

Creating sustainability for IFSC Companies

Damian Ringwood, Director with Prospectus Strategy Consultants, looks at what Irish operations in the IFSC need to do to create long-term sustainability. Clear lessons can be drawn and applied from the wider spectrum of Multinational operations in Ireland.

Introduction

The closure of the Irish operations of several high profile multinationals such as Gateway and General Semiconductor has placed a spotlight on the sustainability of Irish business units. This phenomenon is not unique to the technology sector with restructuring also occurring in other sectors, such as financial services. Over the past two years the world's largest investment banks such as JP Morgan, Chase, Credit Suisse First Boston, ABN Amro, Citigroup and Merrill Lynch, were already focused on cost cutting due to sharp falls in fee income. This restructuring followed by the economic fallout from the downturn in the US and global economy means that building efficient operations is no longer enough in itself for Irish business units to survive. It is now a fundamental question of delivering unique value and being recognised for achieving excellence in mission critical areas within the context of the overall organisation. This is a question of long-term sustainability for many of our current IFSC companies.

The IDA, Forfás and industry associations have for some time been encouraging Irish business units to build sustainable operations by moving up the value curve. The current IDA led Strategic Competitiveness Programme has been devised to assist multinational divisions in Ireland to make a business case to their parent company for relocation to Ireland of additional "Value Chain" activities. 50% of the consultancy costs up to a total of €50,000 will be grant-aided after successful application to the IDA.

Building critical competencies, expertise, and developing unique positions within the wider organisation is required to achieve successful value migration. To progress Irish business units must define their contribution to the overall organisation and have absolute clarity as to how they create and deliver value – this is now an urgent requirement for any Irish business unit of a multinational.

Why the Urgency

So why the urgency? Why has this issue become a priority? This can be explained by the convergence of three major factors which have intensified the need for Irish business units to respond with clarity and certainty as to their role:

Firstly, the global economic downturn is driving many multinationals to restructure their operations. The objective is cost reduction, rescaling of operations and efficiency through consolidation. Many organisations are now taking fundamental decisions as to which units stay and which will go!

Secondly, the erosion of Ireland's cost advantages associated with locating in Ireland. The increased cost of educated and trained staff, infrastructure difficulties, and the eroding of the benefits of the Irish tax regime relative to other EU countries have all undermined Ireland's advantage over other countries. In 1999 Dublin was ranked as the second most popular European city for foreign investment. In 2003 Dublin ranks at around twelfth! The trend of labour intensive

operations migrating to lower cost regions in the world is set to continue.

Finally, the evolution of the Irish multinational market, from attracting investment to leveraging investment, creates new and significant challenges. The end of the 20th century saw a major and largely successful drive to encourage some of the world's leading organisations to locate in Ireland. Today many of the leading players are located in Ireland and we can boast facilities such as the IFSC, which hosts about half of the world's top 50 banks. With the shift in location attractiveness together with Ireland's well-established MNC base the new challenge and focus is on how we can leverage this strong base to move up the value curve to develop competencies that are core to the parent organisation and create greater value in the Irish economy.

Critical Strategic Questions

The impact of these trends is significant for the leaders of Irish business units who have a responsibility to address the sustainability of their operation. So how can we respond to protect, create and build a long-term sustainable future for Irish Business Units? Knee-jerk reactions or simply buying-time and taking a wait and see approach will not succeed. There are a number of critical strategic questions which must be addressed. These fall into three critical areas:

1. Value to the parent

Any business unit must ask itself the question what is our real value to the parent organisation. To do this successfully one needs to take a somewhat more detached view of the parent and ask the hard questions. In other words what impact does our operation really have on the overall business? Typical questions should include:

- **How sustainable is our operation?**

Place yourself in the shoes of the head of global operations reviewing the corporate strategy in the light of the global slowdown. How vital a cog is the Irish business unit in the entire organisation's wheel? For example Microsoft's European operations centre is now based in Dublin and is responsible for manufacturing, distribution and logistics for 32 European subsidiaries.

- **How do we significantly improve the value added to the overall organisation?**

The recent announcement by Volex Ltd. that they were closing their manufacturing operations strongly supports the argument that multinational business units should develop a clear migration path for moving up the value curve. Fortunately Volex management in Ireland had the foresight to continuously push the boundaries and move up the value curve by developing a value migration path. This resulted in the parent company supporting a plan to develop a Global Centre of Excellence for product development which epitomises the systematic approach to value creation required for Irish business units to succeed. This is the third phase of development for the Irish operation within the Volex group. Initially established as a manufacturing location it then adopted a role as the headquarters for the European Infocom Operations and has now positioned itself as a Research and Development centre, supporting Volex business units and customers on a global basis. The recent announcement of a reduction in manufacturing operations has accelerated the shift towards business management/business support and high technology.

2. Specialist skills/Uniqueness of competencies

The second area of questioning revolves around developing a true understanding of specialist skills and competencies. To leverage these there must be a level of uniqueness of these competencies within the overall group or at least the potential to achieve uniqueness. In addition the ability to link these to market and customer requirements and create competitive advantage for the overall organisation provides a strong platform for developing a strong case for investment.?

Typical questions should include:

- **How should we leverage our capabilities for maximum impact in the long term?**

Irish business units have shown how they can build their capabilities in a particular area so that they are recognised as specialists within their organisations. Ask yourself what breakthrough or innovation the Irish business unit has contributed to the overall value of organisation. If there hasn't been any over the last number of years why is this and what needs to be done?

- **Are we structured to leverage our value?**

There is evidence that Irish business units have failed to exploit opportunities to maximise value. In particular many IFSC companies face a significant challenge to generate new financial services with many focused purely on fund administration.

- **What do we need to do to put a strong case to our parent organisation?**

It may be useful to think of what you would tell the chief executive of your organisation about your operation if he arrived tomorrow. What value are you adding? Why is your business unit essential to the organisation? What are your plans to move up the value curve and why should the parent continue to invest in your organisation?

3. Integration with the wider organisation

This factor provides a strong position for a business unit as it creates mutual dependency with multiple points in the organisation. It therefore becomes part of the value delivered by other units in the organisation and in simple terms the sum of the parts exceeds the individual parts. Typical questions should include:

- **How should we be positioning our operations within the wider organisation?**

Is yours a basic mandate characterised by replication of the parent and heavy reliance on direction from them? Should you be trying to establish the Irish business unit as a centre of excellence within the organisation rather than operating like any other business unit?

- **Where should we position for maximum value within the value chain?**

Have you critically examined the wider value chain, its' evolution and determined your strategic role within that chain? The Xerox unit in Ireland, for example, has positioned itself high on the value curve by creating a global software operation so that it is the leader in software development within its organisation. By doing this it has survived global restructuring of the company.

How Irish Business Units should respond

So what can be done to make a significant step-change to a higher value and more sustainable role for your business unit? The following are the specific ways in which Irish business units can respond to the challenge:

- **Clarify “what you want to be famous for”.**

Use the strategic questions, outlined above, as the basis for undertaking a fundamental review of current operations and clarify “what we want to be famous for”. Two types of initiatives can accelerate step change moves up the value curve. Firstly, look for seed money for strategic projects (and not just from the parent organisation). A business unit within 3M in Canada which developed a unique way of self-checking out library books teamed up with another unit in Australia, who to help secure seed money and was ultimately rewarded with the global launch and manufacture of the successful product. Secondly, submit formal proposals to the parent

organisation. This forces greater clarity of thought and rigour. In ABB “high impact projects with broad cross business unit application are encouraged which resulted in the “factory of the future” project in Greece which cut labour costs in half, reduced cycle time by 90% and time from order entry to shipping from 30 days to one day!

- **Take a 3 year view**

Take a view on where you need to be positioned within 3 years, test your view and sell the concept! In moving up the value curve it is important to remember that distance can be used for advantage. For example A struggling Swedish subsidiary of a U.S. minicomputer manufacturer migrated with great success to offering service contracts on competitors products – a move which was unpalatable in the U.S.! Another approach is to position your business unit as an incubator or testing ground. The Ericsson Business Innovation Unit, for example, has the mandate to create the next Ericsson core business!

- **Develop a value migration path**

Be proactive and develop a migration path to areas of higher value – look to role models within and outside your industry and map out your progression. Remember the Volex example – would there be an Irish business unit today without a managed value migration path?

- **Leverage existing infrastructure and capabilities**

Leverage your existing infrastructure and capabilities to increase value add to the customer and integrate your activities to core processes in the wider organisation to enhance customer value. Being a significant player in seamless customer operations involves a proactive approach to integration and cooperation with other parts of the organisation. A negative approach, which only seeks to protect your operations and maintain the status quo, will ultimately fail. Be prepared to negotiate – but know what to trade!

- **Think beyond the obvious**

Think beyond the obvious – understand and leverage your intellectual capital such as knowledge, learning and skills. This is where new approaches and models need to be developed which maximises the value created by the business unit. One business unit within Skandia AFS, the financial services group, successfully repositioned its’ role to maximise overall contribution to the group. It highlighted the fact that the country centred approach limited value creation and consequently developed an internal brokering unit whose role was to cross sell products between countries. It is managed as a profit centre and earns revenues through commissions or cross border sales.

- **Manage your positioning with your parent**

Begin to manage your positioning with the parent organisation – understand their perspective and requirements. Take a good critical look through the corporate telescope. Based on what they see ask yourself what would the parent think, do, say and feel about your business unit or better still ask them! Now compare this to what you want them to say, do, think and feel. Be honest about your assessment.

- **Develop critical competencies**

Focus on developing critical competencies to achieve excellence in your value contribution –

subject matter expertise, critical process knowledge or high value skill sets. Once you have developed a migration path build the international networks to support your vision. In practical terms it involves specific actions such as deploying talented employees on short-term overseas assignments that are tied to tangible business goals and develop critical competencies required to succeed.

- **Don't wait to be told by the parent!**

Conclusion

Irish business units need to respond with speed, clarity of thought, innovation and robustness. There is no realistic alternative! Investments made in developing competencies, know-how and managerial expertise should be leveraged to greater effect. To quote Lee Lacocca: "The most successful businessman is the man who holds onto the old just as long as it is good, and grabs the new just as soon as it is better."

There is little room for sentiment in a competitive market. The reality is, your colleagues in others parts of the world are also addressing these issues for their operations. Only those who can demonstrate real and sustainable value creation will survive in the medium to long term.

Damian Ringwood