



The Challenges of Horizontal Integration

We've all been 'horizontally integrated' to some degree. Whether it's a result of being acquired by another company, the introduction of Shared Services or the implementation of an integrated IT platform, our enterprise operating models are becoming 'common and shared' or, to put it another way, horizontally integrated.

In its simplest term, horizontal integration is when policies, processes, practices and technologies are common across all or major parts of the enterprise, and resources are shared as opposed to being dedicated to specific businesses.

The business case for horizontal integration is usually cost; predicated on the belief that doing things in a common and shared way across the enterprise will be less costly. It's also argued that services provided by a 'central' function can provide better quality services than if individual business units did it themselves. Horizontal integration can also reduce risk by ensuring that common standards, whether they are financial, safety or ethical, are applied across the enterprise. It can also ensure fairness by ensuring that all employees are treated the same way, and it's much easier for talent to move across horizontally integrated enterprises.

The benefits of becoming more horizontally integrated are very alluring, but travelling such a journey is not without risk, nor without its challenges, which include:

- Incorporating 'authentic differences' across the enterprise.
- Configuring the technology platform to meet both the 'common and shared' requirements and the authentic differences.
- Changing the accountabilities of business leaders.
- Changing the mindsets of people to value horizontal integration.
- Managing the complexity and cost of future divestment.

These challenges are not show-stoppers and do not negate the case for pursuing the horizontal integration agenda; they just illustrate the complexity of the journey and the need for senior leadership to fully understand what they are undertaking and the implications. For all

Major Corporations Review their Operating Models

In the past few months a number of major corporations have announced significant reviews of their operating models, including [Cisco](#) and [Diageo](#). GlaxoSmithKline recently announced that their '[Simplify the Operating Model](#)' initiative is on track to reach £2.2 billion of annualised savings by 2012, and in the public sector eight [Scottish Councils](#) have announced plans to share services.

These initiatives illustrate the range of organisations across all sectors that see the importance of aligning their operating model with changing market conditions.

To Centralise or not to Centralise?

Are the gains of centralisation worth the pain it causes? This question is asked by Andrew Campbell, Sven Kunisch and Günter Müller-Stewens in a recent *McKinsey Quarterly* [article](#). They argue that today's business leaders know that badly judged centralisation can stifle initiative, constrain the ability to tailor solutions and services locally, and burden the divisions with high costs and poor service.

Equally they know that insufficient centralisation can deny business units the economies of scale or coordinated strategies needed to win global customers and outperform rivals.

To help them make more informed centralisation choices the authors have devised a decision-making framework comprising three simple but powerful questions.

To read their article, click [here](#).

Achieving the Dual Goals of Innovation and Horizontal Integration through Business Platforms

In this Formicio Insight article Peter Boggis reminds us of the seminal book on enterprise integration written by Christopher Bartlett and Sumantra Ghoshal. In *Managing Across*

enterprises the question should not be “how do we become more horizontally integrated?”, but “what is the best way to set ourselves up for success?”.

Understanding the target operating model is key

True horizontal integration brings about fundamental change to the way an enterprise operates. It changes where work gets done and who has what accountabilities. Having clarity of a destination is therefore very important if people are to understand and engage in the journey.

Surprisingly, some enterprises embark on horizontal integration without having a target destination, and some actively discourage talk of one, preferring to “just get on with the change”. This approach may be perfectly acceptable when undertaking incremental change, but when it involves change across established functional and geographic lines, a target operating model is imperative.

To read my full article, where I also discuss the role of the Chief Enterprise Architect, click [here](#).

I welcome your thoughts.

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Borders: The Transnational Solution, they argued that a new hybrid form of organisation was emerging that was neither global nor decentralised but ‘transnational’ in nature.

The book may have been published in 1989 but it’s as valuable now as it was then.

To read Peter’s article, click [here](#).

Formicio’s Expertise in Operating Model Design

Over the years the Formicio team has helped many companies rethink their operating model and worked with their leadership team to put in place the necessary conditions for success. If you’d like to explore how we might be able to help you – whether it is in respect to the overall design or the challenges of implementation – don’t hesitate to contact David Trafford at david.trafford@formicio.com or on +44 (0)20 7917 2993.

Parting Thought

"Life is really simple, but we insist on making it complicated."

Confucius, 551-479BC