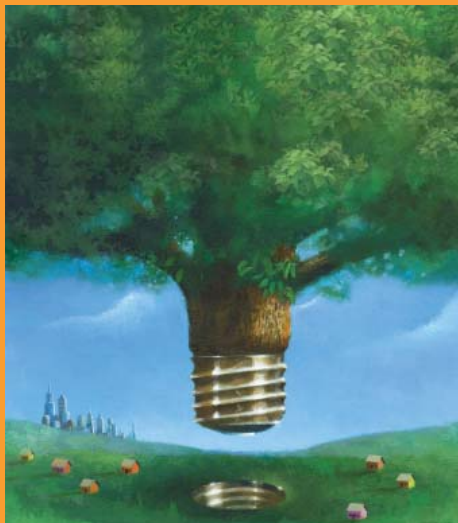


# BCG

OPPORTUNITIES  
for ACTION

INFORMATION TECHNOLOGY



■ *In their quest to become more innovative, many companies fail to leverage a potentially powerful asset: the IT organization. Blame lies not just with the business sides of these companies but with the IT organizations themselves.*

■ *IT organizations, BCG research confirms, can do much to establish themselves as players in innovation and, in the process, create a win-win situation for themselves and for their companies. They shouldn't wait for an invitation.*

■ *The CIO plays a critical role in determining whether the IT organization becomes an active player in the company's innovation efforts or remains largely on the sidelines.*

## Gaining a Seat at the Innovation Table

Innovation is at or near the top of most corporate agendas. Indeed, fully two-thirds of the almost 2,500 senior executives who responded to The Boston Consulting Group's latest annual global survey on innovation identified it as one of their company's top three strategic priorities. Nearly one in four said it was their company's *top* priority. Yet many businesses are failing to leverage a potentially powerful asset in the quest to become more innovative: the IT organization.

Blame lies not just with the business sides of these companies, which tend to view IT organizations as providers of commodity-like, "keep the trains running" services—and little else. It also lies with the IT organizations themselves, many of which fail to identify and promote capabilities that could support—or even drive—their companies' innovation efforts. Regardless of where the fault lies, though, the outcome is the same: the company fires on less than all cylinders and misses opportunities; and the IT organization remains essentially siloed and underutilized.

We have looked at this issue in detail as part of our ongoing research on IT management practices at global companies. Of the 15 companies we have studied, the majority find themselves in roughly the situation described above.<sup>1</sup> Most of the IT organizations have taken few, if any, formal steps—such as launching programs, strategies, or processes—to try to insert themselves into their companies' innovation efforts. And as a result, most of them are making marginal contributions, at best, to innovation.

But the IT organizations in five of the companies in our study are a cut above the rest. They have actively worked to transform their relationships with the business sides of their companies and are now an established—in some cases integral—part of the innovation campaign. The IT organizations have reaped substantial rewards for their efforts in the form of more varied and exciting work and elevated status within

1. BCG has been conducting research on IT management at global companies since 2003. The companies participating in the study span many industries, including automotive manufacturing, semiconductors, consumer goods, financial services, and medical equipment; operate in many countries; have multiple, often diverse, business lines; and vary in size from large to very large, with annual revenues ranging from \$7 billion to \$160 billion.

their companies. And the commercial benefits to their companies, in terms of greater revenues and efficiencies, have been tangible.

How have these IT organizations managed to accomplish this win-win situation? The details vary by company. But there are some constants that offer lessons for any IT organization hoping to achieve similar goals. And those goals are well worth pursuing, given escalating competition in most industries and the ever-rising pressure on IT organizations to demonstrate their value.

## The Critical Steps to Becoming a Player

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Earning a seat at the innovation table is achievable with a well-designed and well-executed plan. The experiences of the five successful IT organizations in our study suggest that the plan should center on four steps.

**Excel at the basics first.** IT organizations that are not regarded as excellent at what the business considers “IT basics”—such as network availability, bug-free code, and timely delivery of projects—have little hope of being invited to participate in innovation. Most of the IT organizations that are making major contributions to their companies’ innovation efforts today went through a period of concentrating on “getting their IT act together” several years ago. Once their credibility on that front was established, they looked for opportunities to insert themselves into the innovation chain, won admission, and gradually expanded their presence.

**Be flexible in your approach to innovation.** Some IT innovation leaders believe that they can help innovate only when the business has a clearly articulated strategy or a problem that needs solving. “IT doesn’t stand alone here. It’s reactive to the business,” said one executive.

Other IT leaders, however, have demonstrated that some of the best innovations can come from “blue sky” questions and from exposing people to new technologies. At one company, for example, the IT organization’s innovation group actually created a revenue-generating product that the business was not looking for. The innovation group’s strategy had been to focus on three or four key technologies, such as identification technologies like bar codes and radio frequency identification, and to look for innovative ways of using them. The group initiated the process that generated the new product not in response to a strategy or as a solution to

a problem, but with a question: what could we do if we knew who our customers were at each touch point?

In short, to maximize its value, an IT organization should employ both top-down and bottom-up approaches.

**Embrace business process design.** In general, the IT organizations that have taken innovation the furthest have embraced business process “consulting” with the business sides of their companies. They are leading efforts to improve individual business processes and create cross-enterprise business architectures. The knowledge acquired gives the IT organizations a better perspective and enhances their ability to come up with “real” business innovations, not just IT-centric ones. It also gives them greater credibility when it comes to business issues in general, making them logical partners for the business as it pursues innovation.

**Hire outside the box and loosen the reins.** Several successful IT innovators have told us that they have found it difficult to turn traditional IT managers, developers, and operations people into business innovators. As a result, these organizations have sought out individuals with backgrounds and attributes not customarily associated with IT personnel (for example, creativity, willingness to take risks, persuasiveness, and business expertise).

Believing that talent needs room to flourish, the organizations have given these individuals ample latitude, putting them in separate organizational units, providing them with money to experiment, letting them establish innovation processes to evaluate and fund ideas, and encouraging them to find additional funding from their internal business partners.

## What the CIO Should Do

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An active, visibly committed CIO is obviously crucial to the success of this effort, as both strategist and tactician, and as flag bearer for the IT “brand.” There are a multitude of levers he or she can pull to drive the campaign forward. But there are seven overarching actions that should be the main focus of his or her attention.

**Market IT’s commitment to, and delivery of, excellence.** Ensure that the IT organization is delivering the right services at the quality, risk levels, and cost necessary to guarantee optimal business value—and

make sure the company knows it is doing so. Assign people to roles as business relationship managers, and use customer satisfaction surveys to gauge IT's reputation and keep the relationships on track. Develop service-level agreements that business managers can understand, and rigorously measure IT's performance. If the IT organization fails to deliver, fix the problems. Market successes in meetings with senior business managers, and consider producing an IT "annual report" that does the same.

**Expand the scope of what the IT organization provides.** Offer more than just the standard menu of IT services and application development. Proactively help the business define new IT-enabled business strategies; develop business cases for investments; and, in particular, design or reengineer business processes. In conjunction with these actions, expand the skills of the IT staff to include process design, financial analysis, Six Sigma, and even product design.

**Be armed with specific ideas about IT's potential contributions to innovation, and discuss those contributions with senior business executives at every opportunity.** Formulate three to five concrete ideas about how IT-enabled innovations can make money for the company, and never miss a chance to discuss them with senior executives. Doing so will further establish credibility and strengthen the association between the IT organization and the business side of the company.

**Transform the new-technologies group into a business innovation group.** Most IT organizations have a few people who function as observers of technology and as trend spotters. Encourage this group to work directly with the business side of the company in the development, prototyping, and evaluation of innovative ideas. Add some people with business skills to the group as well. Start small and enlarge the group over time as it proves its value and develops a good reputation.

**Develop more formal innovation processes and tools.** As the business innovation group grows, develop a process for generating ideas, evaluating them, determining which ones should go to the prototype stage, and deciding which ones should be rolled out to the company on a widespread basis. Use automated tools, such as a Web-based idea bank. Conduct technology expos and symposia to expose business executives to new technologies and to foster idea development.

**Utilize external sources.** Be open to collaboration with outside parties—including vendors, suppliers, and universities—all of which can be excellent sources of innovative ideas and partners in their development and commercialization.

**Establish a network of permanent innovation centers.** As IT-enabled business innovations build a track record within the company, think about establishing a global network of innovation centers. Staff the centers with a mix of IT and business people. Provide the centers with equipment and technologies that can enhance the efficiency and effectiveness of the innovation process.

Obviously, keeping all of these balls in the air simultaneously will entail a large commitment of the CIO's time. Indeed, the CIO of one of the five successful IT organizations says that he spends at least 60 percent of his time on innovation. But he considers it a highly worthwhile investment.

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**B**ecoming more innovative is key to most companies' success, and the IT organization can play an important role in the pursuit. But it can't wait for an invitation: it must actively work to establish its credibility and sell itself as a capable partner. Those IT organizations that manage this successfully—and become players that help not just *run the business* but *change the business* as well—can expect to be rewarded on a multitude of fronts. And their companies will prosper proportionately.

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