Creating a Capability-Led IT Organization

It’s time for a new approach to IT, in which businesses prioritize, nurture and execute on a defined set of capabilities, thus moving past incremental improvement, to competitive differentiation.
Executive Summary

Quick quiz: Which of these organizations will thrive in the digital economy?

- **At Bank ABC**, the CIO was charged with helping to attract millennial customers with targeted, flexible products and improved relationship management. He focused IT — and a nontrivial percentage of his business customers’ energy — on providing mobile applications, online banking and 24/7 real-time customer service, necessitating a modified enterprise architecture and a more customer-centric application development capability. The CIO also leveraged cloud computing for both essential and non-customer-facing systems to free up capital for innovation.

- **At Bank XYZ**, the CIO’s mission was to remove costs while maintaining existing IT service levels. He partnered with a service provider to perform cost optimization and application rationalization. Systems that were redundant or expensive to maintain were rationalized or transitioned to commercial off-the-shelf platforms. Nonessential capabilities were outsourced, and vendor management was modified to incorporate strategic sourcing. The CIO understood the levers that drove cost in his organization and prioritized them based on impact and risk. He also embraced cloud computing to streamline data and infrastructure management by shifting Cap-Ex costs to Op-Ex.

- **At Bank LMN**, the CIO’s mandate was to improve business profit. After researching his options, he decided to adopt the best aspects of Banks ABC and XYZ. He embarked on a cost leadership approach — outsourcing nonessential capabilities, streamlining the workforce and shifting infrastructure management to the cloud — while striving to develop IT as a competitive differentiator.

**Answer:** At Bank ABC, millennials were highly impressed with the bank’s ability to deliver these new business capabilities and harness emerging technology trends. Revenue grew, and market share — particularly in the millennial segment — expanded by
several percentage points. Bank XYZ became a streamlined, lean IT organization, able to efficiently meet its business customers’ needs. Profit grew and could be reinvested back into the business, as both capital and operating IT costs were reduced, with no meaningful impact on service.

Meanwhile, at Bank LMN, the cost leadership approach consumed the energy of IT’s best and brightest, leading to inadequate resources for essential innovation elements, such as a flexible enterprise architecture, IT service management and business relationship management. The customer-facing capabilities were unfocused, and the sheer volume of initiatives led to inadequately defined new processes, causing a change management nightmare and confusion among the ranks.

The crucial difference among these organizations — and the factor that determines success or failure in today’s knowledge economy — is something we call “capability-led IT.” Capabilities are the digital age’s equivalent of yesterday’s industrial assets. While capabilities in the industrial economy were steel mills and automotive factories, today’s capabilities are built from merging multiple people, processes and technologies from across the organization into a new, cohesive offering that leads to a new way of operating and, ultimately, competitive differentiation.
By focusing on defining, prioritizing, nurturing and successfully executing these new capabilities, IT organizations can innovate and drive business opportunities, which will differentiate them from those that simply maintain the status quo and make incremental, year-over-year improvements to their organizations.

Examples of capabilities range across industries:

- **Retail:** Mobile in-store shopping functions, such as scanning a QR code to access instant product information and integrated, personalized promotions, as well as tracking the usage of that promotion to understand its effectiveness in influencing consumer behavior.

- **Publishing:** An automated and collaborative workflow for editors and authors to rapidly write a journal article while auto-publishing to any one of several e-book standards or a settlement process with major bookstores to track custom, digital downloads.

- **Manufacturing:** A product lifecycle management process and ecosystem to track innovative products from ideation to implementation, across design, engineering, sales, marketing and the supply chain, thus enabling visibility into process velocity and quality improvement opportunities.

In short, capabilities have become table stakes in today’s digitally powered world, and it is now crucial for organizations to identify, focus, invest and nurture these assets that enable business differentiation. But it’s not enough to define capabilities that will lead the business into the digital economy. To ensure these initiatives support the most important business strategies, are funded adequately and maintain momentum, the entire enterprise needs to be focused on bringing them to reality. We call this the “capability-led” IT model – an approach in which the business, from the C-suite down, agrees to pursue a finite, well-defined set of prioritized business and IT capabilities that are specifically geared toward achieving strategic goals and, ultimately, driving business transformation.

Compare this with traditional IT strategies, which are more often based on incremental enhancements, efficiency
improvements and isolated forays into new and emerging areas. This is the publisher that funds evolutionary enhancements to subscription, editorial and digital asset management systems; the retailer that improves supply chain efficiency while building a few e-commerce features; or the high-tech company that enables sales pipeline visibility and service renewal automation without bringing its business counterparts along for the ride. Such approaches would have been sufficient in the recent past, but they will not sustain a business today.

This white paper will delve further into why capability-led IT is the only model that will ensure competitive differentiation as we move further into the digital economy. We will also describe how businesses can move from traditional business-IT strategies to a capability-led model, with specific examples of companies that have done just that.
The Case for Capability-Led IT

In today’s business world, there is no such thing as standing in place. If you’re not moving forward — creating new markets or engaging more effectively with customers, for instance — you’re moving backward. Particularly with the unstoppable forces of globalization, virtualization, the millennial mindset and new social, mobile, analytics and cloud technology models (the SMAC Stack™), organizational structures and go-to-market approaches that were designed before the digital economy are not relevant going forward. As such, when companies look out even just one year into the future, they need a plan to ensure they are not in the same place they are now. (For more on the business transition from “widgets” to “digits,” see “Don’t Get SMACked: How Social, Mobile, Analytics and Cloud Technologies are Reshaping the Enterprise.”)

Most businesses understand that strategies today must be highly tuned and future-focused. Often, however, when companies define a growth plan, they fail to pursue it in a focused way. It’s common to manage several initiatives at once with little prioritization and, often, inadequate funding for the items that really matter.

What is missing is an enterprise approach to pinpointing and prioritizing the exact collection of capabilities — people, processes and technologies — needed to fulfill the business strategies and build the IT foundation that will bring these strategies to life. In most cases, new expertise and foundational building blocks are needed. Tight coordination with business and external customers is a must. The IT budgeting mindset also needs to change, from investing in applications and infrastructure, to investing in capabilities, which cut across silos.

So the question is, where are you going to be in one year? Two or three years? And do you have what it takes to get there?

First Steps

Most companies need help taking the first steps and preparing a roadmap toward a capability-led IT model. To get started, we have developed a framework that defines the five domains necessary for a capability-led approach to IT.

Domain 1: Business Architecture

In this domain, organizations define their business vision and objectives, as well as what needs to change to enable the next-generation business model. In other words, what are the business capabilities needed across the enterprise to support the business objectives, and how will you know when you get there? Business processes and the measurements needed to validate success are considered, as well.

Such enablers might include community interaction and engagement, open innovation, worker and customer empowerment, virtual collaboration, commercial model flexibility, value chain flexibility and flexible service delivery. (For more on the eight enablers of the future of work, see our white paper, “Making the Shift to the Next-Generation Enterprise.”)

Individual business functions can consider additional, more specific enablers. For instance, the sales and marketing function might pursue digital asset management and a 360-degree enterprise customer view, while operations would benefit from enterprise-wide customer care. Meanwhile, partnership management, embedded innovation and end-to-end visibility are three important capabilities for product development.
More specific capabilities need to be considered by individual industries, such as digital content creation in publishing and mobile shopping in retail.

**Domain 2: Technology Architecture**

In this domain, organizations assess the state of the company's business applications, data and infrastructure and their ability to support current and future business models. IT strategy, IT delivery excellence and IT operational effectiveness are considered in this domain.

We divide this domain into two categories: business enablers with direct support for the business architecture (such as multichannel customer service, sales and marketing enablement, digital asset management, supply chain optimization, etc.) and core IT capabilities (such as software engineering, business relationship engagement, architecture management, project portfolio management, etc.). Core IT capabilities are similar in nature to, and can certainly draw from, today's accepted standards for IT service management and governance like ITSM and COBIT. We also pay particular attention to innovations and technologies that enable future enterprise models, namely social, mobile, analytics and the cloud, or the SMAC Stack. When these technologies are deployed as an integrated stack, they have a multiplier effect that can serve as the foundation for breakthrough business results. Specific SMAC Stack capabilities include:

- Integrating social sentiment into real-time trend analytics.
- Tapping location-based services for mobile customer centricity.
- Applying predictive and behavioral analytics to personalize products and service delivery.
- Enabling cloud-based machine-to-machine interactions (such as car to home alarm systems).
- Using real-time information delivery to optimize supply chains and enable cashless transactions.

**Domain 3: Value Management**

Here, organizations prioritize which capabilities to pursue to enable the future state, based on marketplace and industry dynamics, the company's strategic plans, current IT financials, benefits and costs.

In our work with organizations moving to capability-led IT, for instance, it's common to define 20 or 30 capabilities. We then use predefined templates to work toward focusing on the top four or five by assessing and then quantitatively ranking how well the capabilities meet a range of criteria. Criteria might include strategic objective enablement, improved customer service, improved product/service quality, competitive differentiation, revenue growth, cost reduction, time-to-market and employee or customer satisfaction.

**Domain 4: Organization Architecture**

This domain considers the readiness of the company's human assets to perform consistently with the needs of the organization. Capability-led IT requires a strong managerial vision, alignment across (and within) business and IT stakeholder groups and a focus on the successful delivery of what's important. Businesses must also account for the management framework, its accountability to achieve results, how to manage the scope and pace of change to minimize business disruption and its own sense of urgency, skill sets and stakeholder perceptions. The grandest of business and technology visions will never come to light without an adequately incented, aligned and skilled organization to do the heavy lifting.
Domain 5: Governance Architecture

This domain includes the decision-making and resource allocation process, as well as its impact on IT’s ability to meet its objectives. Examples include:

- Joint executive governance of digital initiatives across business and IT to constantly align priorities, resolve conflicts and oversee execution.
- Committed product management teams, consisting of business and IT personnel, to continuously innovate, strategize and plan digital offerings.
- Program management office (PMO) to manage business and IT estimates, activities, deliverables, risks, communication and releases.
- Frequent, rapid prototyping and releases with adaptation and recalibration based on feedback and response.
- Organization change management (OCM) to actively address and communicate change, accelerating adoption and associated results, within the organization and the customer base.

The Flight Plan

We have developed a process for moving through each of these domains, based on specific client needs (see Figure 1). Let’s consider the case of a global publisher of print and electronic products, with three global business units. The publisher was facing key changes in its industry, namely, the shift to digital content and services, with a corresponding change in consumer consumption preferences and a dramatically modified competitive landscape. All these factors combined were forcing the publisher to reevaluate and optimize its business models and operations.

![Business-Aligned Technology Strategic Planning Approach](image-url)
Step 1: Capability Definition

The first step involves defining and assessing the business and IT capabilities needed to fulfill the new digital business objectives. For the publisher, we first conducted a thorough examination to understand the organization’s business strategy. This entailed interviews with top management and an assessment of the organization in the context of the industry and its traditional and emerging competitors.

This process resulted in a clear and objective business strategy that encompassed a shift to customized, digital and mobile content and an increasing focus on the customer. The publisher also needed to expand its market and geographic focus, with new business models and new services, and it needed a more mature industry model, challenging the norms of owning its capital assets.

With the business vision defined, we identified and prioritized a total of 10 capabilities that would fulfill that vision. A sampling of these includes dynamic content management, product localization and flexible pricing/quoting.

For each capability, we determined the following:

- A metric to measure success.
- New organizational and people skills required.
- New or modified business and technology processes required.
- How technology needed to be rewired.

For instance, some of the required components of dynamic content management included an enterprise-wide content management repository, digital content tagged at meaningful granularity with well-defined metadata, and robust search and discovery functions. Meanwhile, a requirement for product localization was a user experience and shopping cart tailored to local language, commerce and culture. For flexible pricing/quoting, the capability encompassed usage and outcome-based pricing, with price management workflow spanning price creation to invoicing.

These capabilities should address needs across several time dimensions. Some capabilities can be delivered within the year to address immediate needs, demonstrate success and build momentum. Other, more complex or more nebulous capabilities may require time and future technologies to reach their full potential. These future horizon capabilities may be better suited for a two- to three-year or three- to five-year time horizon.

Step 2: Current State Assessment

The next step entails enterprise-wide interviews and workshops to document current value streams, process flows and technology architecture to understand key improvement areas. It also involves cataloguing and prioritizing existing pain points in the current processes and systems, along with inconsistencies across business units and geographies.

Step 3: Future State Definition

In this step, we define the desired future state of the organization, business processes and technology required to bring the business capabilities to fruition. We define this future state by fusing the goals and objectives, the changes necessary to achieve a measurable impact on operational metrics, as well as the capabilities themselves. Here, industry foresight is integrated with key stakeholder input, which serves the dual purpose of also creating the necessary momentum and buy-in for large-scale organizational transformation.
Step 4: Gap Analysis and Solution Option Identification

The fourth step involves defining a set of business and technology programs and projects to transform the organization from the status quo to its defined future state.

For the publisher, we determined the impact that each of the 10 capabilities would have on essential business processes and developed a gap analysis for each capability. We then quantified the business benefits of each capability by ranking them against a set of value criteria, including strategic objective enablement, improved customer service and improved product/service quality. We also quantified the cost and risk of each capability by force-ranking each against criteria such as implementation cost, implementation risk and change management impact. The importance of prioritization cannot be overemphasized, as we saw earlier with Bank LMN’s IT approach.

Step 5: Transformation Roadmap

The last step entails crafting a prioritized, multiyear transformation roadmap by marrying the current state deficiencies with the future state definition. The roadmap is intended to mitigate current problems, while readying the organization for the future with cohesive processes, systems and technology. While prioritization is critical, capability delivery also needs to be time-balanced.

For the publisher, we visually plotted these prioritized capabilities, according to the cost/risk of implementation (based on a broad range of implementation estimates, including required investment, degree of business transformation and organizational change impact) and value to the organization (based on an in-depth review of impacts to critical operating metrics, such as revenue, share of wallet, customer experience and brand). Today, the publisher is executing the preliminary phase of this transformation roadmap and is making meaningful and measurable gains in customer service for its new digital customers, as well as time-to-market for its new digital products and services.

Golden Rules of Capability-Led IT

- Identify five or six capabilities and put energy behind just two to three in your first year.
- Focus the majority of capabilities on business strategy and one or two on IT foundation building.
- Develop capabilities in areas where you truly differentiate yourself.
- Establish alignment up and down the stack, from the business strategy, to the capability, to the project portfolio management, to the technology that brings it to life. These elements of the stack cannot be executed in isolation.
- Remember that capabilities are not projects. They are long-term and designed to outlive organizations, applications, etc.
We also worked with a $1 billion North American provider of marketing services, promotions, samples and coupons to develop a capability-led IT model. The business was unable to meet its digital business revenue objectives and was experiencing declining traffic and penetration with its existing dot.com and mobile assets. It faced a complex digital landscape, with significant business model changes among competitors and partners. Competition was growing quickly, shrinking the company’s influence in the digital couponing space.

We worked with the company to develop an initial digital business strategy, aligned with its business objectives. To get started, we performed a detailed analysis of the digital promotions industry to identify trends, leaders and competitor activities, as well as the digital trends occurring in the SMAC technology landscape. We also conducted interviews with these executives and key stakeholders, as well as their customers, to understand their digital priorities, customer requirements and market perceptions.

Next, we developed an initial list of 18 capabilities to help the company strengthen its market position and establish a future-state digital business strategy. A sampling of these capabilities includes a Web 2.0-enabled Web site, social media functionalities, location-based services, personalization, mobile shopping features, social analytics and loyalty management.

We then organized, drove and moderated a digital business workshop, involving members of the executive committee and 15 other senior business leaders. At the workshop, we facilitated a collaborative decision-making process for leaders to analyze and debate the identified capabilities. They used a forced-ranking technique to prioritize the capabilities, using criteria such as ROI, alignment with digital strategy, consumer friendliness, ability to drive scale, barriers to entry and cost/benefit.

Through this process, the client narrowed the list to four top-priority capabilities - Web 2.0/content management, social media, analytics and cross-channel integration/open APIs - and established initial objectives and approaches for each. After defining the current and future states and determining a gap analysis, we delivered an implementation plan, integrating existing digital initiatives and the prioritized initiatives. Finally, we designed and launched an executive-level digital business transformation committee, including constituents, enabled by a charter and definition of responsibilities to steer the program to a successful outcome.

One of the unspoken successes of executing a capability-led IT strategy in a workshop-based setting is senior leader consensus, with an accompanying organizational momentum. Today, this client is successfully delivering on its four prioritized capabilities, with the goal of dramatically enhancing digital traffic and its associated revenue streams, across its various digital channels.
Overcoming Challenges

Bringing capabilities into existence poses many challenges. The overarching challenge is establishing a partnership with the business so that IT does not pursue capabilities in isolation. While IT can be a driving force, it can’t be the defining force. Inviting business leaders into the practice early will pay off dividends when it comes to buy-in, budgetary approval and momentum building.

A second challenge is establishing alignment with business goals. Technology modernization and IT pet projects can too easily boil to the top of the priority list during IT-driven exercises. Ensure that your capabilities are linked to your business objectives and that the prioritization criteria are linked to desired business outcomes and that both are transparent. In our experience, companies should focus two-thirds of their development capacity on business capabilities vs. IT capabilities. A quick test includes understanding the change impact on business metrics and business operations.

Organizations should also see capability-driven IT as a journey, not a destination. Don’t expect to get the capability definitions or prioritization right the first time. Our experience indicates that this is an iterative process and, based on the business culture and stakeholders, could take three or four iterations to get right.

The mindset shift of capability-led vs. traditional approaches to IT doesn’t happen overnight. For instance, doing something a little better than you do today is rarely considered capability development. At every turn, IT organizations need to ask themselves, “is this sufficiently forward-looking and where the business is striving to be in three to five years?” Make sure you’ve brought an innovator or two to every brainstorming session and review.

Lastly, achieving organizational consensus around priorities is not an easy or quick process, especially when it comes to de-prioritization. In our work with companies on capability-led IT, we have used objective measurements, executive mandates and even leadership voting to finalize priorities. Businesses need to avoid diluting the benefit for the sake of consensus.

Moving Toward Capabilities

Call it what you will – digital economy, knowledge economy – but we are now firmly entrenched in a new business landscape, and most organizations are not designed to excel or even survive in this environment. Making the transition requires reinvention of business models, rethinking of business processes and rewiring of technology. This is not possible with the traditional approach to IT, which is focused on incremental change. Neither is it effective to approach innovation in fits and starts or without the full backing of the business.

The way we see it, companies have a choice of paths: Maintain what you do now and bring nothing new to the table; manage several initiatives, with little prioritization or focus; or focus on agreed upon business/IT capabilities that directly support a future-facing strategy. So, where will you be one year from now? And how much of your IT project spend is earmarked for tomorrow’s capabilities? If you don’t have tomorrow’s capabilities defined, the answer is very little.

It’s time for a new approach to IT. With a capability-led model, the IT organization will work with the business to identify, prioritize, nurture and execute on a defined set of capabilities – the exact set of capabilities that will lead to business survival and competitive success.
About the Author

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