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The R-O-I of globally integrated operations

From piecemeal approaches to a comprehensive strategy

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From piecemeal approaches to a comprehensive strategy

By Dave Lubowe, Judith Cipollari, Patrick Antoine and Amy Blitz

Business leaders in the new economic environment face intense pressure to cut costs, and optimize resources and capital productivity on a global basis.[1] In a truly "globally integrated enterprise," work flows to places where it can be done best.[2] Yet, business leaders often stumble when establishing the operational capabilities needed to support global integration. Based on our experience and an analysis of 20 diverse best practice examples, we present here our "R-O-I Framework" for operationalizing global integration – it emphasizes repeatable processes, optimized assets and integrated operations, all on a global basis and supported by strong leadership, organizational structures and technology.

Global integration and cross-border trade are clearly not new, having been driving forces in the economy since before the Roman Empire. Yet globalization has intensified dramatically in the past decade.

One key reason for this is the ongoing revolution in communications technology, which continues to slash the costs of trading, transacting and interacting across even vast distances. Between 1995 and 2007, in fact, the number of transnational companies more than doubled, from 38,000 to 79,000, and foreign subsidiaries nearly tripled, from 265,000 to 790,000.[3] During the same period, the number of cross-border M&A deals more than doubled from 390 to 889,[4] though this – like much else – declined in 2008.[5]

For business leaders, such changes offer a growing set of opportunities to optimize resources and capital productivity on a global basis.[6] Yet there is considerable uncertainty about how best to do this. This study finds that while many companies are pursuing piecemeal approaches to address various processes or areas of operation, the top performers have a comprehensive, strategic view that spans the entire organization, in what we are calling an "R-O-I" Framework.

As preconditions for success, companies must focus on the elements of the R-O-I framework concurrently:

- Repeatable processes – Eliminating inefficiency, optimizing effectiveness, and managing exceptions

- Optimized assets – Managing core versus non-core activities, optimizing locations and establishing virtual operations

- Integrated operations – Optimizing global competencies via partnering and managing end-to-end processes on a global basis

- Foundational elements – Establishing critical support components that span leadership, organizational structure and technology.

Methodology: IBM 2009 Globally Integrated Operations Study

We wanted to know: How can a global integration strategy be operationalized? What operations strategies are most effective in enabling global integration? To help answer these and related questions, we first examined data from our 2008 CEO Study, which indicated that CEOs were focused on global integration, but often struggled with how best to operationalize it.

We then selected 20 best practice cases to identify patterns among strategies that strong global integrators were using. These examples were selected from Business Week's "Top Innovators List," and company reports of top performers in 2008, as well as IBM Operations Strategy leaders.[7]
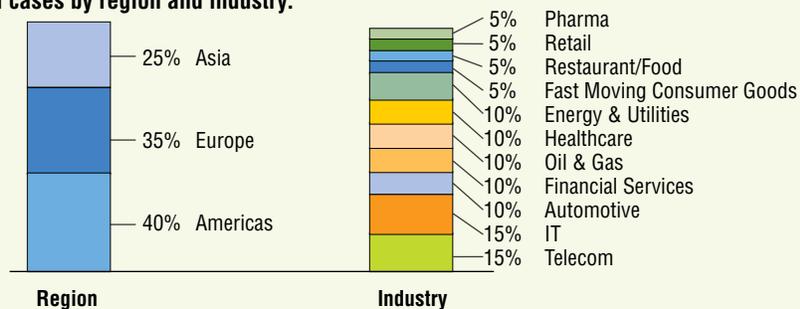
Our cases span Asia, Europe and the U.S., and diverse industries including financial services, health care, telecommunications, energy and utilities, retail, IT, automotive, oil, food and fast moving consumer goods (see Figure 1). The 20 companies are: Alstom, Bayer Schering, British Petroleum, Cisco, Credit Suisse, Eli Lilly & Company, Goldman Sachs, IBM, Intel, Li & Fung, Mahindra and Mahindra, McDonald's, Nokia, Procter and Gamble, Samsung, Shell, Stryker, Schuler, Toyota and a major Chinese telecommunications equipment manufacturer.

As part of our analysis, we sought to determine:

- What's driving the need for global integration, and what is the business strategy?
- How is the integration being achieved – knowledge, skills, capabilities, leadership, technology, and the like?
- What are the published performance results of the company and how do these relate to global integration?

We analyzed the operations strategies of each of our 20 cases, searching for patterns that explained their operational achievements and successes as global integrators. From this analysis, we identified three key variables – repeatable processes, optimized assets and integrated operations – as essential ingredients for successful global integration.

FIGURE 1.
Distribution of cases by region and industry.

Region:
- 25% Asia
- 35% Europe
- 40% Americas

Industry:
- 5% Pharma
- 5% Retail
- 5% Restaurant/Food
- 5% Fast Moving Consumer Goods
- 10% Energy & Utilities
- 10% Healthcare
- 10% Oil & Gas
- 10% Financial Services
- 10% Automotive
- 15% IT
- 15% Telecom

Source: IBM 2009 Globally Integrated Operations study.

The R-O-I of globally integrated operations

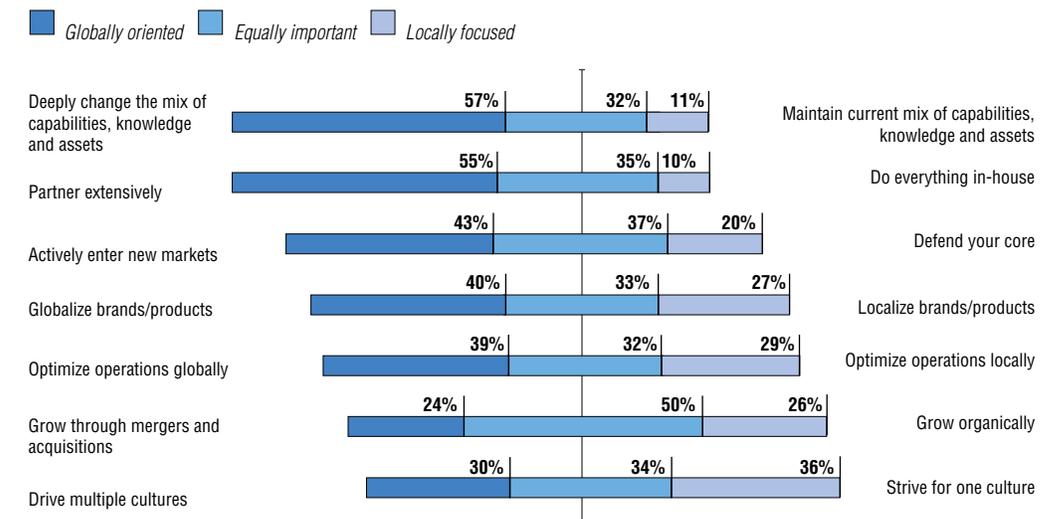*From piecemeal approaches to a comprehensive strategy*

Global integration as an antidote to the "change gap"

In our IBM Global CEO Study based on inter-views with over 1,000 CEOs, we learned that in order to capitalize on global integration, CEOs are planning radical changes in their capability, knowledge and asset mix, all while focusing on diverse global strategies (see Figure 2). Indeed, 75 percent of the CEOs told us they are pursuing global strategies in order to enter new markets for customers, as well as for talent. Moreover, while a majority of CEOs are embarking on major changes to their business designs, financial outperformers are focusing more on global business designs than are the underperformers, underscoring the power of a global integration strategy.[8]

There is often, however, a wide gap between the vision and the reality of global integra-tion. While eight out of ten CEOs anticipate substantial or very substantial change over the next three years, they rated their ability to manage change lower than the rate of change they expect, creating a change gap of 22 percent.[9]

Global integration, a key element of navigating change, is in fact quite complex, risky and challenging, both within and outside the orga-nization. The complexity extends beyond the organization to suppliers, regulators and others dealing with national standards that are often quite different, in areas such as product safety, environmental impact and intellectual property rights – not to mention cultural issues.

FIGURE 2.

CEOs plan radical changes in operating models to enable global integration, but struggle with operationalizing these changes.

■ *Globally oriented*   ■ *Equally important*   ■ *Locally focused*

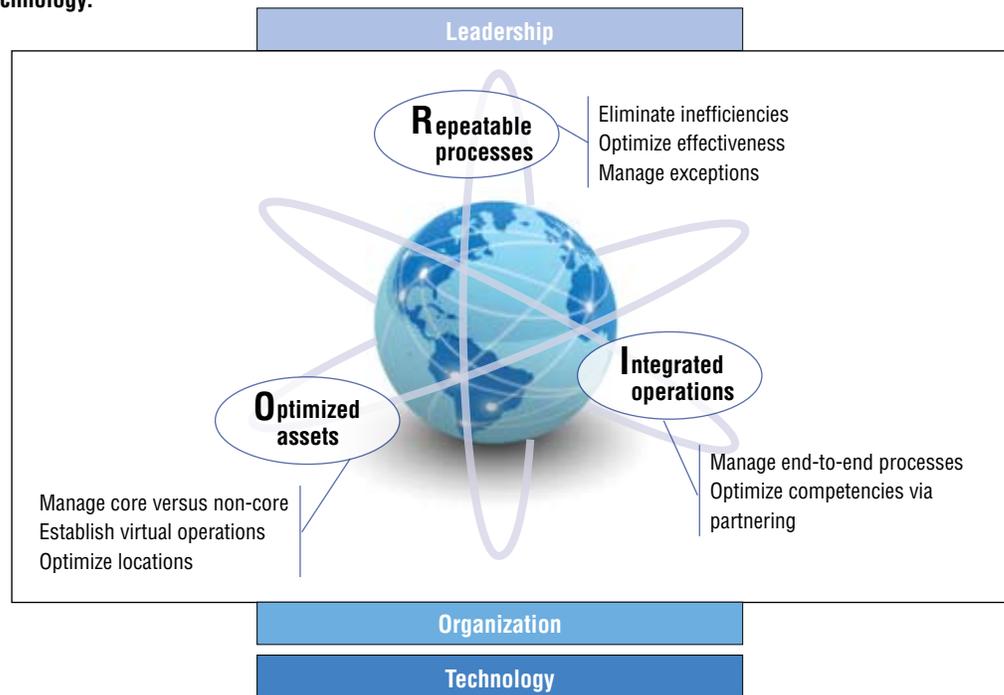|	Globally oriented	Equally important	Locally focused	
Deeply change the mix of capabilities, knowledge and assets	57%	32%	11%	Maintain current mix of capabilities, knowledge and assets
Partner extensively	55%	35%	10%	Do everything in-house
Actively enter new markets	43%	37%	20%	Defend your core
Globalize brands/products	40%	33%	27%	Localize brands/products
Optimize operations globally	39%	32%	29%	Optimize operations locally
Grow through mergers and acquisitions	24%	50%	26%	Grow organically
Drive multiple cultures	30%	34%	36%	Strive for one culture

Source: IBM Global CEO Study 2008; private sector responses.

Because of the risks and challenges posed here, operationalizing a global integration strategy efficiently and effectively is often what separates the winners from the "also-rans." Yet, despite the growing urgency surrounding how best to operationalize global integration, many questions remain about how best to achieve it. Even as the literature on globalization has grown ten-fold, from about 500 studies throughout the 1990s to nearly 5,000 studies on the topic between 2000 and 2004, there is still a need for hard analysis regarding the best operational strategies for enabling global integration.[10] This study aims to help fill that gap.

The R-O-I Framework: A strategy for operationalizing global integration

Our analysis of 20 best practice cases revealed a set of clear, replicable strategies for operationalizing global integration (see Figure 3). These strategies span diverse industries and geographies, demonstrating the power of strategy over location or industry trends. In brief, each of the companies studied here focused on a global basis on three key areas of operations strategy: repeatable processes, optimized assets and integrated operations – what we call our R-O-I framework.

FIGURE 3.
Best practice cases reveal an "R-O-I" Framework, driven by leadership, supported by the organization and technology.

Leadership

Repeatable processes
Eliminate inefficiencies
Optimize effectiveness
Manage exceptions

Integrated operations
Manage end-to-end processes
Optimize competencies via partnering

Optimized assets
Manage core versus non-core
Establish virtual operations
Optimize locations

Organization

Technology

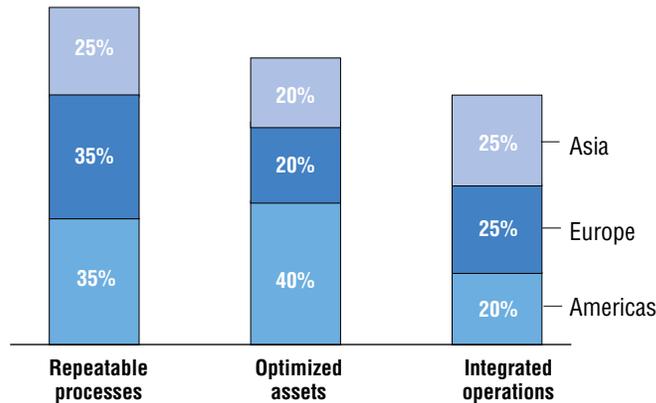*Source: IBM 2009 Globally Integrated Operations study.*

Moreover, we found that successful global integration was driven by strong leadership and supported by organizational structures, as well as technology. Finally, we found that an ad hoc approach is not sufficient: in order to achieve truly globally integrated operations, it is essential to address all elements of the R-O-I framework simultaneously and well. And getting this right is an increasingly important competitive differentiator.

When we explored further the extent to which our best practice companies focused on each of these areas, we found that 95 percent focused extensively on repeatable processes (though less so among Asian companies), while only 80 percent focused extensively on optimized assets (particularly companies from the Americas), followed by just 70 percent focused extensively on integrated operations (see Figure 4). Yet, the 2008 CEO Study shows outperformers are involved extensively in global integration and are simultaneously

pursuing multiple paths toward this goal – essentially spanning key elements of our R-O-I framework.

Our analysis shows that – even among best practice cases – some areas of operations strategy needed to support global integration are better understood than others. Specifically, while establishing repeatable processes has been a longstanding objective of operations strategy, optimizing assets on a global basis and integrating operations globally are still newer, evolving and less well understood areas of operations strategy. Moreover, while many companies are pursuing global integration in some areas, the top performers understand the need to have a systemic comprehensive approach, integrating processes, assets and operations on a global basis. This paper aims to fill this gap by exploring best practices in all of the areas identified for successful globally integrated operations.

FIGURE 4.
Case study distribution by R-O-I and by region.

Source: IBM 2009 Globally Integrated Operations study.

R = Repeatable, standardized processes

Establishing repeatable, standardized processes is a long-standing and well understood area of operational effectiveness, from early time-and-motion studies for increasing labor productivity to subsequent Lean approaches for reducing inefficiency to Six Sigma approaches for reducing errors and quality-related problems. These led to the combined Lean Six Sigma approaches for balancing efficiency and effectiveness for optimal customer satisfaction and profitability. Ninety-five percent of our best practice cases have extensive efforts underway to continually address the need for repeatable standardized processes on a global basis.

Eliminate inefficiencies. The first step in any strong operations strategy is to eliminate inefficiencies. Here, the goal is to reduce cycle time through process optimization, removing all duplicate or unnecessary steps, doing things simultaneously rather than sequentially, and replacing manual intervention with automation as much as possible.

Moreover, the right technology must be in place, with systems interfacing end-to-end throughout any given process to reduce inefficiencies. To manage all of this on a global scale, common steps in the process should be pulled into a shared services model. Leaders must also be designated as responsible for specific global processes, with regional leaders in place to manage processes locally.

Li & Fung: Eliminating inefficiencies

In one particularly innovative example, Li & Fung has reduced cycle times, removed inefficiencies and optimized supply chain management globally by relying on a flexible network of some 10,000 specialized manufacturers and suppliers across 40 countries, thus targeting specific customer needs without having to vertically integrate. The company uses a pull approach to production, producing only when orders are placed. Cotton can be purchased from America, knit and dyed in Pakistan and sewn into garments in Cambodia – whatever configuration yields the best end result. Interestingly, the company orchestrates the supply chain for each of its customers without owning any piece of it.

To manage its global network of suppliers, Li & Fung relies on sophisticated systems, in a "pull" structure" centering on rapid response to demand. An added bonus of this "pull" approach is the ability to track and respond to changes in customer preferences on a real-time basis.[11]

Optimize effectiveness, in terms of quality and customer satisfaction. The key here is to help ensure high quality outputs, particularly in areas that really matter to customers. Quality controls require measurement, governance and risk mitigation, all made more complex when operating on a global scale.

In measurement processes, quality checks and controls are needed at each handoff in the process. To govern this, measurement can be either automated or manual, but requires an owner – either an individual or a governing body – with oversight of the end-to-end process and ultimate accountability for the

final product or service. Risk mitigation is also critical, with structures in place to continually assess a wide range of potential threats throughout global operations such as systems or machines failing, as well as political, environmental, economic, societal and other risks. Every possible risk must be anticipated with back-up plans in place to handle them.

Toyota: Optimizing effectiveness

A classic example of a company here is Toyota, which originated the Toyota Production System, now known more broadly as Lean Manufacturing. Using this approach, Toyota continually reduces inefficiency while verifying reliable quality via extensive automation and rigid scripts for every activity, connection and production flow in its factories.

At the same time, Toyota's operations are extremely flexible and responsive to customers, minimizing inventory through just-in-time "pull" adjustments vis-à-vis demand at all stages of a production process.[12] Surprisingly, the company's strong culture of continual improvement enables this seemingly rigid system to be very adaptive and flexible, and to fix problems as they arise.

Manage exceptions. The goal here is to control efficiency and quality by establishing processes that are repeatable and standardized across global operations. In this way, global demand, resources, and operating expenses are all optimized globally.

The challenge, however, is to achieve this while still taking into account critical cultural and geographic dimensions, managing such exceptions effectively.[13] The key here is to standardize processes as much as possible, while managing exceptions for local differences, ideally limiting these to fewer than 20 percent of all transactions.

McDonald's: Managing exceptions

McDonald's long ago broke down every minute step in the end-to-end process of making its French fries to provide consistency in the quality of food and the overall experience from Moscow to Manhattan, from Tokyo to Toledo. Still, its menus vary, with different offerings to accommodate the diverse preferences of customers across the globe, including the "Maharaja Mac" in India, for example, or the Green Tea milkshake in Japan. McDonald's was also one of a very small number of companies (about 2 percent of companies listed on U.S. exchanges) that outperformed the S&P in 2008.[14]

O = Optimized assets

Optimizing assets on a global basis is an increasingly important operations strategy, used to a high degree by 80 percent of the companies studied here. And this area of operations has been undergoing a rapid transformation in recent years, as the ongoing revolution in information and communications technology enables entirely new approaches to global operations, with realtime tracking, virtual supply chain management, global process integration and other operational innovations now available to connect once far-flung operations. But what is the best operations strategy for navigating this new world, to seize opportunities while avoiding the hazards?

Identify and manage core versus non-core processes. Being able to accurately identify where value is generated at all levels of the organization is an essential first step in optimizing assets. Strong financial systems, together with good management information, are key here.

Using these, business leaders can determine which activities contribute strategic value and can then eliminate weak businesses and divest where needed, moving non-core activities to shared services or outsourced solutions. This also enables a shift from fixed to variable costs, with operating models that are more flexible on a global scale and capable of moving quickly to different locations in response to changes on either the supply or demand side of operations.

> **Prioritizing core activities more and more**
> A significant number of multi-national companies are considering increased outsourcing of their IT development centers in India and China. In a similar shift away from non-core activities, pharmaceutical companies are more frequently extending their R&D processes beyond company walls to India and China in order to accelerate the pace of discovery while reducing up front investments.[15] Similar trends are occurring in other sectors that rely heavily on R&D, including software development and consumer products.

Optimize locations. For processes that remain within the walls of the firm, companies en route to global integration must optimize locations on a global basis, putting in place the right supporting organizational structures and technology. Leading companies are now broadening their search for new locations to take advantage of new markets, talent pools and operational efficiency worldwide.

Their overall goal is to locate processes where assets, talents, resources, distance to markets, and other key factors of production are optimized. And as pressures to cut costs intensify, setting up operations in the most cost-effective places is essential.

> **Rising emphasis on optimizing locations**
> Even in the absence of growing global economic activity during 2007 and 2008, companies keep expanding their geographic scope, indicating that this is a structural, not a cyclical, aspect of the economy today.[16] And this expansion has brought unprecedented levels of investment to countries previously on the periphery of the world economy.[17]
>
> The challenge, however, is to better understand the vast array of business environments, regulations, cost structures and risks (political, economic, environmental and more). These concerns can best be overcome through systematic comparisons of diverse locations based on a clear set of criteria such as financial evaluations, investment trends and competitor analyses.

Identify and manage operations that can be performed virtually. Innovations in technology are increasing the opportunities to perform a wide range of operations virtually – from conference calls, e-mails and instant messaging to Second Life, wikis and mobile technology. And by doing so, many companies are able to realize substantial cost savings while further reducing the geographic barriers to optimizing assets.

Identifying opportunities for virtual operations

There is a growing trend toward virtual work, with more and more employees from companies of diverse industries and sizes working from home. This can dramatically reduce corporate real estate and other associated costs, while enabling the right workers to team on projects regardless of location. It also greatly reduces the costs of travel, as well as absentee costs when, for example, an employee might otherwise need to stay home with a sick child. Offering a virtual work environment is also a growing factor in attracting and recruiting talent, ranked just below salary in one study of 1400 CFOs.[18]

Key to these virtual organizations is a strong corporate culture that enables collaboration and sets consistent process and quality standards among team members who may never meet in person. Also critical to success is an ever-growing array of systems that enable virtual collaboration, including: conference calls; e-mail and instant messaging systems; online team rooms and wikis for co-developing documents; Second Life for large group sessions that mimic face-to-face meetings by assembling avatars in a virtual world; online "jams" for threaded discussions on various topics among an even larger group of participants; and a host of other collaboration tools.

I = Integration of operations on a global level

Of the companies studied in depth here, only 70 percent focused extensively on integrating operations on a global basis. Yet this is not a trivial goal – even the stars of global operations strategy are still not quite sure how best to fully integrate global operations.

Optimize global competencies through partnering. To execute effectively, a global partnering strategy is becoming increasingly important. As Figure 2 shows, 55 percent of CEOs plan to partner as a strategy for global integration. Moreover, when we looked at partnering as a type of business model innovation, we found that over 40 percent of CEOs are changing their enterprise models to be more collaborative, notably via partnering strategies.

And, again, with technology dramatically reducing the costs and challenges of collaborating virtually, more and more companies are using global partnering to enter new markets, reach new customers and team with the best suppliers, manufacturers and others throughout increasingly disaggregated enterprises. That is, what once might have been done within the walls of a company can now be done via partnerships and global supply chains.

Eli Lilly and Company: Partnering with others for global advantage

U.S. pharmaceutical giant Eli Lilly and Company pioneered a "research without walls" approach to R&D in the mid-1990s in order to revive its innovation pipeline, reduce up-front development costs and still accelerate the pace of discovery. To do this, Lilly has integrated an extensive network of external partners in academia, bio-tech and beyond through its constantly evolving, collaborative business models. And the results have been impressive: from 2002 to 2007, sales increased at a compound annual growth rate of 11 percent.

Manage end-to-end processes on a global basis. Bringing all of these approaches together, the final step to global integration is managing on a global basis for every process from end-to-end, within and beyond company walls. Key to this is a systems view of global operations, with tools and methodologies in place to continually monitor end-to-end processes while adjusting to changes wherever and whenever they arise, while maintaining a continual focus on global optimization.

IBM: Taking a global view of end-to-end processes

In recent years, IBM has undergone an extensive, dedicated transformation process to evolve from a multi-national company to a truly globally integrated enterprise. As part of this effort, IBM reduced multiple supply chain processes and systems from numerous local procurement centers to just three global procurement centers, contributing to a significant reduction in total supply chain spend.

IBM also cut IT complexity from numerous local CIOs and local data centers to just one global CIO and five global data centers, greatly improving efficiency while reducing IT spend as well. Similar efforts have streamlined and integrated operations on a global scale in human resources, finance, marketing, R&D, sales, the leadership structure and other key areas of the company, contributing in part to the company's strong performance even amid the widespread external economic challenges of 2008.

Foundations of R-O-I: Leadership, organization and technology

In concert with the R-O-I elements, three additional elements underpin the global integration transformation process and serve as the foundation that enables globally integrated operations: leadership, organization and technology.

Leadership

Integration efforts are most likely to succeed when strong leadership is actively involved in and held accountable for driving required changes throughout the organization. Such leaders set the overall direction of the organization, with clear targets for operationalizing the strategy, and then influence others to commit support to a global integration program.

For example, back in the 1950s when the Toyota leadership realized it had to significantly improve efficiency and cut costs to survive, the Toyota Production System was born – operationalizing this system then followed, evolving and improving over time. Likewise, the recent IBM transformation from multi-national to globally integrated enterprise was driven by the CEO and then cascaded throughout the organization to top global leaders.

Organization

A structured approach to change management is a critical enabling factor for instituting new, globally integrated operations throughout the organization, addressing shifts in roles, responsibilities and relationships. Governance is then essential for ongoing oversight, linking business strategy to operational execution, from end-to-end of all processes, and instituting controls over quality and costs while managing risk.

**Foundational elements
of the R-O-I Framework
provide critical support,
spanning leadership,
organizational structure
and technology.**

For example, when Eli Lilly and Company launched its "research without walls" initiative, it also set up an Office of Alliance Management to establish a systematic approach to the growing network of external partners, rather than treat each new alliance as a separate relationship. This allowed for continual learning and improvement of the overall approach to partners.

Technology

Finally, technology is at the core of the ongoing transformation in enterprise structure, enabling far more collaboration within and across organizations. Geography is a far less limiting factor than in previous eras, certainly much lower than in the pre-Internet age. And as communications technology continually evolves, maverick business leaders will keep raising the bar for competitors, figuring out ways to leverage technology to do things faster, cheaper, better.

With global integration as the current goal of many, technology will be key to its enablement: connecting end-to-end processes globally throughout the extended enterprise, removing redundant systems, reducing manual activity and optimizing operations on a global basis. For example, as described above, Li & Fung relies on sophisticated systems to manage its global network of suppliers, in a pull structure centering on rapid response to demand.

Are you ready?

Despite an increasing awareness among CEOs and other business leaders of the importance of global integration, however, they often stumble when it comes to establishing the operational capabilities needed to support global integration – many still manage their processes, assets and operations locally. Even those that are focused on global integration often do so on a piecemeal basis not in a strategic, systemic, comprehensive way. Top performers, however, have a systemic view and are integrating processes, assets and operations on a global basis, see Figure 5.

FIGURE 5.

While many organizations manage processes, assets and operations on a local basis, the best integrate these globally in an "R-O-I" Framework.

Source: IBM 2009 Globally Integrated Operations study.
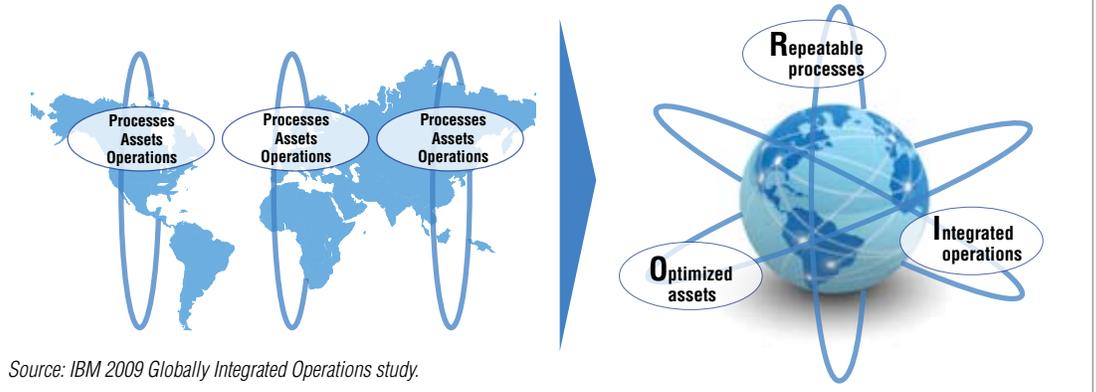
To help determine your own organization's level of global integration, answer the following questions. This self-assessment can pinpoint current areas of weakness so you can give appropriate attention to all areas of the R-O-I framework via a comprehensive approach.

Repeatable processes:
- How will you eliminate redundancies to support efficient global operations?

- How can you optimize the effectiveness of your operations to establish high quality standards while focusing on the areas that really matter to customers?

- In what ways are you managing the exceptions to repeatable, standardized processes, keeping exceptions to no more than 20 percent of all transactions?

Optimized assets:
- How will you identify core versus non-core processes? What is your plan for managing the non-core processes via outsourcing or other solutions?

- What will you do to locate processes strategically on a global basis to optimize assets, talents, resources, distance to markets and other key factors of production?

Integrated operations:
- What is your partnering strategy to optimize global competencies?

- How can you manage every process from end-to-end, within and beyond company walls, on a global basis?

Leadership:
- Given the scale and scope of global integration efforts, how can your leadership prepare to drive the necessary changes throughout the organization?

Organization:
- What is your organization's consistent method for change management? Which processes and technologies are in place to allow people to become involved in the change, access accurate information and provide feedback?

- Can your governance structures continually monitor processes in order to verify consistent quality throughout widespread global locations?

Technology:
- How will you build the systems and technological infrastructure to support globally integrated operations?

Building a comprehensive operations strategy

The new economic environment has intensified pressures to cut costs, and optimize resources and capital productivity. By working toward a fully "globally integrated enterprise," firms can not only achieve these ends, they can also drive growth, enabling in particular entry into new markets.

As preconditions for success, companies must focus on the elements of the R-O-I framework concurrently:

- Repeatable processes – Eliminating inefficiency, optimizing effectiveness, and managing exceptions

- Optimized assets – Managing core versus non-core activities, optimizing locations and establishing virtual operations

- Integrated operations – Optimizing global competencies via partnering and managing end-to-end processes on a global basis

- Foundational elements – Establishing critical support components: Leadership, organizational structure and technology.

An ad hoc or piecemeal approach is not sufficient; in order to achieve truly globally integrated operations, it is essential to address all elements of the R-O-I framework simultaneously and well. And the strongest competitors, especially in the new economic environment, understand that getting this right is an increasingly important competitive differentiator.

To learn more about this IBM Institute for Business Value study, please contact us at *ibv@us.ibm.com*. For a full catalog of our research, visit:

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