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## Using enterprise systems to gain uncommon competitive advantage

By David L. Hill and Jeanne G. Harris

There's no longer any real argument about whether enterprise systems add value. The eye-opener now is just how far those systems can catapult companies ahead of their competitors by giving them the distinctive capabilities that drive high performance.

Just a few years ago, the question of whether enterprise IT added value was still up for debate. Not any longer.

Executives at top-performing companies now view their enterprise systems as whetstones that keep them sharper than their competitors, and they are assertively using those systems to their advantage. These executives are acutely aware that enterprise systems, properly harnessed, can lead to high performance in terms of differentiated customer response, new market discovery and development, and even the rapid reconfiguration of fundamental business processes.

These business leaders also are discovering that enterprise systems open up unexpected avenues to value by making data far more visible—and enabling meaningful analysis of the data. Says one CIO of a UK-based consumer products company, “Now that our CEO knows data is available, he is asking very, very prescriptive, data-driven questions, and that’s changing behaviors and mindsets.”

Accenture has long held that enterprise IT can confer such sustainable advantage. The empirical evidence is there: Many of our top-performing clients view enterprise technology as a competitive asset, and they have well-

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honed strategies for deploying IT when and where it matters most. Now there are the numbers to underscore what we have observed.

### **A distinctive capability**

A wide-ranging study conducted by Accenture in 2006 (see “About the research,” page 5) confirms that the top-performing companies—the 13 percent of those surveyed that rank highest in terms of profit, shareholder return and revenue growth—realize significantly more value from their enterprise systems than do their less successful counterparts. These corporate leaders accomplish this by exploiting the critical link between enterprise systems and distinctive capabilities, one of the three building blocks of high performance. (Accenture defines “distinctive capabilities” as a unique set of connected, customer-centric business processes and resources that create value in ways that differentiate each high performer and underpin its formula for success.)

The companies that use enterprise systems to create the kinds of distinctive capabilities that confer competitive advantage have mastered several key practices—which means they do several things differently than businesses that do not perform as well.

1. High performers routinely emphasize three primary causal factors that, according to our research, maximize value: integrating the organization, optimizing business processes, and using and analyzing system data to improve decision making.
2. High performers use their enterprise systems strategically; they are more likely to rate their enterprise systems as “very distinctive.” They are also more likely than their lower-performing competitors to have implemented—or to be planning to implement—industry-specific modules (such as retail trade

promotion, for instance) as a way of differentiating their systems.

3. High performers are more likely to tailor strategic components of their systems to create and sustain a competitive advantage; they also aggressively simplify and standardize other business areas, permitting few modifications. CLP Group, one of the largest electric utilities in Asia, prides itself on being highly disciplined and operationally efficient, so it very selectively tailors its systems to achieve specific strategic business objectives. “We won’t take a shotgun approach,” emphasizes IT director Joe Locandro.
4. High performers are more than twice as likely as lower-performing companies to plan to take advantage of the speed, flexibility and productivity benefits of service-oriented architecture. Top performers use SOA to accelerate the integration of new acquisitions and to rapidly deploy differentiated business solutions.

### **When keeping up isn’t enough**

So why are these leading companies so eagerly embracing enterprise systems as a competitive weapon?

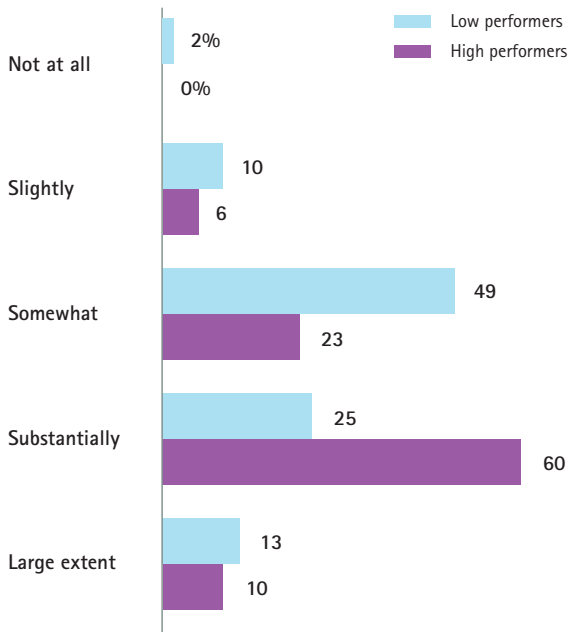
There are the obvious reasons, of course, beginning with the fundamental catalysts—such as the growing intensity and global nature of competition and increasing demands from shareholders and regulators—that are roiling the business environment everywhere. In addition, all businesses must grapple with the challenge of sustaining earnings growth, the difficulty of anticipating and planning for disruptive innovation, and the importance of measuring the right things. All are good and valid reasons for investing in enterprise systems to stay abreast of competitive best practices.

But high-performance businesses are not interested in simply keeping

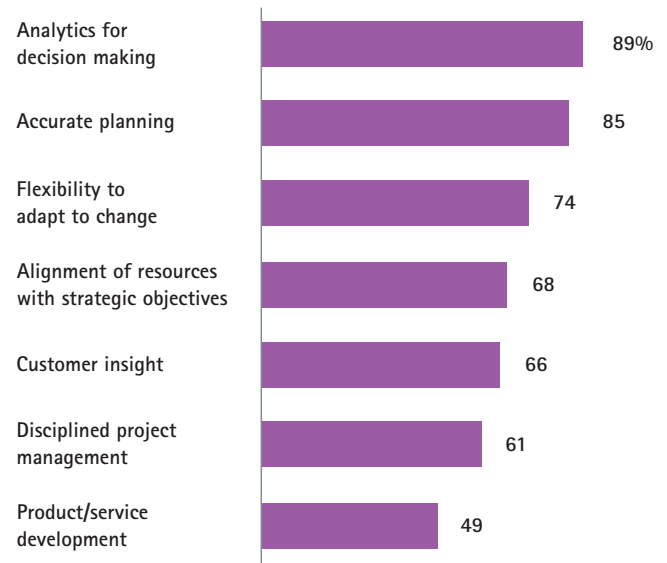
## Pathway to distinctive capabilities

Participants in an Accenture global study were asked how much their enterprise systems contribute to their distinctive capabilities, one of the three building blocks of high performance. The top-performing companies in this study realize significantly more value from their enterprise systems than their less successful counterparts do: 70 percent of top performers believe that their enterprise systems contribute to their distinctive capability and therefore are integral to their business success. Participants were also asked to indicate how (and to what extent) their enterprise systems enable their distinctive capability.

Q: To what extent do enterprise systems contribute to your distinctive capability?



Q: How does your enterprise system enable your distinctive capability?



up. They are all too aware of the fact that shareholders don't reward sameness. Top performers see competitive convergence everywhere—in similarities of product and service offerings, for example, and of organization and business process design. The Internet makes it easier than ever to replicate products, processes and ideas, and to gain equal access to capital and other resources. Sameness may be safe, but it will never ignite breakaway performance.

However, successfully realizing the benefits of enterprise systems is no easy matter. Responses from Accenture's 2006 survey indicate that just half of the participating organizations

have achieved most or all of those benefits. On the face of it, that's not surprising: Implementing a global enterprise system is like "hacking through a forest with a machete," says David Asiala, director for shared services IT at Dow Chemical. "There is just a lot of sweat involved."

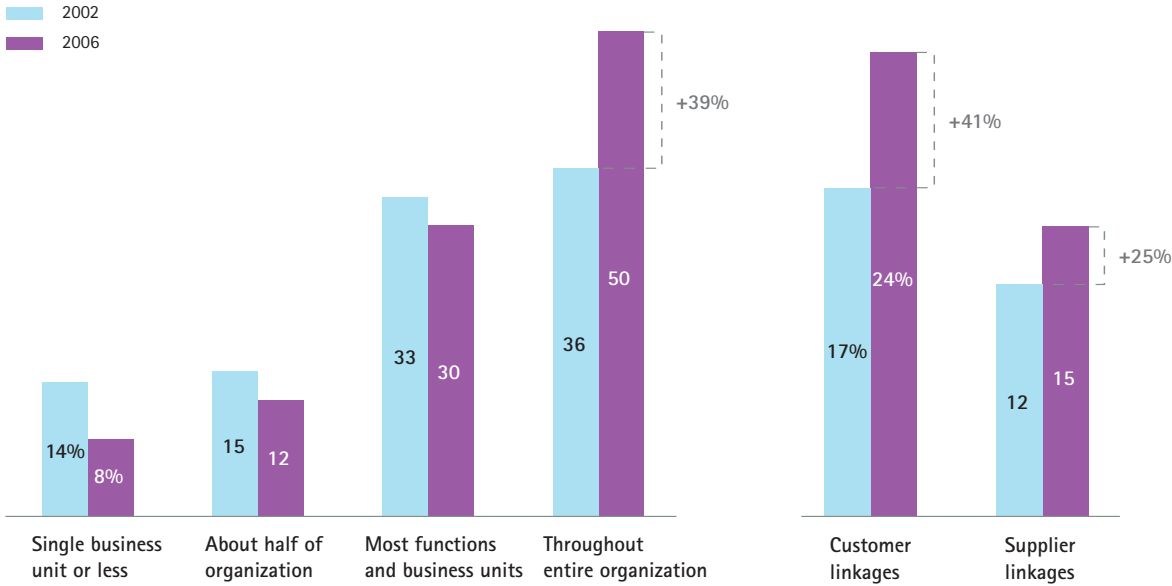
But an investment of sweat equity is merely a first step. In the 2006 study and in earlier research in 2002, Accenture confirmed that once an organization has chosen the right enterprise software and hardware, the real challenge is deciding how those IT assets are deployed. Organizations must concentrate on three areas to extract the full benefits from their systems: integrating

# Increasing integration

There has been a dramatic increase in the integration of enterprise systems. The most highly integrated organizations extend their enterprise systems broadly across the entire organization as well as linking to the enterprise systems of customers and suppliers.

Q: How integrated are the enterprise systems within your organization?

Q: How integrated are the enterprise systems with your customers' and suppliers' systems?



the organization; optimizing business processes; and using system data in decision making. Top performers excel in all three dimensions.

### Integration

Organizations are integrating more both inside and outside their four walls, with the best organizations demonstrating more significant levels of integration throughout. Inside, top performers are operating with fewer versions of complex software applications and are linking together more business units or geographies. One survey respondent said his company has eliminated 400 of its 600-plus software applications during the past four years. Half of the 2006 survey's respondents said they've implemented enterprise systems across their entire organization—a 39 percent increase from four years ago.

Twenty-four percent of respondents have direct links with their customers, and 15 percent have direct links with suppliers—marked jumps beyond where they were in 2002. The difference? Customer-side links have more potential for revenue growth. Explains Lex Sips, director of global purchasing for Netherlands-based DSM Elastomers, a producer of synthetic rubber: "It's easier to connect with suppliers, but the value is really on the sales side."

### Optimization

Optimization means having the right business processes and ensuring that they're supported by the right systems and software. In general, organizations are improving how their processes are aligned with their enterprise systems, with the top performers more likely than poorer-performing companies to

optimize processes more thoroughly and to have significant ongoing optimization efforts.

Overall, the survey identified a 13 percent rise in process optimization between 2002 and 2006. Concomitantly, companies are getting better at knowing what to adjust and what to standardize: 47 percent of those surveyed four years ago substantially tailored some aspect of their systems; 54 percent did so in 2006. For their part, the top performers are more likely to have implemented, or to be planning to implement, industry-specific enterprise IT modules, because these generally offer the greatest potential for competitive differentiation.

Process optimization requires more than good process design and technology; it also raises the bar for employee skills. At London-based National Grid, one of the world's largest electric and gas utilities, new processes required the com-

pany's engineers to be more multidisciplinary and smarter about finance. "With the conversion to enterprise systems, in one day, we changed out the whole back office with all new work management processes and reporting," says Michael Kyle, vice president of supply chain management. "It touched everyone; it was like having all new employees overnight."

### Analytics

Faster and smarter decisions are essential to creating a distinctive capability. Of the three major value drivers, the use of analytics registers the sharpest increase in importance in Accenture's latest survey. Overall, organizations are using their systems much more to facilitate decision making, as analytics help managers make faster, better-informed decisions: 31 percent of respondents said they are using their enterprise systems for "significant decision support or analytical capability," compared with 19 percent four years ago.

## About the research

In 2005 and 2006, the Accenture Institute for High Performance Business and Accenture's Global Business Solutions practice conducted a four-phase study on how organizations use enterprise systems to achieve business value and high performance. This study—the latest in our ongoing research on the topic—went far beyond our earlier work in its scale and analytical rigor and in the detail it sought from both business and IT executives.

We began by interviewing more than 25 industry analysts and experts. Next, we analyzed data from a global survey of 310 CIOs. Then we conducted a global web-based survey to gather quantitative and qualitative data from 450 executives in medium to large organizations that had implemented at least two major enterprise system modules from vendors such as SAP, PeopleSoft, Siebel, Great Plains and Oracle. (Oracle has since acquired PeopleSoft and Siebel, as well as Retek and JD Edwards & Company.)

Participation was split roughly 60/40 between business and technology executives. (Because there was some organizational overlap among respondents, we restricted our analysis to data drawn from 371 distinct corporate headquarters, business units and government entities.) We then statistically analyzed the data to produce our conclusions. Finally, we conducted in-depth interviews with executives at 15 organizations to glean extra insights into how they developed distinctive capabilities and realized value from their enterprise systems.

Leading performers are especially attentive to the analytical capabilities of their enterprise systems. A majority of the best performers in our survey strategically apply analytics in their daily operations, and nearly two-thirds say they have significant decision-support or real-time analytical capabilities—a claim made by just 23 percent of low performers.

### **Customize? Only where it matters**

The exemplars also have the acuity to see how enterprise systems can differentiate processes to deliver more value to customers. When executives truly understand their company's competitive differentiation, they can focus on enhancing their distinctive capabilities and ruthlessly simplify and standardize everything else.

That “standard versus customized” point is an important one. In their determination to deploy enterprise systems to significantly boost their distinctive capabilities, top high performers have discovered that the systems' complexity, once seen as a barrier, can now become a plus. The number of modules, and the many ways they can be linked and tailored, means that no two companies have identical enterprise systems.

The key is to know what must be fine-tuned and what should remain standardized. For example, competitive advantage at EMC Corporation, a computer storage systems company based in Hopkinton, Massachusetts, hinges upon quality and customer service. “We only customize our systems when it will significantly enhance our distinctive capabilities,” says Tony Pagliarulo, EMC's vice president of global IT. “To give the best possible customer service, we customized our enterprise systems to allow our products to ‘phone home’ if there's a problem. Customer service reps are notified automatically and can take quick action to resolve issues.”

### **Forceful action**

Most business leaders now accept that enterprise systems do add business value. But the new news is that enterprise systems are potent assets for generating and maintaining competitive differentiation. Accenture's research in 2006—and our many years of collaboration with leading companies—shows that the top performers are acting forcefully on that insight today.

By chronicling the benefits they are now realizing—qualitative and quantitative—executives from top-performing organizations are declaring their commitment to continued investment in such systems. By describing the benefits at length, they signal that they view their systems initiatives as part of their ongoing business-improvement programs, not as projects with set endpoints. And by so clearly speaking to sophisticated implementation concepts—such as where to customize and where not to—they disclose their intent to use the systems to create every possible competitive differentiator.

What's the outlook for managers at companies that have yet to demonstrate peak performance? They may not be operating on the higher plane of distinctive capabilities, but there's plenty they can do to improve business performance by integrating their businesses, improving their processes and using analytics to enhance decision making. Today would be a good day to start.

## About the authors

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