IT: a strategic asset for Asian firms?

Panelists from NTU's Nanyang Business School:
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OVERVIEW

AS Asian firms globalise, they face many challenges. Information technology (IT) can deliver greater value in coordinating and complementing the distributed resources and global digital assets of the organisation.

In an ongoing Nanyang Business School-Business Times Roundtable discussion series, research board members and senior professors at Nanyang Technological University's Nanyang Business School suggest that Asian companies would benefit from taking a more strategic view of IT and leveraging it to enhance their global reach.

Narendra Aggarwal: As many leading global businesses are increasingly harnessing IT to enhance efficiency and profitability, is it time for Asian companies to make IT a strategic asset? Why are there differences in Asian firms' way of running their IT?

Professor Peter Weill: The world is digitising at a dramatic rate. Everything we do, whether we interact with another company, whether we interact with the government, whether we interact with our colleagues, is becoming more and more digital. The consequence is that companies worldwide are trying to understand how best to digitise their operations.

In the past, Asian companies typically invested less in IT than similar companies in other parts of the world – sometimes half as much, sometimes ¾ as much as a percentage of revenue. I think Asian companies need to employ technology to dramatically take advantage of the digitisation of business. Right now they see IT sometimes as less strategic than in similar companies that are multinational and are based in other parts of the world.

Associate Professor Sia Siew Kien: While Asian MNCs recognise that IT is important, they have yet to view it as a strategic asset. Chief Information Officers (CIOs) in Asian MNCs generally do not command the same status in the boardroom as their peers in the West. They are less likely to report directly to the CEO. It is quite common for CIOs here to report to the CFOs. I think that the senior management in Asian firms is generally less aware of exploiting the strategic potential of IT to compete, to grow.

Prof Weill: Working with Gartner, we just collected IT spending data from about 1,550 companies in 70 countries worldwide. There were 11 companies from Singapore in the study and they are reasonably well distributed across the landscape – but still a small sample. These 11 companies are increasing their IT spending at 50 per cent higher than the global average. So, Singaporean firms are increasing spending at 9 per cent year-on-year, while the average global firm was increasing spending by 6 per cent. Maybe that catch-up is already starting and in a down economy I think there is an opportunity to get more bang for your buck.

The average spending on IT for Asia-Pacific was 7 per cent but it was very localised by country and economy. So, India, which you may or may not include in Asia-Pac, was 20 per cent higher and in other parts of Asia the percentage increase was much lower. We have 187 companies in Asia in our study.

Professor Christina Soh: Asia is quite diverse, and Asian companies vary greatly in their maturity of IT use. Some of the lower levels of IT expenditures in the past may have been due partly to the fact that labour costs had been relatively low in Asia, so there was less pressure to invest in IT to automate. But some of the new numbers, especially in countries where the labour costs are going up, may reflect that, as the region becomes more developed we will see increasing levels of IT expenditure, as companies seek to increase the productivity of labour with IT.

As Asian companies move up the IT maturity curve, they are finding that while there is a very good pool of technical talent, there is a shortage of experienced IT management personnel – people who understand the process of managing change, are comfortable interacting with the business and with developing and enacting the right level of IT governance, and who are able to operate in a multi-cultural context. So you could be increasing your spending on IT, but an area of concern is whether you have the IT management expertise in this region to effectively manage and implement the roll out of enterprise wide, global IT initiatives.

Professor Lynne Markus: One aspect of IT management is perennial and independent of geography: How can IT services meet local needs and still be provided efficiently and effectively? Today, many factors are encouraging companies to take a more standardised approach such as installing commercial enterprise software without customisation and building global or regional shared services centres to perform key corporate processes the same way for company locations anywhere on the globe.

Asia's diversity has encouraged decentralisation of IT at the country level. However, Asian companies that are attempting to manage IT in more centralised and standardised ways can benefit greatly from using commercial enterprise software that has been localised and is kept up to date by vendors.

A lower level of IT legacy in Asia makes it easier for Asian companies to implement IT, catching up with and possibly surpassing their western counterparts. However, the poor or varied telecommunications infrastructures in different Asian countries can make it difficult to implement advanced IT solutions: low tech solutions are often the only ones possible in some locations.

Prof Weill: An even bigger issue is that the way in which a lot of governments enable infrastructure in Asia varies a great deal. Countries such as Singapore are very advanced and you see countries such as India with parts and pockets that are very advanced and others that are not in terms of access.

If you roll that up to company levels – when I do presentations in Asia, I find that Asia CEOs are very good at doing more with less. But they also find it much more difficult to justify spending, particularly infrastructure spending. That I think affects education, skills sets and who has responsibility for process re-engineering.

Narendra Aggarwal: Going forward, why in your view, should Asian companies take a more strategic view of IT?

Prof Weill: Digitisation is speeding up as there is an increasing interest from the young in terms of cell phones, Facebook and various other kinds of digital communities. We have an opportunity that is unusual where the vendors of IT capabilities are very interested in growing their business in a tough economy and we have a generation coming through in Asia that is going to be quite digital, quite savvy. So companies will have to find ways to make their offerings attractive to this new generation.

It is a very traditional maturity curve that you start using IT to cut costs, to automate the financial transactions of the firm and when you have those, you then look to use IT in a more strategic and customer service sort of way. We see some companies in Asia really leading the way.

If you take a brand such as 7-eleven, they have very sophisticated user technology in all parts of Asia, particularly in growth areas in China where they have highly digitised and standardised processes for ordering for each of their stores. They have empowered local store clerks who make hypotheses about what products they are going to have in their store the next day. Those products arrive the next day and then two days later they get a message on their handheld device saying their hypotheses was successful or not successful, so what do you want to do tomorrow? That kind of use of technology has led to 7-eleven being one of the most profitable retails in the world with a margin of about 32 per cent and 70 per cent of their products are new each year in each store. That level of leap-frogging in customer service using technology is a real opportunity.

Assoc Prof Sia: As Asian firms are likely to lead the world economy out of the recession, they will grow further, regionalise and globalise, but they cannot operate as before. They need IT as an enabler for them to compete in the global arena so that they can scale up their operations, not just to grow but to grow without losing control, without exposing yourself to excessive risk. IT can partially address such issues. Business processes can be embedded into IT and that enables a company to scale up (and down) readily. Management control information can be tracked and analysed for more dynamic business planning and tighter risk management. For all these things you need IT.

For instance, Olam International – a global supply chain company in agri-commodities, they have been able to globalise rapidly and part of the enabler that allows them to do that is their ability to contain risk as they grow. Their IT capability basically helps them to track their market exposure of their daily commodity positions on an almost real-time basis. IT gives them a sound foundation to be agile, to respond fast as market conditions shift.

Prof Soh: Asian firms need to take a more strategic view of IT as an asset that complements the other strategic assets in the firm, and increases the overall value of their asset pool. For example, as they globalise they are going to have human capital located in multiple countries. If they are looking at innovation, the people who can innovate are a scarce resource and there are likely to be pockets of them in different countries. So firms will be faced with certain important decisions to make with regards to innovation. Do you want to try and pull these people into one place?

Often you may want to leave them where they are because they are sources of local knowledge and diverse sources of ideas. But this is where technology comes in by enabling you to give them a way to interact, share ideas, not just the people who are innovating, but also to link them to people who have to do with the production, marketing and so on. You can see that as you become more and more geographically dispersed that technology is needed to coordinate and complement your other strategic assets.

Prof Markus: Western MNCs have changed their governance structures considerably over the last decade or so. Formerly, they allowed local subsidiaries to operate with great autonomy. Increasingly, however, they have attempted to manage certain activities centrally, while still encouraging local autonomy in market-facing activities. Centrally managed activities include human resources management, finance, IT, and often supply chain management and certain R&D activities. These activities are managed centrally not only to reduce cost but also to better manage risk and to promote greater synergy among market-facing business units.

When these multinationals get the centrally managed activities right, they can be formidable competitors for Asian companies. Managing IT strategically is one way that Asian companies can improve their ability to compete. Business analytics is another big opportunity for Asia companies. Business analytics can help Asian companies assess customers' needs and design appropriate products and services for them.

Narendra Aggarwal: What are some of the best practices among companies that use IT strategically?

Assoc Prof Sia: In global companies that see IT as an asset and use it strategically, IT is typically being managed to achieve scale, responsiveness, and innovation. These leading companies often establish shared services. They establish centres of excellence and value managers to maximise the business value of IT. Shared services help to consolidate common IT services and offer them flexibly in a service catalogue with transparent pricing to the users. Centres of excellence pool the IT specialists within the organisation physically or virtually to leverage and share their expertise enterprise wide for process and service innovation. Value managers manage the relationships with the business and play the dual role of consolidating the voices of the field and also representing the corporate IT in deploying or enforcing policies. These units work together under the direction of an overall IT leadership.

Prof Weill: We have just published a book called *IT Savvy*. As we studied over 350 companies in many countries around the world, we were able to identify a set of companies that we call IT savvy. These companies made IT a strategic asset and followed some common practices around using technology. They outperformed their competitors. Companies that were above average on IT spending and on being IT savvy had a 21 per cent higher profit margin than their competitors in their industry.

This is very good evidence in our MIT studies that being IT savvy really pays off and it's even more advantageous when competitors are significantly less IT savvy than you are.

Prof Soh: I think the economic value probably comes from several areas. The traditional one people always think about is from economies of scale – the efficiencies that IT brings through streamlining of processes. And a growing trend we are seeing is that IT enables consolidation of a

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lot of the back office in shared service centres such as for accounting and HR and so on, globally. Judicious outsourcing coupled with expert management of vendors also offers the potential for lowering costs and increasing service levels.

Another key area is in helping to generate new revenue streams through new products and services that are IT enabled. In all this, responsiveness to the business is key, and the need to have good governance processes within the organisation, so that the right people are involved in making critical investment and prioritisation decisions for IT and business.

Prof Markus: Shared services means providing a standardised product or service to customers (business units or employees) in various locations throughout an enterprise. The advantages of shared services include greater efficiency, better control, and in many instances, better service quality. If managed poorly, however, shared services can reduce local service quality and responsiveness.

When shared services are provided internally they can deliver value without high levels of process and bureaucracy.

Narendra Aggarwal: Are these best practices applicable to Asian businesses?

Prof Weill: If I was talking to an Asian board of a company, I would say there are a few things they should go after to maximise their profitable growth from a technology point of view. The first is that they have to realize that delegating IT issues to IT organisations is not good enough. What that is going to do is give the IT group the opportunity to take too much risk on the part of the organisation. We need some kind of joint governance and joint accountability for decision making.

There are three critical decisions to be made. The first is how much money you want to spend on technology relative to other assets. The second is where to put that money, how you prioritise. The third is how you hold people accountable and access the value.

One of the things we learnt with IT is that the shorter the time between investing and feedback, the faster you learn and the more value you get. So having quick feedback, post-implementation reviews that are done while the project is still in operation, very fast assessments on whether the investments are paying off – these are the three things I would advise to a senior management team in Asia.

Assoc Prof Sia: Given Asia's diversity, IT management practices in Asian firms are relatively more accommodative. Most IT systems do not just handle one solution but a few possible solutions because of the unique circumstances they face. Typically, that also means that these systems are more loosely integrated as an IT platform in order to accommodate the disparity in infrastructural maturity.

Going back to the example of Olam International, it has a mix of centralised and distributed architecture due to the IT connectivity issue in less developed countries. It expands globally through an IT platform where online, offline and hybrid solutions can coexist. In that sense, you do not see that much of a rigid standardised solution. Their business users in Nigeria can work offline when network connections drop with the knowledge that data will be synchronised and updated when these connections are restored.

Prof Soh: We see many Western MNCs expanding a great deal of effort to streamline their IT systems and management structures which have proliferated over time, as they become more cost competitive and more responsive to global business. Asian firms have some advantages as they build their IT assets. They tend to have less investment in legacy systems and structures, and they have taken away some lessons from the experience of established multinationals. We notice that Asian MNCs tend to take a "just enough" approach to building up their global IT systems, and that they keep management structures and processes from being burdensome to administer. This lean, pragmatic, adaptive approach appears to characterise much of IT management in the new Asian MNCs that we have examined.

We also note that with the diversity across Asia, the role of the value manager becomes particularly important because he stands at the intersection between the local business units and the enterprise wide IT functions and IT services. It is the job of the value manager to be the voice of the field and help businesses in the field to prioritise and send the correct signals back to centralise supply, applications development and infrastructure services.

It is also their job to mediate centralised policies and systems and help them to be appropriately implemented in the field. This brings us back to the issue of management talent in Asia. When we talked to some very successful MNCs it is clear that one of the key skills that the value manager needs to have is that he has to be a master negotiator.

He has to keep mediating between what central is saying you have to do and what local business needs are. It requires a certain maturity of IT management expertise, ability to understand business processes and figuring how the technology fits in with it. I think that is really where the focus of the next phase of developing human capital needs to be – going beyond technological skills.

Prof Markus: I would like to advise Asian businesses to standardise only as much as they need to. As you know, many Asian countries have low labour costs. For the Asian company trying to manage IT strategically, this means that standardising and centralising IT services somewhere in Asia, for instance India, may ironically mean IT costs elsewhere in Asia such as Indonesia.

Savvy Asian companies do not let this circumstance prevent standardisation and centralisation for high cost Asia countries, but they do permit exceptions, for example, by allowing Indonesia to supply its own IT needs locally.

Prof Weill: In closing, I would say that this is a fabulous time in the history of Asian corporate growth and world economy to take some bold steps to lead companies to be more digitally savvy. I think you are going to see when growth begins again in the world economy, Asian firms are very well placed to do that, and I think they are going to need to scale in terms of costs and profitability. Technology is one proven way to do that but you can't do that overnight. This is something that takes time, takes comfort, takes governance, maturity, it takes an infrastructure.

Start with some strategic experiments today by trying things, look for opportunities to learn with fast feedback is my practical advice to every small to medium company in particular and, for global companies to look for what's different in Asia that they can use to help lead their company's value from an Asian perspective back in the head office.