

THE
REAL
BUSINESS OF IT

*How CIOs Create and
Communicate Value*

RICHARD HUNTER
GEORGE WESTERMAN

HARVARD BUSINESS PRESS

Copyright 2009 Gartner, Inc. and George Westerman
All rights reserved
Printed in the United States of America
13 12 11 10 09 5 4 3 2 1

No part of this publication may be reproduced, stored in, or introduced into a retrieval system or transmitted, in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior permission of the publisher. Requests for permission should be directed to permissions@hbsp.harvard.edu, or mailed to Permissions, Harvard Business School Publishing, 60 Harvard Way, Boston, Massachusetts 02163.

Library of Congress Cataloging-in-Publication Data

Hunter, Richard, 1952–

The real business of IT : how CIOs create and communicate business value / Richard Hunter and George Westerman.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-4221-4761-0 (hardcover : alk. paper)

1. Information technology—Management. 2. Management information systems. I. Westerman, George, 1963– II. Title.

HD30.2.H864 2009

658.4'038—dc22

2009019364

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

Take the Road to IT Value

ON APRIL FOOLS' Day, Intel's employee newsletter used to feature a farcical story whose joke was that it was obviously impossible. On April 1, 1998, the headline was "Intel IT Wins an Intel Achievement Award." Everyone in the enterprise laughed—except, of course, for the IT employees.¹

Most IT organizations will never experience that kind of public embarrassment. But before you breathe a sigh of relief that it wasn't your IT team, ask yourself, Have any of your colleagues outside IT said anything like the following to you lately?

- "Why does IT cost so much?"
- "Plenty of companies succeed without spending a lot on IT."
- "We get results a lot faster in my department when we just do all the IT ourselves."
- "My son got our wireless network running at home in about fifteen minutes. Why do your people take so long?"
- "We could save a lot of money by outsourcing all our IT, and we'd get better service, too."

If you're an IT executive—the type of executive for whom we wrote this book—and you often hear comments like these, then

2 The Real Business of IT

you likely have the same kind of problem that Intel's IT team had in 1998. We might frame the situation as follows: managers throughout the business want value from IT, and they're pretty sure you're not delivering it.

And where you and the other leaders of the business are concerned, that's the end of any further discussion on the potential for IT-enabled value. You might like to think that IT could be an important strategic weapon for the business, and you might long to engage the executive team in conversations aimed at finding the strategic leverage points for IT—but you long in vain. Any attempt to start a discussion about the potential for IT to transform the business is met with stony silence.

If that's your situation, you're not alone. CIOs at many companies are frustrated by their inability to move the IT conversation to a higher level. For their part, business executives in many enterprises feel that their IT teams are not delivering enough value. As shown in table 1-1, these executives are baffled, frustrated, and even angered by their IT organizations.

No one can read that list of woes without knowing that something about IT has gone wrong in many businesses, whether in the value IT provides or in the way IT's value is communicated. Certainly any executive who agrees with any of the items on that list is suspicious of the IT organization's potential to improve enterprise performance. Such executives think of IT as a necessary evil, a

TABLE 1-1

Common attendee issues from MIT Sloan School of Management executive education course "IT for the Non-IT Executive"

- We're spending too much on IT.
 - IT is a black hole.
 - Projects fail to deliver.
 - IT doesn't have a customer focus.
 - We need to spend smarter.
 - Should we outsource?
 - Huge and unknown risks around IT.
 - Lack of trust between IT and business.
 - Our CIO speaks a foreign language.
-

cost to be diligently monitored and controlled, because the people supposedly in charge of the function are running a black hole that swallows up any resources that come near, emitting nothing in return.

The IT organization isn't the only one that suffers when IT value is in doubt. Because capable IT is as critical to business success in the twenty-first century as capable sales or marketing, the entire company suffers when the executive team doesn't see the value of IT. In effect, the enterprise gives up one of the most important potential sources of leverage it has.

The bad news and the good news

The bad news is that this is the IT executive's—meaning your—problem to solve. No matter how much any CIO might like to believe that it's the executive team's responsibility to learn how to appreciate the value of IT, the fact is that it's IT's responsibility to deliver and communicate that value. Period. Further, our research tells us that showing value is key to delivering more value—in particular, that effective business involvement in IT depends in large part on successful communication about the value IT delivers.

The good news is that because it's your problem, *you can solve it*. We know you can, because we have seen it done, over and over, at companies large and small, in every industry.

Our research on this subject includes surveys and discussions with IT executives and non-IT executives. It includes in-depth interviews with dozens of CIOs, many of whom are profiled in this book, and with several of the other C-level executives to whom those CIOs report. We have taken pains to base our research on the practices of successful CIOs, executives like Guido Sacchi of CompuCredit and Moneta Corporation, Ken Venner of Broadcom, Sam Coursen of Freescale Semiconductor, Doug Busch of Intel, Joe Antonellis of State Street Corporation, Marv Adams of Fidelity Investments, Rebecca Rhoads of Raytheon, Karl Wachs of Celanese, Al-Noor Ramji of BT, Kumud Kalia of DirectEnergy,

Larry Bonfante of the U.S. Tennis Association, Jim Barrington of Novartis, and Randy Spratt of McKesson. Unquestionably, these CIOs have delivered visible value to their enterprises, and sometimes have moved on to positions where they can deliver value more broadly.

Our goal is to help you achieve what these highly successful executives have achieved: recognition within and outside their companies that their IT organizations deliver real value—that they provide well-managed capabilities that are essential not only to running the enterprise at the best possible cost but also to supporting its continued and growing success.

Perhaps right now you can't do as these CIOs do. But it is our goal from this point on to show you how it is done. It is done, in fact, in a particular way and in a particular order, which we describe in the chapters that follow.

Nothing worth doing is exactly easy. The path to value described in this book takes work on everyone's part—yours, your team's, and your colleagues' throughout the business. The work is worthwhile because it pays off. It produces success for you, your staff, and your business—more value from IT, more recognition for the value IT produces, and more respect for you and your IT team as contributors to better outcomes for the business.

Start by thinking differently

The escape from IT's value quandary begins with something as simple and profound as a change of paradigm for the IT organization. We can sum up this paradigm change as rule number 1: *it's not about IT*. It's all about business outcomes and business performance, whether you're communicating IT's internal performance or IT's impact on business operations and financials.

Keeping that rule in mind—and acting on it—produces dramatic changes in the way the rest of the business thinks about IT value. No enterprise demonstrates the point more clearly than

Intel. After the embarrassing joke on April 1, 1998, Intel's IT leaders realized that they needed to change their ways. The story of their recovery is inspiring. CIO Louis Burns, who preceded Doug Busch in the role, embarked on a fundamental transformation of the IT function. The vision was that IT would be recognized as a key contributor to Intel's success, inside and outside the company. The two CIOs embarked on a series of initiatives that included consolidating the infrastructure, improving measurement, creating transparent governance mechanisms, and focusing continually on process improvement.

Every action was focused on delivering better value for the money invested—offering the right services at the right quality and the right price, and doing so in a way that made IT people easy to work with. Throughout the transformation, the CIOs made a point of communicating, inside and outside IT, exactly how IT's performance was changing in service quality and cost.

Their initiatives completely changed IT's service delivery, along with the rest of the company's perception of IT's performance and people. Total cost of ownership for PCs was reduced by more than 50 percent. Infrastructure unit costs and service quality improved significantly as measured by external benchmarks. By 2003, satisfaction with IT's performance had improved dramatically, with more than 80 percent of Intel employees surveyed rating the IT function as a strategic business partner (as opposed to a technology expert, provider, or vendor). These improvements were achieved while the IT budget was reduced both in absolute terms and as a percentage of revenue.²

Intel benefited greatly from its improved IT capabilities, and so did Intel's IT staff. CIO Doug Busch went on to establish the technology office in one of Intel's new business units. Other IT staff gained prominence both in the company and in the wider industry. And the IT unit was asked to take on the challenge of leading transformational programs for the whole company—a challenge that literally would have been laughable five years earlier.³

Successful IT leaders communicate value in a particular way and a particular order

The most striking thing we have discovered in our research is that successful CIOs, as a group, do remarkably similar things when it comes to achieving and communicating IT value. This is true regardless of industry, company size, or the portion of the company's revenue that is represented by its IT budget. It is true of public and private sector enterprises. It is true in good times and bad. It is simply how creating and communicating IT value is done.

We know that's a bold statement. Many IT organizations, like the businesses they serve, believe that their circumstances are unique. What works for others, they are sure, is far from certain to work for them. But we believe strongly in the power of the approach we describe in this book. It is not a magic spell guaranteed to win over even the most hardened executive Luddites, nor to immediately reverse a long history of distrust and suspicion between IT leaders and the other members of the executive team. It is the approach to creating and communicating IT value that has been proven in case after case and business after business. It fits with the way businesses build capability for managing IT and the way individuals build credibility as leaders.

It is something like redemption for IT, and all redemption—whether it comes via a twelve-step program, a religious conversion, or any other means—follows a common process. It starts by recognizing that you have hit bottom and that bottom is no place to be. You begin the change process by understanding how your thinking and habits have led to the problem and vowing to change. You acknowledge where you have harmed yourself or others. Then you start—first through baby steps and then through large leaps—to learn how to be the person you want to be and to reap the rewards of being that person.

Our research and experience show that IT organizations go through a very similar process. We can express the broad outlines

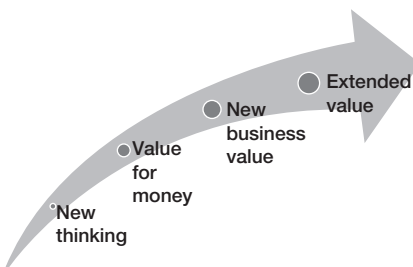
of this approach—an approach that applies to you as an IT leader, and to the entire IT team—in a few lines. (See figure 1-1.)

- *Step 1: Change your thinking to avoid the value traps.*
The road to (IT) hell is paved with good intentions. Avoid the *value traps*: practices that seem to be good ones but actually prevent IT from delivering and communicating value.
- *Step 2: Show that IT provides value for money.* As the “cheap information officer,” you and your team demonstrate that the IT organization is providing the right services, at the right level of quality, at a competitive price.
- *Step 3: Show how IT improves business performance.* As the “chief improvement officer,” you and your team help everyone make the connection between investment in IT and improved business performance.
- *Step 4: Show how you have value beyond IT.* As the “CIO-plus,” you operate as a peer on the executive team, providing value beyond IT itself.

Successful CIOs don’t skip steps, and they don’t run them out of sequence. They don’t try to demonstrate IT’s potential power as a strategic weapon until they’ve shown that IT is beginning to

FIGURE 1-1

The path to IT value



deliver good value for money. They avoid value traps, and they steadily increase the executive team's perception of, and involvement in, the value delivered by IT.

We examine all these steps in detail in later chapters. In this chapter, we introduce them briefly, starting with the value traps.

Avoid the value traps

Value traps are CIO practices and behaviors that at the time may seem correct, but that actually lead to trouble. They prevent IT from delivering value, and prevent the rest of the business from seeing the value delivered. Value traps are not about obvious failures, such as delivering unreliable service or being difficult to deal with. Value traps are more insidious. For example, saying that “the business is IT's customer, and the customer is always right” seems like a good idea when there is deep dissatisfaction with IT that stems from a long history of unreliable service. But over the long term, this value trap sets up the IT unit for failure, because customers are often wrong (especially about matters in which they are not expert), and calling colleagues “customers” puts a wedge between IT and the rest of the business.

The IT organization caught in a value trap is inwardly focused. That's a mistake, because in reality it's always all about business performance, and it's never just about IT. Overcoming the value traps requires IT organizations to recognize that they are in a changing environment, one that demands new thinking, behaviors, and competencies, beginning with the terms and concepts used by the IT team to conceive and communicate value. We discuss value traps in more detail in chapter 2.

Show that IT provides value for money

Recognition of the business value of IT takes more than a change in viewpoint. In many enterprises, executives must overcome a long history of disappointment if they are to appreciate the value

generated by IT. Even when executives understand explicitly that IT creates value, they need to be shown that *their* IT organization is creating *specific* value for the business where it counts most. (Indeed, many of the CIOs we interviewed for this book were turnaround CIOs brought in to replace a CIO who couldn't—or in the most egregious cases, obstinately wouldn't—provide the specific performance that executive leaders considered to be critical to success. It's often easier for a new CIO to change perceptions than it is for the CIO who's perceived as poisoning the well.)

Successful CIOs begin to demonstrate and improve the value of IT by showing *value for money*. They make it clear—in word and deed—that the IT team earns its role as the company's preferred provider, every day. They report on IT's operational performance in terms of essential services and outcomes that are visible to the rest of the business. They link the cost of IT operations to the quality and volume of service. And they use unit costs and standard performance metrics to compare their services with those of other units or enterprises in an apples-to-apples way.

Many IT organizations provide their internal clients with gross statements of costs or chargebacks—in some cases, a single number that represents the aggregation of a myriad of line items. In such cases, the clients have no insight into the factors that affect their IT costs, no understanding of how to affect the totals, and no way to figure out whether the price is reasonable.

By contrast, successful CIOs make costs and performance transparent and comparable. They provide enough data to show where the costs are generated and in particular where changes in consumption of IT services can have an impact on overall spending. They show how much volume is being used, where organizations could use less, and where lower service levels in some areas might provide good-enough service at reduced cost. In other words, they give their clients information that the clients can use to control their own costs. And they always emphasize that IT is never merely a cost, even if there is a cost in using IT.

The most successful CIOs benchmark costs and performance and thereby invite comparison to peer organizations. There may be a reason that external benchmarking might not make sense for

“When you have operating failures, it’s not that people want to make mistakes. You have to look at the process. Root cause analysis will tell you why errors occur. Metrics will tell you if you’ve improved.”⁴

—Cara Schnaper, EVP, Technology & Operations, TIAA-CREF

a particular IT organization. But most IT teams profit from the exercise. In many cases, benchmarking shows that the IT organization’s performance is competitive with what’s available for a similar price on the open market. Where it’s not, the CIO can make the point that performance gaps are now visible, and the IT leadership team will address them promptly. Either way, the CIO has a good story to tell, and the credibility of the IT team increases.

At this level, the “chief information officer” might be called the “cheap information officer.” The services may not be exactly cheap; any service costs something, after all, and some cost more than others. Very high performance always costs plenty, no matter what it is or who provides it.⁵ When the CIO successfully communicates value for money, the enterprise knows it is getting a competitive price for the right balance of quality (including, if relevant, internal user and external customer satisfaction) and performance. It also knows that the way to reduce IT cost is not simply to cut the IT budget but rather to adjust quality or consumption of IT services where excess quality or consumption doesn’t improve business performance.

Communicating value for money is an essential starting point. Until value for money is confirmed, no other discussions of value are possible. Value for money can never be taken for granted; it must be confirmed every month or quarter, forever. But it is far from the endgame where IT value is concerned, and CIOs should be prepared to take the next step. If IT remains a value-for-money proposition forever, IT will be perceived only as a cost, albeit a well-managed one. The inability to perceive IT value in terms

“Reliability liberates you to talk about the business. It’s not the endgame.”⁶

—Butch Leonardson, CIO, Boeing Employees Credit Union

other than value for money can result in missed opportunities to leverage investment in IT for growth. So, after showing value for money, CIOs can and should take the next step.

We discuss the ways that CIOs can communicate value for money in chapter 3.

Show how IT improves business performance

Effective IT leaders not only manage well but also help their business counterparts play their roles in making good decisions about IT investments—decisions that produce operational and financial improvements in business performance.

By helping executives make sense of their needs, decide which will get investment, execute projects, and ensure that benefits are realized, IT organizations create a *virtuous cycle* that visibly maximizes the value of investments in IT. Mastering the four key tasks of the virtuous cycle improves the outcomes of each initiative, and creates capabilities that continuously increase learning and value with each new project. The CIO here might be called the “chief improvement officer.”

In chapters 4 to 8, we show how CIOs and their business executive counterparts can implement the elements of the virtuous cycle. Chapters 4 and 5 discuss techniques that CIOs and their peers can use to identify opportunities for increasing value via improved use of information and automation. Then we show techniques for prioritizing those opportunities in chapter 6, tools to increase success in execution in chapter 7, and simple, effective ways to measure value delivered—the harvest—in chapter 8.

Show how you have value beyond IT

When CIOs focus on business performance and then deliver it, sooner or later they are perceived not merely as leaders of a technical organization but as business executives capable of contributing beyond their immediate organizational specialty. The change typically is gradual, but eventually quite significant. The first sign of this change for many CIOs is an invitation to join the CEO's staff meetings. The unmistakable confirmation occurs when you're asked to manage significant business initiatives outside the realm of IT.

CIOs often gain responsibilities beyond IT when they treat every initiative as a business initiative, demonstrate value for money, and measure the improvement in business performance resulting from every IT investment. Expanded responsibilities demonstrate that the business understands and appreciates the value that IT delivers—and that the CIO has become a business leader, and not only an expert in solving problems with technology. This recognition can go, and has gone, all the way to appointment of the CIO to a CEO position, as in the case of Guido Sacchi, former CIO of CompuCredit, who is profiled later in this book.

We discuss the CIO's personal value and the expression of this value as a member of the executive team—the “CIO-plus”—in chapter 9.

Build perception of IT value from the bottom up

We have heard many CIOs lament that they never get the chance to engage the executive team in discussing IT's potential as a strategic weapon, or, when they do, no one listens. In most cases, those CIOs are trying to skip steps on the path. Typically, they haven't first built credibility by providing value for money, and so they haven't a hope of making the case for strategic value. Success results from building perception of value step-by-step, laying each tier of the foundation before proceeding to the next.

Bud Mathaisel, successful serial CIO at Solectron, Ford, and Disney, likens the path to IT value to Abraham Maslow's well-known hierarchy of needs model: "As I've thought about the best way to approach this, I've begun to think more and more about Maslow's hierarchy of needs. It starts with competence in delivering services reliably, economically, and at very high quality. It is the absolute essential to be even invited into meaningful dialogue about how you then build on that competence to do something very interesting with it. Because if you can't deliver in a reliable and efficient way, then there's always going to be a hedge on the part of the business partner or some suspicion, and therefore they won't go for it."⁷

In the end, the CIO who follows this path to value becomes a strategic peer of the other members of the executive team. Such CIOs do many of the same things other CIOs do, but they have much greater influence and impact. That influence and impact extend to the entire IT team. IT managers and staff, and the units they inhabit, gain direct benefits from moving up the path to value. They help their organizations achieve more value from their skills and disciplines, whether by improving efficiency, redesigning business processes, or helping business leaders (and even customers) gain more from their investments in technology.

It is no accident that most of the CIOs we interviewed for this book have taken on wider responsibilities within their businesses in the past few years. That's what happens when the CIO, like any other executive, is perceived as delivering business value; she gets the opportunity to deliver even more. CIOs following the path we have outlined have significantly improved the tone of discussions with the other members of the management team and have set the stage for further gains, often in as little as one or two years.

Guido Sacchi followed that path from the beginning for the IT team at financial services provider CompuCredit, where he started as CIO in late 2002.

When I got here, it was a turnaround situation for IT. What was in place couldn't sustain a new period of growth in the

business. I was brought in to stabilize the situation and build a platform that would allow us to grow in a sustainable way.

I spent a lot of time with the business, and I tried to keep the discussion on business needs. “It’s not about building infrastructure,” I’d tell them. “It’s about enabling growth. It’s not about spending money; it’s about getting new customers.”

When I got here there were no metrics. It was mind-boggling to me—the company management was completely data driven, and we were producing metrics for everyone in the company but IT! I started reporting some metrics within about six months. I’m ashamed when I look back at the crudeness and paucity of the metrics, but it was an honest attempt to show the executive team that I was doing my best to be factual. Now, there’s no difference in a budget discussion between me and another executive.

From the get-go I tried to focus in business terms: IT spend versus accounts, operating expenses versus revenue growth, how much we spend on running versus transforming the business. Just switching that focus, and communicating that to all IT—that our job is to make the agent productive, not just to keep the network up—made an amazing difference in a few months in terms of performance.⁸

Within a few years at CompuCredit Sacchi also took on the title of senior vice president of corporate strategy. As of this writing, he is the CEO of Moneta Corporation, which offers consumers and partners alternative payment choices for online transactions. The lessons he learned about the value of IT at CompuCredit have stood him, his former employer, and his new company well.

Like Sacchi, successful CIOs follow the entire path to showing IT value, from start to finish. They build on successes at every stage to get to the next. CIOs who don’t do so encounter predictable problems.

- When IT delivers low value for money, the executive team either looks for a turnaround CIO or decides that IT is

nothing but a utility—a cost to be reduced to the barest level necessary to keep the lights on, and not a penny more.

- When the CIO and his team fail to create transparent mechanisms for business oversight, IT is regarded with suspicion by the other members of the executive team, who have no way to know whether they're paying the right price for the right performance. They see the inevitable problems and difficulties that all IT units have, but they don't see the value as clearly.
- When the CIO and her team can't discuss the business in the same terms as the other members of the executive team, IT is doomed to be an outsider, an order taker—never a full participant in running the enterprise.
- When the CIO and his team can't connect IT investments to specific improvements in business performance, the executive team looks elsewhere for competitive advantage, ignoring the ways in which IT can be applied to differentiate the business.

Many CIOs will recognize themselves and their enterprises in one or more of these descriptions. If you do, you are not alone. But we trust that we have made it clear by now that this is by no means an inevitable fate for the executive in charge of IT.

Chapter 2 describes the starting point for the journey to IT value: changing the context and language used by the IT team members to conceive and describe the value they create.

Order your copy here.