The 21st Century CIO -- Leading IT Transformation *in a* Quantum Change Environment

For IT to play a strategic role, CIOs must first reinvigorate the organization with a new structure that enables tighter business alignment and then implement new processes and technologies that generate better business value.

By Vineet Kapur

We live in an era where change -- imposed by regulatory or market forces -- is rapid, radical and far-reaching. Businesses today encounter near-constant upheaval, which they can endure and even benefit from when supported by a rejuvenated IT organization. In fact, in today's change-driven environment, it has become imperative for IT to transform from its traditional function as a technology provider and become an adaptive, responsive and nimble organization.

This transformation cannot occur without the CIO leading the renewal. CIOs must shift from reactively supporting business needs, to spearheading the structural and cultural change needed within the IT organization in order to drive business process innovations that support the entire corporate agenda.

The first steps of transforming IT are crucial, as valuable momentum and organizational energy can be wasted if early initiatives don't gain traction. Most organizations need to start by improving IT's historically spotty record of fulfilling fundamental business needs. Another first step is to create an organizational structure in which IT can move into a new role of business enabler, working side-by-side with the business as a partner.

This is easier said than done. In many cases, senior management has little awareness of IT governance processes, and IT is viewed as a mere support function with no defined mission. Indeed, as seasoned consultants, we continuously ask ourselves: When was the last time we observed a corporate client with a well-developed rolling strategic IT plan, truly aligned with its business units? When was the last time we noticed that a corporate client's business unit's rolling strategic plan included a section on *IT strategy?*

Bottom line: Any transformational initiative should be guided by a partner with extended, real-world experience in organizational change assignments. We have worked with several organizations on quantum transformations, including a Fortune 100 consumer goods manufacturer that initiated a radical global reorganization of its business and made the decision to outsource a significant portion of its IT functions. This company engaged Cognizant to manage its applications portfolio and its full lifecycle software development needs, including maintenance and testing. The net result: 75% of the internal IT organization function was outsourced, and its operational performance continues to improve.

The company also brought in a new CIO whose mission is to lead this radical transformation. He placed a high priority on more closely aligning IT with the businesses and transforming the IT organization into a source of competitive advantage. Cognizant was instrumental in helping this CIO develop, plan and implement the various components of this initiative, which is seeing great progress today.

CIO Makeover

The CIO at this Fortune 100 company is a great example of the type of leader needed to effect quantum IT transformation. He's a positive thinker, capable of motivating his team and aligning them with his agenda. He is also focused on strategic rather than tactical concerns, yet drives his teams to develop rolling plans to implement their strategic objectives.

At many organizations -- including the company cited above -- IT has historically operated without an explicit strategic plan in place. So a natural starting point for the CIO in a transformative environment is aligning and defining the IT strategy and helping to determine the organization's goals and objectives. This allows the CIO to begin managing the IT portfolio to maximize return on investment. Enabling this requires a strong approach to portfolio management, and perhaps even establishing or reshaping an existing project management office or team. In the case of the consumer goods company, Cognizant worked to centralize program management and create better governance and metrics by reorganizing the office of project management to align better with the new IT structure.

> CIOs need to rise above the status quo and take on a new set of activities that has them involved in the strategy development process from the get-go.

A third strategic role is designing an enterprise architecture that enables business agility. Although this requires a hefty upfront investment, the speed of change that most companies require cannot be supported without a flexible, agile technology architecture. IT leaders who boldly take on these challenges are, in our view, progressive "21st Century CIOs." They are among the few CIOs who are well-armed and positioned to effect the quantum change required to transform their organizations into strategically-valued partners.

Helping Transform The Business

Change-effecting CIOs drive increasing interaction between their IT departments and the business units, thereby increasing IT's acceptance by the business. To accomplish this, they need to connect increasingly with the CEO, their business peers and their direct reports. It's only by discovering what is truly driving the business that they'll begin to recognize innovative ways to use technology to drive competitive advantage. In this newly elevated position, they can begin educating the enterprise on what technology is and isn't capable of doing, within the organization's budgetary, architectural and strategic limits. They can also begin to not just support but also genuinely lead business change.

To internalize a desired level of business understanding within the DNA of the IT department, the various functional leaders -- along with members of vital groups such as business partners, program management, enterprise architecture and infrastructure -- should be urged to follow a structured program to increase their knowledge and experience of the world in which the business units operate. Such a program would typically start with an understanding of the end-to-end business system of the company. For example, in a product-oriented firm, participants should include divisions such as purchasing, R&D, production, distribution, marketing, sales, service and the competitive and product-market environments in which the business units compete globally.

The program should also include a "day in the life" menu of business activities that IT personnel should experience first-hand. For instance, in a soft drinks company, this could include riding with delivery representatives, observing a production line or experiencing first-hand the company's markets in China, India or Brazil. Further down the road, it could include IT directors and key managers attending the non-IT forums and conferences recommended by business units as these are important ways of keeping abreast of market developments and interacting with customers and competitors.

To transition from thought to action, the CIO needs to internalize the CEO's and board's strategic agenda, and should consequently spend a great deal of time and effort with key peers -- the head of Corporate Strategy and Corporate Development, the heads of the BUs as well as their key planners, and of course the CFO. It would not be a bad idea for the CIO to accompany some of these leaders on their internal visits, as well as on their external interactions with customers, suppliers and industry forums (similar to the "day in the life" mandate for the CIO's staff). Ultimately the CIO faces the same test as his/her business partner organization does -- gaining the trust of peers and being seen by them as adding value or competitive advantage instead of "running the IT department."

The traditional structure of most IT organizations, however, is not equipped to meet new business imperatives. The 21st Century CIO provides the high-level vision, as well as the empowering and syndicating skills, to restructure IT to more effectively serve complex, global business organizations. At the aforementioned client company, for instance, the CIO restructured IT to better match the company's matrix structure. It is also essential to adopt new processes, roles and skills for the IT staff, which sometimes involves selecting and managing new sourcing options.

To succeed in today's global fast-changing environment, the most effective CIOs are part Zen Master or positive reinforcer; part strategist and innovator, or driver of change for the better; preferably someone who has experienced life on the business side; and an effective communicator. She's a positive thinker, capable of motivating her team and aligning them with her agenda. She is also focused on strategic rather than tactical concerns, yet drives her teams to develop rolling plans to implement their strategic objectives.

A Phased Approach

As previously noted, the prescriptions for radical transformation are best digested incrementally. Cognizant identifies three distinct states in which IT organizations operate: The traditional role of technology supplier; the more engaged role of business enabler; and the fully realized role of strategically valued partner. As the IT organization evolves from one to the next, there are also two corresponding phases of the journey. First, IT moves from a technology supplier to a business enabler, actively managing relationships with the business units. In the second phase, IT ultimately becomes a strategically valued partner. Let's take a closer look at these phases, through our work with this consumer goods manufacturer (see Figure 1, next page).

Phase I: From Supplier to Enabler

Other than in the banking and financial services industries, which are more highly evolved from a strategic IT perspective, most corporations operate as if their IT resources merely provide and maintain business applications and their accompanying infrastructure and support. In this initial stage, we have observed that IT departments are viewed in the traditional role of supplier, providing technical resources, delivering projects and supporting users, with little involvement in day-to-day operations of the business units and none in setting business priorities.

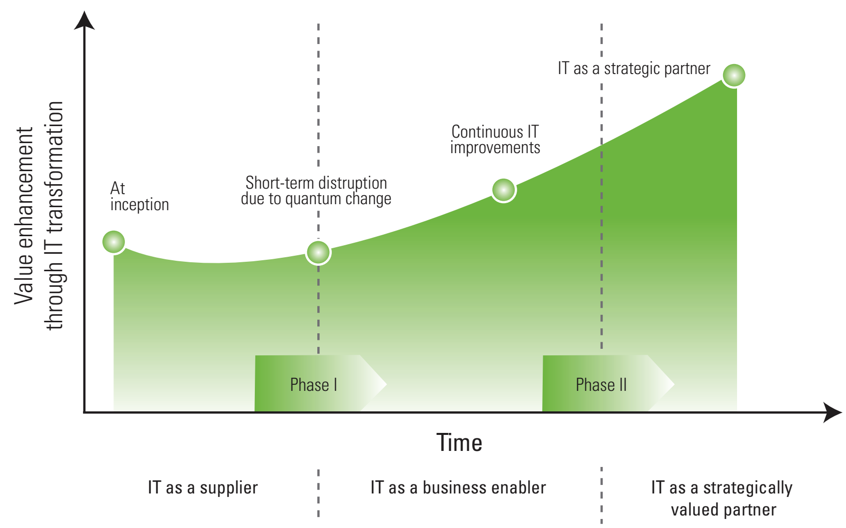
In our experience, these groups often function as order takers and are often blamed when systems don't achieve the desired level of success or when projects are over-budget. They therefore need to be motivated and overhauled to be more closely aligned with the business and more involved in strategic planning.

Our first recommendation to this Fortune 100 client was to improve IT's performance, timeliness and cost of delivering the basic needs of the business units. This typically involves reviewing, potentially restructuring and implementing sound governance and metrics within vital functional areas of the IT department, including enterprise architecture, program/project management, business partners and IT processes. Such initiatives are prefaced by communicating an understanding of the long view by senior IT management, to convey its ultimate goal to function as a source of competitive advantage to the business (see Figure 2, page 3).

Such transformative initiatives within large organizations typically result in a temporary dip in performance before starting to gain momentum and yielding the benefits targeted by the quantum change. This should not deter the IT leadership team or the people who work with them; rather, it should be recognized as an inevitable short-term consequence of radical organizational change. In our client example, Cognizant advised the company to expect short-term degradation of IT performance during the move from supplier to enabler. This is natural, due to the disruptions of getting the organization up to speed and prepared for the Phase I transition, during which continuous IT improvements will begin to be seen.

FIGURE 1:

IT Goals and Realities in a Quantum Change Environment



Next, in conjunction with a newly reorganized program management organization, we helped the business interfacing group develop a plan to help it transition through the two phases. A key step was getting them to the table when the business units held their strategic planning sessions. This particular company's corporate and business unit strategic planning processes were very well-defined, so we identified specific points throughout the annual planning cycle when the business interfacing partners should participate. And in order to more effectively participate, we recommended that the business partners understand and internalize the existing strategic plan of their corresponding business unit.

After initial meetings, the business interfacing partners translated the goals, objectives and strategies of their business units into a corresponding IT strategy and presented it to the strategic planners of the business units. A business unit's IT strategy reflects its unique realities and needs, subject to corporate constraints, such as business imperatives and strategy, budgets and enterprise architectural standards. We prepared the IT participants to be thick-skinned about the reaction they would initially receive.

While some of the business units were very open to IT's desire to help drive strategy development, many had no experience to ballast their trust that IT was qualified to play such a role. This is not unique to this particular company. The first few times any IT group plays this type of role, it should prepare to be criticized -- particularly if team members haven't yet developed a reputation

Achieving Enabler Status

To transition from supplier to enabler, organizations need to consider the following:

- In the near term, improve on the delivery of business needs.
- Key IT groups such as business interfacing partners, program/project management and enterprise architecture must develop a transition plan to move from a delivery to a strategic role.
- Create and execute the renewal plans while meeting basic business needs first.
- Start developing each business unit's IT strategic plan, after business interface partners gain a basic understanding of the business unit strategy and become involved in the business units' strategic planning processes.

FIGURE 2:

Functional Areas that Drive IT Renewal

for being able to deliver this type of capability. In many companies, IT has never attended a strategy meeting, and if it has, it often has little to contribute, sometimes risking alienation by charging the business for its time. Therefore, the skills and experience of business interfacing partners are important -- people with greater business savvy and cross-functional expertise should assume these roles. Eventually, after persevering through one or two annual cycles, our experience has shown that IT can expect to be seen as adding value and will be more readily accepted at the strategic planning table. It's only over time that IT will begin to be seen as a business enabler. If slow and steady wins the race, then steady and earnest wins the trust.

Phase II: From Enabler to Strategically Valued Partner

With the above initiatives in process, a company like our Fortune 100 consumer goods client is prepared for Phase II -- the transition from enabler to strategically valued IT partner. When these initiatives have taken hold, this client will join the small but growing ranks of IT organizations that are leading their companies through quantum change.

> As an effective business enabler, IT now has the ability to respond appropriately to the many incidental projects generated by middle management.

In the second phase, business interfacing groups will have successfully completed three to five strategic planning cycles with the business units. They will have internalized the business units' strategies, become embedded in the business units' strategic planning processes and developed a reputation as vital partners in executing the strategic plan. Throughout this step, the business interfacing groups will continuously seek business guidance in the face of negative feedback.

Phase II transition incorporates alignment of an organization's maturity in terms of its growth/profitability, with a strategically supportive IT environment. This involves channeling IT innovation to support operational excellence and knowledge worker productivity. For example, within cyclically mature and slower-growth industries such as truck manufacturing, a strategically supportive IT environment would facilitate stability and control, whereas within hyper-growth social networking companies, the

IT emphasis would be on agility and transportability in order to enable rapid development of new geographic markets. Therefore, companies such as MySpace and eBay operate in platform-agnostic environments, so that application development can be aligned to drive business growth.

In this evolved phase, goal alignment workshops are well-established strategic forums, and IT leadership is conditioned to ask the right questions and come to the table with answers. In such best-of-breed companies, important strategic IT processes in place include:

- M&A Support

Following the examples of corporations that have been highly active and evolved in M&A activity, such as Bank of America and MetLife, strategically valued IT departments use a detailed playbook to rapidly identify and conduct all aspects of due diligence on a potential target. Then, if the deal is done, the playbook is utilized to integrate it seamlessly to the benefit of all its stakeholders. In the most effective situations, M&A task forces from different functional areas of the corporation apply procedurally standardized (though functionally distinct) parts of the playbook to work seamlessly together in the integration (or divestiture) exercise.

- Advanced Vendor Partnering

In strategically valued IT departments, the leadership team has greatly improved its effectiveness by disowning IT application, support and infrastructure -- treating them as services and letting external partners deliver them. This enables senior IT leaders to focus on improving the company's competitive position, making the IT investments that are unique to the business and that can differentiate it from the competition. Companies in various industries that were born in the Internet age, such as Netflix, eBay and Amazon, have each downplayed ownership of application support and maintenance, and instead focused their IT efforts to facilitate leadership positions in their industries.

- Effective Service-Oriented Architectures

Initially, service-oriented architectures (SOAs) made it possible for IT departments to create more flexible connections across applications. Just as automobile companies have become familiar with modular product design, a number of large banks and financial service firms now utilize service-oriented architectures to implement modular business processes. This allows resource providers to facilitate both process innovation and responsiveness to changing markets on the fly. Strategically valued IT departments make investments to significantly improve the effectiveness of their SOAs.

- Non-Siloed Business Intelligence Capabilities

For the most part, business intelligence (BI) capabilities are still heavily siloed within IT departments and address a narrow band of business users. Strategically valued IT departments propagate a democratized enterprise "intelligence platform" throughout the organization. In such companies, data is available to a broad spectrum of users through many different interfaces. Oil & gas and pharmaceutical firms in particular are leading the way in distributing BI capabilities throughout their organizations.

- Systematized Strategic Planning

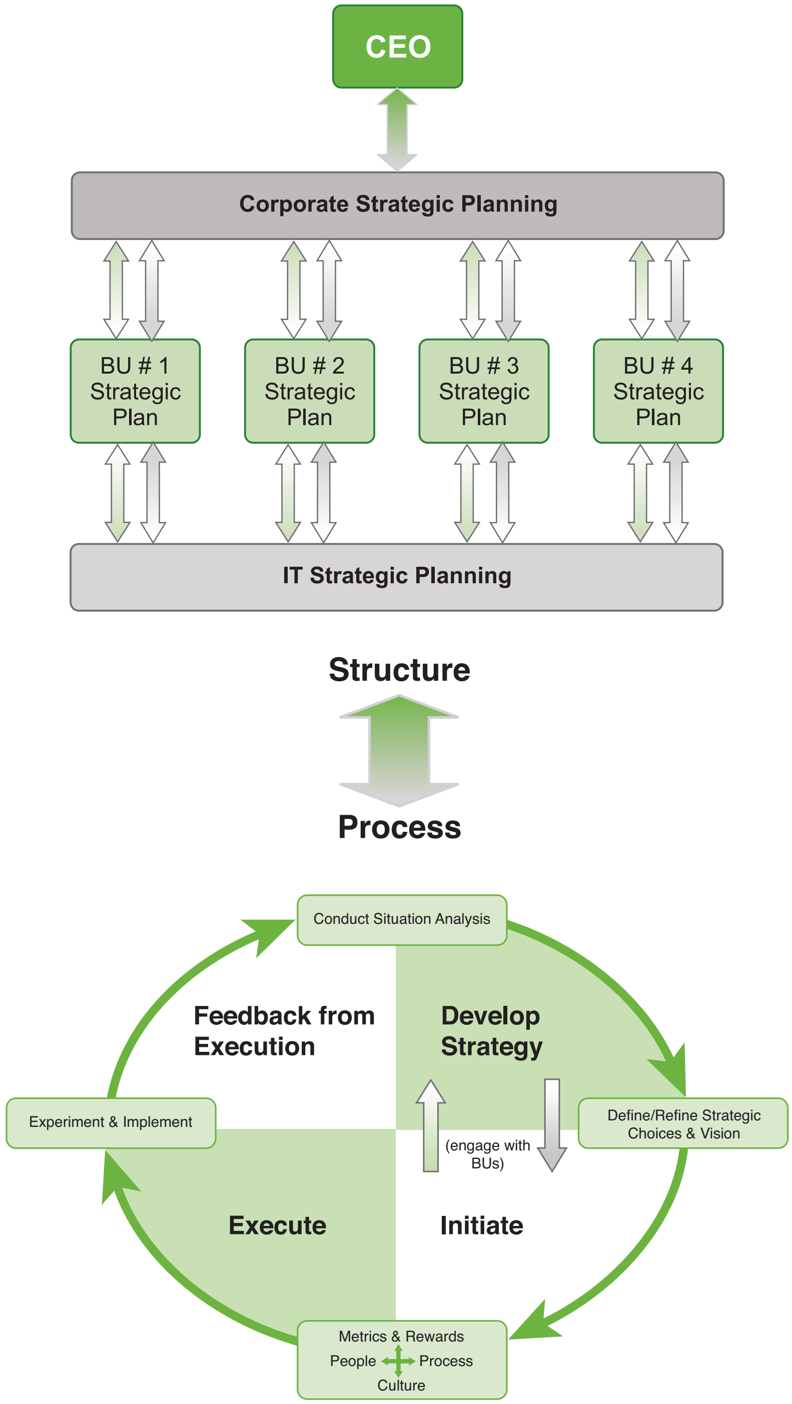
Recalling the ratio of perspiration to inspiration, an effective strategic planning regime is 20 parts deregulated innovation, technology and competitor analysis, and 80 parts regulated planning discipline. Regulated strategic planning capabilities, in turn, incorporate the capacity to focus on the agenda for change, as well as to react with agility to stochastic events, such as a fast-breaking acquisition opportunity or an internal crisis. However, discipline also serves to inject rigor into annual planning cycles, provide close coordination with corporate and business unit planning efforts, and syndicate plans throughout the organization in order to realize the values implicit in them (see Figure 3, next page).

- Proactive Organizational Change Management

Strategically valued IT departments are also responsible for change management within their organizations. Cognizant's work with the aforementioned company not only helped it frame a change management methodology from an internal IT perspective, but it also provided an opportunity to build an agile IT organization to continuously implement advancements in business drivers and improvements in mission-critical business processes.

FIGURE 3:

A Representative Strategic Planning Framework



Everyone Plays A Role

An effective CIO is crucial to this type of transformation, but success requires contributions from many IT groups. Within our example company, ideas are channeled through advocates among business interfacing partners, program/project management, enterprise architecture, organizational governance, infrastructure, enterprise business intelligence and others, and they are then pruned and encapsulated to be aligned with the strategies of the business units. While all groups are expected to contribute a forward-thinking plan, some groups play a more dominant role than others in guiding the overall strategy. For instance, decisions made by the business interfacing partners, enterprise architecture and the PMO define the strategy of the entire IT organization and establish how well initiatives are executed.

Initiating a quantum change initiative is not easy, and not every company is ready for a total IT transformation.

Persistence is required to achieve quantum change in either the big-bang or small-bites mode. The trade-off is that persistence may be harder to sustain in the small-bites approach, since progress and visibility are harder to gauge by others within the organization. Success requires heightened vigilance by the CIO (or a lieutenant with good strategic experience/mindset), In either case, it is essential that a well articulated and communicated strategic IT plan be developed and maintained -- one that is closely aligned with corporate and BU strategy.

Moving through the two phases from technology supplier to strategic partner is a necessary structural transformation that opens up new horizons for IT leaders and the organizations they manage. It creates opportunities for the advocates and entrepreneurs involved, positioning IT to play a key role in defining and implementing enterprise and business unit strategy, while elevating the overall market value of IT.

Vineet Kapur is a Principal in Cognizant's Business Consulting group (CBC). Vineet has over 25 years of experience in corporate and business strategy, mergers and acquisitions, finance and management consulting. Prior to joining Cognizant he was the CFO of Touchstone Asset Management. He was previously a Corporate Development Specialist at McKinsey & Company, specializing in embedded cross-functional engagements within the healthcare, information technology, financial services, media/entertainment, food and hospitality industries. Vineet can be reached at Vineet.Kapur@cognizant.com.