CIO BRIEF 2.0

Redefining IT: Cultural Change and Business Alignment

(Volume 20, Number 1)

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Introduction

This session of the CIO Brief was the first of four this year that will focus on Redefining IT. Today, many CIOs are being challenged to change their IT organizations to integrate new technologies and ways of working but are often unsure about what will bring most value to the business. Redefining IT can be evolutionary or revolutionary and encompasses the full scope of existing IT responsibilities – and adding new ones. Often, business leaders may not see immediate value in these changes either because they are foundational investments or because they are experimental. Yet there is no question that IT must change – its processes, activities, responsibilities, talent, and technologies are all under scrutiny. In addition, redefinition requires business change as well. Cultures, processes (e.g., budgeting), leaders, and expectations may be resistant to new ways of working and collaboration, and act as barriers to change.

To kick off this year-long theme, The CIO Brief invited two IT executives to discuss their views on what's important about reinventing IT, and describe the challenges and opportunities they face in doing so.

Cultural Change and Business Alignment at Ontario Teachers' Pension Plan

The Ontario Teachers' Pension Plan (OTPP) is Canada's largest single-profession pension plan. It manages $129.5B in assets and has over 1000 employees based in Toronto, New York, London England, and Hong Kong. It has two very different businesses: serving its members – current and retired primary and secondary school teachers in Ontario; and global investment. In recent years OTPP has experienced significant growth and complexity along with changes to its investment strategies and much new regulation. Russ Bruch, OTPP's CIO and Senior Vice President, has been with the organization since 1991 in a variety of capacities. He is responsible for all aspects of OTPP's IT infrastructure and business application development, support, and maintenance. In addition, his group plays a key role in identifying, prioritizing, and managing the implementation of initiatives that align to the organization's strategic objectives.

"In 2007 we got a new CEO," said Russ, "and IT hit the wall. We had had good relationships with business for many years, but hadn't given much thought to where we were going. It was eye-opening when he said to us, 'We need to fix IT – don't we?'". As OTPP's new CIO, Russ then began a program of change in IT designed to make it a world-class organization, but "it wasn't long before I realized we needed bi-directional change because many organizational practices were holding us back." He also recognized that IT needs to constantly change. Like a chameleon, it must adapt to its environment. "Business, technology, and the overall environment are always

changing," he said, "so why shouldn't IT adapt accordingly? What we need is not a silver bullet but a series of smaller adaptive actions and an expectation that everyone's jobs and skills will need to change. In spite of this, our crystal balls are imperfect so our responses cannot be expected to be perfect."

Cultural change and business alignment consists of an iterative process of several steps:

1. ***Determine what type of IT the business needs.*** It's important to start at the top and assess the structure, talent, and capabilities IT should have to support and enable the business. "There are many different needs for IT," Russ said. "A great deal depends on the strategic importance of IT in the organization and then determining the organizational styles that are related to it." For some, IT will be the engine room; for others, IT will be a global service provider; and for still others, IT "is" the business. In short, not every IT organization needs to be a strategic partner with the business since its role and structure will be determined by the needs of the business.

2. ***Identify key organizational roles.*** The challenge in redefining IT is to determine not what the CIO wants, but what is needed. Every aspect of IT – structure, capabilities and skills, and tools and suppliers, should be linked to business fit and priorities. At OTPP, "IT operations was holding us back," said Russ. "We needed to build a team to get the information to run IT properly." The Office of the CIO was responsible for IT-centric projects but needed better information so that decisions and investments could be based on facts which could be turned into business decisions. Next, Russ created a service delivery function in his office that leads business partner collaboration. This has defined accountabilities and is responsible for building strong relationships with the business, developing deep business understanding, and marshalling the resources needed to bring value to the business. "It's our first line of support," said Russ. Information security, enterprise technology services, enterprise architecture, and solution engineering are the other major functions in OTPP's IT function today. Within this organization structure, he had two important guiding principles: communicate decisions clearly; and always stress "one IT". "You can't have internal finger-pointing between groups", he explained.

3. ***Engage the board.*** Increasingly, boards of directors are recognizing the importance of IT to the success of their companies. In the past, they have not been very IT literate but they now recognize they have to devote more time to IT. A major part of the process of redefining IT is therefore understanding how the Board wishes to govern IT. Defensive IT, where the Board does a basic Audit Committee review, is acceptable when IT is not critical and the Board is not sophisticated about IT. However, as organizational requirements for IT increase, Board sophistication should rise and governance should become more

comprehensive. When IT is strategic for example, it should include an IT Oversight Committee with an IT expert on the committee, and an increased focus on IT risk, plans, activities, and the whole portfolio.
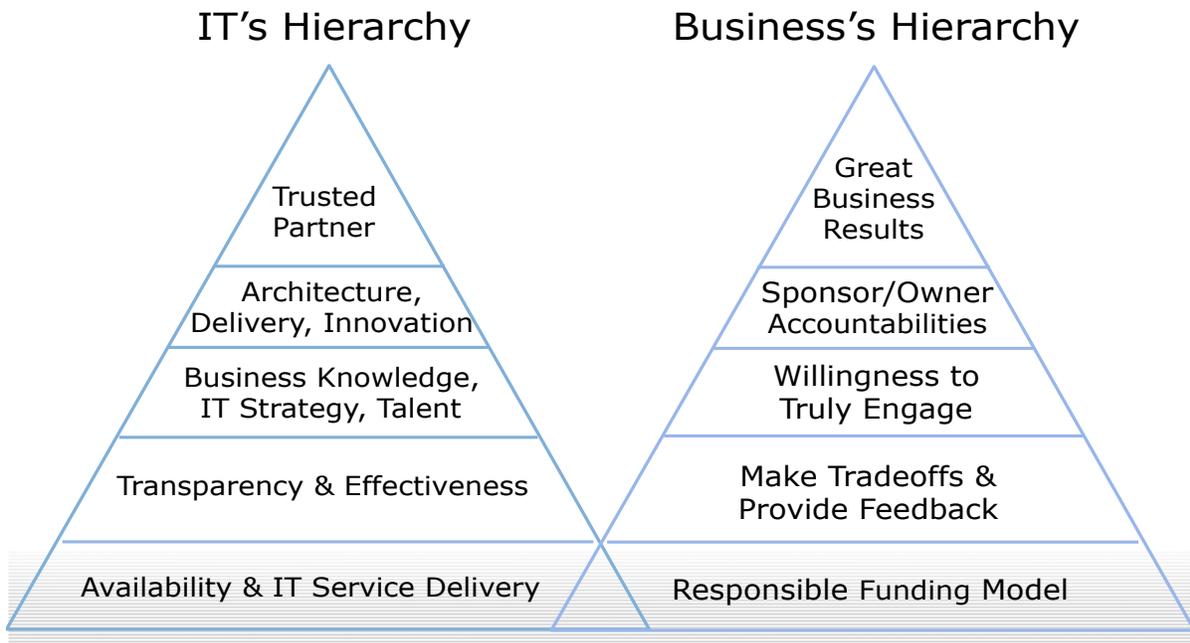
"At OTPP, increased Board attention was developed in conversation with them and assessing what type of governance we need for the IT we want," said Russ. This assessment included: key stakeholder analysis; incorporating training for Directors in such things as risk analysis; and determining an appropriate governance structure. "How we communicate at this level is very important," he said. "We must remember they are digital immigrants." An interesting benefit of this new Board attention to IT has been internal pride amongst IT staff that the Board thinks their work is important.

4. ***Remember it takes two to tango.*** Although redefining IT means that the IT function must adapt and change, it is very important to change *with* the business. This means understanding what type of partner the business needs and recognizing that some of "IT's problems" may be the result of business beliefs, actions, and processes and not from IT only. "This was an eye-opening insight for our CEO," said Russ. "I stressed that any change should not only focus on IT but on business as well."

He compared IT change to Maslow's hierarchy of needs (see Figure 1). "IT can't become a trusted partner if it is not providing availability and service delivery," he stated. However, there is also a corresponding hierarchy of business changes that must occur in parallel if IT is going to be able to deliver great business results. "We need a reasonable funding model, someone to make decisions, strong strategic plans and initiatives and ultimately, sponsors who take accountability for their role in what gets delivered," said Russ.

5. **IT must lead the way.** In spite of the importance of business involvement, IT can't wait for business to change first. At OTPP, Russ is working to communicate IT's progress in a number of areas, such as: What are we doing? Why are we doing it? Are we doing it well? Where are we going? What skills and tools do we need to run IT? "I believe that we can foster collaboration with the business by sharing facts with them," said Russ. "Our goal is to get the business to the point where they ask: What can we do to help? And, What is our role?"

Applying Maslow

IT's Hierarchy

Trusted
Partner

Architecture,
Delivery, Innovation

Business Knowledge,
IT Strategy, Talent

Transparency & Effectiveness

Availability & IT Service Delivery

Business's Hierarchy

Great
Business
Results

Sponsor/Owner
Accountabilities

Willingness to
Truly Engage

Make Tradeoffs &
Provide Feedback

Responsible Funding Model

Figure 1. Both IT and Business Need to Change in Parallel

6. **Lather rinse repeat.** "IT must *live* alignment," explained Russ. "There shouldn't be an expectation that our jobs are going to be the same from year to year. There should be a constant assessment of what IT needs to become." Ideally, this should be assessed annually so change will never be foreign to anyone in IT.

IT Transformation at Loblaw

Loblaw is Canada's largest food distributor with $31.6B in sales in 2012. It has more than 1000 corporate and franchised stores across the country and over 134,000 employees. In addition, it offers some of Canada's most recognized brands. "We've been on a transformation journey since 2006," said David Markwell, Loblaw's Vice President of IT, who joined the company in 2007. "We have 22 store banners but one national business." In IT, there were multiple systems and data centres and the business was doing the same thing in different places in different ways. Initially, the goal was simplification but in 2011, IT began to ask how it wanted to lead in the organization. The result was the following mission statement that has guided its subsequent redefinition:

Loblaw's IT mission is to be Canada's best retail technology organization by providing outstanding service and delivering high-value business-enabling solutions to our customers through a team of skilled and motivated professionals.

"This has changed the model of how we deliver technology and our mix of resources," said Dave. "But we wanted evolution, not revolution."

Dave and his team established several guiding principles for this transformation, which will continue until 2015, including:

- We will retain only the knowledge, resources, and assets that provide a strategic or operational competitive advantage. All other functions will be sourced.

- We will focus on long-term strategic goals vs. short term tactical gains which may have negative longer-term repercussions.

- We will eliminate unneeded services from the portfolio to drive efficiencies and cost reductions.

- We will adopt a new target operating model, with an optimal service mix, restructuring IT as needed to meet strategic goals. This includes: adopting a managed service model and acquiring commodity services from service providers; leveraging offshore labour where feasible; and standardizing services.

In spite of these principles, "we struggled to understand what business wanted from IT," said Dave. "Finally, we decided to *ask* them!" Therefore, in 2011, he and his senior team interviewed 36 executives. In 2012, the survey was expanded to include other business units, and online surveys for a total of 88 respondents. To get a broadly-representative set of responses, vice presidents were asked to nominate three colleagues in their organizations to complete a survey. "This approach provided us with a range and depth of responses and different touch points from different parts of the organization," said Dave. Results were tabulated by business unit and level in the company. It showed that IT was good at running and operating the business but needed to improve at the strategic level.

Four key themes emerged:

1. **Reliability in business terms.** "IT must deliver services when they are needed and at the right level or we're not in the game," said Dave. "If you can do this you can build trust." The survey showed that even though IT provided availability metrics to company executives, they did not believe them because IT

measured them in the wrong way. While IT showed the availability of each individual component was high, the business executives knew that when any single component was down, a whole business process was not available. "We therefore changed our metrics to show service level availabilities at a process level," said Dave. "This improved our credibility significantly and helped us realize that slowness was perceived as a key challenge."

2. **Capability delivery and innovation.** "We are looking for innovation *and* delivery," said Dave. IT's strategy is to provide real solutions to business problems, through leveraging its capabilities and maintaining a pipeline of active and upcoming innovation. "We are doing as many proof-of-concepts as possible," said Dave. "Successful ones will deliver validated business cases with strong ROIs." In 2013 alone, IT delivered a new loyalty program, introduced eCommerce, opened a new data centre, rolled out a variety of mobile-enabling apps and BYOD, and incorporated Loblaw's new REIT into existing IT systems. Overall in 2013, it undertook 24 proof-of-concepts, has moved eight into production, and has a further ten ready for deployment.

In 2014, IT will have three major business-enabling focuses:

- **Drive relentless efficiencies** including business intelligence and customer insights.
- **Improve competitiveness** with attention to key business strategies and priorities.
- **Improve mobility** with a "focus on the colleague", including collaboration and productivity tools, more BYOD, mobile business apps, and apps on the go.

3. **Value for money.** Here, the goal is to better align IT spending to the business plan. "We know our five year budget," said Dave. "We want to reduce what we spend on infrastructure refresh and keep the lights on (KTLO) spend and increase our spending on building new business capability. Ideally, we want to deliver $500M of top line growth by 2018, while delivering $250M of cost savings." In addition, he has developed annual capital and refresh cycles to keep infrastructure assets current.

4. **People they trust.** "IT can't lose sight of people," said Dave. "We need a model that fits the business." To achieve this, IT has been restructured to be an end-to-end service model with a business relationship management unit to interface with business. This unit then works with internal technology services, applications services, and planning, security, and sourcing units to deliver services to the business. "The new model took about 18 months to catch on," said Dave. Business leaders had to get used to the fact that they couldn't always interact with a vice-president and IT staff had to develop deeper business knowledge so they could speak business language. Business relationship staff were trained, and given job shadowing

opportunities so they could "walk in the customers' shoes". Dave also stressed that finger-pointing within IT would not be tolerated and compensation and incentives were adjusted to incent collaborative behavior.

"In 2014, our objective is to further develop our people," said Dave. The corporate engagement survey had 100% participation from IT staff in 2013 and he is promoting empowerment through end-to-end accountability. Successes are celebrated and quarterly social events are encouraged through a "party squad". "These activities make staff feel valued," he said. "We want to retain top talent so they need to enjoy their work."

Discussion

Members commented that in our current business and technology environment, they must always "expect the unexpected" because change can be extremely rapid. "While we may have some stable periods, disruption is definitely on the increase," said one. Others noted that users will likely never be happy with IT and will always want more.

How hard is it to make cultural change? Cultural change is particularly difficult, said Dave. "It's how people think about their work and so they need to be connected to a larger goal." Russ added, "If you haven't changed in a while, it can be very hard to accomplish. However, if you build change into the culture it becomes easier to do."

How can active resisters best be dealt with? Ideally, they need a coach who will seek to find the best in them. However, not all people want change or are able to change, so leaders may need to make some difficult choices. Managers themselves need to learn how to manage change and should be evaluated on how well they make change happen. Russ noted that dealing with resisters also depends on what they disagree on. "If you can take them back to first principles and find out where in the chain they are having difficulties, you could be able to work with them." Others added that in their experience about one-third of people will have serious problems with change and will need to be actively dealt with or they will have a negative influence on others.

What's the role of IT in managing business change? IT can bring different business units together and act as a broker, asking them to determine what's best for the business. In some cases, it may take time to get them working together, but if IT provides facts and figures, it is much more difficult to argue against a change. As well, working together helps bring peer pressure on key resisters. If there's still a struggle, many members have found that it can be useful to ask for help from outside experts.

What are some techniques to engage business in changing? It's a great idea to get feedback from key stakeholders at all levels – customers, colleagues and employees. One member sent out a simple survey with four questions: What is IT doing for you? What should it do next year? What are the top three things you want from IT? and, What are the top three things you're not seeing from IT? He then matched these back to the Board's strategic objectives to provide feedback and an action plan. Others stress transparency and making sure that the business knows what's happening in IT. Others noted that it is important to show the business what the IT "funnel" of new projects looks like since this can really paint a picture of business priorities. Finally, including IT accomplishments in a company's annual report can stress the importance of IT to the organization.

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