REAL WORLD CASE 4 IT Leaders: Reinventing IT as a Strategic Business Partner

CIO Steve Olive isn't handing out any gold stars to IT for providing good PC support or networking service at Raytheon Integrated Defense Systems. "Consistently reliable and excellent IT service should be a given," he says. "What businesses need and IT should be providing are innovative solutions to business challenges." That means creatively applying technology to produce goods more efficiently and at a lower cost, to sell and service more of them, and to do so at the highest possible profit margins.

It also means using IT to create new products and services and even whole new business models, says Darryl Lemecha, CIO at ChoicePoint Inc. Because technology is embedded in just about everything a company does, "technology strategy and business strategy are now one." Kathleen McNulty, CIO at The Schwan Food Co., puts it this way: "It's not about IT automating the business anymore. It's about innovating it, improving it." So forget about IT supporting the business. IT leaders are focused on reinventing the business, starting with the IT organization.

Their timing couldn't be better. According to Gartner Inc., within five years, 60 percent of chief executives will make their CIOs responsible for using information as a strategic (read: revenue-generating) asset. Gartner also predicts that 40 percent of CEOs will make CIOs responsible for business model innovation.

IT executives such as John Hinkle at Trans World Entertainment Corp., Patrick Bennett at E! Entertainment Television Inc., and Filippo Passerini at the Procter & Gamble Co. are all over this trend already. They are completely transforming their IT organizations, and everything is up for radical change, from how and where IT is housed within their companies to IT job titles. IT duties increasingly involve responsibility for business processes, as well as the technology that supports them. Also up for reinvention is how IT value is measured.

"If you want to drive a significant amount of behavioral change in an organization, it takes some big swings," says Hinkle. "Maybe that means dramatic structural change or changing what people do." At Trans World, it involved all of the above.

One of the first things Hinkle did when he came to Trans World from General Electric was abolish the title of analyst and move people in that role into the project management office (PMO), which oversees all technology and business projects, as well as all business process changes for the company's 800 music stores. Project managers have developed expertise and a special rapport with the specific business functions to which they are dedicated. New projects and even systems changes go through the PMO, which uses Six Sigma project management processes.

As CIO, Hinkle oversees the PMO, is a member of the company's executive board, and is deeply entrenched in all business decisions. "I'm involved in merchandising, store planning and in every other core strategic meeting at the company," Hinkle says. "I'm expected to be very well versed in these things, and I'm also expected to answer more than the IT questions. I'm part of the strategy brainstorming."

Hinkle expects his IT team to be equally well versed in business processes, which is why every IT staffer spends a minimum of three days in the field every year, working in a store, a warehouse, or a department such as finance or payroll. "That way, they know what the business really needs and how to help," he says. "You don't have a supply chain system or financial system that works in a box or a point-of-sale system that just takes money. Now we have highly integrated data flows, so every project requires an understanding of all systems and all business areas." By knowing the business, "they better understand why they might get a call for support at 1:00 in the morning," he adds.

At ChoicePoint, Lemecha created a federated structure with two bands of IT positions: one for technical workers, who hold the title of IT architect; and one for managers, who hold the title of business information officer (BIO). "We believe in two independent career paths. Just because you don't manage people doesn't mean you should be limited in how far you go in the company," he says.

The BIOs are embedded in each of ChoicePoint's businesses and act as local CIOs. "They understand the operational issues, they know all of the people, and they spend 100 percent of their time in the business units," where they can directly affect business–IT alignment, Lemecha says. "They know and understand the business because they live in the business," he says. The chief benefit of this arrangement is "when you fix the alignment problems, you do the right IT projects and, ultimately, impact revenue and get better customer service," Lemecha says. ChoicePoint's consistent revenue growth, ranging between 5 percent and 15 percent annually for the past several years, is no coincidence.

At Cincinnati-based Procter & Gamble (P&G), the company's top IT project over the past three years has been to reinvent IT itself according to a four-year strategic alignment plan. "In the last year, we reshaped, renamed, refocused and began retraining our 2,500-person IT team," says Passerini, who is global business services officer in addition to CIO. The IT department was renamed Information & Decision Solutions (IDS). The new IDS group was then merged into P&G's Global Business Services shared-services organization, which is also home to the human resources, finance, strategic planning, and relocation functions. IDS staffers focus on high-level, IT-enabled business projects exclusively; routine IT tasks are outsourced to Hewlett-Packard Co. under a 10-year, $3 billion agreement signed in 2003.

Passerini has charged IDS with the same three business goals of every other P&G business unit: to increase profits, market share, and volume. To accomplish this, IDS focuses on three key tactics: getting and distributing data faster, innovating and speeding the ways in which P&G gets products to market, and applying consumer-friendly techniques to delivering new IT products and services to P&G's internal user base. For example, IDS has developed a virtual modeling process and simulation techniques that allow package design, consumer testing, product testing, and even new manufacturing techniques to be developed and tested in a fully virtual environment, dramatically accelerating the cycle time for new products.

"When we have new products, we can build virtual retail shelves and even show our competitors' products on them. More importantly, we can build our products to the scale of different retailers' shelves. This is all about building business capabilities for P&G," Passerini says. "The whole idea is running IT as a business, but not necessarily using [traditional return-on-investment] financial measures to quantify IT's value," he says. "In the end, no one believes those numbers anyhow. The numbers you want are higher profits, market share, and volumes. In reality, it's all about the relevancy of IT's contribution to the business," Passerini adds. That is how IT's value is measured at P&G.

E! Entertainment Television in Los Angeles has radically departed from its traditional model of separate IT and television broadcast operations. The change coincides with the broadcast side's shift from tape to digital technology. Before, separate vice presidents oversaw online, television network, and IT operations. Now there is a single senior vice president of technology and operations ; ideas, designs, technology, and projects are shared among all three operations.

For example, IT personnel were involved in the design of E! Online content from the time the site was first launched in October 2006, notes Bennett, executive director of business applications. "Before, we would have gotten the specs and built it much like a contractor," he says. "But now, IT was in on branding discussions and audience focus groups from the beginning. "What we've done is flatten the more formal [software development] processes and made them more person-to-person" as a way to develop products and services faster across all media, Bennett says. "As we interact with executives and users and release software iteratively, we're also gaining greater domain knowledge about the business," he notes.

Just recently, IT participated in a discussion about offering an online feature that would let Web viewers of E! Online vote on whether celebrities on the red carpet at the Golden Globe and Oscar celebrations are hot or not. "Now that's not a traditional discussion or conversation you would have in IT," Bennett notes wryly, "but now we're thinking about these kinds of things across all media." Under the new organizational structure, "there's constant interaction and exchange of information and ideas through human contact. As opposed to being assigned to a user department, IT is constantly interacting across media," he says. "You're more of a partner with the business. You're creating products together. IT is definitely stepping out from behind the shadows of backoffice corporate systems."

"It's very much a different mind-set," says Raytheon's Olive, whose overhauled IT organization now includes customer relationship managers who are embedded in the business, plus 10 teams of technical workers who support IT frameworks such as infrastructure, application support, and desktop services. The vast majority of those technical workers are "home-roomed" in cross-business teams that work on projects that the customer relationship managers bring to them, he notes.

"It took two years for this model to really jell. At first, there was a little bit of tension while the clarity of roles and responsibilities was a little confusing," Olive acknowledges. "But once we defined roles and responsibilities, it improved morale and worked to create a highly motivated workforce because we were making higher-level contributions to the business."

Source: Adapted from Julia King, "How IT Is Reinventing Itself as a Strategic Business Partner," *Computerworld*, February 19, 2007.

CASE STUDY QUESTIONS

1. What are the business and political challenges that are likely to occur as a result of the transformation of IT from a support activity to a partner role? Use examples from the case to illustrate your answer.
2. What implications does this shift in the strategic outlook of IT have for traditional IT workers and for the educational institutions that train them? How does this change the emphasis on what knowledge and skills the IT person of the future should have?
3. To what extent do you agree with the idea that technology is embedded in just about everything a company does? Provide examples, other than those included in the case, of recent product introductions that could not have been possible without heavy reliance on IT.

REAL WORLD ACTIVITIES

1. Search the Internet to find information about other firms that have transformed their IT organizations and the role that the CIO plays in the governance structure of the organization. What benefits have they been able to derive from these changes? Prepare a report and present your findings to your class.
2. Consider the virtual reality technologies employed by Procter & Gamble and described in this case. Break into small groups and brainstorm applications of these types of technologies for companies in industries other than those reviewed in the case.