TUCK SCHOOL OF BUSINESS AT DARTMOUTH

GLASSMEYER/MCNAMEE CENTER FOR DIGITAL STRATEGIES

Leading the IT Organization of the Future

A Roundtable Overview

European Chapter Discussion

Roundtable on Digital Strategies

Leading the IT Organization of the Future

Thought Leadership Roundtable on Digital Strategies

An executive roundtable series of the
Center for Digital Strategies at the Tuck School of Business

The European Chapter convened for a discussion on the IT organization of the future and the trends, including the current recession, that are influencing its likely development. This Roundtable on Digital Strategies was hosted by Hilti Corporation in Schaan/Vaduz, Liechtenstein. CIOs were joined by key direct reports for this discussion. Executives and academics from ABB, BMW, BT, Credit Suisse, Erste Bank, Hilti, Holcim, Nestlé, Schindler, the Tuck School of Business at Dartmouth and the University of Liechtenstein participated.

Key Insights Discussed in this Overview:

The Thought Leadership Roundtable on Digital Strategies (www.tuck.dartmouth.edu/roundtable) publication series is edited by Hans Brechbühl, Executive Director of the Center for Digital Strategies**.**

The Economic Crisis: A Chance to Accelerate Change?

This is the first in a truly global economy recession—no one really knows how long it will last and how deep it will go. The changes appear to be much more fundamental than in other downturns in recent memory, a resetting of the baseline that is causing a real shift in thinking and approach in most corporations, with more to come if the economy does not turn around soon.

For many companies, the shift has been radical and swift. As Herbert Juranek, COO of Erste Bank stated, "In the past, the focus was on return on investment, leverage, and growth. Now, within a half a year, it has changed to: 'What is our capital situation? What is our liquidity situation? What is our risk situation?'"

Urs Bleisch, Holcim's CIO, agreed that the impact has been stark. He added that there's an immediate impact on IT, of course: "IT strategy as such is not independent of business strategy. If you were aligned for years to grow and integrate, have an integration machine, and suddenly you are asked to cut costs at any price, that's a fundamental change."

Karl Probst, BMW's CIO, reiterated the cost-cutting theme, but also pointed out that there is a silver-lining to this cloud: "We have immense cost pressures... everything you do minus 30 percent. That's a real challenge. On the other hand, exactly this pressure helps us to do a lot of the things we already planned for a long time. Only now we have an argument to do them because we must change. We have a long-term IT strategy and part of it is, of course, efficiency. So in the name of cost-cutting, we can accelerate a lot of actions we had already planned as part of efficiency."

"I think you're right, Karl," said Erin Smith, MD, Service Design of BT's Global Services unit, pointing out that it was now a lot easier to get buy-in from elsewhere in the business. "The crisis is accelerating all the strategic plans that we had, moving towards platform-based IT network services, rationalizing products and people. It's accelerating the things we've always known we've needed to do. There's a sense of urgency and acceptance in the business at corporate, at the board, to make those changes, where I think if things had been in a normal steady state, we still would be fighting that change."

Olivier Gouin, Nestlé's Group CIO, agreed. "It is helping us to refocus the executive management in terms of working on the strategic dimension of IT and getting rid of all these small 'nice-to-have' utilization projects which are basically impacting a lot of our work."

"I see it the same way, provided that this [the crisis] bottoms out fairly soon," indicated Martin Petry, Hilti's CIO. "If we see another 20 or 30 percent downturn here during the course of this year, I think then the positive aspects will look a little bit different...so for the time being, this is healthy reconsolidation [allowing us to] recollect ourselves and get ready for the next upswing."

Karl Landert, Corporate CIO of Credit Suisse, agreed but cautioned: "Time is of the essence, because there is a window of opportunity, and I already see signs that some of the businesses are coming back...you have to have this capability to transform the organization and you have to hit very hard and fast and get it done. Otherwise, the opportunity goes away not only because some of the businesses are going to recover, but also because I see consolidation, mergers, divestitures [coming]. All these things will create a lot of work for the IT organization which will then cannibalize the harmonization, all the cleanup which we wanted to do."

Your View Depends on Where You Sit...

Depending on their industries, some companies are clearly feeling the impact more than others. Haider Rashid, ABB's Group CIO, explained: "I think what we're starting to see is that there are basically two types of generic reactions. There are the companies who say, "Well, yes, there's a crisis. I will use it to accelerate my strategic plans. I invest a little bit. I clean up. I improve things. I am ready for the future. Cleaning up, however, means you better put some money in to clean up. But then there are companies that say, 'Hey, listen. I can't afford to do anything...Cut costs—get into survival mode.'" And some, of course, are walking a middle path.

Rashid also added that there may be a dichotomy depending on where you are in the company. He posited that business unit leaders and managers seemed more willing to use the economic crisis as an opportunity to "clean up and invest", where corporate HQ types wanted to pull back.

Jan Babst, CIO of the EMEA Region for Holcim, agreed, indicating that operational managers are very interested in driving change right now and pointing out that it puts IT in a very tough place. "I mean, I can't tell you how many organizational changes we are making now in all these countries. They want to change the organization and take out layers. I have never received so many requests-for-change in SAP. I mean, when they change the organization, we have to change in SAP, cost center structures, legal entities, reporting stuff. It's amazing—it has gone up by almost 50 percent in that area."

"What happens," echoed Rashid, "is that when you want to cut costs across the board, almost the only way that you can cut the cost is to automate more and to invest more in technology."

Franz Wirnsberger, Hilti's CFO, offered his viewpoint, saying "I think it's very obvious that every organization has to react in a different way at this point in time. I think it's also very obvious that what you have to do depends very much on what type of business you have, what type of business model. If I'm in the service business, then IT is my business, okay. Were I in the commodity business, then IT is further down the food chain, very clear. So '30 percent less no matter what' is probably a bit easier in certain situations than when IT is your core business."

Is There a "Right" Way to Cut Costs Now?

Enabling a corporation as a whole to cut costs through organizational transformation, as well as transforming the IT group itself, requires both a certain level of IT spending and manpower. At the same time CIOs are being asked to cut their budgets with the rest of the corporation.

ABB's Rashid saw the danger of over reacting. "If we follow the panic mode we're probably going to end up doing an across-the-board slash on projects almost regardless of the actual attractiveness of the project itself. We're going to end up throwing the baby out with the bathwater in certain areas." BMW's Probst agreed that "You have to do clever cost-cutting. If somebody says 'you cut costs' and we create a problem or a liability, it's not good."

"If you cut costs and slash your project budget by 75 percent, you don't have the capacity to do the needed transformation," stated Credit Suisse's Landert. "...the big cleaning up is going to take investment. So I think that's going be the real acid test. Can we all do that going forward?"

Finding the right balance between necessary short-term cuts and strategic long-term investments is a major management task right now. Juranek outlined that Erste Bank is not mandating across the board cuts. They are carefully mapping what businesses are producing what returns in which areas using an EVA (economic value-added) methodology and deciding on cuts guided by a strong sense of what is strategically important to the company.

Hilti's Petry highlighted the leadership responsibility: "The most important aspect of this question is, I think, probably sitting in this room: the leadership—and whether that leadership is aligned as to whether this is a service type of situation or a commodity type of situation—then we can slash accordingly."

BT's Smith added, "We can't underestimate human nature during this because one of the observations I've made as we slash projects, everybody winces, 'These are my best projects.' Well, once you slash them, the teams start to focus where the issues really are. We can't have prioritization monthly meetings during this crisis because everybody comes for a fight. You just have to do it and then the people start to rally around the issues that are really in the business. That's where the leadership needs to be."

Landert outlined what happened in IT at Credit Suisse. "We cut costs significantly. We cut project costs. Then the business division came back with their plans and said, 'We can't live without IT.' They went back and slashed the marketing costs, took out a lot of money out of that and gave it back. I mean it was neutral at the top level, but it came back to IT."

Getting the buy-in and engagement of other leaders elsewhere in the business is important too. Landert's colleague, Daniel Ott, CIO, Private Banking at CS, relayed a situation where it looked like a consolidation project would have to be delayed for a year or two due to budget cuts, but money was transferred in from other parts of the business to enable it to happen because they were convinced of the business case.

Smith related having similar experiences in BT's Global Services: "Everybody's saying, 'We don't need as many salespeople. We don't need as many marketing people, account managers, project—we need more automation. We need more people designing in the right solutions,' so our budget's going up in that area as well."

Al-Noor Ramji, BT's Group CIO and CEO of BT Design, pointed out that if you think about it the right way for the business, IT can cut costs internally, offer the money saved as a reinvestment into strategic business projects, and colleagues around the table will suddenly also find money. "If you increase your return on investment by cutting your projects with lower returns, but also really cutting layers, etc., and then putting the money back in yourself first, not from your colleagues, then they will turn up with money."

Participants seemed to agree that while it was important to deal with current issues, it was imperative to do so with your eyes on the future. "What really concerns me a bit is when people act as if there was no 2010. Everybody focuses fully on 2009—that we have to bring costs down," emphasized BMW's Probst. But as Erste Bank's Juranek pointed out, planning horizons have shortened: "We have started to plan for 2010. Two years ago, or one-and-a-half years ago we would have planned 2010, 2011, 2012 with revenue expansion plans, etc."

Other Changing Elements of the Environment

Though the recession may be front-of-mind for everyone right now, other elements of the environment around technology and the provision and consumption of technology services are also changing.

Chief amongst these is the consumerization of technology and the entering of a new generation into the workforce. "It's not so much the technology itself," said Haider Rashid. "What will change is the proliferation of technology through digital natives. It's people who will enter the workforce and come into management positions over the next ten years who grew up having a totally different view of information technology than today's managers."

"The young generation is bringing new technology with them," agreed Nestlé's Gouin. So you don't need to train them anymore, which is not the case of the old generation…"

The models for delivery of IT are also changing. "What will our delivery model be at the end of the day?" asked Holcim's Bleisch. "…and what talent do you need to manage that?" While everyone agreed that there was a clear trend toward cloud computing and software-as-a-service (SaaS), many seemed to feel they were not yet game-changing factors. To the extent they are currently used in corporations, they are used in peripheral applications, not core operations. "I don't see this providing the level of integration that I need for the core part of the business," commented Bleisch. "Once that is there, in maybe 10 or 15 years, that might be game changing. For the time being, I see that as an add-on, an enhancement that is certainly convenient for one or the other thing, but it's not the core of our business application suite."

The current market dynamics are also changing the vendor situation. The underutilization of current capacity is likely to mean consolidation in the technology industry. Karl Landert worded it frankly: "What will change with the crisis is that we will have less choice and more monopolies. That concerns me because I think the bargaining power we used to have is going to go away. I mean it's falling with IBM acquiring Sun, the rumors about Oracle acquiring Red Hat, etc. You have these big monopolies being created now and you have to adapt as an IT organization to determine how to deal with these guys because we have less choice."

It's likely that the decrease in vendors will put a greater premium on having the right internal talent. The overall dynamic on the skill side will depend on how long the crisis lasts. But all participants agreed, it would be a big mistake to let good people go now. Strong focus on human capital and clarity on what talent needs to be kept, where one wants to grow and what talent it will take to do so, is critical. It is a good time to try to hire the talent needed long term as Lucas Kuttler, CIO of Schindler, pointed out. "Now it is a good time to acquire better human capital, at least for us in industry. It was very difficult to motivate people not to go to banks in recent years!" Conversely, short-sightedly losing skilled people now in this cost-cutting cycle would be a big mistake. So the human capital questions are directly connected to the strategic outlook for IT in the future…

Managing IT's "Business Value" Contribution

IT seems to engage in a never-ending debate, often largely with itself, over the value it provides to the corporation. As Landert stated: "…it's driven by us. I'm not seeing it [the discussion] being driven by my CEO or by the business data. It's us. We keep trying to prove that we create value." Added ABB's Rashid: "I think we all have organizations that are mature enough that any project has to have a business case. That's level zero. I think what people get into this navel gazing about is the IT organization adding value to the business and 'let's measure that.'"

Nevertheless, evaluating the level of IT contribution seems to be an ongoing topic. Barbara Burghardt, head of BMW's Inhouse Organizational Consulting group, elaborated: "Many people define value-added just as producing something or creating something. In this case very often all administrative functions, including IT, are not defined as a function adding value in this respect. But IT has different roles in the organization," she continued, pointing out three. "IT has the role of governance, IT has the role of adding value and supporting your business, and then the role of being a kind of service provider." Each of these three roles provides completely different added value to the business. Often they get mixed up, confusing expectations and requirements. The right mixture of these three roles depends on the business model of the corporation. As Schindler's Kuttler put it, "We generate value every minute, basically. There is the value generation from the 'run' organization and there is the value generation from the 'build' organization."

Haider Rashid proposed an approach to this that ABB is increasingly using. "What we're trying to do is to split IT into demand and supply. The supply guys, their job is to get IT running at the right price, to the right thing, often using, by the way, external partners…
On the demand side, people like Thomas (Schmidt, head of IS for ABB's Power Products Division), have to be embedded within the business so that they are there to ask, 'How do I improve the business?' And, 'By the way, how do I make sure that this improvement also uses the right sort of technology to get it done?'"

Thus a clear differentiation between supply side and demand side management appears to be increasingly important. The supply side must be thoroughly managed. The homework in terms of creating efficiencies has to be done. Total operational costs are an issue and it is necessary to carefully invest in opportunities for the business as a whole and bring down infrastructure costs as any normal supply chain management function would. The more innovative business solutions demand a different approach, one less likely to benefit from a centralized, standardized cost-savings approach.

The Demand Side: Contributing to Innovation and New Business

Holcim's Bleisch put a stake in the ground, suggesting that there were two components to IT's value contribution: "The creation of value on the one hand is the efficiency scene, doing the homework on that front. On the other hand, it is changing the business model of the business, attracting new business or enabling doing business differently." His colleague, BMW's Probst, agreed but added: "There should be a third component: differentiating from your competitors—it's the most important part."

Haider Rashid cut right to the point: "What we're talking about is basically how do you innovate, right? How do you use technology to innovate? I don't know why people talk about the business value of IT, because there is no business value of IT. I mean, it's when you have this synergy between business and IT coming together to create something that there is value. It's like when you clap, you know? Which hand made the noise?"

The group discussed the most important aspects in IT's continuing pursuit of creating maximum value for the business as a whole. Everyone agreed that engagement with the other parts of the business was the key, the essential ingredient—the "demand-side" of IT needs to be more and more embedded within the business. In addition to this being the most productive way to collaborate, it helps reduce the internal "we – they" tension, putting everyone in the position of sharing a common mission and experience.

Franz Wirnsberger, Hilti's CFO, described how Hilti had created tremendous value for the company through creative and integrated use of information technology. Hilti created a new Fleet Management service, shifting away from the traditional "selling tools" model to providing a holistic service for their customers from tool leasing to immediate replacement (in case of breakage) to financing to contract management—a full "utilization" solution. "It's very obvious that this would never have been possible to establish without IT," indicated Wirnsberger. In fact it required a fully integrated business and IT approach. To create this dramatically different business model, Hilti created a team of people from many different functions, including IT, whose mission was to develop this business, the processes that would drive it, and the IT systems that would enable it, but then also to deliver the service and keep improving it. Hilti chose to locate this team together in a separate space.

ABB's Power Products Division CIO, Thomas Schmidt, echoed the experience of successfully giving teams responsibilities from conceptualization through implementation: "We followed exactly this approach for our bigger change initiatives. We basically created a team that cannot have an excuse. They cannot have the excuse that the organization is not following because they are in charge of making the organizational change happen themselves. They are in charge of the process, they are in charge of the tools."

Hilti has taken similar approaches in the past on more of a project basis, as have other companies. Some companies also help promote integration through interchanging people between business and IT on a rotational assignment basis to bridge the gap. Nestlé has done so for years, as Olivier Gouin highlighted. "For eight years we have embedded business people in IT. By doing that with every function, we have solved this problem. We don't talk about this business value issue anymore. They are part of our teams. We change them every other year…that really brings value because the functions and businesses are really embedded. They decide on the projects that we do and are responsible for governance decisions…".

Creating alignment and the right conditions for innovative interdisciplinary efforts is critical. As Kerstin Gollner of BECN pointed out: "The question is how you create a shared dedication amongst the group that's working? This is dependent on several factors: the culture, the leadership style in the company, the subject matter, the orchestrating of the authorities that you have involved. The other important part for the team is to recognize its interdependency—members have to be able to communicate despite bringing different mindsets to the table."

BT has successfully used physical representation of processes to further alignment on a diverse team. In their Pune, India operation, 500 people, all involved in one change request process, sit in the same room, locating their desks in the sequence of the customer experience journey, e.g. from lead to cash. Through this, everybody is able to physically see and understand the interdependencies between the different process steps. Even external partners are included in this arrangement, with a common focus on who they are delivering for.

BT's Al-Noor Ramji suggested that a crisis or a common focus on customers were the two most powerful unifying and galvanizing factors within a company. "So the biggest value-add is getting the firm to work as one. Frankly, the only two times I've seen firms do this well are in a time of a crisis, when there's a greater enemy, and when there's a customer presence…"

As a result, BT often uses SWAT teams when there is a key competitor threat or customer challenge. BT's Smith highlighted such an occurrence: "We got the people in the room: IT, product management, network people, business people, process people, and just said, 'You know, we will be out of business if we do not address this.' Everybody understood their role to help. And you bring customers to crosscheck: 'Is this what you need? Is this the speed you need? Is this the self-service interface that you need?' All of a sudden everybody's rallying around this most strategic effort which is really not rolling out a project and beating a milestone, it's making sure that Skye and Virgin and other people are not taking our market share away." Ramji added some detail on a similar approach with customers. "We bring people together with the customer in a very intense way, we call it 'hot housing'. For three days we have customers and people like me and you in the room and we build things together."

In addition to discussing the methods of creating common ground, the group also addressed incentives and measurement, from traditional financial incentives to the power of avoiding embarrassment. Hilti's Wirnsberger summarized what he sees as the key principal regarding metrics: "I think one should keep [them] extremely simple, and the key principal in performance management, I think, is 'hold people accountable for what they can influence.'"

ABB's Rashid indicated that the same really holds true for the whole subject of whether IT is adding value to the business. He outlined his acid test: "How do I measure whether IT is adding value to the business? One very simple metric: At whichever level innovation is taking place in a business at a global project level or at a local factory level, when people are sitting down to form the team that will bring that innovation, do they automatically invite the IT guy to be a part of the team? If yes, then IT is adding value in that part of the business."

The Supply Side: Reduce Costs through Simplification, Standardization, Consolidation

Tuck's Hans Brechbühl summed up the supply side management necessity in the following way: "Regardless of what our relationship is with different parts of the business, how well we manage those relationships or what we bring to different business initiatives and projects, one thing we don't ever really get away from is the fact that we still have to run the IT utility well. That's often the first thing you hear about if it doesn't happen."

Running the IT utility well, contended Schindler's Kuttler means: "We all have to get faster, cheaper, and more reliable. The focus at the moment is on cheaper of course." The proportional costs of IT are dependent on the business model and the role of IT within that business model—so absolute comparisons over different businesses are difficult. Nevertheless the general rule, not surprisingly, is that the more complex IT is the more expensive it is. Haider Rashid of ABB summarized "...a simplified IT organization is 50-percent cheaper than a normal one. And a normal one is 50-percent cheaper than a complex one. So the way to cut the cost is simplify, consolidate, rationalize."

Olivier Gouin, Nestlé's Group CIO, relayed what they have accomplished with their GLOBE project. "We have moved from local to regional organizations and we have done a lot of consolidation. We have moved from a 100 different data centers to three data centers worldwide. At the beginning of our program, IT costs were at 1.6% of sales—we'll be at 1.2% in 2012. In that span of time, the turnover of the company has doubled." Nestlé is being careful to find the right balance between what is global vs. what is local. "We are focusing on globalizing the IT (technology) side versus the IS (service). Yes, we have standardized, but there are a lot of local things that still need to be there. As soon as you're facing your consumer, you need to have local presence and the local point of view."

Hilti is also consolidating and globalizing, and has a lower IT budget now than it did five years ago despite the growth of the company. Werner Lutz, Hilti's CTO and Head of IT Infrastructure, relayed how they had standardized servers, decreasing costs and yet increasing performance dramatically. "We have more than doubled the performance, the computing power, at 20% of the cost," he indicated, pointing out that pushing similar changes in storage is likely next. These changes have also helped Hilti on the issue of technology lock-ins. Added Lutz, "We have completely broken the lock now [on servers]. When we look at what it does to our cost picture, it definitely helps us a lot in shifting fixed cost to variable ones in our IT budget."

The challenge of cost lock-ins is twofold. It depends on the sourcing strategy and the market situation in the outsourcing market on the one side, and on prior technology and application decision on the other. Cost lock-ins directly related to previous technological decisions are most problematic. Martin Petry formulated this danger clearly: "That, for me, quite frankly, is a core piece of our job with IT, how to avoid dead-end routes." Holcim's Bleisch pointed out how difficult the situation is already today: "It's a matter of fact. I mean, again, today we are on the short end of the stick. The costs of changing [vendors] are so tremendous. It's a captive market. Once you have made the decision on technologies, gone with an SAP, you are stuck."

One of the other major success factors to achieving savings is complete transparency of information available to everybody in the process. BMW's Karl Probst recalled the thought-process of his leadership team: "The organization is too complex. The issue [of cost-savings] is too complex. So what did we do? As a first step we made every performance parameter, input parameter, available to the whole organization. We built up a real system...to have clear evidence and a transparency about everything we did." He also related how BMW has been benchmarking parameters with other organizations, and is creating a culture where "cost-efficiency is not a pressure, but an internal intrinsic motivation."

Holcim, which has a regional IT service center model (consistent with their regional corporate operating structure) that allows for distinct freedom in each region, views benchmarking between regions as a great strength too. "We're very transparent between our regional IT service centers," indicated Bleisch. "All the information is available to everybody." Amongst other things, these centers offer Holcim an opportunity to compare different operating models.

Another potential way to bring down costs is to take a more radical greenfield approach in certain areas of IT, utilizing companies born in the internet age as models. Tuck's Brechbühl described the approach that Bechtel's CIO, Geir Ramleth, has taken in the areas of servers and storage modeling their approach after Google and Amazon respectively. In some cases, the greenfield approach may be too simplistic and not robust enough. BMW's Probst explained: "It's a good sign to bring the greenfield approach into your organization. On the other hand, if Google stands still for a minute it's bad, but if we (BMW) stand still for a minute, we're losing real cars. So what I say is: cost-cutting is one issue, breakthrough ties is another nice issue, but the cheapest IT organization is not necessarily the best one. We really have to look at the whole business." Karl Landert of Credit Swiss agreed: "Of course, revolutionary would be a complete greenfield approach and then switch off [the old system], but that's never worked in my experience yet."

Outsourcing: Philosophy and Challenges

The use of external partners to deliver certain services is directly connected to the size of the organization on the one hand side and the strategic core business elements on the other. The viewpoint "the more global, the more outsourcing needed" is not necessarily true. CIOs continuously have to struggle to keep the right balance for their situation at any given time. As ABB's Rashid stated: "I think there's no right or wrong approach. It's what fits your company for those particular circumstances." Credit Suisse's Landert emphasized that most outsourcing is driven by false expectations. Many outsourcing arrangements do not work out because the ability to manage the process properly is not there. Expectations must be based on a realistic and pragmatic assessment of the business case, and that often does not happen.

ABB's Rashid shared his philosophy: "We have outsourced 75% of our IT. I think that if I had the IT insourced, I and my management team would spend a huge amount of our time worrying about the next upgrade of the data center or the next refresh on the desktop or justifying certain investments. All that is now left to our outsourcing partners and we can focus most of our time and energy on how can we improve the business rather than how do we improve the running of IT." The four driving factors for ABB's approach are:

1. The degree to which the company wants to focus more on its core competencies;
2. The perceived ability to be regarded as an attractive employer for top technology talent, attracting the right skills;
3. The possibility of increasing variable costs by negotiating outsourcing contracts that include unit pricing and metering;
4. An operating philosophy which values the "knowing what to do with IT" over "knowing how to reduce the cost of IT".

Schindler's Kuttler indicated what might drive them to outsource: "We are probably too small already and on a too low-cost basis to deliver the added value. We typically do not attract the top shots, because we don't pay the same. We would probably outsource in the future because otherwise we cannot maintain our service levels." BT's Ramji echoed Kuttler's point about top talent: "What's fundamental about outsourcing IT or insourcing IT is always just the quality of the people."

Given where they have a market presence, Erste Bank uses a captive outsourcing model run by Christian Gosch, managing director of their IT solutions company. "We have a special presence in Serbia and Croatia…so our key people are in regions where there is no competition," stated Gosch. "There are universities (i.e. talent) and nobody else on the international level around."

Choosing the right scope for a partnership is a strategic challenge. Karl Landert, "I don't believe in global outsourcing contracts anymore. We have been re-insourcing a lot of services in European countries and we are now reevaluating what we do. On the network side, the odds are still out…but [in other services] the promise that they can do it better globally, is not true. I am a believer more in regional champions." He also emphasized his agreement with the idea of not outsourcing core competencies, highlighting data centers as an example—they are considered part of a bank's core competencies and they therefore would not outsource them.

IT's Role Looking Forward

Given all the change going on around the IT organization, how will IT's role and that of the CIO change in the coming years? Nestlé's Gouin reinforced that this will be dependent on the size, complexity, culture and management style of the organization. "I believe that there will still be different models for different companies, depending on what you do…I don't think there is one model."

Jan vom Brocke, director of the Institute of Information Systems at the University of Liechtenstein said he sees an increased tendency to outsource and indicated that with that he felt complexity management would be an increasing part of the role. "With this tendency of having multiple vendors and having smaller pieces we are orchestrating, we have a great increase of complexity in our jobs. That's why I would also say complexity management will even play a greater part than it does today."

ABB's Thomas Schmidt made it clear that he felt that the role as we know it today would be changing. He put a clear stake in the ground. "I think the role that we have as CIOs, in the way we perceive it today, will cease to exist," he stated. "The role will transfer itself into the job of orchestrating an organization to leverage IT in the various business processes. This is organizational development, it is change management, it is process management. The IT part might be reduced to architecture and supplier management. That's my belief, how it might develop. I think the prior role, as 'masters of technology,' will cease to exist."
Tuck's Brechbühl pointed out that this was very consistent with what the U.S. chapter was saying. "Cargill's CIO, Rita Heise, expressed the view that the lines of the IT organization would blur. And as they did," he continued, "her role would become much more one of 'leading the information and technology capability of the firm' rather than merely 'leading the information technology group.'" Schmidt reiterated, "It's managing the ability of the organization to leverage technology, not managing the technology" that will be key.

Hilti's Petry agreed with the focus on enabling business processes, but emphasized that it might take time to change to this degree. "I think what you describe here as a vision, for our company at least, I don't see that implementing that this year or next year," he indicated. "Perhaps we are ready in five years, but the direction of getting closer in business cooperation…yes, that's definitely the case."

The case for the IT organization's role as a driver of organizational change resonated with BT's Erin Smith. "We are kind of seeing that. At least in BT, that's a big change and a decision that was made about a year ago that's getting implemented. So the [other] CIO functions, if you will, have been broken down and have put down in lower levels of the organization to make it more specific. If you're going to run the grid, the utility, the virtualization, get it down to people that know how to do that, and then let somebody like Al-Noor run a business that can drive the changes to the different business units."

"I still believe you need a CIO role, whatever you call it. You have to manage information and you have to manage the architecture—maybe not yourself—maybe somebody that is on the team whose role it is to do that. Otherwise, it's going to be chaos," Nestlé's Gouin stated, pointing out that if you are looking at a phenomenon like social computing, you cannot have every division in the company coming up with their own approach."

A solid architecture, on the back of which change can be accelerated, will continue to be a key element for IT. Holcim's Bleisch stated: "You will still need the architect to avoid a 'mushrooming' all over the place, which will bring complexity." ABB's Schmidt reiterated this, saying: "My experience is that it requires a very strong architecture to prevent disasters from happening, because in the end we want to have integration. So you need stable architecture and then you can organize accordingly, let that run, and you see how quickly you are able to deliver value." IT management has to work on the right balance between rigorous structure versus flexibility in order to allow innovation.

"We'll also still have the utility side for sure," BT's Ramji stated. "That's an essential part of our job. The rest [of what the job is] will probably come from personal attributes." Credit Suisse's Landert agreed: "A lot of it is tied to personal attributes, and I fully agree with that. I think what you will see is that the personal attributes of the CIOs might change a little bit, because I mean the people who were really the technologists and came up through the ranks maybe have a challenge. You have to adapt in terms of understanding that our job already is a general management job; it's about people; it's about client relations; it's about building organizational structures and optimizing your processes. If you have the personal traits to do that and you like to do that, you're going to grow."

Talent: The Future Skills Inventory

Moderator Christoph Witte then focused the group on the question of how the skills needed within IT might be different in the future.

Credit Suisse's Daniel Ott pointed out: "We have to move as organizations, we have to increase our business skills on all levels and move closer to the business so that we understand their problems and are involved as soon as possible."

Schindler's Kuttler posited that project management ability and the capability to manage complexity were imperative today. Karl Landert added a qualification: You cannot take somebody who just learned that [skill] in other industries and think they can run a big software development project. That's not going to work. They have to learn the trade, and they have to understand what things can go wrong and how to control the software delivery in India, how to ask the right question, all of that. So I think that's the challenge. It's still a combination, and that's not going to go away…"

This is another area in which industry and focus of the corporation matters a great deal. In the banking industry, given the nature of their business, software development and programming skills will continue to be important and continue to be a part of what an IT organization must do. Ott summarized this clearly: "In the financial industry, we will continue, even in five years, to develop our own software at least to a certain extent. We need to be able to develop the talent for that role starting as a developer, business engineer, project manager, etc."

Participants agreed that this is not nearly as true in other businesses and industries as it once was, and that the resulting lack of critical mass makes it more difficult for them to train and retain talent in these areas for what they do need. "You need a lot of skills to train a software guy. These guys are really specialists," emphasized BT's Ramji.

Yet retaining some talent, even in waning areas or areas being outsourced is critical. IT organizations need to have enough in-house expertise to properly task, manage and check their outsourcing partners. Even Ramji, whose organization provides outsourced services for many large companies, emphasized that "You shouldn't outsource 100 percent to a BT. It should be 80/20 at most because you need the 20 percent to sit with us, beat us up…because if you don't have that capability you won't be a good customer...and you can't spy on me!"

Witte summed up the discussion this way: "You have to train people yourself. And in order to train them yourself, you have to have a certain size of organization to find the right talent, to develop the talent and give the right tasks to the talent. If you don't have the tasks, you can't train them."

Herbert Juranek positioned this as a key leadership challenge for the future. "I recently met the head of HR of EMC. He said for him, the most important thing is to develop talent. Each and every manager within this organization has the target to develop two talents a year, and is remunerated on that. If he loses a talent, it will affect his salary. I believe if you look to successful companies in the industry—if they need to fill a new position, most of them do that internally. They don't go on the market—they develop. They know what they need and they develop the people on their own."

Hilti's Petry posited that the keys today were different from a few years ago. "Technical skills combined with business process know-how are important," he stated. But "the key contributors in IT are the guys who [additionally] have the best partnerships with their business counterparts." He continued: "Projects today typically don't have a problem in technical execution. But how long does it take to actually execute the change management and get the value realized that you are expecting from the project?"

ABB's Schmidt emphasized: "It's project management. It's process management. It's change management, and to a certain degree, it's supplier management…but the resource pool is not just IT—the resource pool is the whole organization."

While acknowledging the importance of project management, Karl Landert also posited that "Those who deliver [IT]—and even who are managing and orchestrating—they need to have some kind of technology affinity. If they don't have it, and haven't experienced that sometime in their life, it's going to be much, much harder to be successful." BMW's Probst agreed: "I liked the expression affinity. That's the right word, affinity."

Conclusion

Haider Rashid, ABB's CIO, summed the day's discussion up well: "I think what you're struggling with is that IT is a very young industry. It's difficult to say where it is going. But if I look at what the traditional job of the IT organization was, it was delivering technology services, and the other part of it was being an advisor. They were the guys who knew technology. So if someone wanted to change things, they could advise them.

"I think both these things are changing, because when you're talking about delivering the services, the people really running technology, this will in our [ABB's] opinion, done easier, better, faster, cheaper, by the real experts, the IBMs, the BTs of the world. If you are someone who really wants to run servers, you probably wouldn't want to come to ABB. You'd want to go to these companies. That's realized with all of us to some extent or another because we're all doing more and more outsourcing. So the traditional delivering of services, part of it will change to managing service providers or integrating bits of it.

The other bit of our job was that we were the guys who would advise a supply chain guy. A supply chain guy would say, 'I need to improve my processes and I need the geeks to do this.' We would say, 'Yes, you can do that and we'll do the coding part for you.' In the future, the supply chain people will themselves be the geeks because they grew up with technology. They will know exactly what processes they want to change, and they'll know exactly what technology to change as well.

"But we will be able to add value. Because of the ubiquity of IT, we will be one of the few people that will have an end-to-end view across the business and be able to spot discontinuities. So we would be the ones who could help the supply chain guy integrate better with the sales guy, integrate better with the finance guy. I think our role will be there. We will be managing the delivery of IT services, partly ourselves, partly through others. We will be the integrator between people in the different parts of the business. We will be the chief integration officer."

Participant List
Leading the IT Organization of the Future
17 April 2009

Jan Babst	CIO, EMEA Region Holcim
Urs Bleisch	Head of Corporate IT Holcim Group Support Ltd.
Hans Brechbühl	Executive Director Center for Digital Strategies Tuck School of Business, Dartmouth College
Barbara Burghardt	Organisation, Inhouse Consulting; Vice President Principles, Central Functions BMW Group
Kerstin Gollner	Managing Partner Business Experts Consulting Network GbR (BECN)
Christian Gosch	Managing Director s IT Solutions Holding GmbH
Olivier Gouin	Group CIO Nestlé
M. Eric Johnson	Professor of Operations Management Director, Center for Digital Strategies Tuck School of Business, Dartmouth College
Herbert Juranek	COO & Member of the Executive Board Erste Bank der österreichischen Sparkassen AG
Lucas Kuttler	Group CIO Schindler Informatik Ltd.
Karl Landert	Corporate CIO Credit Suisse
Werner Lutz	Head of IT Infrastructure and CTO Hilti Aktiengesellschaft

Daniel Ott	CIO, Private Banking Credit Suisse
Martin Petry	CIO Hilti Aktiengesellschaft
Karl Probst	Senior VP and CIO BMW Group
Al-Noor Ramji	CIO British Telecom plc (BT)
Haider Rashid	Group Senior VP and CIO ABB
Thomas W. Schmidt	Group Vice President Head of Information Systems ABB Power Products Division
Erin Smith	MD Service Design, Global Services British Telecom plc (BT)
Jan vom Brocke	Director, Institute of Information Systems Hilti Chair of Business Process Management University of Liechtenstein
Franz Wirnsperger	CFO Hilti Aktiengesellschaft
Christoph Witte (moderator)	Publishing, Events, Kommunikation and Editorial Director Computerwoche