

IBM CANADA LTD.: IMPLEMENTING GLOBAL STRATEGY

Ken Mark wrote this case under the supervision of Professor Deborah R. Compeau solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

“Some managers are asking us to delay the switch from our locally supported CRM software to the new global application,” said Peter Silvanovich, business transformation executive, Sales & Distribution, IBM Canada Ltd. (IBM Canada). Silvanovich had responsibility for — among other things — introducing, maintaining and retiring software programs to support IBM Canada’s business needs. On October 12, 2009, Silvanovich was speaking to his Canadian executive team about the progress of the global customer relationship management (CRM) rollout. He stated:

In an ideal world, we would be fully switched over within two months, as is indicated in the plan. About half of our employees have completed training on the new program and are ready to be switched over. However, other colleagues have commented that more time is needed because of a few key issues.

First, about 50 managers and staff are in the middle of client deadlines and a lot of information still resides in the current database. They’re asking for a six months’ delay.

Second, another 20 managers were scheduled to start using the new application but due to internal staffing changes they’ve had to spend the last three weeks bringing new team members up to speed on their current projects. These 20 won’t be ready for another three months.

Third, I’ve been informed that there are a few key functions that are still not available in the Canadian version of the global application. Without these key features, we will not be able to conduct business. We may be facing another three weeks to three months of delay before we can get a fix in place.

Silvanovich looked at the rest of his executive team to see whether they had any questions. He wondered how to manage this and other software switchovers with minimal disruption to the Canadian business.

The new CRM application seemed to have many new features that would be of benefit to IBM Canada. On the other hand, the current CRM application seemed to be working well, with few complaints from staff. IBM Canada faced both a competitive environment and constant pressure to maximize productivity from its consulting workforce. Many recognized the logic behind IBM's drive to simplify its internal software systems worldwide. But would it make sense to retire a well-functioning application and replace it with a global solution that was not yet tailored to local needs?

IBM

On June 16, 1911, IBM was incorporated in New York as the Computing-Tabulating-Recording Company (CTR). CTR's Canadian (and later South American) country units operated under the name International Business Machines (IBM), and the whole company was renamed in 1924. Over the past century, IBM had evolved from primarily a manufacturer of computer hardware to a multinational information technology solutions firm. It maintained operations in more than 200 countries, with each country unit responsible for developing business locally and, if necessary, coordinating its efforts with neighboring units.

Under the leadership of Sam Palmisano as its chief executive officer (CEO), IBM started to leverage its presence in 200 countries to deliver services to multinational clients who had operations spread across regions. By 2008, IBM was generating more than 60 per cent of its revenues outside the United States.

In 2008, IBM generated US\$12.3 billion in net income from US\$103.6 billion in sales. It employed a workforce of approximately 386,000 people and was headquartered in Armonk, New York. IBM had five business segments: 1) global technology services (GTS), 2) global business services (GBS), 3) systems and technology (ST), 4) software and 5) global financing.

Under the Global Services umbrella, GTS and GBS provided clients with services that either increased effectiveness or decreased cost. These services included strategic outsourcing, business transformation outsourcing, integrated technology services and maintenance. Global Services accounted for US\$58.9 billion in sales in 2008.

IBM's business in hardware sales, through its ST segment, had been part of the company since the beginning. These hardware sales included mainframe, storage and server sales, among other products. ST accounted for US\$19.3 billion in sales in 2008. In the 2000s, IBM had moved from selling primarily mainframe software to selling four primary product lines: Middleware, Operating Systems, Product Lifecycle Management and Other. Middleware sales, which included WebSphere, Information Management, Lotus, Rational and Tivoli, accounted for 77 per cent of total IBM software sales globally. Software accounted for US\$22 billion in sales in 2008. See Exhibit 1 for a description of these middleware applications.

Through its Global Financing segment, IBM facilitated the sale and leasing of its technology and services to customers. In addition, Global Financing facilitated the resale of equipment coming off lease and provided short-term inventory and accounts receivable financing for its reseller partners. Global Financing generated US\$2.6 billion in sales in 2008.

In addition to these five segments, IBM generated an additional US\$800 million in sales from other categories.

IBM had begun to move away from its heritage as a hardware supplier in the 1990s. It started to offer technology consulting services and broadened its offerings by acquiring complementary firms. In the 2000s, IBM had evolved its services portfolio away from legacy or commodity hardware into higher-value services and software. To illustrate the transformation IBM had undertaken, ST had accounted for 44 per cent of the company's revenues in 2000; however, by 2008, ST's share of revenues had fallen to 19.6 per cent.

On the client-facing side, IBM consultants from different country units could be working on the same technology-transformation project for a single global client. IBM could also be called upon to carry out a hardware upgrade in multiple countries, which would require an IBM region such as Europe or North America to coordinate the rollout.

IBM CANADA LTD.

Established in 1917, IBM Canada employed 23,000 people across the country. IBM Canada boasted IBM's second largest software lab (in Toronto, Ontario) and world-class high-tech manufacturing (in Bromont, Quebec), in addition to national business and technology consulting programs. IBM Canada had developed a range of skills and products over the years and was seen as one of IBM's key country units. The company, like its global parent, had gone through several transformations over the years as it transitioned from a manufacturer of hardware to a provider of software services, such as business and technology consulting, application development and support, and business process outsourcing.

At IBM Canada, approximately 230 software applications enabled the broad range of projects it undertook. About half of the programs were unique to IBM Canada, a number that was expected to drop over the next few years.

IBM's Global IT Transformation

As part of the global integration initiatives, and starting in 2000, IBM had been working to reduce the number and variety of software programs in its country organizations. At the time, IBM was supporting approximately 400,000 personal computers and more than 155 data centers. Each country developed and implemented its own information technology (IT) strategy independent of the others. A large opportunity seemed to exist to cut costs by using common software across the globe. IBM's initial focus was to integrate corporate support functions, such as sales, IT and human resources. In 2007, a few months after taking on his new role as IBM's chief information officer (CIO), Mark Hennessy was focused on virtualization and the consolidation of data centers:

We have a number of projects around enterprise applications we're working on, trying to integrate across geographies and across business units. The virtualization of some of our systems to reduce our power consumption and costs is another big project we've embarked on. And [we're working] on innovation tools and technologies to drive up the productivity of our teams.

In August [2007] we announced we were going to take 3,900 servers down to 30 [mainframes] . . . We've modeled what we think the outcome is going to be, the savings in terms of administrative requirements, in terms of software, in terms of floor space, and

in terms of power and cooling requirements reductions. We're working with business units to identify the right applications and the right environments moving forward.¹

Within IBM, the need to meet client needs prompted the incremental shift to become a globally integrated enterprise. Historically, IBM operated independently in each country, with each country managing its internal operations differently. For example, each country developed its own system to manage finance, human resources, IT and its supply chain. But such autonomous operations created challenges, both in terms of consistency and cost (duplicated infrastructure, for example). As IBM increased the number of multinational companies it dealt with, these inconsistencies between country operations became more apparent and had the potential to undermine client satisfaction. The effort to reduce costs throughout the firm was not confined to hardware. IBM was also able to re-examine how it managed back-office operations, such as procurement and after-sales service.

Dave Robitaille, IBM Canada's corporate citizenship & corporate affairs manager, stated:

IBM's drive to globally integrate its IT stems from our goal of delivering excellent customer service. Having standard global IT platforms allows for scalability, for flexible capacity management in many geographies, and for flexibility in work placement. We do this for our customers, to help them remove cost from their businesses. In addition to the strict cost savings gained from IT consolidation, standardizing business operations globally has also allowed us to move work to where it can be done most cost-effectively. As business processes have become more "commoditized," we have moved them to lower cost geographies. Internally, much of our global procurement activity takes place in India, and HR processing is in Costa Rica. Internal asset management is performed in Slovakia, and Customer Fulfillment is in Brazil.

IBM's strategy between 2006 and 2010 outlined four strategic objectives:

1. Doubling revenues from emerging market countries
2. A focus on virtualization to drive consolidation of its server centers, resulting in US\$1 billion in incremental gross profit
3. Increased leverage of IBM's intellectual property and its global delivery model to generate an additional 200 basis points in increased service margins
4. A focus on improving profit margins in software

From 2007 to 2009, IBM consolidated 155 data centers down to five and reduced the number of software applications from 16,000 to approximately 4,700. By 2008, IBM was meeting or exceeding its objectives. In particular, it had booked US\$600 million in additional gross profit from its virtualization initiative alone.

In an interview in 2009, Hennessy stated that IBM was making great progress in its effort to turn itself into a more globally integrated company. Leading the change within IBM was its IT organization, which was using process leaders in business units to simplify processes. Hennessy stated:

We're doing it through a number of different initiatives but I think the primary one is a focus on business process. Just like we've had a very specific focus on meeting the unique requirements of our major business units, we now also have a very clear focus on

¹ Jon Brodtkin, "IBM CIO Settles into His 'First Pure-Technology Job,'" *Network World*, December 20, 2007. Source: <http://www.networkworld.com/news/2007/122007-ibm-qna-cio.html>, accessed March 21, 2010.

understanding the key processes of our business, inventorying how we go about those processes around the world, finding the best approach, simplifying that process, and then applying the proper tools. We'd like very much to simplify the process before we add the tools; otherwise we're just automating chaos, so that's a key focus for us, particularly as we integrate the enterprise. . . .

We've gone through an IT transformation over the past five to ten years, going from 128 CIOs down to one. We're focusing on ways to drive more efficiency, such as centralization in terms of reducing the number of data centres, sunseting legacy applications, working with partners much more closely, and optimising our global resourcing. At the same time, we're ensuring that we have a tight relationship with the business units. We're making sure we have a balance between the operational excellence that we're looking for as well as the business value that we're trying to drive, and we're creating that balance with a set of standards, with an architecture, with a governance model, and by building a skilled team — all of those things that go into an IT transformation.²

In summary, IBM viewed IT as a shared service across all geographies. Over the past decade, the reduction in programs and data centers had saved IBM hundreds of millions of dollars. Although the push was to have common global programs, local control continued over the introduction and retirement of applications.

The Application Review Process at IBM

IBM reviewed its slate of global and local applications through two stages: the Investment Review Board (IRB) and the Application Review Board (ARB). The IRB reviewed and approved global application rollouts, such as upgrades to enterprise resource management software or whether a new CRM software should become the global standard. At the country level, the ARB oversaw, among other things, the transition from locally supported applications to global applications.

The IRB was a 30-member team, which consisted of stakeholders from various geographies. The IRB members reviewed, on an annual basis, IBM's applications as they related to the corporation's three- to five-year strategic goals. At this meeting, the IRB considered unit and regional input and drew up a list of key applications to be supported. This global standard was set in August or September of each year, and each region was expected to implement the plans in the following year. For example, in 2009, a new CRM system had been adopted as the global standard, to be rolled out by mid-2010.

The ARB process was conducted in each country. Each year, each geographic location took into account various factors such as local business need, competition, legal and regulatory requirements, agreed-upon changes in locally supported software and a timeline for the rollout of global software. The current ARB process required managers to submit a business case and for IBM Canada's executive team to make decisions on which projects to fund. Managers prepared a business case — a four-page document and a simple financial model — for each project and argued its merits in front of the ARB. In completing their feasibility analyses, experienced managers carefully considered IBM Canada's business needs and global IT strategy.

² David Carey, "Inside the New Big Blue: A Q&A with IBM's CIO," *itworldcanada.com*, January 31, 2009. Source: <http://www.itworldcanada.com/ViewArticle.aspx?url=inside-the-new-big-blue-a-qa-with-ibms-cio>, accessed March 21, 2010.

Developing a business case for each software project required the managers to have a grasp on the objectives of the project and to be able to value the benefits the application would generate. Estimating cost savings or other monetary benefits could be difficult, given that many applications were part of IBM Canada's "middleware" — that is, they supported other applications.

IBM Canada had a US\$20 million budget dedicated to software development and maintenance. On average, maintenance costs for an application could range from \$150,000 to \$400,000 per year. Country leadership assessed various software projects and paid for support maintenance of local programs, customization of global programs and any new innovative software projects it wished to fund. The projects being considered by the ARB included proposed upgrades to allow the harmonized sales tax (HST) to be charged (in place of the goods and services tax, or GST), updating a locally supported program's security features to comply with new privacy requirements, and customizing a global application with templates commonly used in a Canadian business environment.

Projects differed by cost, potential benefits and duration. Some projects, such as the upgrade to make Canadian software HST-compliant, represented one-off expenditures, whereas others were recurring expenses. Even as IBM was moving toward common standards, some room was available for customization, providing the changes were possible within the global application. According to the ARB process, however, customization for new programs needed to compete against proposals to maintain old programs. Silvanovich explained:

In any given year, the value of projects under consideration is two to three times greater than the funds available. More importantly, the projects are selected during our annual financial budgeting process. Once projects are selected to be funded, there is no more contention for dollars during the year by "new" projects or by projects that failed to make the approved list. New work that arrives as a "surprise" during the year has to be funded by the available dollars and trade-offs are then made against already approved projects.

Each year, about 20 projects were considered by the ARB and approximately six were funded. Although the same project could be proposed to the ARB a few years in a row, managers commonly dropped support for projects as soon as they were rejected by the ARB. IBM Canada executives believed that this adversarial process ensured that only the best projects were selected to be funded.

Global Strategy, Local Implementation

In September 2008, Silvanovich learned that IBM would be rolling out a common CRM application by the end of 2009. This CRM application, made by Oracle's Siebel CRM application (Siebel), would replace all current locally supported applications. This project was deemed high priority, and each country was expected to allocate part of its local software development and maintenance budget to implement the application. In this case, the deployment of Oracle's Siebel CRM could cost US\$300,000 for consultants' time alone. Other costs, such as travel, marketing and support, could easily add an additional US\$300,000 to the costs of the launch. If any customization was needed, IBM Canada might need to allocate US\$500,000 to US\$2 million to support the changes, Silvanovich described the typical process for a software change at IBM Canada:

All of our efforts are focused on the end user when we upgrade or change application. Encouraging adoption is a hands-on activity. It includes elements of change management and communication — we run the equivalent of an internal sales campaign. We try to sell

everybody on the change, and we track our adoption rates. We know that the implementation is going to be successful once adoption rates start to exceed the 80 per cent range. If we see that usage rates are not what we expect, we conduct a quick survey of a few groups in the company and see what help we can provide.

IBM Canada had the option of delaying the implementation of a global application by three to six months or more. Delaying a global rollout would increase the costs of preparing for the rollout — expenses related to education, technical development and support, for example — while continuing to pay for maintenance of the local application.

Beginning in early 2009, IBM Canada began the process of transitioning to Oracle's Siebel CRM. Sales consultants began a series of training sessions on Oracle's Siebel application. Resources were set aside to transfer contact information from the current system. By June 2009, the implementation was on track: half of IBM Canada's employees had been trained on the new system and about half of the technical work had been completed.

In July 2009, Silvanovich was contacted by three different small groups within IBM Canada, requesting a delay in the implementation of Oracle's Siebel CRM. The first group was in the final stages of a multi-year client project and had been working non-stop since the start of 2009. None of the consultants on the team had found any free time to attend training sessions on the new CRM software because they had been working onsite at a prominent Canadian corporation on a software implementation that was estimated to take at least an additional six months to a year. The contacts and information in the current CRM were essential to the project, which represented approximately \$4 million in revenues for IBM Canada in 2009 alone. Silvanovich noted that the manager of this team had not submitted a business case for maintaining the current system.

The second team had seen approximately 60 per cent of its original team members transferred to other projects in IBM Canada. This team had received replacement team members and was in the midst of bringing them up to speed on a client project. Due to the disruption in the team, they had not been able to schedule the new CRM training. The manager had prepared a business case for the delay, arguing that a move to the new system could result in disruptions costing \$250,000.

A third team of consultants had volunteered to start using the new CRM application and had developed a list of approximately 20 different changes that could be made to customize it for Canadians. Without these changes, Silvanovich was told that adoption rates would likely hover in the 40 per cent to 50 per cent range. Funding these changes would require approximately half of IBM Canada's 2009 software development and maintenance budget.

Silvanovich reviewed the requests and considered how he would respond. From 2000 to 2009, IBM Canada had reduced the number of local applications from 500 to approximately 230. Although much of IBM Canada's back-office software was integrated into IBM's global systems, about 100 applications remained that were used extensively in Canada. Some of these 100 applications had been developed in-house and were used to support IBM Canada's IT consulting business and high-tech manufacturing. One of these applications specific to the Canadian environment was its CRM system.

Approximately 12,000 employees actively used the local CRM system on a daily basis. Silvanovich knew that even with the 20 proposed changes to the new CRM application, IBM Canada's sales and sales support consultants would need to make significant changes in the way they worked. As with any new

software implementation, the consultants would need to go through a significant learning curve. Accessing information from the new system would likely be more tedious, at least in the first few months.

At present, IBM Canada could request and fund significant changes to its current CRM application without having to receive approval from global IT. With the new CRM system, any major changes would first need to be approved on a global basis.

Last, even as Silvanovich considered the possibility of delaying the new CRM implementation, he wondered how he should address the fact that half of IBM Canada's employees had already taken software training for the new system and were ready to switch over. If the new CRM implementation were delayed by six months, IBM Canada might need to incur additional costs to retrain the users. A related issue was how staff would react if a delay were announced. The senior team had already emailed staff, held town hall-style meetings and communicated widely that the implementation would be on track. Many were excited about the new system. How would a delay affect future adoption rates for this and other global programs?

As Silvanovich pondered these questions, a longer-term issue occurred to him: how should IBM Canada align its software development and maintenance strategy at the ARB level with the global IRB process?

Assessing the Assessment Process

The move toward global, common applications had resulted in the temporary maintenance of Canadian programs during the transition phase. However, funds allocated to maintaining two different set of programs — even for a few months — had started to consume IBM Canada's software development and maintenance budget. Because a greater percentage of funds had been allocated to software transitions, fewer funds were now available to finance other projects within IBM Canada.

Silvanovich wondered whether, in the process of assessing projects, senior management would be likely to favor projects that primarily affected compliance (e.g., legal, regulatory or tax-related compliance, such as being HST-compliant) or sales (e.g., maintaining a local CRM application) over other projects with less immediately discernible benefits. Silvanovich wondered whether the firm could take a better approach.

Another issue was how the process could weigh the benefits of a project with short-term benefits — “quick wins,” in business parlance — versus longer-term projects designated as “research and development.” Over the past two decades, IBM Canada had developed many new software tools in-house. Many of these tools had been built despite the fact a business case had not been presented for them. Silvanovich wondered how IBM Canada should continue to allocate funds to these research-type projects.

He also assessed the process itself. Silvanovich was aware that having an adversarial process — only one-third of proposed projects were ever funded — meant that managers competed to showcase their own project in the best light. Inevitably, some senior managers had more experience and a better understanding of IBM Canada's priorities for the next few years. Would projects sponsored by these senior managers be given preference over competing projects? Was there a better way to approach the selection and evaluation of projects?

Making a Decision

In an empty conference room, Silvanovich listed the many issues on a white board. He considered how he should group the issues and how they should be resolved. He wondered whether to continue with the implementation of the new CRM system or whether he should delay it and continue to support the local application. The global strategy of simplifying and virtualizing IT was sound and was delivering significant cost savings. Silvanovich's job was to figure out how to translate global strategic direction into local initiatives that delivered value and, at the same time, minimized disruption to business units.

Exhibit 1**LIST OF MIDDLEWARE APPLICATIONS****WebSphere:**

Application Infrastructure
Application Integration
Business process management
Business Rule Management Systems
Optimization
Portals

Information Management Software:

Data Management
Cognos Business Intelligence and Performance Management
Express Middleware
Enterprise Content Management
Information Integration, Master Data Mgmt & Data Warehousing

Lotus Software:

Collaboration software for these categories
Email, calendaring and collaborative applications
Social computing and mashups
Unified communications and collaboration
Portals and dashboards
Software for small & medium business
Electronic forms and Web content management
Application development tools
Mobile collaboration and wireless

Rational:

Application Servers
Data Management
Enterprise Content Management
Mobile, Speech & Enterprise Access
Networking
Product Lifecycle Management (PLM)
Security
Software Development

Tivoli:

Software that helped clients improve IT processes, including Service Management, Storage, Security, Performance Automation, Business Automation, and Network Management

Source: IBM