

## Standardization or Harmonization? You need Both

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Recently the CFO of a major consumer electronics company stated, "We don't need standardization of our worldwide processes, we need harmonization." Is he right? What is the difference, anyway?

### Standardization

Standardization means creating uniform business processes across various divisions or locations. The expected results are processes that consistently meet their cost and performance objectives using a well-defined practice. Standardization, thus, reduces the risk of failure.

Through standardization, individual business units can share expenses, and will benefit from a company-wide business process management (BPM). Corporate-wide development of business processes lowers the total expenses, using economics of scale.

### Harmonization

Looking for the "prevention or elimination of differences in the technical content of standards having the same scope"<sup>1</sup> is one example of defining harmonization. Harmonization looks at differences between process standard, and sets bounds to the degree of their variation.

Here is an analogy, about office paper: There are various standards for paper, such as letter, legal, A4, or A5. These standards define the paper size, but none of them standardizes paperweight or thickness. If the "A4" standard included a standard for paperweight, as well as paper size, while the "letter" standard did not, then the management of these standards would be more difficult. The degree of variation in this paper standard is bound to size, not to thickness or weight.

In the context of Business Process Management, harmonization defines the extent of standards and how they fit together, but it does not attempt to make different standards uniform.

### Application of Standardization and Harmonization

A company can establish standards across various divisions and geographies. The three levels of the Enterprise Service Architecture are subject to standardization and harmonization:

- Strategic positioning, and Strategy
- Business processes
- Information technology: Configuration of ERP systems, etc.

### Standardizing Business Processes for Profitability

Standardization of Business Processes intends to improve performance and to give management more control over operational performance. (The most popular measure for performance is the *cost* of executing the process. Although it is no less important, the *quality* of the results is less often considered.) Finally, the impact on other business processes needs to be considered, such as the ability to apply the standard performance measures and, thus, compare a unit's performance with others.

Advantages from standardization, beyond direct cost and quality improvements, include

- The process becomes more reliable; variations in quality shrink.
- Less expenses in development of innovative new practices, and less expenses in the administration of processes
- Comparing the performance between different units of an organization becomes easier.
- Process standardization is an important prerequisite for the standardization of IT systems

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<sup>1</sup> European Health informatics at <http://www.centic251.org/Ginfo/Glossary/tcglosh.htm>

## Standardization and Harmonization in a Practice Example

Our example, the consumer electronics company mentioned above, runs operations in more than 40 countries, selling goods through large retailers. In advanced countries, such as Canada, large retailers request buying over the internet through B2B. On the other end is Bolivia, where cash-sales are common and where the customers walk in to buy and pick up their merchandise.

In contrast, other parts of the local operations, such as direct procurement, are basically the same everywhere.

For this company, there have been 40 different sales processes in the 40 different countries with significant differences in performance.

Strict standardization attempts to make the sales process in all countries the same. Such a one-size-fits-all approach could never serve both Canada and Bolivia. One of the two countries will lose as the standard becomes a perfectly suitable approach for the other country: If Canada's B2B approach is selected as standard, Bolivia cannot serve its cash-sales customers.

The harmonization approach analyzes requirements from all countries and creates 3 standard sales processes:

- B2B
- Order taking through fax, letter, or via telephone
- Cash sales

With the harmonization approach, there are only three (rather than forty) standards for the sales process. In contrast to a single, strict standardization, every country sees its requirements attended through a standard specific to their needs .

It is also possible that some countries might implement two or even all three sales order processes in parallel to attend to different groups of customers.

Direct procurement is the same process everywhere (see above). Our sample company did not need to maintain more than one standard process across all 40 countries.

## Criteria for Standardization

The example of the consumer electronics company illustrates two rules:

- Decisions about standardization are process-specific. In the example above, the company needed just one standard for the procurement process, but three standards for the sales order process.
- A precondition for any process standardization is that the requirements for processes are sufficiently similar.

How do you find out whether the process requirements are sufficiently similar? At Navedon, we developed a list of qualitative criteria and a formula calculating the quantitative impact.

### *Qualitative Criteria for Standardization*

It is often the business environment – the way the company does business with government bodies, customers, vendors, etc. – that imposes variations in requirements.

A typical violation of requirements occurs when a company attempts to squeeze a Make-to-Order operation and a Make-to-Stock operation into one single standard. Make-to-Order and Make-to-Stock are different ways of doing business, and the business processes need to be different.

Here is a checklist to detect conditions when business processes should not be standardized without carefully looking into the details:

- Strategy considerations: Different strategic positionings make it difficult to standardize the supporting business processes. Example: One company has a low cost product line and another one targeting the high end. This impacts many business processes in the value chain, and standardization may not be beneficial.

- Business processes: Consider all processes of the extended value chain. Processes that belong to different types of logistics, sales channels, or product development are hard to standardize:
  - Type of logistics: Make-to-Order, Make-to-Stock, or Engineer-to-Order
  - Type of sales channels: Sales through retailers or other intermediaries, direct sales to named accounts, direct sales to customer groups
  - Type of product research and design: Development process for a new version of a product, development process for a new product, development process for a new technology
  - Technological readiness of the relevant parties in the extended value chain. In the example above, Bolivian customers were not yet ready for the B2B exchange.
  - Geography and compliance: Country-specific requirements in financial reporting, HR, customs, import/export restrictions, dangerous goods handling, data archiving, warranties, etc.
- Information technology: Business process design has a major impact on the configuration of IT. Additional criteria, beyond those for business processes, involve different requirements for hardware, operating systems or databases, and incompatible interfaces. We believe that with the advent of service-oriented architectures (SOA) these criteria will become less important.

This list is for alerts only. Even though Make-to-Order logistics are different from Make-to-Stock logistics, their respective warehouse operations often can be put into the same standard.

#### **Quantitative Criteria for Standardization**

The costs and benefits of process standardization can be quantified, provided performance metrics are in place. Assume that for a given process there are a number of existing variants. Should a new process variant – the standard – substitute for the existing ones?

The cost and benefit components for standardization are

1. The performance difference between the existing process variants and the new standard process variant: Process performance is quantified in terms of reaching process objectives. Process objectives are derived from the objectives of the respective process chain.  
In some cases the individual process improves, while other processes in the same value chain suffer. Therefore, the performance difference needs to be measured on the level of the end-to-end process.
2. Expenses for developing and rolling out the standard process variant.
3. Savings that arise from maintaining just one rather than several variants of the same process.

The total of (1) + (2) + (3) represents the benefit from standardization.

#### **Considerations for Harmonization**

Harmonization finds the best trade-off between too many and too few standards for a process. The ideal number is a trade-off between two factors:

- A smaller number of process variants lowers the cost of business process maintenance and increases the agility towards process changes.

#### **Success Factors for Standardization and Harmonization**

1. Senior Management Buy-in and Governance. Process standardization and Harmonization are explicitly stated as objectives.
2. Clear decision rules for standardization and harmonization:
  - a. Criteria when process variants should not be standardized
  - b. Criteria for selecting the best standard. These should be based on process performance and process cost.
3. Standardization and Harmonization efforts need to be organized.

- Having a higher number of process variants better attends to the requirements of every part of the organization. Ignoring such requirements increases the total cost.

The options for the sales process of the consumer electronics company ranged from 40 standards for the 40 countries to one single global standard. The trade-off was to have 3 standards.

There is an additional consideration for harmonization across processes: How to divide a business into processes such that process standards can be managed efficiently? Process definitions should hierarchically divide end-to-end sequences of processes. Then every process element contributes directly to the performance of the higher-level process.

We found a process model with hierarchical breakdown of top-level processes helpful. Models such as SCOR, DCOR, or CCOR<sup>2</sup> start with the value chain and break down across various levels.

## Implementation

Process standardization and harmonization efforts are a part of corporate governance. They require full executive support.

Organization: Many companies have set up a central institution to manage business processes: A competence center or a group in charge of business process management (BPM) is an ideal environment. Paul Harmon describes the role of a “Business process architecture committee”<sup>3</sup>. Such a group is well positioned to manage standardization and harmonization efforts.

The central group ensures local buy-in through practice committees for logistics, accounting, sales, product development, etc. Team members are the local process owners. Periodically, they meet and review the standardization and harmonization efforts in their respective practices.

Projects: Rather than a big corporate project, it is often better to run small projects with a clear focus on a specific set of processes.

Standardization and harmonization projects need to be performance-driven and focus on process improvement.

Consider using a process model such as the Supply Chain Council’s operational reference (SCOR). SCOR provides the process framework and performance metrics. We found that it dramatically saves time and improves the quality of work.

Define templates: Rather than defining every single piece of a process, a template just defines the essential part of a standard and leaves a well defined degree of freedom for local adaptation.

Where to start: Any process can be a starting point.

Common pitfall: IT-driven standardization of business processes: IT departments are often the first to develop templates for rollout. Savings in IT costs justify IT-driven standardizations. From an IT perspective, it is logical to standardize business application systems, their configuration, and transactions. There are two problems associated with an IT-driven approach to business processes:

- IT-standardization focuses on saving IT-costs, not on process performance.
- Standardization of the transactions changes the design of business processes. Local businesses need to adapt to the IT template, rather than have IT support the local operations. Such changes trigger resistance in the business.

### Accelerators for Standardization and Harmonization

- A process model helps, which breaks down top-level business processes and their metrics into more detailed processes. Example: The Supply Chain Council’s SCOR.
- Develop templates that offer space for local adaptation.

Process standardization and IT standardization are different things. IT must follow the process standards, not vice-versa.

<sup>2</sup> see also <http://www.value-chain.org/>

<sup>3</sup> Paul Harmon: *Business Process Change. A Manager’s Guide to Improving, Redesigning, and Automating Processes*. Morgan Kaufmann Publishers, 2003.

It is beneficial to develop standards for IT system once the business process standards are defined. Unfortunately, there are many instances when IT drives standardization and then expects the business to follow. Such attempts tend to fail.

### Conclusions and Recommendations

Standardization and harmonization can greatly improve process performance, lower the costs for process maintenance, and give senior management more control over the operations.

The two processes may look similar, but if the performance requirements are different, they need separate standards. This is often due to different types of supply chains, sales channels, product development, or geographies.

Harmonization avoids a one-size-fits-all approach. It makes the trade-off between too many and too few process standards and avoids inconsistencies between standards.

Standardization and harmonization need senior management support. Management establishes standardization criteria and ensures that the focus remains on the overall performance improvement.

A competence center can manage standardization and harmonization as a part of its portfolio of process improvement projects.

IT standardization follows process standardization, not vice-versa.

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**Dr. Albrecht Ricken** and **Ansgar Steinhorst** founded Navedon to help customers with their innovation process in the areas of business process design and SAP applications. They worked for 15 years as consultants for global companies in ERP and Supply Chain projects. They can be reached via email at [contact@navedon.com](mailto:contact@navedon.com)