

THE FRAMEWORK OF STRATEGIC BUSINESS PROCESS MANAGEMENT: THE CASE OF LGE ¹

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ABSTRACT

The emerging topic in business today is something about process innovation or process management such as Six Sigma, ISO, ABC, ERP, BPR, CMM, etc. The Information Technology and the transformation of organization are major enablers for Process Innovation. In this study the framework of strategic business process management are developed. Four factors which affect strategic process management have been identified. Thereby three strategies have also been identified in this study. They are globalization, collaboration, and agility of business processes. Based on this framework, the process strategy of one Korean company, LGE, has been studied in depth.

KEYWORDS: strategic process management, collaboration, agility

The purpose of this study

Recently the business process management has been the major focus of the business managers around the world. In the past, process management has not received much attention from the business. Most managers gave their attention only to the result of products or service, but now they are concerned with not only the result but also the processes which bring about the results in order to be competitive in the global market. We can now see in the business literature process-related concepts or process innovations such as TQM(Total Quality Management), ERP(Enterprise Resources Planning), BPR(Business Process Re-engineering), X-engineering, Six Sigma, Process Innovation, ISO, CMM(Capability Maturity Model) or ABC(Activity Based Costing). All of these concepts are directly dealing with processes. This evidently shows the very importance of process management today.

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Harrington(1991) said that poor business processes automatically result in very poor business performances. Davenport(1993) said that without process innovation the application of Information Technology could not bring profits to firms. Tenner and DeToro(2000) said that now the focus of the business is on the processes. Larry Bossidy, the former CEO of the Honeywell, maintained that the business competitiveness is determined by not what to do but how to do it (Champy, 2002).

The prominent excellent award in the United States, called Malcolm Baldrige, has seven evaluation criteria. One of them is business process management. Also the famous Japanese root-cause analysis concerned about the causes of problems, not just the symptoms or results.

This study makes an in-depth analysis of one top-notch process-based company in Korea. The focus of this research is on how this company establishes, builds, manages, and evaluates its processes strategically. This company is LG Electronics in Korea. I made numerous contacts with the executives and managers of LGE for the last six months in 2003 for this case study.

Strategic Business Process Management

What is the Strategic Business Process Management? The Strategic Business Process Management is managing all the activities of designing, improving, and redesigning processes to strengthen the business competitiveness. In general the Business Process Management, not like BPR in the 90's which is designed to create new processes, is to continuously improve existing processes. But the Strategic Business Process Management is including both Business Process Management and BPR.

Three strategies of SBPM

This study presents three business process strategies many companies may adopt. They are globalization, collaboration, and agility of business processes. The globalization of business processes is doing some parts of processes at the oversea production and sales facilities through global information network utilizing IT and internet. The collaboration of business processes is to sell out unprofitable processes or outsourcing them to the outsider

in order to accomplish a high efficiency. The agility of business processes is the flexibility of the organization. The Strategic Business Process Management sees organization not by function but by process flow. Therefore the usual functional organization is no longer appropriate to the process based management.

Factors affecting business processes

POSCO(2001) maintained three factors for Process Innovation. They are operation processes, information system, and organization. POSCO made very outstanding results from its first Process Innovation, especially by the full implementation of ERP.

In this study, we present four factors affecting business processes. They are internal/external customers, information technology, organizational structure, and the degree of business process improvement. These four factors are very critical to the success of implementing strategic business processes.

The profile of LGE

LG Electronics, established as the name of GoldStar on October 1, 1958, has been a leader in Korean electronics industry. Therefore, LGE has many Korean first products. LGE is currently composed of three business units, Digital Appliance Company, Digital Display & Media Company, and Telecommunication Equipment & Handset Company. LGE is now a major global player in electronics & telecommunications,

The core competences LGE have built up are marketing, technology, design, and networking. These core competences are indispensable for LGE into a global digital leader. LGE hatch products from many good ideas. But the more good products are rolled out, the keener the need for proficient skills in marketing, technology, design, and networking.

The four factors in LGE

Formerly LGE had a mass production system of few types and BTS(Build-to-Stock) system mainly focused on cost and quality. But now LGE has a BTO(Build-to-Order)

system of diverse types focused on cost, quality, and speed. LGE has recognized that the speed now becomes an important factor improving customer satisfaction. Therefore, LGE is trying to reduce customer service time such as cycle time or lead time, and to optimize the problems which could not be solved by ERP in the value chain. This also needs the cooperation of suppliers and partners for the successful implementation of process management.

LGE evaluates its performance from the customer's perspectives. Also LGE transforms customer's needs very strongly into the design of new product development. Especially LGE has been known as the best company utilizing DFSS(Design For Six Sigma) most successfully in Korea. Therefore the improvement of customer value is the basic criteria for selecting the appropriate project.

The process strategies of LGE

LGE also highly utilizes information. Business processes cannot be managed effectively without the real-time and fast information system. LGE is outsourcing its entire IT system to LGCNS. LGE also strengthens its information utilization employing centralization, synchronization, and collaboration. The centralization of information is to manage totally all the information, formerly managed locally, at the central center. The synchronization of information is to process information, formerly done serially, at the same time. The collaboration of information is to let the specialist do all the tasks relevant to IT, formerly done internally although LGE did not have any competence.

LGE is a matrix organization called BT(Business Transformation) organization focused on processes. In this matrix organization, the head office manages processes in integrated form. This resulted in huge cost savings.

The current status of LGE

LGE has improved its performance drastically by the effective strategy and deployment of the Strategic Business Processes. By the 'Brandchannel.com' of 'Interbrand', the brand evaluation company in the US, tops LGE(24% of responses) in the brand image list in the Pan-Pacific Area.

Now LG Electronics enjoys the very strong competitiveness in the global market for information appliances and home appliances such as refrigerator, washing machine, air conditioner, CD-ROM, CD-RW, and CDMA WIL.

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