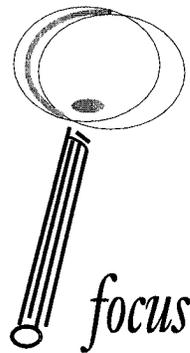


1

The Reengineering of Organizations



Learning Objectives

By the end of this chapter, you should be able to:

- Define the concepts of reengineering and cashflow reengineering.
- Explain the cashflow timeline and its relevance to reengineering.
- Describe current limitations on management and organizational change.

THE SIGNIFICANCE OF REENGINEERING

Massive employment downsizing has characterized American business over the past decade. Millions of jobs have been eliminated, and further restructuring and change seems unavoidable. Cashflow reengineering presents an alternative methodology to the wholesale termination of workers by emphasizing opportunities for internal organizational improvements and the outsourcing of non-core activities.

Companies can be made more efficient, but not necessarily by merely eliminating people. According to Hammer and Champy (Reengineering the Corporation, New York: Harper Business, 1993, p. 32), the generally accepted definition of reengineering is "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." Certainly the processes affected may include people, but all components of a company's expense structure are subject to investigation.

The principles of cashflow reengineering presented in this course have resulted in annual savings of millions of dollars for our consulting clients, including almost half of the Fortune 500, as well as for not-for-profit organizations such as hospitals and governments. These benefits are based on the

results from hundreds of consulting engagements that focused on cash, and on the information and decisions that drive or are driven by that cash.

Although people costs have been a portion of these savings, they constituted only about 2.5 percent of all benefits which we can quantify. Float improvements—funds in the process of collection or disbursement—contributed a significant portion of the savings (30 percent), as did reduced bank or vendor pricing (15 percent) and more efficient internal processes (including reduced internal operating costs) (20 percent). A small portion of the savings (10 percent) were derived from such traditional cash management activities as lock-boxing (defined in Chapter 2 and discussed in Chapter 6).

Float refers to funds in the process of collection or disbursement.

CHANGING MANAGEMENT FASHIONS

Practices in management are constantly changing and evolving. The current trend in this age of instant communications is tracking other companies' activities and performance, assessing Wall Street's reaction, and adapting the best—and often the worst—of these activities. After World War I, the message was "scientific management" as pioneered by Frederick W. Taylor. The essence of that movement was the time-and-motion study, which defined the precise method to accomplish each task and subtask; the time, tools, and training required; and the appropriate pay. Taylor's methods promised increased wages for workers and higher productivity for the corporation if his procedures were followed.

In the 1930s, largely as the result of the work of Elton Mayo at the Hawthorne works of Western Electric, companies came to realize that the employee and the worker peer group might have important insights into the structure of the job. The result was the "human relations" movement. During the 1960s, the buzzwords were "self-actualization" (Abraham Maslow) and "hygiene factors" (Frederick Herzberg), and organizations began to believe that wages and a job were insufficient as motivators. (Consult any good principles of management text for complete explanations.)

Maslow developed the "hierarchy of needs", concluding that employees respond to the successive gratification of five categories of needs: physiological (or basic), security (or safety), social (belonging to the work group), ego (or self esteem), and self-actualization (self-fulfillment). Herzberg concluded that basic work elements or "hygiene factors" such as company policies, wages, and work conditions were only capable of being dissatisfiers, if unfulfilled, and that satisfaction came through achievement, recognition, and a sense of responsibility.

In the 1970s companies bought mainframe computers to keep up with their competitors, even though most had no specific applications under development and limited programming or systems support. It wasn't until the computers were installed that management considered their functionality.

During this "systems" revolution, businesses hired analysts and programmers, and IBM and other computer companies made huge profits from continually upgrading hardware capacity.

Companies today are keenly aware of how the investment banking community perceives their potential performance and are anxious to do everything in their power to enhance shareholder value. This scrutiny is also felt by nonprofit organizations, and charities and governments are cutting expenses, eliminating marginal services, and taking necessary measures to enhance contributor or taxpayer value.

Managers and workers are surrounded by these demands, and their jobs may be eliminated as organizations struggle to meet the expectations of diverse constituent groups. Companies failing to achieve forecasted earnings are often subject to harsh treatment by the stock market, in the form of severe declines in the company's share price. While the nonprofit sector does not have such extreme discipline, government and charitable organizations that do not efficiently accomplish their missions are closely scrutinized by their overseers, whether it be Congress, a board of directors or trustees, or another group.

Today's reengineering and downsizing mania differs from the practices of the past mainly in scale. For the first time since the Great Depression, jobs are being eliminated by the millions. The theories of Taylor, Mayo, Maslow, and their colleagues were relatively benign, as no one was injured by changing the shape of a shovel (scientific management), or asking workers about their jobs (human relations), or awarding a motivated worker with a plaque (hierarchy of needs). In some cases, results actually improved.

WHAT TRIGGERED THE OBSESSION TO REDUCE COSTS

Catalysts for current efforts at restructuring, reengineering and downsizing include excess production, worker costs, changing management styles, and the costs of middle management.

Excess Production Capacity Due to International Competition

The relatively slow growth of the present world economy cannot absorb the volume of goods and services produced in global markets. There is even concern that overproduction and forced product sales by weakened international economies may cause international deflation (see "The threat of deflation," *Business Week*, Nov. 10, 1997, pp. 54-59). Retail price levels as measured by the Consumer Price Index (CPI) are nearly flat, and we are starting to see significantly lower prices on products manufactured in Asia, with certain merchandise falling in price by as much as 20 percent (e.g., toys, video games, clothing).

The end of "natural monopoly" protections in the United States has fostered competition throughout banking, public utilities, transportation, communications, the oil industry, and insurance. In this environment, earnings can

only be sustained by serious efforts at efficiency and/or cost cutting. This situation is not likely to change in the foreseeable future and may get worse due to competition from the 11-member European Union, a trade and monetary rival nearly equal in size to the United States. The changes will begin in 1999 with the use of a common currency (the "euro") for corporate payments.

Employee Visibility as a Cost Driver

In a restructuring effort, the costs of workers can be quickly identified and pared. Employers often seek to eliminate employees to reduce payroll and benefit costs, or to arbitrarily slash X percent of the staff of each business unit to meet expense targets. It is much more difficult to thoughtfully construct and assess internal improvements to current processes by considering outsourcing or by other reengineering strategies.

Such changes require comprehensive knowledge of the workings of a business process, as well as the measurement of alternative procedures. However, the customary division of jobs into narrowly defined functions and responsibilities does not encourage the necessary broad organizational perspective for most managers. Thus, it is much easier simply to eliminate jobs to accomplish the targeted savings.

The Diminishing Role of Management

According to various textbook definitions, management often involves decision-making, strategy formulation, and gathering factors of production. However, most managers today are occupied with compiling and testing information and reporting their findings. The information might include costs (for use in budgets), sales (for use in forecasts), employee performance and error rates (for use in manufacturing reports), and statistics (for use in other functional areas). Manager reports often measure actual results against strategies and goals, and interpret the causes of variations from those strategies.

Managers are also involved in regulatory and quasi-legal requirements, such as equal employment opportunity laws, and occupational and product safety rules. Some of these activities relate only indirectly to a business's main goals and strategies. As a result, manager influence on production and sales has significantly declined. Senior executives have taken over large-scale planning, decision-making, and the assembly of production factors, and access to data from computerized information systems has significantly reduced other managerial roles.

Middle Management Is Costly

When choosing employees to eliminate, management obviously considers the cost of each worker. Managers have been higher-paid than technical or skilled personnel throughout the life of the modern corporation, but particularly since the installation of quantitative job evaluation and compensation systems. Points are typically assigned to jobs based on technical and administrative skills and on training and education, with compensation geared to total points awarded based on competitive pay in the marketplace.

The various systems in widespread use are biased toward rewarding managers, with the result that managers often receive greater compensation than other employees. Furthermore, such bias causes everyone to want to be a manager, and redundant managerial positions have been created to accommodate workers deemed critical to the success of the organization.

After managers are eliminated (via downsizing), the resources previously directed by them are reassigned or are left undirected. Survivors of downsizing, accustomed to working as part of a team, must now either conduct the team's business on their own or else accept different, possibly diminished, responsibilities.

MANAGEMENT AND THE CASHFLOW TIMELINE

Regardless of the management fashion or fad in current vogue, the essential job of the manager is to assemble the critical factors of production, defined in classical economic theory as land, labor, and capital. Financial management continues to provide one of these essential factors—capital—through the following activities:

- **Liquidity and Solvency:** ensuring adequate access to cash to meet all short-term (liquidity) and long-term (solvency) obligations of the organization
- **Corporate Finance:** arranging financing for current and long-term requirements through appropriate external sources at minimal cost
- **Asset and Liability Matching:** determining that the amount and duration of assets and liabilities are appropriate
- **Forecasting:** planning for short-, intermediate-, and long-range financial requirements
- **Stakeholder Value:** maximizing the value as reflected in the stock price (for public companies); determining owner or constituent priorities and developing financial plans supportive of those goals (for private companies and nonprofit organizations)

The first of these activities, liquidity and solvency, may be considered as the most essential, for the absence of adequate cash may lead to financial embarrassment and, in an extreme situation, the closure of the business. Because of the critical nature of cash, the disciplines of "cash management" and "treasury management" have developed since the early 1980s to bring professionalism and certification (through the CCM or certified cash manager designation) to businesses and nonprofits.

What Is the Cashflow Timeline?

Cash and information are the common denominators of any organization, in that they connect sales, production, and other functions to define critical activities or cashflows. An organization may be viewed in terms of a cashflow timeline

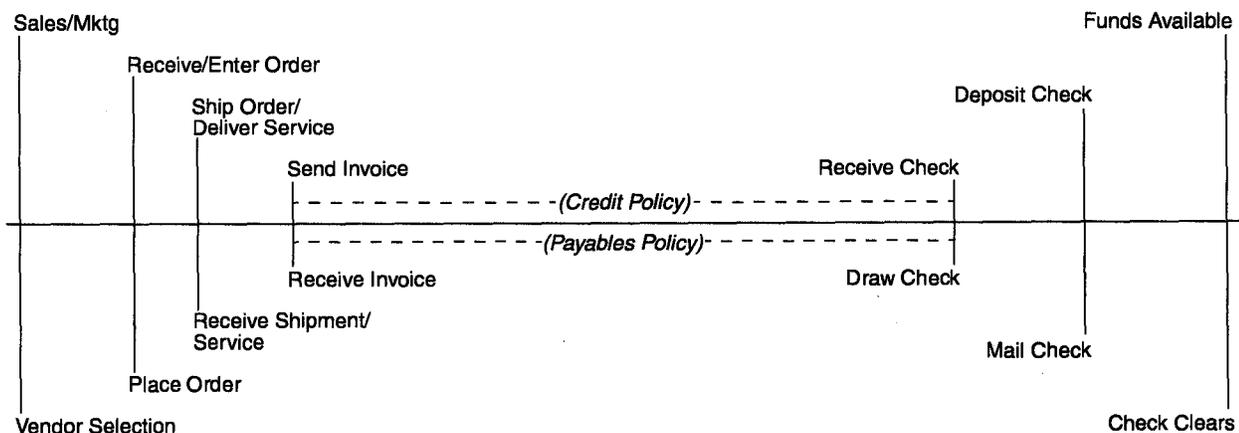
(see Exhibit 1-1), involving all of the cash inflow and outflow activities of an organization and the information that drives or is driven by those activities. Cashflow reengineering uses the techniques of financial management to analyze and reconfigure events along the cashflow timeline.

Much of the information in any organization drives or is driven by a cash event. That is, the activity of receiving or disbursing cash is preceded by data, such as an invoice for the sale of goods or services; or is followed by data, such as application of the cash received against an open receivable when that invoice is paid. These cash and information activities do not fall within the responsibility of any single manager in the traditional corporate scheme of functional management. The only situations in which one manager may have such oversight is in a decentralized organization with many strategic business units (SBUs) or profit centers.

In fact, the one common manager for all of the cash and information activities often is the president or chief operating officer, who never, in our experience, has specific knowledge of or interest in the functioning of cash and the information that drives or is driven by that cash. Yet cash is the lifeblood of any organization and is the most critical asset held on behalf of those many constituent interests that depend on the survival of the business.

The **cashflow timeline** is the graphical presentation of the sequence of events that cause or are affected by an organization's cash activities. The collection segment usually begins with sales activities, followed by invoicing, cash receipts, and cash application. The disbursement segment shows purchasing, accounts payable, payroll, issuance of payments, and the clearing of checks issued.

E Exhibit 1-1 Cashflow Timeline



Analyzing the Cashflow Timeline

To organize the understanding, and analysis of cashflows, refer to the illustrative payment stream matrix in Exhibit 1-2. Such a matrix can be prepared for your organization, listing cash-information flows by name, dollar volume, and manager. The matrix effectively becomes a road map to understanding and improving the enterprise by indicating those major activities that drive the organization to short- and intermediate-term successes or failures. The process of specifying these cashflows is often uncharted territory and can require the support of managers from various disciplines throughout the organization.

Inflows or collection flows are often receipts from the sale of products or services; outflows or disbursement flows are accounts payable (to vendors for purchases), payroll, and other uses of cash. The term "mechanism" refers to the cash process normally used for the flow; as we encounter each process later in the course, it will be fully described.

It is essential to involve all of the functional areas of the business in identifying flows, including sales, operations and finance. It may also be necessary to include branch office personnel, in that many transactions are initiated in a field location and are sent on to headquarters for further processing. It may even be useful to include vendors and/or customers, to help you understand how a transaction occurs from their perspective, and to make the process more efficient and effective for all parties.

E **xhibit 1-2** **Illustrative Payment Stream Matrix**

	<i>Name of Cashflow and Mechanism</i>	<i>Managed Where?</i>	<i>Manager</i>	<i>Supervisor</i>	<i>Annual \$ Volume</i>
1	Product W, Lockbox Receipts	Home Ops., Anytown	Rebecca Rhea	Sandy Sparrow	\$500 million
2	Product X, Office Receipts	Division A, Anytown	Betty Bear	Charles Capybara	\$250 million
3	Product Y, Wire Transfers In/Out	Division B, Anytown	Tony Tiger	Ursula Unicorn	\$1.2 billion
4	Product Z, ACH Collections	Big Dept, Sometown	Wendy Walrus	Yetta Yak	\$100 million
5	Accounts Payable, Check Disbursements	Large Dept, Sometown	Zachary Zebra	Anthony Alligator	\$30 million
6	Accounts Payable, ACH Disbursements	Vivi Section, Yourtown	Denise Dolphin	Erik Eagle	\$25 million
7	Payroll, Direct Deposit	Inter Section, Mytown	Frances Flounder	George Gopher	\$80 million
8	Payroll, Check Disbursement	Grope Group, Ourtown	Harry Halibut	Ira Ibex	\$75 million

The manager or managers identified as controlling each flow are functioning in a financial position in their decisions regarding cash and information, even though such individuals seldom consciously understand that these responsibilities are included in their jobs. Thus, actions may be taken regarding this critical organizational asset-cash-without thoughtful exploration of the results of each decision.

CAN THE OBJECTIVES OF REENGINEERING BE ACCOMPLISHED?

Reengineering holds significant promise, but much of it is unfulfilled because of a fallacious emphasis on cost reduction rather than cashflow optimization. With cost reduction as a goal, we sometimes mindlessly cut expenses without regard for the impact on the organization. With cashflow optimization as the goal, we thoughtfully analyze our options, considering combinations of internal improvements and outsourcing. Even Champy (in *Reengineering Management*, New York: Harper Business, 1995, page 3) admits that goals set in traditional reengineering engagements failed by as much as 30 percent. Even worse, the failure of a reengineering initiative may lead to more drastic changes. Consider the examples from our consulting experience shown in Exhibit 1-3.

These cases reveal a few common themes:

- **Self-Preservation.** When long-established authority and power roles are altered during the reengineering process, managers and employees often refuse to cooperate. These employees resist and may even sabotage appeals, to the greater good of the organization. For example, angry employees in a reengineered company may delete files from computers or may deliberately treat customers with disrespect to hinder sales.
- **Change Resistance.** Employees prefer familiar processes and feel uneasy when presented with change. "Shadow" or parallel procedures may be established to perform work tasks, such as retaining a paper ledger or filing system when an organization converts to computers.
- **Distrust of Advice.** Consultants are distrusted and often ignored. Employees tend to reject advice perceived as coming from outsiders; only line personnel, they reason, know enough about the organization to implement change. Even staff advisors within the organization meet with resistance.

Clearly, employees resent reengineering when they perceive it as a threat. The challenge for those doing the reengineering is to emphasize positive change rather than extreme measures such as downsizing.

THE SOLUTION OF CASHFLOW REENGINEERING

Current reengineering approaches often include proposals to reduce costs in order to meet profitability objectives demanded by shareholders and

E**xhibit 1-3****Cashflow Reengineering Failure: Three Examples**

SITUATION

At a consumer durable goods producer, manufacturing processes were reengineered with the aim of improving gross margins and decreasing inventories and production time. As part of the reengineering process, our advice was to integrate separate business units in several production sites to eliminate certain redundant functions. However, the project failed when managers of the business units in question realized that their autonomy had been jeopardized and that they would have to work in tandem toward a common organizational goal.

OUTCOME

In its search for lower manufacturing costs, the consumer durable goods company finally relocated its production facilities overseas. The result was that 2,000 jobs were lost.

SITUATION

An international aviation company was considering reorganizing its parts distribution system to eliminate some locations and employees and to decrease the amount of inventory held awaiting sales. The overhead to support each location was burdensome, and the potential "loss" in customer service was considered trivial: one-fourth to one-half day slower response in certain locations. For the project to proceed, the distribution company's senior executive had to be willing to accept our advice and to agree to eliminate portions of his "empire". He resisted, and the project failed.

OUTCOME

After the board of directors of the aviation company fired senior managers (including the company's president), a competitor bought major parts of the company.

SITUATION

A diversified financial services company was advised to integrate certain departments to develop economies through combined securities trading operations and a comprehensive cash forecasting activity. The current organization was supporting several investment areas in various locations, none of which were of sufficient size to warrant independent operations. Again, the organization ignored our recommendation; its leaders had no real intention of changing policies, because in the past the investment function had brought in large profits.

OUTCOME

A takeover led to the absorption of the financial services company, and new management was brought in. The result was the loss of about 1,000 jobs.

investment bankers. Popular literature on the subject provides little more than cliches, but does stress that no two situations are alike and that reengineering is never easy. Other reengineering approaches offer few details on actual procedures, nor do they supply a universal methodology. Worst of all, they often extract "lessons" or "morals" from very specific circumstances. Because so many functions—production, systems, finance, and accounting—contribute to a reengineering effort, attempting to apply lessons from Organization A to Organization B is often futile.

Cashflow reengineering is somewhat different: There are only a limited number of procedures, and various analytical processes that can be followed to conduct a successful reengineering effort. These are discussed in Chapter 3. The result of that evaluation is cash—a measurable quantity—that can be saved by implementing the proposed changes. Middle managers and senior executives are receptive to this kind of reengineering for various reasons.

Significant, Realistic Savings

For example, outsourcing of disbursements (discussed in Chapter 7) can result in savings of at least \$1.50 or more per paper transaction. If an organization writes 5,000 checks per month, it can save almost \$100,000 per year! Implementation takes only a few months because banks and vendors already have the service in place and provide it to numerous clients. No natural constituency within the organization exists to oppose this activity, because no single functional area has full responsibility for check disbursement. Exhibit 1-4 shows other examples of savings from internal improvements and outsourcing within the cashflow reengineering process in various industries.

No Massive Downsizing

In this disbursement example, eliminating ineffective practices within the company developed the savings. Such outdated operations included using pre-printed check stock, paying full first-class postage, avoiding the expense of mainframe computer time, and outsourcing check reconciliation. Only one-quarter of the total savings came from lost jobs—the equivalent of several workers. Firing large numbers of employees is a sure way to destroy morale. When the "social contract" between management and labor is destroyed, pride in a common goal disappears. The organizations shown in Exhibit 1-4 resorted to limited downsizing; as a result, they faced minimal loss of that sense of unity. Instead, competitive spirit and corporate pride were strengthened.

No "Religious" Experience Required

Other reengineering approaches focus on "faith." One book even suggests it is management, not work, that should be reengineered (Champy, *Reengineering Management*, New York: Harper Business, 1995). The companies that outsourced cash management services required none of this so-called faith. Banks and vendors bid for the service; the buyer declined or accepted. Consultants assisted by analyzing costs and reviewing the various bids. Psychology and theology were never considered.

**xhibit 1-4****ILLUSTRATIVE CASHFLOW REENGINEERING SAVINGS**

<i>Industry</i>	<i>Sales*</i>	<i>Savings*</i>	<i>Significant Cashflow Reengineering Changes</i>
Aerospace	\$10,000	\$7,200	Review gross margins and profitability; end early release of A/P checks
Bakery products	\$400	\$250	Close branch imprest cash/bank accounts; deposit daily all walk-in payments
Building equipment	\$1,700	\$390	Change lockbox locations; use cash discounts and late charges to improve cash collections
Consumer products	\$1,000	\$400	Improve daily cash position forecast; use procurement cards for small purchases
Health care	\$80	\$300	Centralize purchasing for volume discounts; use EDI for cash transactions
Insurance	\$2,000	\$2,300	Assess an interest charge on nonannual premium payments; reengineer claims processing
Mortgage banking	\$1,800	\$1,300	Eliminate local bank accounts; reduce size of short-term investment pool
Oil and gas	\$400	\$250	Pay bank costs by fees vs. balances; renegotiate bank prices for certain bank services
Power generation	\$700	\$150	Establish lockbox for corporate utility payments; reduce cost of wire transfers
Public utility	\$2,000	\$550	Encourage payment by ACH for mailed payments; schedule bank courier for a later deposit pick-up
Scientific equipment	\$1,200	\$600	Increase direct deposit of payroll; close cash imprest account; negotiate for ATMs
Stocks and bonds	\$25,000 (assets)	\$16,500	Use "positive pay" for branch disbursements to prevent fraud; close local bank accounts

* Annual sales in millions of \$; annual savings in thousands of \$

A Reasonable Time Commitment

Most manufacturing and retailing companies can conduct a complete cash-flow reengineering study in three to four months, including interviewing, documentation, report writing, and presentation of the findings. Financial and other service companies with numerous products and lines of business require about six months.

ACTION STEPS

- ☛ Determine your organization's history of and philosophy toward cost cutting and the development of operating efficiencies. Is there an attitude toward careful investigation of alternatives, or are expenses attacked by eliminating headcount? Evaluating this situation will help you understand

the likely acceptance of cashflow reengineering methods and the extent of education that may be required prior to the initiation of your review.

- List the major cash inflows and outflows in your organization. Focus on those flows that are the largest, perhaps \$500,000 to \$1 million a month. Find out what payment mechanism is used most often. Who are the flows managers and where are they located? What information systems drive or are driven by the flows? Does any treasury, systems, or internal audit documentation exist for these flows?
-

MINI-CASE: SUNBEAM CORPORATION

"If you're a little frustrated with the prior management [of Sunbeam], you're a tolerant man. I would have hung them."

(Statement by "Chainsaw" Al Dunlap, the new chairman and chief executive officer of Sunbeam Corp.-New York Stock Exchange, ticker symbol "SOC"-at an analyst meeting, reported Sept. 30, 1996.)

Fall 1996: On November 12, 1996, Al Dunlap announces that he plans to eliminate 6,000 jobs (half of the company's workforce), to close 16 of 26 factories, to sell off divisions that make products inconsistent with the core product line, and to launch 30 new products annually and save \$225 million. Dunlap formerly led Scott Paper (now part of Kimberly Clark), where he eliminated about one-third of that company's workforce.

The plan at Sunbeam is to build up the international small appliance business based on the Sunbeam and Oster brand names. Some analysts are enthusiastic about the plan; others are skeptical because of the impact of the staff cuts on product introductions and other strategic initiatives. Sunbeam's balance sheet lists \$200 million in debt.

Spring 1997: The cost-cutting is about over and the company's stock price has doubled. Dozens of new products are promised, and the plan is to double revenues (emphasizing international sales) and improve operating margins tenfold. However, the consumer appliance industry has been experiencing limited growth, with low margins due to the buying power of large retail chains.

Fall 1997: To raise cash, Sunbeam sells \$60 million in accounts receivable and initiates an "early buy" program for gas grills, allowing retailers to purchase grills in November and December of 1997, but not pay until mid-1998. Once the retailers are loaded up with grills, Sunbeam starts a second sales program. A "bill and hold" plan permits customers to buy and store their unpaid merchandise in Sunbeam's facilities. The two sales arrangements account for a major portion of the revenue gains in 1997, but are in fact future sales booked now.

Spring 1998: New products are launched, emphasizing such high-technology versions of traditional products as electric blankets with sensors and high-end gas grills, all promoted with an advertising campaign boosted 25 times. To support growth targets of 25 percent compounded annually, Dunlap

announces the acquisition of Coleman Co., a leader in outdoor recreation equipment; First Alert, a maker of smoke detectors; and Signature Brands, an appliance company. It is announced that more than 5,000 jobs will be eliminated, and 8 factories and 33 warehouses will be closed.

On April 3, 1998, Sunbeam shocks the stock market when it announces that it will post a first-quarter 1998 loss on lower sales. After one-time charges of \$0.43 per share, the loss per share is \$0.52 in the first quarter of 1998 compared with earnings per share of \$0.08 in the same quarter in 1997. Domestic sales, representing 74 percent of total revenues in the quarter, declined 15.4 percent from the 1997 quarter due to lower price realization and unit volume declines. As the result of Sunbeam's alleged misleading actions, a series of class-action lawsuits are filed on behalf of all persons who purchased the common stock of Sunbeam Corporation between October 22, 1997, and April 3, 1998. The complaints charge Sunbeam with issuing a series of materially false and misleading statements regarding Sunbeam's 1997 fourth-quarter and first-quarter 1998 sales and earnings. The alleged misstatements and omissions were made in an effort to convince the investing public of Sunbeam's continuing double-digit quarterly sales and earnings growth.

The three recent acquisitions permit a reprise of the 1996 tactics of downsizing and plant closings. Meanwhile, the balance sheet shows \$2 billion in debt, a negative cash flow, and a net worth of negative \$600 million. Since the middle of March Sunbeam's stock has fallen nearly 50 percent, from \$52 to \$28. On June 13, Sunbeam's board of directors fires Al Dunlap, citing poor financial results, marking the end of his two-year stint at the company. The scorecard: 12,000 employees eliminated; significant losses; and a demoralized company. "We lost confidence in (Dunlap's) ability to move the company forward," says one of the directors.

"[My] harshest critics call me a bastard and say I have no heart." (Al Dunlap)

Comment on Dunlap's cost-cutting actions and their short- and long-term impact on Sunbeam. Could cashflow reengineering have been utilized in this corporate makeover?



Review Questions

1. Which of the following was a significant twentieth century management concept?
 - (a) Hierarchy of Needs
 - (b) Vector Analysis
 - (c) Cognitive Theory
 - (d) Normal Distribution
2. Benefits from cashflow reengineering include which one of the following?
 - (a) Increased production capacity
 - (b) Reduced internal processing costs
 - (c) Employees as cost drivers
 - (d) Increased management efficiency
3. Cash (liquidity) is the most essential activity of management because its absence may lead to:
 - (a) the inability to pay a dividend to stockholders
 - (b) financial embarrassment
 - (c) increased costs of middle management
 - (d) a reduced ability to forecast
4. The purpose of a cashflow matrix is to identify:
 - (a) Bank accounts
 - (b) Flow managers
 - (c) Transaction speeds
 - (d) Slow-paying customers
5. Traditional reengineering often fails because:
 - (a) The cashflow timeline is insufficient.
 - (b) Support technology is inadequate.
 - (c) There is an opportunity to enhance shareholder value.
 - (d) Redundant business functions must be consolidated.

Answers

1. (a); 2. (b); 3. (b); 4. (b); 5. (d)

MINI-CASE: SOLUTION

This actual situation is perhaps the most extreme case of bad reengineering in recent American business history. Dunlap eliminated so much of the old Sunbeam in such a short time that the company was unable to fulfill his promises to the financial press that he would produce superior results. The focus on short-term earnings rather than thoughtful longer-term strategies forces extreme cost-cutting, demoralized employees, angry retailers, and manipulated sales results to meet market expectations. The use of a cashflow reengineering approach might have produced significant savings and resulted in a more efficient organization, but it was never tried.