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IT and Broader Company Vision

The modern IT department solves various problems across the business. As it does so, it is best positioned to suggest opportunities to cross-pollinate ideas or eliminate redundant efforts. It can also reinforce the business's strategic success by standardizing how the company communicates its objectives and needs.

Some IT departments have started to do this. Over the past ten years, successful ones have begun to measure their success through returns on IT investments and revenue enhancement for the business. In this chapter and throughout the book, I will identify some World Class IT departments who have led the way in creating value and helping their companies achieve true strategic change and success.

Why don't *more* corporate executives use IT as a strategic advantage? Among other reasons I will get into later, traditionally business and IT executives came from different backgrounds. The former had business degrees and learned the business on the "shop floor," focusing on the customers and catering to their needs. The IT folks tended to be technicians, often with master's degrees or Ph.D.s in engineering disciplines, who built systems to help the company be more productive. They did not get to know the customer, and in fact rarely linked their activities with either the corporate or business unit strategies. But this and other reasons no longer need to prevail.

Definition of World Class IT

What then does *World Class IT* mean? It is admittedly a loaded term. Everywhere around us, we see people suggesting that they offer "world-class service" or "world-class products" or "world-class employees." Often, these companies operate in a single geographic location, giving one the impression that they are like the baseball World Series, which despite its moniker only allows American teams to compete for the title "World Champion," save for the Toronto Blue Jays.

I will start with the potentially unsatisfying answer that there is no one definition of World Class IT. What works best for a multibillion-dollar multinational may not work well for a regionally focused startup. A company's size, scale of operations, geography, industry, and product and service mix will all affect how the company organizes itself. Moreover, companies in growth mode versus those that are cutting costs may operate differently. Industry leaders differ greatly from industry laggards.

That said, having consulted to a great number of companies that differ along most of the lines mentioned above, I can attest that there are some universal truths that can be applied to almost all of them. The best IT departments are populated with employees who understand the business that they are in. This is true not only of the CIO but also of the employees who are many layers beneath him or her in the organization chart. This may seem like a "no-brainer," but many if not most IT leaders do not take the care they should in exposing employees to the business. IT employees should understand how the company makes money and how it can save money, and understand the role that IT has in facilitating each of those processes. They should understand how the products and services work. IT departments that do not unlock the collective creativity of their staff by helping them understand how their department can affect the business are destroying potential value and keeping great ideas from percolating.

The leaders of the best IT departments constantly ask the question, "How can we improve?" On one of my first assignments introducing these concepts, my client was Harrah's Entertainment. Working with Harrah's was a daunting task because they were an unquestioned industry leader for which the IT department was considered one of the crown jewels of the company. The CIO at the time, John Boushy, was legendary, and several months thereafter, he would be succeeded by Tim Stanley, who would go on to also be a legendary CIO in his own right. John Boushy would go on to become CEO of Ameristar Casinos at least partially on the basis of his rare ability to translate business needs into creative IT solutions. Likewise, Stanley's success as a CIO would garner him added responsibilities including heading both Gaming Operations and Innovation for Harrah's in addition to his role as CIO, garnering the title CIO and SVP Gaming, Innovation and Technology. (Tim Stanley retired from Harrah's in January of 2009.)

At the outset of our collaboration, I was curious how well the IT leaders would take constructive criticism. Had all of the many articles that I had read in top business publications about the IT department and these two great IT minds caused them and their colleagues to believe that they could do no wrong? I was pleased to find that from the first day that I worked with them, they indicated that we had been brought in to help them understand how they could continue to improve. John and Tim requested that our analysis, insights, and recommendations come to them unfiltered, and that the shortest path to improvement be identified. I realized in short order why the department was so special.

The best IT departments also maintain dashboards of the entire department, to measure how all areas are performing on a regular basis. CEOs and CFOs have been doing this for a long time, but CIOs are more recent converts to instituting dashboards with comprehensive metrics. Some CIOs elect not to keep these metrics for the same reason that some people do not go to the doctor for regular checkups: they are worried about what they might find.

However, just as with one's personal health, if the right areas are evaluated, and the right metrics are kept, a problem can be identified early and a cure can be found before the problem becomes a terminal disease. Publishing dashboards and metrics provides positive pressure for the entire organization. Including the most important aspects of IT in the dashboards and conveying what the organization deems to be most important to measure will unlock the creative flow of ideas, as the entire department, and possibly even members of the organization as a whole, can develop new ideas on ways to improve.

The best IT departments also publish these dashboards and metrics for everyone to see. Broadcasting these metrics is equivalent to reaching a new land and burning the ships upon arrival: there is no going back. Sharing this information for a time and then not sharing it will lead everyone to suspect the worst. That said, the simple act of making the IT department's operation more transparent almost always is a move that will be admired, even if the baseline dashboards and metrics indicate that there is significant room for improvement.

The last characteristic that I have found typifying the best IT departments is a recognition that IT operates at a fortuitous position within the corporate structure. IT departments have relationships with each of the other business units such as marketing, sales, finance, human resources, and product specific divisions that differ company by company. Although human resources has a relationship with each of the other business units because they are involved in recruiting, hiring, training, and firing people, and finance has a similar relationship because it has to evaluate how each business unit proposes to spend the company's limited resources, IT departments have the opportunity to weave themselves into the fabric of the business unit's planning processes. They deliver technologies to each of the other areas, and if they manage the demand that the business has for IT solutions appropriately, they should see where there are needs and demands from each business unit that

may overlap. Moreover, they have the opportunity to understand how an investment proposed by one area of the business might have implications for other parts of the business. This requires that IT leaders be business savvy, drawing out the right kind of information from colleagues in the business units while creating enough value to be asked to engage in these sorts of conversations on a regular basis.

There are two examples that I would like to provide for this last point. The first is significant, as it shows that an IT department can operate at a world-class level of performance within a company that is not performing well, and therefore it can play a large role in turning the company around. The second highlights that IT's advantageous perch within the corporate structure provides the CIO and others in the department the opportunity to exercise influence beyond IT's traditional role for the betterment of the company as a whole.

Example: IT's Saving Role at United Airlines

Nirup Krishnamurthy managed the IT department of an organization not in growth mode but rather in the throes of Chapter 11 restructuring—United Airlines. Due to a confluence of factors, from a bear market to increased fuel prices to decreased business and leisure travel to ticket prices reaching ten-year lows to the effects of the terrorist attacks on September 11, United was in dire straits. United cut costs in all areas of the company in an attempt to restructure its way back to health. Krishnamurthy's IT department experienced significant cuts, which forced him to develop a better means of understanding how to prioritize the company's needs. He worked directly with the business executives to do so and developed the following strategic themes:

- Cost leadership
- Customer experience

- Revenue optimization
- IT infrastructure
- Shared services optimization
- Safety and compliance
- Employee engagement

For example, to adhere to the customer experience theme, each business unit proposed ways in which it could enhance the customer experience, and, working with Krishnamurthy and his team, prioritized the resulting ideas.

Even though United's IT investment approach came as a result of extreme circumstances, by pushing the business to prioritize, setting a strategic framework to manage demands of IT, Krishnamurthy and the IT department can claim a healthy amount of credit for assisting United Airlines in emerging from Chapter 11 bankruptcy protection and returning to profitability. As Pete McDonald, EVP and chief operating officer at the time, recounted, "We realized that using IT would be a critical component to mitigating the issues we faced."[1] Although IT is often among the first budgets cut during difficult financial times, CIOs who realize the important strategic position that they have in the company can be part of the solution to the problems that help the company turn around.

Of course, not so surprisingly, there are many leading IT departments that operate within industry leaders, as shown in the second example.

Example: IT at McKesson as Corporate Glue

At McKesson Corporation, executive vice president, chief information officer, and chief technology officer Randy Spratt inherited a challenged organization when he joined the company through its acquisition of HBOC in 1999. McKesson realized that it should

be getting more value from its IT department, and Spratt was tasked with enhancing the department's value. Spratt engaged the business in a new way, asking business unit leaders for their objectives and their needs, and having them participate on governance councils during which they would not only present their needs and requests but also listen to their peers submit their own. This facilitated a great deal of cross-business-unit learning that had not existed previously.

As a result, McKesson executives began to appreciate that IT was becoming the glue that helped the organization stick together in ways it had not in the past. As the business units began to understand more about each other, IT drove them to eliminate redundant efforts, identified where synergies existed that did not occur to the business units because they had previously operated in silos, and generally increased the amount of cross-pollination of ideas and business opportunities across the corporation.

When McKesson executives decided to merge with Per Se Technologies for $1.8 billion in November 2006, Spratt played an integral role. Like all acquisitions, this one had implications for many different functions, from HR to finance to various parts of the operations of both companies. In a two-day session, Spratt brought together the sixteen managers who oversaw the sixteen work streams identified for the merger integration, to share their plans and make adjustments so that the whole plan fit together. As the integration proceeded, progress was charted online so that all relevant constituents could track where the project stood.[2]

Just a few years ago, the thought of the IT department leading a corporation's efforts in a merger would have been considered unrealistic. How could IT people possibly understand the needs of the various business functions, and how could IT reconcile the sometimes competing interests that must be weighed during the integration of two companies? These and other objections would have prevented IT from playing the prominent role it now plays at McKesson.

As the president of Metis Strategy, I have been fortunate to advise a wide range of CIOs and CTOs, many of whom have worked or fought their way to their companies' strategy-setting tables by demonstrating that IT can be a strategic weapon and a source of competitive advantage. These executives are proactive in offering advice to the business rather than simply waiting for orders to fill. It is no accident that business executives at these companies now recognize the critical value that IT can add.

Five Principles of World Class IT

Expanding the value of IT begins with (but will not end with) ensuring that your IT department is truly world class.

On the basis of our experience in working with World Class IT organizations, my colleagues and I have come to recognize five principles that can ensure that the IT department contributes all it can to the company. The principles are as follows.

Principle 1: Recruit, train, and retain World Class IT employees. Without the right people, the IT organization will have little chance for ultimate success. It is essential that the company take care of its people, make them feel part of something that is bigger than themselves, and inspire them to think of their relationship with the company with a long-term perspective.

Principle 2: Build and maintain a robust IT infrastructure. IT organizations that do not have a reliable infrastructure are caught "fighting fires" day in and day out. Proper infrastructure allows employees to think creatively and proactively about new solutions that may help the business. By getting this principle right, the organization can carve out more time and attention to focus on adding value for the business and for IT itself.

Principle 3: Manage projects and portfolios effectively. Having a sound software-development lifecycle (SDLC) that is used by all areas of IT is critical to ensuring that new ideas are brought to bear quickly, reliably, and consistently. Having a sound project

management and portfolio management process ensures that projects are prioritized, and that limited time, resources, and funds are focused on the most important initiatives. Doing all of this in a way that is easy to convey to business partners ensures that the business understands IT, and that it does its part to guarantee that the right projects are chosen and that they remain on track to fruition.

Principle 4: Ensure partnerships within the IT department and with the business. With the right people, reliable infrastructure, and processes that will allow projects to be delivered in a creative and timely fashion, the IT department will have the credibility to gain a seat at the business's strategy-setting table. Once it has, associates in the department at all levels can act as peers and advisers to the business, both by reacting to the needs of the business with creative solutions to meet those needs and by being mindful of how trends in IT can have an impact on the business, thereby helping the business realize how it can best leverage technology even before the business has articulated its needs.

Principle 5: Develop a collaborative relationship with external partners. With the clear understanding of the strategic sources of competitive advantage created by principles 1 through 4, the business can then put more thought into which areas of the company are best managed by someone outside of the company. This fifth principle deals with understanding how to forge relationships with external partners that will provide them incentives to overperform, and to bring fresh, new, creative ideas to the table rather than to simply fulfill the letter of the contract and nothing more. Although the decision to engage external partners can have unintended long-term ramifications and therefore should not be made lightly, there is no doubt that outsourcing is an important weapon in the IT executive's arsenal.

Figure 1.1 shows the broad relationship of the principles to each other. They are depicted in a continuous cycle because once improvements are made relative to each of the five principles in

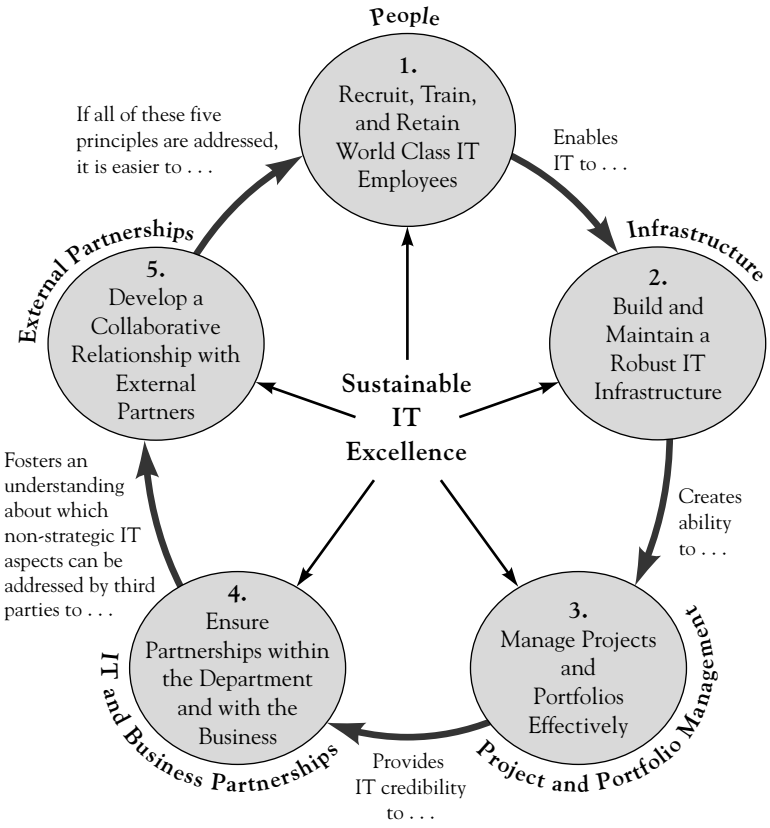

Figure 1.1. Five Principles for IT Excellence.

their appropriate order, the next phase of the cycle is enhanced. For example, the figure starts with people, but the next four phases make the company a more attractive place to work. This makes hiring and retaining employees easier, and the process therefore comes back again to further improvements in terms of your people.

Each principle has corresponding metrics and processes that can then be put in place to ensure the company's ultimate success. The principles are not entirely new, nor are they hard to follow. The truth is that most great IT organizations do some of these things well and other things not so well. The idea of this methodology is to monitor *all* five together.

What This Book Will Do

The next five chapters of this book will cover these principles one by one, breaking them down into greater detail and providing examples of companies that are operating at a high level relative to the topic principle. The chapters are guides for IT and business executives alike in understanding what it takes to achieve World Class IT performance. The five chapters will also convey ideas that these companies have pursued that represent new thinking in the realm of IT management.

At the conclusion of each chapter, I have provided suggested metrics for CIOs to use to monitor performance. It is critical that the IT department measure and communicate its performance. I have noted two levels of metrics for each of the subprinciples: introductory metrics and advanced metrics. Note that there may be other metrics that should be added or supplemented in place to make them as relevant as possible to each company. That said, in each chapter I have attempted to state metrics in terms to make them as broadly applicable as possible.

It is also important to note that not all metrics can be instituted. If the baseline of each metric cannot be established because the data are too difficult or expensive to obtain, then I do not suggest making unreasonable investments of time and effort to be sure that all of the suggested metrics are put in place. That said, if these metrics are unrealistic, alternatives must be found. It is not acceptable to avoid metrics.

When instituting metrics, we advise clients to think about the acronym "SMART." This stands for the following:

- *Specific:* A metric is specific if it is clearly defined and the ownership of the metric is clear. It is important that individuals be assigned to each of the metrics.
- *Measurable:* A baseline or a starting point must be established for each metric. The desired improvement

should also be measurable. Without both of these, then the metric is not useful.

- *Actionable:* This requires that the company or the department (in the case of this book, typically the IT department) have control over the metric. This is important so that IT can influence its outcome. If the IT department does not have direct contact with external customers, and yet metrics for customer satisfaction are tied to IT's success, there may be a disconnect. Either direct ties to the customer must be established or a new metric should be implemented.
- *Relevant:* When defining metrics, one must consider significance to the IT department. The defined metrics that are met must truly improve the performance of the department. Metrics also must be value-based. An IT department should not be judged as successful on the basis of the number of projects that it implements. Instead, it should be judged on the value derived from those projects, and whether they were delivered on time, on budget, and within the defined scope.
- *Timely:* Data for the metrics must be available in a time frame that enables them to be acted upon. If the data are not readily available, then the necessary improvements will not be timely as well, which defeats the purpose of the metrics in the first place.

In addition to assigning an owner to each metric, as mentioned, a target needs to be established for each metric. Not defining ultimate success is like driving without a destination in mind.

It is also important to note that the fewer metrics the better. Just as the IT department should not have too many objectives in its strategic plan for fear that it will not provide a filtering process,

likewise, having too many metrics will convolute the process and not foster the focus that good metrics should provide.

Projects and other initiatives should eventually be tied to these metrics to ensure that the improvements are being made. If the department defines metrics, but does not take action to improve upon them, then it goes without saying that the metrics will not be achieved.

Last, the metrics should be reevaluated at least annually if not more frequently. Changes to the company, changes to the industry, or macroeconomic changes may cause a need to rethink some of the metrics.

In closing, I should mention that I have avoided dealing with trends of the day in this book. Where I have provided examples from companies, I believe them to be examples that are worthy of emulation, even if they may need to be tailored to different industries, geographies, and company sizes. A goal of this book is to identify universal principles that are more timeless and less trendy. A critique of many IT books is that much of what they cover is irrelevant soon after they are published by virtue of the pace of technology change. I don't mean to suggest that the subprinciples defined herein will not change, or that new ones will not need to be added. That is likely, but I believe that the majority of them have staying power, and IT departments and the companies that they operate in can institute this framework without fear that it will be rendered irrelevant soon thereafter.