

Superior IT landscapes are no coincidence

Successful IT Innovation Management

“My IT is innovative” is said easily and heard often. However, being innovative in IT is much more than using newest hardware components or the latest available software releases. It is the active management of IT innovation with proper processes, resources and budgets. But the reality in many companies is different with ineffective IT landscapes without optimized business value. In the long run ignoring IT innovation can even lead to insolvency. Successful IT innovation management can solve business problems before they appear.

Many companies treat IT innovation opportunistically. In an A.T. Kearney survey, over 85 percent of executives said that IT innovation is today more important than it was five years ago. But investment in IT innovation has declined, often because of poor IT innovation management and poor IT business alignment. Only one company in two has created dedicated IT innovation posts.

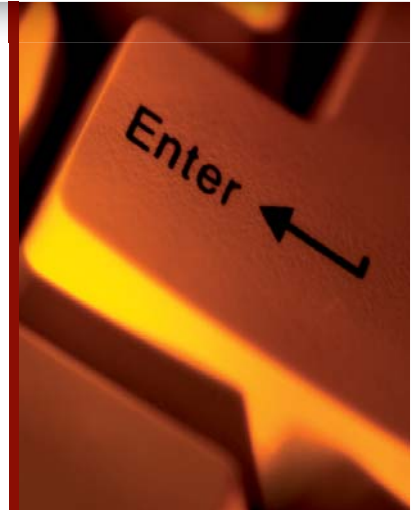
In another recent A.T. Kearney survey “Delivering Technology Innovation”, we identified a correlation between successful IT innovation and overall growth. 80% of companies with an annual revenue increase of more than 10% view IT as a key value driver for the entire organization. When IT innovation is executed well, it acts as a trigger for business success; when it is not, it can ultimately drive a company to bankruptcy.

Objectives for innovation in IT

IT value can come in various ways: it can be an integral part of products or services, creating direct value for the customer, or it can support business processes by making operations more effective and efficient. When A.T. Kearney asked companies to what extent IT is a part of their products, 98% replied that their products contain IT.

Hence, the key objective of IT innovation management – top line and bottom line – is improvement. Revenues rise with better product features, customer service, analytics-based decision making or supply chain performance. And IT reduces operating costs, improves quality, shortens time to market, and increases productivity.

Above all, IT value creation requires an excellent understanding of the business: an innovative IT organization needs awareness of end customer decision making, market developments, product changes and business



Innovative IT means a strict focus on business value and not on newest software or hardware components

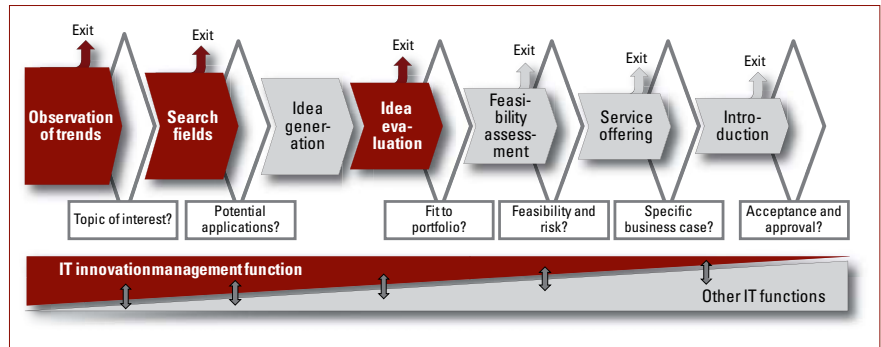
processes. At the same time, it needs to monitor the IT world and analyze new trends and evaluate the potential business opportunities.

IT innovation can only succeed in an organization that integrates many of its staff – with their technological knowledge, business understanding and new ideas – into the innovation process. Thus, people across the organization need to be enabled and empowered to innovate. In order to remain efficient, they must also join forces with colleagues and all innovation work must be carefully controlled in order to avoid duplication of effort and result in a good fit with the IT service portfolio.

Four pillars are essential for IT innovation management

Over the past few years, A.T. Kearney has helped many companies implement comprehensive IT innovation management which has increased the business value from IT. The four pillars supporting this process are as follows:

FIGURE 1: Observation of trends, definition of search fields, and evaluation of ideas are the main tasks in a typical phase gate search process



Source: A.T. Kearney

1. Implementing a centrally managed search process.
2. Integrating innovation into the corporate culture.
3. Actively managing the IT service portfolio.
4. Aligning business and IT and collaborating closely with the customer.

1. Centrally managed search process

IT technology cycles are short, and often the ultimate application of emerging technologies is not clear either in the initial stages. IT mar-

ket trends need to be analyzed continuously and potential applications identified. Market and competitor analysis, a review of one's own positioning, and identification of the required competencies and possible partners are all part of this activity. A typical phase gate search process (see Figure 1) selects topics, narrows down search fields, and details them.

The systematic assessment of upcoming technologies is a primary responsibility for any in-house IT organization.

Implementing a centrally managed search process and an IT innovation

In-house IT departments have an innovation edge:

Evaluation of IT trends for business is a key task of internal IT departments. External IT service providers often emphasize their cross-company and multi-industry insights and claim they are in an ideal position to provide highly innovative services. But this is only one side of the coin:

The strength of an in-house IT function is that many members of staff have a good understanding of the business and are well connected in the organization. Collaboration is easier when confidentiality barriers are lower and administrative processes simpler. An in-house IT organization can align better with the IT demand organization to set its priorities right. New requirements can be detected earlier, decision makers are better informed, and services are delivered faster. It is unlikely that an external IT service provider will attain the same level of responsiveness.

Also, external service providers cannot advise impartially: their service proposals are part of their business development and require internal scrutiny.

function includes answering questions such as: How is the search process specified and what are the right decision points? Which sources are analyzed? How are new insights consolidated and documented? What are the links between the central search process and other corporate processes? Who owns the process? To whom is the owner reporting and what resources are available? How are ideas from the organization fed into the search process? How can externals support the various steps in the process? How are the decisions communicated?

2. IT innovation as an element of corporate culture

When an organization succeeds in integrating all employees into the IT innovation process, it benefits from their knowledge, experience and ideas. What is required is a culture that embraces an active contribution

to IT innovation (see Figure. 2).

Communication is a key lever for encouraging and assisting the “bottom up” innovation process. All staff need information about search fields and channels for their ideas as well as appropriate feedback. Informal and cross-functional communication fosters innovation and overcomes inhibitions – ideally without central coordination, but in a way that does not render the overall organization ineffective at the same time.

Key questions when embedding IT innovation into the culture include: What are suitable means of communication? Where can existing channels be used or modified? Who moderates Web 2.0 tools, such as an innovation blog? What other instruments are needed? Are innovation targets set on an individual or team level? To what degree can innovation become part of the job description? And to what degree can it be integ-

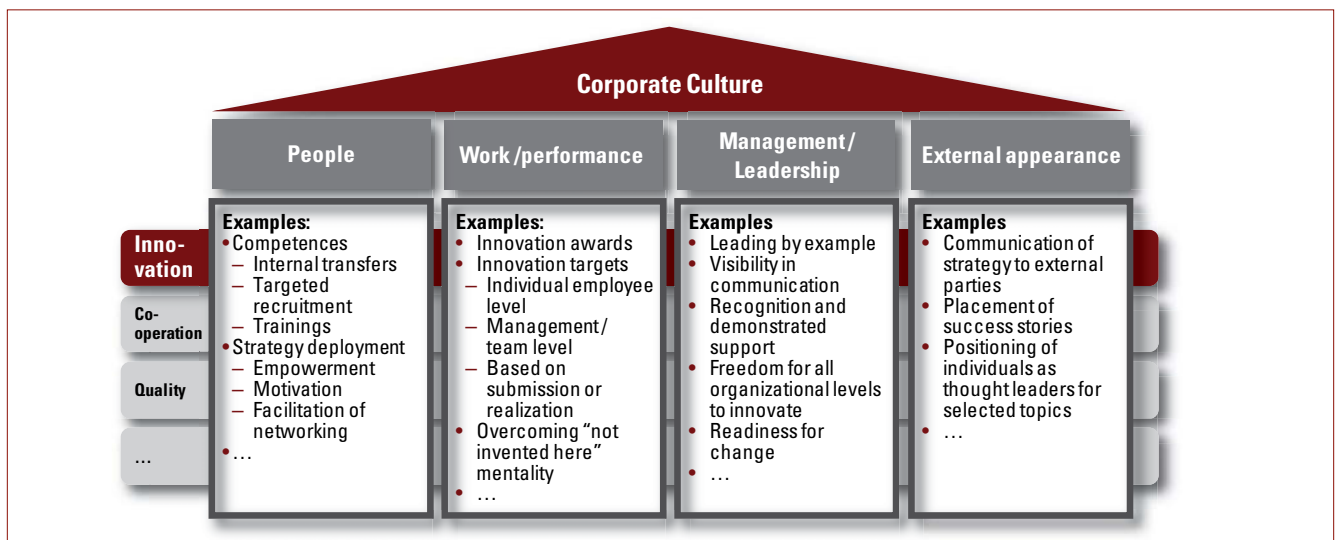
rated into the overall management reporting structure or a dashboard? How does the innovation process tie in with a corporate employee suggestion program – what distinguishes it? What are the steps in the change process that introduces innovation management?

One further point to watch out for: IT department specific measures must not decrease the consistency with corporate culture and eventually become an obstacle to close collaboration between IT and business.

3. Active management of the IT service portfolio

A highly innovative IT organization that continuously adds new IT services to its portfolio can only remain efficient if it simultaneously streamlines its existing service portfolio. Hence, innovation management needs to capture the entire IT service lifecycle, and ultimately it must include activi-

FIGURE 2: Multiple instruments exist for embedding a strategic innovation target in corporate culture



Source: A.T. Kearney

ties to discontinue IT services when they become redundant, out of date or lose their relevance for business. In order to apply consistent principles for existing and new services, IT innovation and IT service portfolio management need to be integrated.

A key decision variable for the introduction and possible discontinuation of IT services is added business value. But the definition of this value added poses a key challenge: the profitability of an IT project is typically presented in the project's business case, and the financial impact of operations-related services can often be estimated at least. But for some other services, such as email, intranet, user workplaces or knowledge management tools, this is a challenge. It is still possible, though, to prioritize even these basic services on non-financial scales together with the users.

A comprehensive concept of value definition, measurement and portfolio review results in service reengineering, service replacement or a managed phase out. It also enables the identification and closure of service gaps.

When building service portfolio management, key questions need to

be addressed: How is business value measured and who can contribute? What are suitable non-financial scales? How can the service positioning be visualized? Who sets the portfolio management guidelines, who takes individual adjustment decisions and who enforces them? What is the communication scheme with the service users and all other stakeholders? How is a well-managed service migration and phase out process defined?

4. IT business alignment and customer intimacy

IT innovation and portfolio management need close links to corporate IT strategy and alignment with the IT demand organization. The IT innovation function needs to take part in the IT governance processes and requires contact points to business users. In return, the IT innovation function generates topics that allow intensive communication with the business side.

Alignment with IT strategy and IT users entails finding out who the right contact points are in the company as a whole and who establishes and manages these in the IT organization.

What information is regularly com-

municated? Who ensures coherent external communication by the IT organization? What ensures a consistent, company-wide definition of IT value added? How is IT innovation organized? How is IT innovation financed? To what extent are business leaders responsible for IT innovation?

CIO success through IT innovation

All these elements of effective IT innovation management underscore the need for explicit processes, empowered resources, and dedicated budgets.

Managing IT innovation actively will increase the value added from IT. Close ties between IT and business increase the differentiation potential and the business impact of IT and emerge as success factors for the company as a whole.

When the University of St. Gallen recently asked CIOs why the average CIO only remains in his/her post for 3 years, 85% responded that it was hard to make results transparent for business. Engaging in active and collaborative IT innovation management is one step for change in communication between IT and business and ultimately contributes to CIO success.

Authors:

Alexander Martin is a principal in the Duesseldorf office and can be contacted at alexander.martin@atkearney.com

Robert Renard is a consultant in the Frankfurt office and can be contacted at robert.renard@atkearney.com

A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 36 countries.

For more information please contact

A.T. Kearney GmbH
Marketing & Communications
Kaistraße 16 A
40221 Düsseldorf

Tel.: +49-(0)211-13 77-0

Email: marcom@atkearney.com
www.atkearney.de