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Global Partnerships Unplugged

by Mike Cooke and Marc Johnson

03/24/2009

a strategy+business exclusive

booz&co.

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A survey finds that information technology is a neglected asset in joint ventures, leading to disturbing results.

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Sometimes trying to save a little money can end up being quite costly. Take the case of a U.S. auto parts supplier that entered into a manufacturing joint venture in Vietnam. The local plant tried to set up its information processing system on the cheap: It bought fax machines, computers, and software that fit nobody's standards for easy maintenance or communication. The ad hoc system, simultaneously crude and complicated, did not mesh with the U.S. company's centralized IT architecture. All of this introduced a logistical challenge into the joint venture's supply chain, nullifying many of the intended cost benefits that had taken the supplier overseas in the first place.

Unfortunately, that story is all too typical. Chief information officers at several Tier One automobile companies recently surveyed by Booz & Company cited the shortchanging of information technology at overseas joint ventures as a significant problem that affects costs and efficiency. They reported that the difficulty of delivering IT services in a consistent manner to the partners in a global relationship continues to impede success. Even in the most advanced and critical joint venture partnerships, nonstandard solutions are spread across operational business processes — from purchasing to product design — to deleterious effect. There's nothing wrong with trying to cut costs by moving operations closer to a supply chain, but an enterprise is almost certain to fail if it neglects the importance of efficient back office activities — by putting in, as one joint venture did, a bunch of typewriters to save money on computers.

Although the typewriter example may be an anomaly, information technology at many joint ventures often isn't much more sophisticated: Back offices and factories are filled with cheap and disparate computers connected to ad hoc networks with little or no thought given to standards or security. The IT problem in overseas joint ventures isn't isolated, it's endemic; it isn't tactical, it's strategic; and the lessons are relevant to all manufacturing industries and senior managers, not just to CIOs. Whether a joint venture in China or India or Southeast Asia is producing car parts or computers, chemicals or candy, CEOs and other top managers who shortchange IT are putting their profits at risk. Often, security is unnecessarily compromised; in many cases of technology theft, lax IT security made things easy for the criminals.

IT is often viewed as a detriment in joint ventures because a major goal of these partnerships is to cut costs. IT, however, sometimes requires substantial cash outlays and is regarded by many managers as a cost center. Moreover, budget choices are typically made by country managers who work at a level above the plant or back office, where IT is particularly prized, and who are

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rewarded for keeping costs low. In particular, country managers in developing economies often don't see IT as a strategic tool, or even recognize the need to tie their information systems into larger supplier networks.

Yet information technology, when properly managed, leads to major gains through automation, synchronization, and process optimization. Enforcing a set of standards for IT architecture can actually save companies money over the long term and more than make up for the required upfront spending. And it provides critical leverage for companies and their supply chains linking up operations overseas. If executives get the IT network right, everything else will follow.

Non-tech managers might see the issue more clearly by imagining a truck fleet for traveling salesmen. The optimal situation is when your 10 salespeople have Ford trucks and one mechanic can service all of them. If instead you had five different kinds of trucks, you might need several mechanics, you would lose the ability to buy parts in bulk, and the lack of scale might become a cost issue. It's the same with IT. If you have many sites set up with different standards or, worse, no standards at all, the result is a complexity that damages the ability to manage the business holistically. Something as simple as a security patch becomes costly and cumbersome if the laptops, desktops, and servers are all operating under separate systems.

Here are the three key challenges that survey respondents said they face in delivering IT services as their businesses globalize, and the best practices for overcoming them.

Cost Pressures: "How do I provide a full suite of standard IT services given the desire of corporate management to keep expenses down in emerging markets and low-cost countries?"

Companies that have successfully addressed this problem don't tie IT funding to the site's P&L — instead it is managed from a central IT budget and allocated by site or business division, thus securing adequate funding for new sites and ensuring funds will be available to refresh and reconfigure the site over time. Meanwhile, establishing a centrally planned, standard global enterprise architecture that is configured with built-in flexibility for regional or country-specific requirements helps keep costs low while also accommodating specific local needs.

Standardization: "How should I design solutions that adhere to the corporate architecture and standards? What corporate IT structures are appropriate for supporting entry into new global markets?"

Multinational parent companies should mandate that the IT organization and its far-flung partners participate in a global governance forum, in which participants agree on global security and data standards, share configuration management data, and address proposed global system changes that would affect joint venture partners. Establishing clear standards reduces cost pressure while improving security.

Security: "How can my organization provide a secure IT environment in a joint venture?"

Security-conscious CIOs said they engage in ongoing risk management planning, separate from the governance forum, and use a global governance panel for major regional proposals or changes. Adequate investment in data security is essential, especially in advanced, high-value-added processes such as R&D and product development.

Often, a proliferation of standards leads to security problems. Say a joint venture plant has 80 percent of its network-connected machines operating with a particular set of security standards, and the other 20 percent with conflicting standards. An IT manager might not even know which machines are which, resulting in a plant pocked with security holes. Add the usual lack of an IT security reporting and response process, and the plant becomes a security sieve. "I know there are some holes out there in the 'Wild West' of our joint ventures," one CIO said. "And I can't control them because I often don't know about the connections in the first place."

Frequently, the obstacles to effective IT implementation are cultural rather than financial. Different countries have distinctly different approaches to computerization and the way they purchase hardware and software. As one CIO put it, "Being aware of country-specific dynamics — social, economic, business — remains an enormous challenge for IT managers, particularly in the planning phase for initial implementations in establishing IT operations."

Taken as a whole, though, maintaining standard architectures and providing IT services at what seem like unrealistically low costs presents the most significant challenge to CIOs involved in overseas joint ventures. Greater attention to the issue from the CEO and other top corporate managers is essential if the CIO is to transform IT from a back office afterthought into a strategic asset, and it will help ensure that overseas joint ventures succeed, even in tough times. +

Resources

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is published by Booz & Company Inc.
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