

# **Under the Buzz**

## *Commentary on Business Strategy Issues for Executives in Enterprise Systems & Software Companies*

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*Under the Buzz* is an email "newsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps to *catalyze* the innovation and transformation efforts of executive teams in systems and software companies. This journal is published periodically and delivered free to subscribers via email. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, back issues are also available.

### **Some great sayings about how change occurs in the world ...**

*"The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man."*

- George Bernard Shaw, *Man and Superman* (1903)

*"The world owes all its onward impulses to men ill at ease. The happy man inevitably confined himself within ancient limits."*

- Nathaniel Hawthorne, American novelist and short story writer, 1804-1864

*"All art is a revolt against man's fate."*

- Andre Malraux, French adventurer and novelist, 1901-1976

### **This edition's main article:**

This article is the result of field research and the author's accumulated experience in the IT industry. Thanks are due to a number of individuals, including corporate CIOs, SAP managers and executives, who made invaluable contributions to the content with their perspectives on the emerging trends occurring in enterprise organizations.

### **Meet the New CIOs**

Extraordinary pressures are being put on CIOs today. On the one hand, they are forced to put most of their resources into systems that the company must keep going to fulfill its commitments to customers, suppliers, and other constituencies, but that don't confer competitive advantage. These systems, while mission-critical, are non-differentiating. We refer to non-differentiating, yet mission-critical systems as "context." Investments in context end up starving new "core" IT projects - the projects that a company needs to differentiate itself from its competitors and improve performance.

Even the most effective CIOs today admit that it is virtually impossible to serve both core and context imperatives with the resources they have at hand. Perhaps more challenging is the managerial acumen and time investment needed to pull off such a feat. To deal with these pressures, a change in process and IT management roles is emerging in a growing number of major corporations today. The CIO's position is being divided into two distinct new roles: chief process innovation officer (CPIO) and chief information technology officer (CITO), separating along core (CPIO) and context (CITO) lines (see "The Cycle of Innovations," below). A critical part of the rationale as to why the CIO's changing role is not just the latest fad in fancy-sounding executive titles can be found in "The Historical Perspective" on page 5.

Today, all you hear about seems to be the need for global and other organizations to focus on innovation by using IT aggressively to support redesigned business processes. Powerful service-oriented architectures (SOAs), such as ESA and the business-process platform (BPP), which enable rapid deployment of flexible, user-focused applications in ways that the traditional mainframe and client/server

architectures never permitted, are crucial new assets. Armed with greater knowledge about business processes, companies are much more likely to invest seriously in redesigning, for example, the entire quote-to-cash process to accelerate lead-to-sales or invoice-to-accounts-receivable cycles, thus increasing cash flow and profitability sufficiently to establish a new benchmark against peer companies.

Problem is, how can CIOs and their staffs support this new push with automation in the right areas while their IT departments are struggling to get out from under the dead weight of the overly complicated and endless challenge of integrating different ERP, CRM, SCM, and other client/server systems (which, though supposedly “open,” became extremely customized and not nearly as interoperable as originally described)? Add to that an increased preoccupation with Sarbanes-Oxley and other government- and industry-compliance demands, not to mention security, on-demand applications, virtualization, maintenance, and disaster recovery post 9/11. All this is to fulfill multiplying service-level commitments to their demanding users, supported by internal systems, as well as complicated service-level agreements (SLAs) with their many outsourced service providers.

In short, the job of CIO has in many ways become untenable. That’s the bad news. The good news is that what we now see in a number of leading corporations is the emergence of at least one new senior-management role to act as a change catalyst, supported by a number of new mid-level assignments and positions. Not surprisingly, these roles tend to come into being first on a temporary basis, and later turn into permanent positions based on the success of early initiatives.

### **New Management Roles**

Industries as diverse as apparel, electrical appliances, high-tech, utilities, and insurance have seen the appearance of the following new positions: business-process architect, business performance management leader, head of vendor management, head of SLA management, VP of global infrastructure, VP of global deployment, VP of global support, and so on. At a more senior level you see assignments such as business integration officer, chief operational excellence officer, and - increasingly - chief process innovation officer (CPIO)

In IT itself you see the appearance of the CITO. The significance of the “T” in the middle of this title is not accidental: This job is indeed more about managing technology than managing information.

How does this change affect the career prospects of today’s CIO? My sense is that within five years or less, the job of CIO will have been replaced by the CPIO/CITO duo - or its equivalent - in 80 percent of large and medium-sized organizations. On the positive side for current CIOs, migrating to the role of CPIO can be a logical career move for an individual with the right attributes and experience. A suggested profile of the ideal candidate for CPIO can be found in “The 7 Key Attributes of a CPIO” on page 6.

For the CIO who does not possess the required qualities to become CPIO, the opportunity exists to become CITO, either in their current organization or with an IT services outsourcer. But make no mistake, the single job of CIO is rapidly subdividing into the following two separate roles:

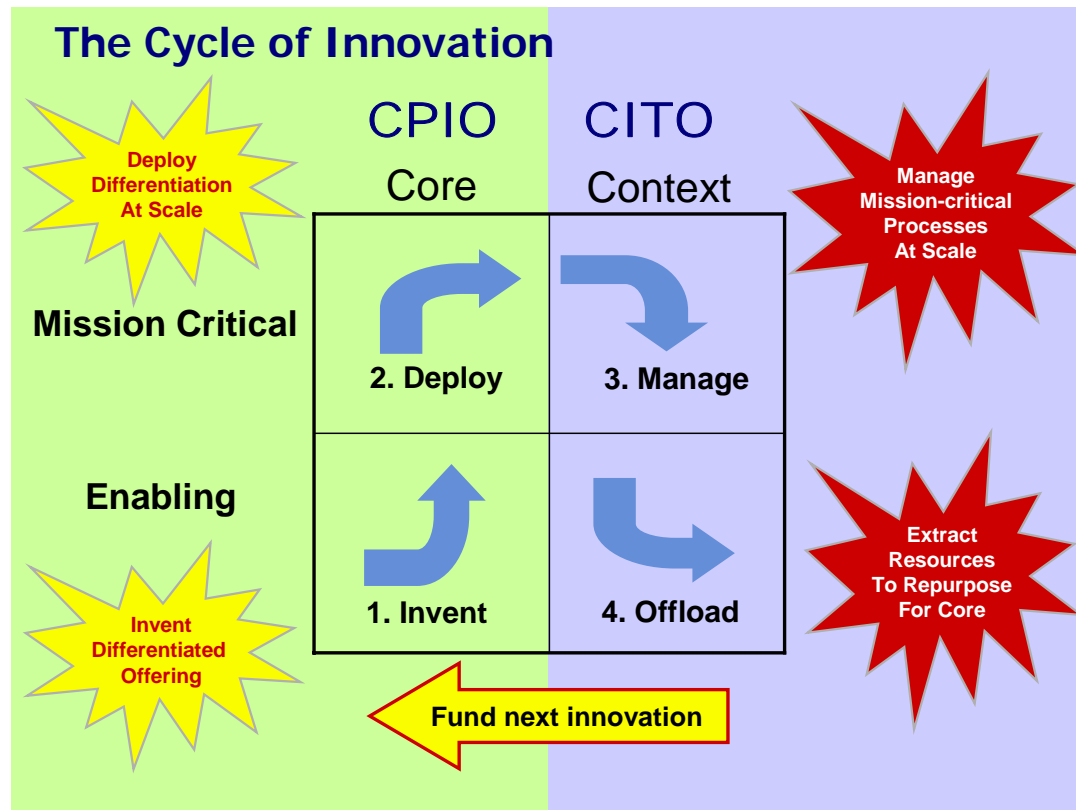
### ***The CPIO handles core business processes***

The CPIO and his or her team could start by reviewing a serious core business issue – such as an unexpected loss of marketshare or surprise increases in product returns. Then, they could analyze which processes or workflows are broken; model the faulty processes to make them more effective; understand which other business processes are affected; redesign the linkages among them; and only then look to IT to see how it might support the newly realigned processes or workflows. In a dozen or so cases, we have learned from the CPIOs that they spend 50 percent or more of their time leading these process-focused activities, including significant slices of time with major customers. This is in stark contrast to the small amount of time that most CIOs spend away from their direct IT-management responsibilities, focused as they must be on their own department and their increasing offshore or outsourced services.

**The CITO takes care of IT context**

In the opposite (but complementary) direction, the CITO should probably focus most of his or her energy on rationalizing and streamlining mission-critical context IT operations, including offshore systems development and maintenance, support and call-center operations, virtualization of computer resources, storage management, desktop-to-server connectivity, operational maintenance, disaster recovery, and so on. The CITO would also manage all the various outsourced service providers and contractors who are part of his or her IT ecosystem.

The diagram below illustrates where these roles fit with respect to Core and Context activities.



To keep activities coordinated between the lines of business and IT, the CITO can report to the CPIO, or the CPIO and CITO can both report to the COO or CEO. However, having the CPIO report to the CITO doesn't make sense. Even more important to address is a series of strategic definitions that facilitate the work of a new CPIO and CITO.

**Make Way for the New Roles**

Before deciding whether an organization needs to adopt this new role change, the executive team should consider the following mix of high-priority strategic concerns. Executives need to assess their companies' need and ability to differentiate itself in the market, review its critical business processes, and support them with the appropriate level of IT resources.

- √ **Update the strategic definition of your company's business:** The question, "What business are we really in?" is a penetrating inquiry. It tests any executive team's ability to respond clearly and accurately about the essential purpose of their company's business. One way of defining your company's core business activities might be, as one CIO/CPIO recently stated, to ask, "What are the critical touch-points between us and our customers?" and how does the company rank against its closest competitors? Once you have established the top five to 10 touch-points that are core to the company's mission, your new CPIO will eventually be able to determine which

processes to make more effective and then support with the appropriate dosage of IT. If you've answered these questions recently, all well and good – our new CPIO can start his or her assignment immediately.

- √ **Identify what's inhibiting the company's differentiation from its closest competitors:** The next priority is to reassess what's broken or creaking in your organization's mission-critical processes today. Conduct a detailed assessment of your portfolio of legacy, current, and future IT systems and projects, sorting them into core (enabling differentiation) and context (fulfilling mission-critical and supporting commitments). This is an investigation that the CPIO can - and should - lead.
- √ **Use the core and context assessment to drive IT investments from now on:** Enable the CPIO to prioritize resources for core projects, working with the CITO to free resources from context systems as they are centralized, simplified, standardized, modularized, optimized, and outsourced – unless they are simply discontinued.
- √ **Recycle and re-skill critical resources:** Review your IT resources and skills inventory. One such framework classifies employees as developers, deployers, or optimizers. Simply put, all developer and certain deployer resources should be prioritized for core projects; the remaining deployer and all optimizer resources should be allocated to managing context systems.
- √ **Define the precise profile of your CPIO:** The CPIO's overriding purpose should be to transform the principal business processes in order to create a strategic competitive advantage for the company - in other words, focus on core. Ideally, the CPIO should be part developer and part deployer - a blend I refer to as "entrepreneurial manager."
- √ **Do the same for the new CITO position:** The CITO's role should be to manage mission-critical and supporting IT operations, outsourcing as many IT operations as it makes sense to – in other words, focus on context, much of it mission-critical and thus vulnerable to penalty if poorly executed. Ideal candidates for the CITO role should be part deployer and part optimizer, because of the importance of their operational management capabilities.
- √ **Recruit candidates for each role, as needed:** If the current CIO can progress to the CPIO role, promote him or her into it. If not, look at your current executive and management team for a likely CPIO. Failing that, recruit outside the company. If the current CIO cannot fill the CPIO position, ask that person to become CITO. If he or she cannot perform this role, you may need to look elsewhere for a new CITO - hopefully, within your IT organization.
- √ **Get the new CPIO off and running:** Empower your new CPIO to use the new strategic definition of the company's business to analyze the underlying processes that require attention in the form of differentiated support from IT.

### **Increasing Market Share and Profitability**

It is still in the early days, but recent results from the successful implementation of innovative processes using advanced SOAs, such as ESA, and related technologies include marketshare gains of as much as 2 percent in a year (a huge achievement in any consumer-focused business); gross margins increase by 1 percent in the same period; profitability improves at three times the industry average; and so on.

Not surprisingly, it is imperative to start by identifying processes that you are confident will yield quick results – the proverbial "low-hanging fruit." When this occurs, companies have been known to achieve impressive results in a matter of months, at which time the number of projects suddenly multiplies. Then, it's all the CPIO and executive team can do to slow down the flood of requests from eager colleagues.

One key fact to emphasize about the new CPIO role: Starting now, this is a strategic position for any large or global organization to insert into its executive ranks. It is not for any fresh-faced fast-tracker, nor for a wise but tired veteran. The person filling the CPIO role will be the face of his or her company, as far as its most critical differentiating processes are concerned. CPIOs need the appropriate mix of seasoning and

credibility to negotiate new processes between their own company and their largest value-chain partners or customers, and need to understand the impact of SLAs on the new process, and vice versa.

### **The Process Innovation Era**

Whereas the 1960s and 1970s were the data processing era and the 1980s and 1990s were the information management era, we are now entering what we might term “the process innovation era.” To put it differently, the first two of these eras were more about getting our hands around IT and making sure we could automate basic business functions in an efficient manner. Today, we are less concerned about whether systems or software will work, and focus instead on how the business needs to operate. Only later will we consider how best to support it with IT.

Sounds like progress to me.

### **Sidebar A - The Historical Perspective**

Hands up if you go back as far as the mid-1970s when the first “DP manager” was promoted to “MIS director,” to be followed in the mid-1980s when the most able MIS directors were promoted to the new role called “chief information officer.” If you’re not such a grizzled veteran, how about the early 1990s, when Michael Hammer and James Champy’s call-to-action book, “Re-engineering the Corporation,” galvanized corporate America into thinking about organizing around what they termed “business processes,” rather than functional hierarchies?

To get the process-management ball rolling, many large organizations appointed someone to be responsible for re-engineering. Within a short time, important-sounding roles such as “re-engineering czar” became commonplace. Although this role began life as a temporary assignment, it usually carried with it at least a provisional seat at the executive table in companies that were serious about process change. Such was the newfound angst around the chronic inefficiencies of functional silos.

About this time, the role of CIO came under severe scrutiny - remember the joke about “CIO” standing for “Career Is Over”? - and for a while it seemed that CIOs were a dying breed. But everyone underestimated the increasing importance by 1993 of major ERP projects being led by large consulting outfits - soon after to be referred to as “systems integrators” - such as Andersen Consulting (later renamed Accenture) and Price Waterhouse (now part of IBM), which were critical early partners with the fast-growing SAP.

Before long a new economic boom brought with it a frenetic increase in IT investment that lasted for the rest of the decade. By 1995, CIOs were newly re-empowered in their role as the corporate heads of enterprise-wide IT deployment, responsible for the new client/server systems that were to run succeeding waves of business applications. ERP was closely followed by customer support (later rolled up into customer relationship management), supply chain management, and later the first Internet browser-based collaboration and self-service applications, all of which demanded massive new server and storage networks to run on.

When the combined Internet and Year 2000 (Y2K) bubble finally burst, along came the recession and IT hangover of the early 2000s and CIOs are once again subjected to harsh scrutiny, this time about the ROI of their bulging capital expenditures and operating expenditures budgets.

## Sidebar B - The Seven Key Attributes of a CPIO

The following mix of attributes and skills are what we have identified for the chief process innovation officer (CPIO). Note the first three “hard” skills alongside the last four critical “soft” attributes:

1. **Business experience:** Should include prior line responsibility within the type of organization you are trying to transform, otherwise person won't have the familiarity or the credibility to handle the task. Failing this, should have had substantial and regular interaction with the company's customers in many different types of situations.
2. **Business-process intimacy:** Should have deep empirical and, if possible, schooled knowledge of business-process mapping, linkages between core processes, how processes break down into sub-processes and function-specific tasks, and application of IT to enable process redesign, as well as process efficiencies.
3. **Analytical and conceptual skills:** Needs to be comfortable performing systems analysis of a new or reworked process to see how it interacts with other processes both inside and outside the organization. In parallel, must also be able think conceptually to go outside the normal framework of how the company does business, and model both likely and seemingly preposterous “what if?” scenarios.
4. **Change management-savvy:** Should understand the components and dynamics of change management from prior direct experience in leading and implementing cross-functional change initiatives, sufficient to have formulated their own practical and proven approach to driving and facilitating change in challenging situations (business or organizational turnaround, mergers and acquisitions [M&A], and so on).
5. **Passion with humility:** Must be a proactive self-starter who evangelizes the mission with conviction, and also realizes that the cause is larger than him- or herself. Messianic types need not apply.
6. **Stick-to-it-ness:** Should not be easily put off by the many naysayers he or she will confront during the project. Also, must recognize the paradoxical cases of people who try, try, and try to get onboard but can't bring themselves to follow through, as well as those who state that they support the initiative then allocate second-tier people to do their part of the implementation (a sure sign of lukewarm support that is usually destined for failure).
7. **People skills:** Must know how to get on with all types of people and behavior in their organization, without being a pleaser (this assignment is most certainly not a popularity contest). Also, people in these positions must make it their job to spend 20 percent or so of their time with major customers to get a first-hand sense of where the company is succeeding and where it is disappointing its customers.

Nowhere in the suggested profile does it say that the current CIO should be the prime candidate for this role, nor that the candidate needs to come most recently from IT. However, having a CIO who happens to have the attributes described in the CPIO profile is definitely an asset. If the CIO doesn't have this profile, he or she may be a prime candidate for the CITO role.

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*Under the Buzz* offers commentary on enterprise software and systems business and management issues. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this continually evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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