

# Innovation and Growth

## New Roles for IT

*By Richard Lynch*

Even as today's financial pressures demand zealot-like attention to the bottom line, Boards and CEOs are looking for and demanding growth beyond what the core business can deliver. CEOs in turn are looking to CIOs to make sense out of the array of new technologies to help them do this. Whether the challenge is to get closer to customers, connect employees and other parties in the development of new products, or to canvas the company's ecosystem in search of new or emerging markets, IT is positioned at the intersection of the capabilities, processes and technology to meet this challenge.

After years of making efficiency gains in high volume transactions such as CRM and ERP, this article explores what it will take for IT to meet the challenges of a growth agenda.

### **Aligning IT to the growth agenda**

Throughout much of the 1990s and early 2000's, CEOs were rewarded for cost reduction and cost containment. To compete in the global arena, Boards demanded dramatic improvement in efficiencies, more outsourcing, and other cost reduction programs. Companies such as General Electric, Motorola, and Allied Signal fueled the trend by reporting 10x and higher ROIs that generated a buzz in most Boardrooms. With a clear focus on the bottom line and tantalizing ROIs, companies invested heavily in Six Sigma, Lean Manufacturing, BPM and outsourcing programs. These programs helped companies get lean, improve quality and introduce better products. Outsourcing non-strategic work also freed up leadership time and attention for more strategic matters.

The new CEO agenda, while not losing sight of the bottom line, has shifted to the top line. There is however a symbiotic relationship between efficiencies and growth. Recent data suggests that companies with a strong Return on Invested Capital (ROIC) can afford to let it slip over the short term to pursue growth. On the other hand, companies with low returns are better off improving ROIC than emphasizing growth.<sup>1</sup>

Covering the views of 658 CEOs from more than 40 countries, the 2006 Conference Board's Sixth Annual Survey<sup>2</sup> found that:

- In the U.S., the top challenges in the future will be how to sustain and generate steady top-line growth. Profitable growth and product innovation was also high up on the list.
- CEOs based in Europe are most concerned with speed, flexibility, and adaptability to change, followed by profit growth, and sustained and steady top-line growth. Spurring company growth has become a major CEO concern in Mexico and South America.

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<sup>1</sup> "How to Choose between Growth and ROIC" Bin Jiang and Timothy Koller (*The McKinsey Quarterly*, September 2007)

<sup>2</sup> The Conference Board's CEO Challenge Survey 2006 (New York, 2006)

- CEOs of Asian companies are more concerned with stimulating innovation, acquiring top talent and other people issues. Here, half (51%) of CEOs in Asia report that inspiring innovation is their greatest concern.

It is not surprising that the CIOs have radically adjusted their priorities. Just a few years ago “delivering projects that enable business growth” ranked 18. Today it is #1.

**Figure 1. Gartner's Ranking of CIO Priorities**

To what extent will each of the following CIO actions be a priority for you in 2006?	Ranking		
	2006		2005 2004
Delivering projects that enable business growth	1	↔	1 18
Linking business and IT strategies and plans	2	↔	2 4
Building business skills in the IS organization	3	↑	9 1
Demonstrating the business value of IT	4	↓	3 2
Attracting, developing and retaining IS personnel	5		* *
Applying metrics to the IS organization and IS services	6	↓	4 14
Improving the quality of IS service delivery	7	↔	7 3
Flexible technology infrastructure	8		* *
Improving IT governance	9	↑	10 11
Consolidating the IS organization and operations	10	↓	8 **

\*New question for 2006 \*\*New question for 2005

This shift in priorities represents a major challenge to many IT groups that have been trapped in the alignment game – often aligning to the wrong business priorities, and in doing so, created complexity that drives costs up and limits their role in growth<sup>3</sup>.

### Enable growth, don't inhibit it

Most senior executives face a difficult paradox: how to generate double digit growth as markets mature **AND** meet net income demands.

All too often, leaders will over focus on one dimension and hope the other goes away or worse, swing back and forth between growth and income – sending mixed signals to the organization, IT and customers alike. Our growth partner, Oyster International, interviewed twenty-four CEOs and their Chief Strategy Officers, Chief Technology Officers and selected line managers in high growth companies and found that that with the proper framework, systems, process architecture and collaboration tools, companies can build a stream of material new businesses **AND** run efficient core businesses. <sup>4</sup>

<sup>3</sup> “Avoiding the Alignment Trap in Information Technology” David Shpilberg et al, (*MIT Sloan Management Review*, Fall, 2007)

<sup>4</sup> Companies in the study included: Proctor & Gamble, UPS, Johnson & Johnson, Thermo Electric, Corning, Becton Dickinson, Raytheon, Timken, Cabot Corporation, Eastman Chemicals, Inverness Medical Innovations, Sealed Air Corporation, Nokia, ST Microelectronics, and Computer Associates. See: Donald L. Laurie, Yves L. Doz and Claude P. Sheer: *Creating New Growth Platforms* (Harvard Business Review May, 2006).

Most companies, however, have a significant enterprise growth gap – the difference between the sum of the forecasted business unit growth and the overall enterprise target. This is generally described as a financial shortfall, compounded by quarterly net income pressures. But the root cause is often a gap in enterprise systems, capabilities and processes to identify and exploit new growth opportunities. The Executive Board research echoes our findings: “what stops growth dead in its tracks is not merely a shortage of talent but the absence of required capabilities.”<sup>5</sup>

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To the IT community this represents a great opportunity. IT is in a unique position to create radically more efficient plug-and-play businesses (via open architecture) and to connect them to compete globally and move swiftly on growth opportunities.

However, many IT organizations will need to retool to accelerate the transformation. The path to IT-enabled growth lies in building highly effective IT organizations and then getting out in front of the businesses to determine how the organization makes money (its business focus) and why customers prefer them (the Customer Value Proposition). This leads to defining the enterprise capabilities required to deliver the strategy – the key to unlocking innovation.

### IT'S ROLE IN INNOVATION

Innovation and growth are often used synonymously. However, the former is the path to the latter. Businesses that actively pursue innovation generate more growth and profits than those that do not.<sup>6</sup> High performing companies with cultures that recognize and reward **process innovation**, constantly innovate around process. They reduce complexities, cut cycle times and eliminate waste throughout the entire supply chain. The next revolution in process innovation is Enterprise Capability Management or (ECM). This kind of process innovation can be led by the CIO to create the conditions for growth. As Cisco's CIO Rebecca Jacoby, sees it, there are three strategic levers that provide the framework for CIOs to enable innovation today:

1. Lead with — don't resist — new collaboration tools and processes that promote innovation within the company and with trusted partners.
2. Create a flexible, secure, and scalable IT architecture that continuously improves "time to capability" for the business.
3. Position IT to provide measurable value (beyond efficiency) at all levels: productivity, experience, and growth.<sup>7</sup>

### TRANSFORMATIONAL INNOVATION AND GROWTH

While process innovation is important for growth, it's often not enough to close the growth gap.

**Transformational innovation** is required as well. This form of innovation creates new markets and platforms at the intersection of “unstoppable trends” and customer dynamics, linked to an essential set of core capabilities (see Figure 2). Like the hedgehog in Jim Collins Good to Great, domains are more attractive if they relate to the company's core capabilities. Within this hunting ground, New Growth Platforms build a stream of material new businesses in a disciplined and predictable way. The iPod is a good illustration. Apple, known for elegant design, great user interface and intimate knowledge of its youthful customer base projected these core capabilities into the music domain and reshaped digital music — how it is bought and played. Transformation innovation is often the responsibility of the CEO and a new opportunity for the CIO to provide measurable value.

<sup>5</sup> When Growth Stalls, Matthew S. Olsen et. al. (*Harvard Business Review*, March 2008)

<sup>6</sup> Thinking Big For Innovation And Growth, Blair Kingsland (*Industry Week*, June 6, 2007)

<sup>7</sup> The CIO's Role in Enabling Innovation, Rebecca Jacoby (*bMighty.com*, January 4, 2008)

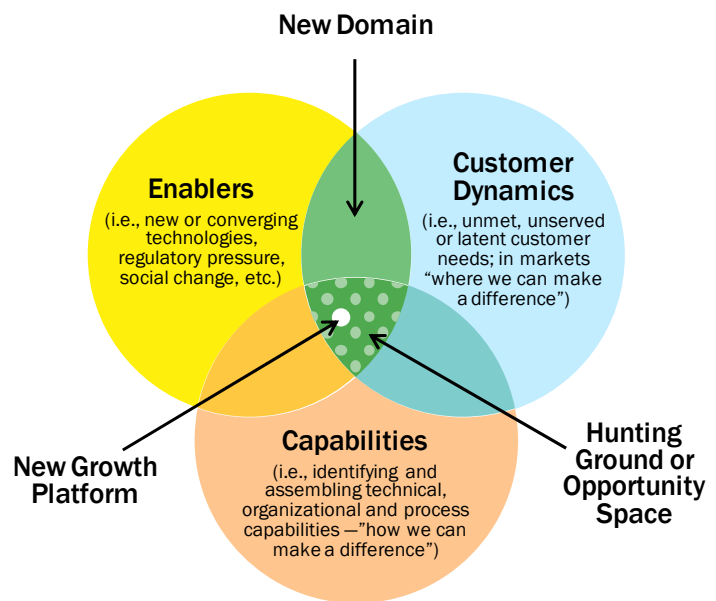
The qualitative difference in truly new platforms is real. These new markets offer under-exploited opportunities where platforms can grow in two dimensions: up and out:

- “Up” in the sense that the new platform revenues and profits will grow, but as important.
- “Out” in the sense that the new, non-adjacent platform provides new growth territory that will spawn further development in areas entirely unexplored in the past.

On the NGP front, IT can:

- Focus on the ability to scale processes for added flexibility
- Provide the infrastructure to connect to network
- Provide a uniform means to offer, discover, interact with and use capabilities to produce desired effects.

**Figure 2. Transformational Innovation**



SOURCE: Donald L. Laurie, Yves L. Doz and Claude P. Sheer; “Creating New Growth Platforms” (*Harvard Business Review*, May 2006).

This opens a whole new array of growth possibilities and accelerates the rate innovation.

## New work for IT professionals in growth

There are some major differences in the role, work and value-add of the IT professional in growth, especially in identifying, selecting and building NGPs.

### SIMPLIFY IT

Complexity is the enemy of all service organizations, especially those that depend highly on infrastructure (people and technology). To simplify IT you need to simplify the business by getting clear about capabilities. Albert Einstein said “*Make everything as simple as possible and no simpler.*” For example, when Intercontinental Hotel Groups (IHG) de-merge from parent company 6 Continents, they strive to be an integrated company with few systems – preferably one. In the case of their property management system – a single solution would have been a disaster. The more simple solution was to group hotel brands by their requirements and provide common solutions to those groups, in this case 3 property management systems. IT can only be as simple as the business but IT leaders shouldn’t let operational aspects of the business dictate IT complexity. If they do, they may make two errors: (1) aligning IT to the wrong business priorities (because the business really isn’t aligned behind the corporate and business strategy and (2) a poorly performing IT organization aligned to the right priorities still won’t accomplished enterprise objectives fast enough.

On the first problem, until the business is clear on the Corporate Strategy (are we an Integrated, Allied or Holding Company), the need for standards, simplified infrastructure (in Integrated and Allied companies) won’t take hold. For example, IHG acted like a holding company with many different systems (following multiple acquisitions). After moving to an integrated company they were able to collapse call centers, moved routine work to shared service centers and standardized on a few common systems relative to groups of hotel brands with similar needs. The net outcome was growth and a big reduction in IT spend.

Often, IT cannot rely on the businesses to prioritize projects as strategies shift and new technologies emerge. Businesses tend to stay focused on what they know and often don't understand the capability shifts required. They keep requesting old solutions to older (less important capabilities), leaving new capabilities under resourced. The project portfolio needs to be aligned continually to capabilities. At many companies, independent business projects take on a life of their own and finish (usually late) — even when they know the solution is wrong or outdated.

Like many Voice of the Customer experiences, internal customers often can't articulate requirements and are often unaware of potent new technologies and ways to do things. IT bears a responsibility to help the business focus on the critical "advantage capabilities" from an enterprise perspective and determine the most appropriate — simplest — solution to enable growth.

When building new growth platforms, there is the opportunity to get IT right.

- Focus on enabling the advantage capabilities required in the new business model
- Source the routine work to Shared Service Centers or outsource it

Build all new applications and solutions on standardized infrastructure rather than extensive customization.

Shinsei Bank is a good example. They used a path-based method to design, build, and roll out systems by forging together — not just aligning — business and IT strategies; employing the simplest possible technology; making the system modular, letting it sell itself to users and ensuring that users influence future improvements.<sup>8</sup>

### **ENABLE AGILITY**

To remain flexible to new opportunities, IT must participate in the strategic planning process; especially scenario planning. Here they have a dual; role: make sure the company is tracking the right trends and participating in the dialogue on how to win in various scenarios.

Just as operators must view activities trapped inside their company's processes as capabilities that can be leveraged, swapped, bought or sold, IT must look at technology in similar fashion. Given uncertainty, how does IT place bets in stages that give the organization flexibility to adapt to new opportunities and exploit growth options — or exit as trends change?

### **ENABLE GROWTH**

There are several key ways IT enables growth:

- IT has capabilities that deliver advantage work. For example when SKF, the Swedish manufacturer of ball bearings, went to customers and said *"how we doing and, what kind of problems do you have?"* it discovered customers were not complaining about all the ball bearings. Rather, they were complaining about downtime of their heavy equipment, which was enormously costly. This led a new SKF team being assembled; comprising a business manager who understood these needs and an IT manager with business process expertise. The team developed a process monitoring device for heavy equipment machines and invented a new business. SKF Reliability Systems was established as a wholly owned subsidiary and is now part of the Service Division. The division also supports customers with knowledge-based products and service solutions to optimize plant asset efficiency through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. The division also deals with logistics and

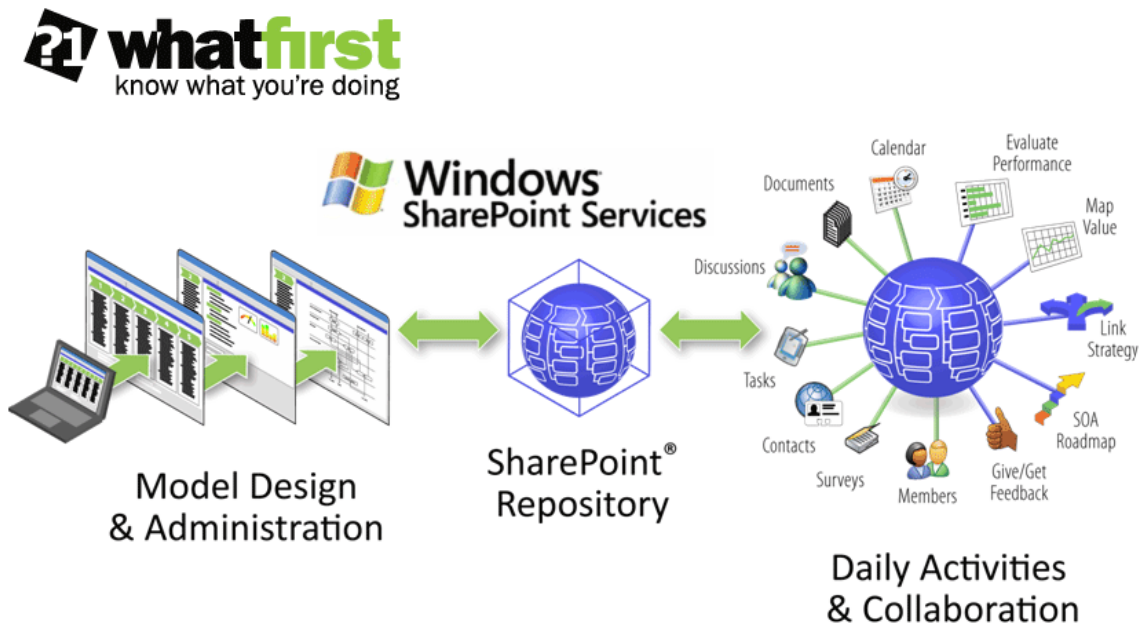
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<sup>8</sup> "Radically Simple IT," David M. Upton and Bradley R. Staats (*Harvard Business Review*, March 2008)

distribution for both the SKF Group and external customers. The division’s sales will represent some 33% of the Group’s sales.<sup>9</sup>

- Drive social software to allow collaboration and mashups (a web application that combines data from more than one source into a single integrated tool) to add a new dimension to imagination and innovation
- Provide systems, workflow and metrics to identify new domains and glean the insights to identify new opportunities to meet unmet or underserved needs (see Figure 3).
- Layer in business intelligence tools to glean insights — a new Competitive Advantage capability

**Figure 3. WhatFirst Functionality**



**Identifying Domains**

- **Surveys, Give/Get Feedback** allows JIT discussion on core capabilities and the Platform Logic and likely domain candidates
- **People and Groups** tracks what is of interest to thought leaders
- **Portfolio and Project Management** allows for expansion of domains by following threads
- **Surveys** polls the community on hot domains and receive real-time survey results
- NGP team to monitor and share in a structure manner what competitors may be doing in the space and the technologies and trends they are watching
- NGP unit to import or create templates for rough screen and fine screen
- **Surveys, Give/Get Feedback** allows participation from outside the company to see what VCs, suppliers, customers think about new domains and ideas

<sup>9</sup> “CIO as Venture Catalyst,” Don Laurie (Gartner, June 2002)

### Identifying Opportunities

- **WhatFirst** helps locate **capabilities** and **resources** around the globe who can contribute
- **Blogs** and **People and Groups** capture bottom up ideas for growth
- **WhatFirst** allows for expansion of platform ideas by following threads and organizing the connections; creation of **idea management system**
- **Surveys** poll the community on platform fit and receive real-time survey results
- **WhatFirst** process architecture allows NGP unit to create workflows and templates for projects requirements by stage gates
- **WhatFirst** allows forums (**People and Groups**) to reframe projects and hold **Discussions** on business plan requirements; use investment committee templates for project submissions at various stage gates.
- **People and Groups** helps identify lead users in the network to verify and validate platforms.
- **WhatFirst** visualization tools (photos, clips, etc) helps dramatize ideas to others – create a sense of excitement
- **WhatFirst project management** refines the project and generates new ideas for projects that fit the platform.
- **KPIs** monitor and compare opportunity value to the enterprise growth gap by pipeline stage.

### IT implications and challenges

Often viewed as cost center, IT's next challenge is to create an “innovation democracy”, where the responsibility for generating or nurturing new ideas and developing new business concepts and strategies is distributed throughout the organization and beyond its walls.<sup>10</sup>

From		To
<ul style="list-style-type: none"> <li>• Being viewed as cost center with a focus on cost reduction</li> </ul>	➡	<ul style="list-style-type: none"> <li>• Balancing cost and agility; viewed as a revenue generator</li> </ul>
<ul style="list-style-type: none"> <li>• Focus as highly efficient transaction processor</li> </ul>	➡	<ul style="list-style-type: none"> <li>• Enabling collaborative decision making in the business</li> </ul>
<ul style="list-style-type: none"> <li>• Focus as highly efficient transaction processor</li> </ul>	➡	<ul style="list-style-type: none"> <li>• Fostering enterprise perspectives</li> </ul>
<ul style="list-style-type: none"> <li>• Providing analytics and reporting services</li> </ul>	➡	<ul style="list-style-type: none"> <li>• Providing the infrastructure and applications for insights</li> </ul>
<ul style="list-style-type: none"> <li>• Enabler of the business</li> </ul>	➡	<ul style="list-style-type: none"> <li>• A business builder</li> </ul>

<sup>10</sup> *Innovation to the Core*, Peter Skartznski and Rowan Gibson (HBS Press, 2008)

The next phase of IT, if thoughtfully applied, can bring improvement to the top line while continuously improving the bottom line by:

1. Developing an independent perspective on external markets and technologies
2. Moving from a project/problem orientation to a business capability perspective to simplify IT
3. Creating a repeatable and scalable process to support a portfolio of growth platforms
4. Capturing, distributing and archiving learning about markets and opportunities to fuel growth
5. Balancing individual and business unit independence with the need for deeper and richer information sharing
6. Creating the collaboration environment to allow people to contribute to innovation, wherever they reside.
7. Equipping all employees with the productivity tools to deliver their best.

### **About the author**

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