Getting ruthless with your processes

Consistent global processes add value—up to a point. New research helps companies find the right balance between consistency and flexibility

Avinash Goyal
Toby Gibbs
Suzanne Heywood

Management processes—everything from how a company manages risk to how it gets supplies for factories to how it manages and develops people—are some of the primary ways that global companies impose order and consistency on a diverse set of global operations. 85 percent of the more than 300 executives we surveyed believe that processes help them share knowledge across divisions and regions, and executives agree that seamless delivery and service processes can be central to meeting customer expectations. In a world where the pace of competition is increasing faster than ever, best-in-class processes can create competitive advantages in areas such as innovation and risk management.

But our research also shows that global companies are particularly poor at managing their processes. In our survey of executives, processes emerged as one of the 3 weakest aspects of organization out of the 12 we explored. Strengthening them is crucial. However, executives often do not know where to begin. Often, they have far too many processes: one oil company, an executive told us, had 30 different processes for the simple act of folding a seat on an oil rig. Sometimes, especially when their company has grown by M&A, executives do not even know what their processes are. Other problems include allocations of authority between central and local leaders that no longer reflect economic reality; the ways that information and communications technology, for all its help in standardizing processes, also freezes them in place; processes that do not reflect new customer needs such as product-focused sales forces that do not sell integrated packages; and, perhaps most intractable and ignored, resistance to change.

Where processes go wrong at global scale

Our research and discussions with executives in global organizations have identified three main challenges:

Challenge 1: Too many processes, too little value

Companies do not differentiate between processes that are essential to creating global value and must be globally standardized, those that are not essential but offer benefits if they are consistent, and those that do not need to be standard at all. Nor do they differentiate between processes that are crucial to customers or the creation of value and those that are not. As one executive told us, “We need to allow local managers to focus on adding value instead of forcing on them too many central processes.”

Nearly a third of the 317 executives we surveyed said that their company would be more effective globally if it reduced the number of its standardized processes. The leaders at the oil company mentioned above would surely agree. One of the reasons for the sheer number of management processes is that, as companies have grown, they have built processes ad hoc to manage expanded operations. Most have tried to address this, of course—but when they try to “lean out” operations at any level, they usually focus on reducing the number of people, not the number of processes. A small number of companies do talk about “core” or “signature” processes, but focusing on those few rarely knocks out the others. Processes also proliferate and become more complex as companies add new partnerships, outsourcing arrangements, or other externally focused relationships. These deals are often crucial to success in emerging markets, but

when companies try to manage them to a global standard, they miss local nuance; when they manage to local nuance, they end up with different processes for every country.

Growth through M&A also typically leads to a company having different processes in different countries accomplishing the same goal. One global retailer conceded in our survey that it does not even know how many processes it has. And companies can miss hundreds of millions in savings by not standardizing back-office processes they often overlook, such as accounts payable.

Finally, companies often try to set a single, standard global process but find that various locations maintain the old processes in the background—treating them as equal to the global process to avoid having to redesign other processes to which the local ones connect. One example is a bank that tried to institute a global expense-processing system only to find that many countries retained their own system to avoid the issues with currency conversion and long lag times that plagued the global process.

Challenge 2: Overstandardizing processes

Maximizing control and reducing risk are, rightly, priorities for leaders of global organizations. But too often these concerns lead to overstandardizing processes, making them too rigid, and to a dramatic decrease in local responsiveness. Indeed, finding the right ways to be responsive in new growth markets is a major challenge for most global companies.

Financial risk and controls are one area where most companies, and particularly financial ones, must standardize; one global bank has an anti-money-laundering policy that, its leaders know, makes their services less convenient for customers. But for most processes, executives we have talked to cited a lack of balance between local and global processes that results in slow decision making or too much bureaucracy for no benefit. This is often an issue with highly centralized companies that try to apply home market processes in emerging markets—where everyone from customers to regulators to employees has different expectations from those at home. And it can raise real problems, especially as global companies try to balance competing needs in different markets, such as cutting costs in one region while investing heavily in another. (The same can be true of structures; see "Structuring your organization to meet global aspirations" on page 29 for suggestions on how companies can address this issue from that angle.) We recently surveyed the executives of 17 leading global companies based in India; only half thought that processes were tailored to local needs, and only slightly more thought that reaction time and innovation reflected local market imperatives. One executive told us, "An issue that is number 1 priority in India is number 10 in Europe—so it takes far too long to resolve issues." Another executive said there should be reasonable expectations for processes like budget submissions and that these could vary by country—executives in countries with smaller operations should have a simpler budget process than those running larger businesses.

Standardization can also create some unexpected problems. A global bank, for example, added scorecards to its employee evaluation processes, tracking detailed assessments of performance on financial and business goals. However, they found that this tended to stifle innovation because achievements outside the plan were not counted. An executive at another global company pointed to yet another standardization problem: ensuring that a global standard, especially on people processes, works in many different cultures. This company is facing the question of whether it needs to look for

people who can adapt to the system or whether the local culture should limit the degree of global standardization that it applies. (See "Winning the talent war in local markets by staying global" on page 67 for more discussion on this topic.)

Challenge 3: Resistance to changing processes

Processes that are not immediate pain points often fade into the background. Senior executives have a hard time making the case for spending time or money changing back-end processes, given other priorities. They even find it hard to change customer-facing processes until they face customer backlash. One global bank, for example, realized that in some local offices, corporate customers were being approached by 10 different salespeople for 10 different products because the bank was organized by product line. Senior executives at a telecommunications company were organized by country and didn't understand that some customers wanted standard global service instead of country-specific variations.

And even when a process is causing pain—such as particularly high costs in cash or time—change can create more resistance than it is worth, as a global telecommunications company found out. It spent millions trying to integrate its customer-billing processes in a single region but faced so much resistance that in the end leaders decided changing it wasn't worth the employee turmoil it would cause.

Toward better global processes

Approach 1: Catalog and prioritize your global processes

A company has to start by knowing what major processes it has, in every area from people management to factory operations and billing. Then it can figure out those processes it must standardize globally, those it can localize, and those it can stop altogether. One approach to figuring this out is to divide the processes into four categories: signature processes, enabling processes, "hygiene" processes, and processes that dot need to be global (most of which will remain local but some of which will be scrapped). A company's archetype—how and why it is global (see "Next-generation global organizations" on page 1 for a description of these)—will affect this prioritization, as will its strategy, operating model, and the countries in which it competes.

Signature processes are those that add significant value if they are global, distinctive to a company, and difficult to replicate. A company should have no more than one or two of these, however large it is, as they are costly to develop and maintain in terms of both resources and senior management attention. These processes should be linked to the company's strategy and to its value drivers and should be widely recognized as essential to the organization's "DNA."

If building market share with new products is an important part of strategy to a customizer, for example, then signature processes could be product development or customer relationship management.

Most companies find that their signature processes are best supported with one or two "enabling processes" that they should also standardize globally. These are often processes common to an industry and following standard best practice with regard to them is sufficient. They may well be linked to drivers of value but they are not central to them. In oil and gas firms and other resource-seeking companies, for example, capital-expenditure decision making is often an enabling process, given the huge expenses these companies bear. Enabling processes are often functional processes, such as

performance management or talent management, particularly in knowledge-focused businesses. A large Indian conglomerate, for example, sees its people processes, such as workforce planning, performance management, organization culture, and capability building, as a crucial support to its overall business growth goal.

Almost every company will also find that it needs to standardize a few "hygiene" processes to ensure compliance or efficiency; these might be safety or payroll, for example—topics that typically do not take up much management attention until things go wrong.

Categorizing processes this way will likely leave a company with 10 to 15 signature and enabling processes that it needs to standardize globally. Everything else can—and should—go local, or be abandoned. Local processes are likely to be most important to value creation in high-growth markets. (See "How Western multinationals can organize to win in emerging markets" on page 13 for more on innovation in those markets.)

Approach 2: Optimize your processes

Companies typically have significant opportunities to improve their processes, both global and local. Of course, deciding which to standardize will eliminate a lot of near duplicates and thus cut down on the sheer number of processes to manage. But companies can also take a few steps to make sure their global processes are maximizing value at minimal costs and complexity.

The first step is simply to figure out what value the process currently delivers and what it could deliver; if there is a gap between the two, the next step is to figure out why. For example, a capital allocation and deployment process creates value by reducing project duration and costs. If duration or costs tend to creep above estimates, one reason could be a lack of cross-functional expertise—having production, engineering, sales, and procurement experts as a group evaluating a project will make sure nothing gets missed. Once a company fills any such knowledge gaps, applying lean principles will typically help optimize the steps of any process.[1]

A key point in managing both complexity and costs is to remember that "standardization" need not mean that every business fills in the same forms in the same sequence at the same time. For example, an annual target-setting process could include only four or five key performance indicators (KPIs) and need not be a comprehensive modeling exercise. These KPIs will be then used across the organization; businesses and regions will have flexibility to choose additional KPIs to track. One executive whose company has struggled to standardize its processes noted that it is important for people to understand that hiring an assistant in a new location will not require approval from headquarters—it is just that the same fair-hiring guidelines must be followed globally. The degree of standardization left in the process should be as light as possible while remaining consistent with the value drivers.

A second important point to consider in optimizing processes is the role of technology. On one hand, technology can immediately standardize a process globally; on the other, once it is locked in, technology can make changing that process very complicated and expensive. A global retailer created significant value from standardizing supply chain processes in its home market and then built its global sourcing process on top of that and supported both through dedicated technology solutions. But now, those processes are very complicated and making even small changes in the technology that supports them is costly. So

1 To use lean to optimize process time, firms often evaluate the time spent, distinguishing between necessary steps and non-value-adding activities (e.g., paperwork, rework, and redundant steps). The results of the difference between them are often significant (e.g., planned process time of four weeks versus actual implementation time of six to seven weeks). The firm can then conduct a detailed quantitative cost assessment to calculate the cost incurred at each step of the process (e.g., IT cost and time spent). Lastly, a quality assessment provides a clear understanding of the frequency with which the process achieves its objectives.

as part of their optimization, companies must assess how quickly the value drivers underlying a given process are likely to change and what effect those changes are likely to demand from a given process. If the value drivers are likely to change soon, then the supporting technology must be designed and built as flexible as possible.

Local leaders will almost certainly benefit from going through this same optimization process for the processes they newly own.

Approach 3: Implement change from the top

Consultation is all well and good, but too often discussions of process change bring out deeply vested interests that CEOs are unwilling to tackle. As one executive told us, “Involving the regional heads in a discussion of process change adds a year.” Another said that, “If you can involve people in process design, it helps, but new-process implementation requires a top-down mandate.” One reason for resistance and for why mandates work is that, as the first executive

explained, "Regions are not nearly as different as they think they are."

New-process implementation is a major change that typically requires a full change management approach.[2] But at companies with global scale, our experience, and that of almost every executive we have talked to, suggests that this alone is not enough: a senior leader is required to lead the change and confront organizational inertia.

For example, the global bank that had 10 different salespeople approaching the same customers put a very senior executive in charge of assessing its processes and then gave him all the resources and authority he needed to push through change, including introducing entirely new performance metrics. The bank moved from a product-driven approach to a customer-driven approach only as a result of this leader taking on a full-time role dedicated to supporting this change.

Assessing and optimizing your processes and embedding them in the organization isn't a one-time event. Senior leaders need to review processes regularly. As an oil company executive told us, "You have to prevent people from reinventing the wheel"—that is, you cannot allow processes to proliferate without adding value, or to continue unmodified as the company's sources of value or its overall strategy change. Only by going through this process regularly can a global company ensure that, at a minimum, all its global processes are at least enabling performance rather than hindering it—and, at best, conferring real competitive advantage with strong signature practices.

2 See *McKinsey Quarterly* articles "What successful transformations share: McKinsey global survey results," March 2010, and "The irrational side of change management," April 2009, both on www.mckinseyquarterly.com.

Toby Gibbs and **Suzanne Heywood** are principals in McKinsey's London office, where **Avinash Goyal** is an engagement manager.
The authors would like to acknowledge the contribution of Rahul Varma to the development of this article.
Copyright © 2012 McKinsey & Company. All rights reserved.