Bell Lager, Guinness and Heineken, Non-alcoholic drinks like Malta Guinness and Spirits like Johnnie Walker, Smirnoff, Ricot, Bond 7, V&A and Waragi.

### 1.2 Statement of the Problem

LABI has undertaken various strategic moves following liberalization of Kenya economy. The company has had various changes in its operations, among the initiatives has been outsourcing of the non-core activities, restructuring and downsizing. Modernization of its operation has continued especially its plant. Significant investment in state of the art brewing technology has been made (Njau, 2000).

EABL now ranks among the top undertakings in East Africa and one of the largest growing concerns in Africa (Gikiri 1989). It boasts of an annual turnover of over Ksh 30 billion and controls over 90% of the beer industry in Kenya.

The company has been honored with the accolade of being the most respected company in East Africa five years in a row (2000, 2001, 2002, 2003 and 2004) in a survey conducted by Price Waterhouse Coopers and the Nation Media Group.

The business environment has continued to be challenging over the years but the company has continued to perform well despite all the changes in the environment. Just like all the other organizations, it is an open system (Ansoff, 1984; Porter, 1985; Pearce and Robinson, 1997) it exists in the context of a complex environment.

Karate (2005) concluded that the desirability of implementation of BPR in the Gemstone dealing sector rested on the theoretical prediction that it would lead to significant improvement in the performance of dealers in the development and execution of their strategic business plans. This however was not the result for Kenya companies that adopted BPR. The findings of the study revealed that companies that have implemented BPR do not appear to be doing any better than they were before the change.

Atebe (2001) in her conclusion suggested that, 'further research is therefore of necessity to determine what impact the process has had on organizations that have gone through the process so as to dispel fears of others trying it out'. EABL has taken various initiatives among them being process reengineering in its path to growth (Wangcclu, 2005). The concern then is, what role does BPR play in the performance of EABL? Do we have a relationship between the BPR initiatives and the companies' performance?

### 1.3 The Research Objective

This research project seeks to:

- i) To establish and document the major BPR processes pursued by F.ABL
- ii) To determine the relationship between business process reengineering (RPR) and organizational performance in FABL.

### 1.4 Significance of the Study

The study will benefit manufacturing organizations in the region to arrive at the decision of either to embrace BPR as a way of life or not? The study will help decision makers to see how the company's performance relates to BPR before they can proceed with the initiative. The study will be important to EABI, in understanding and evaluating the value of the various initiatives undertaken on BPR to its performance.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Reengineering

Several authors have provided their own interpretation of the changes being applied to organisation for example Davenport and Short (1990) have described BPR as the analysis and design of work flows and processes within and between organisations. Hammer and Champy (1993) have promoted the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed. Other authors such as Talwar (1993) have focused on the rethinking, restructuring and streamlining of the business structure, processes, methods of working, management systems and external relationships through which value is created and delivered. Pelrozzo and Stepper (1994) on the other hand, believe that BPR involves the concurrent redesign of processes, organisations, and their supporting information systems to achieve radical improvement in time, cost, quality, and customers' regard for the company's products and services. While Lowenthal (1994) describes the fundamental rethinking and redesign of operating processes and organisational structure, the focus is on the organisation's core competencies, to achieve dramatic improvements in organisational performance, as ITIR's essential components.

Reengineering has been defined as 'The fundamental rethinking and radical redesign of business processes to bring about dramatic improvements in performance.' (Hammer and Champy, 1993). Business process Re-Engineering (BPR) is an approach that aims to achieve a radical rethinking and redesign of organizational process in order to significantly improve key performance measures, such as quality and cost of delivery (Bumes, 2004).

The four key words in this definition are 'dramatic, radical, process and redesign'. Let's start near the beginning, with the concept of 'dramatic' improvement. Reengineering is not about making marginal improvements to your business. It is not about making things 1 percent or 10 percent better. It is about making quantum leaps in performance,



achieving breakthroughs. Performance can be measured in various ways - reduced costs, increased speed, and greater accuracy. The choice is yours, depending upon what is important to your business. The hallmark of reengineering is always a dramatic breakthrough in performance. (Humes, 2004)

The second key word is "radical". Radical means going to the root of things, reengineering is not about improving what already exists. Rather, it is about throwing it away and starting over; beginning with the proverbial clean slate and reinventing how you do your work. Some may find this notion extreme, even dangerous. The third key word in the definition is "processes". By a process we mean a group of related tasks that together create value for a customer. For example, order fulfillment is a process, comprising a series of tasks: receiving the order, entering it into a computer, checking the customer's credit, allocating inventory from stock, picking the inventory out of the warehouse, packing it in a box, loading the box into the truck, and so on. Not one of these activities is of the slightest interest or value to the customer. The customer's only concern is with the end result - the delivered goods, created by the sum total of all these related activities (Burnes, 2004)

In traditional organizations, processes are orphans. Fragmented across many organizational units, they are effectively invisible and essentially unmanaged. Yet processes are at the very heart of every enterprise. They are the means by which companies create value for their customers (Burnes, 2004)

When fulfilling a customer's order takes a long time, usually it is not because it takes a long time to perform the required tasks. Rather, it is the handoffs between the tasks that devour time and money. Reengineering says that such fragmentation lies at the heart of our performance problems and that the only way to achieve dramatic performance improvement is by holistically addressing our end-to-end processes.

The fourth key word in the definition is "redesign." Reengineering is about the design of the process. It done. We often think of design as applying only to products. Yet.

Reengineering is based on the premise that the design of processes - how work is done - is of essential importance. Your employees may be smart and capable, well trained, highly motivated, and encouraged to perform by all manner of incentives. But if the work they are doing is poorly conceived and poorly designed, it will not be well executed, and the likelihood of organisational success is well-designed processes.

## 2.2 What Reengineering is not

There are many widespread misconceptions about the nature of reengineering (Hammer & Stanton, 1996).

Reengineering is not downsizing. Downsizing means getting rid of people and jobs to improve short term financial results, Reengineering has nothing in common with that kind of superficial and reactive response to problems. Reengineering is about rethinking work from the ground up in order to eliminate work that is not necessary and to find better ways of doing that work. Reengineering eliminates work, not jobs or people. It is true that in many cases, when you radically rethink your work, you may need fewer people to perform it. But that is not the essence or the intent of the reengineering (Hammer & Stanton, 1996)

Reengineering is also not "restructuring", usually a euphemism for moving boxes around an organisational chart or selling off some business units. Reengineering is centered on how work is done, not how an organization is structured. Reengineering is also not to be confused with automation. Even though technology plays an important role in reengineering, its role is to enable new process designs not to provide new mechanisms for performing old ones (Hammer & Stanton, 1996)

Reengineering is also not a fad, not merely the latest in a long line of short-lived management panaceas, of ninety day wonders, that promise the world but fail to deliver, Reengineering distinctiveness has been established by the fact that it actually works, by the huge improvements that organizations around the world have achieved by applying its principles. Finally, reengineering is not more of the same. It is, a revolution, the most important one in business since the advent of the Industrial

•olution >.cars Reengineering posits a radical new principle: that the design of  
rk must be based on hierarchical, management and the specialization of labor but on  
)d to-end processes and the creation of value for the customer

## 2 3. BPR & TQM Relationship

is "an approach to improving the competitiveness, effectiveness and flexibility of a  
hole organisation. It is essentially a way of planning, organising and understanding each  
activity, and depends on each individual at each level" (Oakland, 1993). TQM involves  
placing the customer as the focal point of operations, its aim is to continuously improve  
process performance in order to satisfy customer requirements (Bennis, 1992). It involves  
the bottom-down communication and deployment of objectives, and the bottom-up  
implementation of continuous improvement activities. At the centre of TQM is the  
concept of the management of processes, and the existence of internal suppliers and  
customers within organisations. Organisations which have adopted TQM are likely to  
have developed an understanding of the processes which are operated, and attempt to  
make the customer the target of improvement activities (Oakland, 1993).

BPR emphasises focus on the process. However, authors such as Klein (1993) suggest  
that BPR is more radical than TQM, while others, notably Davenport (1993); Harrison  
and Pratt (1992) suggest that TQM and BPR can and should form an integrated strategic  
management system within organisations. Davenport (1993) suggests there is a need to  
undertake process analysis in order to identify which processes should be reengineered,  
and which should be managed on the basis of continuous improvement. The situation is  
in reality less clear-cut than reengineering versus continuous improvement, since  
improvement activities form a continuum from small incremental improvements to  
wholesale radical restructuring of an operation, (Gadd and Oakland, 1996).

There has been an increasing number of articles calling for the need for both continuous  
and discontinuous improvement. For example, Hammer (1990) suggested that they  
should both fit under the umbrella of process management, while authors such as Chang

1994); Fucini (1993); Taylor (1993) described programmes that integrate TQM and BPR management tools - Hammer (1991) described sequential performance improvements using the two techniques and warned against using the two approaches concurrently.

\* Cole (1994) concludes that an extraordinary amount of overlap exists between the quality and engineering movements, and that the two initiatives complement each other. He believes that each component of the "quality house" is a building block onto which subsequent change programmes should build.

#### 2.4 The Reengineering Process

While reengineering begins with process redesign, it does not end there. Radically changing processes inevitably has ripple effects on all other parts of the business, for example, the redesigning of the service process could entail the creation of a new job - the customer care advocate. Different from any position that previously existed in the organization, it requires a person with a special background and a particular set of skills, and whose success, and problem solving, rather than task efficiency and satisfying the boss. (Cole 1994)

Wise organizations will focus on those core processes that are critical to their performance, rather than marginal processes that have little impact. There are several criteria reengineering practitioners can use for determining the importance of the process, among these criteria are: Is the process broken?. Is it feasible that reengineering of this process will succeed?. Does it have a high impact on the agency's strategic direction?. Does it significantly impact customer satisfaction?, Is it antiquated?, and Does it fall far below "Best-in-Class"?

Companies that have successfully reengineered their operations around strategically critical business processes have pursued the following steps: First is to develop a flow chart of the total business, including its interfaces with other value chain activities. Then try to simplify the process first, eliminating tasks and steps where possible and analyzing

how to streamline the performance of what remains. Followed by determining which parts of the process can be automated (usually those that are repetitive, time consuming, and require little thought or decision): consider introducing advanced technologies that can be upgraded to achieve next-generation capability and provide a basis for further productivity gains down the road. Then evaluate each activity in the process to determine whether it is strategy-critical or not. Strategy-critical activities are candidates for working to achieve best-in-industry or best-in-world performance status. Weigh the pros and cons of outsourcing activities that are non-critical or that contribute little to organizational capabilities and more competencies. Finally design a structure for performing the activities that remain; reorganize the personnel and groups who perform these activities into the new structure.

When asked recently about his new networking-oriented direction for IBM, IBM CFO Gerstner responded: "It's called re-engineering. It's called getting competitive. It's called reducing cycle time and cost, flattening organizations, increasing customer responsiveness. All of these require collaboration with the customer and with suppliers and with vendor's", (Pearce, J.A. 1997).

## 2.5 Which Companies should Reengineer

Any company, which does not change by 10% every year, must change by 100% every tenth year. Today's rapid competitive changes mean that it is necessary for all companies to react continually. Most of the companies that are now going through re-engineering processes are trying to find a business model that will allow continual changes, and thus limit the need for radical organisational changes in the future.

There can be two different motives behind a re-engineering process: a desire for market survival, that is, to increase competitiveness and a wish, based on an idea for renewal change, to redefine the areas of competition within a trade and thus leapfrog the competition

Business process reengineering, popularized by Michael Hammer and James Champy, is one of more popular methods by which organizations world wide are undergoing restructuring efforts to remain competitive in the 21st century. BPR is intended to reorganize a company so that it can best create value for the customer by eliminating barriers that create distance between employees and customers. It is characterized by focusing on the processes that are undertaken to meet customer needs, not specific tasks and functional areas as marketing and sales (Pearce. J.A 1997).

## 2.6 The Fallacy of Reengineering

Reengineering is deterministic, not probabilistic. The fate of every attempt is determined by the particular circumstances surrounding the specific effort. The results depend entirely on the quality, intensity and intelligence of the effort. Failure is not caused by **Cosmic** rays, bad luck, or other factor outside human control. It is caused by people who don't know what they are doing, ones who don't pursue reengineering the right way (Hammer 1995).

BPR. is not the management philosophy of the early 1990 that suggested companies radically redesign their business process to achieve breakthrough improvements in productivity, has seen better days. Any reengineering project that does not factor in the difficulties people have with change and address the change in a systematic, structured way is doomed to fail (Bernard 1996).

## 2.7 Organisational Performance

The term 'organisational performance' is used comfortably in three time- senses - the P<sup>^</sup>. present, and the future. In other words, performance can refer to something completed, or something happening now, or activities that prepares for new needs.

Profitability, for example, is often regarded as the ultimate performance indicator, but it is not the actual performance. The actual performance took place some time back - first with decisions and then the actions that followed the decisions. Profit is therefore an

indicator of" previous performance. In this sense, performance is the outcome or 'end\* (Drury 1999).

Table I below shows the various measures of performance dimensions.

Table I • Upstream Determinants and Downstream Results

Performance Dimensions	Types of Measures
Competitiveness	Relative market share and position
	Sales growth. Measures re customer base
	Profitability, Liquidity, Capital Structure,
Financial Performance	Market Ratios, etc.
Quality of Service	Reliability, Responsiveness, Appearance. Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security etc.
Flexibility	Volume Flexibility, Specification and Speed of Delivery Flexibility
Resource Utilisation	Productivity. Efficiency, etc.
Innovation	Performance of the innovation process. Performance of individual innovations, etc.

Source: "Performance Measurement in Service Businesses"

By Lin Fitzgerald, Robert Johnston, Stan Brignall, Rhian Silvestro and Christopher Voss. page 8.

However, even profit is not an accurate measure of performance, because changes in market munificence can cause profit changes independently of organisational efforts • costs are static while sales fall. A further argument against the ratio model exists even if market munificence remained unchanged, furthermore, might it be more about the change (improvement) in the organisation's profits or ratios compared to its own previous •Kurs, or compared to those of competitors, that better describes performance. Such a <-otnpanson seems to accommodate efficiency, effectiveness, and munificence. However, a c^anK^e in profits may merely be the result of changed relative marketing prowess • while the rest of the organisation remained unchanged (Brigham 2004).

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However, even profit is not an accurate measure of performance, because changes in market munificence can cause profit changes independently of organisational efforts • costs are static while sales fall. A further argument against the ratio model exists even if market munificence remained unchanged. Furthermore, might it be more about the change (improvement) in the organisation's profits or ratios compared to its own previous figures, or compared to those of competitors, that better describes performance. Such a comparison seems to accommodate efficiency, effectiveness, and munificence. However, <sup>a</sup> in profits may merely be the result of changed relative marketing prowess - while the rest of the organisation remained unchanged (Brigham 2004).



the primary objective of financial statements is to provide information that helps users make better economic decisions. There are two broad groups of decision makers who use financial statements, namely: Management and external decision makers. Financial statements serve a diverse group of decision makers with different information needs, financial statements are general-purpose statements that are designed primarily to meet the special needs of external decision makers. Interpretation of amounts reported on financial statements may be enhanced by expressing certain relationships as ratios or percentages (Short 1990).

Shareholders are the owners of a corporation and they purchase stocks because they are looking for a financial return. Since managers are working on behalf of shareholders, it follows that they should pursue policies that enhance shareholder value as the primary goal is stockholder Wealth Maximization, which translates into maximizing the price of the firm's Common Stock (Brigham 2004).

## 2.8 Success Stories on Reengineering

BPR, if implemented properly, can give huge returns. BPR has helped giants like Procter and Gamble Corporation and General Motors Corporation succeed after financial drawbacks due to competition. It helped American Airlines somewhat get back on track from the bad debt that is currently haunting their business practice. BPR is about the proper method of implementation.

General Motors Corporation (GM) implemented a 3-year plan to consolidate their multiple desktop systems into one. It is known internally as "Consistent Office Environment" (Booker, 1994). This reengineering process involved replacing the numerous brands of desktop systems, network operating systems and application development tools into a more manageable number of vendors and technology platforms. According to Donald G. Hedeem, director of desktops and deployment at GM and manager of the upgrade program, he says that the process "lays the foundation for the

implementation of a common business communication strategy across General Motors", (Booker, 1994).

Lotus Development Corporation and Hewlett-Packard Development Company, formerly Compaq Computer Corporation, received the single largest non-government sales ever from General Motors Corporation. GM also planned to use Novell NetWare as a security client. Microsoft Office and Hewlett-Packard printers. According to Donald G Hedcck, this saved GM 10% to 25% on support costs, 3% to 5% on hardware, 40% to 60% on software licensing fees, and increased efficiency by overcoming incompatibility issues by using just one platform across the entire company.

Southwest Airlines offers another successful example of reengineering their company and using Information technology the way it was meant to be implemented. In 1992. Southwest Airlines had revenue of \$1.7 billion and an after-tax profit of \$91 million. American Airlines, the largest U.S. carrier, on the other hand had a revenue of \$14.4 billion dollars but lost \$475 million and has not made a profit since 1989 (Furcy and Diorio. 1994).

Michael Dell is the founder and CEO of DELL Incorporated, which has been in business since 1983 and has been the world's fastest growing major PC Company. Michael Dell's idea of a successful business is to keep the smallest inventory possible by having a direct link with the manufacturer. When a customer places an order, the custom parts requested by the customer are automatically sent to the manufacturer for shipment. This reduces the cost for inventory tracking and massive warehouse maintenance.

Ford reengineered their business and manufacturing process from just manufacturing cars to manufacturing quality cars, where the number one goal is quality. This helped Ford save \$100 million on recalls and warranty repairs. Ford has accomplished this goal by incorporating barcodes on all their parts and scanners to scan for any missing parts in a completed car coming off of the assembly line. This helped them guarantee a safe and Why car. They have also implemented Voice-over-IP (VoIP) to reduce the cost of having meetings between the branches.

### 2.8.1 The Case at IBM Credit. (Grant K, 2000)

IBM credit provides credit to customers of IBM for the purchase of IBM hardware and software. Under the old system, five stages were involved.

First the IBM salesperson telephoned a request for financing. The request was logged on a piece of paper. Secondly the request was sent to the credit department where it was logged onto a computer and the customer's creditworthiness was checked. The results of the credit check were written on a form and passed to the Business Practice Department. Thirdly, there was a standard loan covenant would be modified to meet the terms of customer loan, fourth the request was passed to the pricer who determined the appropriate interest rate. Finally the clerical group took all the information and prepared a quote letter, which was sent to the salesperson.

Because the process took an average of six days, it resulted in a number of lost sales and held up the sales staff in finalizing deals. After many efforts to improve the process, two managers undertook an experiment. They took a financing request and walked it around through all five steps. The process took 90 minutes!

On the basis, a fundamental redesign of the credit approval process was achieved. The change was replacing the specialists (credit checkers, pricers, and so on) with generalists who undertook all five processes. Only where the request was nonstandard or unusually complex were specialists called in. The basic problem was that the system had been designed for the most complex credit requests that IBM received, whereas in the vast majority of cases no specialist judgement was called for - simply clerical work involving looking up credit ratings, plugging numbers into standard formulae and so on. The result was that credit requests are processed in four hours compared to six days; total employees were reduced slightly, while the total number of deals increased one hundred times.

## 2.9 Challenges to Reengineering;

• The most frequent and harsh critique against BPR concerns the strict focus on efficiency and technology and the disregard of people in the organization that is subjected to a reengineering initiative. Very often, the label BPR was used for major workforce reductions. Thomas Davenport, an early BPR proponent, stated that. "When I wrote about "business process redesign" in Harvard Business Review, I explicitly said that using it for cost reduction alone was not a sensible goal. And consultants Michael Hammer and James Champy, the two names most closely associated with reengineering, have insisted all along that layoffs shouldn't be the point. But the fact is, once out of the bottle, the reengineering genie quickly turned ugly." (Davenport, 1995) Michael Hammer similarly admitted that, "I wasn't smart enough about that. I was reflecting my engineering background and was insufficiently appreciative of the human dimension. I've learned that's critical". (White, 1996)

It has earned a bad reputation because such projects have often resulted in massive layoffs. This reputation is not altogether unwarranted, since companies have often downsized under the banner of reengineering. Further, reengineering has not always lived up to its expectations. The main reasons seem to be that.

Reengineering assumes that the factor that limits organization's performance is the ineffectiveness of its processes (which may or may not be true) and offers no means of validating that assumption. Reengineering assumes the need to start the process of performance improvement with a "clean slate", i.e. totally disregard the status quo. Reengineering does not provide an effective way to focus improvement efforts on the organization's constraint

Abrahamson (1996) showed that fashionable management terms tend to follow a life cycle, which for Reengineering peaked between 1993 and 1996 (Porter and Koenig, 1990). While arguing that Reengineering was in fact nothing new (as e.g. when Henry Ford implemented the assembly line in 1908, he was in fact reengineering, radically changing the way of thinking in an organization), Dubois (2002) highlights the value of

ignaling icnns as Rcenginccring. giving it a name, and stimulating it. At the same there  
•an be a danger in usage of such fashionable concepts as mere ammunition to implement  
particular reforms

Other critics warn that although BPR may lead to a competitive advantage, it is destined  
to be short- lived. When one company lowers its costs of doing business, other companies  
\sill immediately follow, and the competitive advantage is lost. One writer warns that the  
reason why rccenginecrs are so dangerous is that, due to the obsession with bench-  
marking, "all Hons in an industry start converging on a point of no difference and thus of  
iu> profit." Forward looking thinkers propose thai competitive advantage for the new-  
century lies in a nation's workforce and infrastructure, and the ability to create and deliver  
new products and services in the global marketplace.

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Research Design

The study was a case study of EABL. It involved an in-depth investigation of the firm's financial performance and related this to the trends in its performance as measured by profitability and return to the investor. The choice of EABL was based on the fact that it has been involved in various processes of reengineering in the past and has performed well in the past. EABL is also rated among the top performing companies in the region and largely diversified in its operations.

Case studies place more emphasis on a full contextual analysis of fewer events of conditions and their interrelations. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data. Thus, a single, well-designed case study can provide a major challenge to theory and provide a source of new hypothesis and constructs simultaneously (Cooper 1995). A similar study (Atchison 2001) has successfully adopted this research design methodology.

### 3.2 Population

EABL is made up of the following five subsidiaries: Kenya Breweries Limited (KBL), Uganda Breweries, Central Glass Industries, Kenya Malting and United Distillers and Vintners (Kenya) Limited. The study concentrated on the activities of three out of the five EABL Kenyan companies of; Kenya Breweries, Central Glass industries and Kenya Malting Limited.

### 3.3 Data Collection

The research utilised both secondary and primary data. Secondary data was collected through desk review of the annual statutory accounts and other related performance documents at EABL. Primary data was collected through in-depth interviews. The interview was guided by a pre-planned unstructured questionnaire.

The respondents were senior and middle level managers, one senior manager and two middle level managers in each of the three companies. The senior managers were the finance director, while the middle level managers were the finance manager and project manager for each company, total interviewees were nine.

### 3.4 Data analysis

The study was a highly qualitative and the nature of data to be collected was both qualitative and quantitative. The study collected data on UPR performance and compared them with the overall company performance to establish if any cause and effect relationship exists between the two.

Our concern in casual analysis is with how one variable affects or is responsible for changes in another variable. If we consider the possible relationships that can occur between two variables, we can conclude there are three possibilities. The relationship may be reciprocal, symmetrical or asymmetrical (Cooper 1995).

The analysis also used content analysis to measure the semantic content or the 'what' aspects of a message. Additionally, qualitative analysis was done in respect to responses given by respondents in regard to some of the questions asked.

The core of qualitative analysis lies on three related processes: describing phenomena, classifying it and seeing how the concepts interconnect. Dey (1995) draws these as a circular process to show that they interconnect each other. But because qualitative analysis is iterative process, he also represents them by iterative spiral.

The first step in qualitative analysis is to develop thorough and comprehensive description of the phenomenon under study. Oerz (1973) and Denzin (1978) call this as description. If 'thin' description merely states 'facts', a 'thick' description provides information about the context of an act, the intentions and meanings that motivate action, and its subsequent evolution (Denzin, 1978).

While no one can ever be certain that variable A causes Variable R to occur, one can gather some evidence that increases the belief that variable A leads to B or not. Casual studies seek to discover the effect that a variable has on another or why certain outcomes are obtained (Cooper 1995). This study aimed at establishing if the relationship between UPR and organizational performance for KAB1, is symmetrical, reciprocal or asymmetrical



## CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

### 4.1 Introduction

This study was a case survey to establish and document the major RPR processes pursued by EABL and to determine the relationship between business process reengineering (BPR) and organisational performance in EABL. Both secondary and primary data were collected. Secondary data was collected through desk review of the annual statutory financial accounts and management report at EABL. Primary data was collected through in-depth interviews using a pre-planned unstructured questionnaire. The questionnaire was unstructured to help the researcher to interpret the findings.

### 4.2 Respondents profiles

The respondents were senior and middle level managers; the senior manager being the finance director, while the middle level managers were the finance manager and project managers for each of the selected three subsidiary companies of EABL. Total interviewees were nine. The questionnaires were edited for completeness and consistency and the open-ended questions were assigned appropriate codes.

The respondents in this case are part of the top management of EABL. They have been involved in planning and implementation of various BPR processes within EABL. Most of the respondents have held senior management positions in EABL for over five years. Thus, contribution to the BPR process and experience are drawn from a broad pool of experience and knowledge.

### 4.3 HIM\* Background at EABL

Business Process Reengineering and other radical change initiatives are typically initiated and implemented by task forces operating outside the formal structure. Thus, EABL's "breakthrough teams" were formed from multiple functions and multiple vertical levels in the company and were challenged to devise ways of finding substantial reductions in cost. It was a series of far-reaching proposals for reorganizing and outsourcing technology, restructuring the corporate head office, and reducing operating

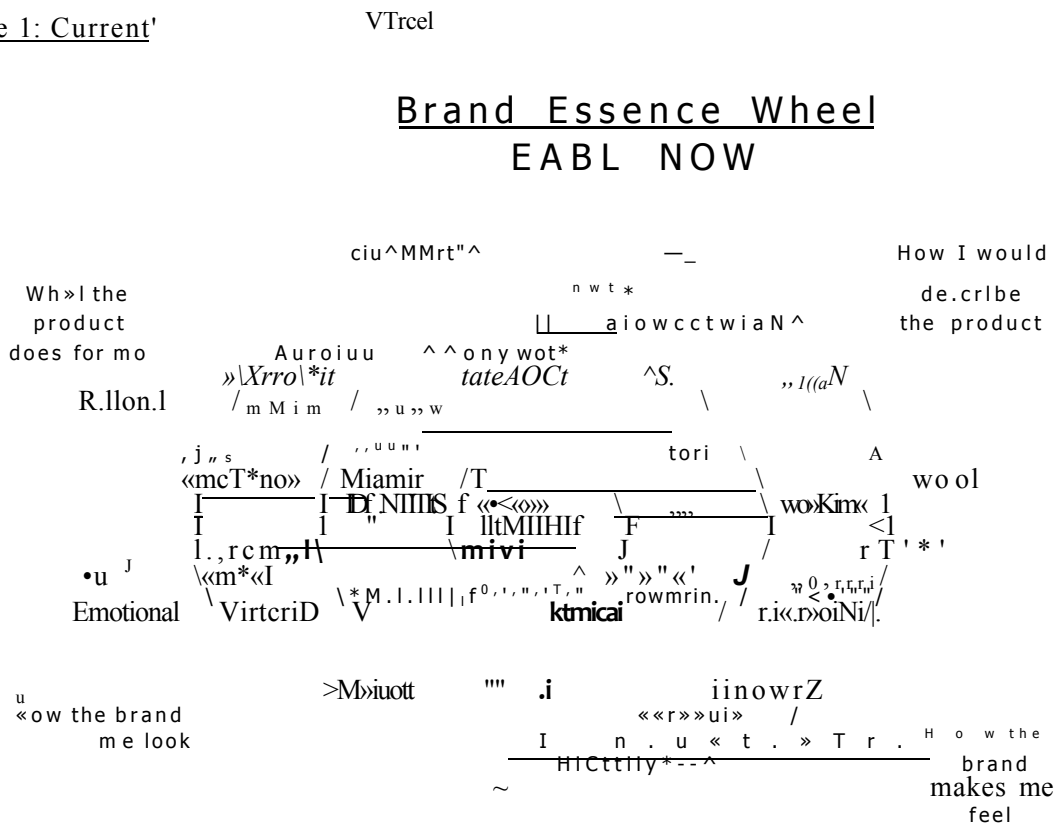
The processes that were revolutionized through 13PR include overhaul of the distribution system. Inter-company dudu analysis, Implementation of Sales Order Processing (SOP) in Sun systems. SAP implementation. Order to Cash Process (set up a new Customer service function), Sales and Operations Planning Process- redesign and re-launch, Supply Chain organization management. Spirits production. Centralised creditors payments system. Raw materials rationalisation. Staffre-organisation and Barley Accounting.

#### 4.4 Examples of BPR at EABL

##### 4.4.1 One Company One Culture

Early in 2005 the company appointed a manager to drive this agenda of the one company one culture. The manager put together a multidivisional team that came up with an essence wheel showing where the company was and where it needed to be as shown in figure 1 below

figure 1: Current'

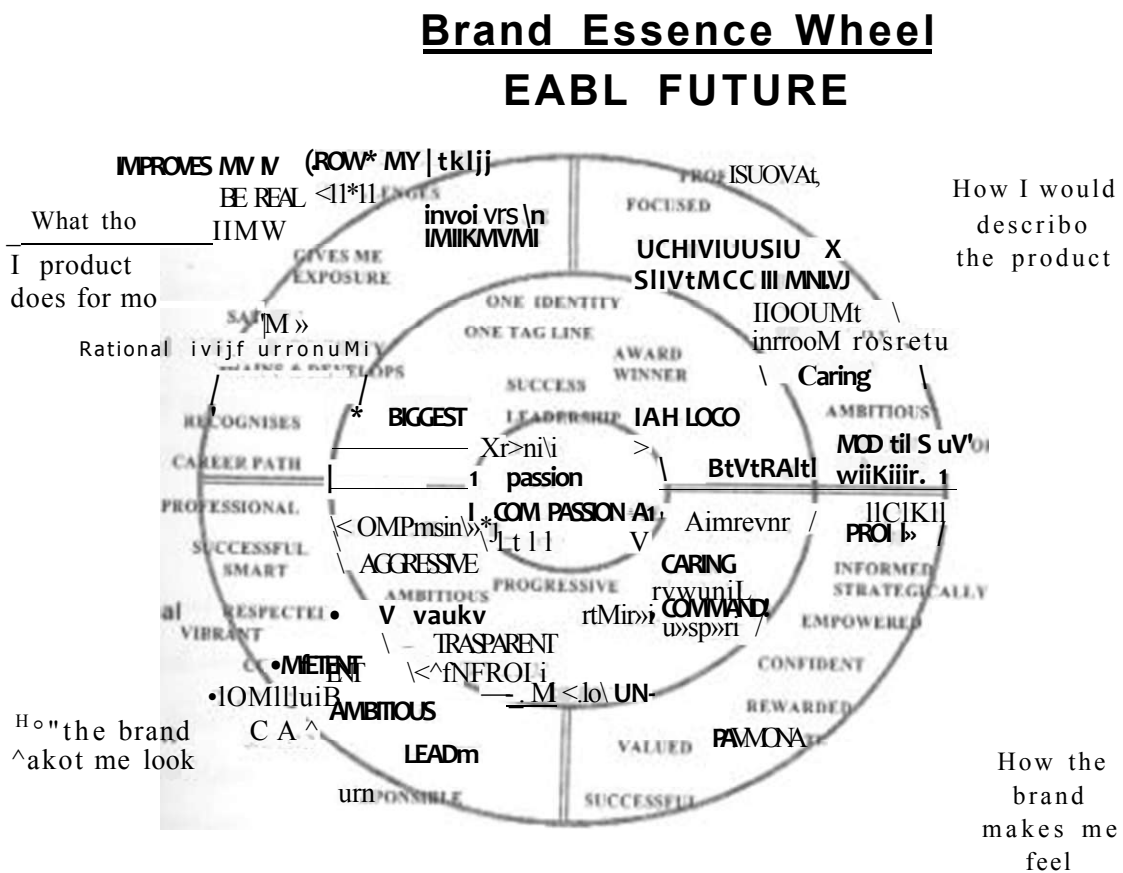


Source: Research Data

From the above attributes it was clear that achieving its ambitious objective was not going to be easy under the current conditions within the company. There are certain key points that had a dysfunctional result such as: EABL being seen as Kenyan, this meant that Kenyan initiatives were not taken positively in Uganda, we also see such words like: Fragmented, lake, exploits dominating etc which were all negative in creating a successful company that was desired.

Figure 2 below then is the dream company that the team felt was needed to drive to the Vision of the company:

Figure 2: Future Brand Essence Wheel



Source: Research ID;ia

above attributes lead to various suggestions on how the target of becoming the one Company One culture would be delivered. Various work streams were engaged through

the early days of 2006 and consensus was used to pass any resolution through. The team created had both locals and consultants from a company with vast experience in the field. By October 2006 the team came up with the core components of the *one company one culture* with a formula on how to deliver this big dream.

The result of all this was one team in one playing field, one team with objectives, behaviour and outputs in alignment. Same 'WOW- Ways of working- all times in. Succeed or fail together. There was Shared support of F.ARI. big goals, with Commonalities in: Business processes standards and their application as well as Structures (organisational and legal!). The company has witnessed huge behaviour change - 'in it together'. With improved Decision-making - EABL goals take priority and not individual country goals, working to a bigger agenda and increased 2-way interaction and linkages

#### 4.4.2 Sales and Distribution changes

EABL undertook a massive change programme called, project "Samba/a". The aim was to re-engineering the way they did sales and ensure the business focuses on retail where consumers interact with its products and in the process address competition issues and unlock growth. Boosting sales is critical to the company's success, hence the need to reengineer.

At the top of the changes was consolidation of the transport and logistics functions, consolidated under the head of supply chain to make them more responsive to the sales function. Additionally, the sales team was doubled and the management structure overhauled. Some layers of management were discarded in order to ease decision-making and communication,

p •

»amkva was a change programme whose first phase was reengineering the primary distribution system through new distributor management, financing and incentive technology, the Tusker Academy and benchmarking. "Samba/a was a sales initiative in i

at boosting volume growth, by getting distributors to concentrate on their which is selling to outlets. Before EABL's products reach a consumer.

... used to be moved from the brewery to the distributor (primary distribution) and then from the distributor to the outlet (secondary distribution). EADL had traditionally divided the country' into live regions—Nairobi East, Nairobi West, Mountain and Western and has operated different primary distribution models for each of them. Distributors would for instance collect their products from Ruaraka or the Kisumu central depots and from super distributors in Nyahururu, Eldoret and Meru. Only Coast region had a haulage company delivering products directly to distributors. Although these systems had worked in the past, distributors had complained that they are inefficient and cumbersome since they force them to swim upstream (to EABL to collect the product) and then downstream (to outlets to sell the products). In reality, it added transport, a non-core function, to their operation\* thus reducing the time and resources they dedicate to their principal function of servicing outlets. Distributors core business is to take products from their warehouse to outlets.

With the help of BPR distributors were stopped from collecting products from FABI. Instead, the role was outsourced to two specialist haulage and logistic firms: Lixel Logistics (formerly Tibbet and Britten and now a subsidiary of DHL) transports FABI products to Nairobi, Coast and Mountain regions while Express Kenya transports to the Western region. The impact of the new arrangement has been to "professionalise" product transport and at the same time create a platform on which to resolve business process trouble spots like order management, credit management, empties management, transit product ownership, payment and management reporting, among others.

B> building a technology component and a financing mechanism into primary distribution, we have also been able to resolve most of the distributor issues.

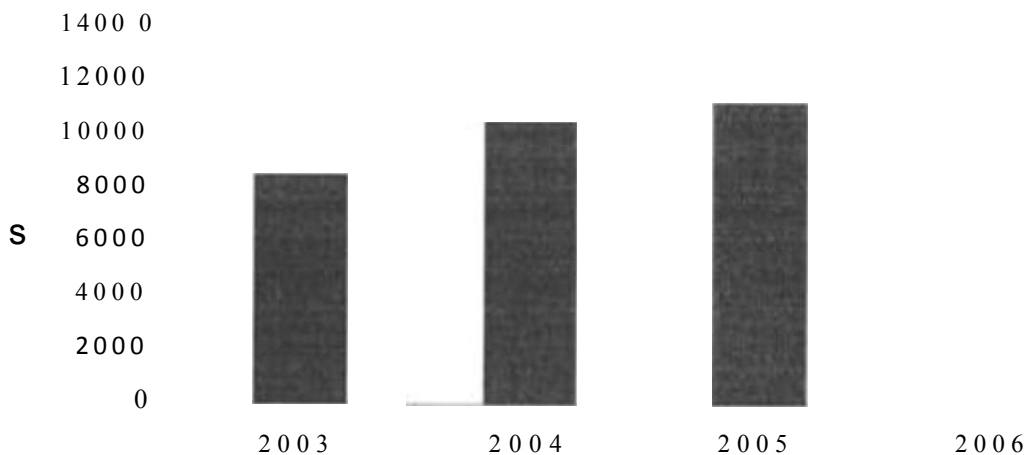
the technology bit introduced a fully automated sales order management system that made it possible to migrate transactions between FABI and distributors online. This has made real time transactions possible and employees of haulage companies carry personal digital assistants (PDAs) that they use to transmit records of their deliveries and empty truck uptake. This function has in turn been dovetailed into the distributor financing arrangement which has been arranged with Standard Chartered Bank.

Two other measures boosted efficiencies in the distribution process. The first one, palletization, reduced turnaround times at the Nairobi Central Depot (NCD). Previously, it used to take a haulier four and a half hours to offload empties, load the beer, document and leave. Since the trucks, which take up to 1,260 beer crates and 100 cartons of spirits, were manually loaded, the process was tedious and inefficient. In turn, it has started packing crates of beer and cartons of spirits in pallets of 6 or 12 units, and using forklifts instead of manual labour to load and unload them. The result? Trucks take less than 45 minutes at the depot

#### 4.5 Benefits of BPR in the context of EABL

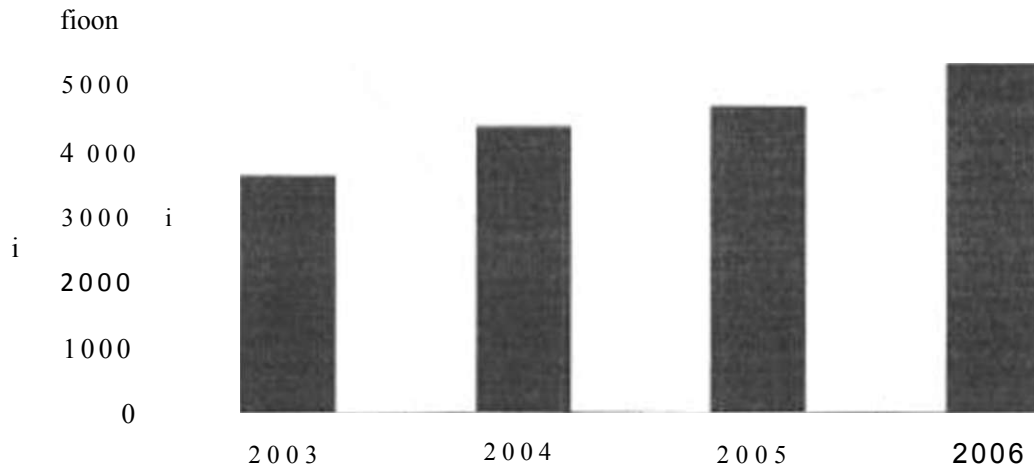
The impact of BPR was estimated at over 20 million shillings increased profitability. It is important to note that these achievements could not have been attained if BPR was not adopted. See figure 3 below which shows growth in sales revenue and figure 4 showing the profit growth over the years.

Figure 3. Net sales growth 2003 to 2006-EABL



Sales have grown from a 3% growth in 2003 to 14% in 2006 consistently.

Source: EABL Annual Accounts 2006



Profit before taxes have grown year after year from 2003 growth of 3% to 2006 growth standing at 15%

•Source EABL Annual Accounts 2006

The EABL business realised efficiencies in the accounting processes. Manual processes were automated and turnaround time for producing monthly accounts was reduced from work day 10 to work day 2. The business managers at the units were relieved of the routine transactional management duties and could now focus more on the strategic issues of their respective business units. Uniformity and consistency of procedures was realised in the accounting systems as reports were standardised. Savings realised on the administrative overheads could now be channelled to the sales budget kitty that was very critical at that time since the company was faced by stiff competition from South African Series Miller.

Other benefits include centralised data capturing, data access from different geographical locations. • Of the business and timely information to both internal and external customers

Benefits were also realised by introducing order 10 cash Process, which greatly enhanced the EABL customer service. There were changes also in Sales and Operations Planning Processes. Here, the demand planning process became very robust resulting in greatly improved forecast accuracy. Another new process was demand driven material requirements Planning and Production planning. This resulted in less stock outs, increased plant utilization, reduced stocks of raw material and adequate finished goods quantities, less write offs and effective cross functional coordination and communication.

In the Supply Chain organization, the BPR process resulted in new capabilities. There was a review of the existing capability gaps and an action plan was defined. Thereafter, target stages of excellence in each area were put in place as these were required to achieve EABL's vision 2010.

#### 4.6 Challenges of implementing BPR at EABL

Staff reduction process was the biggest challenge as at times young and very promising staff had to be released so as to achieve the target staffing levels. With reduced staffing there was need to automate processes but not all the desired capital expenditure for the changes was readily available. There was also resistance coming front within the organization especially from the older more experienced employees and from external stakeholders who were bound to loose from the new arrangement. Another challenge experienced was continuing operations while implementing BPR. The problems came when migrating from the old process to the new ones.



## CHAPTER FIVE: CONCLUSION

### 5.1 Discussions and Conclusions

Business Process Reengineering (BPR) involves the radical redesign of business procedures so that dramatic performance improvements can be obtained relative to cost, speed, quality and service. BPR does not aim for gradual change, rather it stresses the need to totally rethink and rework organizational structures so that essential procedures are practically reinvented.

The objective of this study was to establish and document the major BPR processes pursued by F.ABL and to determine the relationship between business process reengineering (BPR) and organizational performance in F.ABI.

BPR must be accompanied by strategic planning, which addresses leveraging IT as a competitive tool. It must also place the customer at the center of the reengineering effort. BPR must be "owned" throughout the organization, not driven by a group of outside consultants. Case teams must be comprised of both managers as well as those who will actually do the work. BPR must be sponsored by top executives, who are not about to leave or retire.

BPR must not ignore corporate culture and must emphasize constant communication and then are 5 points essential for a successful re-engineering process: A re-engineering process must be management driven, and must have at its heart a vision of a company goal. Radical changes are being made to realize a future dream. As part of a re-engineering process, people must focus on new work methods which increase either efficiency or customer satisfaction. A re-engineering process requires a full-time coordinator to drive the project forward. It is important to organize the change processes • a Project, which should have as a basic task the involvement of all employees. A pervasive change process will necessarily cause much uncertainty and it therefore to establish a strategy early on for how communication should and will be Redout during the changes.

the study sought to establish if the relationship between RPR and organizational performance for F.ABI, is symmetrical, reciprocal or asymmetrical. In order to achieve the objectives of this study, the case study first sought to document the key RPR processes and the associated benefits. The study also documented the company's profitability growth. The findings indicated that F.ABI has substantially benefited from reengineering through growth in efficiencies leading to improved growth as measured by profitability over the years.

The study reveals that the relationship between RPR and organizational performance for BAB!- is symmetrical. It was evident that sacrifices made through BPR were compensated through growth in profitability.

## 5.2 Limitations of the Study

The study was carried out within limited time and resources. This constrained the scope as well as the depth of the research. In addition, because the research utilised a case study design, the findings cannot be used to make generalizations regarding the relationship between RPR and organisational performance in Kenya.

## 5.3 Suggestions for Further Research

BPR has continued to be implemented by most organisations in Kenya for some time, a further study can be carried out to investigate the relationship between BPR and organisational performance in other large diversified firms. Alternatively, a cross sectional survey covering a number of broadly diversified firms could be conducted to allow generalisations to be made.

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APPENDIX 1: Letter of Introduction

EAST AFRICA BREWERIES LTD  
P. O. BOX 30161,  
00100, GPO,  
NAIROBI.

Dear Sir / Madam,

**MI A STUDY ON THE RELATIONSHIP BETWEEN BUSINESS**  
**PROCESS REENGINEERING (BPR) ANP ORGANISATIONAL**  
**PERFORMANCE AT EAPL**

I am a student at the University of Nairobi pursuing my postgraduate degree in business administration (MBA). I am undertaking the subject project as part of the academic requirements towards completion of the course. You are kindly requested to spare sometime and complete the attached questionnaire.

All the information you volunteer will be treated in strict confidence and at no time will your name or that of the firm be mentioned in the report, whatsoever. However, the findings of the research can be availed to you upon completion. Your co-operation will be highly appreciated.

Yours faithfully,

Stephen Gitagama

**MBA STUDENT**

0722-371076

Email: [steve.gitagama@yahoo.com](mailto:steve.gitagama@yahoo.com)

## APPENDIX 2: INTERVIEW CHIDE

### I'AKT A: Respondents Personal Information

Name oI'Respondent;

Department;.

Current position:.

Years in the Company:.

### PARI B: Overview and BPR Processes Documentation

1) I lave you been involved in Business Process Reengincering (BPR) in your working time at F.ABL?

a) Yes                      b) No

2) Why was it necessary to undertake BPR?

3) Please identify below the major three processes that you were involved in recngineering. Please identify the process and he year the rcngineering was done.

	Process	Year
I	0	
	<b>II)</b>	
	III)	





9) Would you recommend BPR to other organs?

a) Yes

b) No

10) Why would you recommend RPR to other organs? Or would not?

11) If we did not have BPR at \iABL would the company have achieved its target profit?

a) Yes

h) No

12) If Yes,

Why?

13) If No.

Why\_\_\_

14) What is your personal experience on 13PR as a process for company growth?

»5) What were the reasons for implementation of BPR in your firm?

i. To improve profitability

ii. To attract and retain customers

- iii. To save the organization from closing down.
- iv. To increase demand for our products
- v. Others

16) How would you rate the outcome of the BPR process above in order of priority?

Rating

17) What was the biggest benefit of BPR? Both monetary and non monetary.

18) What were the main challenges encountered in implementing BPR?

19) Please give any other comment you may have regarding the BPR Process in F.ABL.

THANK YOU' FOR YOUR TIME