Executive Summary

Budget pressures and business expectations are squeezing IT as CIOs grapple with balancing efficiency and business enablement. CIOs can strengthen their position by mastering the business management practices identified by Harvard Business School’s Evergreen Project — and by applying these practices to the definition and execution of a business services strategy that matches business needs with delivery alternatives.

The Tough Economic Situation Forces CIOs to Revisit IT Strategy

With the global economy buffeted by interlinked shocks and the risk of a lasting crisis elevated, businesses are being forced to reexamine their strategies. Recent economic research shows that the dynamics of competition have rapidly changed during the past 15 years and suggests a strong correlation with the sharp increase in enterprise IT spending.1 The broad adoption of Web-based enterprise applications, such as for CRM, SCM, ERP, and ECM, has entailed the digitalization of businesses, allowing firms to adopt and replicate innovative practices much faster and quickly leapfrog each other. With the current economic backdrop, many CIOs are currently re-evaluating their IT strategy as:

- **Smaller budgets mandate greater efficiency in operations.** Recession, capital scarcity, and soaring energy costs force executives to innovate with smaller budgets. To do so, they will continuously scrutinize existing enterprisewide IT capabilities for legacies, apply disciplined consolidations, and develop different funding and sourcing strategies, moving from the traditional model of buying and integrating IT resources into business capabilities to one of buying managed and shared services.2

- **Business demand for technology-enabled capabilities continues.** The majority of executives clearly understand the critical role of business technology in their success.3 Eager to infuse innovation into their operations, these executives often bypass internal IT functions when selecting technology suppliers — because they perceive IT as not being particularly effective and innovative.4

Key Issue: Balancing Efficiency And Business Enablement When Both Are Needed

Business executives expect IT to deliver both operational efficiency (delivering the services that the business runs on) and business enablement (helping them discover and leverage new ways to advance business strategy with technology). For many CIOs, making the straits means pursuing these apparently orthogonal goals in parallel by:
• **Professionalizing IT support functions through service management.** In ITIL V3, the primary objective of service management is to ensure that IT services are aligned to business needs and actively support them. Firms like Procter & Gamble (P&G) have gradually transformed their traditionally fragmented IT support functions by consolidating them into global entities and changing their culture from locally intimate to industrial. These firms continuously improve overall efficiency and flexibility through capability relocations, standardization, and process automation. Once they accomplish their consolidation goals, they typically move to a delivery model based on shared services. Today, the P&G global business services organization delivers a broad range of services to the business — from utility services such as business and IT operations, to innovation services such as Web development or virtual reality services — through a mix of internally and externally sourced functions managed through globally governed demand management processes.

• **Developing demand management into a change catalyst function.** Demand management is about understanding and anticipating business opportunities and analyzing business activity patterns. Ultimately, demand management must expand to mean pushing and influencing the business’ drive for innovation, seizing opportunities, sizing capacities, and ensuring that professionalized provisioning functions seamlessly deliver the expected value. For example, automotive companies like Volkswagen pioneered the concept of process information centers, which they deployed to accelerate the adoption of innovative best practices and process optimizations across brands, business units, and regional organizations.

**CIOs AND THEIR TEAMS MUST HAVE A STRONG GRASP OF A FEW BEST PRACTICES**

IT executives can align their strategic demand and service management goals by consistently focusing on executing a few best practices. These practices have been identified through the Harvard Business School’s (HBS's) Evergreen Project, which analyzed the impact of 200 different management “best practices” on the performance of 160 business organizations over a time period of 10 years — looking at broad areas such as strategy, innovation, and business processes and at specific practices such as 360-degree feedback, supply chain management, and the use of intranets. The Evergreen Project clustered the organizations in equivalent groups by industry, scale, and financial numbers. They found that winning organizations consistently outperform their peers regardless of the economic conditions by employing a combination of six out of eight management practices — the so-called “4+2 formula”:

• **Master four primary management practices** . . . The primary practices address: 1) strategy — build your strategy on deep knowledge of your target customers and your company's capabilities; 2) execution — streamline operational processes to consistently meet, not exceed, customer expectations; 3) structure — create a fast, flexible, and flat structure that reduces bureaucracy and simplifies work; and 4) culture — develop and maintain a performance-oriented culture that holds individuals and teams to unyielding performance expectations.
· · · and excel at two out of four secondary practices. HBS researchers also identified four additional practices but found that firms needed to excel at only two of these four to be successful. These practices are 1) leadership — successful companies’ leaders are committed to the business; 2) talent — hold on to talented employees and find more; 3) mergers and partnerships — forge partnership deals that best use both partners’ talents, and develop a systematic way of identifying, screening, and closing such deals; and 4) innovation — use new technologies to enhance all operations, not just product development.

CIOs should translate these insights into actions that make up IT strategy (see Figure 1).

Figure 1  Harvard Business School’s Best Practices And Their Application To IT

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<tr>
<th>HBS’s primary practices</th>
<th>... and their application to IT</th>
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<td>Build your strategy on deep knowledge of your target customers and your company’s capabilities.</td>
<td>Develop your IT strategy using differentiated services to meet the enterprise’s needs.</td>
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<td>Streamline operational processes to consistently meet — not exceed — customer expectations.</td>
<td>Commit service providers to deliver services according to business-related service levels.</td>
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<tr>
<td>Create a fast, flexible, and flat structure that reduces bureaucracy and simplifies work.</td>
<td>Create a service-oriented structure that can right-size the delivery by service archetype.</td>
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<td>Hold managers and employees, individuals and teams to unyielding performance expectations.</td>
<td>Link individual and team rewards to the performance of the services they manage.</td>
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<tr>
<th>HBS’s secondary practices</th>
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<tr>
<td>Successful companies’ leaders are committed to the business.</td>
<td>Commit IT to deliver change through business technology leadership.</td>
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<tr>
<td>Hold on to talented employees and find more.</td>
<td>Constantly refresh your talent pool through development and hiring.</td>
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<tr>
<td>Forge partnership deals that best use both partners’ talents. Develop a systematic way of identifying, screening, and closing such deals.</td>
<td>Change the business with the help of external partnerships.</td>
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<tr>
<td>Innovation — use new technologies to enhance all operations, not just product development.</td>
<td>Build an innovation culture and process.</td>
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Source: Harvard Business School and Forrester Research

Source: Forrester Research, Inc.
Mastering The Primary Practices To Align Business And IT

When applied to IT, CIOs should view the primary practices as the business basics for aligning demand and service management:

- Develop your IT strategy using service archetypes to meet multiple business needs. Firms like P&G and Volkswagen have demonstrated how to gradually develop and operate shared services models to respond to varied business requirements. There are four service-model archetypes that IT executives can use to segment and manage their service portfolios: 1) Utility services, such as running the network or the payroll process and performing corrective systems maintenance, keep the business running; 2) productivity improvement services enhance existing business and IT capabilities (e.g., they perform component replacements and service enhancements on time and on budget); 3) innovation services change the business through new processes, products, and interactions with customers and suppliers; and 4) orchestration services analyze the business’ activity patterns holistically and develop and manage the optimal mix of services in all other categories — utility, productivity improvement, and innovation — for optimal business results at the enterprise level (see Figure 2).

### Figure 2 Service Archetypes

<table>
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<tr>
<th>Service archetype</th>
<th>Focus</th>
<th>Supplier</th>
<th>Example</th>
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| Utility                 | Keep the business running | • Operational consortia
• Component communities |
• Internal IT infrastructure and application maintenance funct
• Traditional outsourcers |
| Productivity improvement| Enhance existing capabilities | • Component communities
• Process transformers |
• Internal application development and business analysis functions
• Software vendors, system integrators, and business consultants |
| Innovation              | Change the business    | Process transformers                          | • Internal business analysts
• Business consultants |
| Orchestration           | Orchestrate all other services | Solution brokers |
• Office of the CIO, relationship a portfolio managers
• External service providers managing on behalf of the business’ other suppliers |

Source: Forrester Research
• **Commission execution to service providers committed to the business’ needs.** Using service portfolio segmentation around service archetypes, IT executives should commission the delivery of different services to the most appropriate suppliers. IT executives who assign an innovation project to a utility-minded supplier should not be surprised when business complains about IT’s reluctance to change things. The demand management process should continuously monitor and review business activity patterns and ensure that every service is positioned according to service levels and reflecting its archetype positioning. The portfolio review should also trigger proactive consolidations leading to the elimination of duplicate and legacy services.

• **Create a service-oriented structure that can right-size service delivery by archetype.** The implementation of the IT strategy needs a simple and flexible organization structure. Using the BT-as-a-service (BTaaS) model, IT governance must select and streamline the network of internal and external suppliers according to four categories: 1) operations consortia delivering nonstrategic services; 2) component communities supplying basic technology services; 3) process transformers focusing on business innovation and support; and 4) demand management brokers orchestrating the delivery of services archetypes (see Figure 3).

• **Link individual and team rewards to the performance of the services they manage.** Culture is about high-level performance and behavior. It should be obvious that maintaining high standards of performance requires measures and rewards. And this in turn requires IT executives to measure the performance of their staff using appropriate measures per service archetype and make sure that the staff remains motivated at all levels of the organization.

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**Figure 3 Creating A Service-Oriented Structure To Right-Size Delivery By Service Archetype**
CIOs Reinforce IT’s Positioning By Excelling At Two Of Four Secondary Practices

CIOs should supplement the primary practices with a mastery of any two out of four secondary practices — leadership, talent, partnerships, and innovation. Many people would argue that for CIOs to be successful, leadership and innovation are mandatory. But HBS researchers have found out that winning organizations complement their strengths in the four primary practices — strategy, execution, structure, and culture — with superior performance in any two of the secondary practices. Moreover, it appears that it makes no difference whether an organization excels in all four secondary practices rather than just two. Applied to IT, the four secondary practices translate as:

- **Commit IT to deliver change through business technology leadership.** Too often, IT staff and frontline managers have worked in an environment lacking clear directions beyond tactical and immediate concerns. Demoted to the status of a cost center, IT has struggled in firefighting mode to fix daily problems and missed the opportunity to become a driving force of change in the enterprise. But things are starting to change as an increasing number of firms acknowledge the strategic importance of technology and hold their CIO accountable to deliver more advanced customer-focused capabilities and productivity enhancements. Case studies from the telecom and manufacturing industry illustrate how strong CIOs can influence the business’ behavior and lead major business transformation initiatives.9

- **Constantly refresh your talent pool through development and hiring.** Half of the winners in the HBS study have dedicated major resources, including personal attention from top executives, to building an effective workforce and management team. CIOs willing to play a strategic role in the enterprise and make technology a differentiation factor must grow their teams to deliver sustained results according to this target. They must get directly involved in the process of assessing proficiencies, training, forecasting and prioritizing needs, and designing jobs that intrigue and challenge their top performers.10 Making talent management part of the IT strategy, they will need to balance between promoting from within and hiring outside talent.

- **Change the business with the help of external partnerships.** Similarly to successful firms that seek growth and innovation through mergers and partnerships, internal IT organizations should enter relationships with external partners to leverage their common strengths — like reinforcing the business intimacy of internal IT with the partners’ ability to deliver reliable IT operations, projects that are on time and budget, or process innovation. Critical to the success of this model is the determination to make the partnership a success, as Forrester recently learned from Heineken and PWC, which are now jointly rolling out Heineken’s new one-company finance management system.

- **Use new technologies to enhance all operations, not just product development.** Winning firms relentlessly pursue disruptive technologies to develop innovative new products and services. Critical success factors are the motivation, talent, and willingness to replace
technologies before they become legacies. IT organizations that want to avoid marginalization do the same. Successful IT shops like P&G’s address improvements to IT as the business innovations they are — after all, transforming the business through process automation boosts value. Moreover, they include a broad base of the business in reviewing the new ideas that move through the IT portfolio and move innovation forward by developing a culture of innovation within IT.11

**RECOMMENDATIONS**

**ELEVATE YOUR STRATEGIC IMPACT WITH SIX PRACTICES PLUS SERVICE ARCHETYPES**

IT executives aiming to develop IT strategies that balance business enhancements and efficiency goals should consider three preliminary steps that will help them understand how to configure the “4+2 formula” and align demand and service management. The most important actions you can take are:

- **Use service archetypes to refine your service delivery strategy.** Using Forrester’s archetypes or your own model, assess your services by business impact and categorize them by archetype. Then you can examine how the existing and planned services meet the business’ aspirations for growth. This requires engaging the business in a sustained dialogue to uncover the gap between what existing services do; what the business needs, wants, and is able to fund; and how IT can help this happen.

- **Plan for a gradual transformation of IT, addressing sourcing, structure, and culture.** The first of the primary practices covers strategy; the rest cover “strategy in action.” The transformation of IT will be a long-term program, but this can start by refining your sourcing strategies to leverage the appropriate ecosystem partners and assessing your current IT organization and culture against the services portfolio and archetype.

- **Determine which of the four secondary practices best align with your business culture.** Success in strategy requires not only deciding where you will excel but also where you choose not to excel. Choosing the secondary practices is the same and should be based on an assessment of your business operating model and culture — whether it is a people-and-talent-oriented one, or the leadership style is open to new participants, or how the firm views the value of external partnerships.

**ENDNOTES**


2 A new business-technology-as-a-service (BTaaS) model enables IT to get more involved with business innovation and less with pushing the IT machinery through the Sisyphean develop-to-operate technology cycles. BTaaS establishes a strategic framework for value delivery around business technology services.
While ITIL v3 defines its foundation, the IT-as-a-service (ITaaS) concept provides its model. The adoption of BTaaS will require IT to evolve into a business technology management (BTM) function responsible for governing the firm’s relationships with its surrounding ecosystem of external and internal IT suppliers and manage it as a portfolio of BT services. Firms adopting the BTaaS model will gradually replace their traditional infrastructure support approach to technology with one based on managed BT services, focusing their retained BTM organizations on governing their BT ecosystems. See the July 30, 2008, "BT-As-A-Service Accelerates IT’s BT Transformation" report.

Business execs have high expectations of technology — but lower confidence that IT can deliver to these expectations. This is the new business technology alignment gap — a gap between expectations for technology and confidence in the IT organization. Members of the Forrester Leadership Boards CIO Group discussed this gap during recent meetings and shared their practices for closing it. Their strategy: Make sure IT is integrated with business planning — and make sure barriers between business and IT are minimized. See the December 18, 2008, "Closing The Business-IT Expectation Gap" report.

CIOs face marginalization. CEOs continue to treat IT as a cost center, as they don’t see IT as a proactive source for business improvement or innovation. To better understand this situation, Forrester conducted an IT excellence survey and found that CIOs are marginalizing themselves. We found that IT is doing a great job of managing IT operations and aligning investment budgets and portfolios with business organizations and strategies. But CIOs have done much less to drive business results, manage IT operations’ relationship with the business, or help drive technology-based business innovation. To make matters worse, emerging business technology will bring even greater demand for technology-based business results and innovation. CIOs who don’t invest in overall IT excellence will find themselves relegated to the IT engine room while business execs take on the technology-based innovation role. See the July 24, 2007, "CIOs: Avoid IT Marginalization On The Path To BT" report.

IT has a natural tendency toward adding unnecessary complexity in the form of duplicate assets, multiple processes to achieve the same ends, or overlapping organizational responsibilities. Unnecessary complexity adds to IT costs and risks and reduces its effectiveness. The only sustainable remedy against these failings is to strategically apply disciplined consolidations, focusing on their business value and long-term impact on IT. See the November 5, 2007, "Best Practices: Adopt The Discipline Of Consolidation" report.

Market forces of commoditization, miniaturization, industrialization, and globalization, along with changing buyer sentiments, will accelerate a shift in the dominant form of IT delivery by 2012 — from buyers self-integrating technology to having it assembled and managed by outside providers. These four underlying drivers aren’t new, but their convergence will accelerate this market shift and make it stick: stable operations farmed out to third parties, new IP sourced from open communities and solution brokers, emerging technologies going to market wrapped in process bundles, and new software investments based on subscription rather than ownership. See the January 2, 2007, "The Emerging IT Ecosystem" report.
9 Forrester has produced several case studies profiling companies that are successfully making strides in the transition from IT to BT. See the May 13, 2008, “Case Study: A Manufacturing Company Positions IT For BT” report and see the July 9, 2008, “The IT to Business Technology Transformation — Learning From Telcos” report.

10 Near-term demand for hot roles in IT will be driven by the need for local and cross-discipline knowledge, changes in technology, greater emphasis on managing risk and the enterprise, and a limited supply of key roles. For example, business architects will be hot due to the growth in enterprise apps such as SAP, new business/IT technologies such as business process management, and the increased risk of changing business processes. To meet the need for hot roles in their organizations, CIOs need to identify their primary skill gaps; determine which roles they should hire, cultivate, or rent; identify where they can compromise; and develop retention and development strategies for these roles. See the August 14, 2008, “What Are The Hot Roles In IT?” report.

11 Confusion about what innovation is and how to handle it all too frequently stymies the CIO’s best efforts at helping drive business innovation. To clarify this confusion, CIOs should treat innovation as part of a continuum of opportunities ranging from business-as-usual investments to radical new ideas. As everyday investments and innovations impact the same IT and business resources, CIOs should manage them in a common portfolio. But to keep innovation from being overly burdened in the funding and development cycles, CIOs should help establish separate budgets and decision-making processes for innovative ideas as well as driving innovation through more innovative development processes. See the April 25, 2008, “CIOs: Don’t Constrain Innovation” report.