



## **BALANCING LOCAL FLEXIBILITY WITH GLOBAL EFFICIENCY**

### **FIVE STEPS FOR COMPETING IN HIGHLY DYNAMIC MARKETS**

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Over the years, we have heard countless stories of multinationals struggling to take advantage of their global scale. However hard they try, they never quite manage to move away from the business unit and functional silos, and gain the desired economies of scope or scale. More recently, we have started to hear a different story. Spurred on by enterprise IT initiatives and process standardization programs, many firms are now feeling leaner and more efficient, but these benefits have come at the expense of local flexibility and agility.

This tension between local flexibility and global efficiency is a central dilemma facing most large organizations. The optimal balance between these two objectives is highly dependent on the industrial context in which a firm operates as well as a firm's particular strategic direction. But must firms choose one objective over the other? Through our research, we have uncovered a series of steps through which some firms have managed to implement strategies that are both locally agile and globally efficient.

Faced with contradictions and misalignment between local and global interests, organizations must determine how to gain the commitment of local units to fully implement a new global practice or IT solution without compromising adoption. We have identified five key guidelines that tend to be associated with implementation success.

### **1. Start with processes before moving to data and then IT**

The first phase of the journey should revolve around understanding in detail how processes are managed across the organization. The evaluation and rationalization of organizational processes should precede any large scale IT system implementation project.

A common temptation is to move too quickly into system implementation mode without first having a full understanding of the process landscape. Furthermore, processes are not the only component that should be standardized and rationalized before the IT solution is implemented. Data should be formatted and structured in a similar manner to allow for sharing across the enterprise. For most organizations, ensuring data consistency is not a trivial matter.

### **2. Implement a strategy of smart piloting**

We advocate the use of appropriate pilot markets to test and manage the implementation. Piloting is the process of testing a system or solution in one setting before rolling it out to other locations. We noticed that the firms that successfully managed the efficiency journey were the ones that made extensive use of pilots.

The converse was also the case. Firms that made little use of pilots or implemented 'big bang' implementations tended to be less successful. Pilots are useful for a number of reasons. First, they allow for a setting where approaches can be tested, evaluated, and learned from. Inevitable problems are addressed during pilot installations. Second, successful pilots serve to build credibility and legitimacy for the change effort. They are an important tool to overcome natural resistance from other operations that are in line for change. While markets and business units don't necessarily see the benefit of a global process or IT solution at the outset, they start to see the benefits more clearly as an increasing number of markets adopt the solution.

### **3. Ensure top management support: from push to pull**

Any large-scale standardization or IT system implementation initiative will inevitably encounter resistance at the local unit level. Be cautioned! We have observed that it can take substantial time to find the right local and global balance – a timeline for which the financial markets will likely have little patience. Overcoming resistance requires time and patience. Proper preparation, as described above, with processes preceding data and systems is important. Smart pilots can also prove to be invaluable. However, neither of these approaches will be enough to overcome stiff resistance, particularly from influential markets or business units. Thus, we have observed that strong top management commitment is critical for implementation success and, conversely, the lack of this visible support leads to sub-optimal results or failure.

#### **4. Institute strong and robust governance**

The next contributing factor to be associated with a successful journey from a siloed structure to one that is more globally efficient is strong governance. The purpose of strong governance is threefold. First, it ensures that there is a mechanism to decide which processes and systems should become the global standard. Second, it provides a mechanism for exceptions to the standard to be identified and authorized. Strong and clear governance is critical to ensure that the right balance is established and maintained over time. The third purpose is to identify processes or systems that should be discontinued because they do not fit the global template.

In the multinationals we observed, governance was usually provided through a combination of head office personnel, functional leaders, and individuals at the interface between the business and IT. When this triangle works effectively, governance is more likely to be successful.

The dangers of poor governance are clear. It can lead to a set of processes and systems either too large or too small. The fixed set can become too large if it becomes full of rarely used, redundant, or duplicate processes and systems. In such cases, which we have seen on multiple occasions, an organization might have the appearance of being globally rationalized, but upon closer inspection, its bloated core makes it bureaucratic, inefficient, and slow.

On the other hand, if the fixed set is too small, the organization may never completely abandon its silos. Too many local exceptions can easily serve to negate the benefits of a global standard.

#### **5. Sequence functionally from back to front office**

We see an additional factor that appears to be an important component of a successful journey – the correct sequencing of organizational functions. We found that firms that tend to have successful outcomes begin with back office functions, like accounting, finance and procurement. These functions are typically process driven, and have the most to gain from standardization and efficiency programs.

By following these steps, leaders can find a balance that is globally efficient while still maintaining the local flexibility that is necessary to compete in highly dynamic markets.

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