CHAPTER 1

Seven Realities That Jeopardize Business Survival

WHY ORGANIZATIONS HAVE TO REASSESS THEIR INFORMATION MANAGEMENT STRATEGIES

Reflect for a moment on the top 10 questions that must be answered to drive your business forward. For instance, "Who are our best customers, and how can we increase the value of our relationships with them?" "Among the infrastructure projects on the plate, which ones will yield the best return on investment?" "What is the true cost of major business processes, and which processes are inefficient?" "How can we align unit-level objectives to best satisfy corporate-level objectives?" "Can I sign my good name to the financial statements being submitted to the Securities and Exchange Commission?"

Now consider all the information that must feed into every one of those decisions. Do you have full confidence that every relevant byte of data is valid and accurate . . . that all factors have been duly considered . . . that every contributor along the way is operating from one version of the truth?

If the answer is "Well, yes and no, sometimes," you're in good company. In spite of the technology advances of the last few decades, about 70 percent of enterprises still operate at a fairly basic level of information management—a Level 1 or 2 on a five-point scale. The trouble is, new business realities are ratcheting up the expectations and making it more critical to manage information more effectively.

The emerging business climate is more punishing than ever to the slow-moving and the inefficient. Sustainable growth is no longer a bonus; it is a baseline expectation. Old ways of managing information may have worked in the past, but they are already constraining some organizations—and dooming others. It is time for enterprises to:

- Reassess their ways of managing and using information and
- Continually strive for systematic evolution to more competitive information management models

Let us take a look at some of those business realities.

REASSESS YOUR INFORMATION MANAGEMENT STRATEGY

Business Reality 1: Business Cycles Are Shrinking

The productivity-building tools that enable your organization to design, develop, and deliver faster than ever are also doing the same for your competitors. Computer-assisted design, global collaboration teams, Internet marketing . . . technology-based advantages such as these also deliver a dark side by compressing business cycles into a fraction of their previous span. Processes that once fit a 7-year cycle might now be compressed into 18 months or less. Today's unique product or service quickly becomes tomorrow's commodity offering, as competitors speed their own versions to market and force you to compete on price rather than innovation.

Shrinking business cycles have put many staid, slow-moving organizations into hot water. Scan down a column of New York Stock Exchange listings; check out 52-week highs and present-day lows for our nation's industrial leaders. You'll see an uncomfortable number of stalwart Dow veterans teetering on the edge of junk status after decades of robust earnings. The paths of past success are not reliably leading to future success. The path of conservative certainty is proving to be riskier than the uncertain paths of innovation and reengineering.

Time to market, once measured in years, is now measured in weeks. In the intensely competitive, Web-fueled marketplace, today's window could close into tomorrow's missed opportunity. Turning points require on-the-spot decisions. Survival and profitability demand up-to-the-minute understanding of the big picture and constant innovation. Complex global organizations require multidimensional vision.

Pushing decision making closer to operational units has streamlined processes, but often without the corporate-level perspective required for high-quality decisions or the quality cross-functional information that reflects critical interdependencies. How can decision makers make sure their decisions align with corporate strategy? How does management measure that they are?

Business Reality 2: You Can Squeeze Only So Much Juice Out of an Orange

In the last decade, companies have invested significant time and money optimizing their operational processes and implementing enterprise resource planning (ERP) systems to produce huge cost savings and competitive advantage. Naturally, so did their competitors.

Ultimately, operational optimization for efficiency's sake is like squeezing an orange. The first time you squeeze it, you get a significant return on investment. The next time, you get a little less, and less. With your main competitors doing the same thing, everybody quickly ends up in a commodities war. The absolute best you can accomplish with an ERP is parity with your competitors. The winner is the one who realizes standardized ERP is a blessing but not by itself a panacea.

Maybe the answer is not squeezing a few more drops out of the orange, but questioning whether more orange juice is really producing more profit. Maybe those efficiencies are being gained at the expense of innovation, market alignment, and enterprise-level goals.

Business Reality 3: The Rules Have Changed; There Is No More "Business as Usual"

There was a time when executives believed the business world should operate like a fairly played game of Monopoly: Chart an unwavering march around the board, get bigger and bigger, and accumulate wealth. Mergers and acquisitions yield unsinkable profits. Tycoons and big empires rule.

The rules have changed. The winner of a realistic present-day Monopoly game would not be the one who accumulated the most real estate and railroads. The winner would be the first to invent transatlantic air travel, time-shares, adjustable-rate mortgages, frequent flyer miles, online ticketing, and space tourism (just for starters, since all these innovations will quickly be copied by the other players).

Granted, sometimes it seems that today's business game is less like Monopoly and more like Pin the Tail on the Donkey, while the donkey trots wherever it will. Neither one of these is a game where you can have much success with either a blindfold or a prescribed path. Or with a mega-merger corporate structure that reacts sluggishly to market dynamics.

For five years or more, our economy has been on a wild ride that has both challenged and reaffirmed all notions about "business as usual." Sure, the old rules of business still apply: Money counts. Profitability matters. Customers are number one. Stakeholders rule. Competitors are hungry. Yet at the same time, the old rules of business have been reshaped by double-edged trends of opportunity and challenge. Along with new promise came new problems:

- The diversification wrought by mergers and acquisitions increased corporate reach and revenues, but also increased the difficulty of gaining agility and corporate-level perspective.
- The productivity advancements that increased yields at tighter turnarounds also ratcheted up all baseline expectations from management and customers (whether those expectations would drive the company to success or not).
- The information technology (IT) advancements that generated gigabytes of data about every phase of the process also drowned the systems that were supposed to capture and digest it.
- The technologies that were supposed to be cure-alls failed to resolve root business issues, because the interdependencies of people, process, and culture had often been overlooked.

So, the old rules apply, but they are not quite the same old rules we remember from that other millennium. In the midst of a multiyear slump, every organization has felt the pressure to (1) respond more quickly to (2) constantly changing market demands with (3) higher quality products, while (4) trimming workforce, waste, and costs. The old adage used to be: "Fast, Cheap, Quality: Pick any two." Now it's "Deliver all three."

Actually, four. Add *adaptability*. Which gets us to the next Business Reality.

Business Reality 4: The Only Constant Is Permanent Volatility

The natural corollary to Business Reality 1 is that change is endemic, and it comes around more often and more rapidly than ever. Volatile markets squash companies for having poor business models, and they punish harshly for indecision.

At the same time, volatile markets reward a company's agility and willingness to evolve. But how does a company recognize meaningful change and realign corporate strategy to match? How does it determine whether to differentiate itself in an existing market niche or define a new one? How does it choreograph massive corporate change while minimizing risk and maximizing returns for shareholders?

In a competitive environment that is anything but static, successful enterprises need more than static processes. They need more than rearview-based planning in a world where future trends are not reliably derived from past results. They need to drive and harness change rather than react to it. They need to focus on what will create value for the organization in the future rather than on tallying up historic results. And they have to do it all at Internet speed.

Business Reality 5: Globalization Helps and Hurts

The World Wide Web and the corporate virtual private networks it supports have transformed the smallest organizations into global entities and the largest organizations into "local" entities with virtual teams and processes that span the globe. On the plus side, this means:

- Your potential market is as widespread as the reach of global communication networks.
- Your suppliers and other outsource partners can be strategically chosen from the lowest-cost countries.

- You can attract the best and brightest talent for collaborative teams, without requiring them to relocate.

On the minus side, globalization means:

- Your customers are increasingly crossing borders and expecting you to respond to their needs in every country in which they operate.
- Process- and quality-control issues are now complicated by spanning continents, languages, international standards, and cultures.
- New international outsourcing, partnering, and marketing options—while increasing choice and flexibility—also raise the complexity of doing business.

The Web itself proved to be an accelerated test bed for thin business propositions. The dot-com debacle of the late 1990s showed us just how quickly weak foundations can be punished in this age of high-speed business.

Business Reality 6: The Penalties of Not Knowing Are Harsher Than Ever

In the wake of high-profile corporate accounting debacles, the U.S. Securities and Exchange Commission (SEC) has taken things personally. That is, the SEC is now holding chief executives of public corporations personally accountable for the veracity of their financial reporting—and the controls and assurances on reporting processes.

The Sarbanes-Oxley Act requires the top executives of publicly traded companies to personally swear by their financial statements—and to financial-reporting controls and procedures. Executives who willfully certify statements they know to be false can face criminal charges, fines up to $5 million, and jail terms of up to 20 years.

Just ask ex-WorldCom chief executive Bernard Ebbers. In July 2005 Ebbers was sentenced to 25 years in prison for his role in an $11 billion accounting scandal, the largest corporate fraud case in the nation's history.

Even the most scrupulously ethical executives should be concerned. Can you really swear to the integrity of data management processes throughout all the tributary systems that flow into SEC reporting? Can you be sure that all business units and contributors understand and comply with best practices?

At its core, the Sarbanes-Oxley Act does not require anything more than ethical business conduct. It enforces accepted principles of good business—primarily, that organizations must fairly and accurately represent the company's financial position to shareholders and the public. However, as corporations become globally more complex and operate at Internet speeds across virtual geographies and multiple markets, it is harder than ever to offer up a snapshot that is not blurred, for a multitude of reasons that have nothing to do with malfeasance.

The implications for chief financial officers (CFOs) and chief executive officers (CEOs) are profound. Executives were already under intense pressure to meet earnings projections and improve profit margins in a turbulent economy. Now they also have to swear under oath that top-level financial reporting—calculations derived from hundreds or thousands of originating sources throughout their global organizations—are accurate and have been produced in accordance with generally accepted accounting principles (GAAP). Furthermore, they are being held to broader disclosure requirements and shorter reporting deadlines than ever.

In a perfect world, corporations would have perfect answers for all of the new legislative challenges. In the real world, however, Sarbanes-Oxley asks some tough questions for which many existing information infrastructures have some shaky or stopgap answers.

Business Reality 7: Information Is Not a By-Product of Business; It Is the Lifeblood of Business

The natural outcome of Business Realities 1 through 6 is that companies have to be faster and savvier than ever. They have to be more innovative and adaptable. They have to achieve more with less: More growth with fewer resources. More profit in a short tenure as market leader.

The common foundation required to achieve all these attributes is *information*. Decision makers must have up-to-the-minute access to intelligence about all issues that influence their decisions—and all issues their decisions affect. The climate of the "new economy" requires unit-level autonomy based on the broadest possible perspective—within and outside the company.

Companies must extract maximum value from the information they have about suppliers, customers, competitors, and global markets. This information is essential to know what the market wants, supply it as efficiently as possible, and promote it in a way that will maximize market share.

Information is no longer a transactional by-product of business. It is the lifeblood of business itself. Proprietary information about your customers, strategies, and sales is the underpinning of your success. It shows the way to extract ever greater rewards from whatever your company does well.

THE PERMANENTLY VOLATILE WORLD

In the old economy, product and service attributes were the competitive differentiators. They still are, but only for short windows before competitors join the scene. For example, in June 2005 General Motors unveiled a new incentive plan to offer "employee discounts" on new car sales to the general public. This program sparked the company's best sales month in 4 years, its sharpest sales increase in 19 years, and boosted market share. Dealers loved the program and lobbied the company to extend it for another month. Naturally, others took notice. By the beginning of July, Ford and Chrysler had replicated the same offer on all but their most popular models.

When your great ideas can be so quickly copied, the most enduring competitive differentiator is *information*—the critical factor that enables organizations to respond to constant external change with *constant* renewal and innovation.

That means an enterprise's information management strategy can be either its most compelling asset—or its most limiting deficit.

Enterprises are certainly not lacking for data. It is on thousands of PCs and PDAs. It is in databases throughout the organization. But data is not the same as *information*. Is your corporate information strategy producing true competitive advantage? Is it producing proactive intelligence or is it just capturing and reporting past occurrences? Does it enable the organization to take action with long-term value in mind or just react to near-term problems?

The exponential growth of data—a crushing mass of scattered, complex, and often contradictory bytes—presents the most significant challenge and the greatest opportunity that businesses face. For some, there is just too much to absorb and process. There is no manageable way to distill it into useful intelligence.

The natural response for corporations is to compartmentalize, to divvy up the information and the responsibility for using it. Marketing has its systems and databases, which do not talk to Operations systems and databases. Operations needs resources, but Human Resources cannot let anyone into its proprietary domain. Finance does not see the true cost of processes, only the sanitized version that trickles up in a hopeful and often cutthroat budget process.

Sound familiar? It is a common scenario. Left to the forces of inertia and human territoriality, this is exactly the information infrastructure that will arise. Unfortunately, in this world, decisions are then made on myopia and gut instinct—educated guesswork. That is hardly a foundation on which to ask for shareholder faith, in light of all those cold Business Realities.

The good news is that it *is* possible to redefine the way information pools and flows in your organization—and the power it can generate. It *is* possible to profit by attaining a new level of intrinsic organizational intelligence. The path to that ideal is a classic evolutionary process—a progressive adaptation that builds the necessary qualities for survival.

DARWINISM ON A NEW-MILLENNIUM TIMELINE

By design or by default, corporate information management has already been through massive evolutionary change in the last 50 years. Those that did not evolve became extinct. A few decades have witnessed the evolution from manual business machines with carbon forms in the 1950s . . . to electric business machines and photocopiers in the 1960s . . . to monolithic mainframes in the 1970s . . . then personal computers, fax, and dial-up modems in the 1980s . . . to high-speed global networking in the 1990s.

This millennium continues the technology trend, but the new Business Realities force us to look beyond architecture and delivery mechanisms to the quality and long-term value of the information being produced. How does a company manage strategic information assets in a rapidly changing environment? What challenges arise out of that task? What preventive measures can be taken to ease the growing pains associated with moving from one information paradigm to the next?

No matter how simple or convoluted an organization's current information architecture, a logical path has been charted to help organizations evolve into information-driven, "intelligent" entities—not just survivors, but leaders.