How CIOs Can Become Business Innovators

THE DEFINITION OF BUSINESS INNOVATION HAS EXPANDED. NO LONGER IS IT JUST ABOUT PRODUCTS AND SERVICES; NOW BUSINESS INNOVATION ALSO INCLUDES IT-ENABLED BUSINESS MODELS. IT’S THE WAY APPLE INVADED THE MUSIC BUSINESS WITH ITUNES WHILE REIMAGINING ITS BUSINESS TO SELL SERVICES THAT MAKE ITS IPOD, IPHONE, AND IPAD PRODUCTS MORE COMPELLING TO USE.
Although the scope and risks of business model innovations are greater (a computer company in the music business?), so are the benefits when they succeed. Business model innovations are more difficult for competitors to copy than products or processes. More importantly, business model innovations can help create more meaningful relationships with customers.

However, business model innovation isn’t easy. You need the ability to transform IT and business processes. You need a management approach that embeds technology investment decisions into business decisions. You need the ability to create and manage the capacity for change. And you need close collaboration among IT, business, and functional leaders.

CIOs Are the Glue in Business Model Innovation

Beyond all that, CIOs need to step up to the challenge of building the capacity for continuous, sustainable innovation. Some CIOs have taken steps towards this goal, but transforming IT from an isolated function into one that is responsive to and integrated with business needs doesn’t make you innovative. Nor does producing the occasional IT-enabled product or business process innovation.

The goal and the job must become much bigger than that. CIOs must become the glue that holds business model innovation together.

“We have to invent how we do business tomorrow in the sales channels of tomorrow,” says Werner Schultheis, CIO at Randstad Germany, a personnel services firm. “Most business innovations are coming from IT.”

The IT Infrastructure Can’t Be an Excuse

Good IT departments have been doing process innovation successfully for years now. But few established companies succeed at business model innovations. As Clayton Christensen pointed out more than 15 years ago in The Innovator’s Dilemma, executives often don’t see the need to change when things are going well. They are even less inclined to do so when an innovative idea threatens to disrupt existing sources of profit. It is less risky and less expensive to be a follower.

At the same time, CIOs often consider running the business, with its complex technology mix, as their full-time job. While it is often true that companies, especially big ones, have a heterogeneous IT landscape that is challenging to manage, you can’t make it an excuse. CIOs must escape the inertia of managing the infrastructure and enter the conversation about the company’s future. Here’s how CIOs can build the capacity for continuous business innovation.
Innovative CIOs must be adept at managing the often-disruptive transformation brought about by business model innovation. To help build that capability, CIOs should position themselves not just as technology leaders but as business leaders as well. The transformation-focused IT organization:

- **Doesn’t do IT projects.** Instead, it carries out business projects that incorporate technology.
- **Focuses on business outcomes.** Rather than delivering an IT system, the organization provides a set of business benefits that are achieved partly by investing in technology. The business case for IT investment, even for IT infrastructure, should be based on business drivers.
- **Manages change.** Rather than having an IT implementation plan, transformation-savvy CIOs have a holistic change management plan that takes into account the accompanying changes to business processes, organizational structure, and the impact on suppliers and customers.
- **Hires market-oriented staff.** To execute a transformation, the organization needs IT professionals who know what drives the company’s strategy and their industry so they can exploit technology for the greatest business benefits.
- **Involves stakeholders.** Instead of keeping stakeholders at arm’s length, CIOs involve them in every stage of development. When appropriate, they hand over the leadership reins to other executive or functional leaders. As a result, corporate employees, suppliers, and customers who are affected remain clear about the business reasons for the initiative.
- **Tracks results.** The CIO and other project sponsors together define and measure the value of the investment by tracking the business benefits.

Having the staff, the change management expertise, and a close partnership with other business and functional leaders is a prerequisite for being taken seriously as an innovator (see “Get IT Ready to Innovate”). Over a decade, Microsoft repositioned its IT department as a partner with its internal end-user organizations, says Reza Nazeman, Microsoft’s CIO for Europe, Middle East, and Africa and Skype worldwide. IT and other business leaders jointly make decisions about internal technology initiatives, and IT staff “with the right level of business acumen” work within business units to identify areas where IT can be applied. “We’re transforming IT to a real-time enterprise,” Nazeman says. In other words, they’re creating the ability to address business needs without delay.

“IT is no longer a support function as it was several years ago,” adds Sandeep Parikh, who works closely with Nazeman as the head of a unit that manages innovation.
Stop putting out fires.
CIOs need to adopt a new leadership style, one where they delegate day-to-day control of IT operations to deputies, promote collaboration among IT staff and business managers, position IT as a source for strategic initiatives, and encourage open discussion and experimentation.

Get your IT shop in order.
CIOs must lay a solid basis for innovation by first delivering reliable everyday service to the organization. “You can only earn credibility if you make sure that the infrastructure services, the applications, the security, and performance of your systems are acceptable and reliable,” says Reza Nazeman, Microsoft’s CIO for Europe, Middle East, and Africa and Skype worldwide.

Think like the customer.
Innovation “is really about the customer’s perspective rather than IT’s perspective – thinking like a customer and looking at their needs from their side of the table,” says Sandeep Parikh, who works closely with Nazeman as the head of a unit at Microsoft that manages innovation.

Get IT Ready to Innovate

Innovative CIOs think beyond narrow tactical solutions to one-off problems. Instead, they work with other corporate leaders to forge a digital enterprise, where IT has a primary role in developing and executing a customer-focused business strategy and creating competitive advantage.

But doing so isn’t easy. According to the 2013 State of the CIO Survey, a survey of primarily North American heads of IT by U.S.-based CIO magazine, only 20% of technology executives are perceived as strategic business leaders, though their number is growing. Here are three prerequisites to becoming an innovator:

Without the management capacity to change the company as needed, CIOs won’t be able to execute any innovative ideas.

Meanwhile, CIOs need to transform their own leadership. They need to spend less time running IT and overseeing projects and more time with colleagues, customers, suppliers, vendors, industry peers, and IT and business thinkers who can spark ideas for new processes and business models (see “Four Steps to Building an Advisory Network”).
Get out of the office.
Stratil regularly attends IT and automotive industry conferences, and he takes advantage of meetings organized by vendors who present their research and new products to customers. He also joined an invitation-only group of automotive industry CIOs (with membership designed to exclude direct competitors) who share their challenges and their opinions about the technologies they use. Vendors provide information about the evolution of commercially available technologies. Stratil can compare notes with other CIOs about business trends and daily IT challenges.

Don’t leave meetings to chance.
Stratil attends the regular meetings of the groups where he is a member, and he makes a point of calling or meeting his academic contacts several times a year.

Seek out big thinkers.
Stratil has nurtured relationships with various academic researchers by keeping in touch by phone and at conferences and by inviting them to share their work with SAS Automotive technologists and engineers in workshops. One of these conversations led to establishing a start-up company that helped SAS Automotive create a new assembly plant design (see “SAS Automotive: How Networking Led to Innovation”).

Stay focused on the right business challenges.
You’re networking with others to fuel your – and your team’s – imagination. But your job is to execute business strategy. When Stratil schedules a workshop, he says, “I organize it for a specific topic, and I try to keep the focus on our requirements at SAS in order not to have a generic meeting about general information about everything.”

Three Steps for Leading Like an Innovator

Randstad Germany’s Schultheis says that he spends 70% of his time on activities that promote innovation within the business, such as defining business road maps with executive colleagues, creating workshops to introduce the company to new technologies, and generating IT-enabled business ideas.

Markus Fichtinger, group vice president and CIO with Klöchner Pentaplast, a maker of rigid plastic film solutions for packaging, printing, and specialty applications, proposes three steps for CIOs who want to lead as innovators:
### Vodafone: A New Model for Purchasing

Although people tend to think about innovation in terms of generating revenue, there are other potential benefits as well. The mobile telecommunications services provider Vodafone used IT to enable a new model for engaging with suppliers.

Vodafone created a new business unit to handle all procurement, changing how the company purchases everything, from heavy equipment to travel services.

“Evolution Vodafone” (EVO) came out of a corporate directive to become more cost effective. Over several years, Vodafone had grown through mergers and acquisitions across four continents, with customers in Europe, Africa, the Middle East, Asia/Pacific, and the United States. Its research and development (R & D) efforts were focused on its products and services, especially for the burgeoning smartphone market. Although its 18 operating companies were profitable, executives decided that the future success of the company depended on more than just additional customers signing up. Vodafone had to use the global reach of its operations and economies of scale to stay competitive.

EVO was founded on a global enterprise resource planning system; it cut costs and allowed Vodafone to roll out new facilities more quickly, making the innovation of its operating model a source of corporate growth. “There are very strong strategic goals to simplify everything we do at Vodafone because we believe that it will release a huge amount of customer value and reduce our operating expenses,” says Niall O’Sullivan, the program director of EVO. (For more information on EVO, see the case study in 360° – The Business Transformation Academy journal.)

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- **Delegate the IT utility.** Yes, you have to keep the lights on. But you can delegate daily management to your team and focus your attention on the challenges and aspirations of colleagues, customers, and suppliers. Fichtinger says he spends about 60 percent of his time on improving and changing the business. Even when working on current IT operations, he usually focuses on long-term strategy, planning how existing infrastructure and technology need to evolve.

- **Be proactive.** Anticipate what your company can do with technology, and then share with your colleagues the potential opportunities. “You don’t only have the 10,000-meter view,” says Fichtinger. “You understand as well their day-to-day problems and issues, and you align that to the strategy. You help them understand why we should make certain changes and get them engaged to make them.”

- **Be flexible.** When you are scoping out or testing ideas, you have to behave differently than when you are building and deploying a production system. “It’s really not a one-size-fits-all,” says Fichtinger. “Sometimes you have to make a decision and be very clear, and sometimes you are facilitating, or sometimes you’re only in an advisory role. It’s not like you have one role and that’s how you manage all your problems.”
Establish Your Own Think Tank

IT-enabled innovation needs to be conducted separately from IT operations for it to flourish. Although the business leaders will set the pace for change, CIOs must plant and nurture the seeds for that change. Having a special team dedicated to developing and testing ideas for using technology in new ways leaves room for creativity and error. Innovators will be free to experiment until they find the best solution to the business challenge they are addressing and until they identify the most feasible path for deploying it.

Creating a special team within IT that is dedicated to innovation sends a message to the business leaders: the resources applied to changing the business for the future will not be diverted from those needed to run the business today. While the operations team will still run operations, the innovation team is free to experiment with new ideas. An innovation will only be deployed when it is tested and proven through pilot projects, so daily operations are not put at risk.

The members of the innovation team will need their own office space. That space should be organized and designed to encourage conversation as well as independent thinking and to facilitate small-group collaboration as well as meetings or workshops with business colleagues or outside experts.

CIOs should lead their innovation teams in an open-minded way, encouraging input from business people who also want to explore new ideas and who are open to input from the outside world. Having a regular interdisciplinary forum for discussing innovations, in addition to informal, unstructured conversations, means that the IT team can learn about business challenges and get regular business feedback on their ideas.

Look Outside for Help

CIOs and their innovation teams should also share information about their business challenges with outside experts, who can, in exchange, help them think through how emerging technologies can shape a response. If CIOs use their external networks in a structured way (by having, for example, regular meetings focused on particular topics), they can pick specific areas, such as improving customer centricity, learning more about the nature of knowledge work, or optimizing operations. In this way, they get relevant results and can generate more ideas than by only networking internally.

Paul Stratil, CIO at SAS Automotive, has parlayed relationships with researchers at three universities into business innovations. One partnership, with the University of Stuttgart and the University of Siegen, led to the development of customized simulation tools that SAS Automotive used to design an optimized manufacturing plant layout for assembling automobile dashboards. (For more about how Stratil brings cutting-edge ideas to his company, see, “SAS Automotive: How Networking Led to Innovation.”)
A More Open Culture Is Required

For many companies, this new way of business innovation may be a cultural shift, because people are used to protecting what they know rather than sharing it. But the open-source movement has shown that openness can work as a method for identifying, vetting, and developing robust innovations. As Fichtinger points out, a conversation about what type of innovation to pursue has a different character than one about a project that is being readied for deployment.

“When you talk about new ideas, such as globalizing HR platforms, you’re talking more strategically about what are the positives or negatives of certain things,” he says. “When you make a decision to do a project, then you approach it from a project management or governance perspective.”

Having an open-ended discussion requires different skills than running IT operations or deploying a new production system does. Stratil calls CIOs with these skills “navigators,” people who help business executives at all levels choose technology that creates business value. That means they have to know more than how the technology works; they need knowledge of different business domains, such as finance and sales, as well as project management.

“I consider myself a navigator,” Stratil says. “Giving a direction. Looking towards the horizon. Not only toward today’s bottom line.”

SAS Automotive: How Networking Led to Innovation

As an outsourcer that assembles automobile dashboards for global car manufacturers, SAS Automotive competes on efficiency and precision. Customers expect high quality at the lowest possible price.

Therefore, the leaders of the Karlsruhe, Germany–based company, which had €3.4 billion in net sales in 2012, aren’t keen on big experiments. “Because of quality expectations, you cannot just try out things,” says CIO Paul Stratil. “Here, innovation typically comes from continuous improvement: making processes faster and more stable.”

When the company bids on contracts, its proposals include a layout for its assembly plant. SAS engineers used to create these layouts based on designs that had proven efficient in the past. But customers – who have large computing budgets – were using simulation tools to design their ideal plants, forming new ideas about what they wanted from their outsourcers.

Stratil saw great potential in bridging the gap by combining the best ideas from both approaches – SAS engineers’ collective real-world knowledge and the simulations – to create an optimal plant design. He couldn’t sink tons of money into R & D, but he knew professors at two German universities, the University of Siegen and the University of Stuttgart, who were good sources for ideas on how to apply emerging technology to business challenges.

Professors Saw an Opportunity

What attracted the professors was the great opportunity the project provided to give their master’s degree students some real-world experience. Stratil persuaded his colleagues to accept the students as R & D partners instead of hiring consultants. “We decided to do it in order to save some cost,” Stratil says.

At the beginning the students worked with SAS Automotive engineers, showing them how to apply new ideas about using simulations to the engineers’ practical experience. “This was sort of an organizational change,” Stratil says, because engineers weren’t used to working with researchers. When the project reached a stage beyond which students could work on it, the professors launched a start-up company to move it forward. SAS Automotive hired the company exclusively for testing multiple simulations in order to find the best solution.

Expand Colleagues’ Thinking

Since the project concluded two years ago, SAS Automotive has rolled out its optimized plant design whenever it builds a new plant or converts an existing plant to a new product. The new plant layout was deployed in several locations. To trigger the change, Stratil explains, “there has to be a potential positive outcome” such as cost savings.
DOWNLOAD THE Q&A THE KEY TO IT-ENABLED INNOVATION:
THINK OUTSIDE THE BUSINESS MODEL [PDF]

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