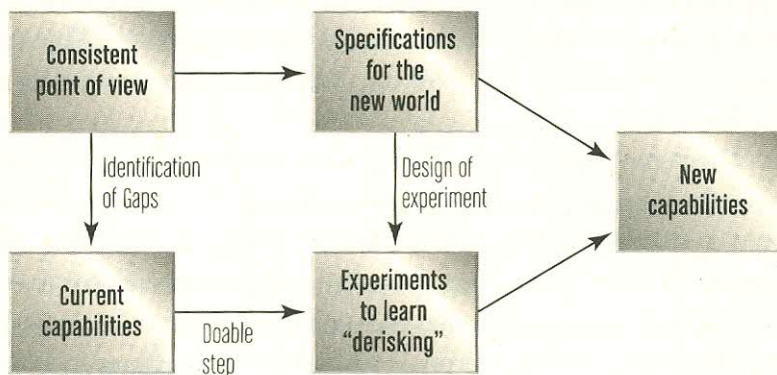


FIGURE 5.3

How Do We Approach This Transformation?



These two starting points allow us to calibrate current capabilities (as in the spline chart in Figure 4.2 in Chapter 4) as benchmarked against the new approach to competition and the specification for that world. This will let us know where the gaps are. We can then begin to develop small, contained organizational experiments to learn about how to build new capabilities. These need not be giant steps nor encompass the entire organization as a first step. These must be doable steps. The whole point is about derisking significant changes in the capabilities of the firm through small steps taken with a great deal of urgency and care. There is enough organizational evidence that shows that continuous experimentation and learning followed by consolidation can lead to major new capabilities in a short period of three to five years without major organizational trauma.

MANAGING THE ORGANIZATIONAL EVOLUTION

Let us consider the case of Madras Cements, a division of the Ramco Group in India. The Ramco Group is primarily involved in cement, textiles, and software development. Madras Cements was a profitable business with revenues of \$138 million in 2001.

Ramasubramaniya Rajah, chairman of the board, and P. R. Venkatarama Rajah, vice chairman, were convinced that business performance—both growth and profitability—would be dramatically altered if they could streamline their social and technical processes. A. V. Dharmakrishnan, senior finance vice president, in 2001 was given the responsibility to be the chief architect of this transformation. He noticed an enormous amount of unproductive effort within the organization that was begging for change. It was also clear that the nature of competition in his business would change. Customers would need better visibility to their suppliers and would need supplies on a “just-in-time basis.” Given the extreme difficulties in the transport of cement in India due to the very poor quality of the infrastructure—railroads and highways—he knew he needed a system that would give him real-time alerts when bottlenecks emerged. The new demands of external market conditions and opportunities from internal inefficiencies called for a radical change.

He also realized that the least painful approach to changing the dominant logic of his managers was to start with the ICT architecture and change the business processes. He felt transparency, visibility to information, and shared information would dramatically reduce the frequency with which management operated on gut feelings, opinions, and intuition. Evidence-based management was his goal. In addition to his overall financial responsibility for the firm, he also took the additional responsibility for the IT organization of Madras Cements. He defined the IT vision for the company as this: “To make information technology an integral part of business and ensure that it empowers people with appropriate information for decision making, thus enhancing the productivity of human resources.” He set out to change the legacy systems of his organization, which included a standard packaged ERP solution and a portfolio of home-grown applications in various plants by adopting a component-based architecture, as discussed in Chapter 4.

At the start of this journey in 2001, Madras Cements lacked real-time visibility to its business operations, and the information

reaching line managers was neither consistent nor standardized. As a result, decisions were made with information that was often inconsistent. Inevitably, the decision process gravitated to gut feelings of managers and the past performance history of the plants. Mr. Dharmakrishnan initiated migration to evidence-based management by gradually increasing the transparency in business operations at and to various levels in management. For example, the daily operational level target and performance on quality, productivity, and costs at each plant were made visible. It was visible to the plant and to corporate officers simultaneously. This first step was met with enormous opposition, both socially and from the IT group. The plant heads refused to monitor such detail because they believed it was the job of the line operators. Making data with this level of granularity available at all levels in the organization was very threatening. Everybody knew what the problems were. There was no place to hide. In this new transformation, the CEO forced these metrics to be presented in relative comparison to other plants. When the plant managers refused, divisional heads in the corporate office were assigned to conduct plant-level reviews based on measures of inefficiency (variance from plans and in comparison with other plants) from real-time reports.

The CEO altered the chairman's review meeting to focus attention on these real-time business process metrics. Managers at all levels got the message. The CEO and senior leaders pushed consistently and with urgency to make the entire chain of processes from order to delivery and cash transparent. Prior to this initiative, plants more than 500 miles from the corporate office would connect with senior management about once a month for a review. Now, this new environment transformed a loose federation of plants and facilities into a single large virtual unit with multiple plants over 1,000 miles apart that compared themselves with others and competed to excel. Benchmarking on process performance across plants was not a traditional quarterly or annual exercise. It was in real time!

As performance of any process deviated from the norms, the concerned process owners were asked to learn from other plants about how they met their performance goals.

This led to enormous, sustainable improvements in operations and significant increases in productivity. Transparency and rapid communications fostered shared learning and trading of best practices. Throughput increased by 10 tons per hour (4.5 percent increase), power consumption efficiency improved by 10 percent, efficiency of freight operations and procurement improved by 20 percent, and variations in cement bag weights across plants were substantially reduced. These changes resulted in a recurring \$8.5 million increase in annual profits—an increase of 21 percent in 2001. We will present the broader business performance improvements from this transformation later.

Senior managers at Madras Cements also faced the daily frustration of making timely cement deliveries via road and rail transportation, given the poor quality of infrastructure in India. Prompt response to customers, on-time delivery, and quality at the best price are mandatory requirements to compete effectively in the highly competitive cement industry. Indeed, delays in delivery can result in the product hardening within the mixer!

ACHIEVING REAL-TIME VISIBILITY TO INVENTORY AND LOGISTICS

Achieving real-time visibility to inventory and logistics is a business necessity. Many companies in the United States and Europe deploy GPS technology to track the movement of goods, allowing this visibility. However, Madras Cements was not convinced it needed to make the multi-million-dollar investments required in 2003 for creating a GPS-based ICT architecture.

Madras Cements provided all truck drivers with cell phones that cost them about \$30 each. The company designed business

