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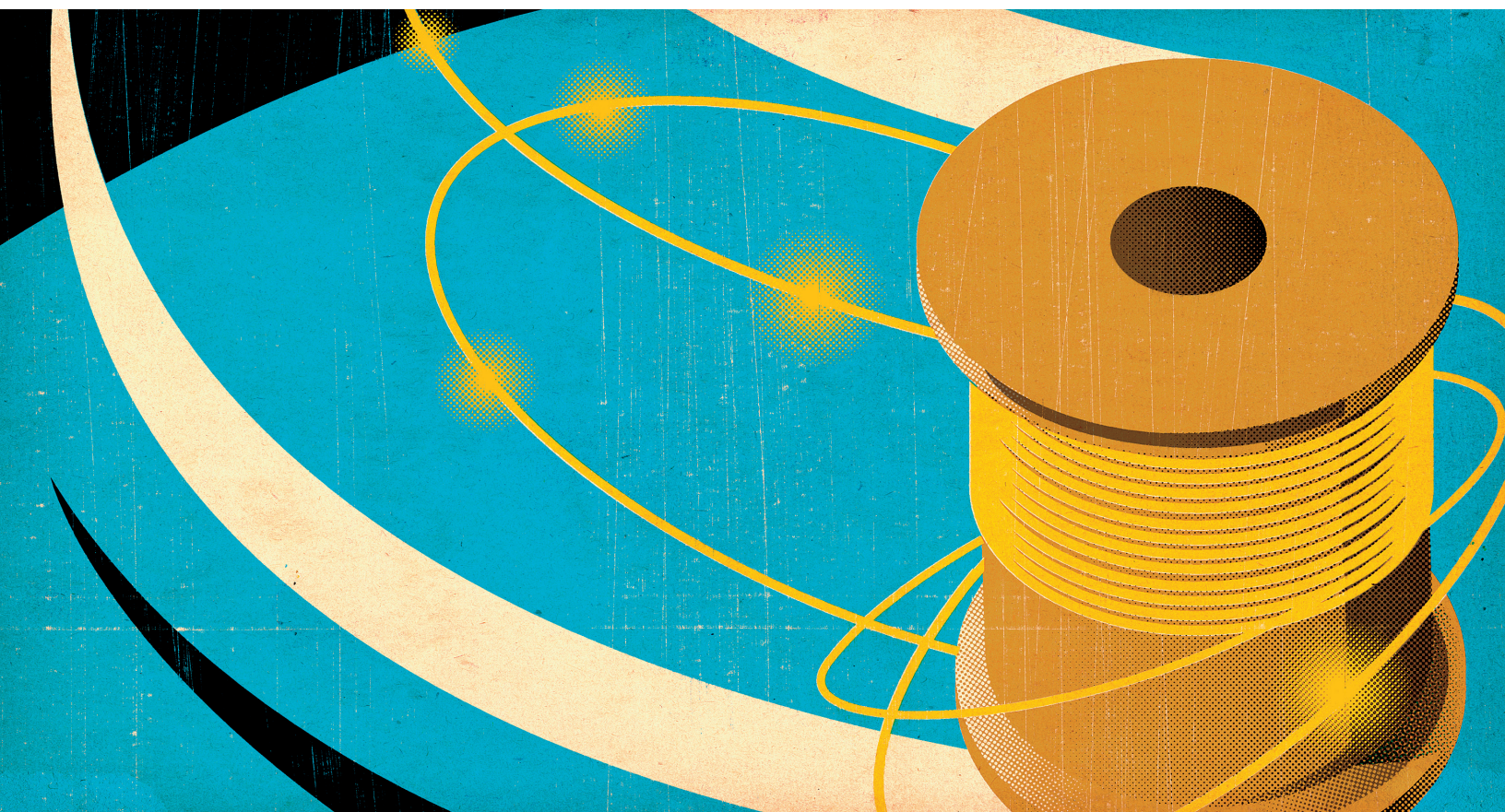
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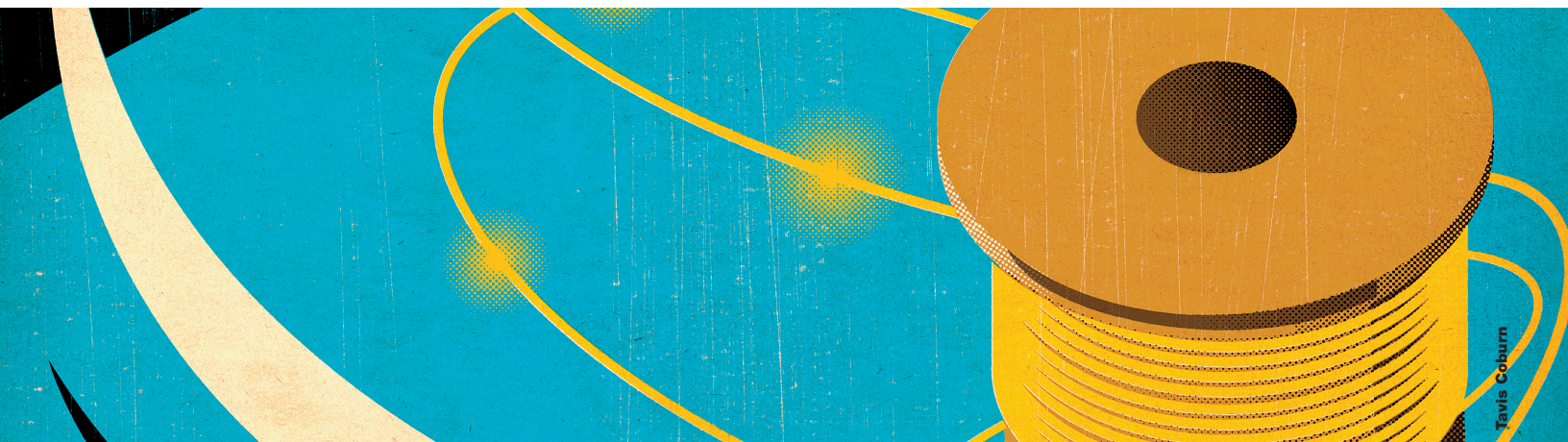
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Tailoring IT to global operations

Complex enterprise-resource-planning systems often fail because of the local-versus-global conundrum. By focusing on a handful of agreed-upon business priorities, IT executives can break the impasse.

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Kenitiro Muto, and
Kevin Wei Wang**

Global operating models are showing signs of strain at many companies. Research by our colleagues suggests that globalization can take its toll on organizational health: high-performing global companies often struggle to set their direction or to coordinate and control operations effectively.¹ Part of the problem is the fine line that organizations must toe between driving common processes across regions to promote efficiency and allowing tailored offerings that match the needs of local business units and functions. That push-pull can lead to unwieldy operating models as leaders strive to manage diverse business interests and competing priorities.

IT should help companies strike that balance, but the same tug of war between standardization and customization often plagues IT leaders.

Organizations have lost hundreds of millions of dollars, for example, trying to build the right enterprise-resource-planning (ERP) model to support global operations. While ERP has been used successfully to run management tasks, such as finance and accounting, on a functional or regional basis, cross-functional integration on a global scale has proved far more elusive. Data from Financial Executive International, an association of corporate-finance executives, show that more than 50 percent of ERP implementations do not provide the expected benefits and that more than 80 percent end up over budget struggling to support the expanding demands of corporate global operating models.

Contributing to the problem is the scale and inherent complexity of change. ERP functions like

¹ See Martin Dewhurst, Jonathan Harris, and Suzanne Heywood, "Understanding your 'globalization penalty,'" mckinseyquarterly.com, July 2011.

Takeaways

Organizations have lost hundreds of millions of dollars implementing enterprise-resource-planning models that can't keep up with global operating demands.

Companies can improve their chances of success by refocusing initiatives around priorities that deliver the biggest impact to the greatest number of customers.

Sharper IT-management skills can help to drive large-scale change, get buy-in from senior and local leaders, and negotiate trade-offs.

This approach can improve customer service, order fulfillment, and the delivery of customized services.

an organization's circulatory system, connecting and running core operations, such as finance, procurement, and supply chains. Refining such deeply embedded technology is a massive undertaking made all the more slippery by the near-constant shifting of global business conditions.

One large electronics company in Asia, for example, spent more than \$100 million on a global ERP implementation, taking five years to define the requirements and another five to roll out the new system. By the time the project team was ready to pilot the program, the initial assumptions that drove the planning, such as the product set and the underlying R&D, were no longer valid, forcing the team to rework the original specs.

Complicating the issue is the outmoded presumption that technology implementations remain within the exclusive purview of IT. Although the scale of many new ERP efforts means that they require board-level approval, once such a project is green-lighted, senior management often lets IT run the show independently rather than engage directly—despite the minefield of business issues involved and the value at stake.

IT hasn't helped its cause either. Many ERP projects are managed like traditional systems integration efforts, with teams opting either for a "one size fits all," globally standard approach or for a heavily customized, decentralized one. Neither has worked terribly well in practice.

Our experience suggests that a more business-driven approach to ERP delivers the best results. Instead of wasting management and staff time detailing a set of IT specifications across global business processes, leaders should focus on a handful of agreed-upon management priorities and use them to define a target operating model.

This more calibrated approach requires IT to step out of the trenches and lead with traditional senior-management skill sets, from planning to governance, to secure buy-in from business units and to negotiate the inevitable trade-offs. Many IT leaders have yet to master that role.

We believe that organizations can sharply improve their prospects for success by treating ERP as a focused change-management process, but IT needs to take the lead in shaping that understanding and in choreographing the design and implementation.

Sources of failure

While ERP implementations often involve a wide array of software, hardware, and databases, most failures tend to occur because of management shortcomings rather than technological ones.

'Either/or' IT structures

Over the last few decades, many organizations have fluctuated between heavily customized ERP systems localized for different markets and sales channels, on the one hand, and globally standardized platforms meant to be used without variance, on the other. Both approaches create problems. Working from the ground up to pool local user requirements and regulatory needs often takes considerable time and money, especially in view of the frequent updates such systems require. Moreover, the complexity of managing so many different variants can dilute the desired productivity gains. The alternative—trying to ram through one standard, globally coordinated ERP platform—often produces lowest-common-denominator systems that satisfy no one, generating sunk costs with little value to show for them. Frustration can lead some business units to cobble together their own solutions, adding to the disarray.

One European company, for instance, deployed a uniform ERP system across its global operations. To speed adoption, the company's units in all countries were asked to use the system "as is." The planners, however, failed to consider the fact that in China and other emerging markets, many day-to-day operating practices (such as sales and customer management) did not conform to the preset processes defined in the standard global model. To make the system work, managers in China had to redeploy staff to make manual adjustments to the system so it would be better aligned with local business requirements.

Business on the sidelines

IT has struggled to influence effective collaboration with its business counterparts and to eliminate the perception that proposed changes are pure technology issues. A health care company, for instance, decided to consolidate its ERP to bring cohesion across its regional operating processes. IT spearheaded the effort, interviewing users from different countries to formulate a list of requirements related, for example, to sales commissions, inventory management, and activity-based costing. With no business leadership mandate on what to keep standard and what to localize,

the list quickly ballooned as each location stipulated different must-have features. With few elements left for standardization, the global system was locked into a fairly narrow design. Corporate management, which became engaged when the rollout failed to deliver the expected synergies, expressed dismay that \$10 million of sunk costs had been invested in a project that now had to be reworked.

Changing the dynamic

IT leaders will need to change their approach in two broad areas to manage the issues that have bogged down global ERP implementations. They involve shifting the role of IT: maintaining high levels of technical expertise, while simultaneously seeking a closer partnership with business at both the global and local levels.

Making IT dovetail with business priorities

Many ERP systems start with a desired structure, such as a globally standard system, and define the program objectives around that. An outcome-based approach allows the strategic endgame to dictate the framework. It involves focusing the

As companies refine their operating models, the key is translating big-picture priorities into the mix of systems, architecture choices, user requirements, and features that can most quickly, cost-effectively, and efficiently deliver them.

supporting ERP systems on a handful of priorities that leaders believe will deliver the biggest impact to the greatest number of customers—for instance, pricing, supply chain management, and demand forecasting. In cases we have seen, organizations that take an outcome-based approach to their global operating models and underlying IT are the most successful.

From a structural point of view, such fine-tuning usually results in a hybrid model that balances the need for standard elements at the core with the freedom to customize some features in controlled settings, such as specialized orders and discounted pricing for certain local markets. Implicit in that balance are trade-offs. Negotiating them requires IT managers to master the game and to put a much greater emphasis on management skill than they did in the past.

The CIO of a global technology company, for instance, made a point of establishing clear ground rules with the business before beginning a global ERP reorganization. Chief among them was letting the business partners know that the IT team would not be able to satisfy everybody's wish list. In a series of coordinated meetings and communications, the CIO laid out the operating mandate, approved by the company's senior leadership. The CIO emphasized that the new ERP system's primary purpose was to boost capabilities in highlighted areas, such as order fulfillment and inventory turnover, to help the company achieve its critical strategic goals. Only when these capabilities were in place and the initial objectives had been met would the ERP team consider adding additional features.

Similar discussions in the past might have focused on the choice of architecture or platform, but the CIO recognized that it would be more effective to

stay focused on the goals of the business and on IT's role in enabling them. By clearly enunciating the planned ERP outcomes, the CIO helped to define the project's scope and in this way managed expectations and built cooperation.

Managing change at the local level

With the framework set, the larger hurdle is implementing it. As companies refine their operating models, the key is translating big-picture priorities into the mix of systems, architecture choices, user requirements, and features that can most quickly, cost-effectively, and efficiently deliver them.

To succeed, you need not only a high degree of management skill and experience in implementing technical aspects of new systems but also diplomatic skills—in particular, sensitivity to local needs when changing processes, to soften the natural cultural resistance (see sidebar, “A CIO checklist: Sharpening three essential management skills”). One large high-tech company learned about this requirement the hard way. It planned to globalize a swath of functions, from finance to procurement, while keeping logistics, factory management, and customer relationship management in local hands. Top management agreed that this was the right vision and tasked IT with implementing it.

IT treated the initiative as it would any other system change and worked with technology teams in different countries to define what processes they needed to transfer. But that approach soon ground to a halt: local leaders, largely left out of the process, were slow to assign the needed resources. They felt that the redesign was an attempt by the corporate head office to seize more operating control.

A CIO checklist:

Sharpening three essential management skills

Succeeding with global enterprise-resource-planning (ERP) projects requires three broad areas of management skill that IT leaders often struggle with. Here we outline some practical steps leaders can take to raise their game.

Setting and steering company-wide priorities to define the target operating model

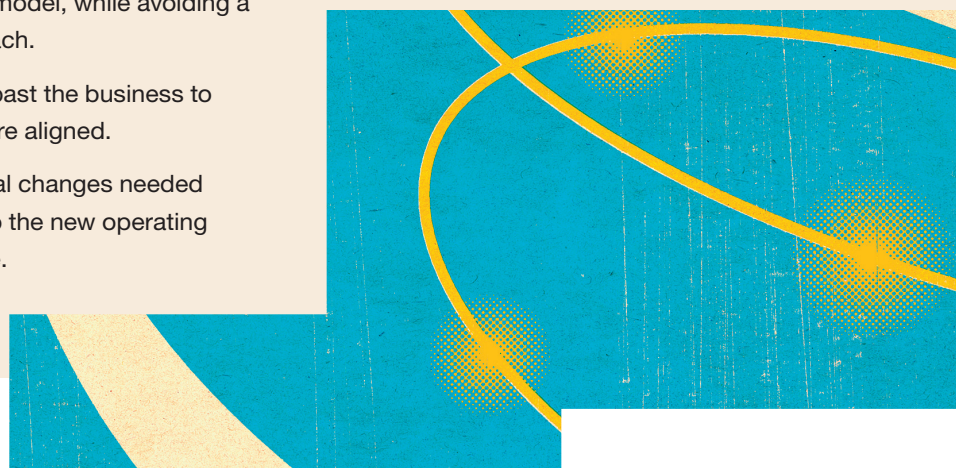
- Use workshops with management and other stakeholders to set a handful of priorities that shape the target operating model and assess the value that can be captured.
- Agree on the level of consolidation, standardization, and automation needed to align with those priorities and meet the value targets.
- Navigate organizational politics by creating special task teams to manage more complicated change requests and to avoid slowing down other aspects of the deployment.

Translating the target operating model into an IT architecture

- Fit the solution architecture to the agreed-upon target operating model, while avoiding a one-size-fits-all approach.
- Run key assumptions past the business to make sure outcomes are aligned.
- Begin the organizational changes needed within IT to transition to the new operating model and architecture.

Fine-tuning the change-management approach

- Clearly articulate the necessary changes in processes, responsibilities, organization, and governance.
- Refine and reinforce process changes through focused discussions with management.
- Assign task forces to drive change, but be sure they focus on business transformation rather than basic IT implementation.



Eventually, the IT team broke the gridlock by stepping back, staging meetings with individual leaders to assuage their concerns, and sharpening the benefits of the proposed changes for local offices. That shift altered the dynamic. By appealing to the business leaders and empowering them to take direct ownership of the effort, IT got country and regional managers to sign on. Once engaged, those leaders leveraged their peer relationships to speed up the process of deciding which functions to shift to the global platform. IT could then focus on designing the overall system, on laying out the architecture for the standard application set, and on vetting external vendors to assist the implementation.



To keep pace with the demands that global operating models generate, IT leaders must have the skill sets and the stomach to manage large-scale change: they should shift from blunt-edged approaches that require adherence to strict structural dogmas to an outcome-based approach that sculpts ERP to a handful of defined business priorities. That transition puts the onus on communication, negotiation, and strategy. Where IT can negotiate it successfully, we have seen a 90 percent improvement in order-fulfillment days, 80 to 90 percent faster turnaround of sales quotes and custom products, and a 75 percent reduction in the time needed to resolve customer service issues. Those statistics can transform an ERP implementation from a weighty technical project that takes years to roll out into a rapid, business-focused engine for growth. ○

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