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Executive Brief

Is IT Really Broken?

Working Together to Drive More Value

“Fixing IT” is not easy. To deliver IT service that is cost-effective, agile and enables the company’s growth, you need to have the right leadership, technical capabilities, organization and governance. But even if you get all that right, IT can’t be effective unless you start with a clear understanding of the business operating model.

DAVID BERGEN



First Things First

Creating a dialogue to position IT for success

We are often called in to “fix” underperforming IT functions. The CEO or CFO is frustrated with an IT organization that overspends and under delivers. They complain that IT costs too much and lacks transparency. They describe the CIO as an ‘order taker’ rather than a thought leader. They want to drive more value from their IT organization tomorrow than they do today.

While business leaders complain about the cost and quality of IT service delivery, many technology leaders feel more stretched than ever. They find it difficult to be “strategic” when they are bounced between competing demands from business units while being asked to do “more with less.” They struggle to keep up with constant technology innovations and are simultaneously challenged by increasingly sophisticated users who provision their own technology solutions. All of the sudden, they find themselves with a “Winchester Mystery House” of fragmented solutions that are often fragile and haphazardly integrated.

Many CIO's try to transform the technology function with small process improvement projects. However, this rarely works because these incremental improvements don't “move the needle” and also fail to address the foundational issue — Does the technology organization align to the company's business model? Is it fit for today's purpose? And more importantly, is it fit for the future?

Is our IT operating model designed to support today's business model, and can it adapt to tomorrow's needs?

First Things First: Before they can “Fix IT,” business leaders and technology leaders need to agree on the business model of today and the needs of tomorrow.

With a clear understanding of the business operating model, the CIO can develop a technology strategy and a roadmap to transform the technology function into a highly effective organization that enables the business to reach its goals.

That said, most CIOs aren't accustomed to discussing business operating models, let alone understand the connection between the business model and their IT operating model.

Whether you are a business leader or a technology leader, you can initiate this critical, strategic discussion.

Centralized vs De-Centralized? To help explain the connection between the business operating model and implications for the technology function, we use a framework developed by Jeanne Ross at MIT that is described in her book titled, Enterprise Architecture as a Strategy, co-authored by Peter Weill and David Robertson. Her framework identifies four major operating models based on the desired level of integration and standardization for delivering goods and services to customers. By simplifying to four basic

options, management can quickly identify which model best fits their organization and begin focusing on the strategic implications for IT decisions, investment, governance model and technology platform to deliver services to the business.

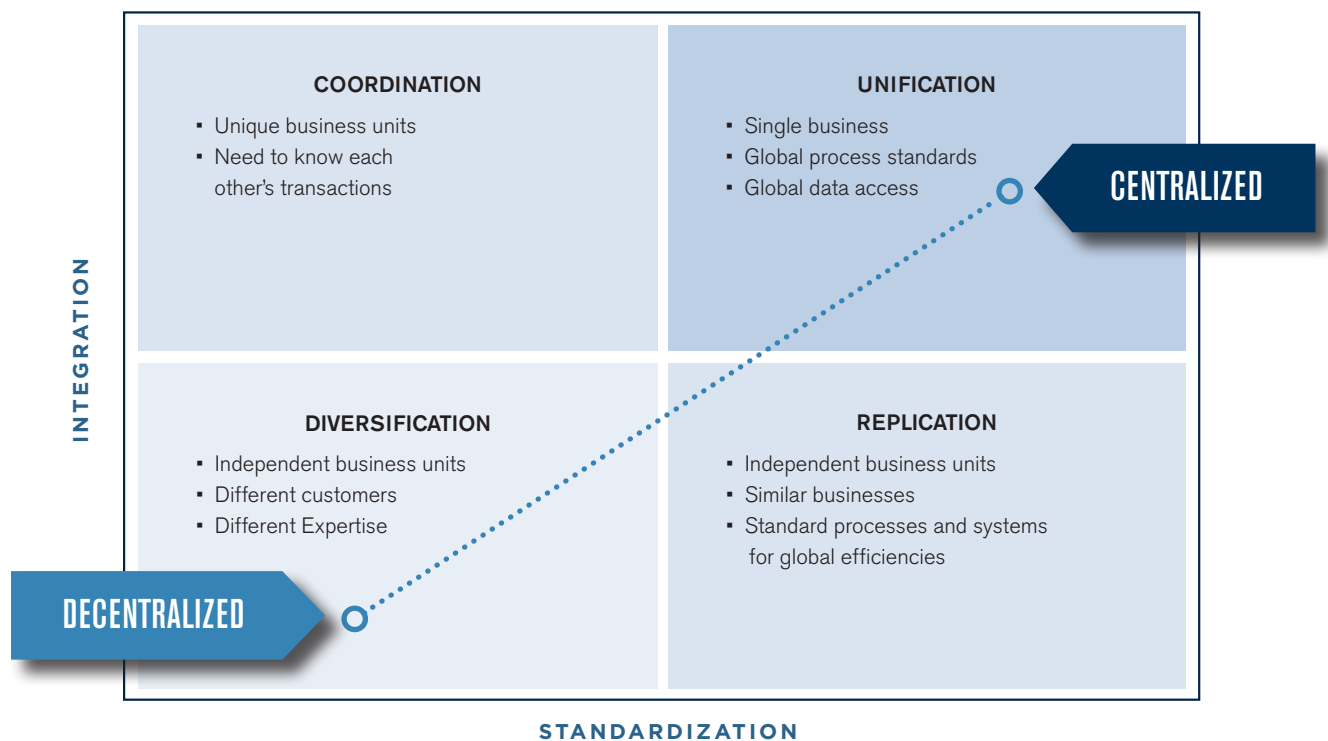
In the simplest terms, this comes down to how centralized or de-centralized the business is. The greater the level of centralization, the greater degree of standardization and integration IT must be able to deliver.

How standard are the business processes across business units?

- **IT Standardization** increases quality, efficiency and predictability in customer interactions and back office operations.

How much integration is required for business processes?

- **IT Integration** provides data access across a business. It enables end-to-end processes such as opening an account, and allows a business to provide a single face to its customers.



Diversification

Description: A conglomerate with diverse business units, frequently combined through mergers and acquisitions, and with little or no overlap in customer base (e.g. Proctor & Gamble, J&J)

- Business Needs: Highly decentralized organization needs low standardization and integration
- Technology Operating Model: Provide economies of scale through shared services without limiting independence

Coordination

Description: Subsidiaries that serve the same customers with very different products or services (e.g. Toyota Motors, MetLife)

- Business Needs: Low standardization, high integration
- Technology Operating Model: Create easy access to shared data for customer service, decision making and integration

Replication

Description: Business is similar to a franchise model with many similar but independent business units (Marriott, ING, Retail gas stations)

- Business Needs: High standardization, low integration
- Technology Operating Model: Provide standard business processes and systems for global efficiencies

Unification

Description: One primary business that operates globally in many locations (UPS, Federal governments)

- Business Needs: Extremely centralized organization with high standardization, high integration
- Technology Operating Model: Standard infrastructure and application components and global access to data

Positioned for Success – Aligning the IT organization to the business operating model, is not a guarantee for success, but it's a prerequisite for winning. Once both the business leaders and IT leaders agree on the business operating model, then the appropriate IT operating model, governance model, and organization structure becomes clear. This is the foundation for creating an IT organization that enables the business to achieve the CEO's top strategic priorities.

While this sounds straightforward, it often takes time for both business and technology leaders to grasp the implications and apply it to their own circumstances. Ideally, the discussion is part of long-term business strategy that includes business leaders and IT from the beginning. However, if IT is not included in early strategy decisions, the CIO can use these questions to engage business leaders and prompt an insightful discussion about the future vision for the business and the technology needed to enable that vision. It is not just about the business operating model of today, but also about the vision for tomorrow's operating model.

The top strategic priorities of most companies today depend on technology for success. There has never been more urgency to “Fix IT” and create a technology organization that not only supports the business but enables growth and drives innovation. Now is the time for business leaders and technology leaders to define their business operating model, discuss the needs for integration and standardization, and create an IT organization that delivers more tomorrow than it does today.



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