Globally Integrated Enterprise and Case Study

Global Business Services
IBM Korea
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I. GIE Introduction

II. IBM GIE Cases

III. P&G R&D Case
Innovation in 21C

Commoditization of technology

Globalization of market

How to grow and be profitable?

Competitiveness

INNOVATION
New Value Creation

Product Innovation
SVC Innovation
Biz Operation Innovation
Biz Model Innovation
Globally Integrated Enterprise (GIE), emerging as a new alternative to multinational corporation model, is shedding light to a new direction for global operations.

**Background**
- Independent enterprises emerged and explored overseas markets
- Imported raw material and exported manufactured products through international trade routes

**Characteristics**
- All operation handled at HQ
- Vertically integrated operation
- Wide-spread protective trades closed trade routes of the past
- Replicated HQ org. & functions at regional centers
- Manufactured and sold within local/regional boundaries

**Configuration**
- Mini-companies covering regions
- Local/regionally centered operation
- Shift from ‘what to make’ to ‘how to make’
- Free trades, overseas investments, IT revolution, open standards of technology & processes
- Focused on optimizing operation beyond country boundaries
- Open Networked
- Horizontally, globally integrated operation

**GIE Definition**
An enterprise operating seamlessly as a single organic entity by integrating internal operations horizontally and globally, collaborating with external partners, and operating at the best location in the world, to maximize value creation from the global point of view beyond national boundaries.
Unlike MNC model, GIE model separates GTM and Support Functions to increase local relevance of GTM while standardizing and globally integrating support functions to operate at the best location globally. Leading global companies redesign global strategy and business model to transform into GIE and standardize processes and automate IT systems according to its new strategy and business model.

1) A framework for global integration published in Harvard Business Review by professor Pankaj Ghemawat, et al, with the cases of IBM, P&G, etc.
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III. P&G R&D Case
IBM is realizing significant cost savings, accelerating speed of decision making, and penetrating emerging markets fast through implementing GIE

**Business Objectives**
- Revenue growth by new product/service offerings
- High margin, high value
- New market penetration
  \( \rightarrow \) EPS growth by 10-12% annually

**Globally Integrated Enterprise**
- Recognize limitation of cost savings through Silo approach by each division and by each local operation
- Need to develop new operating model for profitable growth
- Need to leverage difference of cost and skill among countries

**Environmental Changes**
- Open and globalize world economy and world markets
- Rapid development and proliferation of IT Technology
- Low cost/high quality resources provided from emerging countries

**Net Income & EPS**

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS ($)</th>
<th>Net Income ($)</th>
</tr>
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<tbody>
<tr>
<td>2002</td>
<td>2.43</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>3.76</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>4.39</td>
<td>-</td>
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<tr>
<td>2005</td>
<td>4.91</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>6.06</td>
<td>-</td>
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**IBM Revenue vs. WW IT Market**

<table>
<thead>
<tr>
<th>Year</th>
<th>IBM Revenue ($)</th>
<th>WW IT Market ($)</th>
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</thead>
<tbody>
<tr>
<td>2002</td>
<td>658</td>
<td>81.2</td>
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<td>2003</td>
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<td>2006</td>
<td>800</td>
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</tr>
</tbody>
</table>
“We no longer have to replicate IBM from floor to ceiling in every country. We are optimizing key operations in the right places in the world – eliminating the redundancies and excess overhead – and integrating those operations horizontally and globally.”

- Sam Palmisano
Chairman, President and CEO, IBM

Basic Principles of GIE

- Lower the center of gravity toward clients
  - Delegate more authority to customer facing units (local sales)
  - Integrate sales operations

- Realize economies of scale by eliminating common duplicated tasks and overheads with global shared services

- Utilize global resources and skills efficiently by operating at the best locations globally

GIE Approach

1. **Go-To-Market**
   - From ‘Geography – Region – Country’ model to ‘IOT’\(^1\) - IMT\(^2\)’ model

2. **Shared Service**
   - Governmental Programs
   - Global Sales Operations
   - Contract & Negotiations
   - HR
   - GREO
   - BT/IT
   - Legal
   - Marketing
   - Communications
   - Finance
   - Integrated Supply Chain

3. **Business Design**
   - **Finance**: Shared Service Center in US, Malaysia, Slovakia and India
   - **HR**: Shared Service Center in Philippine, GB, Canada, etc.
   - **Procurement**: Moved CPO office to Shenzhen, Shared Service Center in China, India and Hungary

1) IOT: Integrated Operating Team
2) IMT: Integrated Market Team
IBM improved operational efficiency and speed of decision making through lowering the center of gravity to clients, namely, delegating more resource and authority to client facing units and optimizing its support functions.

Go-To-Market Model

**Before change**
- CHQ
- Geo (EMEA)
- Region
- Country

**Change Theme**
- **Integration of Support Functions**
  - Consolidate support functions regionally or globally
  - Cost savings and fast decision making by streamlining support functions
- **Center of Gravity Closer to Clients**
  - Delegate more authority to client facing units (local sales) - ex: pricing, resource, cross-brand deal, etc.
  - For core clients, build client-centric sales organization

**After change**
- CHQ
- Integrated Operating Team (NE Europe)
- Integrated Operating Team (SW Europe)
- Integrated Market Team
  - Germany
  - UK, Ireland, South Africa
  - Nordic
  - CEMA, Switzerland, Austria
  - France, North Africa
  - Italy
  - BeNeLux
  - Iberia (Spain & Portugal), Greece, Israel, Turkey

Clients
IBM reorganized Global Support functions as Shared Service and standardized processes and located COEs in the best places around the world.

Serve all business units and regions under global leaders’ authority and responsibility.

- Integrate Reporting Line by Function
- Classify tasks by Tier
- Allocate resources serving BU-specific tasks to business unit
- Consolidate common transactional tasks and specialized tasks into COEs

Shared Services & Centers of Excellence

- Governmental Programs
- Marketing
- Global Sales Operations
- Communications
- Contracts & Negotiations
- Finance
- HR
- Legal
- Global Real Estate Operations
- BT/IT
IBM is realizing cost savings, skill level-up and effective support to business units by integrating Global Support Functions horizontally and globally

- **Process innovation and standardization**
  - Discover improvement opportunities and duplicated processes with process integration
  - Standardize processes

- **Elimination and automation of non value-added tasks**
  - Accelerate decision making speed by automating with IT
  - Save cost and focus on high-value tasks

- **Optimization of global resources**
  - All business units and regions receive highly-quality service through COEs

“If we allow ourselves to view this as a cost-cutting exercise, we’ve missed the real benefit. This is more about making decision faster and more flexibly across the company. It’s about mobilizing people around common goals and objectives, creating shared ownership of innovative approaches.”

- Bob Moffat
  Senior Vice President, ISC, IBM
Each function serves globally from the best locations by leveraging arbitrage of cost and skill among countries
Four key principles of Shared Service were established to maximize performance and enable efficient operation

(1) **Integrate**: Consolidate reporting line to place all resources under one global leader by function

(2) **Automate**: Standardize business processes and automate them with IT systems like ERP, CRM, etc.

(3) **Optimize**: Locate shared services where each process is best performed

(4) **Elevate**: Operate COEs for operational efficiency and move resources to higher value-add works to maximize performance
For global finance operation, IBM has done a lot of works over the last 10 years to standardize and centralize processes, to develop common tools, and to deliver effective financial operations and commenced integrated operations including COES from 2006

- **Single, Global Organization**
  - All employees in finance are part of a single, global organization, reporting to the IBM CFO's office. (’06.1)
  - Business unit and geography CFOs report through Finance to the IBM CFO
  - For the great majority of employees, immediate job responsibilities and management team will not be changed in the short run.
  - One functional leader makes it easier to develop and implement global strategies, reengineer processes, deploy best practices, invest in automation and tools, and optimize skills worldwide.

- **COE expansion**
  - Reallocate and consolidate resources for transactional or specialty-required tasks
  - Finance resources serving unit/region still take unit/region specific, high-value tasks
  - COEs cover other rule-based processes at globally optimal locations (Bangalore, KL, Bratislava, Rochester)
  - 12 COEs are currently under operation (Accounting, Treasury, Commission, etc.)

**Organizational Structure of Global Finance**

**COE is more than a “Labor Arbitrage”**