Anchored Agility: How to Effectively Manage the Balance between Local Flexibility and Global Efficiency

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Executive Summary

Carestream Health was formed when Onex Corporation purchased Kodak's Health Imaging Division in 2007. “Carve-out” divestitures involve many complex legal, technical, and personnel challenges. For example, on Day 1, Carestream inherited a “mini-Kodak” IT function, complete with 150 locations worldwide and a variety of global network services contracts to support them. It also acquired 300 IT people in 44 locations around the world. Carestream’s IT infrastructure had been created to support a much larger and more complex organization and was not optimized for a company of its size and complexity. This case documents Carestream’s transformation into a lean, agile, cost-effective IT organization that is making a valuable strategic contribution to Carestream’s business.

Carestream’s CEO, Kevin Hobert, needed an experienced and proven CIO to formulate a vision for a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008. “Bruce walked into a real challenge,” said Hobert. “Our IT infrastructure and services did not provide the information and capability needed to operate our business effectively and efficiently. We knew that IT was key to our future. We believed that a strong IT organization would provide capabilities and information that would differentiate our company.”

There were seven primary areas of change involved over the past five years:

1. **IT Strategy.** Leidal spent his first few weeks information-gathering and listening to business leaders, trying to understand their pain points. The strategic framework he developed for IT had several phases of increasing commitment from the business and three major components: strategy development for both business and technology; execution, including an improved PMO and applications development activities; and ongoing operations to manage service levels, infrastructure and operations.

2. **Relationship Management.** IT needed to change how it worked with the business units, making a cultural shift from ‘do whatever the customer asks’ to ‘plan and execute’ and ‘monitor and control’. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining agreement on IT’s strategies and confirming the business’ direction.

3. **Enterprise Architecture.** Leidal introduced architecture to Carestream, creating an IT Architecture Council staffed by senior IT leaders who collaboratively developed guiding architectural principles for the organization.

4. **Governance and the PMO.** Carestream’s IT organization had complex and ineffective governance. Leidal created four IT governance forums for policy deployment, IT architecture, change advisory, and supplier management. He also hired an experienced Director of Global IT Operations and Infrastructure and improved the PMO with dedicated and certified project managers, and new methodologies, processes and tools.
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Executive Summary

Many organizations aspire to become more globally efficient by enhancing economies of scale and scope, and improving the sharing of knowledge and best practices across the enterprise. Yet, the journey they take to reach these goals presents many challenges. Organizational systems, processes, and IT need to be standardized and rationalized, which can lead to significant disruption. Successfully navigating this disruption may lead to greater global efficiency, but this, too, may come at the cost of local flexibility. This report is about how organizations can simultaneously balance responsiveness at the local level with efficiency and control at the global level. The optimal configuration of IT-enabled processes and systems plays a key role in this journey.

The research is based on twenty interviews with senior executives at twelve large organizations with combined revenue of three-quarters of a trillion dollars. This report draws from the successes and failures of these organizations to navigate the journey from relatively siloed structures to what we refer to as an anchored agility.

We have proposed a set of five guiding principles to help organizations achieve anchored agility. These are:

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

   We found that successful firms did not lead the transformation process with IT. They first standardized and rationalized organizational processes around best practices. We found consistent processes to be the foundation of anchored agility, not IT systems. Data standardization was also found to be important so that different parts of the organization could seamlessly share data and information. Once the process and data landscape had been addressed, then successful organizations started to transform IT.

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

   We found strong resistance to all change initiatives, mostly from local operations that regarded the change as a threat to their ability to deliver value at a local level. Overcoming this resistance was critical to success, and one effective way we found to accomplish positive results was to establish smart pilots. We found the best pilot locations to be those that were representative of most units and were run by a supportive and respected leader.

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

   We observed cases where resistance was so strong that it caused the change journey to fail. Strong and clear top management support was often necessary to push through the change at the beginning of the journey until the benefits became more clear. We did not observe a single example of implementation success where there had not been strong and visible support from a senior executive, often the CEO.
4. Institute strong and robust governance

Governance was also a factor that differentiated successful organizations from failures. The key to finding the right balance between local responsiveness and global efficiency was in deciding which processes and systems should be standardized or fixed, and which should be exempt from the standard or, as we describe it, which can float. Strong governance was required to decide between fixed and floating status for each process or system.

5. Sequence functionally from back to front office

We found that there was a preferred sequence of functional areas to be transformed. The optimal starting point was the back office functions, like procurement, finance and infrastructure, which were more standardized and process-driven to begin with, and naturally less resistant to change. Next were the supply functions, like logistics and manufacturing, where there were significant potential efficiency gains and only a moderate need for exceptions. The final areas were the demand functions, like sales and marketing, where the resistance was naturally highest and the need for floating exceptions greatest.

In addition to the five guiding principles, we also present a framework to help managers to determine which processes and systems should be floating and which should be fixed. This framework is based on two dimensions: the need for local customization and the degree of strategic importance. The default position should be that a process or system should be standardized, but not at any cost. Too much standardization can lead to bureaucracy and reduced agility. A need for local customization, for instance, due to local jurisdictional regulations, should be allowed. In cases where the process or system has low strategic importance, then rigorous standardization should be applied using industry standards. Where the process or system provides a point of competitive differentiation, then proprietary standards should be applied to protect the firm from imitation.

The objective of this report is to guide organizations to a position of anchored agility, where they enjoy the efficiency benefits of scale and scope without sacrificing the ability to be responsive to local conditions. We describe the role of IT as a key enabler in the journey to anchored agility.
Introduction: The Quest for Efficiency

“We state that we are a global company with operations in multiple countries. So, from the outside, it looks like a true multinational; but the view from the inside is less clear: We have four email systems, 13 billing systems, each of our plants works in a different way, and we are miles away from having a single view of the customer.”

Over the years, we have been told countless versions of this story. Recently, however, we have started to hear a new story, which goes something like this:

“We have just gone through 7 years of process standardization and we’ve implemented an ERP system to gain global efficiencies, but now it feels as if we have gone too far. Sure, we have a better view of the business and we have gained benefits through common processes, but we seem to have lost some of our competitive edge. We’re just not as agile or customer-oriented as we used to be.”

These stories illustrate the central dilemma facing many large organizations of how to balance the desires for local flexibility and global efficiency. The optimal balance between these two objectives is highly dependent on the industrial context in which a firm operates as well as a firm’s particular strategic direction. But must firms choose one objective over the other? Through our research, we have uncovered a new approach, which we call anchored agility, whereby some firms have managed to implement strategies that are both locally agile and globally efficient.

We illustrate the challenge of balancing local flexibility with global efficiency in Figure 1. For most companies, the journey begins in quadrant 1, where strong silos emerge through acquisition and organic growth. These silos may be represented by business units, geographical markets, functions, or lines of business. The benefits to this structure are high understanding of local needs and ability to meet those needs with locally developed or adapted products and services. As firms grow, however, the inefficiency of this approach becomes increasingly apparent. Typically, there is a large amount of process and system variance across the silos, leading to wasteful and costly duplication. Moreover, the structure of each silo inhibits the free flow of information and best practices, so that the global ‘sum’ of the organization is little more than the sum of the individual parts. To draw on the words of HP’s legendary CEO Lew Platt, "If HP only knew what HP knows, we’d be three times as successful".
In response to the limitations of a siloed structure, organizations seek to increase the level of global efficiency, often through company-wide standardization programs. These programs may include large IT projects, such as enterprise system implementations, as well as process optimization programs. Since these changes tend to be highly disruptive, organizations invariably drop into quadrant 2, the chaos quadrant, where firms give up many of the legacy systems and processes upon which they relied, but have not yet fully adopted their replacements. The length of time that firms stay in this quadrant depends on a number of factors, such as the extent of the transformation, the amount of local resistance to change, and the quality of the change management process. In some instances, we have observed firms retreating back to quadrant 1 after becoming disillusioned with the level of disorder and lack of progress within quadrant 2.

After this period of disruption and uncertainty, sometimes referred to as the "shakeout period", firms enter quadrant 3, bureaucracy. We have observed an increasing number of organizations enter this stage of the efficiency journey. Many of these firms have undergone enterprise system implementations and process improvement programs such as Six Sigma, Lean Manufacturing, and so on. Firms at this stage have managed to achieve many of the benefits they were seeking at the beginning of the journey. They cut down on process and system duplication, improved economies of scale and scope, and became more effective at sharing information, knowledge, and best practices across the organization. However, we have noticed an increasing tendency among these firms to fall behind in key areas, such as reduced local responsiveness, agility, and innovation. There appears to be a liability to the enhanced global efficiency.

In order to redress this "bureaucratic penalty", firms need to shed some of the standardization and efficiency gains, but not in such a way as to return to a chaotic or siloed state. Firms that manage this
process effectively enter into the 4th quadrant, anchored agility. Within this quadrant, they maintain global efficiency and control where it makes sense to do so, and re-acquire a high level of responsiveness to local needs, along with an enhanced ability to change. At the same time, they maintain strong governance so they do not slip back into quadrants 1 or 2.

This report is about the journey to reach quadrant 4 and the challenge of remaining there. We will look at the practice of combining processes, IT systems, and data standardization efforts; we will describe the optimal sequence of change; and we will explore the governance that must accompany the change process. Our recommendations are based on interviews with senior executives at 12 global companies across multiple industry segments with combined revenues of more than three-quarters of a trillion dollars. For more about the research companies and methodology, see ‘About the Research’ on page 24 of this report.
Navigating the Journey: The Implementation Challenge

Given that the success of a subsidiary often rests on its ability to adapt and respond to local demands, the desire by headquarters to push through efficiency and standardization programs may not always be welcome and could lead to passive or active resistance. For instance, a business unit may only ceremonially adopt a new practice, since it does not believe in the economic benefit of the practice within its local environment. Alternatively, the unit may intentionally decide not to implement the practice while reporting otherwise to headquarters. In the extreme, a subsidiary with a strong power base could actively defy or obstruct corporate headquarters and take independent action, resulting in non-adoption of the new system or practice. Defiance is likely to occur when the norms and interests of the local organization diverge substantially from the center.

Faced with contradictions and misalignment between local and global interests, organizations must determine how to gain the commitment of local units to fully implement a new global practice or IT solution without compromising adoption. From our research, we have identified five key guidelines that tend to be associated with implementation success. These five guidelines are: 1) start with processes before moving to data and then IT, 2) implement a strategy of smart piloting, 3) ensure top management support, 4) institute robust and clear governance, and 5) sequence functionally from back to front office.

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

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

In the case of a large consumer goods company, SAP was implemented only after the process landscape was clearly mapped and understood. According to a key member of the implementation team, “We started looking at the end-to-end processes, 37 major process groups in all (e.g. HR hire to retire, order to cash). All processes were then decomposed to five levels. On the fifth level you are one-on-one with system transactions. On levels 3 to 4 you could already tell how the market operates. Then we analyzed the alignment between the markets’ processes and the global best practice processes. When we identified a mismatch, we had to decide which to take and which to change.”

A common temptation is to move too quickly into system implementation mode without first having a full understanding of the process landscape. We observed this problem in a large shipping company that lost patience with the speed of SAP implementation and decided to fast track the process mapping stage and simply overlay the software on top of existing processes. After seven years, the project shows few gains and the company is currently considering scrapping it altogether and starting afresh.

A large oil and gas company was among the organizations that maintained a process-led approach. According to the Vice President of Procurement for the downstream business, “The first few years...
Between 2004 and 2006, we spent time documenting the functional processes, discussing the procurement channels, lean workshops etc… in order to make the design. Getting into an aligned process design was the key thing. That is, however, only the starting point. The implementation then takes time and requires phasing the system rollout. We couldn’t have succeeded without having standardized processes and data in place."

Processes are not the only component that should be standardized and rationalized before the IT solution is implemented. Data should be formatted and structured in a similar manner to allow for sharing across the enterprise. For most organizations, ensuring data consistency is not a trivial matter. According to the oil and gas company VP, “The major problem was that data quality across businesses and countries was not identical. Databases with regard to material codes (materials master), supplier codes (vendor master), and contracts (contract master) needed to be cleaned up and updated. As a result, a lot of pre-work needed to be done before a country team could start with the actual implementation work.”

Data consistency was a key concern for many of the companies we studied. The CIO of a data management company stated, “We are standardizing hardware, storage, etc. On the data side we try to put together a framework to share data across the group. We are in the early stages of developing a model where we could publish data that could be leveraged across business groups. Also, we can make connections across our different domains and develop common products.”

Once processes are well understood and appropriately standardized and once data formats are streamlined across the organization, then large scale IT system implementation can begin (see Figure 2). We found that following this progression was strongly linked to a successful transition from quadrant 1 (silo) to quadrant 3 (bureaucracy). Cases in which this sequence was not followed tended to languish for longer in quadrant 2 (chaos).
2. Implement a strategy of smart piloting

We mentioned previously that preparing for the journey from a siloed organization to a position of greater global efficiency should follow a prescribed sequence beginning with process standardization, moving through data standardization, and finally to implementation of IT systems. In this section, we advocate the use of appropriate pilot markets to test and manage the implementation. Piloting is the process of testing a system or solution in one setting before rolling it out to other locations. We noticed that the firms that successfully managed the efficiency journey, spending minimal time in the chaos quadrant, were the ones that made extensive use of pilots.

Almost inevitably, important lessons are learned during the pilots that can be leveraged elsewhere. According to a business unit executive within the oil and gas company, “In the first month, they expected many technical problems, but they did not experience that many… Instead they quickly learned the following important lesson: no matter what amount of training has been given, more training is needed. Although they started training six weeks beforehand, it appeared that employees had forgotten the basic steps by the time of rollouts. In the early days, they also found that design faults needed to be tracked, instead of solved in silos, because the latter leads to big problems in interfaces further up or down.”

The converse was also the case. Firms that made little use of pilots or implemented ‘big bang’ implementations tended to be less successful. It appeared that pilots were useful for a number of reasons. First, they allowed for a setting where approaches could be tested, evaluated, and learned from. Inevitable problems were addressed during pilot installations. Second, successful pilots served to build credibility and legitimacy for the change effort. They became an important tool to overcome natural resistance from other local operations that were in line for change. While markets and business units don’t necessarily see the benefit of a global process or IT solution at the outset, they start to see the benefits more clearly as an increasing number of markets adopt the solution.
It is very important to choose the most appropriate location for a pilot (see Table 1), as the status or credibility of the location within the global structure is crucial. The pilot location should not be so large that the inevitable challenges and issues become disruptive to the organization as a whole. Nor should it be so small that lessons learned cannot be easily transferable to other markets or operations. The pilot should be broadly representative of other locations within the corporate portfolio. The question should be asked whether or not the pilot market has a product portfolio, revenue profile, and operational set-up that is broadly representative of other parts of the organization. If a pilot is successful, then units whose profiles are similar to the pilot are likely to view the initiative positively.

According to a large analytics company, the success of a pilot implementation was critical to overcome local resistance to a new data center consolidation initiative. According to the Group CIO, “When I introduced the notion of data center consolidation, there was great resistance. I met with each operation unit head, one-to-one, and took them through the benefits numbers. I had some mature conversations with operating heads who adopted a true enterprise vision (i.e., had the business benefit in mind). Because they understood that centralizing our data centers would create greater capability, they were willing to accept the corresponding consequences. However, most of the conversations were about protecting control with operating heads who did not see the bigger picture.

That is where we got to the point where we decided to pilot with the unit where I had the most mature conversation, instead of ramming it into the guys who were reluctant. It was our aim to get some successes on board to prove the model. It took a little longer before we could realize the expected savings, but in the end we pulled the reluctant guys in because they saw the benefits in practice. We didn’t need to push as hard.”

Finally, the local management team in the pilot location needs to be fully behind the initiative. Much of the responsibility for creating local employee buy-in for the initiative will lie with these local executives. A fully supportive pilot market executive can help sell the initiative to other units within the organization. An ideal pilot leader will be a business unit executive who is supportive of the change program, committed to making the program a success, respected by other business unit leaders, and influential within the organization.

<table>
<thead>
<tr>
<th>Pilot characteristic</th>
<th>Justification</th>
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<tbody>
<tr>
<td>Representative</td>
<td>The pilot should be representative of other markets or business units that are also in line for implementation, so that lessons learned from the pilot can be widely applied without loss of relevance.</td>
</tr>
<tr>
<td>Sized correctly</td>
<td>An ideal pilot location is medium-sized. If it is too large, then problems may become very visible and/or adversely affect organizational performance. If it is too small, then the pilot may not provide a realistic test for the change initiative.</td>
</tr>
<tr>
<td>Supportive leader</td>
<td>An ideal pilot leader is one who is supportive of the change process, and wants it to succeed. However, this is not sufficient. The leader should also be respected by other units or markets and influential across the enterprise.</td>
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3. Ensure top management support: from push to pull

Any large-scale standardization or IT system implementation initiative will inevitably encounter resistance at the local unit level. Be cautioned! We have observed that it can take substantial time to find the right local and global balance – a timeline for which the financial markets will likely have little patience. In the case of one of our subject companies, the still-incomplete efficiency journey started more than 10 years ago. Overcoming resistance requires time and patience. Proper preparation, as described above, with processes preceding data and systems is important. Smart pilots can also prove to be invaluable. However, neither of these approaches will be enough to overcome stiff resistance, particularly from influential markets or business units. Thus, we have observed that strong top management commitment is critical for implementation success and, conversely, the lack of this visible support leads to sub-optimal results or failure.

According to an executive at the consumer goods company that successfully implemented a multi-year, large-scale process and IT standardization project, "The CEO's sponsorship was the no.1 success factor. He clearly stated that the project would be his legacy. Furthermore, understanding that it was not "just another" system or process exercise was critical to success. This sponsorship provided the essential 'push' to get the project off the ground."

The CIO of a global flooring company echoed this view, "My predecessor in the CIO role didn't want to battle regions on many of the standardization initiatives. This was fine and perhaps the right move for the time. Then, we got a new CEO, who had a vision to build a truly global company. He believed that this was only possible with a high degree of standardization. Since then, we have been moving ahead quickly. The support from the CEO is critical."

We noticed that strong top management commitment became less important after a period of time. Companies moved from a "push" scenario, where changes were mandated, to more of a "pull" scenario, where units requested the change. At this point, the benefits of the standardization journey are more apparent and units become accepting of the solution.

4. Institute strong and robust governance

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

Not only should governance help determine whether a process or system is fixed, floating, or discontinued, but it should also provide a mechanism for moving from one category to another. These movements are critical for responding to changes in the business environment. Indeed, the external environment may require changes to the proportion of fixed and floating elements. For example, some fixed elements might no longer be as strategically important, and thus may be jettisoned from
the core. Alternatively, a floating element that becomes more strategically important over time, like the management of risk associated with exposure to social media, might move into the fixed element set (see Figure 3).

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

When the oil and gas company implemented a procurement standardization initiative, the company created a central implementation team with people from the different units and countries who previously worked with different IT platforms. This central implementation team operated like a “flying doctors” squad: travelling to the location that would “Go Live” next to work with the local organization on implementation. When deviations in processes occurred locally, a senior executive was assigned as a process executive for supervision and implementation. Process executives would use process councils for advice on process design, project plans, project implementation plans, etc. These councils consisted of senior executives representing Operations, Finance, IT and HR. Since each process consisted of various sub-processes, a process executive assigned a process owner for each sub-process, who would then work with the central implementation teams on the implementation of specific processes at individual locations.

Some authorized solutions, explained one CIO, were not part of the fixed core. They were solutions based on a single country or market need that could then possibly be rolled out to multiple countries. To effectively manage this kind of deviating floating solution, it is crucial to monitor usage and see where markets can learn from each other. An example of a floating solution was a distributor management system in Singapore. The team found that the standard system was too expensive and complicated for India. Instead, it established a basic stripped-down solution. Today, they are exploring whether they can make use of the same floating solution in other markets, such as Indonesia and Ghana.
Figure 3

Strong Governance is Required to Maintain the Correct Balance Between Fixed and Floating Elements

The dangers of poor governance are clear. They can lead to a set of processes and systems either too large or too small. The fixed set can become too large if it becomes full of rarely used processes, redundant systems, or duplicate processes. In such cases, which we have seen on multiple occasions, an organization might have the appearance of being globally rationalized, but upon closer inspection, its bloated core makes it bureaucratic, inefficient, and slow. Although the firm has standardized on SAP, highly-customized instances of the software emerge, due to infighting, and many of the benefits of scale are lost.

On the other hand, if the fixed set is too small, the organization may never completely leave the silo quadrant. Too many local exceptions can easily serve to negate the benefits of a global standard. In the case of the large package delivery company, poor governance led to local units with negotiated exceptions to a global HR system standardization initiative. After the implementation was complete, there were still 53 separate HR systems in operation across the organization.

5. Sequence functionally from back to front office

We see an additional factor that appears to be an important component of a successful efficiency journey – the correct sequencing of organizational functions. We found that firms with successful outcomes begin with back office functions, like accounting, finance and procurement. These functions are typically process driven, and have the most to gain from standardization and efficiency programs. Moreover, the proportion of fixed processes is likely to be high and floating exceptions...
correspondingly low. See Figure 4 for a comparison of three functional clusters and the order in which the process and system implementation should occur.

By comparison, market facing functions, including business development, marketing, and sales, tend naturally to require more floating processes and are likely to be the most resistant to change. Starting with these functions can be a recipe for disaster. In the example of a coffee company, all processes up to and including warehousing (procurement, manufacturing, etc.) were highly standardized, while those that were downstream from the warehouse were highly variable as the “digital age” required a higher level of interaction with consumers.

Figure 4
The Order of Functional Sequencing

Somewhere in the middle are the so-called ensuring supply functions. These areas, which may include manufacturing, operations, and supply chain, typically receive high benefits for efficiency improvements and process standardization.

According to a global manufacturer of flooring products, “We started with Finance, HR, IT and purchasing. These were standardized and centralized. They were part of a program to reduce costs and increase efficiencies. We didn’t tackle the differentiating processes right away, such as shop floor automation, order management, pricing and sales. These areas required flexibility and different degrees of standardization.

At the moment, we have three different sales systems (Asia, EU, NA). We are in the process of tightly integrating them using Salesforce. The idea is to allow for local differences, but to standardize the data so that it is consistent at the reporting level. That is, that there is a consistent view from the head
office. But the local sales processes are different – for instance some are opportunity driven while others are customer driven.

The front-end processes are harder. On the back end, we are about 75% standardized and want to move to 90%+ and we have a roadmap for getting there. On the front end, we are maybe 25% standardized, and that is mostly at the executive reporting level. But the sales process is quite local as it is either by product, geography, channel, segment or distribution depending on the area.”

In cases where we saw a different sequence than the back to front office progression, success was less assured.
Anchored Agility: How to decide what is fixed and what is left to float

The preceding discussion concerns the journey from a siloed structure (quadrant 1 in Figure 1) to a structure that is much more global and efficient (quadrant 3). However, as we stated earlier, there is a bureaucratic penalty associated with being in quadrant 3. Organizations would rather strike a balance between local flexibility and global efficiency that allows them to be strong in both attributes. This anchored agility is represented by quadrant 4. But how can organizations move from quadrant 3 to quadrant 4? The key to this final step of the journey is to determine the correct balance of fixed and floating elements (processes and systems).

We have observed that there are two key dimensions that drive the decision on whether a system or process should be standardized, or whether an exception to the standard should be allowed. These dimensions are shown in Figure 5. The first dimension is the strategic importance of the underlying element and the second is the need for local flexibility. Processes or systems with little value as strategically differentiating factors should be seen as candidates for rigorous standardization and, in many cases, for outsourcing. Quadrant 2 contains these ‘fixed foundation’ elements. Examples include many back office functions such as procurement or finance as well as elements of supply chain management, HR, and IT. In our experience, firms tend to underestimate the number of processes and systems that fit into this category. Either they overestimate the strategic importance of some elements or local business unit heads convince them that they have high strategic value or need to be highly locally adapted, when in fact this is not the case.

Nevertheless, there are some processes with low strategic value that require local adaptation. We refer to these elements as part of the “floating foundation” and they fall into quadrant 1. Regulatory functions, HR, health and safety, and accounting often belong in this category. Floating foundation processes and systems are typically related to local legal or jurisdictional conditions. These exceptions should be kept at a minimum, as they tend to be costly, disruptive, and add little in the way of organizational value.

Care should be taken with elements that provide points of competitive differentiation – some need to be fixed, while others should be allowed to float. Some of these processes should be made available to the whole organization, but be protected from competitors through the use of proprietary standards. We refer to this quadrant as “fixed strategic”, shown in quadrant 3. According to a large toy manufacturer, “We started by mapping core capabilities and what we want to protect. These were capabilities that we believe gave us a competitive advantage, e.g., key account management.”

A common mistake we have seen within this category is that firms standardize around industry best practices such as those that are baked into enterprise systems like SAP. These industry best practices may be effective, but remove any point of competitive differentiation since they are available to all competitors using the same system tools. Instead of industry best practices, we recommend utilizing company best practices for strategically important activities that are relatively fixed across the enterprise. Examples of these elements include many aspects of the supply chain, customer relationship management, innovation, business analytics, and some IT applications.
Finally, quadrant 4 includes those "floating strategic" elements that are both strategically important and highly locally adapted. For systems and processes in this quadrant, we recommend allowing local exceptions based on demonstrated need, with the caveat that the underlying data associated with these elements is in a format that is sharable with the rest of the organization. Processes and systems may vary by local unit, but the data should be accessible to all. Elements that fit within this quadrant typically fall into the market facing side of the business, such as sales and marketing.

Another example of this thinking comes from an executive of a large shipping company. "At a high level I differentiate using capability modeling. Non-differentiating basics are core commodity / basic capabilities: these are pretty much the same across the industry, perhaps even regardless of industry, such as payroll and invoicing. We just need these basics to work, do not need best of breed. Then there are industry specific capabilities which we can distinguish as differentiating and non-differentiating. Non-differentiating capabilities are industry specific capabilities which are done pretty much the same across competitors, such as sales management. In this area, we may settle for the best solutions in the market because there is no reason for us to customize. For this, we could use standard systems such as the SAP Transport module or Accenture Freight and Logistics module.

There are some differentiating capabilities where we have or should have a competitive advantage. For example, optimized routing, special cargo, container mapping/tracking, dispatch and delivery. The differentiated capabilities represent approximately 1/6 out of the 50 core capabilities. This is the area where we should allow for custom development."
An Illustrative example: Hire-to-retire

To illustrate how this framework can be used, let's take the example of the HR process cluster hire-to-retire. The general goal of anchored agility is to standardize as much as possible, but not at the expense of local responsiveness. Thus, as a first step, hire-to-retire should be examined across the enterprise to understand how it is being performed in different locations. It is quite likely the case that hire-to-retire processes vary greatly among organizational units. These differences can be justified by local legal requirements around hiring procedures and quotas, labor rules, retirement laws, and so on. The argument is that since local flexibility needs are high (the Y axis in Figure 4), the hire-to-retire process should be floating rather than fixed. Indeed, we observed one company in our sample that used 58 separate HR systems across the enterprise.

However, if you break down hire-to-retire, you will find perhaps hundreds of component processes, some of which will have more of a claim to local differentiation than others. We recommend using the framework presented in Figure 5 to organize these component processes into categories. We have shown the result of this analysis in Figure 6. The first categorization should be into strategic and non-strategic groups. Any process or system that is regarded as non-strategic should become a candidate for rigorous standardization or perhaps outsourcing. Examples of non-strategic hire-to-retire processes that could become part of the fixed set could include payroll processing, benefits administration, and technical training. These processes and the systems that enable them can be rigorously standardized or outsourced.

However, some non-strategic hire-to-retire processes will need to be customized due to local jurisdictional needs, and thus fall into the floating foundation quadrant. Examples might include pension administration systems and processes, and locally adapted clauses for employment contracts (although the general framework for the employment contract might fall into the fixed foundation quadrant). Strong governance is required to place these sub-processes into the correct quadrants and to ensure that local arguments or resistance does not push non-strategic processes onto the right side of the framework.

For most companies, the majority of hire-to-retire systems and processes will fall into the left hand side of Figure 6 because they are non-strategic. This fact is not a denunciation of the HR function, just a reality in most operating environments. Yet, in our research, we noticed an overwhelming tendency for HR systems and processes to be in the floating, rather than the fixed category.

Of course, some hire-to-retire processes and systems are strategic, and these need to be clearly recognized as such. However, not all of them should be treated equally. Strategic HR processes that do not need a great deal of local adaptation can be standardized, but with proprietary, company-specific standards. Processes and systems falling into this category might include executive training, succession planning, and onboarding.

There are some hire-to-retire processes that are strategic and also require local adaptation. These fall into the floating strategic quadrant. The rule here should be that local exceptions are permitted as long as the underlying data are sharable. Examples within this category might include reward systems (although some aspects of rewards might be globally consistent) and collective bargaining.
Finally, there needs to be a governance process in place to ensure that each hire-to-retire process and system is placed within the most appropriate category. As well, the governance framework should allow for movement across quadrants, as some processes might become more or less strategic, or require more or less local adaptation over time. For example, hiring using social media channels might begin as a floating element, an exception to the standard, but over time and after experimentation and learning, it might become part of the fixed category.

Figure 6
An Illustrative Example: Hire-to-Retire

<table>
<thead>
<tr>
<th></th>
<th>High Level of Strategic Importance</th>
<th>Low Level of Strategic Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Floating Foundation</strong></td>
<td>General Rule: Few exceptions allowed based on strong regulatory, safety, or financial business case</td>
<td>HR Examples: Pension systems and processes, Employment contracts</td>
</tr>
<tr>
<td><strong>Fixed Foundation</strong></td>
<td>General Rule: Highly standardized using industry standards. Target for outsourcing, cloud, or shared services</td>
<td>HR Examples: Payroll processing, Benefits, Technical training</td>
</tr>
<tr>
<td><strong>Floating Strategic</strong></td>
<td>General Rule: Local strategic process and application exceptions permitted as long as underlying data is sharable</td>
<td>HR Examples: Reward systems, Collective bargaining</td>
</tr>
<tr>
<td><strong>Fixed Strategic</strong></td>
<td>General Rule: Highly standardized using proprietary standards</td>
<td>HR Examples: Succession planning, Executive Training, Onboarding</td>
</tr>
</tbody>
</table>
Conclusion

In some of the organizations we encountered in our research, the set of standardized processes and systems began small and never grew large enough to truly benefit from economies of scale or scope. Process standardization programs, which almost always originate at the center, are heavily resisted by local units, who claim, sometimes legitimately, that the exercise would disadvantage them. As a consequence of this resistance, the programs fail to generate organizational traction. For example, we observed a financial services firm try, without success, to implement a global system of standardized policy production. The regions did not want to pay the development costs because the policies were not viewed as specific enough for their needs.

In most cases, the local vs. global dilemma comes down to finding the optimum level of process and system standardization. It is essentially a question of when to do the same things the same way (fixed processes) and when to allow things to vary (floating processes). This is not a trivial question. In a world where there is likely to be strong resistance to any centrally led initiative, there needs to be a real challenge, said Hobert. Our IT infrastructure and services did not provide the information (fixed processes) and when to allow things to vary (floating processes). This is not a trivial question.

Our view is that leaders should balance efficiency and flexibility to achieve high performance in dynamic environments. We have presented a set of five guidelines that appear to be associated with the successful organizational journey from a siloed structure to one that is globally efficient: 1) the correct standardization progression from processes to data to IT systems and applications, 2) the smart use of pilots 3) strong top management support, 4) clear and robust governance, and 5) a movement from back to front office functions. The presence of these five steps are associated with implementation success among the organizations we studied.

Achievement of global efficiency is associated with many benefits, but it is not without costs. We noticed that many firms had become bureaucratic, inflexible to local needs, and were slow to innovate. We found that balancing efficiency gains while still being responsive to local needs requires careful management of process and system standardization. We identified a state of anchored agility, where firms implement a fixed set of processes and systems, while also maintaining a set of floating exceptions. The governance process, around which some processes and systems are fixed and some are allowed to float, is a key determinant of implementation success.
Recommendations

Based on our research and analysis, we offer a number of recommendations to organizations wishing to find an effective balance between global efficiency and local responsiveness.

A. Don’t expect an easy ride

Every case we encountered, even those that were ultimately successful, passed through the "chaos" quadrant. All global efficiency programs will encounter two extremely difficult challenges. First, they require a change to many organizational processes and systems, which leads to significant disruption. Second, they have to overcome substantial resistance from local markets and units that are affected by the change. Either of these challenges can derail the efficiency journey.

B. Follow the five guidelines suggested in this report

We observed more examples of disappointment than we did of satisfaction. Some organizations were pleased with their progress, but most felt as though their results fell below expected levels. The five guidelines presented in this report represent a set of best practices that increases the odds of successfully moving from a siloed organization to one that can effectively balance local and global needs. The guidelines are:

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

If there is one thing that was clear in our research, it is that IT should not lead a transformation change process. The processes that are enabled by IT should be standardized and rationalized as a first step. If this step is curtailed, then the result, as one respondent told us, is akin to "paving the cow paths". It is also critical to standardize data formats to ensure that whatever systems are ultimately implemented, the data can be accessible across the organization. In an extreme example of this in action, a consumer goods company was able to know in real-time sales by SKU of all its products on a worldwide basis.

2. Implement a strategy of smart piloting

Overcoming resistance was a constant refrain we heard during our research. The two most effective ways to counter inevitable resistance are to have strong top management support and to proceed through successive pilot implementations. Pilots not only build credibility and legitimacy, but also offer opportunities to work through issues and prototype solutions. The best pilot locations are representative of most units and run by supportive and respected leaders.

3. Ensure top management support: from push to pull

Once an efficiency journey is well underway, we observed a tipping point after which gains became apparent and much of the initial resistance had been overcome. We describe this as
"pull". However, before there is any pull, there needs to be a strong ‘push’ from top management. We did not see a single example of implementation success where there had not been strong and visible support from a senior executive, often the CEO.

4. **Institute strong and robust governance**

As with top management support, strong and clear governance appears to be a factor that differentiates success from failure. In the first place, governance is important to push for standardization and rationalization of processes and systems to move from the silo quadrant, through chaos, and into the bureaucracy quadrant. Once the organization has achieved a level of global efficiency, the role of governance changes to assuring the correct balance between fixed and floating processes.

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

We found that resistance was strongest from the market facing parts of the organization, the places with the highest proportion of floating processes and systems. Thus, we recommend leaving these until the end. In the successful companies we observed, the starting point for the efficiency journey was always the back office functions, which were more standardized and process-driven and naturally less resistant to change.

All five guidelines, which deal with the process of making the efficiency journey, are critical to success. We recommend that you build all five guidelines into your global change processes.

C. **Manage fixed and floating processes and systems**

We found that the key to moving from "Bureaucracy" to "Anchored Agility" was finding the correct mix of fixed and floating processes and systems. Too many fixed processes can inhibit local responsiveness, while too many floating processes can inhibit global efficiency. We found that the two key dimensions to help differentiate between what should be fixed and what should float were the need for local responsiveness and the strategic importance of the systems or process. The balance of these two dimensions determines how the process or system should be organized. We recommend that you create a grid, such as Figure 4, to categorize each system or process according to these two dimensions.
About The Research

The research was predominantly based on 20 interviews with senior IT and operational managers at 12 global companies. Profiles of the interviewees are provided in Table 2. The authors conducted the interviews with assistance from research associates. Each interview was transcribed and analyzed independently by the authors. The research was conducted in 2012.

Table 2
Research Interviewee Demographics

<table>
<thead>
<tr>
<th>Industry</th>
<th>Interviewee Title</th>
<th>2011 Revenue (USD billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
<td>- Group CIO</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>- EVP Operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- VP Supply Chain</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Digital and technology Manager</td>
<td></td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>- VP Contracting and Procurement</td>
<td>470</td>
</tr>
<tr>
<td></td>
<td>- Business Unit CIO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- General manager</td>
<td></td>
</tr>
<tr>
<td>Toys</td>
<td>COO</td>
<td>3</td>
</tr>
<tr>
<td>Industrial products</td>
<td>Business Unit head</td>
<td>4</td>
</tr>
<tr>
<td>Transportation</td>
<td>- Group CIO</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>- Chief Enterprise Architect</td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td>- COO</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>- CIO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- VP Business Change</td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>Business Unit CIO</td>
<td>30</td>
</tr>
<tr>
<td>Data analytics</td>
<td>CIO</td>
<td>0.5</td>
</tr>
<tr>
<td>Construction</td>
<td>Senior VP and CIO</td>
<td>3</td>
</tr>
<tr>
<td>Package delivery</td>
<td>Supervisory Board Member</td>
<td>70</td>
</tr>
<tr>
<td>Cement 1</td>
<td>Group CIO</td>
<td>22</td>
</tr>
<tr>
<td>Cement 2</td>
<td>- CEO</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>- Group CIO</td>
<td></td>
</tr>
</tbody>
</table>

The interviews were complemented by documentation provided by the interviewees as well as secondary data collected from public sources.

The research was sponsored by two sources: the Advanced Practices Council (APC) section of the Society for Information management (SIM); and Value Chain 2020, an industry research consortium operating under the supervision of IMD.
Governance and the PMO.

Enterprise Architecture.

There were seven primary areas of change involved over the past five years:

1. IT Strategy.
2. Leidal introduced architecture to Carestream, creating an IT governance. Leidal created four IT governance forums for policy deployment, IT architecture, PMO and applications development activities; and ongoing operations to manage service strategy development for both business and technology; execution, including an improved change advisory, and supplier management. He also hired an experienced Director of Global IT Operations and Infrastructure and improved the PMO with dedicated and certified project management. He is currently a Professor of Innovation and Strategic Information Management at IMD in Lausanne, Switzerland. His interests lie at the intersection of Strategy, innovation, and information management.

Professor Wade has published works on a variety of topics, including innovation, social media marketing, information systems strategy, international business, eCommerce, and SME performance. He has more than 50 articles and presentations to his credit in leading academic journals and conferences, such as Strategic Management Journal, MIS Quarterly, and the Communications of the ACM. One of his articles was among the top 20 cited articles in business, management and accounting worldwide for 5 years, according to Scopus. Professor Wade has written seven books and more than 20 case studies based on his experience working with organizations. He is a regular contributor to print media on matters related to the challenges of managing within a turbulent environment.

At IMD, Professor Wade teaches on a wide range of open programs and is directing several in-company programs, including Credit Suisse, Vodafone, Maersk, Zurich Financial, and PSA Peugeot Citroen. Professor Wade provides consulting services, executive education, and expert evaluations to several public and private sector organizations, including IBM, Google, and Novartis. He has lived and worked in Britain, Canada, Japan, Norway, and Costa Rica.

Professor Wade was previously Academic Director of the Kellogg-Schulich Executive MBA Program and Associate Professor at the Schulich School of Business, York University, Canada. He was nominated for teaching awards in the MBA, International MBA, and Executive MBA programs. Professor Wade obtained Honours BA, MBA and PhD degrees from the Richard Ivey School of Business, University of Western Ontario, Canada.

Bettina Büchel is a Professor of Strategy and Organization at IMD. Her current research topics include strategy implementation, new business development, strategic alliances and change management. She is Director of the public program Orchestrating Winning Performance as well as several partnership programs. She has worked extensively with companies such as Nestlé, Allianz, Evonik, Commerzbank, Nilfisk-Advance and others in developing strategic priorities, implementing strategic initiatives and managing change.

Professor Büchel received her bachelor of economics and public administration at the University of Constance, Germany, her Masters of Human Resources and Industrial Relations at Rutgers University, USA and her PhD at the University of Geneva, Switzerland. After obtaining her PhD, she worked as an Assistant Professor at the Asian Institute of Technology in Bangkok where she was teaching MBA and PhD students from across Asia.

Based on her work with companies, she has written numerous case studies on organizations all over the world such as Nestlé, Barclays, SGS and Best Buy. She won an EFMD case award for the case: “Negotiating for a Cellular License in Egypt”. She has also developed simulations on the topic of execution, e.g., StrategicFeat. Büchel has also published books on strategy execution, facilitation...
change, organizational learning, comparative human resources management, joint venture management and communication technology-enabled knowledge organizations. Her academic articles have appeared in leading journals such as the Journal of Management Studies, Journal of World Business and Sloan Management Review.
Governance and the PMO.

There were seven primary areas of change involved over the past five years:

- Relationship Management.
- IT Strategy.
- IT needed to change how it worked with the business units, levels, infrastructure and operations.
- PMO and applications development activities; and ongoing operations to manage service strategy development for both business and technology; execution, including an improved change advisory, and supplier management. He also hired an experienced Director of Global IT Operations and Infrastructure and improved the PMO with dedicated and certified project managers, and new methodologies, processes and tools.

Leidal introduced architecture to Carestream, creating an IT architectural principles for the organization. Leidal created four IT governance forums for policy deployment, IT architecture, strategy development for both business and technology; execution, including an improved change advisory, and supplier management. He also hired an experienced Director of Global IT Operations and Infrastructure and improved the PMO with dedicated and certified project managers, and new methodologies, processes and tools.

Leidal spent his first few weeks information-gathering and listening to business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining governance.

Bruce walked into a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008. "Bruce walked into a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008. "Bruce walked into a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008. "Bruce walked into a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008.


Executive Summary
Carestream Health was formed when Onex Corporation purchased Kodak's Health Imaging Division in 2007. “Carve-out” divestitures involve many complex legal, technical, and personnel challenges. For example on Day 1, Carestream inherited a “mini-Kodak” IT function, complete with 150 locations worldwide and a variety of global network services contracts to support them. It also acquired 300 IT people in 44 locations around the world. Carestream’s IT infrastructure had been created to support a much larger and more complex organization and was not optimized for a company of its size and complexity. This case documents Carestream’s transformation into a lean, agile, cost-effective IT organization that is making a valuable strategic contribution to Carestream’s business.

Carestream’s CEO, Kevin Hobert, needed an experienced and proven CIO to formulate a vision for a transformed IT function. The winning candidate was Bruce Leidal, a career IT executive with demonstrated skills in IT transformation. He joined Carestream in August 2008. “Bruce walked into a real challenge,” said Hobert. “Our IT infrastructure and services did not provide the information and capability needed to operate our business effectively and efficiently. We knew that IT was key to our future. We believed that a strong IT organization would provide capabilities and information that would differentiate our company.”

There were seven primary areas of change involved over the past five years:

1. **IT Strategy.** Leidal spent his first few weeks information-gathering and listening to business leaders, trying to understand their pain points. The strategic framework he developed for IT had several phases of increasing commitment from the business and three major components: strategy development for both business and technology; execution, including an improved PMO and applications development activities; and ongoing operations to manage service levels, infrastructure and operations.

2. **Relationship Management.** IT needed to change how it worked with the business units, making a cultural shift from ‘do whatever the customer asks’ to ‘plan and execute’ and ‘monitor and control’. Leidal established a portfolio management process by leading the business leaders through the steps needed for sound, agreed upon portfolio decisions, gaining agreement on IT’s strategies and confirming the business’ direction.

3. **Enterprise Architecture.** Leidal introduced architecture to Carestream, creating an IT Architecture Council staffed by senior IT leaders who collaboratively developed guiding architectural principles for the organization.

4. **Governance and the PMO.** Carestream’s IT organization had complex and ineffective governance. Leidal created four IT governance forums for policy deployment, IT architecture, change advisory, and supplier management. He also hired an experienced Director of Global IT Operations and Infrastructure and improved the PMO with dedicated and certified project managers, and new methodologies, processes and tools.
Notes
Notes