



“One IT” Follows “One Company” (Not the Other Way Around)

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Many managers of organizations having several business units doubt whether having different systems and processes is advisable. Isn't this an extremely expensive set-up? Shouldn't they all use the same system, and work along the same lines? Isn't there greater control with one system? Logical questions on the face of it, but do the advantages of having multiple systems always outweigh the disadvantages? And more importantly: are these IT questions in the first place?



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Introduction

In the current economic climate, many businesses are still looking critically at complexity and its attendant costs in their IT landscape: having decentralized data centers, a multitude of (legacy) applications and several ERP systems often causes grief. Complexity costs money, so obviously streamlining this convoluted “spaghetti IT” in order to realize “One IT” (a uniform organization of the business processes and their enabling IT systems) seems the logical thing to do. However, approaching this change as an IT issue can be dangerous, as more often than not the complexity in IT is basically a mere symptom of a disconnect at a far deeper level in the organization.

On the basis of the pros and cons of different management models, this article first seeks to explain why more and more businesses opt for a “One Company” strategy and the accompanying unified IT system. Subsequently it is explained what strategies can help an organization harmonize its IT systems, and in which cases process standardization is advisable. Finally the authors, on the basis of their practical experience, provide four concrete suggestions for integrating successful One Company processes.

The “One IT” dream

It is the dream of many a manager to have one single IT system that standardizes the corporate processes: “One IT”. This is what Ross & Weill call the “shared” (or unification) model ([Rosso6]) (see Figure 1). Here the primary philosophy is that the organization is regarded as one entity with a radical degree of standardization and integration of processes and systems. One multinational cable manufacturer is currently and consciously directing efforts toward achieving this objective, while at one of the largest FMCG multinationals all companies operate on one single SAP environment worldwide.

The *intended* advantages of having “One IT” are:

- lower maintenance costs;
- easier information exchange between business units;
- simpler aggregation of management information regarding customers, products etc.;
- simpler exchange of staff; and
- reduced dependency on scarce resources.

| | | | | |
|--|------|--|---|------|
| Degree of business process integration | High | Co-ordinated | Shared (“One IT”) | |
| | | <ul style="list-style-type: none"> • Operationally unique BUs • Autonomous BU management • BU management responsible for business process design • Shared customer, supplier and product data • Consensus as to design of IT infra-structural services • ICT application decisions made per BU <p style="text-align: center;"><i>“We attend to our customers from different units in a co-ordinated way”</i></p> | <ul style="list-style-type: none"> • Customers and suppliers either local or worldwide • BUs with similar or overlapping activities and shared systems • Centralized management decisions usually in matrix of BU's • Centrally imposed decisions • Central process owners designing standard processes • Centralized IT decision-making <p style="text-align: center;"><i>“We manage things as a whole”</i></p> | |
| | | Isolated | Replicated | |
| | Low | <ul style="list-style-type: none"> • Autonomous transactions • Operationally unique BUs • Autonomous corporate management • BU responsibility as to business process design • Few data standards between BUs • The majority of IT decisions are taken within the BUs <p style="text-align: center;"><i>“We do everything ourselves”</i></p> | <ul style="list-style-type: none"> • Few shared customers • Operationally similar BUs • Autonomous managers of corporate sections, with limited freedom to take process-related decisions • Centralized or federal management of the business process designs • Standardized data definitions but local data ownership • Centrally imposed IT services <p style="text-align: center;"><i>“We do things in the same way”</i></p> | |
| | Low | Degree of business process standardization | | High |

Figure 1. Alternative IT management models ([Rosso6]).

Who wants to be denied these advantages? Nobody, we presume. However, there is a risk – as cases in the often unruly world of actual practice show – that reducing complexity in order to accomplish “One IT” will be misunderstood as simply an IT issue. Due to the constant cost pressures of IT, many CEOs see it as critical to raise the level of efficiency in their IT department as much as possible. Actual practice shows, however, that the costs associated with complexity in IT are only a symptom of problems at a much deeper level in the organization. Accomplishing “One IT” means harmonizing and standardizing not only the IT landscape (data centers, infrastructure, applications) but other business systems and processes, to an equal extent:

- the management of the organization, the operating and business model;
- the methods and processes of work and performance;
- the screening and reporting by the system;
- the standardization of the (master) data structures;
- the internal monitoring measures;
- the performance indicators and the relevant consultations; and
- prioritizing (strategic) projects.

Not one of these business issues can be solved by the IT department alone. Therefore the hope that the business as a whole will operate on a more efficient scale by simply moving toward a standardized “One IT” is in vain. In order to make this a successful process, it is vitally important to

gain a thorough understanding of the causes of the current “fragmentation” of IT, and the attendant pros and cons for the business. It is a *sine qua non* for the development of a successful strategy, where the reduction of complexity from a business perspective is the leading principle.

Why do organizations have different core systems in the first place?

Any CEO of an organization operating in several countries or carrying different kinds of product groups will find it virtually impossible to manage everything directly. Therefore many organizations have created semi-autonomous units (business units) that are responsible for the performance in geographical or specific product-market combinations, the basic idea being that it is crucial to be market-oriented and flexible to ensure success. Core concepts in this context are:

- local entrepreneurship;
- organizing close to the customer;
- stimulating innovation;
- clustering product knowledge; and
- promoting staff self-confidence.

The management of these organizational units takes place “at arm’s length”, by a “Strategic Architect” ([Gool87]) (see management style B in Figure 2). Consequently, the head office primarily deals with managing different entities, making a limited number of strategic decisions that are usually formulated in the annual plans, and with monitoring the quarterly reports on financial performance. This can be a very successful model in times of growth and expansion due to mergers and take-overs. Its advantage is that success and return can be assessed relatively well per unit, and the model offers sufficient flexibility to integrate rapidly purchased business units at a fast rate.

It is inherent in the “Strategic Architect” model that the local management is entirely responsible for virtually all auxiliary functions, such as HR, finances, procurement, marketing, housing and IT. Many business unit managers set great store by this, and find it very attractive to be responsible themselves for their own entity, preferably with their own logo etc. It enables them to align these matters as well as possible to the market dynamics that are prevalent in their specific geographical region or product-market combinations. As a rule, IT is implemented on a decentralized basis in such situations. It often starts with each unit developing its own system. Particular attention

Differences that are the result of historical factors, and are still being maintained, frequently result in a fragmented IT landscape

is paid in this context to the preferences of that unit's customers and to the needs of the local managers. In addition, country-specific wishes and demands may strongly influence the functionality of the systems.

Business units that have been acquired externally are also a source of differences in IT. An insurance company like Achmea, for example, was formed by mergers of different insurers such as Centraal Beheer, FBTO, Avéro, Zilveren Kruis, Agis, etc. Each unit, naturally, had its own products, processes, method of working and customer approach, and consequently its own IT system. The result was that Achmea was formed with a diverse landscape of several life, non-life and healthcare insurance systems.

Especially when the acquired entity is relatively large in comparison with the take-over party, or when no clear integration policy has been pursued with respect to acquisitions, the unit-specific IT system is often preserved for a long time. In short, differences that are the result of historical factors, and are still being maintained, frequently result in a fragmented IT landscape.

“One Company” strategy: frequent reaction

Even though the decentralized model referred to above has various advantages, the adverse consequences of a

decentralization pushed too far have increasingly been in the spotlight for several years. The “silo”-concept favoured by business unit managers, together with competition between the different units, are conspicuous risks, e.g., when the individual interests of the different business units are put before those of the company as a whole. As a result, it becomes impossible for different units worldwide to maintain a univocal policy in the market with the aim to serve the same customers along the same lines, should they so desire. In addition, it is more and more difficult for the auxiliary functions (particularly IT), with all the differences between the units, to maintain this structure in an efficient manner. As a result, the added value of being part of a larger concern is decreased, sometimes to a high degree. Concepts such as synergies and economies of scale have virtually lost their impact. It is not for nothing that Shared Services for auxiliary functions have taken a wide scope. In effect, these Shared Service organizations are trying to combine the advantages of maintaining autonomous units with a concern for economies of scale.

Actually, many organizations go one step further, changing their model in such a way that synergy and co-operation among the different units becomes essential. This is usually classified under the heading “One Company”, as in One DSM, One Ford, One CSM, One IHC Merwede

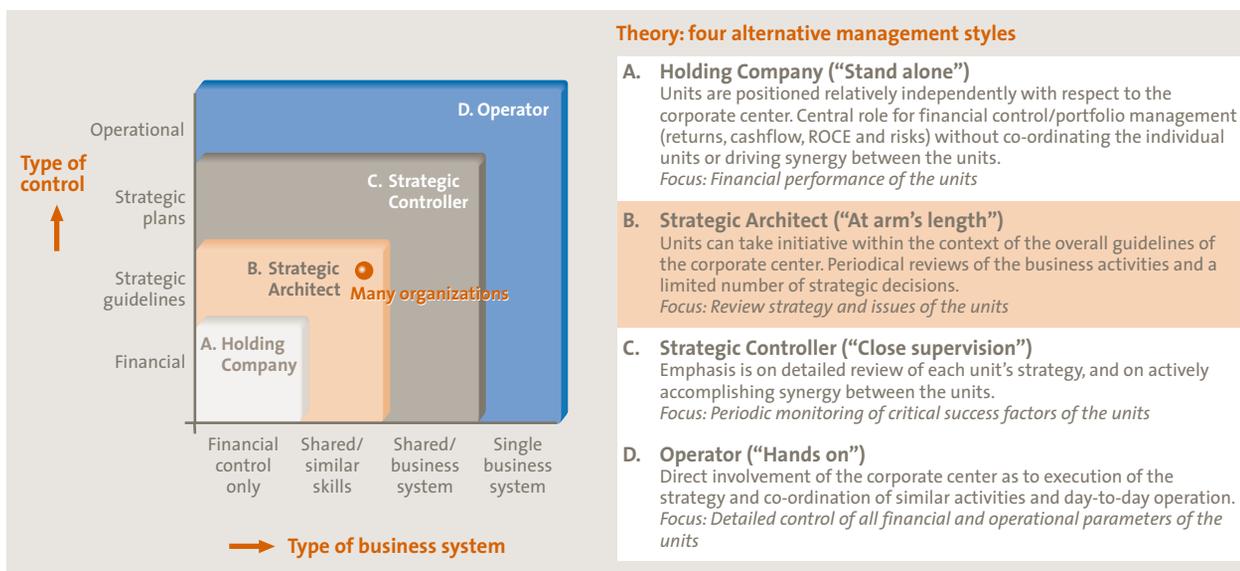


Figure 2. Different management styles ([Gool87]).

Differentiation in processes never generates a lasting competitive edge

and One National Police. It implies a total transformation of the organization, where processes are organized in the most efficient way on the basis of a concerted customer approach. In fact, what happens is that organizations shift from the “Strategic Architect” model to the “Strategic Controller” model ([Gool87]) (see Figure 2).

Although reducing IT-related complexity and costs is invariably part of such processes, these measures are more often a result than an objective in itself. In our experience, “One Company” strategies primarily focus on business targets such as “one face to the customer,” harmonizing, streamlining and professionalizing the operations (to “best-in-class”), realizing increased buying and selling across the business units, encouraging co-operation between the various units and the more efficient maintenance of a standardized operating model.

Harmonization and centralization in a “One Company” model impacts the core processes of the organization (such as procurement, manufacturing, supply chain, marketing & sales). So in this case the impact on management goes far beyond the centralization of auxiliary functions like Finance and HR in a Shared Service Center. For the objective is to reduce complexity in the core of a business itself, instead of merely applying increased efficiency to the existent complexity. The result is a situation where pushing back IT complexity follows the reduction in business-wide complexity, rather than one where IT standardization should result in working more efficiently.

To what extent are “One Company” and “One IT” advisable?

To accomplish the move to “One IT” successfully, one needs to consider carefully whether the implementation of “One Company” is advisable for the organization. Various factors are relevant in this context, e.g., a competitive edge

on the basis of specific processes and IT, the importance of local entrepreneurship and differences in business models between units.

For a long time IT was regarded as an opportunity to achieve competitive advantage in business processes. This was one of the reasons to give business units the freedom to organize their own IT systems. The key question here is what the advantages are of IT diversification. For example, how much added value is there in having different systems in the regional police forces, or in the various university hospitals? In the case of the police, this understanding has in fact led to the creation of a National Police force.

One of the global CEOs of a multinational manufacturer of consumer products admitted in an interview: “What benefit can possibly be gained from having different transaction systems or process structures? None at all! Every system can be copied within 24 months by now at relatively little expense.” In his view, data analysis (Big Data) and value chain penetration (through digitalization) can generate a temporary advantage. When the transaction processing has been harmonized, energy can be directed toward that aspect.

However, the opposite is equally true. When different business units have to implement different business models on account of their mutually divergent product-market combinations, artificially forcing them into one single, uniform standard may actually destroy value. For example, one listed life-sciences multinational has units that predominantly manufacture specialized made-to-order products on a project basis, whereas other units – with long-term contracts – supply bulk products on a made-to-stock basis.

While the rapid and widespread dissemination of “industry best practices” shows that competing based on different processes never generates a lasting competitive edge, making processes artificially uniform, where this is not suited to the ultimate goal, can definitely result in a competitive disadvantage. Therefore the optimal level of standardization is found where the only differentiation is exclusively and directly reducible to inherent differences in business models / geographical locations between business units. The implication is that all other differentiation resulting from historical factors can be regarded as “waste” and should therefore be eliminated.

| Harmonization drivers | Differentiation drivers |
|---|---|
| <ul style="list-style-type: none"> • Economies of scale are vital to compete in the market. • Minimize operational risks inherent in different methods of working or diverse demands from supervisors with uniform practice standards. • Important customers demand uniform service across different business units. | <ul style="list-style-type: none"> • Local entrepreneurship of business units is decisive for the success of the overall organization. • Having differences between products, services, processes and/or earnings models within the organization yields better results than uniformity. |

Table 1. Harmonization drivers versus differentiation drivers.

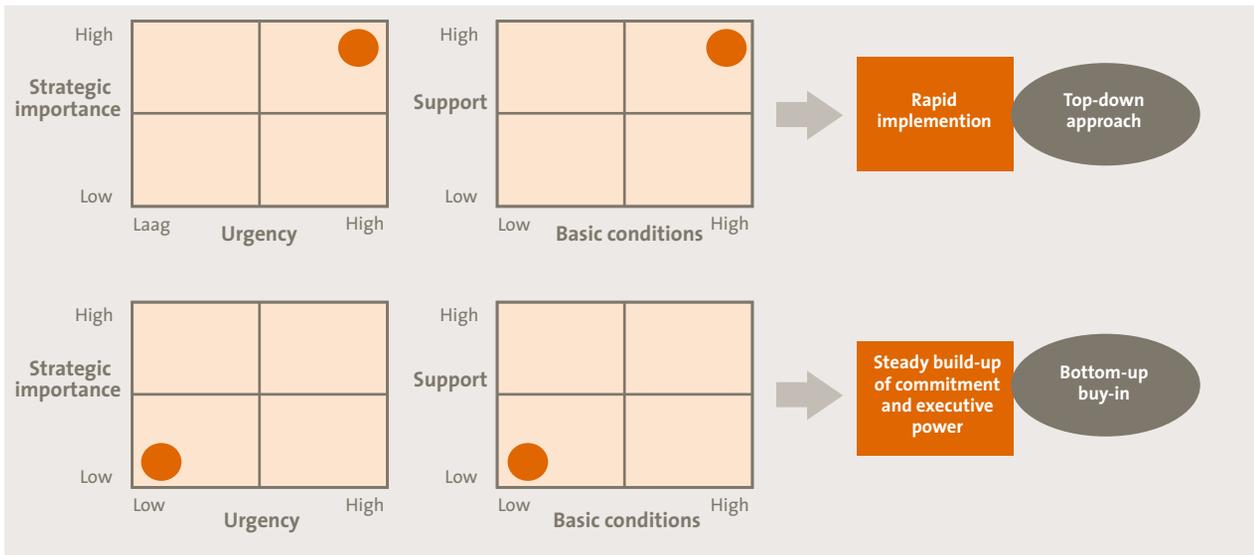


Figure 3. Opportunities to realize synergy and harmonization ([Wijer94]).

To determine the optimal level of standardization, it is important to have a close look, together with management, at which of the factors provided in Table 1 tilt the scales in terms of success for the organization.

If the success of the organization is primarily determined by factors in the left-hand column, harmonization definitely makes sense. However, if the right-hand column prevails, that calls for thorough research as to if and where advantages of standardization could be realized. In addition, care should be taken that the differentiating characteristics of the organization are preserved. This is an organizational business issue, obviously!

At the end of the day, how much “waste” reduction can be successfully achieved by a company with the help of a “One Company” strategy will always depend on the strength of the organization’s central governance. In other words, the additional costs of preserving differentiated methods of working that add no extra value are the hidden costs of a weak central governance structure.

What is the best strategy towards harmonization?

As has been explained above, it is crucial for a “One IT” initiative to realize that the key to success is the reduction of business complexity. But how to achieve this?

Anyone who has ever been involved in such harmonization efforts will readily admit that these changes are by no means easy. They may on occasion create conflict and even managerial change. This is partly due to the fact that the extent to which the business unit is able to set its own priorities is affected by this harmonization. By and large this is seen as restricting responsibility, and arouses opposition. The fact is that harmonization requires all

units to co-operate and surrender part of their autonomy, so that responsibilities with respect to processes, data and IT-structure can be shared in new, “horizontal” governing bodies.

Many a Board of Directors will have to face the choice of whether or not to risk a fight with prominent business managers about synergy and harmonization. They will then need to weigh the pros and cons of either forging ahead with the plan or abandoning it as being too disruptive in view of uncertain market conditions that leave little scope for risky transformations. Hans Wijers has written a little book about this struggle, which makes good reading. He explains how the strategic importance, urgency, existing conditions and support are decisive factors when it comes to the manner and speed with which such a change can be implemented effectively ([Wijer94]). In a nutshell: only when an organization is under sufficient pressure is there enough liquidity and flexibility to impose a top-down approach.

Realizing this in one go demands superior and unquestioned control over change and a relatively isolated environment for the organizations that commence such a transition. A wide variety of companies have been working on this change for many years, if not decades. The life sciences company referred to above, for example, began to harmonize its processes on a concern-wide basis 10 years ago, and is now slowly standardizing its IT landscape. What they did initially was to go for more top-down standardization of the processes from a risk management perspective. For a number of years, however, they have favoured a more gradual approach and shifted the focus to a bottom-up harmonization, from a process-improving perspective. The different organizational units are enabled to decide for themselves to what extent the uniformization will be implemented. This is managed by a central process-consulting board, from an organization perspective.

And we are rationalising our IT landscape

Evolution of IT applications toward a shared and replicated Target Operating Model

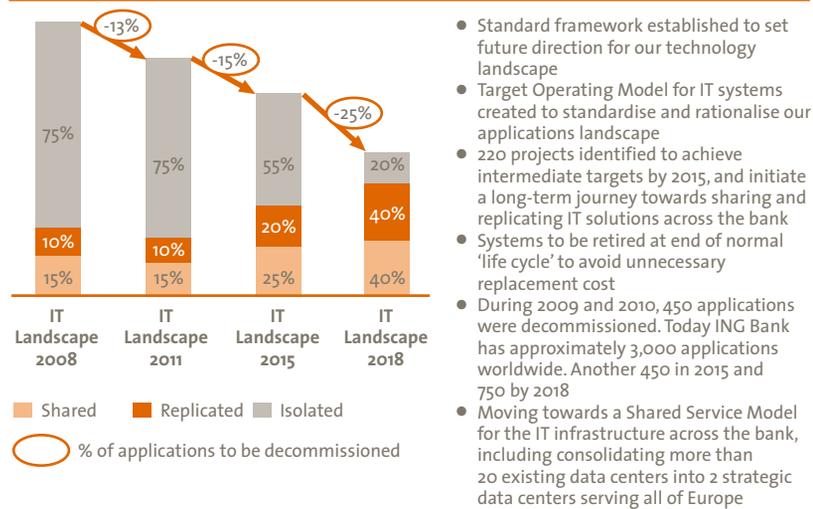


Figure 4. Example of IT convergence at ING ([ING12]).

A large multinational brewery, too, has been working on a transition toward two harmonized ERP environments for years.

From an IT perspective, the “convergence” or “cloning” strategy is frequently applied to give shape to the change. This also implies the decision to admit no new systems and to have business units choose from existing systems only. ING Bank, for example, had an extremely fragmented global landscape and decided to make two systems the international standard, and each business unit had to choose either one. ING has calculated that this will result in significantly lower IT-related costs ([ING12]) (see Figure 4).

In the cases we have seen, the advantages of harmonizing systems and processes are evident. However, the efforts to realize this harmonization are usually substantial, so why risk conflict and battle if there is no absolute necessity. A vague vision that processes could be improved usually does not suffice. At the end of the day important decisions need to be taken based on clear goals to make the transition process successful.

Based on our experience, we have these suggestions for organizations considering a move toward “One IT”:

1. Determine the extent of the urgency, the support and the conditions

Determining the degree of urgency will make or break the process as much as the extent of support for changes.

The traditional problem that we see in many organizations when it comes to process standardization is that the urgency of harmonizing a fragmented landscape is predominantly felt at the management level, whereas the burden of change is generally experienced more acutely on the executive level of an organization. Wijers, in his *Horizontal Synergy*, describes this aptly ([Wijer94]). An additional factor is the difference between governance at the corporate level and individual business units: at the end of the day, properly implemented standardization will be beneficial for the business as a whole, but may demand concessions on the part of individual units/managers. This can be particularly problematic if there exist major differences in maturity between the various business units.

To ensure success in such harmonization processes, it is vital to align the selected approach with the existing management model of the business. If the business units are relatively powerful in comparison to the corporate level, more attention will have to be devoted to generating support per business unit on the basis of a business case that is attractive to the individual units. Achieving standardization from the viewpoint of the corporate level will have to be based on a broad consensus from the various business units. This means that the intended degree of standardization will be achieved at a low pace. Sometimes one will even come to the conclusion that the selected transition track simply does not work, and that a reorganization and/or replacement of the management is necessary.

If, however, the corporate level has demonstrated that it is able to realize certain initiatives on the basis of a central top-down approach, it will be more efficient to give shape to the standardization by means of a relatively “narrow” but strong governance structure (without broad representation from all stakeholders involved). In such a case the emphasis will be on high-quality execution (timely delivery of the agreed design and within the budget) rather than on creating support where design, budget and time lines are more flexible.

2. Determine the functionality

Efforts to determine the critical functionality for a standardized process usually look to the “common denominator.” In other words, if the system must incorporate all existing functionality, this makes the solution by definition more expensive and complex, and development programmes interminable. Never, in such cases, will efficiencies be realized. Harmonization means making decisions and reducing things to essentials.

Start with the units most likely to embrace harmonization

Therefore, use only one leading party to develop a blueprint, while taking into account contributions of experts from the various business units (but challenging them at the same time). This leading party could be the largest/most mature business unit in the organization, or a process expert who enjoys a high degree of authority within the organization. A global FMCG company, for example, went for the latter option with a view to the efficient standardization of the supply-chain planning processes of 150 locations around the globe. In other companies we have seen the operational model used by the most mature business unit raised to a standard. In fact, there is a considerable risk that if this mature business unit were not to take part in the “One Company” strategy, it could compromise the ability to achieve synergies at all.

3. Consider to standardize variants

A “One Company” strategy need not necessarily mean that everyone must work along the same single line, or that there is only one single choice of system for each process. Businesses increasingly opt for “standardizing variants”: different standard variants are developed for certain processes, leading to the choice of one particular variant instead of another based on factors such as maturity, size or geographical location of a business unit. These “standard” variants are often used as supplements to “one-size-fits-all” processes, the general rule being that the closer a particular process is to a company’s external parties (customers, suppliers), the greater the need to have more standard variants.

This trend is also developing in terms of IT support, for example with respect to ERP. Companies increasingly decide to use the heavy on-premises ERP system only in business units with a certain minimum size, whereas in smaller units it increasingly becomes common practice to work with a SaaS-variant (e.g., SAP Business ByDesign or Oracle ERP Cloud).

This standardization of variants comes with a number of advantages. In the first place it is easier to gain buy-in for it from various business units, because a variant often suits their preferences better than a one-size-fits-all. Further, many aspects of standard processes (including IT systems) can be shared among variants, resulting in efficiency and cost-related benefits. Finally, controlled diversification of standards also ensures a better fit with the capacities of a business unit, so that they can develop professionalism under controlled conditions. This means that – in the case of different variants of a standard – existing differences in professionalization level between the business units are taken into account.

4. Start in phases and promote successes

Do not attempt to build Rome in a day: that is an especially relevant saying in this case. Commence with the units that are absolutely vital, generate most benefits and are most likely to embrace harmonization. The advantage is that the transformation becomes more manageable by starting where it is most welcome, and the different iterations lead to rapid improvement in implementing standardization. In addition, the success of the first implementations can give the “One Company” project traction and win sceptical business units over at a later stage. One real estate concern has consciously decided to start harmonization with those countries that were prepared to take the first steps together, under the heading of: “The coalition of the willing.” Sometimes the route taken is to oblige all countries to choose one of the current systems and not to implement unique and incompatible systems (convergence strategy). This is a rather more gradual process, which will facilitate an eventual harmonization.

Conclusion

Many organizations aspire to achieving the “One IT” model. However, practice has taught us that the introduction usually involves a struggle, as first and foremost it requires a reduction of complexity in the business according to a “One Company” model. You can no longer remain set in your old ways of working, and may have to say goodbye to management or friends in the business who are reluctant to accept such changes. It can lead to a higher turnover, temporarily, due to the internal focus demanded by this process. These well-known drawbacks are recognizable in any extensive transformation process. However, as we have indicated, there is a series of strategies that can be used to implement such a harmonization process successfully, even in a situation where individual business units are relatively powerful. But the key to success is always in how to consider the issue from the perspective of business targets and desires, and from there how to organize the IT structure.

In short, do not assume that “One IT” is an IT problem and that business harmonization will follow automatically.

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