Leveraging Information Locally and Globally: The Right Mix of Flexibility and Standardization

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When globalizing their companies senior managers are confronted with a perplexing problem: How do you grow in a way that maximizes local customer value and at the same time minimize enterprise-wide operational costs? Some senior executives seem to address this problem with grace, in essence, “changing the tablecloth without disturbing the cutlery,” while others irreparably disturb a company’s delicate balance sending it into an uncoordinated tailspin. Not surprisingly, most executives see promise in the “right” configuration of local and global capabilities and greater use of IT as a way to leverage information and coordinate far flung global operations – but what does this actually mean in terms of a company’s approach to business flexibility and business standardization? The challenge facing senior managers is reflected in these statements:

“How can our group of 20 diversified companies provide flexibility for each operating company to grow and innovate and at the same time leverage scarce functional knowledge, reduce administrative overheads and employ information technology effectively across the Group?”

Chairman and CEO, Large Asian Pacific Industrial Group

“We are on a course to nurture internal sources of growth rather than acquisitions. To do so, we must provide our country markets with high flexibility to operate effectively on a local basis. Yet, to compete with global brands against regional and global competitors, we must adopt common processes in our supply chains, reduce the costs of non-value added functions and learn to leverage IT on a global, regional and local basis. The Challenge is not if, but how to do so?”

CEO, Global Food Products Company

As these examples indicate, there are essential elements to be considered in achieving successful globalization. Companies must follow growth paths that emphasize new sources of innovation balanced against efficiencies in local, regional and global operations. Rather than opting for the extremes of completely centralized or decentralized organizational designs, companies must strike the right balance in “standardization” and “flexibility” by considering when it is best to use “shared services” and “common processes.” An important part of this balancing act is establishing the right mix of information, people and IT capabilities fostering a culture of effective information use by making information available to anyone who needs it in the company.

Why the Balance between Flexibility and Standardization Matters

Academics have long emphasized the need to balance standardization, as in business process consistency, structural formalization, and global policy dictates, with flexibility, characterized by customer responsiveness, product customization and the delegation of responsibility. A suboptimal mix can have far-reaching effects on a firm’s competitiveness: companies that avoid standardization may lose opportunities to maximize efficiencies and consolidate costs, while those who fail to ensure local responsiveness may endanger market share.¹

Implementing the right balance is not a one-time choice, but a journey influenced by a company’s product and service mix and the business processes and information required for delivering them. Variables such as industry sector, strategy and organizational capability will pressure companies toward different points of departure. Given these differences, achieving the appropriate balance between flexibility and standardization is not executed equally well by all companies, and the ability to maintain this balance becomes an important business capability and source of competitive advantage.

**Information Capabilities as Both Cause and Effect of Organizational Transformations**

Management, looking for the best globalization approach, has tended to treat the problem as an organizational design issue. Following conventional thinking, companies undertook organizational restructuring, matrix management, and empowerment initiatives reallocating decision rights and responsibilities – either centralizing the reporting structure (in the 1970s) or decentralizing (in the 1980s and early 1990s) in the hope that a better balance between local flexibility and enterprise-wide efficiencies might be achieved. Companies such as ABB, following this organizational restructuring approach, were touted as globalization models for their highly decentralized, autonomous, country and product business units that were coordinated at the corporate level by only high-level profit and loss statements. The organizing logic of this design was that the coordination costs of managing a standardized global enterprise were too great and sacrificed the prospects of local flexibility. Markedly absent from these organizational design-oriented approaches was an articulated strategy to leverage information capabilities permitting centralized control and cost efficiencies while also enabling local market flexibility.

Though often overlooked, the critical role of information and knowledge in the coordination of the firm is not a new idea. Economists and political theorists as far back as the 1940s argued that the utilization of dispersed knowledge is one of the most central economic problems associated with managing a profitable global company. In this pre-IT era, theorists such Friedrich Hayek cited the best use of a company’s resources occurs when information and decision rights were located together. Coordination costs in this pre-IT world were recognized as being so high for global operations that senior managers had to delegate much of their control to distant country or product managers. Company’s not willing to buy-in to such a decentralized decision rights scheme often would forgo globalization opportunities in favour of maintaining tight centralized corporate control in their national or regional markets.

The fundamental shifts in information technology in the last two decades have had a strong impact on changing this situation and in turn the rules of the game! IT makes it possible to choose where decision-relevant information is located in the organization. IT facilitates the distribution of information globally to whoever in the company needs it. Decisions can be made locally when they favour decentralization and more flexible organizations. On the other hand, IT can also facilitate monitoring and reduces the costs of control, which would encourage increased centralization and standardization. The opportunity to leverage information capabilities beyond the more simplistic organization design-oriented solutions of pure decentralization and pure centralization has pushed firms to undergo a fundamental reassignment of decision rights.

Today, information capabilities affect and are affected by how the company is organized globally. Good information capabilities are critical for a company’s ability to assess business opportunities, to rationalize operations, and to convert people knowledge to company use. In our previous research we have shown that companies that increase their maturity in developing their information, people and IT capabilities over time are best positioned to reap the business benefits of using information effectively, sharing best practices and new knowledge, and moving rapidly to

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4 Decision rights are supported by a set of rules and organizational structural arrangement, which are reinforced by rewarding those who follow them and punishing those who violate them. For example, many companies began their globalization journey by placing managers in different geographic locations, giving them the freedom and accountability to produce results and grow the company often with high levels of decision making autonomy. At a later stage, as the need and capability for control and coordination increases, many companies move towards more centralized decision-making.
make business changes in response to market and customer demands. Therefore, the right balance between business flexibility and standardization cannot be implemented without a corresponding transformation of the IT organization, infrastructure and services.

To describe different approaches to the location of decision rights and information in a global company, we have chosen to apply the terms “business flexibility” and “business standardization”. From this perspective, **business flexibility** provides a business unit or country managers in an international company with greater freedom to decide how to tailor their products, services and business processes to the local market in order to create customer value. As long as these managers operate profitably by creating customer value in their business unit or country, they are given greater freedom to decide how to configure and run their business processes, information systems and information technology infrastructure. **Business standardization**, on the other hand, reflects the concurrent need to find ways of reducing the working capital costs by seeking to share best practices or adopting common business processes, information systems and IT infrastructure wherever feasible. In addition, business standardization may be necessary for a company to leverage its human knowledge across the company’s business and product units or to share information and collaborate on projects for the benefit of the international company.

This article presents five distinct approaches to business flexibility and standardization in globalizing companies, focusing on the criteria and trade-offs that general managers must consider in finding the “right” balance over time. The first approach tends to be higher on flexibility and lower on standardization, while the fifth approach tends to be lower on flexibility and higher on standardization. We note that some companies today are capable of leveraging IT, process improvements and information usage so that they can achieve high levels of business standardization globally and high levels of local flexibility to innovate and evolve best practices. These companies develop a culture around leveraging local best practices globally as well as respecting and recognizing local innovation with customers and markets. Managers in these companies strive to be higher on BOTH dimensions by leveraging best practices globally, fostering local innovations and managing knowledge throughout the organization.

### Approaches to Balancing Business Flexibility and IS/IT Standardization

In their work “Managing Across Borders”, Bartlett and Ghoshal introduce four different approaches to globalization – the multinational, the global, the international and the transnational organization. We have added a regional variant to the list in order to describe various approaches to achieving the right balance of business flexibility and standardization. For the different levels of IS/IT we will use the terms Enterprise Information Systems; Functional Information Systems; and Information Technology Infrastructure.

**Enterprise Information Systems (EIS)** enable a company’s value chain, such as order fulfilment, materials and service acquisition, customer acquisition and retention, product development, manufacturing, and distribution. EIS tend to cross functional boundaries and often cross organizational boundaries as they tie together supply chains, partner and customer relationships. Although EIS business processes may differ by industry there are often process components that can be standardized to form best practices and shared between operating units within companies and within industries. In fact, a major thrust of the Enterprise Resource Planning (ERP) software vendors such as SAP AG has been to capture these industry specific process best practices within their EIS software.

**Functional Information Systems (FIS)** refer to functional support systems that provide in-depth expertise within specific functional areas within a company such as accounting (e.g., general ledger, accounting, payroll), marketing (e.g., sales automation, pricing system), engineering (e.g., Computer Applied Design) and purchasing. These functional systems are designed to satisfy

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differing reporting and decision-making needs of managers of varying levels within each function (e.g., from staff accountant to the CFO). In essence, while the EIS focuses on the horizontal business travelling across business processes. The FIS focuses on vertical systems providing in-depth expertise on specific domains of knowledge up and down the chain of command. Often FIS are not completely discrete from the EIS feeding information to the business process and vice-versa.

Finally, IT Infrastructure (IT) refers to the IT practices, people and organizations required to plan and operate the hardware, software and networks to enable Enterprise Information Systems and Functional Information Systems. EIS, FIS and IT can each be configured locally, regionally or globally in the five combinations that will be discussed in the following section.

**Legend: Green = Local, Red = global, Blue = Regional**

**Approach 1 - the Multinational Organization: Pursuing flexibility and standardization country-by-country, business-unit-by-business-unit**

We do not want to imply that our five approach framework is a rigid stage model requiring all company’s to start as multinational and progress through each stage before they can move to a global approach, however, we have observed that many global businesses do start with the multinational approach. This often occurs as the business is organically grown or developed through numerous mergers and acquisitions country-by-country or business unit by business unit with a focus on local autonomy and flexibility. Since the company produces, delivers and sells products and services locally, the key business processes of a company and its enterprise information systems as well as functional information systems are also developed and deployed locally.

**Approach 1: Country by Country, Business Unit by Business Unit Flexibility and IS/IT**
The result of this diversity in business units or country-based operations is often viewed by senior managers as providing the required flexibility to grow and run the business locally, uninhibited by control or interference from the corporate center. Local unit managers define and execute strategies for their businesses and develop their own people cultures, information practices and IT infrastructures. In this context, flexibility often leads to ad hoc variation in management practices and a strong “not invented here” syndrome.

As a result of the local independence, corporate management tends to focus on financial performance, brand management and perhaps centralized R&D, but rarely on IS/IT concerns since these are included in the responsibilities of the local managers.

However, there are three major weaknesses of this approach: First, the duplication of EIS and FIS in each business unit carries a high cost. Second, systems, IT infrastructure and, most importantly, information will be incompatible from country to country. Information sharing and communication across business units about customers and local operations tends to be poor – information is optimized in each location, but not company wide.

In essence, this approach is a throwback to the pre-IT, high coordination cost era when the only way to meet local needs was to cut the apron strings and decentralize decision rights to local managers. With the introduction of IT, initial efforts were often made to establish a modicum of control through a matrix structures that asked for higher levels of financial accountability but well established local cultures and modes of operation make it difficult to easily introduce greater standardization.

When ABB was created in 1988 through a merger between Swedish ASEA and Swiss Brown Boveri et Cie, the new CEO Percy Barnevik immediately began an ambitious acquisition program. Barnevik believed that local presence was key and soon became famous for his “multi-domestic” approach. Under the new company slogan “Think Global Act Local”, Barnevik created a federation of thousands of companies that were distinct businesses and separate legal entities wherever possible. In Barnevik’s own words ABB wanted to be “global and local, big and small, radically decentralized with centralized reporting and control”.

ABB’s local operations were organized within the framework of a two-dimensional matrix aimed at maximizing the performance in every country while coordinating across business product areas globally. Every local manager reported to one or several business product area managers responsible for developing worldwide product and technology strategies, and a regional manager who was in charge of executing these strategies based on the unique needs of local markets. However, the driving thrust of ABB was local profits, basically if a local manager could show good financial performance, they enjoyed great flexibility in their operations.

The organization of ABB relied on the principle that a decentralized organization works effectively when you have financial accountability to higher-level managers. To this end the company designed a global financial reporting system called ABACUS, which collected uniform financial performance data at a high level for the company’s 4,500 profit centers.

The ABB “multi-local” model was held up as a best practice example of successful decentralization during the 1990’s. The local nature of the ABB business, the ABACUS financial performance measures, the effort to foster culturally sensitive managers and the small but effective top management team were considered as the key success factors of the ABB model. Nevertheless, beyond financial accounting, the information capabilities of this model
were weak. While business area managers were encouraged to build personal networks and to identify and transfer best practices in their areas, the knowledge was not leveraged at a global level. In large part this failed because there were no enterprise wide informational standards and there were little incentives for informational sharing. In the case of ABACUS, the system could only provide historical financial information – not the information needed to anticipate problems and to understand alternative courses of corrective action. Financial measurement and control was confused with effective information management! Even more devastating was the lack of data consistency concerning customer and product information which were primarily handled as local issues.

At the end of the 1990s, the deregulation of the electrical equipment and power generation markets led to an increase in cross-border competition. ABB's fragmented business with its more than 5,000 profit centers had difficulties in competing with more integrated competitors for global and regional contracts. The new CEO Göran Lindahl undertook a major reorganization of the business areas into seven product areas. The simplified structure maintained the large number of profit centers, but placed it under a stronger global management. A number of global processes as well as IT infrastructure were attempted to be standardized and strengthened under central control.7 Lindahl's intention was to transform ABB from a traditional multinational industrial group into an agile knowledge-based company with emphasis on intellectual and high technology assets rather than heavy engineering assets. The Internet was to become one of the knowledge vehicles within the company.

However, the ABB decentralized culture was not to be changed easily - the country barons were not prepared to give up their power and top management was not strong enough to enforce the changes10. The model that had made the company successful in the past had now turned into a major weakness. In January 2001 Lindahl was forced to step down. His successor, Jörgen Centerman restructured the top team and announced yet another reorganization. ABB would become a global customer-centric company, built around four new customer divisions, working closely together with two product divisions. In addition, a new Group Processes division would create and implement common business processes and ensure optimal use of the company's infrastructure. Primary in this new strategy was the development of strong information capabilities allowing the sharing of 'yet to be defined' common customer and product descriptions across divisions. These standardization moves were intended to provide a single interface between the customers and ABB, representing the total offering of products and services.11

Again, the depth of the necessary cultural change was underestimated. On top of an economic recession and asbestos litigations, Centerman failed to deliver the promised results and had to resign in September 2002. Acquiescing to an intransient information culture that seemed to fight changes towards global standardization, his successor, Jürgen Dormann, decided to reinsert the power of the country organizations by giving back more responsibility and accountability to the people at the frontline of the business.12 The jury is still out whether ABB can rise back to its original prominence following its multinational, decentralized and informationally localized approach.

Approach 2 - the International Organization: Realigning enterprise and functional IS and IT infrastructure from the corporate centre

To confront the weaknesses of the highly decentralized business unit by business unit approach, corporate managers in global companies have had to challenge the local authority and

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prerogatives of the country managers without losing the benefits of a locally focused company. During the 1980’s and 1990’s, these concerns led many companies to pursue a second approach. Recognizing that local business units tend to concentrate on short-term business results and local operating concerns, corporate managers of global companies appointed senior IS/IT managers at the corporate centre. The Chief Information Officer (CIO) was responsible for monitoring trends and identifying opportunities for shared or common systems, as well as developing networking standards and lowering costs.

While typically the corporate directors of IS/IT reported to the chief financial officer, their operating authority tended to be based on persuasion, not top-down mandate. They had to build coalitions among local business units for setting companywide IS/IT directions and standards. Rarely could they compel a local business unit managing director to adhere to a decision with which they disagreed since the business manager could appeal, usually successfully, to their authority and prerogative to run their business unit as they deemed appropriate as long as the business unit’s financial targets were met.

There are some clear advantages of this approach, the first one being that shared services are enabled, but not mandated, by the corporate centre. Consequently, some companies managed to reduce the overall cost of IT operations by reducing the number of data centers and economizing on networks. Lastly, companies build awareness about best practices that can be voluntarily adopted by local business units.

Nevertheless, these strengths are often counterbalanced by significant weaknesses: The development of IS/IT standards and policies is driven by committees of business unit managers and corporate staff, which requires long decision cycles. As one corporate IT director complained: “It took us six years to reduce the number of general ledgers in the company from 160 to 30, and may take us another five years to go from 30 to 4”.

In addition, corporate IS/IT operations are often perceived as costs rather than investments.

The Swiss company Holcim is one of the world’s leading suppliers of cement. Founded in 1912, the company soon realized that the domestic market offered limited possibilities for growth and initiated its international expansion. The globalization was for decades managed according to the decentralized, “multi-local” model described in approach 1 - with local companies operating in an independent fashion and Holcim acting as a holding company. There were no group-level information processes nor IT coordination between countries, and the decentralized structure of the company made it difficult to get an overview of global IT services and costs.

In 2001, the global brand Holcim was created, marking the starting point of a new era and the effort to build a truly global company. Holcim wanted to differentiate itself through superior customer service, which would in turn require efficient and effective management of people,
information and IT. On the other hand, the commodity nature of the business called for cost leadership, which could only be achieved by business standardization.

The Northern Asean and South Asia regions became the pioneers of the IT standardization effort. A cross-functional team got the mandate to replicate an IT template already successfully developed and implemented at Siam City Cement, the Thai operations of Holcim, to other country organizations in the region. To achieve synergies, the same IT infrastructure, SAP enterprise system, and information management processes were rolled out in a number of countries.

As a next step, a regional shared services IT company was established. The new company would prioritize and manage IT development projects while each local Holcim company would only perform maintenance duties. To get local buy-in and bottom-up consensus for the shared services concept and shorten the decision cycles, all concerned country managers were included in the steering group that would drive the strategic direction of the IT services company.  

Driven by a need to cut IT spending, in 2003 Holcim designed a new IT policy based on further standardization of the information management structure. The aim was to reduce complexity and costs by standardizing business processes, infrastructure and IT systems on a global level. The cluster shared services model implemented in the Asean and South Asia would be replicated worldwide - the target was to have 4 clusters and 4 country shared services centers by 2006. The implementation of the new IT strategy would be directed by regional business process owners who were responsible for the coordination of local business needs at a regional level.

The creation of the shared services centers was not only an attempt to save costs, but also a means to make information and knowledge throughout the Holcim companies a source of competitive advantage. Gathering IT services under one roof allowed the staff to leverage regional best practices, develop expertise and turn the company into a top-notch IT service provider.

Approach 3 - the Transnational Organization: Managing a global IT and functional systems infrastructure in a decentralized business application environment

The third approach represents a hybrid among the other four approaches. As we have seen, the first two rely predominantly on business unit managers deciding how IS/IT should be managed in a global company. While, approaches four and five depend on strong top-down, regional or corporate leadership to drive business standardization. This approach aims to meet the needs of a bottom-up business culture, where the flexibility in deploying business unit specific processes and systems is needed for growth and innovation. It also tries to satisfy the need for company-wide synergies for reducing costs of operating functional processes and systems as well as maintaining a transparent, interconnected global IT infrastructure that permits anyone in the company to communicate with anyone else. Decisions about IT infrastructure and FIS are made on a global basis through a process known as managed consensus, where open debate is encouraged up to a point when a top-down decision is made and local business unit managers are expected to implement the decision.

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There are four strengths of this approach: First, it provides the company with a transparent IT infrastructure on a pay-as-you go basis, which creates awareness of the costs of doing business. Secondly, it ensures that business processes are customized to local markets and remain innovative and flexible to local cultural needs. Thirdly, the global FIS and IT infrastructure provides a platform for the business units to use as they grow and change, without reinventing FIS and IT infrastructures each time. Finally, this approach attempts to combine high levels of business flexibility with high levels of business and IT standardization.

This third approach does have its weaknesses. It requires the development of a company culture of managed consensus, where global priorities are moderated by local business needs. In a company with a very decentralized, country-by-country culture, this may take many years to develop. Second, as business processes are still owned by the local operations, important business process best practices may not be adequately shared at the corporate level. In the worst case, needed information "owned" at the local level may not be made available to all that could benefit from it globally. Finally, the approach creates a powerful IT infrastructure function on a global basis, which must balance IT standardization with the constantly changing needs of its local business units. The dangers are twofold - either the IT people will fall behind the rapidly changing needs of the business units, or the business units will outsource the IT infrastructure to external providers and thus move back from the third to the first approach.

In the 1990s, Hewlett-Packard’s internal IT infrastructure was the envy of many large corporations. In spite of a decentralized company culture – known as "The HP Way" – HP had managed to build a global infrastructure that was the glue between the processes and the people. The company developed its first company network and intranet in the mid-70s, and was also early to implement a single e-mail system across the whole company. The voice infrastructure was streamlined in the mid-80s, followed by a data center consolidation. Furthermore, HP created regional data centers aligned along competencies, thus eliminating duplication and allowing each center to develop specialized skills. Through this consolidation of the IT infrastructure, HP managed to cut total IT operating costs by 32%.

In the early 1990s, HP started to apply a Server and PC Common Operating Environment with standardized packages of applications for all users. Software could now be purchased and maintained centrally, which contributed to an overall reduction in IT spending from 5.0% of net revenues in 1990, to just 3.1% in 1996.

While the IT infrastructure was managed by the global IT organization, the business-specific IT processes were owned by each of HP’s eight businesses, thus allowing the flexibility needed for innovation. The functional IT was run by the worldwide functions such as Finance and HR.
global IT infrastructures unburdened the local units, allowing them to concentrate on value-creation and promoting growth. Under this system, each business and function worked out its own IT budget based on its particular needs. This was a move away from considering IT as an overhead cost, and created awareness of IT costs as well as benefits.14

When HP acquired its rival Compaq in May 2002, the new HP relied heavily on information technology to help bridge the differences. The new company created a massive internal computer network designed to be the main platform for employee information and communication. Whereas the global IT infrastructure of HP facilitated the transition, the merger of the two IT organizations was not without hurdles. At pre-merger HP, the services unit had primary responsibility over internal technology purchases, which the IT group then implemented. In contrast, Compaq had a more traditional IT organization, which was responsible for both buying decisions and implementation. The issue was resolved by giving the ex-Compaq IT department the ultimate authority over what projects the services group would handle.

Approach 4 - the Regional Organization: Defining a regional approach to business flexibility and standardization

The fourth approach represents a clear move to a regional focus for the company. The intent is to treat a region, Europe, for example, as one entity, thus moving away from the country-based model. Global companies using this approach align their key processes, information management, IS and IT infrastructures to reflect regional direction and operations, rather than a fragmented and costly collection of local operations. These companies may be in business-to-business industries such as white goods or appliances, where the markets are more regional or global. They could also be in fast-moving consumer goods industries, such as consumer electronics, where retail chains expect their suppliers to operate on a regional rather than local basis.

The strengths of this approach are twofold: Adopting standard EIS and FIS across regions as opposed to within each country, leads to savings in cost and time of implementation. In addition, by aligning people, cultures and processes to operate in a regional mode, the company can manage regional information sharing and communication to respond to local market diversity.

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A leading provider of pallet and plastic container pooling and tracking services, U.S.-based CHEP has operations in about 40 countries worldwide and a turnover of almost $2.4 billion in 2003. The company manages the movement of more than 250 million pallets and containers used by companies in the consumer goods, produce, meat, home improvement, beverage, raw materials, and automotive industries. CHEP provides customers with pallets and containers, which are used to transport goods through the supply chain. Once the pallets and containers are unloaded, they are returned to a CHEP distribution center to be reissued. Due to the lack of harmonization of pallet sizes between countries and regions, pallets do not cross the oceans.

The truly regional character of the business had conditioned the setup of CHEP’s operations – the local companies used to be rather independent with individually tailored systems and poor information sharing. However, as some of its major clients started to regionalize their businesses in the mid-90s, CHEP realized the need to manage an effective balance between local operating excellence and regional scale and scope. The level of system duplication across markets and the related IT support costs were alarmingly high. At the same time, customers were complaining about CHEP’s burdensome administrative systems and demanded better service and information.

In 1998, CHEP reviewed the existing structure and acknowledged that IT would have to play a much larger role in the company strategy to create competitive barriers and improve customer service. The underlying philosophy was to standardize the IT infrastructure as well as the internal systems in areas where the key issues were capacity, performance, cost and reliability. On the contrary, highly distinctive business systems necessary for competitive advantage or local variation, such as customer integration, should be configured and operated regionally.

While CHEP’s approach to information and IT was global, the implementation was managed at a regional level allowing for regional differences. The company had already started to move towards a regional model in terms of common processes and information sharing, but at different rates in each region. The regional model was now reinforced in that each IT system implementation was assigned to a lead region that would prove the concept before rolling it out and adapting it to the other regions.

In the spring of 2004, CHEP announced a new value-added service offering to meet customer requirements for electronic product tracking capabilities: the use of Radio Frequency Identification (RFID) technology. CHEP regions had been aggressively involved in the development of the RFID solution to collect, store and process pallet data. This new service differentiated CHEP from its competitors and illustrated its capability to use information as a competitive advantage.

To work successfully, the regional approach needs considerable top-down management. Managers in such companies speak about ‘breaking’ the country dominance and displacing the ‘country kings’. Clearly, considerable changes in company culture and power distribution among managers are required. But this is only one of the weaknesses; another is that the regional focus takes a long time to implement – in some companies up to ten years. These companies must align their whole business system to reflect the regional focus, which requires a consolidation of organization, authority and culture in one consistent direction. If markets change quickly, such commitments to business regionalism may be difficult to change once regional operations are in place.
Approach 5 - the Global Organization: Leveraging a global approach to business flexibility and standardization

The fifth approach extends the fourth from the regional to the global level. Companies in this category possess very strong top-down cultures. While these managers recognize they must sell to the unique markets they are entering, they seek to, as much as possible, operate in standardized manner globally. Such companies want to roll out a product in the US market and three months later in the Chinese market. To do so requires consistent and accurate information for global decision-making. Common processes and information systems are needed to reduce costs, to increase speed and to minimize complexity. In addition, any new business and functional information systems have to be implemented only once worldwide, rather than in every region and country. This approach saves substantial money and time in FIS and EIS implementations as well as in the deployment of one standard, global IT infrastructure.

What are the strengths of this approach? The first is the alignment of the company’s business strategy, culture, processes, information, systems and IT infrastructure worldwide. Assuming common markets, products and brands worldwide, such a company is in an excellent position to maximize profitability and business opportunity globally. Localized business flexibility is not as important, since business value is created with global brands. Cost economies and productivity are critical with speed and effectiveness of doing business globally facilitated by worldwide IT infrastructure as well as common business and functional systems.

The global standardization could present potential weaknesses if business conditions or markets change very rapidly and the global business model is not capable of reconfiguring to meet this change. In this way, the company must be particularly skilful in sensing new business trends and have strong lines of communication with local operations. In the pre-IT era such an approach would not be possible but with reduced coordination costs of global networks, reconfigurable ERP solutions, and most importantly a strong information culture this weakness may be to a large degree be avoided. To achieve both standardization and flexibility requires more than just a global IT practices, it also requires a top down management philosophy that promotes corporate wide information management practices and information behaviours and values. This is not to say that many firms do not attempt to jump to this global approach without putting in place the requisite information management and information sharing culture needed to succeed with this approach. However, most that attempt this jump fail without the “right” senior management information orientation.

Founded in 1837, Procter and Gamble is one of the most well-known consumer goods companies in the world. Like other multinational companies, it had started its globalization journey with approach one in the early 1980s. A decade later, the organizational structure of P&G had evolved to a more regional approach. By the late 1990s, P&G found itself in a difficult
situation: global competition in the saturated markets for fast-moving consumer goods was intensifying while P&G was struggling with mature brands and a conservative, slow-moving bureaucratic organization. Consolidation among big retailers - P&G’s main customers - increased the pressure to develop new products and bring them to market faster while reducing operating costs. With P&G’s current organizational structure where regional managers were responsible for launching products in each geographical area, including test marketing and retailer negotiations, it could take years for a new product to be available worldwide.15

Faced by these challenges, in 1998 P&G launched a global program named “Organization 2005” to revitalize the company’s growth rate, stimulate product innovation and reshape the corporate culture. Under this program, the company structure was transformed from four regional business units to five global business units (GBUs) based on product categories. By organizing responsibilities around categories and brands rather than geographical areas, P&G hoped that the GBUs would spur greater innovation and speed. Country and regional go-to-market capabilities were consolidated into eight Market Development Organizations that would tailor global marketing programs to local markets. Overhead functions such as HR, accounting, procurement and IT were pulled from separate geographic regions into one corporate shared services organization. The Organization 2005 program also involved drastic head-count reduction.16 However, as of spring 2000, the Organization 2005 program failed to produce the expected results. CEO Jager was internally criticized for driving changes too aggressively in a way that did not fit with P&G’s cautious culture. Additionally, the efforts to sell products under the same global brand all over the world had not proven all successful.17 In the face of this criticism, Jager resigned.

Instead of abandoning the approach, Jager’s successor Alan George Lafley expanded and accelerated the Organization 2005 program. However, he further emphasized IT and a positive information culture as one of the key enablers of the required organizational change and initiated several global IT projects, such as data standardization, data warehousing, web-enabled supply chain, and online collaboration and knowledge sharing among employees. To integrate IT in the new corporate structure and ensure effective use of IT, most of the employees in the shared IT services organization worked closely with P&G’s business, product and marketing teams.18

In 2003, the restructuring program was completed ahead of time and already producing good results. Sales reached $43.4 billion, an increase of 8% over the previous year, and earnings were up 19% to $5.2 billion. With the new organization, P&G had gained significant competitive advantage: The global business units with their product focus have enhanced the speed to market from three years to 18 months. The multi-functional expertise of the market development organizations enables P&G to leverage its brand innovation and innovation capability worldwide. Finally, through standardization and economies of scale, the global business services unit provides best-in-class cost structures and service levels to the whole company.19

The transition is a journey

Globalizing today is different than it was 30 years ago in that IT has matured and implementing standardized FIS and EIS is now easier. Cost-effective global networking and telecom services have become available enabling communication and information sharing on a global scale, internally as well as with customers and suppliers. In addition, the managerial mindset has evolved, with today’s managers more confidently delegating decision-making to pursue a more information centric and global view. Often termed ‘thrust and trust’, these managers are confident about pushing decision rights to lower levels knowing that global information systems permit efficient monitoring, drill down and consolidation.

17 Idem.
18 Idem.
The trajectory of companies globalizing today is therefore likely to be different from those globalizing in the past. Given these advances in IT, availability of ERP software, and the recognition that companies must build healthy information cultures, it is conceivable that a company could leapfrog directly to a global status. However, it must be recognized that the significant changes in corporate culture and business processes required to support such a move make it very challenging and some companies may have to undertake these transitions in terms of several moves as opposed to a big leap!

To be successful in the long term, global enterprises have to manage their business trajectory and continuously balance business flexibility with standardization. They have to anticipate breakpoints that will shape the evolution of their industry and adjust the decision-making allocation, organizational mode and leadership style accordingly.²⁰

Developing Information Capabilities to Achieve Both Flexibility and Standardization in a Global Company

Progressive companies realize that by leveraging worldwide knowledge and best practices they can achieve high levels of business standardization and flexibility. Through improved use of IT and effective information use strategies, companies are able to mitigate the coordination costs associated with corporate control while increasing customer value. Improved IT makes it easier to transfer knowledge to lower levels in the organization increasing local responsiveness. IT also facilitates control and measurement, fostering desirable behavior and reducing the agency costs associated with the delegation of power.²¹

In these information-centric companies the vision extends beyond standardizing operational processes and IT infrastructure for cost cutting towards how the company more effectively uses information and knowledge across its employees, customers, suppliers and partners than its competitors do. These companies clearly see the value of information in assessing business opportunities for growth as well as in rationalizing the operations.

Information-centric managers understand how people create knowledge and look to instil the appropriate values and behaviors for their people to convert their knowledge to company use. These managers gain an advantage through using knowledge and information across its employees, customers, partners and suppliers more effectively. They strive to “informate” the whole company. Decision rights are driven down to the lowest levels in the organization by making information available to anyone who needs to act on it. Yet the consequence of these decisions are immediately transparent throughout the entire company.

While a global standardization of IS and IT systems can favour local flexibility, the decision to adopt a global IT strategy must be made and reinforced centrally, at the top management level. For a company to fully take advantage of its information and knowledge assets, an information-centric culture and mindset have to be cascaded throughout the global workforce. This requires persistence and consistent leadership. Companies that have successfully made the journey to a global approach pursue information centricity and the related people issues over a number of years. In addition, companies with a broad scale and scope of their business may struggle longer to implement the global approach than organizations with a relatively simple business and fewer product lines.

Through global acquisitions, CEMEX has grown rapidly over the last two decades from a local Mexican cement producer to become the third largest cement company in the world. In addition to achieving enviable business results, CEMEX has established a public image as a leader in information capabilities leveraging IT in the traditionally low-tech and conventional cement

industry.

The CEO Lorenzo H. Zambrano was convinced from the 1980’s of the importance of information for assessing growth opportunities and managing costs of the business. For example, he made it mandatory for the cement production plants to submit timely and accurate information and often used the system to make random “virtual” plant inspections to detect problems. Zambrano did not focus merely on IT, but also on people and processes. For each new acquisition, a post-merger integration team of experts was sent out to transfer CEMEX’ knowledge, culture and practices.

Over the years, CEMEX had been supportive to local business units to invest in IT to improve performance and share best practices. While that approach had spurred local innovation, the incentives for sharing best practices globally had been low. The policy had also led to duplication of applications, processes and projects across the company and resulted in total IT costs corresponding to 5% of sales in 1999. Zambrano saw an urgent need to reduce IT costs, but also a need to make the IT organization more flexible and agile in order to improve customer satisfaction and speed up post-merger integration.

In year 2000 the company launched a $200 million company program called “The CEMEX Way”. The program had three main components: process and systems standardization; a new governance model; and e-enabling processes. To support and guarantee permanent standardization, eight so called e-groups were made responsible for process effectiveness. The eight e-groups consisted of business experts as well as HR and IT representatives and were formed around the core processes of the company. Their mandate was to define where standardization made sense and what had to be improved before standardizing. The groups used a single set of methodologies and tools to document and consolidate the best practices around each process in order to form a knowledge database.

Through “The CEMEX way”, processes became simpler and more efficient, and knowledge sharing and control were improved. Application and system duplicates were avoided by providing shareable services. At the same time, the open corporate information structure improved CEMEX’ flexibility and responsiveness to changes in the business environment: The alignment of processes, HR and IT facilitated quick adaptation of new practices. Best practices learned in local country operations were quickly standardized into global business process best practice. In this way, the new governance model favored coordination and collaboration in global innovation. Finally, the new business model facilitated growth as new acquisitions could be integrated with less time and less effort. All of this was achieved while IT spending was reduced to 2% of sales.

As a result of “The CEMEX Way”, IT has evolved from a business services enabler to a business transformation agent. In CEMEX’ efforts to globalize - with high business flexibility AND standardization - the dissemination of an information oriented company culture has been instrumental. The CEO, Lorenzo Zambrano, insists that all his managers be information oriented about the business. Performance and appraisal criteria are also set up to support the information-centric culture. Overall, the good information management practices enable virtual inspections and transparency throughout the organization resulting in a self-regulating behavior.

Gaining Competitive Advantage Through the Right Mix

Common sense suggests that senior managers choose an approach to business flexibility and standardization that best fits their business environment and they move towards a global approach in metered time. However, senior managers can seek some combination of the

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following types of competitive advantage when they undertake transition from one approach to another in their companies.

The Total Cost Leadership Advantage

The first type of competitive advantage arises from lowering the total cost of operations of the global enterprise through increased business standardization, while balancing the need for business flexibility in creating value in local markets. Companies that have moved from approaches 1 and 2 to approaches 3, 4 or 5 in their industries have sought to achieve total cost efficiencies and yet still satisfy local needs where they genuinely can create value and growth in their businesses.

The Execution Advantage

The execution advantage emerges when two or more competitors in an industry seek to redefine the balance between business flexibility and standardization by moving from approaches 1 and 2 to 3, 4, or 5; but not all are equally successful in doing so. Organizational transformations are complex and companies have to be able to execute not only significant changes in IT structure, but also in information management practices and people behaviors and values.

American companies such as Wal-Mart and many others have been very good at defining a standard approach to information, people and IT capabilities in their home markets. But, in the process of growing internationally by mergers and acquisitions, they have had great difficulty in transitioning their people practices and information management practices with equal effectiveness in foreign country operations. Companies like these have moved from approach 1 to 2 and back to 1 since they have had limited success in translating their model of doing business into their acquired companies.

This is in contrast to companies like CEMEX (Mexico) and Banco Bilbao Vizcaya Argentaria (BBVA, Spain), who have used the criteria of cultural proximity and attractiveness for acquiring and integrating companies as they expanded globally. In addition, unlike Wal-Mart, these companies have been very attentive to rapidly and systematically integrating their acquisitions into the BBVA or CEMEX way of doing business – a globally standard way of deploying information, people and IT capabilities. Today, both companies are moving beyond geographical-cultural proximity to organizational proximity as a criterion for seeking acquisitions.

The Contrarian Advantage

The contrarian advantage arises when one company in an industry decides to adopt a contrarian approach to business flexibility and standardization. The senior managers of the company consciously choose to adopt approach 3, 4 or 5 when all other leading companies in their industry are taking approach 1 or 2. In this case, senior managers perceive that the appropriate fit in their industry to business flexibility and standardization would lead to a form of competitive necessity that does not give any one player any differentiated advantage. So, over time, they go for an approach that runs contrary to where the pack of business competitors is going.

In the 1980s and 1990s the first bulk chemical company to achieve regional and then global standardization in business processes, systems and IT enjoyed a competitive advantage until all other competitors caught up over the next 5-7 years.

Starting in the early 1990s, Hewlett Packard (HP) enjoyed a major cost advantage in IT and
functional information systems by operating its decentralized business following approach 3 rather than 2 or 1, which is where most of its competitors were.

Similarly, Michael Dell has chosen to implement the direct business model in the PC and peripherals industry on a regional basis, leveraging highly centralized regional business processes, information practices and people behaviors and values - while most of the competitors have adopted locally based approaches to international expansion.

In each of the cases described, senior managers are developing their approach to business flexibility and standardization seeking differentiation from other competitors over time. Advantages can be both short and long term. In the short term, they can enjoy cost and value advantages that their competitors cannot replicate with approaches 1 and 2. In the longer term, these contrarian companies can extend their business models globally in ways that their competitors can talk about but not execute.

The Leadership Advantage

This type of competitive advantage arises from the mindset and consistent leadership of senior managers to envision the move from approaches 1 and 2 to approaches 3, 4, or 5 before their own people and their competitors clearly perceive the need for this type of transformation in their industry. This leadership advantage is crucial in developing the lead-time to execute changes that may take 2-5 years to move from one stage of development to the next. In companies like CEMEX, BBVA and Dell, this commitment to the evolution of the company as a global enterprise has taken many years and has evolved in a series of strategic moves linked to building the appropriate information capabilities as noted earlier. Each company in its early years moved from developing an information-oriented business model in its domestic market and in the next stage sought regional rather than global development. Each company has consistently pursued building information, people and IT capabilities linked to each stage of its development. And each company has emerged as an industry leader in the face of competitors that claimed they, too, could replicate the company’s business model and capabilities. In fact, this persistence to evolutionary change and transition from one approach to another in the balancing of business flexibility and standardization, coupled with a commitment to using information, people and IT capabilities better than other firms in their industries, provide these companies with significant sources of advantage that cannot be in the short term copied by competitors.

The Post Merger Integration Advantage

Companies that standardize their business processes and IT infrastructure according to approaches 2, 4, or 5 can achieve competitive advantage by growing through mergers and acquisitions if they develop good post-merger integration (PMI) skills. PMI competences are required to make sure that the acquiring company can integrate acquisitions in “their way” of doing business rapidly and effectively to protect value and to optimize growth through transferring information, people and IT capabilities to local companies.

Spain’s second largest banking group, Banco Bilbao Vizcaya Argentaria (BBVA) in 1994 launched a transformation program in Spain to cross-sell banking and financial products to customers by developing excellent information, people and IT capabilities. Having harvested impressive business volume and profit growth locally, in 1997 BBVA launched a second transformation program aimed at spending 4 billion euros on acquisitions in Latin America. As part of the program, BBVA built a single IT infrastructure among its acquisitions in Latin America and transferred its information and people practices to the acquired banks. In October 1999 BBVA merged with the Spanish bank Argentaria in less than 13 months to expand its financial product lines by employing the information, people and IT capabilities for cross-selling
developed originally in the retail bank. BBVA is today ranked among the top 20 global banking institutions with the largest market share in Latin America. The bank operates under one brand across all products and customers globally.

A similar example has developed in the cement industry where CEMEX early on developed excellent information, people and IT capabilities in Mexico and then began a journey of Latin American and Spanish acquisitions during the early 1990s. As it has grown by acquisition, CEMEX has learnt that IT people should be part of the due diligence team in order to ensure the feasibility of integrating the acquisition target’s IT infrastructure, processes and people. Once the entity has been acquired, CEMEX has sent multinational Post Merger Integration (PMI) teams to transfer management knowledge and integrate the operations. Apart from the task of merging IT platforms, the PMI teams have spent most of their effort on explaining business processes and the use of information. In this way, the company has built up a post merger integration expertise over time.

Companies like BBVA and CEMEX enjoy competitive advantages in their industries over rivals because they combine excellence in information capabilities with excellence in PMI competences to achieve positive business results and long-term growth regionally and globally.  

**Principles for Achieving Both Business Flexibility and Standardization**

How do some companies turn what appears to be a business paradox into a business advantage by achieving flexibility and standardization benefits at the same time? While there may not be one best approach to achieving the right mix of business flexibility and standardization, we offer nine principles that have guided decisions of senior executives in globalizing their companies.

1. **Differentiate between business and functional uses of IT**

Distinguish between enterprise information systems, which create direct customer value in sales and services processes, from functional information systems, which serve the internal needs of the company (e.g., accounting, HR, and purchasing functions). Within the context of “managed consensus”, the company needs to define which business processes demand flexibility and which are support or non-value-adding operations.

2. **Standardize where standardization makes sense**

Apply an 80/20 rule for the standardization of business activities such as manufacturing, logistics, marketing and sales. Senior managers consider that only 20% of the value-creating activities need genuine tailoring to local and customer needs, while 80% can be standardized across business units and functions.

3. **Aim for global – not local - flexibility**

Understand the difference between acting in a globally flexible way versus a locally flexible way. While local flexibility is useful, it often inhibits the pursuit of global or regional flexibility by placing too much emphasis on local differences. Thus, local managers can insulate themselves from seeking synergies and shared practices across the enterprise by claiming local differences where they do not exist. *Not invented here* is often the safeguard of local flexibility.

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4. **Unify IT infrastructure and functional information systems regionally or globally**

IT infrastructure services and functional information services do not add direct value to the business and should therefore be standardized across the enterprise regionally or globally. This substantially reduces the total cost of operations across the company, and can work toward leveraging the best functional and technical knowledge anywhere it is needed in the company. The setup of operating centers of excellence for functions such as finance, HR, legal and public communications as well as IT provide an opportunity to reduce headcount and still ensure a good skill base in the support activities of the company.

5. **Instill the right information values and behaviors**

Build a shared, action-oriented culture around the integrity and quality of information and knowledge. Ensure that information is used anywhere in the company it is needed and can improve business. Attitudes towards proactive information use have to be cascaded throughout every level of the company.

6. **Remove barriers to information and knowledge use**

Build an information-oriented business where organization and structural barriers to information and knowledge use are no longer tolerated and actively assaulted.

7. **Encourage debate, decision and action**

Practice decisive management styles that encourage debate, decision and action as opposed to more debate. Managers recognize that top-down leadership is required to pursue standardization among well-intentioned people who would like to protect local prerogatives and local flexibility. Channelling the bottom-up energy and initiative in a company is what achieving the right balance between flexibility and standardization is about.

8. **Standardization is a means to deal with complexity**

Do not shy away from complexity and ambiguity in business, but recognize that simplifying and standardizing the information, people and IT capabilities best prepares the company to deal with the inevitable diversity, local variations and differences in its business environment.

9. **Balancing business flexibility and standardization is a journey, not a destiny**

Setting the right balance is a long-term journey of continuous learning and improvement rather than short-term reactions to corporate crises.